1960

**ANNUAL REPORT**

# Federal Reserve Bank of Chicago

**To the Member Banks of the Seventh Federal Reserve District:**

Our report for 1960 deals with the year's outstanding business, agricultural and banking developments as they have affected this District. The statements of condition as of December 31, 1960, and of earnings and expenses for the year appear on pages 10-11.

*To summarize,* economic activity in 1960 fell short of the exuberant expectations prevalent at the beginning of the year. Production and employment rose during the first six months, and activity reached record highs in many areas of the District. Beginning around midyear, however, moderate declines were evident in most of the areas where production of durable goods is important. In the steel industry, where production in January was near full capacity, output soon began a downward trend. The auto industry, on the other hand, was operating at near-record levels of production and sales in the closing months of the year. Farm income was higher than had been indicated in the spring, and producers of the so-called "soft goods" and services operated steadily at high levels. Credit demands were moderate in 1960 and interest rates declined.

*The production of motor vehicles* is extremely important to the District, with about two-thirds of the industry located within its boundaries. Michigan is the leading state, but large numbers of workers in Wisconsin and Indiana are also employed in the production of autos and parts.

Production of passenger cars and trucks totaled about 7.9 million units in 1960. While this was far short of the record 9.2 million in 1955, it exceeded the 1959 output by 18 per cent. The dollar volume of sales by automotive dealers, however, was about the same as in the preceding year. This was because of an increase of about 400,000 in the number of new cars in inventory, lower prices of used cars and the rising importance of the smaller models. The domestically produced "compacts" accounted for about 30 per cent of the new car production, up from 10 per cent in the preceding year.

Largely as a result of the success of the compacts, the rapid uptrend in sales of imported cars which began a few years ago was reversed in 1960. About 7 per cent of the new cars sold last year were imported, compared with 10 per cent in 1959.

*Steel* provided the major surprise of the year. At the beginning of 1960 it was generally believed that inventories of steel were quite low, as a result of the strike which had shut down about 85 per cent of the industry in the second half of 1959, and that the industry would operate close to capacity during at least the first half of the year.

However, the operating rate started to decline in February and continued downward to midyear. During the second half, production was fairly stable at around 50 per cent of rated capacity for the nation and a slightly higher proportion for the Seventh District. The plants located in the District—in Illinois, Indiana and Michigan—account for about 27 per cent of total steel output.

*Investment in new plant and equipment* in 1960 was 10 per cent above the preceding year, but there was a slowing of these expenditures after the second quarter. About one-third of the nation's output of producers' durable goods is manufactured in the Seventh Federal Reserve District, with production of trucks and trailers, railroad equipment, industrial machinery, electronic equipment and construction and farm machinery particularly important.

During the first half of the year, production in most producers' durable goods firms was rising rapidly. However, cutbacks in output and employment were reported in the farm and construction machinery industries prior to midyear and in industrial equipment beginning in the third quarter. Firms manufacturing office and other types of commercial equipment continued to operate at high levels throughout the year. A number of capital goods industries, including construction machinery, machine tools and electrical equipment, benefited from a strong export demand. The rise in exports reflected record business activity in Western Europe and Japan. Since many producers of capital goods in those countries were operating at capacity, United States firms were able to offer faster deliveries.

Production of railroad equipment exceeded the 1959 level by a sizable margin. However, the backlog of orders for freight cars and diesel locomotives manufactured in Seventh District plants, largely in Illinois and Indiana, declined sharply as carloadings dropped below the expected levels. A similar trend was evident for trucks and truck trailers.

Mainly because of the production cutbacks in hard goods manufacturing, unemployment rose during the second half of 1960. In the fourth quarter seven metropolitan areas in the District were described by the Bureau of Employment Security as having "substantial labor surplus." A year earlier there were three such areas.

*Construction activity* showed divergent trends during 1960. Home building declined, but this was largely offset by increases in nonresidential construction. The number of permits granted to build new homes was about 18 per cent below the high level of the preceding year in the District, a decline similar to that for the nation. Residential mortgage credit was more readily available beginning in the spring and terms were easier by year end. After falling below the year-ago volume in the first half of 1960, total construction contracts in the second half were somewhat above the second half of 1959 in both the District and the nation. Contracts for public construction, together with continued strength in commercial, industrial and public utility contracts, were responsible for the improvement.

*Personal income* in the District was higher in 1960 than in the preceding year; however, consumers tended to increase their savings and to spend somewhat less freely. Sales of department stores during the first half of the year were about 2 per cent above those in the first half of 1959, but after midyear dropped below the year-earlier level. Sales of new automobiles rose—less in the District, however, than in the United States. Time deposits at commercial banks increased nearly 7 per cent, and purchases of E and H savings bonds and shares in savings and loan associations and credit unions increased quite sharply. Consumer credit outstanding rose less than in 1959.

*Farm income* was higher than had appeared likely in the spring, largely because of excellent crops and favorable prices for most livestock commodities in the second half of the year. Cash receipts from farm marketings in the District states were about 5 per cent above the preceding year, compared with a rise of only about 1 per cent for the United States.

A sharp cutback in the spring pig crop reduced marketings of hogs in the fall and winter and boosted prices well above the year-earlier level. Cool, wet weather delayed planting and slowed development of crops in the spring and early summer, but exceptionally favorable weather in the fall permitted almost all the corn and soybeans to reach maturity and to produce large yields per acre.

Cattle prices averaged somewhat lower than in 1959 but rose during the fall, in sharp contrast with the preceding year, and by the end of November were above the year-earlier level. Dairy farmers had another good year. Milk prices were somewhat higher than in 1959.

Farm land prices and farmers' purchases of machinery and equipment declined, reflecting the effects of the decline in farm income in the preceding year. While the decline in price of good farm land, as reported by country bankers, was modest, averaging about 5 per cent for the District, most bankers in the Corn Belt expected the downward trend to continue. Farm machinery shipments by manufacturers for domestic use were nearly one-fourth below the high level of 1959 as sales to farmers declined and dealers reduced inventories.

*Monetary policy* shifted from restraint to ease as inflationary pressures abated early in 1960, and the Federal Reserve System took steps by means of open market operations and reserve requirement adjustments to increase the capacity of member banks to expand their loans and investments and thus finance a higher level of business activity. The discount rate of the Federal Reserve Bank of Chicago was reduced on June 10, from 4 to 3½ per cent, and on August 19, from 3½ to 3 per cent.

Changes in reserve requirements implemented legislation enacted in July 1959. This legislation required elimination of the differential in requirements for Central Reserve City and Reserve City banks and authorized the Board of Governors of the Federal Reserve System to (1) reclassify banks if warranted by the character of their business, and

(2) permit banks' vault cash to be counted as reserves.

Forty-three member banks in the Seventh Federal Reserve District were reclassified from Central Reserve City or Reserve City status to Country bank status late in 1959 and early in 1960. This reduced required reserves by more than 30 million dollars.

A portion of bank holdings of vault cash had been made eligible for inclusion as required reserves in December 1959. In late August 1960 the proportion was increased and effective November 24 all remaining vault cash could be included as "required reserves."

These changes in the vault cash regulation made approximately 220 million dollars of additional reserves available to Country banks in the District, of which about 60 million was offset by a November increase in required reserves—from 11 to 12 per cent of their net demand deposits. Reserve City and Central Reserve City banks received additional reserves totaling about 60 and 30 million dollars, respectively, due to their vault cash holdings.

Required reserves of Chicago Central Reserve City banks were reduced about 70 million dollars when requirements were changed on September 1, from 18 to 17½ per cent of net demand deposits, and on December 1, to 16½ per cent. These changes equalized the requirements for Central Reserve City and Reserve City banks.

The steps mentioned aggregate nearly 350 million dollars and go to explain the decline in reserve account balances carried with us by member banks which will be noted from review of the Comparative Statement of Condition on page 10 of this report.

*Total loans and discounts* of Seventh District member banks rose about 8 per cent last year compared with a 13 per cent expansion in 1959. This slower rate of increase was apparent in all loan categories.

Consumer and real estate loans showed less expansion throughout the year. Agricultural loans declined in the cattle feeding areas of Iowa and Illinois due to lower prices of feeder cattle and a smaller number purchased for feeding, but rose elsewhere in the District.

Loans to business increased more than usual during the first six months, but less than usual after midyear. This pattern resulted in part from changed requirements of metals producers and fabricators as they reduced inventories. In addition, some businesses paid down bank loans with the proceeds of security issues and sales of open market paper as the cost of borrowing in the capital and money markets declined.

Government security portfolios of District member banks changed little on balance during the past year. While some liquidation of Governments took place in the first half, especially at the larger banks in Chicago and Detroit, this was largely offset by purchases of such securities later in the year when loan demand had eased and more reserves were available.

Deposit growth during 1960 was mainly in time accounts. Rates of interest paid on these accounts became more attractive as yields declined on alternative investments. But loans remained relatively high compared with deposits. At the end of November total loans and discounts of all Seventh District member banks were equal to 49 per cent of total deposits, ranging from about 39 per cent for Illinois banks outside Chicago to almost 55 per cent for the large Chicago banks. Although down slightly from the mid-year peak, these ratios were still generally above the levels prevailing during 1959.

*Member bank borrowings* from the Federal Reserve Banks declined throughout the spring and summer as additional reserves were provided by System open market operations. Weekly average borrowings of all Seventh District member banks fell from about 250 million dollars in early January to less than 50 million by mid-August. Late in the year the Federal Reserve System made sizable open market purchases, as mentioned earlier, to offset reserve drains due to gold outflow and to assure a base for ready availability of credit. Net purchases of Government securities by the Federal Reserve System from February through November totaled about 2.5 billion dollars.

*Operations* at the Federal Reserve Bank of Chicago reflect the tempo of business and financial activity in the District. The most significant development of the year was the progress in adapting some operations to electronic data-handling equipment.

Since last March the daily statements of the approximately 840 member banks served from the Head Office have been prepared through the use of a computer and related electronic equipment. Mechanization has enabled the Bank to mail member bank reserve account statements on the day of record rather than the following day. Also, it has been possible to improve the statements by providing a more adequate description of items and including totals of deferred credits. Preparation of the daily statements involves about 8,000 entries per day, all of which are registered in a computer as transactions are performed during the day. When the books are closed for the day the member banks' statements are prepared rapidly and are placed in the mail beginning 20 minutes after the computation and printing is started.

*The large and increasing volume of checks* continues to present a challenge in bank operations. In an effort to find better ways of handling checks, test models of high-speed electronic check-processing equipment were installed in December. This equipment has been designed to handle checks preprinted with magnetic ink in conformity with the standards developed by the American Bankers Association's Committee on Mechanization of Check Handling. Similar equipment developed by other manufacturers is being tested in four other Federal Reserve Banks. Time will elapse before the tests and the purchase of production equipment can be completed, but it is hoped that the banking industry and the public will ultimately benefit from more rapid and efficient handling of the mounting volume of checks.

### *Board Appointments and Elections*

During the year 1960, Board appointments and elections were announced as follows:

> Robert P. Briggs, Executive Vice President, Consumers Power Company, Jackson, Michigan, a Director since 1956 and Deputy Chairman in 1960, was appointed Chairman and Federal Reserve Agent for 1961, succeeding Bert R. Prall of Chicago in those positions.

James H. Hilton, President, Iowa State University, Ames, Iowa, a Director since 1960, was appointed Deputy Chairman for 1961, succeeding Mr. Briggs.

David M. Kennedy, Chairman of the Board of Directors, Continental Illinois National Bank and Trust Company of Chicago, was elected a Director for a term of three years, succeeding Walter J. Cummings.

Gerald F. Langenohl, Treasurer and Assistant Secretary, Allis-Chalmers Manufacturing Company, Milwaukee, a Director since 1958, was re-elected for an additional term of three years.

John W. Sheldon, President, Chas. A. Stevens & Co., Chicago, was appointed a Director for a term of three years, succeeding Bert R. Prall.

Carl A. Gerstacker, Chairman, The Dow Chemical Company, Midland, Michigan, was appointed a Director (Detroit Branch) for a term of three years, succeeding John A. Hannah.

William A. Mayberry, Chairman of the Board, Manufacturers National Bank of Detroit, a Director (Detroit Branch) since 1958, was reappointed for an additional term of three years.

Franklin H. Moore, President, The Commercial and Savings Bank of St. Clair, Michigan, was appointed a Director (Detroit Branch) for a term of three years, succeeding Ernest W. Potter.

Homer J. Livingston, Chairman of the Board, The First National Bank of Chicago, member of the Federal Advisory Council from the Seventh Federal Reserve District since 1956, was reappointed member of the Council for 1961.

*Retirements*

The year 1960 brought the retirement of a number of valued directors, officers and employees.

Bert R. Prall, Walter J. Cummings and John A. Hannah retired as directors. Mr. Prall was a director for eight years; for three years he was Deputy Chairman and for the past five years he has been Chairman. Mr. Cummings served as a director for twenty-four years, a period unequaled by any other director in the history of the Bank. Dr. Hannah was first appointed to the Detroit Branch Board in 1951 and resigned in 1953 to serve in Washington as Assistant Secretary of Defense. Upon returning to Michigan in 1954 he accepted reappointment to the Detroit Branch Board and served through the year 1960; he was Chairman of that Board for approximately eight years.

Two Bank officers retired in 1960, Wilford R. Diercks and C. Paul Van Zante, after 36 and 26 years of service, respectively, and the employees listed below, all with service records of more than 25 years, retired in the course of the year:

Emil Anderson
Olga Berglund
LeRoy A. Brown
Pauline [illegible] Carlson
Nellie [illegible] Collins
Margaret [illegible]
Flora L. [illegible]
Homer [illegible]
John [illegible]
Elizabeth A. [illegible]
Minnie A. [illegible]
Myrtle [illegible] Lindholm
Hugh A. Maloney
Henry [illegible]
George [illegible]
Helen Pearson
William [illegible]

[illegible]

Sincerely,

Carl E. Allen

President

# DIRECTORS

**ROBERT P. BRIGGS**, Executive Vice President
Consumers Power Company
Jackson, Michigan
*Chairman and Federal Reserve Agent*

**JAMES H. HILTON**, President
Iowa State University
Ames, Iowa
*Deputy Chairman*

**JOHN H. CROCKER**, Chairman of the Board and President
The Citizens National Bank of Decatur
Decatur, Illinois

**WILLIAM J. GREDE**, President
J. I. Case Company
Racine, Wisconsin

**WILLIAM A. HANLEY**, Director
Eli Lilly and Company
Indianapolis, Indiana

**VIVIAN W. JOHNSON**, President
First National Bank
Cedar Falls, Iowa

**DAVID M. KENNEDY**, Chairman of the Board
Continental Illinois National Bank and Trust Company of Chicago
Chicago, Illinois

**GERALD F. LANGENOHL**, Treasurer and Assistant Secretary
Allis-Chalmers Mfg. Co.
Milwaukee, Wisconsin

**JOHN W. SHELDON**, President
Chas. A. Stevens & Co.
Chicago, Illinois

## DETROIT BRANCH DIRECTORS

**J. THOMAS SMITH**, President
Dura Corporation
Oak Park, Michigan
*Chairman*

**CARL A. GERSTACKER**, Chairman of the Board
The Dow Chemical Company
Midland, Michigan

**C. LINCOLN LINDERHOLM**, President
Central Bank
Grand Rapids, Michigan

**WILLIAM A. MAYBERRY**, Chairman of the Board
Manufacturers National Bank of Detroit
Detroit, Michigan

**FRANKLIN H. MOORE**, President
The Commercial and Savings Bank of St. Clair
St. Clair, Michigan

**C. V. PATTERSON**, Director
The Upjohn Company
Kalamazoo, Michigan

**DONALD F. VALLEY**, Chairman of the Board
National Bank of Detroit
Detroit, Michigan

## MEMBER OF FEDERAL ADVISORY COUNCIL

**HOMER J. LIVINGSTON**, Chairman of the Board
The First National Bank of Chicago
Chicago, Illinois

January 1, 1961

# OFFICERS

Cashier

## DETROIT BRANCH

## STATEMENT OF CONDITION

| Assets | December 31, 1960 | December 31, 1959 |
|---|---|---|
| Gold certificate account | $2,790,451,708 | $3,000,459,894 |
| Redemption fund for Federal Reserve notes | 188,792,575 | 182,356,820 |
| Total gold certificate reserves | 2,979,244,283 | 3,182,816,714 |
| Federal Reserve notes of other Banks | 39,968,500 | 39,909,500 |
| Other cash | 63,750,734 | 65,447,175 |
| Discounts and advances: | | |
| Secured by U. S. Government securities | 1,575,000 | 43,470,000 |
| Other | 1,104,000 | 938,709 |
| Total discounts and advances | 2,679,000 | 44,408,709 |
| U. S. Government securities | 4,618,576,000 | 4,604,365,000 |
| Total loans and securities | 4,621,255,000 | 4,648,773,709 |
| Cash items in process of collection | 1,111,469,450 | 1,036,246,493 |
| Bank premises | 22,158,913 | 15,596,637 |
| Other assets | 34,965,202 | 44,899,666 |
| **Total assets** | 8,872,812,082 | 9,033,689,894 |
| **Liabilities** | | |
| Federal Reserve notes | 5,302,418,460 | 5,324,441,805 |
| Deposits: | | |
| Member bank reserves | 2,495,251,926 | 2,637,888,817 |
| U. S. Treasurer—general account | 62,973,258 | 39,320,530 |
| Foreign | 29,532,000 | 51,504,000 |
| Other | 13,000,450 | 65,504,653 |
| Total deposits | 2,600,757,634 | 2,794,218,000 |
| Deferred availability cash items | 791,124,731 | 747,318,576 |
| Other liabilities | 5,032,357 | 5,236,109 |
| **Total liabilities** | 8,699,333,182 | 8,871,214,490 |
| **Capital accounts** | | |
| Capital paid in | 57,826,300 | 53,666,900 |
| Surplus | 115,652,600 | 107,333,800 |
| Other capital accounts | — | 1,474,704 |
| **Total liabilities and capital accounts** | 8,872,812,082 | 9,033,689,894 |
| Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined | 37.6% | 39.2% |
| Contingent liability on acceptances purchased for foreign correspondents | 32,043,600 | 12,180,400 |

## STATEMENT OF EARNINGS AND EXPENSES

| | 1960 | 1959 |
|---|---|---|
| **Current earnings:** | | |
| Discounts and advances | $ 4,097,753 | $ 4,913,984 |
| U. S. Government securities | 185,580,969 | 148,276,884 |
| All other | 83,967 | 49,873 |
| Total current earnings | 189,762,689 | 153,240,741 |
| **Current expenses:** | | |
| Operating expenses | 23,372,403 | 21,876,366 |
| Federal Reserve currency | 1,121,254 | 1,341,334 |
| Assessment for expenses of Board of Governors | 904,900 | 955,200 |
| Total | 25,398,557 | 24,172,900 |
| Less reimbursement for certain fiscal agency and other expenses | 3,652,299 | 3,457,458 |
| Current net expenses | 21,746,258 | 20,715,442 |
| Current net earnings | 168,016,431 | 132,525,299 |
| **Additions to current net earnings:** | | |
| Profits on sales of U. S. Government securities (net) | 417,446 | 33,137 |
| Transferred from reserves for contingencies (net) | 1,474,704 | 12,966,576 |
| All other | 132,125 | 27,653 |
| Total additions | 2,024,275 | 13,027,366 |
| Deductions from current net earnings | 5,589 | 449 |
| Net additions | 2,018,686 | 13,026,917 |
| Net earnings before payments to U. S. Treasury | 170,035,117 | 145,552,216 |
| Dividends paid | 3,333,631 | 3,110,884 |
| Paid U. S. Treasury (interest on Federal Reserve notes) | 158,382,686 | 167,266,066 |
| Transferred to surplus | 8,318,800 | −24,824,734 |
| **Surplus account** | | |
| Surplus, January 1 | 107,333,800 | 132,158,534 |
| Transferred to surplus—as above | 8,318,800 | −24,824,734 |
| Surplus, December 31 | 115,652,600 | 107,333,800 |

FEDERAL RESERVE BANK OF CHICAGO
INCORPORATED MAY 18, 1914