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Fourteenth Annual Report of
the Federal Reserve Bank
of Boston for the year ended
❧ December 31, 1928 ❧

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Boston, Massachusetts

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FOURTEENTH ANNUAL REPORT

OF THE

Federal Reserve Bank *of* Boston

*For the year ended
December 31, 1928*



BOSTON, MASSACHUSETTS

FEDERAL RESERVE BANK OF BOSTON

OFFICERS AND DIRECTORS

December 31, 1928

OFFICERS

W. P. G. HARDING, Governor	FREDERIC H. CURTISS, Federal Reserve Agent
WILLIAM W. PADDOCK, Deputy Governor	CHARLES F. GETTEMY, Assistant Federal Reserve Agent
WILLIAM WILLETT, Cashier	HARRY F. CURRIER, Auditor
KRICKEL K. CARRICK, Secretary	
ELLIS G. HULT, Assistant Cashier	
ERNEST M. LEAVITT, Assistant Cashier	
L. WALLACE SWEETSER, Assistant Cashier	

DIRECTORS

Class and Group			Term Expires December 31
A 1	ALFRED L. RIPLEY	President, Merchants National Bank	Boston, Mass. 1929
A 2	F. S. CHAMBERLAIN	President, New Britain National Bank	New Britain, Ct. 1931
A 3	EDWARD S. KENNARD	Vice-President and Cashier Rumford National Bank	Rumford, Me. 1930
B 1	PHILIP R. ALLEN	President, Bird & Sons	E. Walpole, Mass. 1929
B 2	ALBERT C. BOWMAN	President, John T. Slack Corporation	Springfield, Vt. 1931
B 3	A. FARWELL BEMIS	Chairman, Bemis Bro. Bag Co.	Boston, Mass. 1930
C	FREDERIC H. CURTISS	Chairman	Boston, Mass. 1929
C	ALLEN HOLLIS	Deputy-Chairman, Lawyer	Concord, N. H. 1930
C	CHAS. H. MANCHESTER	President, Providence Gas Co.	Providence, R. I. 1931

GENERAL COUNSEL

ARTHUR H. WEED, Boston, Mass.

MEMBER OF FEDERAL ADVISORY COUNCIL

ARTHUR M. HEARD
President, Amoskeag National Bank,
Manchester, N. H.

LETTER OF TRANSMITTAL

BOSTON, MASS., January 28, 1929.

HON. ROY A. YOUNG,

Governor, Federal Reserve Board,

Washington, D. C.

SIR:

I have the honor to submit herewith the Fourteenth Annual Report of the Federal Reserve Bank of Boston, covering industrial and credit conditions in New England, and the operations of the bank for the period January 1, 1928 to December 31, 1928.

Respectfully yours,

FREDERIC H. CURTISS,

Chairman and Federal Reserve Agent.

FOURTEENTH ANNUAL REPORT OF THE FEDERAL RESERVE BANK OF BOSTON

The outstanding feature of the operations of the Federal Reserve Bank of Boston for the year 1928 was the increased volume of Federal reserve credit in use in New England, accompanied by a loss in the gold holdings of the bank. This increase was due both to an increase in re-discounts of loans to member banks and to the volume of bankers' acceptances purchased. The borrowings of the member banks were the result of steadily declining deposits in those banks from the high point reached in April, and this reduction in deposits may probably be deemed to have been due to depositors' withdrawals of funds for use in the securities market and to the withdrawal of foreign balances; it was accompanied by an increase in the borrowings for commercial purposes in the Boston banks, the outside banks actually experiencing a decline during the year in their demand for commercial loans. For the district as a whole, the volume of commercial borrowings was substantially the same as in recent years.

Consistently with the policy of the Federal Reserve System the holdings of United States securities by the Federal Reserve Bank of Boston have been of much smaller volume than in the preceding year. The figures shown below are the average figures for the last week of each year. The comparative statement of the bank's condition on December 31, 1927, and December 31, 1928, is shown on pages 20 and 21.

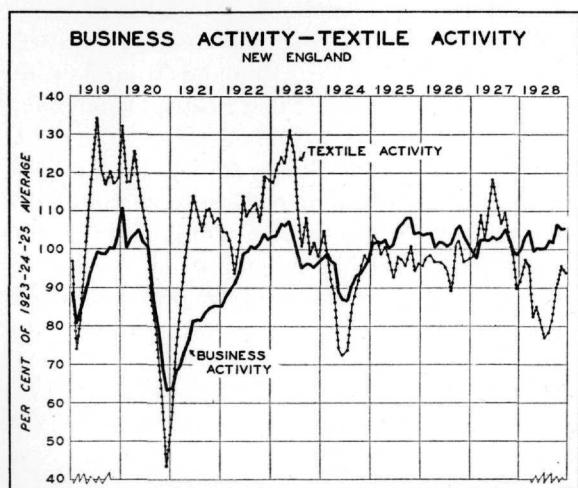
PRINCIPAL RESOURCES AND LIABILITIES OF FEDERAL RESERVE BANK OF BOSTON

(Figures are averages for last 7 days of each year — in Millions of Dollars)

	1928 \$	1927 \$	Amount Change \$	% Change %
<i>Principal Resources</i>				
Gold Reserves	174	191	-17	-8.9
Total Cash Reserves	191	205	-14	-6.8
Bills and Securities:				
Loans to member banks	78	35	+43	+122.9
Acceptances purchased	52	48	+4	+8.3
United States securities purchased	8	34	-26	-76.5
Total bills and securities	138	117	+21	+17.9
<i>Principal Liabilities</i>				
Federal reserve notes in circulation	164	152	+12	+7.9
Deposits:				
Reserve deposits of member banks	150.8	156	-5.2	-3.3
Government deposits	.7	2	-1.3	-65.0
All other deposits	.7	1	-.3	-30.0
Total deposits	152.2	159	-6.8	-4.3
<i>Reserve Ratio</i>	60.4%	65.9%	-5.5%	

BUSINESS CONDITIONS IN NEW ENGLAND DURING 1928

In 1928 general business activity in New England followed quite closely the steady trend that has been in evidence since 1925. The chart



on this page, a composite of business and industrial conditions in this district, illustrates the general evenness and stability that have prevailed in New England during recent years, though some of the components representing different lines of general business have fluctuated widely at times, and among similar trades, in turn, there frequently have

been diverging trends. In this period of three or four years, so important an industry as the manufacture of cotton textiles has risen from depression to a high rate of activity, and declined again to a virtual standstill, with a relatively small effect on the total volume of business and trade.

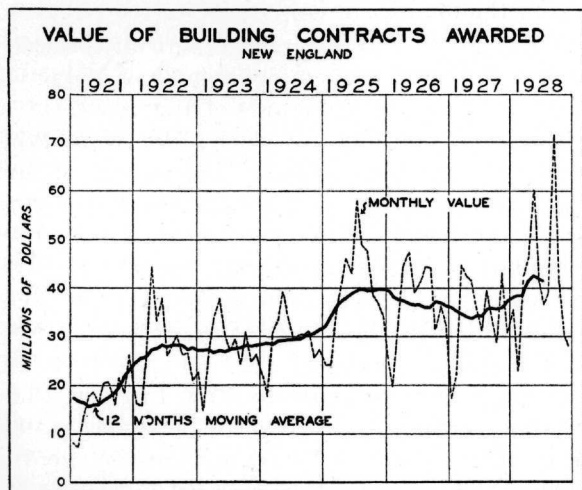
While there is a striking similarity in the trend of general business through the years 1926, 1927, and 1928, and in the range of deviations from the general trend, there are important differences. The chief difference between 1927 and 1928 is in the level of activity prevailing at the close of each year. In 1927, the first and last quarters were marked by a low rate of activity relative to the average level, while the second and third quarters were very steady on a somewhat higher plane. General business at the beginning of 1928 was at the lowest point in the last three years. A more than seasonal expansion in the first quarter of 1928 turned into a moderate decline that lasted through the summer, and was augmented by virtual cessation of operations in one of the principal cloth manufacturing cities of New England. But it is to be noted how well business as a whole held up in the face of a greatly retarded textile industry, whereas depression in the textiles a few years back meant a generally depressed and discouraged condition in the whole of New England business. The fundamental strength in the situation began to show in August, and by September and October it had recovered to the highest point in thirty-six months, and by the last quarter of 1928 business was on a level fully five per cent higher than in the same quarter of 1927;

the trend was steadily upward rather than declining, and sentiment was more confident than a year earlier.

Before reviewing conditions in specific industries, it is of interest to note the relative importance of New England's major industries, and to indicate the fallacy of the popular impression that a single industry dominates this district. In a recent study, "New England Manufactures in the Nation's Commerce," published by the United States Department of Commerce, dealing with the major industrial classifications, the metal and related industries were shown to be of more importance than textiles, from the point of view of the value added by manufacture, and equal in importance to the textiles in the total wages paid to employees. In this major group of industries, New England has an important stabilizing influence that is frequently overlooked. In the study mentioned it was also pointed out that in New England there are eleven large industries in which the value added by manufacture is over one-half of the total for the United States, and twenty-two industries in which New England contributes from one-fourth to one-half the total for the United States. Moreover, a study recently made by this bank indicates that New England is second only to the Middle Atlantic states in the diversity of its manufactures, and that there is a tendency towards further diversity rather than towards concentration on two or three major manufactures. In other words, New England is less a single industry district than most other sections of the country.

The accompanying New England Business Activity Index was designed to measure as closely as possible the actual volume of business transacted in any one month. In order to make this index available promptly each month, and to make it fairly comparable over as long a period as possible, several series of business indices were necessarily eliminated in its construction which are otherwise valuable indicators, especially in measuring changes from year to year and when price fluctuations are unimportant. The volume of check transactions was larger than in 1927, although the increase over that year was not as large as 1927 over 1926. Check payments also afford some indication of the conditions prevailing in various localities within the district. For example, the total volume of trade in Hartford, Lynn, New Haven, Portland, Providence, Springfield, and Waterbury in 1928 was considerably larger than in 1927, while in Holyoke and New Bedford reduced activity in the major industries was responsible for a much lower volume of general trading. An important influence in the maintenance of a higher level in general business was the record-breaking volume of new construction, especially in the first half of the year. Practically all classes of building showed large gains over any previous period, and the total was 20 per cent larger than in 1927. Here again, the

direction and momentum of the movement are more important from next year's viewpoint than the average level of the past year. Whether



due to higher interest rates or to completed requirements, there has been a gradual tapering off in recent months in the amount of new construction awards, and at the close of the year the volume was even smaller than at the close of 1926 or 1927. On the other hand, the volume of loadings of manufactured products in the last two

quarters of the year was large enough to overcome completely the deficiency in comparison with a year ago created in the first half of 1928. Likewise, the use of electric power, after only nominal increases in the first half of the year, has shown an unusually large increment since that time, and for the year as a whole there was an increase over 1927 of nearly 10 per cent.

Employment: Employment data likewise reflect the improved trend in the general industrial situation during the last half of the year. Whereas at the beginning of the summer there was a decrease of 10 per cent from the same period of 1927, the gradual improvement from that time to the end of the year has brought the level to approximately that of a year ago. There is, however, a general downward trend in employment data, due to the increasing use of power and increased efficiency of workers in the reporting industries; moreover, the employment figures for many of the newer industries, which assimilate the workers laid off by the others, are not available. In Massachusetts, where fairly comprehensive figures are available, this declining trend is quite obvious in the case of the shoe industry. In 1928, although production was 8 per cent higher than in 1927, there was an average of 10 per cent fewer employees on the payrolls, while in all industries combined, with an aggregate output probably in excess of 1927, the average number employed in 1928 was from 5 to 10 per cent below 1927. In the Connecticut cities the number employed in 1928 was generally at the highest point since 1925, and in many cases at the highest level on record. This is due to the unusually

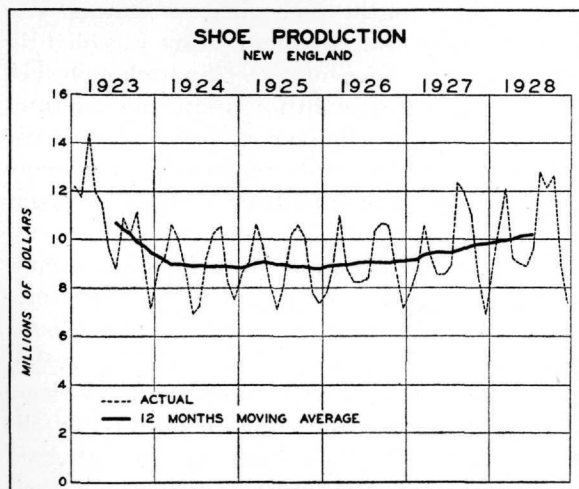
high rate of activity that has prevailed in the metal trades. The total amount of payrolls for all of New England was less than in 1927, but the decline was not as large as in the number of employees on the payrolls. The available data on employment and payrolls refer practically entirely to industrial workers, but the problem of unemployment has attracted little attention as compared with the closing months of 1927.

Cotton: Not since 1924 has the volume of cotton cloth production in the New England states been as low as it was in 1928. The volume of raw cotton consumed by New England mills last year was the smallest of any year since the war. There were on the average approximately 1,250,000 fewer spindles in place in 1928 than in 1927, and the average number of spindles active was 2,500,000 less than in 1927. While overproduction by the industry as a whole in the middle of 1927 foreshadowed considerable decline in the last few months of 1927 and the first few months of 1928, the situation was more acute in New England than elsewhere. The condition was further aggravated by a strike in the New Bedford fine cotton goods mills, which lasted upwards of twenty-four weeks, and which resulted in a virtual cessation of production by all mills which were members of the New Bedford Fine Cotton Goods Exchange. A very interesting phase of the situation was the behavior of cotton goods prices during this period. A composite price curve of cotton cloths does not reveal enough change during the year to indicate definitely that the production of fine fabrics was retarded for a period of practically six months. In other words, the available stocks were large enough to care adequately for the current demand. It was evident also that the demand declined as production declined. Since the middle of the summer, optimism has ruled in the cloth markets and among the cotton manufacturers. There has been some improvement in mill operations, and at times there has been evidence of a fairly strong demand. Trading, however, has failed to assume the proportions expected, and as the year closed mills were again producing more cloth than they were selling. Through all of this, the prices of raw cotton, as well as of cotton cloths, have been steady, and at the end of the year both were approximately at the same levels as at the end of 1927.

Wool: In the woolen and worsted mills the reduction in the volume of operations during the first half of the year, while not as large as in the cotton mills, was substantial. The amount of raw wool consumed by the mills was regularly below the corresponding months of 1927. In comparison with other years immediately preceding, however, the decline was not so noticeable. In 1928 consumption was larger than in 1924, 1925, or 1926. Throughout the year the woolen divisions of the industry were operating on relatively higher schedules than the worsted divisions.

Recently there has been considerable improvement in both branches, and mills are operating on heavier schedules.

Shoes: The accompanying chart shows the gradually improving trend that has taken place in the New England shoe industry since 1924. In



1927 there was a substantial improvement over 1926, and in 1928 there was an even greater improvement over 1927. The larger production of shoes has been accounted for almost entirely by the greater number of women's shoes sold. It is also interesting to note that, while districts outside of New England in former years have been

showing a faster growth in shoe production than the New England states, the year 1928 has brought a reversal of that condition. In all states outside of New England there was a decline from the number produced in 1927, but New England showed an increase of approximately eight per cent.

Metals: The metal trades and allied industries, as already mentioned, are an increasingly important factor in New England business and industry. For the most part, they are well established and stable, but because of the great diversity of products and the difficulty of measuring the output in activity or value, there are no comprehensive figures which give an accurate idea of exactly how operations in any two periods compare. It is known that most plants have enjoyed an unusually prosperous year during 1928, and that production was probably higher than in any recent year. Some things which would indicate this situation are:— the employment figures in Connecticut cities, machine tool orders for the United States, and an index of orders for the metal trades in Massachusetts, which has been compiled by the Associated Industries of Massachusetts, all of which show large increases in 1928 over the previous year.

Trade: The volume of retail trade, as measured by department store and apparel shop sales, was slightly less in 1928 than in 1927. There was a large decline in the volume of cash sales by Boston department stores,

and also some reduction in the volume of instalment sales. Charge sales, however, were slightly larger than in the preceding year, and the proportion of charge to total sales was considerably higher than in 1927. The proportion of instalment sales to the total, while larger than last year, did not increase as rapidly as in the preceding two years. The average rate of collections in the Boston department stores was slightly lower than in 1927. Sales of new automobiles by dealers in each month of 1928 were larger than in the corresponding month of 1927, and the total for the year was higher than for any previous year. The increase over 1927 was nearly 25 per cent. The liabilities of commercial failures were considerably less than in 1927, although the number of firms failing was somewhat in excess of last year.

Agriculture: While the aggregate production of all farm crops in New England in 1928 was higher than the preceding ten-year average, the value was about 15 per cent lower than in 1927. Chiefly responsible for this large decline were the much smaller crop values of potatoes, apples, and hay. The values of the corn, tobacco, and cranberry crops were larger than in the preceding year. These values were computed on the basis of the December 1 prices, and therefore may not be an exact estimate of the aggregate income which the farmers received for their products.

BUSINESS INDICES — NEW ENGLAND

At a time when reports are current that New England is losing a number of factories, a summary of data on the migration of industries, collected by the New England Council, is interesting and decidedly encouraging. The trend of industrial development in 1926 and 1927 is recent enough to give an idea of what also happened in the year just ended. In 1926 there was a net gain, the excess of new enterprises over failures or removals, of 224 new industries and 11,000 employees. Twenty-three industries from other sections of the country moved to New England, while only eight New England concerns moved to other parts of the country. In 1927 there was a net increase of 266 industries and 7,587 employees, distributed in 149 different communities. During this year twenty outside concerns moved into New England, not including the establishment of branches, and five New England concerns moved to other parts of the country. It is evident that the majority of new industries are new undertakings, financed chiefly by New England capital, and that in the exchange of industries between different sections New England is gaining. The following table summarizes the changes in business activity between 1927 and 1928, and also compares the 1927 record with that of 1926.

	BUSINESS INDICES		% Change 1928 to 1927	% Change 1927 to 1926
	1928	1927	1927	1926
GENERAL BUSINESS:—				
1. New England Business Activity Index (1923-25 Average = 100)	102.5	101.6	+1.0	—1.2
2. Electric Power Production (K.W.H.)	6,000,000,000	5,466,084,000	+9.6	+6.5
3. Check Payments	\$36,774,600,000	\$36,039,900,000	+2.0	+7.7
4. Carloadings — Manufactured Products	1,979,564	1,973,436	+0.3	—1.2
5. Residential Building	\$203,349,000	\$185,327,000	+9.7	—6.3
6. Commercial and Industrial Building	\$149,132,000	\$85,169,000	+75.0	—20.4
7. Total Building	\$496,481,000	\$412,769,000	+20.3	—6.5
8. New Incorporations	2,733	2,363	+15.7	+2.5
9. Savings Deposits — Mutual Savings Banks	\$3,190,000,000	\$3,000,000,000	+6.3	+6.0
INDUSTRIAL CONDITIONS:—				
1. Cotton Consumption (Bales)..	1,326,800	1,681,600	—21.1	+3.4
2. Production — Fine Cotton Goods (Pieces)	3,145,814	5,770,419	—44.8	+19.4
3. Average Spindles in Place	15,635,908	16,959,858	—7.8	—4.4
4. Average Spindles Active	10,840,534	13,378,702	—19.0	—1.4
5. Wool Consumption (Pounds)	268,207,000	275,062,000	—2.4	+6.8
6. Activity Woolen Spindles (% Capacity)	75.8	74.8	+1.3	+3.9
7. Activity Worsted Spindles (% Capacity)	63.3	70.0	—9.6	—6.2
8. Shoe Production (Pairs)	122,170,000	113,271,431	+8.0	+5.4
9. Orders of Metal Trades (% 1922-24 Average)	101.3	95.8	+5.7	—4.2
10. Machine Tool Orders (% 1922-24 Average)	226.5	136.7	+65.7	—16.7
11. Orders of Paper Mills (% 1926 average)	92.7	94.7	—2.1	—5.3
12. Average Number Employed	388,300	417,450	—7.0	—4.4
13. Average Monthly Payrolls	\$9,470,000	\$10,180,000	—7.0	—3.4
14. Labor Demand at Public Employment Offices	67,312	66,038	+2.0	—13.4
15. Silk Machinery Activity (% Capacity)	91.9	81.9	+11.2	+1.3
16. Fish Receipts (Pounds)	277,993,000	263,849,000	+5.3	+10.7
TRADE				
1. Department Store Sales (% 1923-25 Average)	105.1	106.7	—1.5	+1.4
2. Apparel Shop Sales (% 1923-25 Average)	119.8	121.0	—1.0	+9.5
3. Sales of New Motor Cars	214,854	171,850	+25.0	—12.9
4. Number of Commercial Failures	2,468	2,379	+3.7	+2.8
5. Liabilities of Commercial Failures	\$47,078,000	\$52,516,000	—10.4	+16.5
AGRICULTURE				
1. Value of Farm Crops (Dec. 1 Prices) (Excluding Dairy Products and Livestock)	\$143,784,000	\$168,520,000	—14.7	—17.3
2. Average Level of Farm Prices (1926 = 100)	105.8	99.4	+6.4	—0.6

MONEY AND BANKING

The year 1928 has been characterized throughout the United States by sharply rising money rates.

In the New England district, although the member banks' deposits during the first half of the year were substantially higher than in 1927, credit expansion as measured by loans and investments during the same period was even greater, banks expanding their loans more rapidly than their deposits grew. Nevertheless, on December 26, 1928, total loans and investments, and deposits, were lower than on December 28, 1927, although loans and discounts were higher.

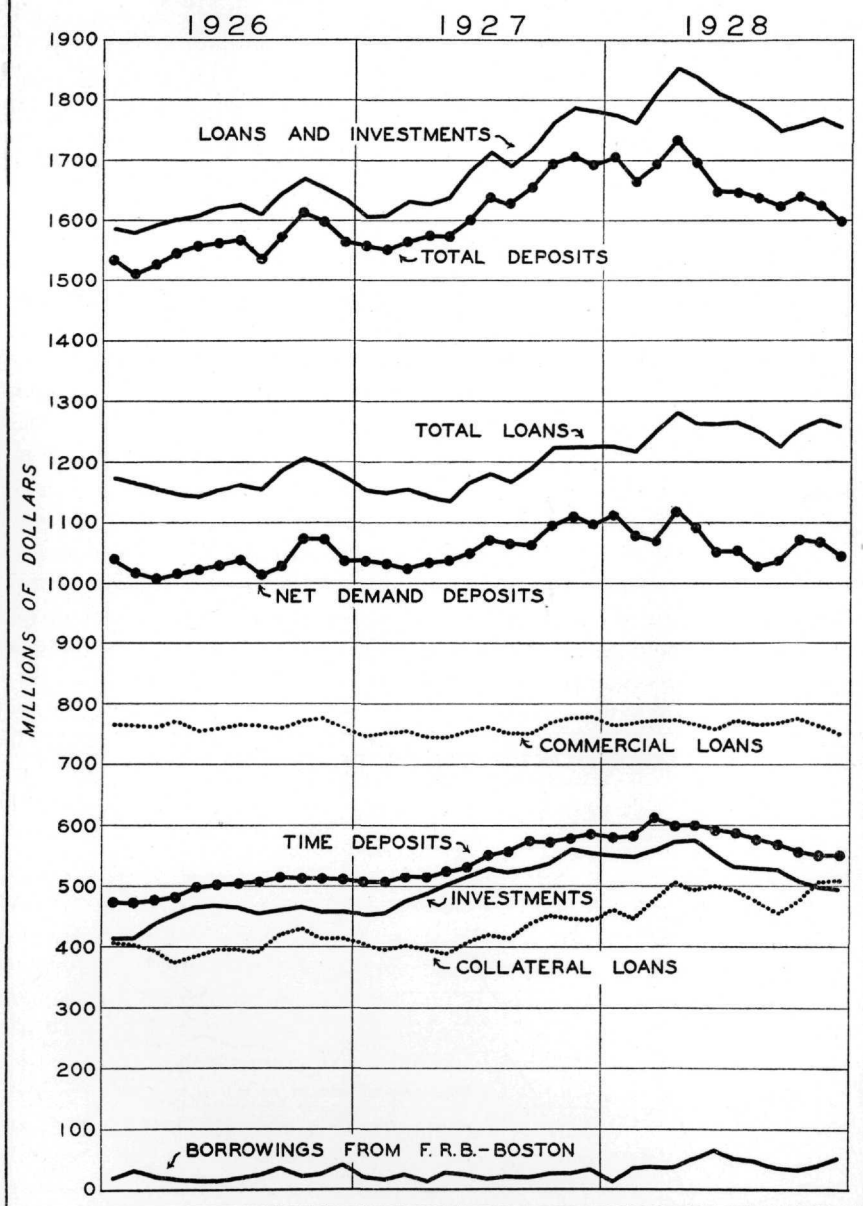
This bank credit situation was peculiar, however, to the New England district, the banks elsewhere in the United States showing for the year an increase in loans and investments, although continuing a wider spread between loans and investments, and deposits, throughout the entire year. With the gold credit base contracting and without corresponding contraction in the member bank credit outstanding, and with the volume of demand for credit increasing relative to the supply of loanable funds, it is not surprising that money rates have become increasingly firm.

While agricultural conditions in New England have been such as to cause an increased demand for loans on member banks, demand for industrial and commercial needs have been of less volume than in 1927. A comparison of the figures of the Boston member banks of December 28, 1927, with those of December 26, 1928, shows a decrease of \$17,000,000 in commercial loans and a similar comparison of the reporting banks in cities outside of Boston shows a decrease of \$20,000,000. The deposits of the reporting member banks in New England reached a peak on April 4, approximately \$163,000,000 higher than on the same date in 1927. From that date there was an almost continuous drop, so that the year ended with the total deposit of these banks \$109,000,000 lower than at the end of 1927.

This reduction of deposits appears in demand, time and Government deposits, both in the figures of the Boston banks and those outside of Boston, the reduction in demand and time deposits coming from the withdrawal by depositors of balances probably for use in the security market and from the withdrawal of foreign balances. This drop in deposits during the second quarter of the year caused the member banks to rediscount heavily with the reserve bank, pending the liquidation of their collateral loans and securities, but in a comparatively short time they had materially reduced their indebtedness to the reserve bank, and by September were in shape to meet the usual fall demand for credit. That there has been a shrinkage in the volume of commercial loans during the year is due

MEMBER BANK CREDIT SITUATION

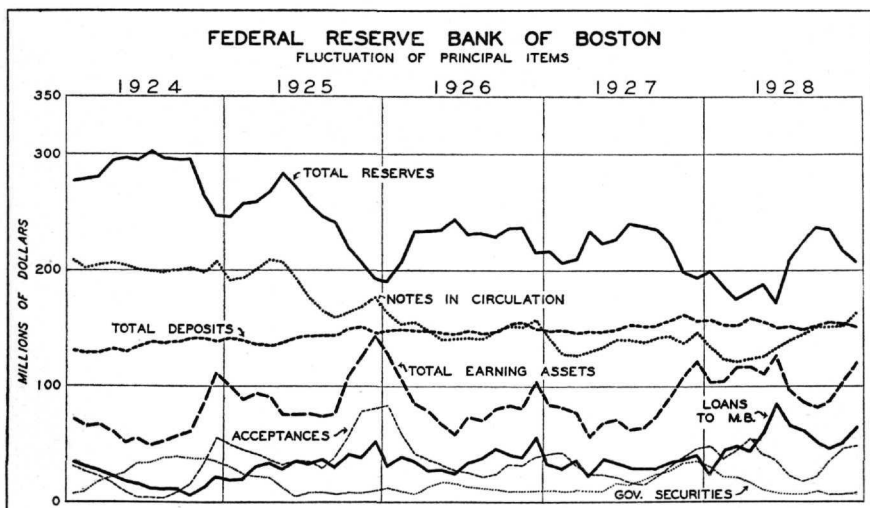
REPRESENTATIVE BANKS IN 9 NEW ENGLAND CITIES



to some extent to the financing of commercial transactions through bankers' acceptances, and it should be noted that throughout the entire year commercial borrowers have been able to secure loans at comparatively moderate rates, irrespective of the tempting high yield on call and time loans secured by stock market collateral. At the end of the year it may be noted that while collateral loans have increased in both the Boston and outside reporting banks, security holdings in the Boston banks have decreased \$42,000,000 and in the outside banks \$19,000,000, the increase in collateral loans being coincident with the end-of-the-year operations.

TOTAL BILLS AND SECURITIES

The average volume of credit extended by the Federal Reserve Bank of Boston during the year 1928 was not only considerably larger than in 1927 but larger than in any year since 1921. This was especially so during the first six months of the year, although the total earning assets — bills discounted, bills bought and securities — were larger at the end of the year than in any preceding year since December, 1925. The volume of credit extended by the Federal Reserve System as a whole for the year 1928 was also larger than at any time since 1921. In the case of the Boston Reserve Bank, as in the entire system, the increase came for the most part from the volume of bills discounted for member banks, although the volume of acceptances purchased was also heavy. The volume of United States securities held decreased heavily from the first of the year, as was also the case in the system.



BILLS DISCOUNTED

There was the usual January reduction in the volume of bills discounted by the Boston Federal Reserve Bank for its member banks, although that reduction was less marked than it had been in the previous year. From that time on the bills steadily increased until the high point was reached on June 20, when the member banks' borrowings amounted approximately to \$90,000,000, or an increase of over \$70,000,000 from the low point of January 25. This peak was considerably higher than at any time since the summer of 1921 and was occasioned by the heavy drop in deposits encountered by the member banks. Moreover, this peak was the highest both in loans to Boston banks and to banks outside of Boston since the 1920-1921 period referred to above. As member banks liquidated their collateral loans and security holdings, their borrowings steadily dropped, until, on October 31, there had been a decrease of \$57,000,000. From that time until the end of the year there was the usual end-of-the-year increase, the year ending with loans to member banks \$40,000,000 higher than at the end of 1927.

BILLS PURCHASED

Purchases of bankers' acceptances by the Federal Reserve Bank of Boston during the year 1928 were considerably larger than in 1927, due to an increased volume of acceptances created without a proportionate increase in the volume of distribution among investors. The table which appears below shows the dates when acceptance liabilities in the New England district reached their high and low points as compared with the other Federal reserve districts.

ACCEPTANCE LIABILITIES

(Amounts in Millions of Dollars)

	1928		1927		1926		1925	
	Date	Amount	Date	Amount	Date	Amount	Date	Amount
F. R. DISTRICT 1 (BOSTON)*								
High	Dec. 31	\$145	Dec. 31	\$138	Feb. 28	\$99	Feb. 28	\$99
Low	July 31	112	June 30	82	Oct. 31	58	Aug. 31	60
F. R. DISTRICT 2 (NEW YORK)								
High	Dec. 31	\$955	Dec. 31	\$791	Jan. 31	\$577	Jan. 31	\$592
Low	Aug. 31	715	July 31	558	Aug. 31	422	Aug. 31	406
OTHER 10 F. R. DISTRICTS								
High	Dec. 31	\$184	Nov. 30	\$152	Oct. 31	\$122	Jan. 31	\$145
Low	July 31	121	July 31	101	June 30	82	July 31	82
TOTAL FEDERAL RESERVE SYSTEM								
High	Dec. 31	\$1,284	Dec. 31	\$1,081	Jan. 31	\$788	Jan. 31	\$834
Low	Aug. 31	952	July 31	741	Aug. 31	583	Aug. 31	555

*This does not include in Boston private bankers whose liabilities are included in the New York District.

The reports of the American Acceptance Council showing acceptance liabilities include in the aggregate liability for the New York district the acceptances of some private bankers in the Boston district who have

offices in New York. If the acceptance liabilities of these Boston banking houses were included in those of the New England district, the acceptance liabilities of the Boston district would probably be shown to approximate those of all the other ten districts combined outside of the New York district.

While there is a good and increasing distribution of acceptances in this district among investors such as insurance companies, colleges, trustees, savings banks, and others who seek good short-time investments, this demand has not been sufficient during the past few months to absorb the increased volume of acceptances coming into the market, the market for acceptances being also affected by the higher rates prevailing on stock exchange loans.

It is obvious that the policy of the Boston Federal Reserve Bank, both as to rates and choice of maturities in making purchases, must be closely in accord with that of the Federal Reserve Bank of New York in its own market, as the business relations between the two districts are so close, and so many dealers have offices both in New York and in Boston. Lower rates in Boston would quickly flood this market with New York bills, while higher rates would divert local bills to New York.

At the beginning of the year 1928, the Federal Reserve Bank of Boston held \$48,000,000 of acceptances. On April 18, the amount stood at \$67,000,000, and from this point there was a steady decline until August 8 when it stood at \$14,000,000, which was the low point of the year. From that time on the increased volume of acceptances being created and the slackening of the outside market for them sent the volume up steadily, until at the close of the year the Federal Reserve Bank of Boston held \$55,000,000.

The rates maintained by the bank on open market purchases of acceptances during the year appear in the table below.

During the first half of the year, this bank distributed quite a large volume of bankers' acceptances to other Federal reserve banks. During the last half of the year several of these banks did not continue in their participation.

BUYING RATES ON ACCEPTANCES

		1-30 Days	1-45 Days	31-60 Days	31-90 Days	46-90 Days	61-90 Days	91-120 Days	121-180 Days
*January 1, 1928	%		3%	%	%	3¼%	%	3¾%	3¾%
January 27, 1928			3⅞			3¾		3½	3¾
February 3, 1928			3¼			3½		3½	3¾
March 30, 1928	3½				3⅞			3¾	4
April 13, 1928	3⅞				3¾			3¾	4
May 18, 1928	4				4			4	4¼
July 13, 1928	4¼				4¼			4¼	4½
July 26, 1928	4½			4½			4½	4⅝	5

*In effect on.

MEMBER BANKS RESERVE DEPOSITS

The average deposit maintained by the member banks in the Boston reserve bank, which represented their legal reserve against their deposit liability, was about the same as in 1927, but considerably lower on December 31, 1928, than on December 31, 1927; this reflects to a large extent the decrease in deposits of those banks. During the preceding six years the member banks' deposits in the reserve bank had shown a steady increase, the peak being reached on January 5, 1928, when member banks' reserve deposits were \$164,000,000. This was the high point of the year, the low point being \$139,000,000 on June 19, and from that date on they steadily increased until at the end of the year they stood at \$146,000,000.

GOVERNMENT SECURITIES HELD

The volume of United States securities held by the Reserve Bank of Boston during the year 1928 was much smaller than the volume ordinarily held since 1925. On January 1, 1928, the bank held \$33,000,000. These had been reduced by February 1 to \$23,000,000 and by May 29 to \$7,000,000, this latter amount varying slightly from that time until the end of the year, when they stood at \$8,000,000. These changes represent for the most part security holdings sold in conjunction with similar operations by all the reserve banks.

FEDERAL RESERVE NOTES

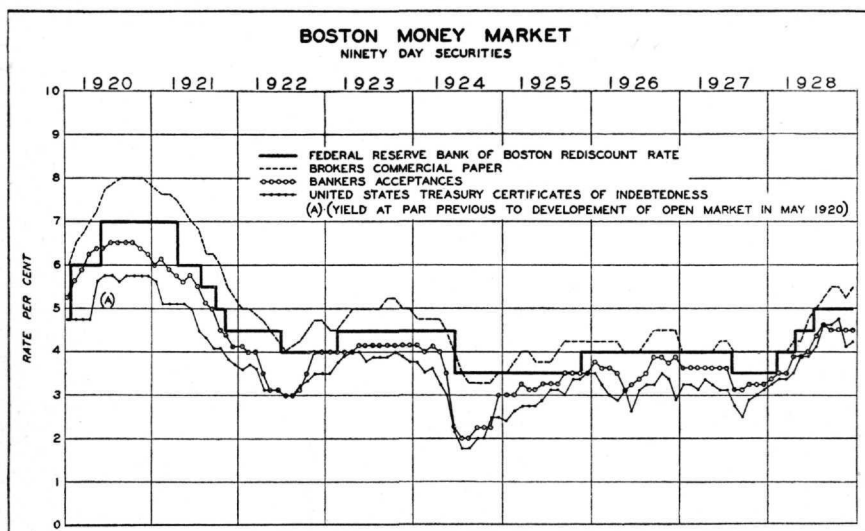
In 1928 the volume of Federal reserve notes in circulation in the Boston reserve bank increased and was larger than in 1927, whereas in 1927 the volume had decreased from the previous year. This increase is at variance from the volume of Federal reserve notes in circulation in the reserve system as a whole, which showed rather a marked decrease in 1928 over 1927. Inasmuch as the average monthly payrolls as reported in New England were smaller in 1928 than in 1927, this increase may have been caused by reserve notes replacing gold certificates in circulation. On January 1, 1928, there were outstanding \$150,000,000 Federal reserve notes of the Boston bank. The customary spring reduction brought these down to a low point on March 21 of \$119,000,000, the lowest point since 1918. From that date until the end of the year there was a steady increase, the year ending with \$161,000,000 notes in circulation.

MONEY RATES AND DISCOUNT POLICY

The outstanding feature of the local money market was the steadily increasing rates on all classes of loans during the greater part of the year. Customarily, money rates decline in January in this district, but in 1928 they tended to strengthen, due largely to the loss of gold and to the in-

creasing volume of stock market loans, and the sale of United States securities by the reserve banks.

On February 8, 1928, the discount rate of the Boston reserve bank was raised from $3\frac{1}{2}$ per cent to 4 per cent, following a similar change on February 3, in the rate of the New York reserve bank, the $3\frac{1}{2}$ per cent rate having been established on August 5, 1927. Money rates continued to increase and on April 20 the discount rate was again increased from 4 per cent to $4\frac{1}{2}$ per cent (the New York rate being similarly increased May 18), and again on July 19 from $4\frac{1}{2}$ per cent to 5 per cent, the New York rate having been similarly increased July 13. The reserve position of the Boston Federal reserve bank continued low, and the general demand for credit in the New England district made logical these increases in the discount rate.



The money rates on the different classes of loans during the year appear below and it may be noted that commercial loans, even with the high yield on stock exchange loans, continued to be made at comparatively moderate discount rates.

BOSTON MONEY MARKET — 1928
90-Day Maturities as of 15th of Each Month

<i>Month</i>	<i>U. S. Treasury Certificates of Indebted- ness</i>	<i>Accept- ances (Asking Rate)</i>	<i>Customers' Commercial Loans</i>	<i>Brokers' Com- mercial Paper</i>	<i>Loans to Corre- spondent Banks</i>	<i>Time Loans Secured by Bonds and Stocks</i>
January	3¼%	3¾%	4-4¼%	4%	4%	4½-4¾%
February	3¾	3½	4½	4	4½	4½-4¾
March	3¾	3½	4¼-4½	4	4½	4½-5
April	3½	3¾	4¼-4½	4¼	4½	4½-4¾
May	3¾	3¾	4½-4¾	4¼	4¾-5	4¾-5
June	3¾	4	4¾-5	4¾	5	5½
July	4¾	4¾	5-6	5	5-6	5½-5¾
August	4¾	4¾	5¼-5½	5¼	5½	5½-6
September	4¾	4½	5½-6	5½	6	5½-6
October	4¾	4½	5½-6	5½	5½	5¾-6
November	4¾	4½	5½-6	5¼	5½-6	5¾-6
December	4¼	4½	5½-6	5½	5½-6	6-6½

COMPARATIVE STATEMENT OF CONDITION

(000 Omitted)

RESOURCES

	1928	1927
I. EARNING ASSETS: —		
1. <i>Loans to Member Banks: —</i>		
(a) On the security of obligations of the United States	\$ 28,816	\$ 19,061
(b) By the discount of commercial or agricultural paper or acceptances.....	40,428	9,537
Total loans to member banks.....	\$ 69,244	\$ 28,598
2. <i>Acceptances bought in the open market.....</i>	54,619	48,410
3. <i>United States Government securities bought in the open market: —</i>		
(a) Bonds.....	689	15,157
(b) Treasury Notes.....	3,973	2,463
(c) Certificates of Indebtedness.....	4,411	15,738
Total U. S. Government Securities Owned.....	\$ 8,173	\$ 33,358
TOTAL BILLS AND SECURITIES.....	\$132,036	\$110,366
II. CASH RESERVES held by this bank against its deposits and circulation: —		
1. <i>Gold held by the Federal Reserve Agent as part of the collateral deposited by the Bank to secure Federal Reserve Notes as issued by the Agent partly in his own vaults at the bank and partly with the Treasurer of the United States at Washington.....</i>	98,304	126,364
2. <i>Gold Redemption Fund in the hands of the Treasurer of the United States for use in redeeming such Federal Reserve Notes as are presented to the Treasury for redemption.....</i>	9,808	9,258
3. <i>Gold in the Gold Settlement Fund maintained by the Federal Reserve Board and lodged with the Treasurer of the United States for the purpose of settling current transactions between Federal Reserve Districts.....</i>	27,592	19,922
4. <i>Gold and Gold Certificates in the bank's own vault.....</i>	36,246	38,893
Total Gold Reserves.....	\$171,950	\$194,437
5. <i>Legal tender notes, silver, and silver certificates in the vaults of the bank, and available as reserves only against deposits.....</i>	17,756	14,477
TOTAL CASH RESERVES.....	\$189,706	\$208,914
III. NON-RESERVE CASH (National Bank Notes, Federal Reserve Bank Notes and minor coin).....	11,538	9,860
IV. MISCELLANEOUS: —		
Checks and other items in process of collection.....	70,990	69,175
Bank premises.....	3,702	3,824
All other resources.....	131	115
TOTAL MISCELLANEOUS.....	\$ 74,823	\$ 73,114
TOTAL RESOURCES.....	\$408,103	\$402,254

COMPARATIVE STATEMENT OF CONDITION

(000 Omitted)

LIABILITIES

	1928	1927
I. CAPITAL AND SURPLUS:—		
1. Capital paid in, equal to 3 per cent of the capital and surplus of member banks.....	\$ 10,156	\$ 9,412
2. Surplus—that portion of accumulated net earnings which the bank is legally required to retain.....	19,619	17,893
Total Capital and Surplus.....	<u>\$ 29,775</u>	<u>\$ 27,305</u>
II. DEPOSITS:—		
1. Deposits maintained by member banks as legal reserves against the deposits of their customers.....	146,177	158,024
2. U. S. Government deposits carried at the Reserve Bank for current requirements of the U. S. Treasury.....	1,103	1,642
3. All other deposits (including foreign deposits, deposits of non-member banks, etc.).....	568	652
Total Deposits.....	<u>\$147,848</u>	<u>\$160,318</u>
III. CURRENCY IN CIRCULATION:—		
Federal Reserve Notes in actual circulation, payable in gold on demand; these notes are secured in full by gold and discounted and purchased commercial paper and acceptances.....	<u>161,292</u>	<u>149,630</u>
IV. MISCELLANEOUS LIABILITIES:—		
1. Deferred items, composed mostly of uncollected checks on banks in all parts of the country; such items are credited as deposits after the average time needed to collect them elapses, ranging from 1 to 8 days.....	68,752	64,791
2. All other liabilities.....	436	210
Total Miscellaneous Liabilities.....	<u>\$ 69,188</u>	<u>\$ 65,001</u>
TOTAL LIABILITIES.....	<u>\$408,103</u>	<u>\$402,254</u>
Reserve Percentage against Federal Reserve Deposits...	61.4%	67.4%

The following are the principal changes in the above statements of December 31, 1927, compared with December 31, 1928.

1. Loans to member banks show an increase of \$40,000,000.
2. Bankers' acceptances bought in the open market show an increase of \$6,000,000.
3. United States securities show a decrease of \$25,000,000.
4. Gold reserve shows a decrease of \$22,000,000.
5. Capital stock and surplus show an increase of \$2,500,000.
6. Deposits show a decrease of \$12,000,000.
7. Federal Reserve Notes outstanding show an increase of \$12,000,000.

A comparison of the income and disbursements of the Federal Reserve Bank of Boston for the years 1928 and 1927 appears in the following table:

INCOME AND DISBURSEMENTS			1928	1927
EARNINGS:—				
From loans to member banks and paper discounted for them.....			\$2,465,266	\$1,242,463
From acceptances owned.....			1,485,605	1,025,348
From U. S. Government obligations owned.....			454,142	607,374
Other earnings (including deficient reserve penalties).....			60,329	100,172
Total earnings.....			\$4,465,342	\$2,975,357
Additions to earnings.....			2,531	3,707
Total applicable to expenses and other deductions.....			\$4,467,873	\$2,979,064
DEDUCTIONS:—				
For the expense of current bank operation, including the non-reimbursable expense incurred as Fiscal Agent of the U. S. and for printing of Federal Reserve Notes.....			1,870,002	1,976,935
All other deductions, including those on account of depreciation on bank premises, machinery and equipment, cost of new furniture and equipment, and miscellaneous small items.....			281,349	164,518
Total Deductions.....			\$2,151,351	\$2,141,453
NET INCOME available for Dividends, Surplus and Franchise Tax to the U. S. Government.....			\$2,316,522	\$837,611
DISTRIBUTION OF NET INCOME:—				
Dividends paid member banks at rate of 6 per cent on paid-in capital.....			590,830	550,445
Additions to Surplus (the bank is required by law to accumulate out of net earnings, after payment of dividends, a surplus amounting to 100 per cent of the subscribed capital; and, after such surplus has been accumulated, to pay into surplus each year 10 per cent of the net income remaining after paying dividends).....			1,725,692	287,166
Franchise tax paid U. S. Government (representing the entire net income of the bank after paying dividends and making additions to surplus; Federal Reserve notes are not taxed, and this payment is in lieu of taxes on notes and other Federal taxes).....			None	None
Deficit of net income after dividend payments charged to Surplus account.....			None	None
Total.....			\$2,316,522	\$837,611

Due to the increased volume of loans to member banks and to an increase in the volume of bankers' acceptances purchased in the open market, accompanied by higher rates both on discounts and purchases, the gross income of this bank for the year 1928 was \$1,500,000 larger than in 1927.

The expense of current operations of the bank was again smaller than

in the preceding year, being \$100,000 less than in 1927, although the volume of operations in practically every department in the bank showed a large increase.

The net income was sufficient to pay to the member banks the 6 per cent dividend on capital stock, as provided by the Federal Reserve Act, and after setting aside \$122,000 for depreciation on building and equipment, \$99,000 for losses on U. S. securities and \$60,000 for other items, \$1,725,000 was added to the surplus account, which under the Federal Reserve Act must be increased until it is equal to the subscribed capital stock of the bank.

THE VOLUME OF OPERATIONS

It will be seen from the following table that the volume of operations in the principal departments of the bank have continued to increase during the year 1928.

NUMBER OF PIECES HANDLED: —

	1928	1927
<i>Bills Discounted: —</i>		
Applications.	9,252	6,842
Notes discounted.	65,671	37,601
Bills purchased in open market for own account.	47,587	37,161
Currency received and counted.	242,601,805	240,778,000
Coins received and counted.	213,018,130	181,602,000
Checks handled (including government).	86,246,000	81,334,000

Collection items handled: —

U. S. Government coupons paid.	2,191,238	3,000,192
All other.	409,105	415,000

U. S. Securities: —

Issues, redemptions, and exchanges by fiscal agency department.	449,476	569,000
Transfers of funds (including 5% fund, National banks).	61,960	57,000

AMOUNTS HANDLED: —

Bills discounted.	\$4,284,601,886	\$2,119,260,000
Bills purchased in open market for own account.	748,364,260	548,592,000
Currency received and counted.	1,527,458,227	1,481,109,000
Coin received and handled.	23,580,002	21,281,000
Checks handled (including government).	21,510,491,590	20,931,495,000

Collection items handled: —

U. S. Government coupons paid.	41,421,127	46,227,000
All other.	796,997,527	636,360,000

U. S. Securities: —

Issues, redemptions and exchanges by Fiscal Agency Department.	454,273,190	710,990,000
Transfers of funds (including 5% fund, National Banks).	8,070,296,636	7,637,204,000

MEMBERSHIP

The number of member banks in this district has been reduced from 414 to 408 during the year 1928. There were a number of consolidations and mergers which accounts somewhat for this reduction, although these have been offset to some extent by the new national banks which have been organized.

One state bank withdrew from membership, — the Fidelity Trust Company of Portland, Maine, on August 14, 1928; and there was one failure, — that of the Citizens National Bank of Woonsocket, Rhode Island, on September 18, 1928.

Notwithstanding the reduction in the number of member banks, the subscribed capital of this bank increased \$700,000. The table on page 25 shows the number of banks in the district classified as to charters, and also gives an analysis of membership changes during the year 1928. Apart from the tendency among member banks towards consolidation and mergers referred to above, the two outstanding developments during the year have been the increase of branches of national banks in the cities and towns where the parent banks are located, and the organization of investment trusts affiliated with some of the large Boston banks and the purchase by such bank or such trusts of control of the stock of banks in surrounding territory, — The Old Colony Trust Associates, affiliated with the Old Colony Trust Company of Boston, which has acquired, either directly or indirectly, control of the Newton Trust Company of Newton, the First National Bank of West Newton, the Menotomy Trust Company of Arlington, the Dedham National Bank, the Union Market National Bank of Watertown, the Needham Trust Company of Needham, the Boulevard Trust Company of Brookline, and the First National Bank of Mansfield; The Shawmut Association, affiliated with the National Shawmut Bank of Boston, controls the Merchants National Bank of Salem, the Needham National Bank, the Winchester National Bank and the Hingham Trust Company; and interests identified with the Federal National and Trust Company of Boston control the Salem Trust Company, the State National Bank of Lynn and the Gloucester National Bank.

On January 1, 1928, there were 377 national bank and thirty-seven state bank members of the Federal Reserve System in this district. During the year there was a net decrease of four national bank and two state bank members, leaving a total membership of 408 at the end of the year. The changes are shown in detail in the following table:

	<i>National Banks</i>	<i>State Banks</i>	<i>Total</i>
Members, January 1, 1928.....	377	37	414
GAINS:—			
New banks organized.....	6	—	6
	<hr/> 383	<hr/> 37	<hr/> 420
LOSSES:—			
Absorption of national by State bank members.....	3		
Consolidation of national banks.....	3		
Liquidation and consolidation with non- member banks.....	2		
Voluntary liquidation, succeeded by non- member State bank.....	1		
Suspension and insolvency.....	1	10	
	<hr/>		
Withdrawal of State bank member.....	1		
Consolidation of State bank members.....	1	2	12
	<hr/>	<hr/>	<hr/>
NET TOTAL DECEMBER 31, 1928.....	373	35	408

FIDUCIARY POWERS

During 1928 permission was granted to fifteen national banks to exercise fiduciary powers under authority of Section 11 (k) of the Federal Reserve Act, as amended, and the privilege of exercising additional powers was granted to five banks which had previously received permits to exercise other powers. The twenty-one banks whose applications to exercise fiduciary powers were approved in 1928 were located as follows: Maine one, Massachusetts twelve, New Hampshire five, Rhode Island two, Vermont one.

<i>Name of Bank</i>	<i>Location</i>
*Portland National Bank	Portland, Maine
Andover National Bank	Andover, Mass.
Athol National Bank	Athol, Mass.
Boston National Bank	Boston, Mass.
Gloucester National Bank	Gloucester, Mass.
First National Bank	Ipswich, Mass.
Second National Bank	Malden, Mass.
First National Bank	Medford, Mass.
Needham National Bank	Needham, Mass.
Orange National Bank	Orange, Mass.
National Mt. Wollaston Bank	Quincy, Mass.
Townsend National Bank	Townsend, Mass.
First National Bank	Westfield, Mass.
*Amoskeag National Bank	Manchester, N. H.
*First National Bank	Manchester, N. H.
*Indian Head National Bank	Nashua, N. H.
First National Bank	Portsmouth, N. H.
Public National Bank	Rochester, N. H.
Newport National Bank	Newport, R. I.
*Blackstone Canal National Bank	Providence, R. I.
National Bank of Chester	Chester, Vt.

*Supplementary powers.

The number of national banks in each state which had been authorized to exercise trust powers at the end of the year was as follows: Connecticut twenty-nine, Maine thirty-one, Massachusetts ninety-five, New Hampshire thirty-two, Rhode Island five, Vermont twenty-seven, making the total for the district 219.

RELATIONS WITH FOREIGN BANKS OF ISSUE

In 1928 the Federal Reserve Bank of Boston participated in arrangements made by the Federal Reserve Bank of New York with the following foreign banks of issue: Bank of Greece, Bank of France, National Bank of Bulgaria, and the National Bank of Roumania.

BANK ORGANIZATION AND PERSONNEL

Directors: One change in the Board of Directors occurred during the year. Mr. Charles G. Washburn, of Worcester, Massachusetts, who had been a Class B director of the bank from the time of its organization in 1914, died on May 25, 1928. A special election by member banks in Group 3 was held for the purpose of electing a Class B director for the remainder of Mr. Washburn's term, or until December 31, 1930. Polls in that election closed on August 2, 1928, and Mr. Albert Farwell Bemis, Chairman of the Board of Directors of Bemis Bro. Bag Company, Boston, Massachusetts, was elected to succeed Mr. Washburn. On December 31, 1928 the terms of Mr. Frederick S. Chamberlain as Class A director, Mr. Albert C. Bowman as Class B director, and Mr. Charles H. Manchester as Class C director, expired. Mr. Chamberlain and Mr. Bowman were reelected for three year terms by banks in Group 2, — banks having a combined capital and surplus of not less than \$300,000 and not more than \$999,000 — and Mr. Manchester was reappointed by the Federal Reserve Board for a similar term of three years. The Federal Reserve Board also redesignated Mr. Frederic H. Curtiss as Chairman and Federal Reserve Agent and Mr. Allen Hollis as Deputy Chairman for the year 1929.

Personnel: No change in the official staff occurred during the year 1928. The number of employees on December 31, 1928, was 715 compared with 698 on December 31, 1927.

Advisory Council: At a meeting of the Board of Directors held on January 4, 1928, Mr. Arthur M. Heard, President of the Amoskeag National Bank of Manchester, New Hampshire, was reappointed as a member of the Federal Advisory Council to represent the First Federal Reserve District for the year 1928.

STOCKHOLDERS' MEETING

The Sixth Annual Meeting of the member banks was held at the Federal Reserve Bank of Boston on November 9, 1928, the Chairman of the Stockholders' Advisory Committee, Mr. Thomas M. Steele, President of the First National Bank and Trust Company of New Haven, Connecticut, presiding. Delegates representing 225 member banks, and eighty-eight other member banks' representatives who also attended, were welcomed by the Chairman of the Board of Directors and the Governor of the bank with brief remarks of comment upon subjects of current interest. The principal address of the meeting was delivered by Hon. Roy A. Young, Governor of the Federal Reserve Board, who discussed the general credit situation. Following his address there was a general discussion of the various resolutions which had been submitted to the meeting and the resolutions were then referred, in accordance with custom, to a Committee on Resolutions for consideration and report. At the afternoon session the Committee made its report upon resolutions referred to it, and the report of the Committee was approved. Among the resolutions favorably reported by the Committee and adopted by the meeting were: one opposing any modification of Section 5219 of the United States Revised Statutes with reference to the taxation of banks; one similar to that adopted at the Stockholders' Meeting in 1927 favoring the retention of national bank note circulation; one favoring an amendment to Section 19 of the Federal Reserve Act so that no reserves would be required against postal savings deposits; and one requesting the Chairman of the Stockholders' Advisory Committee to appoint a committee of not less than three to study and report upon the question of a more equitable participation by member banks in the earnings of the Federal Reserve Banks. At the conclusion of the meeting the Chairman announced that Mr. Charles S. Hichborn, President of the First National Granite Bank of Augusta, Maine, had been elected Chairman of the Stockholders' Advisory Committee for the ensuing year.