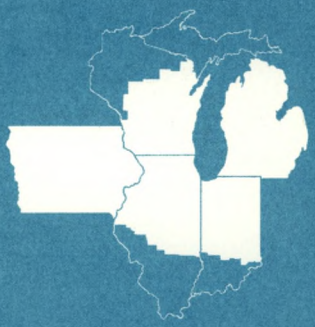
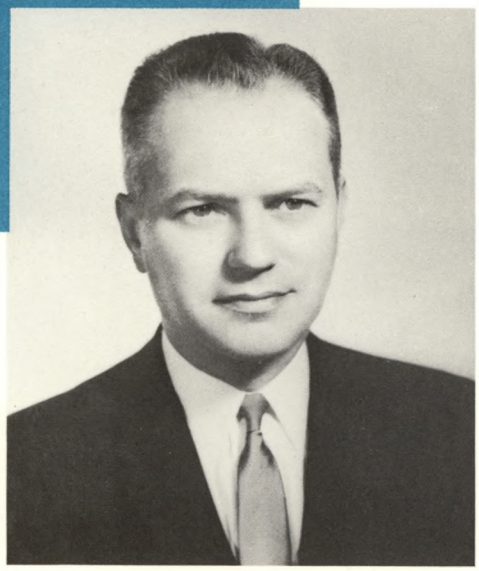
ANNUAL REPORT

1961



Federal Reserve Bank of Chicago



CHARLES J. SCANLON became President of the Federal Reserve Bank of Chicago on January 4, 1962. Prior to that date he had been First Vice President. Mr. Scanlon started working for the Bank in 1933 following his graduation from Parker High School in Chicago. He continued his education through evening courses offered by the American Institute of Banking and by Northwestern University. Later he graduated from the Stonier Graduate School of Banking, Rutgers University.

Mr. Scanlon was Chief Examiner of the Bank when he was elected First Vice President in 1959.

He has instructed and lectured on banking subjects at the Inter-Agency Bank Examination School, Washington, D. C., Northwestern University, and North Central College, Naperville, Illinois.

Recently Mr. Scanlon served as a consultant to the Government of Liberia in connection with the consideration of the establishment of a central bank.

In announcing the appointment Mr. Robert P. Briggs, Chairman of the Board of Directors of the Federal Reserve Bank of Chicago, said, "Mr. Scanlon has devoted his business career to this Bank and has risen to the position of Chief Executive Officer as a result of the outstanding work he has done. No man better understands the problems of the District. He will give the Bank outstanding leadership. In turn the Bank will further the growth and development of the five-state area in the Seventh Federal Reserve District."

To the Member Banks of the Seventh Federal Reserve District:

Economic activity rose during 1961, following a moderate decline in the second half of the preceding year. The major developments in business, agriculture and banking, as they have affected the Seventh District, are discussed briefly in this report. The statements of condition as of December 31, 1961, and of earnings and expenses for the year appear on pages 10 and 11.

By way of general review, business activity rose rapidly early in the year, slowed in the summer and accelerated again beginning in October. Most measures of activity established new record highs before the year-end. Nevertheless, there was still substantial capacity to accommodate further increases in employment and production. Markets for products and services were highly competitive throughout the year, and credit was readily available to all qualified borrowers.

In the Seventh Federal Reserve District both the decline in activity in 1960 and the expansion in 1961 were relatively greater than in the nation. This reflects the great importance of durable goods manufacturing in the District. These industries typically fluctuate more during business cycles than many other types of activity.

The most significant feature of the business expansion in its early stages was the rise of inventories beginning in the second quarter of the year, followed by a slow rise in investment in new plant and equipment. Consumer spending also increased, although not as rapidly as personal income. The increase in demand in the business and consumer sectors was accompanied by higher outlays by the Federal, state and local governments.

Consumers continued to increase their savings deposits and other liquid financial assets at a rapid pace. Through September, instalment debt on automobiles was declining and what some regarded as a rather slow pace of spending for goods continued to be reflected in retail sales. Farm income, at a higher level throughout the year than in 1960, had risen as a result of excellent crops, higher price supports and increased Government payments to retire land from production.

In the fourth quarter retail sales rose sharply, unemployment declined more than seasonally and business firms reported plans to increase inventories more rapidly as well as to step up investment in new plant and equipment.

As a result, 1961 ended on a note of confidence quite different from the mood prevailing at the start of the year. It is against this general background that developments in individual industries and areas must be evaluated.

Personal income rose somewhat faster in the District than in the nation as employment increased and work weeks in manufacturing were lengthened. In March income established a new record, and throughout the remainder of the year new highs were established almost every month.

Although consumer buying rose somewhat, it did not keep pace with the rise of personal income until the fourth quarter. Spending was somewhat cautious in the face of the relatively high unemployment. The sharpening of international tensions and calls of reserve units to active duty appeared also to have contributed to the moderate rate of retail trade. In September and October the low inventories of some kinds of new automobiles may have limited sales temporarily.

In the fourth quarter, however, consumer buying, particularly of automobiles, increased substantially. Stronger consumer demand was reflected also in a rise in instalment credit beginning in October. Throughout the year retail sales in the District were strongest in the rural areas.

Farm income was well above the preceding year with producers of hogs, dairy products and grains all showing gains. Generally excellent weather conditions and heavy applications of fertilizer assured record yields of corn and soybeans, the two major District crops.

Incomes of hog producers improved as a result of larger marketings and low feed costs while a good level of consumer demand maintained prices. Cattle feeders in the summer did less well than in 1960 because prices declined substantially. Dairy farmers increased production and were benefited by somewhat higher prices. The very large production of turkeys and broilers caused severe price declines and low returns to poultry raisers.

Prices of farm land were rising toward the end of 1961, following a modest decline in some areas in the preceding year. However, relatively little land was offered for sale and in most communities there were very few transactions during the year. Farm real estate debt continued the gradual increase that has been evident in recent years.

Production of automobiles, especially important in many Midwest areas, was reduced sharply in the first quarter of 1961 to enable dealers to work off large inventories; a record 1 million domestically produced passenger cars were on hand when the year began. However, in April production began to rise rapidly and continued at an improved rate until halted by model changeovers in August and strikes in September and October. In the final months of the year, production was stepped up to provide adequate inventories of the new models and accommodate the sharp increase of retail sales. During the fourth quarter production of cars was second only to the same period of 1955, while sales about equaled the record number in that earlier period. In the final months of 1961 output and employment in the auto industry probably

would have risen even more were it not for the labor contracts negotiated in September and October. Under the terms of these agreements large supplemental unemployment compensation payments would be required if output was reduced in the face of an excessive inventory build-up.

For 1961 as a whole, auto output was 5.5 million units—18 per cent below the 1960 level. But deliveries to customers declined only 9 per cent. Dealer inventories, which had risen in 1960, were reduced in 1961. Other features of the car market were the continued decline in imports and the further rise in the proportion of domestically produced "compacts."

Production of trucks was about 8 per cent below the previous year, with the heavy-duty vehicles declining relatively more than the lighter weights. As in the case of autos, truck sales improved substantially in the fourth quarter and production was at the highest rate for the period since 1955.

Steel output was about the same in 1961 as in 1960. However, the patterns in the two years were very different. Production of steel declined by about 50 per cent during 1960 from a record rate in January to a very low level at the end of the year. In 1961, January was the low month and December marked the high.

But the rise in steel output during 1961 was not steady. This was the first major industry to report a rise in activity early in the year. In July production was 40 per cent above the level in January. Once output had risen in line with current consumption, there was little further change until December when steel users, led by the auto firms, sharply increased orders. Steel production in the Chicago area paralleled the national pattern closely, while in Detroit there was a temporary cutback in midyear.

Expenditures for machinery and equipment began to rise in the second quarter of 1961, concurrent with the rise in spending by consumers and Government. In earlier postwar upswings, revivals in demand for capital goods had lagged the pickup in other sectors by about six months.

Continued strength in foreign orders helped support the gradual rise in production of industrial machinery and equipment. Production of farm machinery, on the other hand, had increased rapidly in the spring as manufacturers and distributors expanded inventories in anticipation of higher sales, expected to accompany the rise of farm income. However, sales were below the expected volume and production was reduced in the summer. Toward year-end, with a large harvest assured, farmers stepped up their purchases and manufacturers increased production schedules.

Production and sales of construction machinery increased somewhat during 1961 as the volume of public works and other heavy construction rose, although part of the new orders were filled by drawing down the large inventories on hand at the beginning of the year.

The demand for railroad equipment and truck trailers declined further in 1961. While new orders picked up in the autumn as rail and truck traffic increased, the improvement came much later than in other sectors of durable goods manufacturing.

Residential construction advanced during the year with the increase more than offsetting the decline in industrial construction. Somewhat greater availability of mortgage funds aided housing starts. In the first 10 months construction was undertaken on 4 per cent more new houses than in the corresponding period of the preceding year in the nation, while the increase in the District was about 2 per cent. A growing share of the new housing in large urban centers was apartments; construction of single-family dwellings was far below the preceding year in some cities.

Total loans and discounts at District member banks increased somewhat during 1961, but the rise was less than in 1960. Loans to commercial and industrial firms and to consumers declined in the first half of the year and rose only moderately in the second half. This was in contrast with agricultural loans which had a fairly steady rise after a drop in some areas in 1960. With the demand for credit from the consumer and business sectors relatively weak, banks increased real estate loans and loans to securities dealers. But most of the rise in banks' earning assets was in short-term Government securities.

At the large banks in the District, loans showed very little change in 1961. The increase of total loans and discounts noted above was in the smaller banks, which, as a group, reported loan growth throughout the year although at a slower rate than in 1960.

Net repayments on commercial and industrial loans at large banks were greater than usual through July. Subsequent loan expansion largely reflected seasonal borrowings by commodity dealers, food processors and trade firms. Despite the higher activity, durable goods producers and finance companies reduced their borrowing from banks.

The relatively weak demand for business credit from banks reflected in part the large amount of funds available from other sources. Business firms issued a large volume of securities during 1961, depreciation allowances continued upward and, after the first quarter, profits rose. Finance companies increased their sales of commercial paper.

Total deposits of all District member banks increased more than twice as much in 1961 as in the previous year, with small banks gaining relatively more than large banks. Time deposits accounted for a large share of the increase. Demand deposits also increased rapidly after midsummer.

With deposits increasing more than loans, the ratio of loans to total deposits at District banks declined from a peak of 50 per cent in mid-1960 to 48 per cent in October 1961. Most of the declines in the loan/deposit ratios occurred in the large banks.

Monetary policy was responsible for a substantial expansion in bank reserves during the year. As noted above, this was reflected largely in a sharp rise in banks' holdings of Treasury securities and municipals, with the increase concentrated in Treasury bills and other short-term issues.

The large banks in the major cities in the District began to increase their holdings of short-term Governments in the latter part of 1960. At these banks Treasury issues maturing within one year rose from 300 million dollars in mid-1960 to a peak of 2 billion in October 1961. At the smaller banks the increase was proportionately much less.

Borrowing by member banks from the Federal Reserve Bank of Chicago was the smallest since 1950 and averaged less than 20 million dollars daily during the year. There were no changes in reserve requirements of member banks, but applications of several Reserve City banks to be reclassified as Country banks were approved by the Board of Governors of the Federal Reserve System.

The Federal Reserve discount rate remained at 3 per cent throughout 1961, and interest rates on most types of securities and loans were relatively stable. Short-term Treasury bills fluctuated between 2¼ and 2½ per cent during most of the year. Bond yields moved up somewhat in the spring when security issues were very large, but contrary to widespread expectations rates leveled off in the summer and showed some tendency to decline in the fall.

In December the Board of Governors amended Regulation Q which prescribes the maximum rates that may be paid by member banks on savings and time deposits. Effective January 1, 1962, the maximum permissible rates are 3½ per cent on savings and time deposits of six months or more, except that 4 per cent may be paid on balances which remain on deposit for a year or more. Before the close of the year several banks in the District announced plans to increase the rates they pay on time and savings deposits to the new legal maximums.

Inflationary pressures were largely absent during 1961. In view of the rapid rise in output and employment there was a gratifying stability of prices. While prices of foods and services rose and pushed the consumer price index to a record high, manufactured goods were generally stable with reductions on some items balancing increases on others. Ample capacity, particularly in basic industries, and widespread competition from imports were responsible for keeping markets highly competitive. Prices of some industrial raw materials declined, notably aluminum and some types of steel. The 1962 automobiles were introduced at about the same prices as comparable models in the preceding year.

At the close of the year the economic picture was favorable with activity continuing to rise, employment and income increasing further and credit readily available. But the ever-present challenge, to achieve efficient and relatively full utilization of resources without triggering speculation and inflation, continued in the spotlight at the national, District and community levels.

Resignations and Appointments of Officers

Carl E. Allen, after five years of outstanding leadership as President of the Federal Reserve Bank of Chicago, resigned as of December 31, 1961, to become a vice president of General Motors Corporation.

The resignation of George W. Mitchell, Vice President and Director of Research, was accepted as of August 30, 1961. His appointment as a member of the Board of Governors of the Federal Reserve System was a high honor and recognition of his outstanding services to the Federal Reserve Bank of Chicago.

The resignation of Robert C. Holland as Vice President was accepted as of February 15, 1961. Mr. Holland is continuing his employment in the Federal Reserve System by joining the staff of the Board of Governors.

The resignations of these officers, Messrs. Allen, Mitchell and Holland, were accepted with sincere regret. With them, in their new positions, go the best wishes of the Federal Reserve Bank of Chicago.

Ernest T. Baughman, Vice President, was appointed Director of Research on September 1, 1961, succeeding George W. Mitchell.

Richard A. Moffatt, Assistant Vice President, was promoted to Vice President, September 1, 1961, in charge of Credit and Investment Departments.

Robert E. Sorg, formerly Assistant Cashier, was made Assistant Vice President on November 1, 1961.

Elbert O. Fults, formerly Assistant Chief Examiner, became Assistant Vice President on January 1, 1962.

Daniel M. Doyle and Karl A. Scheld were appointed Assistant Cashiers on September 1, 1961, and Erich K. Kroll was appointed an Assistant Cashier on November 1, 1961.

Board Appointments and Elections

During the year 1961, Board appointments and elections were announced as follows:

Robert P. Briggs, Executive Vice President, Consumers Power Company, Jackson, Michigan, a Director since 1956 and Chairman and Federal Reserve Agent in 1961, was reappointed a Director for a term of three years and was redesignated Chairman and Federal Reserve Agent for 1962.

James H. Hilton, President, Iowa State University, Ames, Iowa, a Director since 1960 and Deputy Chairman for 1961, was redesignated Deputy Chairman for 1962.

John H. Crocker, Chairman of the Board, The Citizens National Bank of Decatur, Decatur, Illinois, a Director since 1959, was reelected for a term of three years.

William E. Rutz, Director and Member of the Executive Committee, Giddings and Lewis Machine Tool Company, Fond du Lac, Wisconsin, was elected a Director for a term of three years, succeeding William J. Grede, Chairman of the Board, Grede Foundries, Inc., Milwaukee, Wisconsin.

James W. Miller, President, Western Michigan University, Kalamazoo, Michigan, was appointed a Director (Detroit Branch) for a term of three years, succeeding C. V. Patterson, Director, The Upjohn Company, Kalamazoo, Michigan.

Donald F. Valley, Chairman of the Board, National Bank of Detroit, Detroit, Michigan, a Director (Detroit Branch) since 1959, was reappointed for a term of three years.

Kenneth V. Zwiener, President, Harris Trust and Savings Bank, Chicago, Illinois, was appointed member of the Federal Advisory Council from the Seventh Federal Reserve District for 1962, succeeding Homer J. Livingston, Chairman of the Board, The First National Bank of Chicago.

Retirements

The year 1961 brought the retirement of the following:

William J. Grede and C. V. Patterson retired as directors, and Homer J. Livingston retired as our representative on the Federal Advisory Council. Mr. Grede was a director for more than 14 years. Mr. Patterson served as a member of our Detroit Branch Board for more than five years. Mr. Livingston was the Seventh District representative on the Federal Advisory Council for six years, during the last three of which he served by election of the council as its president.

Fred H. Grimm, Assistant Cashier, retired December 31, 1961, after more than 45 years of faithful service.

The employees listed below, all with service records of more than 25 years, retired in the course of the year:

Harry Dearborn	Frank R. Hoffman	Hervey E. Shannon
Henry Dickey	Jennie E. Johnsen	David W. Startup
Glenna Dillard	Verna Kott	Sidney G. Tull
Albert C. Gericke	Gerald N. Mehney	Helen S. Walsh
Fanny Hamilton	Orville H. Meiners	Joseph C. Walz
Edward A. Herwald	Walter O. Mueller	
Hilda A. Hoehl	Willis Nieman	

The Bank is grateful to all of the officers and employees, including those who retired during the year, for their devoted service to the Bank and to the Federal Reserve System.

Respectfully submitted,

Robert P. Briggs

By order of the Board
of Directors
January 15, 1962

ROBERT P. BRIGGS, Chairman
Board of Directors

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
The Citizens National Bank of Decatur
Decatur, Illinois

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

VIVIAN W. JOHNSON, Chairman of the Board
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

WILLIAM E. RUTZ, Director
and Member of the Executive Committee
Giddings and Lewis Machine Tool Company
Fond du Lac, 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

JAMES W. MILLER, President
Western Michigan University
Kalamazoo, Michigan

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

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

MEMBER OF FEDERAL ADVISORY COUNCIL

KENNETH V. ZWIENER, President
Harris Trust and Savings Bank
Chicago, Illinois

January 1, 1962

OFFICERS

CHARLES J. SCANLON, President*

ERNEST T. BAUGHMAN, Vice President

ARTHUR M. GUSTAVSON, Vice President

HUGH J. HELMER, Vice President

PAUL C. HODGE, Vice President, General Counsel and Secretary

LAURENCE H. JONES, Vice President and Cashier

CLARENCE T. LAIBLY, Vice President

RICHARD A. MOFFATT, Vice President

HAROLD J. NEWMAN, Vice President

HARRY S. SCHULTZ, Vice President

RUSSEL A. SWANEY, Vice President

CARL E. BIERBAUER, Assistant Vice President

ELBERT O. FULTS, Assistant Vice President

EDWARD A. HEATH, Assistant Vice President and Assistant Secretary

BRUCE L. SMYTH, Assistant Vice President

ROBERT E. SORG, Assistant Vice President

JOSEPH J. SRP, Assistant Vice President

GEORGE T. TUCKER, Assistant Vice President

CHARLES G. WRIGHT, Assistant Vice President

JOHN J. CAPOUCH, Assistant Cashier

LE ROY A. DAVIS, Assistant Cashier

LE ROY W. DAWSON, Assistant Cashier

DANIEL M. DOYLE, Assistant Cashier

FRANCIS C. EDLER, Assistant Cashier

LESTER A. GOHR, Assistant Cashier

VICTOR A. HANSEN, Assistant Cashier

WILLIAM O. HUME, Assistant Cashier

ERICH K. KROLL, Assistant Cashier

KARL A. SCHELD, Assistant Cashier

JOHN J. ENDRES, General Auditor

FRED A. DONS, Assistant General Auditor

LELAND M. ROSS, Chief Examiner

JOSEPH B. LEDERLEITNER, Assistant Counsel and Assistant Secretary

DETROIT BRANCH

RUSSEL A. SWANEY, Vice President

RICHARD W. BLOOMFIELD, Assistant Vice President

PAUL F. CAREY, Assistant Cashier

W. GEORGE RICKEL, Assistant Cashier

ARTHUR J. WIEGANDT, Assistant Cashier

GORDON W. LAMPHERE, Assistant General Counsel

*Effective January 4, 1962.

January 1, 1962

STATEMENT OF CONDITION

Assets	December 31, 1961	December 31, 1960
Gold certifcate account	$2,564,681,898	$2,790,451,708
Redemption fund for Federal Reserve notes	211,636,890	188,792,575
Total gold certificate reserves	$2,776,318,788	$2,979,244,283
Federal Reserve notes of other Banks	38,893,000	39,968,500
Other cash	58,328,505	63,750,734
Discounts and advances:		
Secured by U. S. Government securities	$ 350,000	$ 1,575,000
Other	2,115,000	1,104,000
Total discounts and advances	$ 2,465,000	$ 2,679,000
U. S. Government securities	4,907,667,000	4,618,576,000
Total loans and securities	$4,910,132,000	$4,621,255,000
Cash items in process of collection	1,238,947,337	1,111,469,450
Bank premises	24,249,956	22,158,913
Other assets	40,309,602	34,965,202
Total assets	$9,087,179,188	$8,872,812,082
Liabilities		
Federal Reserve notes	$5,361,534,170	$5,302,418,460
Deposits:		
Member bank reserves	$2,539,800,738	$2,495,251,926
U. S. Treasurer—general account	66,400,647	62,973,258
Foreign	37,365,000	29,532,000
Other	12,015,216	13,000,450
Total deposits	$2,655,581,601	$2,600,757,634
Deferred availability cash items	874,167,816	791,124,731
Other liabilities	10,622,801	5,032,357
Total liabilities	$8,901,906,388	$8,699,333,182
Capital accounts		
Capital paid in	61,757,600	57,826,300
Surplus	123,515,200	115,652,600
Total liabilities and capital accounts	$9,087,179,188	$8,872,812,082
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	34.6%	37.6%
Contingent liability on acceptances purchased for foreign correspondents	$ 17,625,000	$ 32,043,600

STATEMENT OF EARNINGS AND EXPENSES

	1961	1960
Current earnings:		
Discounts and advances	$ 608,563	$ 4,097,753
U. S. Government securities	160,030,217	185,580,969
All other	46,602	83,967
Total current earnings	$160,685,382	$189,762,689
Current expenses:		
Operating expenses	$ 25,363,764	$ 23,372,403
Federal Reserve currency	1,040,334	1,121,254
Assessment for expenses of Board of Governors	886,200	904,900
Total	$ 27,290,298	$ 25,398,557
Less reimbursement for certain fiscal agency and other expenses	3,726,826	3,652,299
Current net expenses	$ 23,563,472	$ 21,746,258
Current net earnings	$137,121,910	$168,016,431
Additions to current net earnings:		
Profit on sales of U. S. Government securities (net)	$ 592,468	$ 417,446
Transferred from reserves for contingencies	—	1,474,704
All other	40,031	132,125
Total additions	$ 632,499	$ 2,024,275
Deductions from current net earnings	2,851	5,589
Net additions	$ 629,648	$ 2,018,686
Net earnings before payments to U. S. Treasury	$137,751,558	$170,035,117
Dividends paid	3,613,523	3,333,631
Paid U. S. Treasury (interest on Federal Reserve notes)	126,275,435	158,382,686
Transferred to surplus	$ 7,862,600	$ 8,318,800
Surplus account		
Surplus, January 1	$115,652,600	$107,333,800
Transferred to surplus—as above	7,862,600	8,318,800
Surplus, December 31	$123,515,200	$115,652,600

FEDERAL RESERVE BANK OF CHICAGO

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INCORPORATED MAY 18, 1914