

Annual Report 1953

Federal Reserve Bank *of* Boston



FEDERAL RESERVE BANK
OF BOSTON

January 5, 1954

To the Member Banks of the
Federal Reserve Bank of Boston:

I am pleased to transmit the 1953 annual report of the Federal Reserve Bank of Boston. This year it highlights the operations of the fiscal agency, wire transfer, and the credit, discount and V-Loans departments. It also includes a section relating to post-Korean economic developments.

On behalf of the directors and officers, I wish to express appreciation for the cooperation received from bankers and from leaders of agriculture, commerce and industry in the First Federal Reserve District.

J A Erickson

President

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East Corinth, Vermont

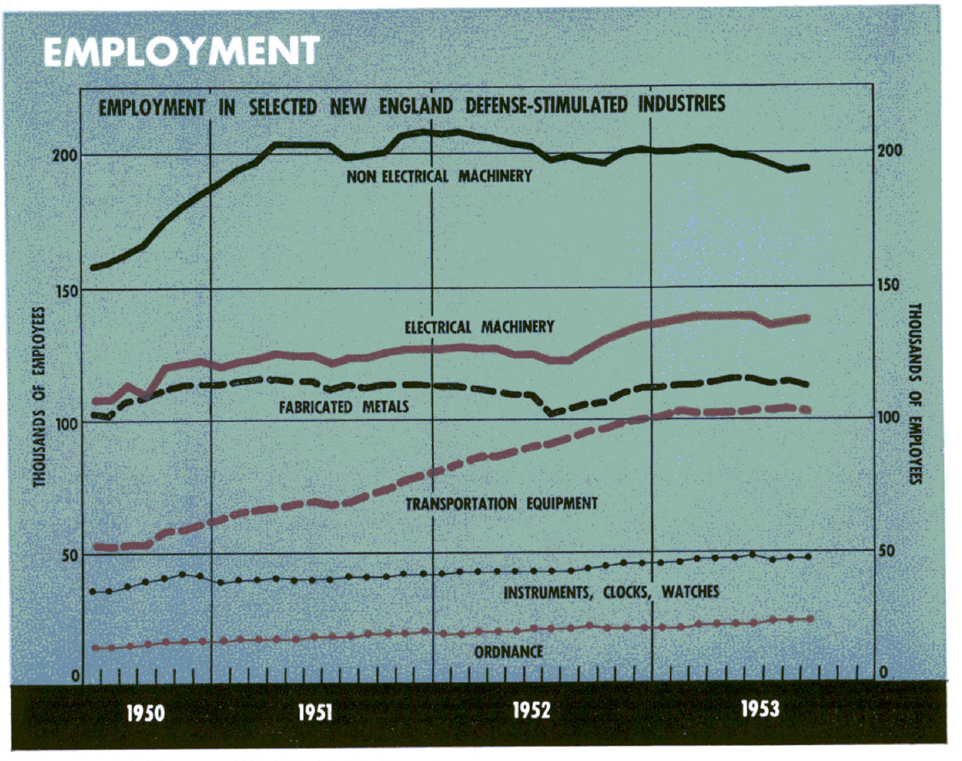
The Defense Program and . . .

The New England Economy

WHEN THE NORTH KOREAN ARMIES crossed the 38th Parallel in Korea in June 1950 they touched off military and economic developments that have had a profound impact on New Englanders. During the subsequent three and one-half years New Englanders have simultaneously adjusted the structure of their economy, contributed significantly to the military effort and more than maintained their standard of living as did the nation as a whole.

Changes in manufacturing activities in New England were stimulated by expanding production for defense. In the spring of 1950 manufacturing employment in the region about matched the post-World War II low of 1946. Only slight recoveries had been registered from the bottom of the 1949 recession which had a relatively greater impact on the region than it had on the country at large. During the second half of 1950 manufacturing employment in the region jumped nine per cent as the Government as well as consumers, distributors and manufacturers increased their purchases and flooded manufacturers with orders. Durable-goods manufacturers led the way with an employment increase of 14 per cent, while nondurable-goods manufacturers registered a more modest five per cent increase.

After the first six-month rush of expansion, the two major sectors of the region's manufacturing industries had quite different experiences. During the three years from January 1951 to the end of 1953 nondurable-goods manufacturing employment in the New England region contracted to the extent of about 70,000 workers. In contrast, durable-goods manufacturers added



SOURCE: U. S. Bureau of Labor Statistics.

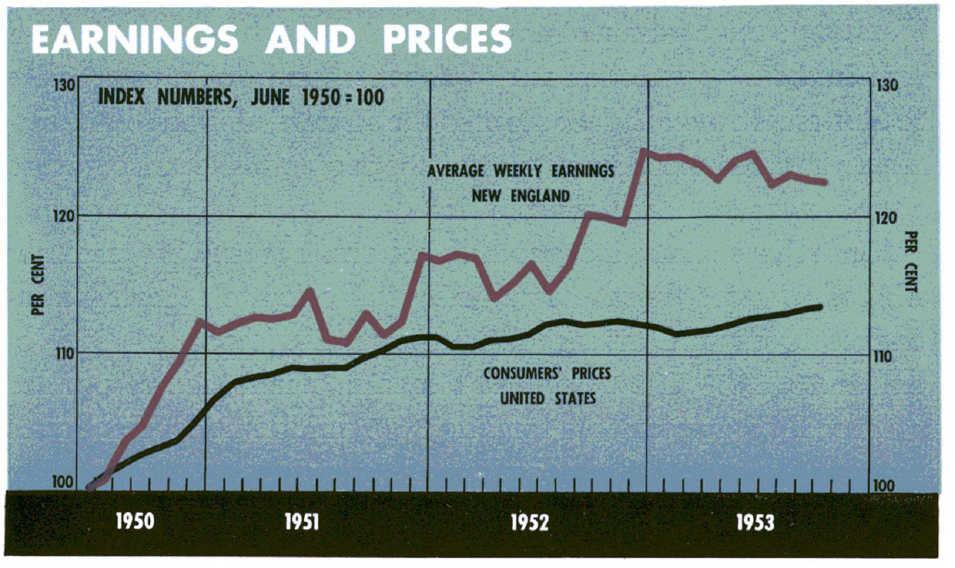
about 72,000 workers. In the three years between the start and the formal armistice of the Korean War four industries alone provided 96 per cent of all the new manufacturing jobs in New England. Those four rapidly expanding industries, electrical machinery, nonelectrical machinery, transportation equipment and fabricated metal products, received much of their stimulus from the defense program. Similar expansion was not necessary for nondurable-goods producers in the region. Their capacity has proved more than adequate to satisfy both defense and civilian requirements.

New England's factories have been contributing substantially to the defense program since June of 1950. For security purposes, data describing all Government procurement are not published by the Federal Government. The best available estimates indicate that New England suppliers received about 13 per cent of all the non-secret defense contracts issued in the 33 months following the outbreak of war. During the first few months of the fighting it was imperative that servicemen be outfitted with uniforms and New England's textile industry was relied on heavily to produce the fabrics. In subsequent months the aircraft, shipbuilding, machinery and ordnance industries of the region played larger roles in the region's defense contribution.

War in Korea and an expanding national security program not only led to more defense contracts; it also led to federal tax incentives to expand defense-related industrial capacity. By November 28, 1953, New England's manufacturers had responded by scheduling investments totaling $455 million under certificates of necessity as part of the accelerated depreciation program. The certificates allowing accelerated depreciation encouraged expansion of munitions plants and basic industrial capacity to produce power, metals and chemicals. Without many chemical or mineral resources New England could not participate extensively in a large part of the program. About two-thirds of all the certificates received by New England firms have been for expansion of manufacturing facilities in comparison with the national proportion of only 56 per cent. Nevertheless, during the first two years of the program, the region's manufacturers accounted for only 2.8 per cent of the value of all certificates for expansion of manufacturing facilities. It appears that New England manufacturers again, as after World War II, may be at a disadvantage in future competition for civilian markets as a result of the induced expansion of manufacturing activities in competing areas.

The New England economy very quickly went on a general "overtime" basis after Korea, even though a few communities were plagued with persistent unemployment. In Connecticut the average weekly hours of manufacturing employees increased by five per cent between June and December of 1950. Gains in the other New England states were substantial but not as rapid. The working hours in the whole region built slowly to a peak in December 1952. Since then as the emergency pressure to boost output lessened, workweeks generally shortened.

Longer work hours and higher average hourly payments com-



SOURCES: U. S. Bureau of Labor Statistics, and Federal Reserve Bank of Boston.

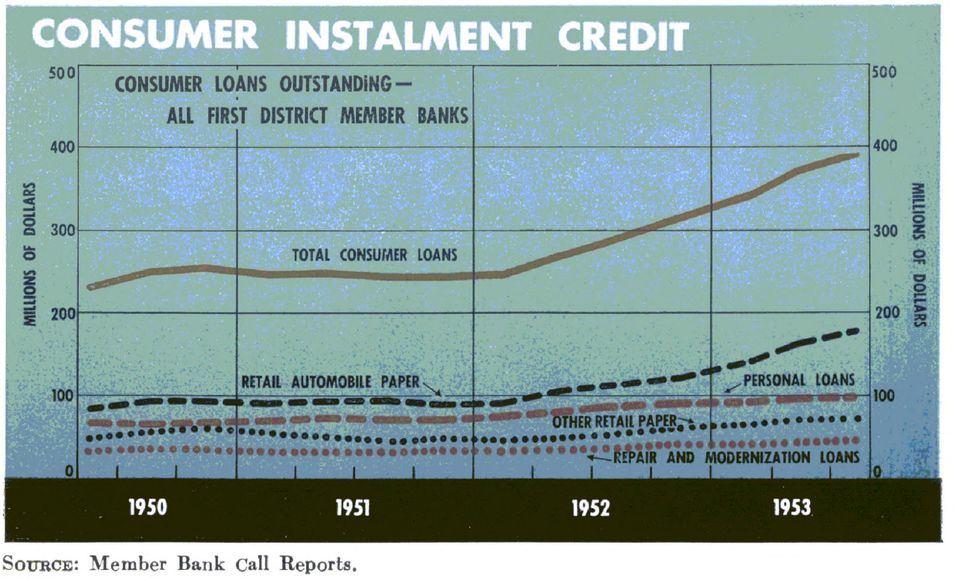
bined to increase income in New England. Average weekly earnings of manufacturing workers have increased by 23 per cent since the start of fighting in Korea. At the same time, consumer price increases reduced the effectiveness of increased incomes. By the end of 1953 the United States Bureau of Labor Statistics' Consumer Price Index had advanced about 13 per cent from its June 1950 level. On balance, real incomes in the region have continued to advance since the start of fighting in Korea.

Consumer loans at New England's member banks expanded sharply in the first few months after the outbreak of hostilities in Korea. The expansion reflected chiefly "scare" buying in anticipation of future shortages. The imposition of Regulation W in September of 1950 brought this expansion to a halt, and for the next 18 months, consumer credit oustanding for automobiles, retail sales, and home repairs declined slightly. The abandonment of Regulation W in May 1952 gave impetus to pronounced expansion of member bank credit to consumers. Automobile credit paced the rise in instalment credit, increasing 81 per cent during the 16 months after the termination of Regulation W. Loans to individuals to finance other purchases increased 51 per cent in the same period.

Even as they borrowed more, New Englanders also saved more. Accumulated per capita liquid savings in bank time and savings deposits, savings and loan accounts, postal savings, life insurance equities and savings bonds advanced about 7.4 per cent during the past three years. Although aggregate liquid savings in possession of consumers are a substantial offset to the total volume of consumer debt, in general, the same individuals do not hold both the debt and the savings.

Business loans at all New England member banks increased approximately 40 per cent, roughly matching the national increase during the first year of the rearmament program (June 1950-June 1951). Rapidly rising commodity prices, expanding inventories and expansion of credit to finance plant and equipment outlays were all contributing factors.

In the second year of the rearmament effort the volume of business loans in New England remained close to its June 1951 level in contrast with a 10 per cent rise in the nation. During this period loans to producers of metals and metal products continued to expand, while textile, leather and apparel firms made net repayments. This divergent development reflected the varied impact of the rearmament program on New England, the early comple-



SOURCE: Member Bank Call Reports.

tion of defense needs in soft goods, and the continued need for more production of durable goods.

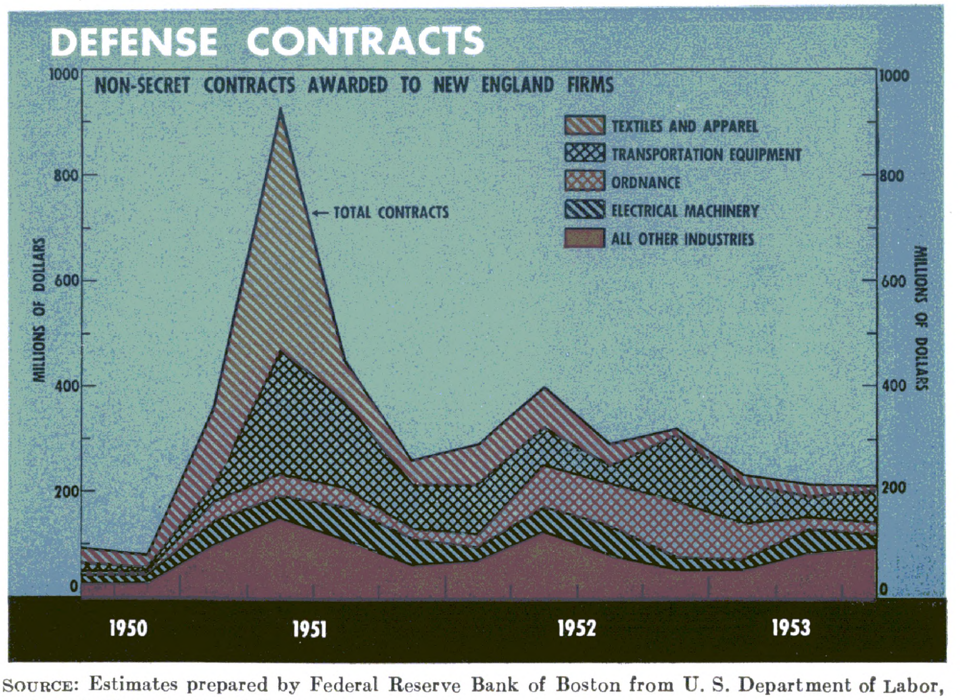
In the 12-month period, June 1952-June 1953, total loans for the district rose by 10 per cent, which is comparable to the average rise in the nation. Loans to metal producers remained substantially unchanged, reflecting the plateau reached by defense requirements in the region. The abandonment of Regulation W in May 1952 quickened sales of consumer goods, and loans to sales finance companies, commodity dealers, retail and wholesale trade firms expanded sharply.

The failure of business loans to expand in the second half of 1953 despite some rise in the national total reflects, in part, the slightly lower levels of over-all business activity, inventory cutbacks and certain special influences. The funding of fixed capital expenditures previously financed by an expansion of member bank credit may explain part of the lag in the final period of 1953.

The defense program has served both to weaken and to strengthen the regional economy in several ways. Defense spending has built up great dependence on defense contracts in the region's industries. A 1953 survey of the electronics industry revealed that about 30 per cent of the industry's sales were dependent on defense needs. New England aircraft and shipbuilding industries are similarly dependent. Partly in response to defense needs, metalworking centers have attracted new workers and concentrated employment in industries which have historically displayed greater cyclical fluctuations than our nondurable-goods industries. Finally, defense-related inducements to expand manufacturing facilities have built up the vigor of competition facing New England manufacturers.

On the other hand, the defense program has assisted in building up the regional economy. It created many new jobs at good pay to offset the loss of jobs in the contracting textile industry. Concentration of those new jobs in the durable-goods industries aided the long-term transition in the region's manufacturing industries. The value of output for workers in the newer expanding industries generally exceeded value of output for workers in the contracting textile industry. At the same time, defense contracts served to initiate and incubate many new firms in growing industries such as electronics. These new manufacturers are now seeking to use their accumulated experience and to transfer production to non-defense lines. The high level of business activity, supported by defense spending, has also aided the efforts of community and state development groups which are examining their weaknesses and seeking to develop compensating strengths.

The full impact of the defense program on the New England economy will be revealed during coming years. It is already evident, however, that the defense program has accelerated important structural changes in the New England economy. It is a tribute to the region's economic vitality that it could simultaneously raise the standard of living of its people and contribute substantially to the defense effort. The region is now challenged to maintain its achievements and to broaden its economic base.



SOURCE: Estimates prepared by Federal Reserve Bank of Boston from U. S. Department of Labor, and U. S. Department of Commerce data.

Administrative Section, Fiscal Agency

Key Punch Unit, Fiscal Agency; Close-Up View Lower Left

The Federal Reserve System:

Banker for the Government

THE GREATEST NATION ON EARTH needs a banker. Congress to meet that need authorized the Secretary of the Treasury to designate the twelve Federal Reserve banks to act as Government depositaries and fiscal agents.

In the years following World War I the volume of banking transactions performed by the Reserve banks for the Government and its agencies increased enormously, particularly in operations relating to the public debt. Since the end of that war, the debt has increased to about $275.0 billion as of December of the year just past. Almost every dollar of the obligations for this huge debt has been issued directly or indirectly through the Federal Reserve banks.

The fiscal agency department publishes announcements of new offerings of securities, receives applications for such offerings, makes allotments of securities, delivers them and receives payment for account of the Treasurer of the United States. It also redeems securities, makes exchanges, transfers registered for coupon bonds and vice versa and pays matured coupons. The Reserve Bank conducts similar debt service transactions for various Government agencies, for some of which it acts also as disbursing agent.

During 1953 the bank issued, redeemed or exchanged 240,185 units of United States direct obligations representing a dollar volume of $10.1 billion, plus 1,281 other units of governmental agencies' obligations having a dollar volume of $12.3 million, and paid $107.0 million representing 545,000 United States matured coupons.

The Boston Reserve Bank supervises 1,334 authorized savings bond issuing agents in the Boston District. They are all types of organizations selling directly or through payroll deduction plans large volumes of Series E bonds. The Reserve Bank sells directly Series E, H, J and K savings bonds and, until temporarily discontinued in October of last year, Treasury savings notes.

The convenience of New England holders of savings bonds is served by 1,179 paying agents, also qualified for the Treasury by the Reserve Bank. In 1953 the Bank, through these issuing and paying agents, issued, redeemed or exchanged 9,700,000 savings bonds with a value of about $786 million.

The Reserve banks accept deposits of withheld income and railroad retirement and excise taxes for the account of the Treasury. Now 405 banks in this district are qualified depositaries of these Federal taxes. During 1953 about 455,000 withheld tax receipts for about $1.1 billion in taxes were received for the Treasurer's account from these agents and directly from taxpayers.

There are also in this district 377 commercial banks acting as special depositaries of Government funds. These banks are authorized to receive and credit to tax and loan accounts, maintained for the Treasury, tax deposits as well as payments for Government securities purchased by or through them. During 1953 they reported through the Federal Reserve Bank of Boston about 118,000 transactions for about $4.1 billion.

Prior to July 1953 United States currency so badly mutilated, soiled or worn as to be unfit for further circulation was canceled and forwarded to the Treasury in Washington for verification, retirement and destruction. In July the Treasury requested the Reserve banks to undertake this operation locally. Through December 31 of last year this bank incinerated 29,183,000 pieces of currency having a value of $47 million.

The principal depositor and customer of the Reserve Bank in addition to its member banks is the United States with its various departments and agencies. During the past year, of the bank's staff totaling about 1,375, more than 157 were engaged in these fiscal agency services.

Serving through . . .

Credits, Discounts, and V-Loans

THE FEDERAL RESERVE BANK OF BOSTON is by law authorized to extend to each member bank in the First Federal Reserve District such discounts, advances and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions and the accommodation of commerce, industry and agriculture.

This privilege the member banks avail themselves of through the credit and discount department. Direct extensions of credit take the form of discounts (or rediscounts) of paper meeting certain standards of eligibility and direct advances on notes secured by collateral. Although in the earlier history of the department member banks needing credit customarily rediscounted or borrowed on the security of their customers' eligible paper, during recent years practically all direct extensions of credit have been advances secured by United States Government obligations. In 1953 only one member bank in the district obtained Reserve credit through rediscounting eligible paper.

Member bank borrowing at Federal Reserve Bank of Boston, having risen sharply in the last quarter of 1952, continued heavy during the first five months of 1953. In May average daily borrowings aggregated more than $50 million, with a peak of about $94.2 million on May 7, the greatest amount outstanding on any one day since 1929. Borrowings declined sharply from the May peak to a daily average of $4 million in October. Daily averages were slightly higher for the last two months at $6.3 million for November and $5.9 million for December compared with $38 million and $43 million for the same months of 1952. During the past year 144, or nearly one out of every two and one-quarter member banks in the district, availed themselves of the credit privilege, the largest number since 1933.

During 1953 there were no industrial or commercial loans or commitments outstanding and none were made under Section 13b of the Federal Reserve Act, which authorizes such accommodations in exceptional circumstances.

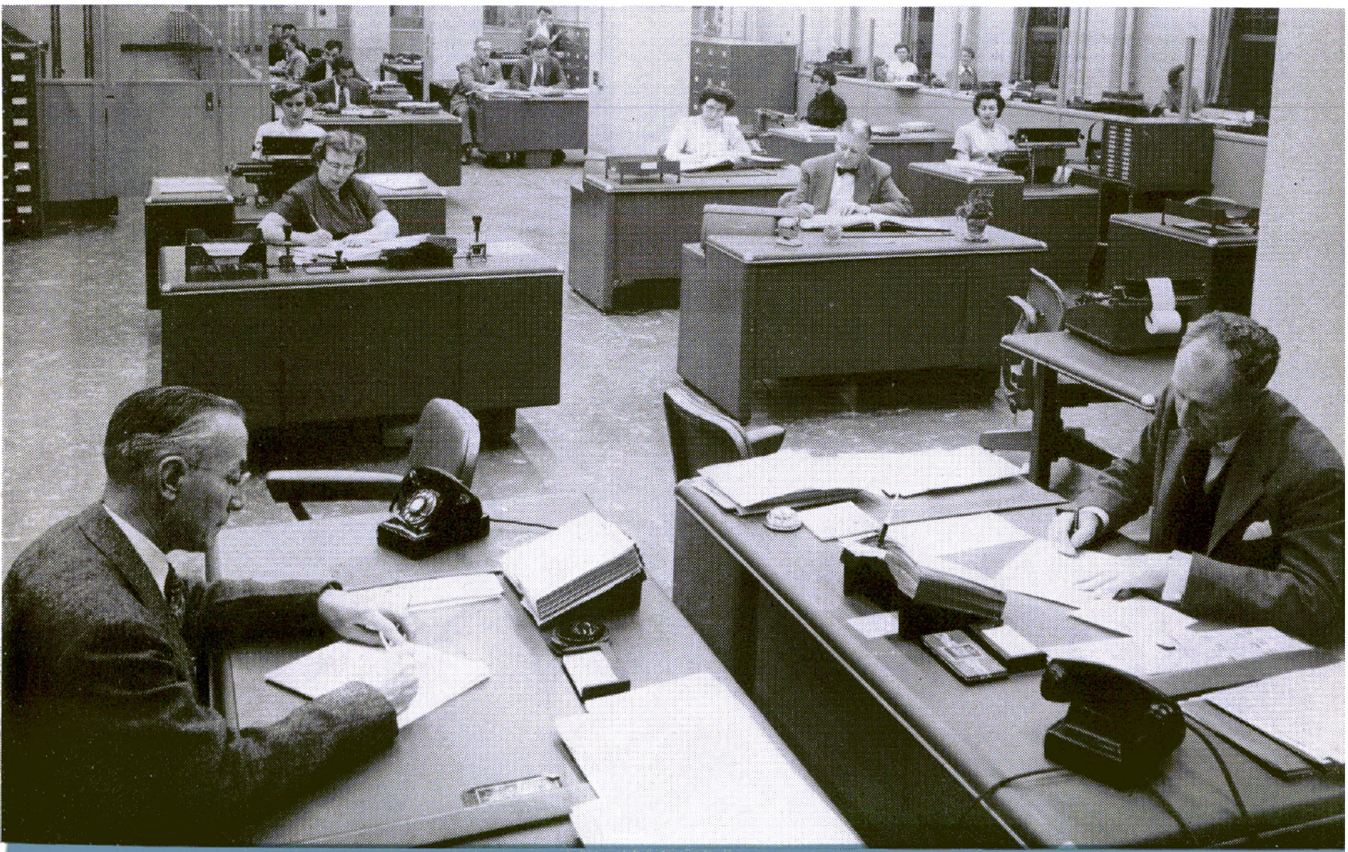
In addition to the transactions involved in these extensions of credit to member banks, the department processes records relating to the bank's participation in the Federal Reserve System Open Market Account and to Foreign Account transactions, both of which are conducted through the Federal Reserve Bank of New York. Also as a service to its members, the bank (upon members' request and for their account) purchases and sells United States Government securities at the market. The department maintains all records pertaining to earnings on all classes of loans and investments of the bank.

To expedite production and deliveries of services under Government contracts, Congress authorized the various defense agencies, acting through the Federal Reserve banks as fiscal agents, to guarantee financing institutions against loss on loans or commitments for the purpose of financing any contractor, subcontractor or other person in connection with the performance or termination of Defense Production contracts. Federal Reserve Bank of Boston performs these fiscal agency services for nine defense agencies through its credit and discount department. These agencies are Department of the Army, Department of the Navy, Department of the Air Force, Atomic Energy Commission, Department of Commerce, Department of Interior, Department of Agriculture, Defense Materiels Agency and General Services Administration. This bank as Fiscal Agent of the United States has executed guarantee agreements for six of the nine agencies.

From the beginning of the program in September 1950 through December of the current year, this bank received 158 applications with respect to loans and loan increases aggregating approximately $132 million. Guaranty agreements and supplements approved through this bank for the same period numbered 132 for about $119 million. Of these, about 56 guaranty agreements with respect to loans aggregating about $56 million have been fulfilled and terminated. Advances presently outstanding under guaranty agreements now in effect aggregate about $43 million with unused credit available amounting to about $14 million.

From the beginning of the program through the past year 35 banks in this district have participated in the V-Loan program. These banks, located mostly in the larger cities, have advanced under revolving credits more than $461 million to 80 New England companies and to three companies outside New England.

About 50 per cent of all V-Loan borrowers received loans of under $500,000 with their total borrowings representing only about nine per cent of the aggregate of all V-Loans authorized through September 30, 1953. Also, 47 per cent of the number and 13 per cent of the amount of V-Loans authorized through that date were to borrowers having assets of under $500,000.



Discount and Credit Department

Sixty-seven thousand messages with instructions to transfer $30 billion passed over teletypewriters such as these in 1953

Wire Transfer Service

THE QUICKENED TEMPO of financial transactions throughout the nation has led to the adoption by the Federal Reserve System of a new and completely automatic teletypewriter network to speed up the transfer of funds by wire.

The new system replaces one in use for nearly 15 years which incorporated manual switching at two centers. Known as the Federal Reserve Leased Wire System, the operation eliminates the necessity of rehandling messages at intermediate points. All transmission is automatic, the only manual operations being perforation of messages in tape by station operators, placing of tape in transmitters, and removal of messages at the point of destination.

By streamlining the communications system, it is now possible to transfer funds from one section of the nation to another at a faster rate than formerly. A test message from Richmond to Los Angeles and return, at a time when traffic was light, took only 46 seconds. The new network operates at a speed of 75 words per minute, as compared with a maximum speed of 60 words per minute formerly.

The switching center or "brain" of the network is located at the Federal Reserve Bank of Richmond. This center brings together

12 Federal Reserve Banks, their 24 branches, the Federal Reserve Board and the Treasury offices in Washington and Chicago. It also handles communications of the Commodity Credit Corporation. Two-letter codes that precede messages sent over the network supply the electric impulses to route messages to their destinations. Another code at the end concludes the message, thus causing disconnection of the receiving station. Incorrectly addressed messages or those that become garbled through mechanical failure are stopped by an intercepting machine at Richmond. An operator informs the sending station of the trouble and advises the proper action to be taken.

Approximately 6,000 messages a day flow over the System network, with each message containing an average of 22 words. The Federal Reserve Bank of Boston during 1953 handled 67,414 transfers of money in the amount of $29.5 billion and about 12,000 transfers of Government securities totaling $4.1 billion.

The new communications system was installed after many years of study and is designed to meet the fast written communications requirements of the Federal Reserve System. It is a low cost and uniform method of communication and is so designed that it can be easily rearranged as traffic warrants without major changes.

Wire Transfer Department

Other Principal Operations

IN THE NUMBER OF PIECES HANDLED, which is the best measure of the size of the job performed, the volume of the bank's business generally continued the upward postwar trend, as the accompanying comparative table demonstrates. See pages 13-19 for references to the Fiscal Agency, Loan and Discount, and Wire Transfer Departments not herein referred to.

Transaction—Volume in Pieces or Units	1953 Number	1952 Number
Currency Sorted and Counted	266,503,294	246,188,018
Coin Received and Counted	297,411,139	246,279,227
Check Collections:		
City Checks	37,054,012	36,556,358
Country Checks	171,531,019	165,838,195
U. S. Government Checks	22,031,849	21,131,358
U. S. Postal Money Orders	20,123,347	20,941,018
Noncash Collections:		
Notes, Drafts and Coupons (Except U. S. Government)	888,899	821,093
Safekeeping of Securities:		
Pieces Received and Delivered	293,866	236,856
Coupons Detached	328,503	311,483
Orders to Sell or Buy Securities Executed for Member Banks	682	675

Transaction—Volume in Dollars	1953 Amount	1952 Amount
Currency Sorted and Counted	$1,778,727,854	$1,674,353,878
Coin Received and Counted	23,684,557	21,087,436
Check Collections:		
City Checks	20,329,565,743	19,601,881,082
Country Checks	32,967,083,023	30,929,467,272
U. S. Government Checks	4,487,006,766	4,291,660,089
U. S. Postal Money Orders	321,803,954	324,847,699
Noncash Collections:		
Notes, Drafts and Coupons (Except U. S. Government)	296,276,805	265,420,600
Safekeeping of Securities:		
Pieces Received and Delivered	12,342,150,000	8,090,074,000
Coupons Detached	27,094,151	21,752,394
Orders to Sell or Buy Securities Executed for Member Banks	76,504,200	84,344,750

Summary of Principal Changes in Statement of Condition

TOTAL ASSETS OF THIS BANK decreased slightly during 1953. The principal changes comprised decreases in U. S. securities and in uncollected cash items which more than offset an increase in gold certificates and other cash.

Effective September 1, 1953, the System Open Market Account participations formula was changed to make the relationship of total assets of each Reserve bank the determining factor.

The decrease in U. S. securities of $299 million and the increase of $337 million in gold certificates largely reflect this formula adjustment. A small favorable balance of payments with other Federal Reserve districts, however, also contributed to the increase in gold certificates. Allocations of a share of net purchases by the Account offset a part of the U. S. securities lost through reallocation.

Loans and advances showed a year-to-year decline of $699 thousand. Member banks, however, used the borrowing facilities of this bank to the greatest extent since 1929 during the first five months of 1953. During the last half of the year Reserve bank credit extended through the U. S. securities market was generally freely available and member banks reduced their discounts.

Among the liabilities, Federal Reserve notes outstanding increased $30 million and set a new record total. Member bank reserve accounts showed a net increase of $13 million. Member bank required reserves were practically unchanged and the increase occurred in excess reserves. Net Treasury expenditures in New England along with the reduction in required reserves in July more than offset losses of reserves to other districts on private commercial and financial account.

Aggregate capital accounts of the bank were increased $3.2 million. Approximately $2.3 million of net earnings were added to regular surplus (Section 7). Capital paid in by member banks accounted for the balance.

Comparative Statement of Condition

ASSETS

	December 31, 1953	December 31, 1952
Gold Certificates	$1,090,306,889.98	$ 753,319,645.51
Other Cash	27,558,644.96	22,031,579.34
Loans and Advances	1,515,000.00	2,214,000.00
U. S. Government Securities	1,394,092,000.00	1,693,012,000.00
Federal Reserve Notes of Other Federal Reserve Banks	3,972,000.00	5,996,000.00
Uncollected Cash Items	324,264,167.91	387,995,132.61
Bank Premises	6,232,088.36	4,071,253.51
Other Assets	8,152,539.06	11,396,915.87
Total Assets	$2,856,093,330.27	$2,880,036,526.84

LIABILITIES

	December 31, 1953	December 31, 1952
Federal Reserve Notes	$1,632,902,835.00	$1,603,208,415.00
Deposits:		
Member Bank Reserve Accounts	848,625,505.59	835,721,104.74
U. S. Treasurer-Collected Funds	8,741,652.34	44,086,174.71
Foreign	24,961,200.00	32,457,000.00
Other	8,745,050.96	10,012,895.77
Total Deposits	$ 891,073,408.89	$ 922,277,175.22
Deferred Availability Cash Items	267,332,957.57	293,075,151.64
Other Liabilities	821,348.60	713,468.36
Total Liabilities	$2,792,130,550.06	$2,819,274,210.22

CAPITAL ACCOUNTS

	December 31, 1953	December 31, 1952
Capital Paid In	$ 14,443,100.00	$ 13,611,750.00
Surplus (Section 7)	38,779,127.65	36,461,591.24
Surplus (Section 13b)	3,010,527.20	3,010,527.20
Reserves for Contingencies	7,730,025.36	7,678,448.18
Total Capital Accounts	$ 63,962,780.21	$ 60,762,316.62
Total Liabilities and Capital Accounts	$2,856,093,330.27	$2,880,036,526.84

Comparative Statement of Earnings and Expenses

	1953	1952
Current Earnings:		
Advances to Member Banks	$ 402,803.91	$ 248,607.26
Foreign Loans on Gold	14,684.62	22,838.44
U. S. Government Securities— System Account	32,345,704.96	30,744,551.27
All Other	12,421.01	9,719.51
Total Current Earnings	$32,775,614.50	$31,025,716.48
Current Expenses	8,764,148.50	7,656,277.60
Current Net Earnings	$24,011,466.00	$23,369,438.88
Net Addition to Current Net Earnings	55,224.40	157,614.50
Total	$24,066,690.40	$23,527,053.38
Other Deductions:		
Transferred to Reserves for Contingencies	51,300.76	40,516.08
Paid to U. S. Treasury: (Interest on Outstanding Federal Reserve Notes)	20,857,522.40	20,426,366.45
Total	$20,908,823.16	$20,466,882.53
Net Earnings after Reserves and Payment to U. S. Treasury	$ 3,157,867.24	$ 3,060,170.85

DISTRIBUTION OF NET EARNINGS

Dividends Paid	$ 840,330.83	$ 790,381.09
Transferred to Surplus (Section 7)	2,317,536.41	2,269,789.76
	$ 3,157,867.24	$ 3,060,170.85

SURPLUS (Section 7)

Surplus January 1	$36,461,591.24	$34,191,801.48
Transferred to Surplus-As Above	2,317,536.41	2,269,789.76
Surplus December 31	$38,779,127.65	$36,461,591.24

FEDERAL RESERVE BANK OF BOSTON

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