Tenth Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1924

Federal Reserve Agent
Second Federal Reserve District

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Contents

FEDERAL RESERVE BANK
OF NEW YORK

New York, February 10, 1925.

GENTLEMEN:

I have the honor to submit herewith the tenth annual report of the Federal Reserve Bank of New York, covering the year 1924.

Respectfully,

PIERRE JAY,
Chairman and Federal Reserve Agent.

FEDERAL RESERVE BOARD,
Washington, D. C.

Credit Conditions in 1924

Credit conditions in 1924 were unusual in a number of particulars.

Money was cheaper than in any other year since the United States entered the World War, and rates in New York fell below the level of corresponding rates in London.

New financing and refunding operations by corporations and municipalities were larger than in any preceding year.

Larger amounts of foreign bonds were sold in the United States than in any year since 1916 when war issues were being floated, greatly facilitating a heavy export movement of farm products at good prices.

Prices of stocks at the end of the year rose to new high averages.

Loans and investments of member banks both in New York City and throughout the country rose to new high points.

Loans and investments of the Federal Reserve Banks reached the lowest figure since 1917.

Gold imports were unusually heavy during the first half of the year, but diminished later, and in December were more than offset by the first large exports since 1920.

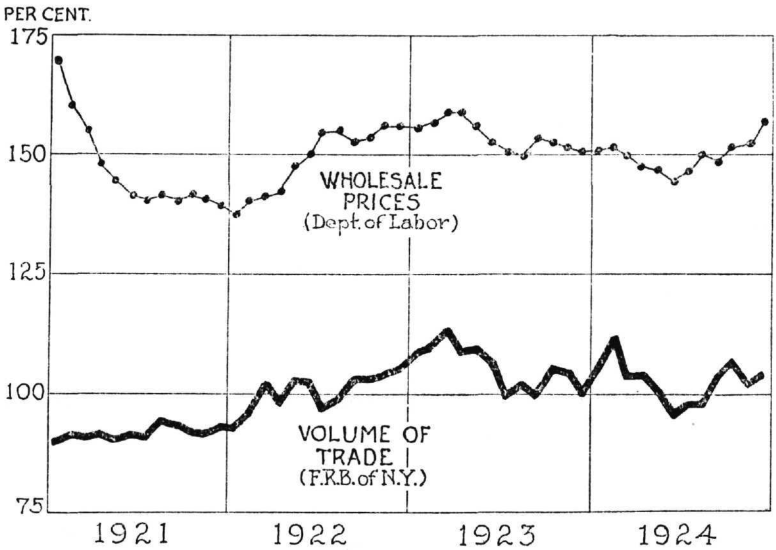
All of these occurrences had marked effects on the New York money market and were reflected in one way or another in the operations of the Federal Reserve Bank of New York.

The Year in the Money Market

The economic conditions giving rise to the year's developments in the money market were both national and international in scope. The New York money market is not only the central money market for this country but it is also the principal point of contact between this country and foreign countries in financial matters, and it is affected by both domestic and foreign conditions.

DOMESTIC INFLUENCES

The more important domestic influences on credit conditions were the changes which occurred in business conditions. The early part of the year 1924 was a period of declining business activity. The index of the physical volume of trade, prepared by this bank to measure changes in the production and distribution of goods and other business activity throughout the country, declined from 112 in the early part of the year to 95 in June. Factory employment likewise declined 12 per cent. from January to July, and in July stood at a point 17 per cent. lower than in the spring of 1923. Subsequently, during the second half of the year there was a rapid recovery from the low point of the summer. Commodity prices followed much the same course as the volume of trade, declining in the first half of the year and rising in the second half. In particular, the prices of farm products made a marked recovery, not only actually but relative to other prices as well.



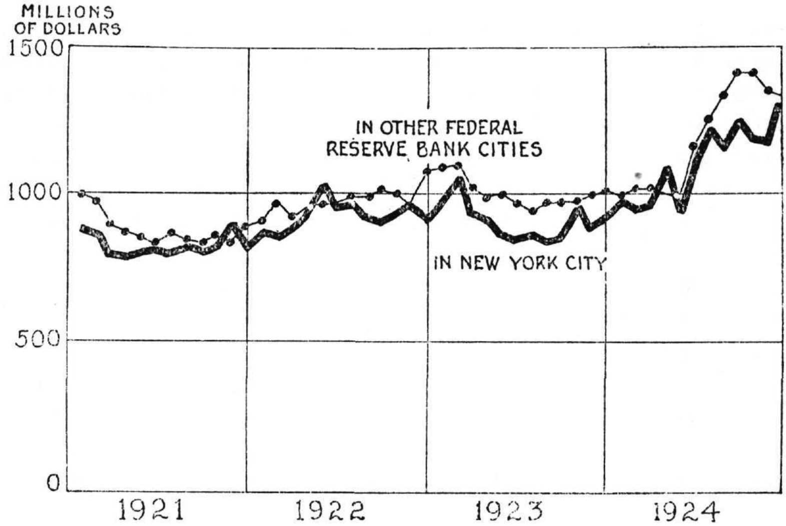
Wholesale prices and trade decreased in the first half of 1924 and increased in the second half.

Reflecting the decrease in business activity there was a tendency during the year for funds to be released from local business employment and to find their way to the larger money centers. One evidence of this movement is found in the growth of bankers' balances in large cities. These figures are shown in the following diagram. In New York City there was an increase, largely during the summer, of about $300,000,000 in balances maintained by out-of-town banks.

The natural result of this tendency for funds to flow to the centers was to lower money rates and make funds readily available for investment uses. In the latter part of the year, however, improving business and increased activity in the security markets led to firmer money conditions.

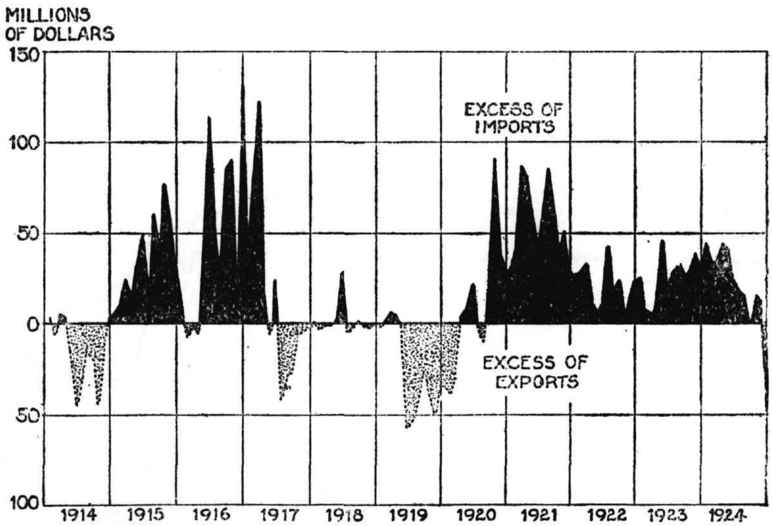
FOREIGN INFLUENCES

Influences on the money market from abroad tended for the greater part of the year in the same general direction as domestic



Bankers' balances in the principal money centers increased rapidly, particularly during the summer.

influences. For the first half of the year the inflow of gold continued heavy. In the first six months a total of $200,000,000 was imported from abroad, at a rate considerably higher than $1,000,000 a day. During the balance of the year monthly gold imports steadily declined, and in December for the first time since 1920 there was a net outflow of $29,000,000. Total net imports of gold for the year were $258,000,000 as compared with $294,000,000 in 1923.



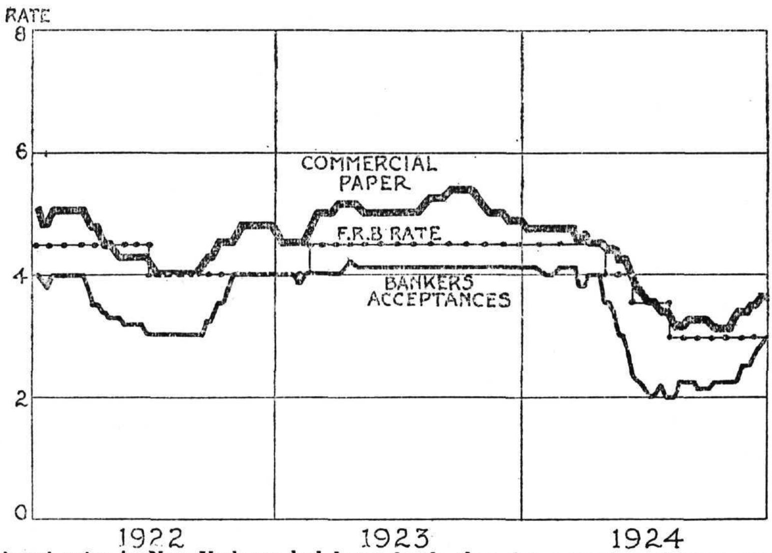
In December 1924 gold exports exceeded imports for the first time since 1920.

The gradual slackening after mid-year in this stream of gold imports may be ascribed to the operation of a number of causes. A principal direct cause was a decrease in the amount of newly mined gold received by the United States because of larger purchases of such gold by India. More generally the inauguration of the Dawes plan in Germany created in both continents a greater feeling of assurance with regard to European conditions, influenced the exchanges favorably, and encouraged Europeans to retain their funds in Europe, and Americans to increase their balances and investments abroad. This tendency was facilitated by the fall in interest rates in New York and the rise in interest rates in London. This change in rate levels made the American market less attractive for the investment of European funds. Easy credit conditions and low money rates here also stimulated a large amount of new foreign financing in this country which enabled European countries during the autumn to purchase goods here and pay for them without shipping gold. Of the gold exports in December about one-half represented a part of the proceeds of the German loan.

MONEY RATES AND SECURITY MARKETS

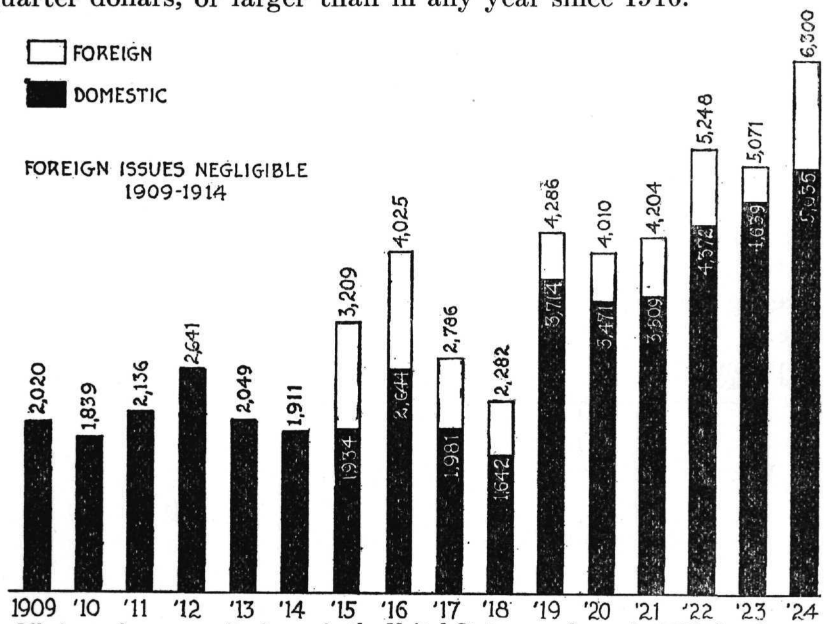
Certain net effects of these domestic and foreign influences on the money market are shown in the accompanying diagrams, which compare the figures for 1924 with those for several years preceding.

The principal money rates in 1924 were lower than at any time since 1915. The lowest figures were reached in the late summer. Increases of about a point occurred in the last quarter.



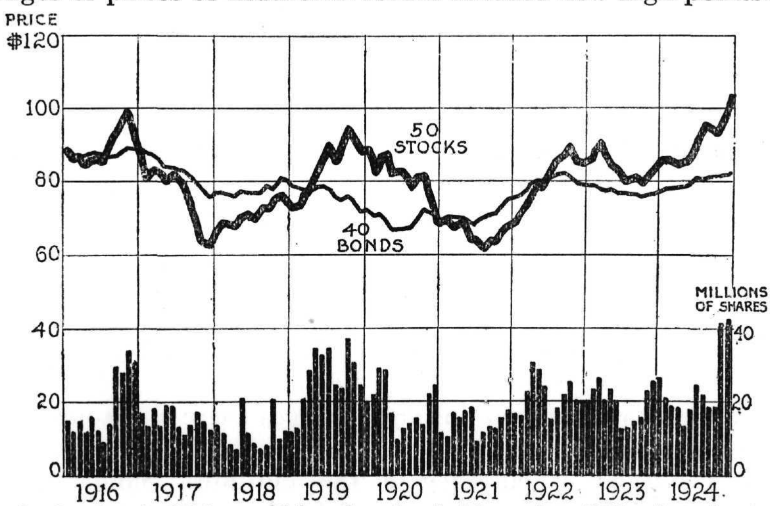
Interest rates in New York reached lower levels than for a number of years past.

The amount of new financing was larger than in any previous year, if we exclude United States Government war financing. Foreign financing amounted in the aggregate to over a billion and a quarter dollars, or larger than in any year since 1916.



Offerings of new security issues in the United States were larger in 1924 than in any previous year, excluding U. S. Government issues. (Figures shown in millions of dollars.)

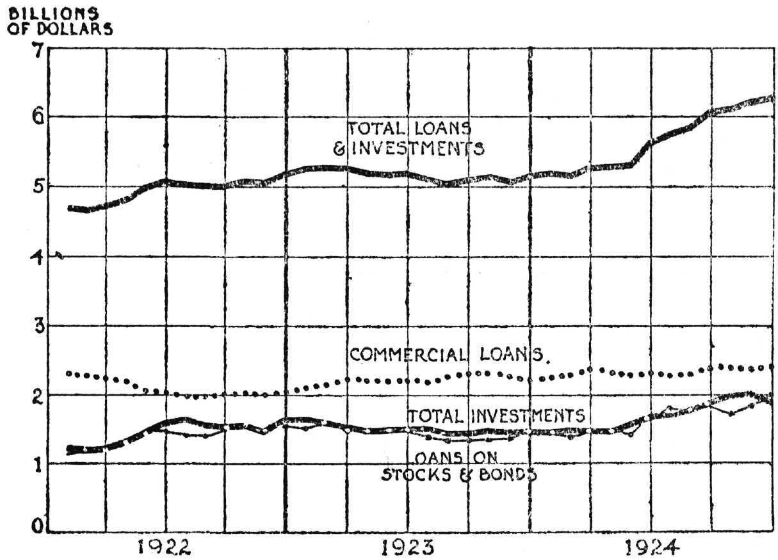
Security prices moved upward throughout most of the year. Averages of bond prices reached the highest point since 1917, and averages of prices of industrial stocks reached new high points.



Bond prices late in 1924 were higher than they had been since 1917 and stock prices and the volume of stock sales reached new high points. (N. Y. Times indexes.)

BANK LOANS AND INVESTMENTS

The flow of funds from the interior and the inflow of gold from abroad placed the banks of New York City in a position to increase very largely their total extension of credit. The accompanying diagram shows the course of total loans and investments of reporting member banks in New York City, as well as the principal classifications in which increases mainly took place. Direct investments by these banks increased nearly $500,000,000 between March and December. Their loans on stocks and bonds increased nearly $600,000,000, accompanying the activity of the security markets. Other loans, which consist largely of loans to finance commercial, industrial, and agricultural undertakings, showed little change, increasing moderately in the autumn as business became more active.



Total loans and investments of the New York City Reporting Member Banks increased about one billion dollars during 1924, largely due to increased investments and loans on stocks and bonds.

The Year in the Federal Reserve Bank

Changes in the assets and liabilities of the Federal Reserve Bank of New York reflected in part the tendencies which have been outlined in preceding paragraphs and in part the credit policy of the bank.

As a direct response to business changes there was some return of currency to the bank in the early months of the year and an increased outflow of currency in the autumn. Similarly, as a response largely to the movement of funds into the district from abroad and from the interior, the reserve balances maintained by member banks at the Federal Reserve Bank increased during the year from $713,000,000 to $884,000,000.

It is always the loans and investments of the bank, however, which reflect most directly the changes in the money market. For fluctuations in loans and investments indicate the changes in the amount of Federal Reserve Bank credit in use by member banks or the market.

Understanding of the intimate relation of changes in the loans of the Reserve Bank to changes in the money market will be facilitated by a brief description of the nature of the New York money market.

RELATION OF RESERVE BANK LOANS AND INVESTMENTS TO MONEY MARKET MOVEMENTS

The New York money market is the leading money market of the country, the one that is central and national in scope. As such it is the market to which gravitates the idle money of other sections in the effort to find employment and thus it becomes a pool of the country's surplus funds. A bank with funds on hand which it is likely to need on a day's notice puts these funds in the New York money market. Many large financial and industrial concerns do likewise. In the market these funds are invested in short term securities, such as short Government securities, short municipal securities, bankers acceptances, or other short obligations, or they are lent on a day to day basis as call money, either to brokers to carry stocks and bonds or to dealers in Government securities and bankers acceptances to carry their portfolios. Such obligations involve a minimum of risk and can usually be converted into cash immediately. As the funds so invested or lent are needed from time to time, the securities are sold or the loans called, thus making possible an immediate withdrawal of the funds.

Banks and industrial concerns all over the country have funds employed in the New York money market, and there is a constant movement, to and fro, of these funds. Almost any sudden need for funds in any part of the country finds reflection in some withdrawal of funds from the New York money market, while any accumulation of funds in any part of the country is apt to result in an increase in the supply of funds in the New York market. The New York City banks as the depositaries of out-of-town banks and industrial concerns are the principal agencies through which funds reach or are withdrawn from the New York money market.

The Federal Reserve Bank of New York has two relations to the New York money market.

In the first place it has certain mechanical relationships. The Federal Reserve Bank furnishes the mechanism by which currency is issued or retired, Government securities are issued and redeemed, and by which funds are transferred to and from all parts of the country for the Government and for member banks. Transfers of funds include not only direct telegraphic transfers, but also the daily settlements made between New York and other sections for the immense volume of checks either deposited in or drawn upon the banks of this district. In fact, practically all financial transactions of banks, business houses, and the Government, between this district and other districts, are reflected in wire transfers or settlements made through this bank.

In the second place the Federal Reserve Bank of New York, is a credit reservoir to which, largely through the member banks, the New York money market has access, in the same way as other money markets have access to the Federal Reserve Banks of their districts. In a rapidly changing market, like that of New York, which employs surplus funds, the supply of funds is never in complete equilibrium with the demand. One week the supply of funds will be large and another week unusual needs in some parts of the country will draw off funds. If all of these temporary fluctuations in the supply of funds were reflected in changes in money rates the movement of rates would be wide and irregular. As a matter of fact, any temporary shortage of funds in the market is usually met by the use of funds from the Federal Reserve Bank. Similarly, when member banks are borrowing at the Reserve Bank, a large excess of funds seldom occurs, because any available funds are generally used to reduce or repay loans at the Reserve Bank.

Funds from the Federal Reserve reservoir reach the market mainly in four ways:

(1) Member banks whose reserves have been depleted by withdrawals of deposits or currency, or for any other reason, may restore these reserves by discounting paper at the Reserve Bank at its established discount rate. In such transactions the initiative lies with the member bank.

(2) Member banks, discount houses, bankers, and others may obtain funds from the Reserve Bank from time to time by selling to it bankers acceptances. The immediate initiative in such transactions lies as a rule not with the Reserve Bank but with the sellers, since the Reserve Bank stands ready to purchase at its established buying rate all offerings of bankers acceptances that carry not less than two good banking names and meet certain other eligibility requirements.

(3) Dealers in short Government securities and bankers acceptances, in addition to selling such securities outright to the Reserve Bank, may obtain funds from time to time by selling them to the Reserve Bank, at established rates for this type of transaction, under agreement to repurchase them within fifteen days. In these transactions the immediate initiative is taken by the dealers.

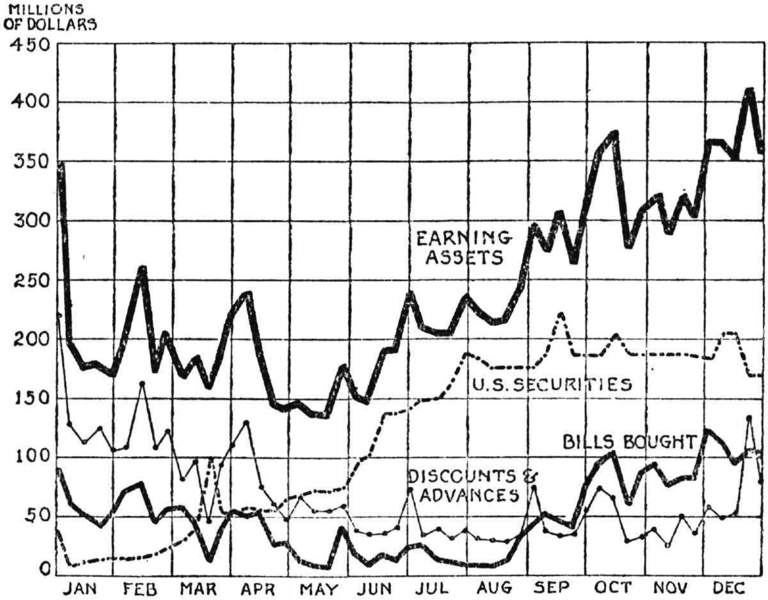
(4) The Reserve Bank may furnish funds directly to the market by purchasing short Government or municipal securities, or may withdraw funds from the market either by selling such securities or by not replacing them when they mature. Transactions of this nature are ordinarily undertaken on the initiative of the Reserve Bank.

These four classes of loans or investments constitute the major earning assets of the Federal Reserve Bank, and changes in money market conditions are promptly reflected in one or more of them.

THE YEAR'S CHANGES IN LOANS AND INVESTMENTS

The general movement of the loans and investments, or earning assets, of the Federal Reserve Bank of New York during 1924 reflected mainly the changes in business and credit conditions which have been referred to in previous paragraphs. From early in January until the middle of May there was a decline in earning assets from about 350 millions to 135 millions, which was the smallest amount of earning assets held by the bank since the year 1917. This decline was due to reductions in member bank discounts and advances and in holdings of bankers acceptances. From the middle of May until the end of the year there was a continuous rise in total earning assets, which were larger at the end than at the beginning of the year. Of the increase of about 220 millions between the middle of May and the end of December, about 100 millions may be accounted for by an increase in holdings of United States securities and the balance by increases in holdings of bankers acceptances and in discounts and advances.

The increase in bankers acceptances was in keeping with the experience of previous years. The amount of bankers acceptances in the market is generally larger in the latter part of the year because they are to a considerable extent the outgrowth of exports of cotton, grain, and other agricultural products, which are heaviest in the autumn. Since this is the time of year when the need for funds for other purposes is usually most pressing, not all of the acceptances created can be readily absorbed by the market and the Reserve Banks are usually called upon to carry a considerable volume of them. This is particularly true when the period is one of rising money rates, as in the autumn of 1924. Access of member banks and dealers to the Reserve Banks in this form frequently takes the place of and makes unnecessary borrowing which would otherwise occur in the form of rediscounts to meet the autumn demand for funds.



Earning assets of the Federal Reserve Bank of New York declined in the early months of 1924 but increased from May to December.

Reserve Bank Policy

The credit policy of the Reserve Bank throughout the year was expressed in its discount rate, in its buying rate for bankers acceptances, and in its purchases and sales of Government securities, the two latter coming within the field of open market operations.

The Federal Reserve Act provides that the discount rates of the Federal Reserve Banks shall be fixed

> "with a view of accommodating commerce and business."

In the open market operations of the Federal Reserve System experience has shown the desirability of coordination between the 12 Reserve Banks in both transactions and policy. Coordination has been effected by the joint execution, through a committee of governors of several of the Reserve Banks, of such open market operations as may be approved from time to time by the boards of directors of those Reserve Banks which participate and by the Federal Reserve Board. The general principle under which open market operations are now carried on is that laid down by the Federal Reserve Board in 1923, "that the time, manner, character, and volume of open market investments purchased by Federal Reserve Banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales upon the general credit situation."

The adoption of this principle for open market operations has placed the credit policy of the Reserve Banks, whether expressed through discount rates, buying rates for bankers acceptances, or purchases and sales of Government or other securities, on a uniform basis. Consequently, all of the methods through which Federal Reserve funds come into use are governed by the same object, i. e., the accommodation of commerce and business rather than such considerations as the earnings of the Reserve Banks.

OPEN MARKET OPERATIONS

The Federal Reserve Bank of New York, in common with the other Reserve Banks, and with the approval of the Federal Reserve Board, began in December 1923 to increase gradually its holdings of short term Government securities and continued such purchases over a period of about nine months, until September 1924. The New York Reserve Bank increased its holdings by $190,000,000 and total holdings of all Reserve Banks were increased by about $500,000,000. Through the purchase of these Government securities the Reserve Banks acquired a portfolio of short term investments directly under their control, by means of which at any time their contact with the money market might be made active and effective.

During the first part of 1924 when most of these securities were being purchased, business was showing a tendency to recede and prices to fall, while some industrial districts were in a state of depression. The number of workers employed in factories was decreasing. Unfavorable agricultural conditions in the northwest and southwest were being reflected in a series of bank failures. The foreign exchanges had fallen heavily and large transfers of funds were being made to the United States. Gold imports were continuing at the rate of more than $1,000,000 a day.

The first effect of the security purchases by the Reserve Banks was to lessen the indebtedness of member banks at the Reserve Banks. When a Reserve Bank buys securities it pays the bank or dealer from whom the purchase is made with a Federal Reserve check. This check, deposited with a member bank and by it redeposited with the Reserve Bank, increases the member bank's reserve. If the member bank is in debt at the Federal Reserve Bank the increase in its reserve is usually applied to reducing its indebtedness. The usual effect of open market purchases by the Federal

Reserve Banks is a prompt decline in the amount of direct loans to member banks. If the member bank receiving the Federal Reserve check is not borrowing at the Reserve Bank it endeavors to lend or invest the funds, and in one way or another they eventually reach some bank which is borrowing. As their indebtedness at the Reserve Bank is diminished, banks find themselves in a position to extend credit more freely and money rates tend to become easier. Just as the purchase of securities usually operates to relieve member banks from their indebtedness at the Reserve Banks, so, on the other hand, the sale of securities tends to increase the indebtedness of member banks at the Reserve Banks and thus to bring them under the influence of the discount rate, thereby increasing the effectiveness of that rate.

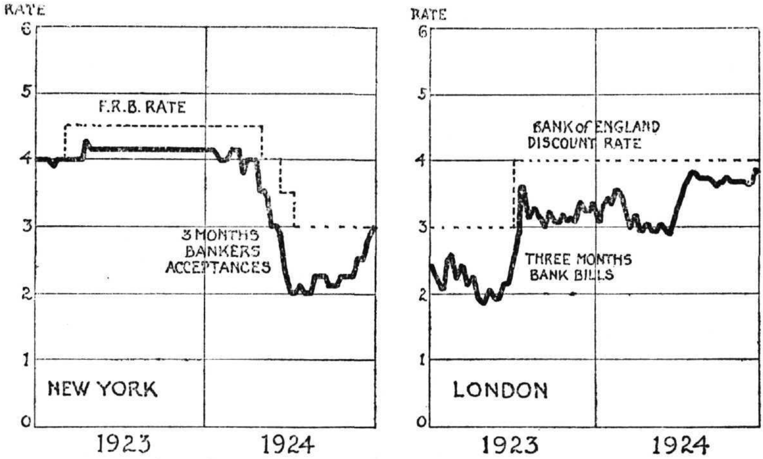
The decline in rediscount and acceptance holdings of the Reserve Banks during the first half of 1924 was accentuated in the New York district because the first effect of gold imports is felt in New York and because a substantial proportion of all purchases of securities was made in the New York market as the principal market for such securities. The result of these purchases was to accelerate the easing of money which gold imports and the flow of funds from the interior were bringing about in the New York market.

DECLINE IN RATES IN SPRING AND SUMMER

In the late spring money market rates on bankers acceptances, short Government securities, and call loans, which had been above 4 per cent. for over a year, declined below 4 per cent. On May 1 the Federal Reserve Bank of New York reduced its discount rate, which for over a year had stood at 4½ per cent., to 4 per cent.

By early June the New York City member banks had almost completely repaid their indebtedness to the Reserve Bank, money market rates had fallen to about 3 per cent., and the Federal Reserve Bank of New York reduced its rate on June 12 to 3½ per cent. Thereafter gold imports and other additional funds which New York City banks received were used largely as a basis for increases in their loans and investments and deposits. Rates in the money market fell to around 2 per cent., and the Federal Reserve Bank of New York on August 8 reduced its discount rate to 3 per cent. Accompanying these reductions in discount rates, reductions were also made in the buying rate for bankers acceptances in conformity with the course of the market. The other Reserve Banks during the summer or early autumn also reduced their discount rates by either ½ per cent. or 1 per cent. to 4 per cent. or 3½ per cent.

The last change in the discount rate of the New York Reserve Bank brought it 1 per cent. below the Bank of England rate, while the market rate in New York was more than 1 per cent. lower than in London, thereby reversing the situation which had existed at the beginning of the year.



During 1924 the relative position of money rates in New York and London was reversed.

Lower money rates in New York than in London facilitated the placing of foreign loans in the United States instead of in London, tended to slacken the inflow of gold, and coupled with improving conditions and prospects in Europe, tended to draw back to Europe some of the funds which had been sent here from Europe during the preceding year or more.

CHANGED CONDITIONS IN AUTUMN

In September more active business conditions, and particularly an increasing volume of bankers acceptances created to finance large exports of agricultural products at rising prices, were reflected in firmer money conditions and the use of additional Federal Reserve funds. These funds were made available partly by increased rediscounting and partly by the usual seasonal increase in the amount of bankers acceptances offered to the Reserve Banks.

As the autumn progressed, with business improving and activity in the security markets increasing, rates in the money market advanced and the buying rate of the Reserve Bank for bankers acceptances was adjusted to market changes by an increase, in several steps, from $2\frac{1}{4}$ per cent. to 3 per cent. The discount rate was maintained at 3 per cent. No appreciable increases in holdings of Government securities were made after September, and in December such holdings were somewhat reduced.

At the close of 1924 economic conditions at home and abroad presented an outlook wholly different from that which prevailed at the beginning of the year. Business activity was increasing rather than decreasing. In our agricultural districts conditions were greatly improved. The change in conditions abroad was even more marked. Sweden had resumed gold payments and the German and Hungarian exchanges had become stabilized. The Swiss and Dutch exchanges had risen to their gold parity, and the British pound had risen during the year from $4.21 to $4.73, thereby greatly improving the prospect for a return to the gold basis in those countries. The inflow of gold into the United States had ceased, temporarily at least, and in December there was a net outflow of $29,000,000.

Many causes together brought about this great improvement in economic conditions and outlook in both the United States and Europe. The causes operative in this country include the readjustment in industry which had taken place earlier in the year and higher prices of farm products due mainly to a short crop of cereals abroad. Abroad, they include the inauguration of the Dawes plan and other plans for European financial rehabilitation and a gradual increase in world production and trade. Easier money conditions in this country facilitated the favorable operation of most of these factors. They were a fundamental influence in the placing of about $1,250,000,000 of foreign loans in the United States during 1924, which greatly facilitated increased exports of agricultural and other products, and assisted in the recovery of several of the foreign exchanges. Ease in money also gave to many domestic borrowers for the first time in many years a market favorable to the funding of an immense amount of short borrowings.

Periodic Money Movements Reflected in Reserve Bank Loans

In addition to the unusual changes in credit conditions and in the volume or kind of Reserve Bank loans which have been discussed in preceding paragraphs, the past year gave interesting illustration of what may be recognized as normal and usual movements of funds in the New York money market and their relation to Reserve Bank operations. Four distinct movements of this type may be recognized:

(1) A weekly adjustment of member bank reserves
(2) A monthly money movement
(3) A quarterly money movement at tax periods
(4) A seasonal money movement

A brief statement concerning these movements and their effect on the loans of the Federal Reserve Bank may be of interest.

WEEKLY ADJUSTMENT OF MEMBER BANK RESERVES

New York City banks which are members of the Federal Reserve System are required by law to maintain reserves at the Reserve Bank equal to 13 per cent. of their net demand deposits and 3 per cent. of their time deposits. On Friday of each week the average daily reserves which have been maintained for the week at the Federal Reserve Bank are compared with the reserves required and penalties are assessed for any deficiencies in reserves. The fact that this computation is made for the week ending on Friday, frequently leads member banks in New York City to make adjustments in their reserve positions in the last day or two of the period, namely on Thursday or Friday.

If a bank has been running below its required reserve in the early days of the period, it usually calls loans or borrows sufficient amounts at the Reserve Bank in the last few days to restore its required average. If it has been running over in the early days of the period, it frequently lends large amounts to the market in the last few days to employ funds not needed to maintain the required average. These adjustments on Thursday or Friday frequently influence money conditions and show themselves in either tightness or ease of money toward the latter part of the week. Since the operation works both ways and with no regularity, it cannot be traced clearly in the statistics but it nevertheless accounts for some of the temporary changes which occur in money rates and in the earning assets of the Reserve Bank.

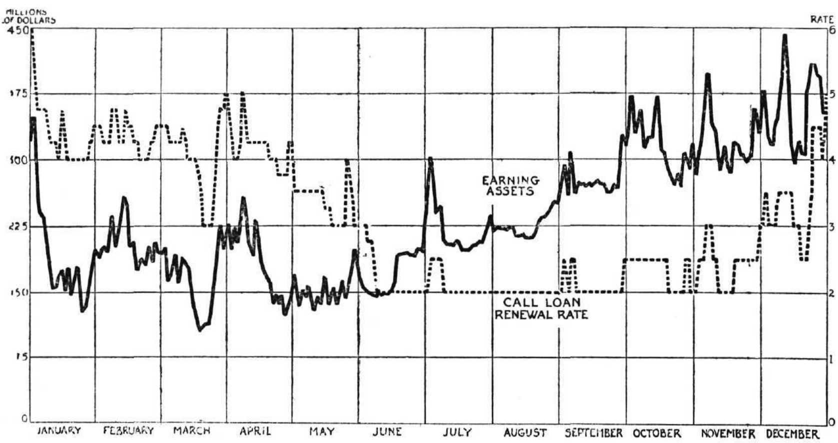
In the past few years there has developed an informal market for Federal Reserve funds, through which a bank having an excess reserve balance may sell its excess to a bank whose reserves are deficient. New York City banks make frequent use of this market in thus adjusting their reserves among themselves. Any shortage or surplus of reserves in the city banks as a whole, however, cannot be adjusted in this way but is reflected in the money market and in the volume of Reserve Bank loans.

MONTHLY MONEY MOVEMENT

The accompanying diagram shows the total earning assets of the Federal Reserve Bank of New York by days during 1924. It will be seen that they are generally somewhat higher during the first week of the month than at the middle or end of the month. This swing in earning assets is the result of a tendency for funds to be transferred away from New York in the early part of the month and to be transferred toward New York in the middle or latter part of the month. A probable and partial explanation of this movement is that a great many business concerns of national scope distribute large sums throughout the country in the form of dividend checks on New York banks on the first of each month, and when these checks return for payment the funds they represent are transferred from New York to the interior. Also, the large amounts of merchandise, farm products, and other goods which New York merchants and others purchase from various parts of the country for export, consumption, or other purposes are usually paid for in the first ten days of the month. Later in the month there appears to be a compensating return flow of funds to New York for investment or other purposes.

While the amounts involved in these transfers, perhaps $30,000,000 to $50,000,000, are small in relation to the immense amount of funds invested in the New York money market, they nevertheless have an influence on the money market. This is indicated not only by a rise or fall in the earning assets of the Reserve Bank, but also by a pronounced tendency for call money rates to rise in the early part of the month and fall in the latter part; this tendency is particularly noticeable when a gradual change in the rate level is taking place, as, for example, from August to December 1924.

These fluctuations in call money rates and in the use of Reserve Bank credit show clearly the delicate balance between supply and demand in the New York money market. The market reflects with precision the slightest change in money conditions and simultaneously the loans of the Reserve Bank show corresponding fluctuations.



Daily changes in money conditions in the New York market during 1924 were reflected in the earning assets of the Federal Reserve Bank of New York.

QUARTERLY MONEY MOVEMENT AT FEDERAL TAX PERIODS

At each tax date the Treasury receives income tax payments, redeems maturing obligations, pays interest on a considerable part of the bonds and notes outstanding, and often issues new certificates, notes, or bonds. Largely because of their number, it takes several days to complete the collection of all income tax checks. The disbursements of the Treasury on tax day are therefore usually in excess of its balances, causing it to secure funds temporarily from the Reserve Bank on a special certificate of indebtedness to meet its disbursements. Thus large amounts of Reserve Bank funds are temporarily placed on the market and money conditions tend to become temporarily easier. From day to day, as income tax checks are collected, the funds they represent are withdrawn from the market, the Treasury reduces and finally retires the special certificate of indebtedness, and money tends to become firmer again.

While a transaction of this character takes place at most, if not all, of the Federal Reserve Banks on each tax date, it is in New York that the Treasury disbursements are largest and the effect on money market conditions is most noticeable. This is largely due to the fact that amounts paid to the market to redeem Treasury certificates are larger than income tax receipts because many short Government securities originally purchased in other districts tend to gravitate towards the central money market and because New York, being a center for the investment of large amounts of out-of-town funds, buys more securities than it pays in taxes.

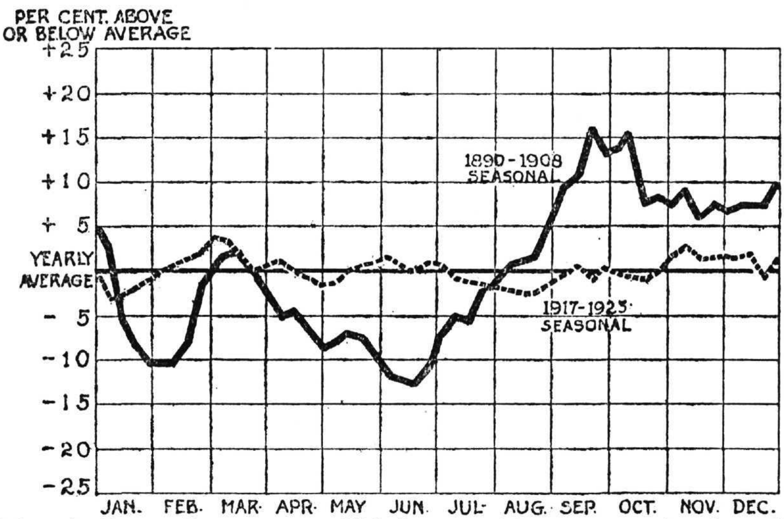
While there are certain features common to every tax period money market movement, there are also marked differences between these periods, due to differences in the amounts of securities to be redeemed by the Treasury, in the condition of the money market and in the loan position of the Reserve Bank. The differences in effect are illustrated by differences in the course of the renewal rate for call loans over the four tax periods of 1924. The loan rate declined markedly at the March tax period, less in December, and not at all in June and September. These facts are shown in the diagram on page 18.

There was one marked difference between tax day operations of most previous years and those of 1924. In most previous years New York City member banks have been in debt at the Federal Reserve Bank and they have used the temporary excess of funds to reduce this indebtedness. Surplus funds were thus absorbed in the repayment of discounts. But since the spring of 1924 member banks in New York City have been more generally out of debt at the Reserve Bank, and having little or no indebtedness to repay with the temporary surplus of funds their tendency was to seek employment for these funds in the money market, thereby creating easier money conditions.

SEASONAL MONEY MOVEMENT

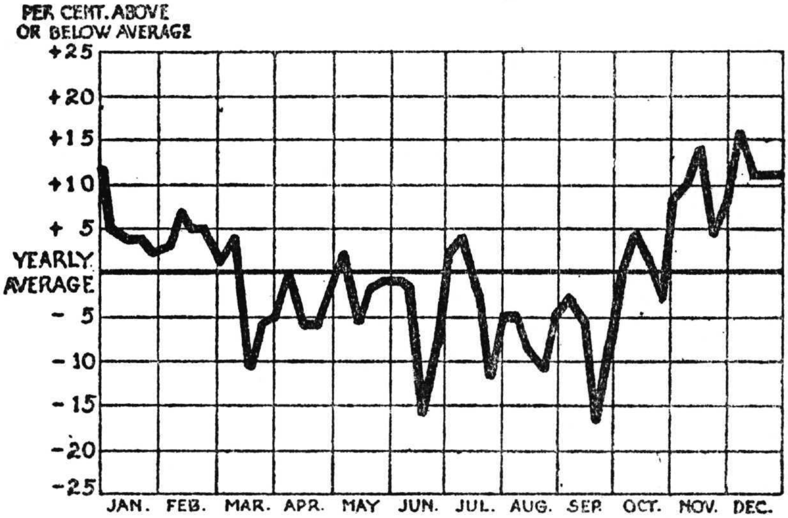
A quite regular seasonal fluctuation in the demand for money is a phenomenon familiar to all bankers in the United States. In the early part of the year money tends to be in small demand; in the early spring demand increases, with the planting of crops and spring trade; towards summer it falls off; in the autumn it again increases with harvesting and autumn trade and continues large throughout the holiday period with its heavy currency requirements.

Before the Reserve System was established this normal seasonal fluctuation in the demand for funds usually resulted in a corresponding seasonal fluctuation in interest rates. The adjustment in the money market between supply and demand could only be made by changes in the rates for money and by the use of credit from foreign money markets. But in the last ten years the market has been able to utilize the Federal Reserve reservoir of credit at those times of the year when the supply of funds in the money market was not adequate to seasonal requirements. Consequently, the seasonal fluctuation of interest rates has been much less marked, as will be seen in the following diagram.



Before the Reserve System was established commercial paper rates showed a wide seasonal swing, from 12 per cent. below the annual average to 15 per cent. above. Since the System was established the seasonal variation has been negligible.

The seasonal changes in the credit requirements of business and agriculture are reflected in the New York money market and in the earning assets of the Reserve Bank. When business or agricultural activity is slack, surplus funds move to New York for temporary employment and member banks reduce their loans at the Reserve Banks. When business and agricultural activity recalls funds to the interior money is withdrawn from New York and more Reserve Bank credit is called into use. This is illustrated in the accompanying diagram, showing the average annual movement of the earning assets of the Federal Reserve Bank of New York for the past nine years.



Additional credit required for the seasonal needs of business is now obtained through the Reserve Banks and there is no periodic money stringency. The chart shows the average seasonal fluctuation of the earning assets of the Federal Reserve Bank of New York.

While the present seasonal movement of earning assets of the Reserve Bank is not precisely similar to the old seasonal swing of interest rates, the two movements (shown by the heavy lines in the two diagrams) are sufficiently similar to indicate that seasonal expansion in Federal Reserve loans now takes the place of a seasonal rise in interest rates. The seasonal needs of business and agriculture for credit are met by additional use of Reserve Bank credit and hence no longer result in any considerable seasonal increases in the interest rate.

Reports of Operation

As complete statistics of the operations of each Reserve Bank are published in the annual report of the Federal Reserve Board, detailed figures of the operations of this bank are omitted this year. The following pages, however, set forth the statement of condition of the Federal Reserve Bank of New York at the beginning and end of 1924, its income and disbursements during the year, and comment briefly on its operations.

STATEMENT OF CONDITION

The following table presents a brief summary of the resources and liabilities of the bank on December 31 of the past two years.

Resources	Dec. 31, 1923	Dec. 31, 1924
Cash Reserves held by this bank against its deposits and note circulation:		
Gold held by the Federal Reserve Agent as part of the collateral deposited by the bank when it obtains Federal Reserve notes. This gold is lodged partly in the vaults of the bank and partly with the Treasurer of the United States	$583,625,240.61	$384,306,965.61
Gold redemption fund in the hands of the Treasurer of the United States to be used to redeem such Federal Reserve notes as are presented to the Treasury for redemption	9,441,006.21	11,557,070.44
Gold and gold certificates in vault	168,615,033.36	277,262,589.82
Gold in the gold settlement fund lodged with the Treasurer of the United States for the purpose of settling current transactions between Federal Reserve districts	109,813,734.55	286,475,438.52
Legal tender notes, silver, and silver certificates in the vaults of the bank (available as reserve only against deposits)	24,437,091.00	21,867,394.00
Total cash reserves	$895,932,105.73	$981,469,458.39
Non-reserve Cash, National Bank notes, Federal Reserve Bank notes, and minor coin	$11,845,810.23	$18,517,186.90
Loans and Investments:		
Loans to member banks:		
On the security of obligations of the United States	$136,174,500.00	$68,744,642.50
By the discount of commercial or agricultural paper or acceptances	28,360,300.73	12,577,441.02
Acceptances bought in the open market	93,151,232.70	101,823,154.40
United States Government bonds, notes, and certificates of indebtedness	46,755,950.00	169,898,350.00
Foreign loans on gold	....	1,746,000.00
Total loans and investments (or earning assets)	$304,441,983.43	$354,789,587.92
Miscellaneous Resources:		
Bank premises	$14,671,614.78	$16,242,897.76
Checks and other items in process of collection	115,064,470.49	156,377,299.73
All other miscellaneous resources	1,067,449.28	8,656,803.63
Total miscellaneous resources	$130,803,534.55	$181,277,001.12
Total resources	$1,343,023,433.94	$1,536,053,234.33

Liabilities	Dec. 31, 1923	Dec. 31, 1924
Currency in Circulation:		
Federal Reserve notes in actual circulation, payable on demand. These notes are secured in full by gold and discounted and purchased paper	$420,371,240.00	$387,352,885.00
Total currency in circulation	$420,371,240.00	$387,352,885.00
Deposits:		
Reserve deposits maintained by member banks as legal reserves against the deposits of their customers	$712,857,792.81	$883,861,349.67
United States Government deposits carried at the Reserve Bank for current requirements of the Treasury	9,562,383.00	16,904,418.11
Other deposits including foreign deposits, deposits of non-member banks, etc	12,405,744.27	28,194,141.08
Total deposits	$734,825,920.08	$928,959,908.86
Miscellaneous Liabilities:		
Deferred items, composed mostly of uncollected checks on banks in all parts of the country. Such items are credited as deposits after the average time needed to collect them elapses, ranging from 1 to 8 days	$95,341,849.44	$129,054,958.09
All other miscellaneous liabilities	*3,116,157.21	1,769,392.67
Total miscellaneous liabilities	$98,458,006.65	$130,824,350.76
Capital and Surplus:		
Capital paid in, equal to 3 per cent. of the capital and surplus of member banks	$29,439,300.00	$30,166,800.00
Surplus—that portion of accumulated net earnings which the bank is legally permitted to retain	59,928,967.21	58,749,289.71
Total capital and surplus	$89,368,267.21	$88,916,089.71
Total liabilities	$1,343,023,433.94	$1,536,053,234.33

*Includes depreciation reserve of $1,373,552.31.

The principal changes which will be noted in comparing the statements for the two years are:

1. A decrease of $83,000,000 in the amount of loans made directly to member banks.
2. An increase of $123,000,000 in holdings of United States securities.
3. An increase of approximately $170,000,000 in the reserve deposits of member banks.

Aside from these changes the statement of condition has not changed greatly during the year.

INCOME AND DISBURSEMENTS

The following table shows the income and disbursements of the Federal Reserve Bank of New York for the years 1923 and 1924.

EARNINGS	1923	1924
From loans to member banks and paper discounted for them	$8,255,645.84	$2,613,565.96
From acceptances owned	1,969,837.16	1,446,693.25
From United States Government obligations owned	1,087,250.95	4,165,856.35
Other earnings	100,448.81	343,234.80
Total earnings	$11,413,182.76	$8,569,350.36
DEDUCTIONS FROM EARNINGS		
For current bank operation. These figures include most of the expenses incurred as fiscal agent of the United States	$6,458,906.87	$6,155,270.43
For Federal Reserve currency, mainly the cost of printing new notes to replace worn notes in circulation, and to maintain supplies unissued and on hand	421,229.30	195,550.43
For depreciation, self-insurance, and other reserves, etc	1,489,367.49	1,601,677.18
Total deductions from earnings	$8,369,503.66	$7,952,498.04
Net income available for dividends, additions to surplus, and franchise tax to the United States Government	$3,043,679.10	$616,852.32
DISTRIBUTION OF NET INCOME		
In dividends paid to member banks, at the rate of 6 per cent. on paid-in capital	$1,749,239.47	$1,796,529.82
In additions to surplus—The bank is permitted by law to accumulate out of net earnings, after payment of dividends, a surplus amounting to 100 per cent. of the subscribed capital; and after such surplus has been accumulated to pay into surplus each year 10 per cent. of the net income remaining after paying dividends	129,443.96	....
In payment to the United States Government, representing the entire net income of the bank after paying dividends and making additions to surplus. (Federal Reserve notes are not taxed, and this payment is in lieu of taxes on notes and other Federal taxes.)	1,164,995.67	....
Deficit of net income after dividend payments, which has been charged to surplus account	....	*1,179,677.50*
Total net income distributed	$3,043,679.10	$616,852.32

The earnings in 1924 were about $3,000,000 less than in 1923, due to a smaller average of earning assets held during the year and to the lower level of interest rates. Notwithstanding some increase in expense due to moving into the new building and a larger volume of transactions in most departments, current expenses were $300,000 less than in 1923. As the expenses and deductions from earnings practically exhausted the gross earnings of the year, it was necessary to draw on surplus to pay member banks the 6 per cent. dividends provided for in the Federal Reserve Act.

VOLUME OF OPERATIONS

The mechanical transactions of the Federal Reserve Bank of New York have generally continued to increase during the year, as is shown in the following table of the average daily transactions in some of its principal departments. In number of employees, building area occupied, and expense of operation, these mechanical transactions constitute a far larger part of the bank's activities than the granting of credit. They are necessary adjuncts to its credit operations because they enable member banks to build up and maintain the reserve balances which they are required to keep at the Reserve Bank.

DAILY AVERAGES

Number of Pieces Handled	1922	1923	1924
Bills discounted:			
Applications	47	58	41
Notes discounted	201	239	130
Bills purchased for own account	187	251	203
Currency received and counted	1,365,387	1,580,320	1,684,529
Coin received and counted	2,653,235	2,702,412	3,017,043
Telegraphic transfers of funds	783	939	942
Checks handled	392,679	425,151	447,914
Collection items handled:			
U. S. Government coupons paid	75,115	58,555	46,235
All other	5,766	7,208	7,990
U. S. securities—issues, redemptions, and exchanges by Fiscal Agency department	23,278	27,307	9,826
Amounts Handled			
Bills discounted	$30,484,648	$59,443,190	$23,127,772
Bills purchased for own account	2,885,539	3,899,494	3,553,236
Currency received and counted	8,644,693	9,954,580	10,450,748
Coin received and counted	253,921	415,583	375,926
Telegraphic transfers of funds	83,198,973	92,819,536	115,269,461
Checks handled	206,225,570	216,947,121	224,992,547
Collection items handled:			
U. S. Government coupons paid	1,114,133	1,117,032	1,093,319
All other	5,032,762	6,359,997	6,163,628
U. S. securities—issues, redemptions, and exchanges by Fiscal Agency department	21,356,373	10,426,723	11,587,125

RELATIONS WITH FOREIGN BANKS OF ISSUE

During 1924 the Federal Reserve Bank of New York, for itself and other Federal Reserve Banks, has continued to carry balances and purchase securities for foreign banks of issue with whom correspondent relationships have been established. Considerable amounts of gold have also, at times, been earmarked in the bank's vault for foreign account. Transactions abroad included the advance of funds against gold and the purchase of a small amount of sterling bills.

ELECTION OF DIRECTORS

In October and November an election was held for two directors to succeed Charles Smith in Class A, and Frank L. Stevens in Class B, both elected by Group 3 banks, that is, banks having a capital and surplus below $201,000. On December 5, 1924, the election was announced of Delmer Runkle of Hoosick Falls, N. Y., President, Peoples National Bank of Hoosick Falls, as Class A director, and Samuel W. Reyburn, of New York City, President, Associated Dry Goods Corporation and Lord & Taylor, as Class B director, each to serve for a term of three years from January 1, 1925. Of the 519 Group 3 banks 349 cast votes. The Federal Reserve Board has reappointed Clarence M. Woolley, of New York City, Chairman, American Radiator Company, as Class C director, for a term of three years, beginning January 1, 1925. It has also redesignated, for the year 1925, Pierre Jay, of New York City, as Chairman of the Board and Federal Reserve Agent, and W. L. Saunders as Deputy Chairman of the Board.

MEMBER OF ADVISORY COUNCIL

At a meeting of the board of directors held on January 2, 1924, Paul M. Warburg, of New York City, was reelected a member of the Federal Advisory Council from the Second Federal Reserve District for the year 1924.

OFFICERS AND STAFF

During 1924 the following members of the official staff resigned to accept other positions:

February 29—Joseph D. Higgins, Controller at Large
August 31—William A. Hamilton, Manager, Building Maintenance Department
September 30—Bethune M. Grant, Manager Government Bond Department
November 21—Shepard Morgan, Assistant Federal Reserve Agent
December 31—Henry H. Murray, Manager at Large

William H. Dillistin, Assistant Federal Reserve Agent and Manager of the Bank Examinations Department, tendered his resignation to be effective January 31, 1925.

On July 10 Ray M. Gidney was reappointed Controller at Large, after an absence from the bank for more than a year.

Readjustments in departmental organization have made it possible to carry forward the work of the bank with a net decrease of five officers.

The number of employees of the bank was reduced during the year from 2738 to 2653. The latter figure includes the number of additional employees required for the operation and maintenance of the new building.

NEW BUILDING

During the summer and autumn the bank moved into its new building, which has been described in some detail in the annual reports of preceding years.

Several months of operation in the building have shown that it is admirably adapted to the business of a Reserve Bank and that it realizes the main objects for which it was erected. These were (1) adequate facilities for the service of the member banks, the Treasury, and the public, (2) safety of cash and securities, (3) economy of operation, and (4) healthful working conditions for its staff. Not only the vaults themselves, but the arrangements for protecting the cash and securities of the bank during the day's operations appear to be adequate. The layout of the working floors greatly facilitates effective supervision and economical operation. Absence of overcrowding, excellent light and ventilation, and well organized cafeteria and medical service, all conduce greatly to the health and comfort of the staff. Generally speaking, the arrangement of the new building is proving convenient to those who have occasion to use it and is expediting the conduct of the great variety and volume of transactions the bank is called upon to perform for the member banks, the Treasury, and the public.

DIRECTORS AND OFFICERS

DIRECTORS

Class	Group		Term Expires Dec. 31
A	1	GATES W. McGARRAH, New York City . . . . Chairman, The Mechanics and Metals National Bank	1925
A	2	ROBERT H. TREMAN, Ithaca, N. Y. . . . . President, The Tompkins County National Bank	1926
A	3	DELMER RUNKLE, Hoosick Falls, N. Y. . . . . President, Peoples National Bank	1927
B	1	OWEN D. YOUNG, New York City . . . . Chairman, General Electric Company	1925
B	2	THEODORE F. WHITMARSH, New York City . . . . President, Francis H. Leggett & Company	1926
B	3	SAMUEL W. REYBURN, New York City . . . . President, Associated Dry Goods Corporation and Lord & Taylor	1927
C		PIERRE JAY, New York City, *Chairman*	1925
C		W. L. SAUNDERS, Plainfield, N. J., *Deputy Chairman* . . . . Chairman, Ingersoll-Rand Company	1926
C		CLARENCE M. WOOLLEY, New York City . . . . Chairman, American Radiator Company	1927

MEMBER OF FEDERAL ADVISORY COUNCIL

PAUL M. WARBURG, New York City

OFFICERS

General Officers

BENJ. STRONG, *Governor*

J. HERBERT CASE, *Deputy Governor*

GEORGE L. HARRISON, *Deputy Governor*

LOUIS F. SAILER, *Deputy Governor*

EDWIN R. KENZEL, *Deputy Governor*

DUDLEY H. BARROWS, *Secretary*

JAY E. CRANE, *Assistant Secretary*

L. RANDOLPH MASON, *General Counsel*

JESSE HOLLADAY PHILBIN, *Assistant General Counsel*

Senior Officers

GILBERT E. CHAPIN,
Controller of Loans

RAY M. GIDNEY,
Controller at Large

ARTHUR W. GILBART,
Controller of Cash and
Controller of Collections

LAURENCE H. HENDRICKS,
Controller of Fiscal Agency Function

J. WILSON JONES,
Controller of Administration

LESLIE R. ROUNDS,
Controller of Accounts

DIRECTORS AND OFFICERS—Continued

Junior Officers

CHARLES H. COE,
Manager, Collection Department

JAY E. CRANE,
Manager, Foreign Department

EDWIN C. FRENCH,
Manager, Cash Department

HOWARD M. JEFFERSON,
Manager, Personnel Department

ALAN K. LAUCKNER,
Manager, Methods and Supplies Department

ADOLPH J. LINS,
Manager, Check Department

WALTER B. MATTESON,
Manager, Securities Department

JOSEPH L. MORRIS,
Manager, Credit and Discount Department

ROBERT M. O'HARA,
Manager, Bill Department

JAMES M. RICE,
Manager, Accounting Department

STEPHEN S. VANSANT,
Manager, Safekeeping Department

I. WARD WATERS,
Manager, Administration Department

EDWARD L. DODGE, *General Auditor*

FEDERAL RESERVE AGENT

PIERRE JAY, *Federal Reserve Agent*

W. RANDOLPH BURGESS,
Assistant Federal Reserve Agent

CARL SNYDER
General Statistician

GEORGE B. ROBERTS, *Manager, Reports Department*

BUFFALO BRANCH

DIRECTORS

	Term Expires Dec. 31
ARTHUR HOUGH, Batavia, N. Y. — President, Wiard Plow Company	1927
WOLCOTT J. HUMPHREY, Warsaw — President, Wyoming County National Bank	1926
JOHN A. KLOEPFER, Buffalo — President, Liberty Bank of Buffalo	1925
ELLIOTT C. MCDOUGAL, Buffalo — President, Marine Trust Company	1927
HARRY T. RAMSDELL, Buffalo — President, Manufacturers and Traders National Bank	1925
CARLTON M. SMITH, Buffalo — President, Smith, Fassett & Company	1926
WALTER W. SCHNECKENBURGER, *Managing Director*	1925

OFFICERS

WALTER W. SCHNECKENBURGER,
Managing Director

HALSEY W. SNOW, JR.,
Cashier

CLIFFORD L. BLAKESLEE,
Assistant Cashier

ELMER L. THEOBALD,
Assistant Cashier