

4
Federal Reserve Bank
of Cleveland

1935

TWENTY-FIRST ANNUAL REPORT
TO THE
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

ANNUAL REPORT
of the
Federal Reserve Agent

of the
**Fourth Federal
Reserve District**
to the
Board of Governors
of the
Federal Reserve System

Covering Operations

for the
Calendar Year

1935

FEDERAL RESERVE BANK OF CLEVELAND

Letter of Transmittal

February 29, 1936.

Sirs:

I have the honor to transmit to you herewith the twenty-first annual report of the Federal Reserve Bank of Cleveland, covering operations for the calendar year 1935.

Respectfully,

W. H. Fletcher,

Acting Federal Reserve Agent.

Board of Governors
of the Federal Reserve System,
Washington, D. C.

Directors and Officers, 1936

DIRECTORS

Class A

Ben R. Conner, Ada, Ohio, 1936
Chess Lamberton, Franklin, Pa., 1937
Robert Wardrop, Pittsburgh, Pa., 1938

Class B

J. E. Galvin, Lima, Ohio, 1936
R. P. Wright, Erie, Pa., 1937
G. D. Crabbs, Cincinnati, Ohio, 1938

Class C

W. W. Knight, Toledo, Ohio, 1936
E. S. Burke, Jr., Cleveland, Ohio, 1938

OFFICERS

E. S. Burke, Jr., Chairman of the
Board and Federal Reserve Agent
W. H. Fletcher, Assistant Federal
Reserve Agent
J. B. Anderson, Assistant Federal
Reserve Agent
Howard Evans, Assistant Federal
Reserve Agent
F. V. Grayson, Auditor

M. J. Fleming, President
F. J. Zurlinden, First Vice President
H. F. Strater, Vice President and
Secretary
W. F. Taylor, Cashier
C. W. Arnold, Assistant Vice Presi-
dent
D. B. Clouser, Assistant Cashier
P. A. Brown, Assistant Cashier
E. A. Carter, Assistant Cashier
A. G. Foster, Assistant Cashier
R. B. Hays, Assistant Cashier

CINCINNATI BRANCH

DIRECTORS

W. H. Courtney
B. H. Kroger
B. J. Lazar
J. J. Rowe
S. B. Sutphin
G. M. Verity

OFFICERS

B. J. Lazar, Managing Director
H. N. Ott, Cashier
Bruce Kennelly, Assistant Cashier
R. G. Johnson, Assistant Cashier

PITTSBURGH BRANCH

DIRECTORS

A. E. Braun
T. C. Griggs
J. S. Jones
H. B. McDowell
L. W. Smith
H. S. Wherrett

OFFICERS

T. C. Griggs, Managing Director
G. H. Wagner, Cashier
F. E. Cobun, Assistant Cashier
C. J. Bolthouse, Assistant Cashier

Member Federal Advisory Council
A. E. Braun

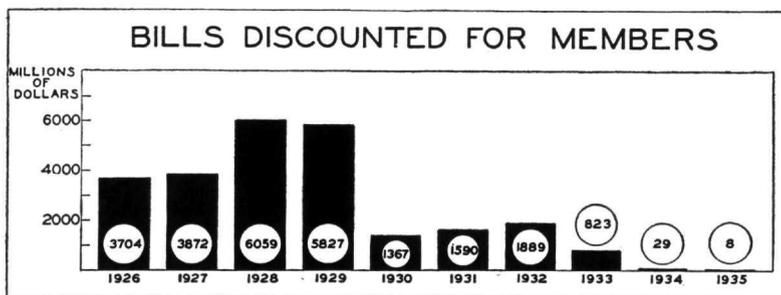
TWENTY-FIRST ANNUAL REPORT

OF THE

FEDERAL RESERVE BANK

OF CLEVELAND

A substantial gain in business activity was registered in the fourth federal reserve district in 1935 compared with that of the immediately preceding year. Because of unusual conditions existing, however, this increase in activity was not reflected in the operations of certain departments of Federal Reserve Bank of Cleveland. This was particularly true of the discount department, whose operations reached a low level comparable only to that of the formative period of the reserve system so far as the discount of eligible paper was concerned. The sustained growth of member bank reserves, reflecting further gold imports into the country, together with continued liquidation of existing loans at member banks and large Governmental expenditures for various purposes, had created an easy position both for member banks and for borrowers, with the result that the banks were able to meet what demands were made upon them for commercial or industrial credits without recourse to the facilities of Federal Reserve Bank of Cleveland. The maintenance of reserves substantially in excess of requirements would have permitted a sizable increase in credit extensions by member banks before it would have been necessary for them to utilize their borrowing power at the reserve bank.



As in the two immediately preceding years, the earning power of Federal Reserve Bank of Cleveland was derived largely from holdings of Government securities, which remained practically unchanged throughout the year at slightly under \$220 millions. However, the refunding of outstanding issues at lower rates and the issuance of

short-term obligations at rates of interest previously unparalleled in Government financing have seriously reduced earnings of this bank.

Gross earnings for the year 1935, notwithstanding that the daily average of earning assets was practically unchanged, were reduced approximately \$460,000 and the average rate of earnings decreased from 1.86 per cent in 1934 to 1.65 per cent in 1935. The average rate of earnings decreased progressively throughout the year, and for the last quarter the average income on earning assets of Federal Reserve Bank of Cleveland was but slightly in excess of 1.5 per cent.

During the entire year loans and discounts of member banks at Federal Reserve Bank of Cleveland amounted to less than \$8 millions. But 175 applications for loans or rediscounts were approved as compared with 809 in the preceding year. Not a dollar in commercial or industrial paper or trade or bankers' acceptances was discounted directly for member banks, the bulk of borrowings constituting member bank collateral notes secured by United States Government obligations. The total volume of acceptances purchased in the open market and acquired from other Federal reserve banks was approximately \$3 millions.

A further measure of the inactivity of the discount department is that in the entire year 1935 only 242 separate items were handled as compared with more than ten times that number in 1934.

RESULTS OF OPERATIONS

The earnings of Federal Reserve Bank of Cleveland for the year 1935 amounted to \$3,674,866.22. Expenses of its three offices amounted to \$2,954,883.68 which included assessments of \$130,699.65 for ordinary expenses of the Board of Governors of the Federal Reserve System. This bank's share paid during the year 1935 for the cost of premises for the Board in Washington, not included in the above figure, was \$94,674.51. Total additions to current net earnings were \$510,364.21 which included a net profit of \$488,849.55 on United States Government securities sold during the year. After providing for depreciation allowances amounting to \$156,775.90 on bank premises, for payment of \$8,734.30 to the Treasurer of the United States for earnings on funds advanced by the Secretary of the Treasury under section 13b of the Federal Reserve Act, and for dividends amounting to \$772,126.76 accrued during the year on capital stock of this bank held by member banks, the remainder of current net earnings, \$112,593.18, was carried to reserves for losses.

MEMBER BANK CREDIT

The total volume of credit extended by all member banks in the fourth district increased during the year slightly more than six per cent. Loan account declined in the period by a fraction of one per cent, while holdings of United States Government securities and securities guaranteed by the Government as to principal and interest increased. There was also an increase of slightly less than ten per

cent in securities other than Government issues held by member banks on December 31, 1935, compared with the same item at the close of the previous year.

Member banks added approximately \$107 millions of Government securities and securities guaranteed by the Government to their holdings during the year and on December 31 these represented 43.4 per cent of all loans and investments of these banks.

Since June 1933, the month of the first call report following the banking holiday, deposits at member banks have increased 50 per cent and at the close of the year were higher than since 1931, despite the fact that the number of banks in operation is considerably fewer than at that time. Year-end figures of all member banks in the district indicate that an increase of 13.5 per cent in total deposits occurred in the year. The rise was principally in demand deposits, although time deposits increased slightly in the period.

LOANS TO COMMERCE AND INDUSTRY UNDER SECTION 13b

Following the enactment of section 13b of the Federal Reserve Act in June of 1934, probably because of a lack of understanding of the provisions of the law many applications were received which were wholly ineligible or where no reasonable basis could be established for an extension of credit. While the year 1935 registered an important decline in the number of applications received, the percentage of approved applications bears witness to the higher quality of such applications. There has also been an increasing interest on the part of financing institutions in making loans in participation with, or under a commitment from the reserve bank, as reflected in an increased number of applications received from banks.

Efforts which were made during 1934 to bring the provisions of section 13b to the attention of every financing institution, or possible borrower under the terms of the law, were continued during the past year. The bank relations staff of this institution has repeatedly visited every bank, both member and non-member, within this district, urging them to make inquiry among their customers to determine whether loans which could properly be made under the terms of the statute were needed in their respective communities. The Industrial Advisory Committee has issued another circular in which it made known the purposes and advantages of the law, urging particularly that banks and other financing institutions avail themselves of the opportunity to increase their earning power and aid in relieving the unemployment situation without sacrificing whatever degree of liquidity they may possess. The executive secretary of the Industrial Advisory Committee attended a number of bank group meetings throughout the district and has visited the banks in the principal centers in an effort to stimulate interest in loans of this type.

Appended hereto is a tabulation of applications received and approved, both by the Industrial Advisory Committee and by this

bank, together with a statement of advances and commitments made by Federal Reserve Bank of Cleveland, including a statement of participations by banks and other financing institutions.

Industrial Loan Applications Received and Approved

	No.	Amount
Applications received in the year 1935.....	171	\$9,711,600
Applications approved by Industrial Advisory Committee.....	59	3,201,500
Applications approved by Federal Reserve Bank of Cleveland.....	56	2,776,500

Advances and Commitments Made

	No.	Federal Reserve Bank of Cleveland	Participations by banks and financial institutions	Total
Advances.....	29	\$1,256,328	\$135,400	\$1,391,728
Commitments.....	34	1,588,572	387,000	1,975,572
Total.....	63	\$2,844,900	\$522,400	\$3,367,300

MOVEMENT OF MEMBERSHIP

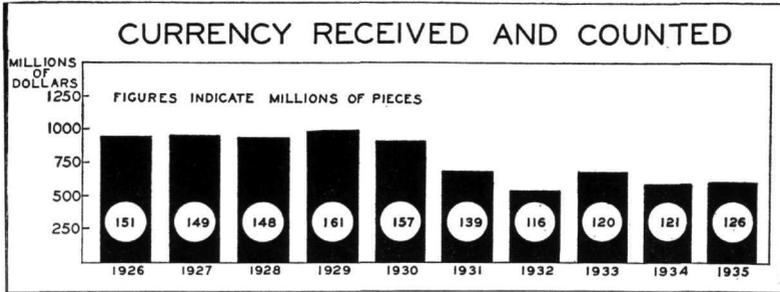
There was a net reduction of five in the number of licensed member banks in the fourth federal reserve district during the year and the number of member banks at the close of 1935 was 622, of which 523 were national banks and 99 were State banks. In addition, there were 647 non-member banks operating in this district on December 31, according to information received from various sources.

From the banking holiday until the end of the past year 43 State banks have been admitted to membership in this district. Since the passage of the Banking Act of 1935 an effort has been made to interest State banks in membership in the Reserve banking system. In the closing months of the year conferences have been had with officers and directors of 18 State institutions. This campaign was inaugurated too late in the year for any tangible results to be shown in 1935. While but one State bank was admitted to membership in that year, a number of applications have at the present writing actually been filed or are in process of preparation. Both the Banking Acts of 1933 and 1935 have tended to make membership in the System more attractive, and a greater interest than has been observed in recent years is being evidenced by non-member institutions in the advantages which membership affords. The campaign for new members which began in late 1935 will be continued throughout the current year. There is given below a tabulation showing the changes which have occurred in membership during the year.

	Licensed	Unlicensed
Number of member banks, Dec. 31, 1934.....	627	1
Successions.....	3	
Reorganizations.....	1	1
New banks.....	5	
New State members.....	1	
Liquidations.....	5	
Receiverships.....	1	
Mergers.....	2	
State bank withdrawals.....	1	
Number of member banks, Dec. 31, 1935.....	622	0

FEDERAL RESERVE NOTES

The volume of Federal reserve notes in actual circulation during 1935 was maintained at extremely high levels, reaching a new peak late in December, with the exception of a few weeks at the time of the banking holiday in 1933. The increase may be explained in part by the retirement of a substantial amount of national bank notes and to a degree by the necessity of maintaining larger supplies of till money on the part of banks for the purpose of cashing emergency relief and work relief checks.



It is noticeable, however, that in recent years, while circulation has reached its seasonal peak in December, the customary return flow of currency to the reserve bank during the following month has not materialized. Over a period of years prior to 1931 the average return flow of currency in January was somewhere in the neighborhood of \$30 millions. In recent years, notwithstanding that the volume of notes in circulation has been much larger, the return flow has been smaller both actually and on a percentage basis. The accompanying table shows the peak circulation reported for December in each of the past ten years, the low point of the following January, the decline in dollars, and the decrease in percentage.

Federal Reserve Note Circulation
(000 omitted)

	High December	Low (following January)	\$ Decline	% Decline
1926	\$235,614	\$200,401	\$35,213	-14.9
1927	227,284	199,908	27,376	-12.0
1928	230,145	199,193	30,952	-13.4
1929	202,732	174,962	27,770	-13.7
1930	203,650	178,883	24,767	-12.2
1931	330,232	315,981	14,251	-4.3
1932	289,540	276,590	12,950	-4.5
1933	293,220	280,736	12,484	-4.3
1934	314,892	297,474	17,418	-5.5
1935	362,738	346,629	16,109	-4.4

A study of the ratio of cash to total sales at department stores indicates that since 1931 there has been an increase of about 14 per cent in cash as compared with charge sales. While this would appear to indicate a change in the buying practice of the public that accounts for part of the increase in note circulation, it is

estimated that there is still in circulation in this district somewhere in the neighborhood of \$100 millions in excess of what past experience has demonstrated to be an adequate supply of currency, even with business activity at much higher levels, and with a higher general price level.

During the year 1935, counterfeits detected by the money sorting divisions of the three offices and counterfeits sent in by banks in this district for inspection and delivery to the United States Secret Service Division amounted to \$12,417. This is the highest amount in any recent year and is approximately four times the amount in dollars detected in 1930. Appended hereto are statistics covering the volume of operations in the money department of this bank for the year.

Total Receipts and Disbursements

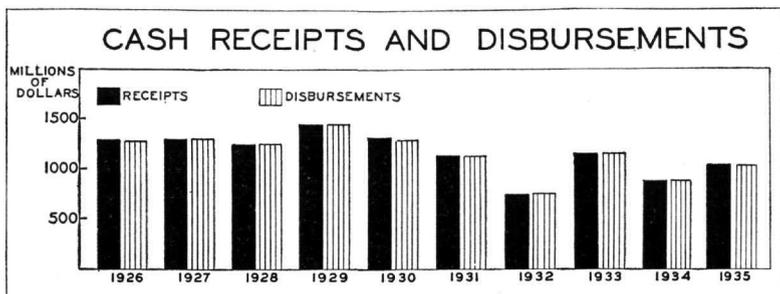
	Receipts	Disbursements
Cleveland.....	\$ 459,065,558.88	\$ 460,485,524.38
Cincinnati.....	186,733,905.79	186,276,824.38
Pittsburgh.....	379,508,801.77	374,507,100.55
Total.....	\$1,025,308,266.44	\$1,021,269,449.31

Currency Received and Counted

	Pieces	Amount
Cleveland.....	52,334,870	\$274,570,800.00
Cincinnati.....	28,734,178	101,479,480.00
Pittsburgh.....	44,687,291	217,023,550.00
Total.....	125,756,339	\$593,073,830.00

Coin Received and Counted

	Pieces	Amount
Cleveland.....	47,665,346	\$ 4,706,496.00
Cincinnati.....	49,539,913	5,319,976.00
Pittsburgh.....	35,848,895	2,747,271.00
Total.....	133,054,154	\$12,773,743.00



CHECK COLLECTIONS

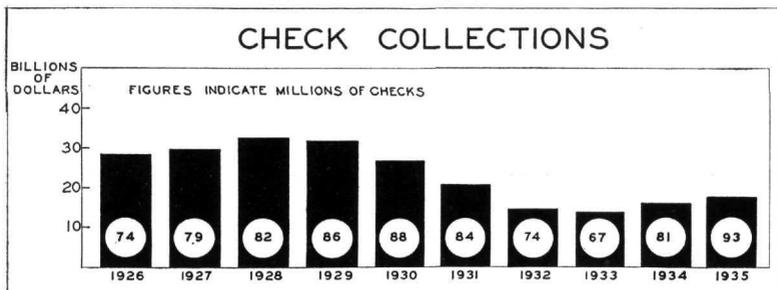
The volume of checks collected through the transit department of this bank in 1935 as compared with 1934 reflects not only an improvement in business but a substantial increase in items drawn on the Treasurer of the United States. This was particularly true of the Cleveland office. While the total volume of checks handled increased at all three offices, items drawn on the Treasurer, primarily for the

reasons given below, showed a decline at both branch offices of this bank. The total number of items handled for the year increased approximately 12 millions, the amount involved increasing by more than \$1,700 millions.

Beginning with the employment of tens of thousands of workers in the late months of 1933 under the Civil Works program, and continuing through direct relief by State agencies, relief in all of its phases has had a very marked effect on the volume of checks handled through the check collection department of Federal Reserve Bank of Cleveland. The year 1935 was no exception, as the record number of checks handled was brought about by the receipt of even a larger number of direct or work relief checks than in either 1933 or 1934.

The Ohio State Relief Commission maintained its account with a Columbus, Ohio bank, and while the Cleveland and Cincinnati offices received a few thousand of such checks daily, the great volume was cleared directly through the various Columbus correspondents of the receiving Ohio banks. In Pennsylvania two accounts were maintained—one in Pittsburgh and the other in Philadelphia. This resulted in a large proportion of relief checks being received by our Pittsburgh office, particularly those checks drawn on the Pittsburgh bank, the Pittsburgh office clearings showing a very marked increase during both 1934 and 1935. The West Virginia and Kentucky portions of the fourth district received relief payments issued by the commissions of these States and were drawn on their depositories in Charleston, West Virginia, and Louisville, Kentucky, respectively, and for the most part were sent direct to those cities for payment.

While these conditions remained unchanged throughout 1935 in Pennsylvania, West Virginia, and Kentucky, there were two major changes in the relief program in Ohio which affected the number and type of checks received at both the Cleveland and Cincinnati offices. On April 1, 1935, the Ohio Relief Commission was succeeded by the Federal Emergency Relief Commission. This change eliminated the checks on Columbus and resulted in the issuance of checks drawn directly on the Treasurer of the United States, with the loss of a few thousand Columbus checks daily at our Cleveland and Cincinnati



offices, and an increase of many thousands of checks on the Treasurer of the United States.

The situation was again changed in Ohio on July 20, 1935, when the payment of direct relief was taken over by Federal authorities under the provisions of the Federal Emergency Relief Appropriation Act of 1935, pending the creation of work under the Works Progress Administration. The type of check issued under this act was again changed, the checks being drawn on the Treasurer of the United States but payable only through a designated main office of a Federal reserve bank. Ohio disbursements were drawn payable through Cleveland; Pennsylvania through Philadelphia; West Virginia through Richmond, and Kentucky through St. Louis. The result was a marked dropping off of relief checks at Cleveland and Cincinnati and the payment of over a half million of the new type of checks by the Cleveland office.

Of the record total of checks handled during 1935, a fair estimate of the number of checks written by State and federal agencies for work and direct relief purposes is approximately ten million items with a dollar amount of about 150 millions. Since relief has been handled by a particular type of check in Ohio, and all payments have been made by the Cleveland office, the average amount of checks paid for direct relief may be quite accurately estimated at about \$13, and for work relief at approximately \$22.

Transit Department Check Clearings and Collections for Year 1935

Cleveland		
	Items	Amounts
Items on Cleveland banks.....	6,092,868	\$ 3,590,172,822.13
Items on other banks in District No. 4.....	21,327,891	2,012,294,760.86
Items on banks in other Districts.....	1,453,389	155,154,521.30
Items on Treasurer of the United States.....	3,414,942	246,152,748.19
Items on U. S. Treasurer payable at F. R. B., Cleveland.....	3,047,650	47,114,072.02
Total.....	35,336,740	\$ 6,050,888,924.50
Items sent to Cincinnati & Pittsburgh Branches.....	436,606	\$ 53,995,425.65
Cincinnati		
	Items	Amounts
Items on Cincinnati banks.....	3,516,994	\$ 1,702,186,517.47
Items on other banks in District No. 4.....	12,892,928	917,240,274.78
Items on banks in other Districts.....	584,613	64,115,071.59
Items on Treasurer of the United States.....	1,687,257	149,013,910.04
Total.....	18,681,792	\$ 2,832,555,773.88
Items sent to Main Office & Pittsburgh Branch.....	356,810	\$ 23,019,030.12
Pittsburgh		
	Items	Amounts
Items on Pittsburgh banks.....	14,049,616	\$ 7,064,851,544.97
Items on other banks in District No. 4.....	19,279,452	1,351,974,431.18
Items on banks in other Districts.....	3,961,330	333,209,179.82
Items on Treasurer of the United States.....	1,007,808	114,138,066.91
Total.....	38,298,206	\$ 8,864,173,222.88
Items sent to Main Office & Cincinnati Branch.....	116,129	\$ 18,876,313.59
Recapitulation		
	Items	Amounts
Total number of items handled.....	92,316,738	
Total amount of items handled.....		\$17,747,617,921.26
Items and amounts handled by both offices and branches and not duplicated in above figures.....	909,545	\$ 95,890,769.36

NON-CASH COLLECTIONS

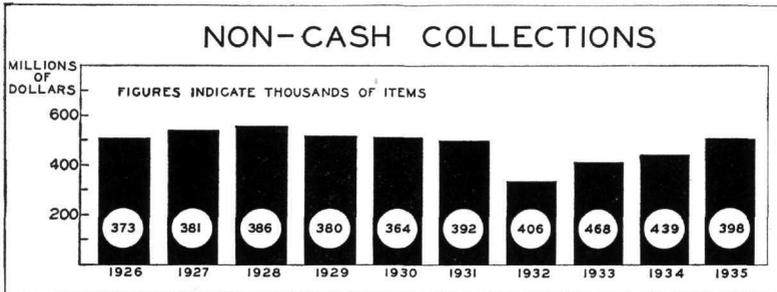
In 1935—398,039 items amounting to \$504,773,157.79 were handled through the non-cash collection department of this bank and its branches.

The number and amounts of items handled at the main office and branches at Cincinnati and Pittsburgh are as follows:

	Number	Amounts
Main Office	331,012	\$316,115,207.60
Cincinnati Branch	33,314	99,928,752.93
Pittsburgh Branch	33,713	88,729,197.26

On items handled through the three offices, collecting banks made collection charges on 41,158 items, aggregating \$12,195,743.74, at a rate of .118 of one per cent.

Member banks sent direct to other Federal reserve banks and branches for collection 73,079 items aggregating \$72,594,587.34.



FISCAL AGENCY OPERATIONS

Government financing operations during 1935 consisted of seventy-five series of Treasury bills, six series of notes and nine series of bonds. Allotments thereon in this district were as follows:

January 2	One hundred eighty-two day bills	\$ 000
January 9	One hundred eighty-two day bills	000
January 16	One hundred eighty-two day bills	3,050,000
January 23	One hundred eighty-two day bills	000
January 30	One hundred eighty-two day bills	000
February 6	One hundred eighty-two day bills	000
February 13	One hundred eighty-two day bills	000
February 20	One hundred eighty-two day bills	000
February 27	One hundred eighty-two day bills	1,000,000
February 27	Two hundred seventy-three day bills	000
March 6	One hundred eighty-two day bills	500,000
March 6	Two hundred seventy-three day bills	000
March 13	One hundred eighty-two day bills	163,000
March 13	Two hundred seventy-three day bills	000
March 15	Twenty-five year 2 7/8% bonds	105,287,200
March 15	Five year 1 5/8% notes	14,485,900
March 20	One hundred eighty-two day bills	950,000
March 20	Two hundred seventy-three day bills	000
March 27	One hundred eighty-two day bills	000
March 27	Two hundred seventy-two day bills	000
April 3	Two hundred seventy-two day bills	000
April 10	Two hundred seventy-three day bills	000
April 17	Two hundred seventy-three day bills	400,000
April 22	Twenty-five year 2 7/8% bonds	74,224,950
April 22	Five year 1 5/8% notes	63,206,150

April 24	Two hundred seventy-three day bills	\$ 000
May 1	Two hundred seventy-three day bills	000
May 9	Two hundred seventy-three day bills	000
May 15	Two hundred seventy-two day bills	000
May 22	One hundred thirty-three day bills	250,000
May 22	Two hundred seventy-three day bills	000
May 29	One hundred thirty-three day bills	1,260,000
May 29	Two hundred seventy-three day bills	5,000
June 3	Fourteen year 3% bonds	5,243,000
June 5	One hundred thirty-three day bills	000
June 5	Two hundred seventy-three day bills	200,000
June 12	One hundred thirty-three day bills	000
June 12	Two hundred seventy-three day bills	000
June 15	Five year 1½% notes	11,621,000
June 19	One hundred thirty-three day bills	000
June 19	Two hundred seventy-three day bills	000
June 26	One hundred thirty-three day bills	000
June 26	Two hundred seventy-three day bills	000
July 1	Fourteen year 3% bonds	1,010,000
July 3	One hundred thirty-three day bills	47,000
July 3	Two hundred seventy-three day bills	000
July 10	One hundred thirty-three day bills	000
July 10	Two hundred seventy-three day bills	000
July 15	Four year 1¾% notes	27,666,000
July 17	Two hundred seventy-three day bills	50,000
July 22	Twenty-five year 2¾% bonds	1,167,000
July 24	Two hundred seventy-three day bills	000
July 31	Two hundred seventy-three day bills	200,000
August 5	Twenty-five year 2¾% bonds	2,110,000
August 7	Two hundred seventy-three day bills	3,000,000
August 14	Two hundred seventy-three day bills	000
August 19	Twenty-five year 2¾% bonds	2,420,000
August 21	Two hundred seventy-three day bills	375,000
August 28	Two hundred seventy-three day bills	000
September 4	Two hundred seventy-three day bills	000
September 11	Two hundred seventy-three day bills	2,000,000
September 16	Twelve year 2¾% bonds	51,985,300
September 16	Three and one-half year 1½% notes	37,435,550
September 18	Two hundred seventy-three day bills	000
September 25	Two hundred seventy-three day bills	200,000
October 2	One hundred sixty-six day bills	1,000,000
October 2	Two hundred seventy-three day bills	300,000
October 9	One hundred fifty-nine day bills	68,000
October 9	Two hundred seventy-three day bills	200,000
October 16	One hundred fifty-two day bills	130,000
October 16	Two hundred seventy-three day bills	227,000
October 23	One hundred forty-five day bills	000
October 23	Two hundred seventy-three day bills	200,000
October 30	One hundred thirty-eight day bills	600,000
October 30	Two hundred seventy-three day bills	200,000
November 6	One hundred thirty-one day bills	270,000
November 6	Two hundred seventy-three day bills	000
November 13	One hundred twenty-four day bills	136,000
November 13	Two hundred seventy-three day bills	000
November 20	One hundred seventeen day bills	1,073,000
November 20	Two hundred seventy-three day bills	000
November 27	One hundred ten day bills	8,140,000
November 27	Two hundred seventy-three day bills	000
December 4	Two hundred seventy-three day bills	360,000
December 11	Two hundred seventy-three day bills	000
December 16	Twelve year 2¾% bonds	22,919,350
December 16	Five year 1½% notes	36,424,700
December 18	Two hundred seventy-three day bills	000
December 24	Two hundred seventy-four day bills	000
December 31	Two hundred seventy-four day bills	000

Government securities delivered on allotment numbered 270,231 pieces.

Government securities received for exchange of denomination or form (within the issue) consisted of 31,635 pieces in coupon form and 6,090 pieces in registered form, aggregating \$199,094,950, including \$154,301,800 received for transfer by wire.

Wire transfers of Government securities from other districts to this district aggregated \$91,717,850; from this district to other districts, \$154,301,800.

Government coupons redeemed totaled 1,914,675, aggregating \$45,479,386.61.

Government obligations presented for redemption and in exchange for new issues numbered 105,080 in registered form and 500,062 in coupon form and aggregated \$476,112,430 face amount.

Treasury Savings certificates, War Savings stamps and Thrift stamps presented for redemption numbered 661 and aggregated \$1,165.25.

United States Savings bonds presented for redemption numbered 1,192 and aggregated \$216,862.50.

Semi-Government financing operations conducted through the Federal reserve banks consisted of four series of bonds. Allotments, thereon in this district were as follows:

May 1	Twenty year 3¼% Federal Farm Loan Consolidated bonds . . .	\$15,431,200
June 1	Four year 1½% Home Owners' Loan Corporation bonds	9,199,050
July 1	Twenty year 3% Federal Farm Loan Consolidated bonds	35,407,700
September 3	Four year 1½% Federal Farm Mortgage Corporation bonds . . .	2,290,000

The number of pieces delivered on allotment was 25,894.

Home Owners' Loan Corporation bonds received for exchange of denomination or form (within the issue) consisted of 45,568 pieces in coupon form and eight pieces in registered form and aggregated \$47,357,675 face amount.

Home Owners' Loan Corporation bonds presented for redemption numbered 24,999 and aggregated \$14,534,800 face amount.

Home Owners' Loan Corporation coupons redeemed totaled 628,834 aggregating \$5,941,734.09.

Federal Farm Mortgage Corporation bonds received for exchange of denomination or form (within the issue) consisted of 9,866 pieces in coupon form and 88 pieces in registered form and aggregated \$5,667,700 face amount.

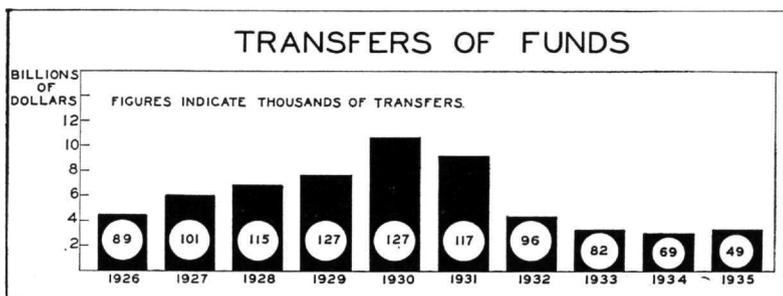
Federal Farm Mortgage Corporation coupons redeemed totaled 93,106 aggregating \$1,074,125.74.

Federal Farm Loan bonds received for exchange of denomination or form (within the issue) consisted of 1,640 pieces in coupon form and 53 pieces in registered form and aggregated \$2,855,300 face amount.

Federal Farm Loan bonds presented for redemption and in exchange for new issues numbered 36,187 and aggregated \$48,285,020 face amount.

Federal Intermediate Credit Bank Debentures presented for redemption numbered 83 and aggregated \$1,880,000 face amount.

Federal Farm Loan coupons redeemed totaled 255,629 aggregating \$7,556,657.82.



PERSONNEL

In the annual election of directors by member banks of Group 1, Robert Wardrop of Pittsburgh, Pennsylvania, and George D. Crabbs of Cincinnati, Ohio, were re-elected Class A and Class B directors respectively, for three-year terms ending December 31, 1938.

Mr. Arthur E. Braun, President of The Farmers Deposit National Bank, Pittsburgh, Pennsylvania, was redesignated member of the Federal Advisory Council to represent the fourth district for the year 1936.

The board of directors of the Cleveland reserve bank on December 6, 1935 appointed John J. Rowe of Cincinnati, Ohio, and Harry B. McDowell of Sharon, Pennsylvania, as directors of the Cincinnati and Pittsburgh branches respectively, for three-year terms ending December 31, 1938. Messrs. Rowe and McDowell succeeded Messrs. Thomas J. Davis and Richard Coulter.

On December 3, 1935 the Board of Governors of the Federal Reserve System reappointed Edmund S. Burke, Jr., of Cleveland, Ohio, as Class C director for a three-year term ending December 31, 1938 and designated him as acting chairman for the period January first to February 29, 1936. Mr. William H. Fletcher, who in late 1934 was appointed acting Federal reserve agent, continued to serve in that capacity throughout the year 1935.

The board of directors of this bank reappointed Messrs. Benedict J. Lazar and Thomas C. Griggs as managing directors of Cincinnati and Pittsburgh branches respectively, for the year 1936.

Numerous changes were made in the official staff throughout the year. Effective January 4, 1935, Herman F. Strater, cashier, was elected deputy governor and retained his title of cashier. Messrs. William F. Taylor and Clarence W. Arnold, assistant cashiers, were elected assistant deputy governors.

On January 22 the board of directors announced the appointment of Matthew J. Fleming as governor of this bank effective January 19, 1935, to fill the vacancy created by the death of Elvadore R. Fancher, who had been governor of the bank since its organization.

Effective February 16, 1935, Herman F. Strater relinquished his title as cashier and William F. Taylor, assistant deputy governor, was appointed cashier to fill the vacancy. Mr. Reuben B. Hays, formerly executive secretary of the Industrial Advisory Committee, was appointed assistant cashier.

Effective March 1, 1935, Benedict J. Lazar, formerly cashier of the Cincinnati branch, was appointed managing director thereof to succeed Clifford F. McCombs, retired. To fill the vacancy created by Mr. Lazar's promotion, Henry N. Ott, formerly assistant cashier, was appointed cashier and Ralph G. Johnson was appointed assistant cashier.

On January 16, George H. Wagner, formerly assistant cashier at the main office, assumed his duties as cashier of the Pittsburgh branch.

GENERAL BUSINESS CONDITIONS

Business in this district was better in 1935 than in any of the four preceding years and in the case of some industries the rate of production at the close of the calendar period was higher than since 1929, with a few lines reporting all-time records. This latter group included industries which, because of their newness, enjoyed expanding markets, but shoe production and consumption of wool in the year attained new high levels.

In the first half of the year the course of business was slightly downward, but the seasonal contraction of summer months failed to develop and business indexes, which make allowance for this tendency, started to advance and continued upward at an accelerating rate to the end of the year. At that time the production index compiled by the Board of Governors of the Federal Reserve System was 104 per cent of the 1923-25 monthly average, higher than since April, 1930 and a gain of 18 points from the summer level. While the improvement in the last half of 1935 was quite general the advance was more attributable to the change effected in the automobile industry than to any other single one. The introduction of new models occurred two months earlier than usual and this necessitated the production of parts and materials about that much ahead of the customary time. This was of great importance to this district because many local plants rely on the automobile industry for the bulk of their sales. In 1935 nearly 25 per cent of all steel made was used in automobile production; 77 per cent of all plate glass, 75 per cent of rubber, 22 per cent of the copper, 33 per cent of the nickel and 16 per cent of the aluminum used in this country went into automobiles or parts made in the year.

The Board's index reached a peak in December which was not maintained in early 1936, but the average for the entire year was 90 per cent of the base period, compared with 79, the average for 1934, and 64 in 1932, the low year of the depression. While the recovery has thus been nearly 50 per cent, the upward movement

has been irregular and has consisted of a series of sharp increases followed by rather pronounced declines. The advance in 1933, stimulated by the reopening of banks, the low level of stocks of some commodities at that time, and the prospect of higher prices, was widespread and rapid. The Board's index advanced 41 points in four months, but since it was partly of speculative character the improvement was not sustained, a drop of 28 points occurring in the next four months.

The upswing in early 1934, reflecting primarily output of steel and automobiles, also proved of short duration, but it was followed by a third upward movement starting in the fall of that year which was of a more general character. It therefore was largely maintained and relatively little fluctuation in the composite index was shown in the first half of 1935. This, however, was followed by the latest advance, which carried the index to the recent December peak.

Of marked importance among the developments in 1935 was the decided increase in demand for durable goods, which had declined most during the depression. The index of durable goods production was 77 per cent of the 1923-25 monthly average compared with 56 in 1934, a gain of 35 per cent, and an average of 33 per cent in the year 1932. At the same time output of non-durable goods increased four per cent. The improvement in employment and payrolls was partly accounted for by the rise in the durable goods industries in 1935.

So far as the fourth district was concerned, gains in this section from 1934 in many cases exceeded the average for the entire country. The accompanying table shows the comparison with the preceding year of certain business indicators more or less important to this district.

Indicators of Fourth District Activity

(000 omitted)

<i>Fourth District Unless Otherwise Specified</i>	Year 1935	Year 1934	% change 1935 from 1934
Automobile Production—U. S.—number	4,010	2,779	+44.3
Cement Production—Ohio, Pa., W. Va. (barrels)	7,304	7,356	-0.7
Construction Contracts Awarded—Total	\$181,868	\$148,516	+22.5
" " "—Residential	\$ 46,336	\$ 19,843	+133.5
Coal Production—Ohio, W. Pa., E. Ky. (tons)	143,008	142,378	+0.4
Coal Shipments—Lake Erie Ports (tons)	35,837	35,971	-0.4
Debits to Individual Accounts—25 cities	\$23,500	\$20,341,000	+15.6
Department Store Sales—49 Stores	\$204,591	\$194,510	+5.2
Electric Power Production—Ohio, Pa., Ky. (thous. K.W.H.)	15,645	14,045	+11.4
Foundry Equipment—Index of New Orders	103.3	60.5	+70.7
Glass Container Production—U. S. (Thous. of Gross)	38,783	35,799	+8.3
Glass Plate Production—U. S. (Thous. of Sq. Ft.)	179,817	91,339	+96.9
Machine Tools—Index of New Orders	86.4*	46.3	+86.6
Petroleum Production—Ohio, Pa., Ky. (barrels)	25,242	23,589	+7.0
Pig Iron Production—U. S. (tons)	21,043	15,978	+31.7
Shoe Production (pairs)	†	†	+17.1
Steel Ingot Production—U. S. (tons)	33,426	25,262	+32.3
Tire Production—U. S. (casings)	49,362	47,233	+4.5
Iron Ore Receipts—Lake Erie Ports (tons)	20,007	15,573	+28.5

*Ave. annual index—actual

†Confidential

Some idea as to the amount of recovery which occurred in 1935 is obtained from debits to other than bank accounts at banks in 25 cities of the district. These were 15.7 per cent larger in the year than in 1934 and the dollar volume was greater than since 1931. These figures are affected by price changes, but wholesale prices averaged less than five per cent higher than in 1934 and retail prices were up only slightly more than that.

Iron and steel production, the district's basic industry, was 32 per cent greater in 1935 than in 1934 for the entire country; but excluding Pittsburgh, local centers operated at much better than national average rates throughout the year. At Cleveland-Lorain the rate for the year was 63.8 per cent, according to *Steel*; at Youngstown it was 54.6, Wheeling 77.3, and Pittsburgh 39.0 per cent, compared with 48.6 per cent of capacity for the entire country. The automobile industry was largely responsible for this situation, local parts, accessory, and fabricating plants operated at quite satisfactory rates throughout the year. Because two sets of new models were introduced in the year, activity at these plants held up very well in the late summer months when it customarily declines.

The construction industry showed some improvement in the year even though the dollar value of contracts awarded was still small in contrast with pre-depression periods. Total building in this district was 22 per cent greater than in 1934 and had a value of \$182,000,000. Construction of public works and utilities was about one-third less in the year than in 1934, but residential building showed marked improvement. With contracts valued at \$46,300,000 this type of work was 134 per cent ahead of the previous year, but residential construction in this section in the eight years, 1923-30, averaged \$193,600,000 a year.

Retail trade, judging by sales of various reporting lines, was better than in 1934. Gains were shown in all sections of the district and department stores sales were 5.2 per cent larger at reporting stores than in the preceding year. Furniture store sales showed a similar increase and chain dry goods and grocery sales were up 9.4 and 4.1 per cent, respectively. All reporting lines of wholesale trade showed increases ranging from 3 to 10 per cent. Collections at reporting stores improved in the year and a relatively greater share of total sales at department stores represented cash purchases than in the preceding 12 months.

Agricultural conditions throughout the district improved materially in 1935. Production of principal crops was greater than in the relatively poor year of 1934, but compared with the ten-year average harvest of major crops, gains were shown only for wheat, corn, and potatoes. The AAA production-control program affected the acreage planted to some crops in this area, particularly tobacco, but with farm prices 20 per cent higher than in 1934 and better than in any other recent year, together with the AAA benefit payments, gross income of farmers in this section was much larger than in any year

since 1932. In Ohio, gross income (not including benefit payments) amounted to \$247,003,000, according to the Department of Agriculture. Payment for various restriction programs was \$15,210,000 in the state, and combined receipts were 25 per cent larger than in 1934 and 68 per cent greater than in 1932, the recent low year. In Kentucky even larger gains were evident, but in Pennsylvania and West Virginia, although smaller increases than those given for Ohio were shown, they, nevertheless, exceeded the national average.

Annual statements of various business concerns, which have been appearing, bear witness to the fact that operations in practically every line in 1935 were more satisfactory than in recent years.