SECOND ANNUAL REPORT

OF THE

FEDERAL RESERVE BANK OF PHILADELPHIA

FOR THE YEAR ENDED DECEMBER 31, 1916

WASHINGTON
GOVERNMENT PRINTING OFFICE
1917

J. Frank Rehfuss

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SECOND ANNUAL REPORT OF THE FEDERAL RESERVE BANK OF PHILADELPHIA.

R. L. Austin, Chairman and Federal Reserve Agent.

I. General Business and Financial Conditions in the District.

The year has been remarkable for the unusual business conditions that existed. The improvement in all kinds of business, which was first manifested in the summer of 1915, has continued in increasing degree all through the year 1916, offering opportunity for employment much in excess of the supply of wage earners; taxing the capacity of industrial plants to their limits; stimulating the enlargement and erection of additional manufactories; and greatly raising the wages of most classes of labor. Prices of all kinds of merchandise were much advanced; production and consumption of goods were largely increased; and the volume of business, as reflected by the reports from all sources, was far in excess of that ever before transacted in any twelve months.

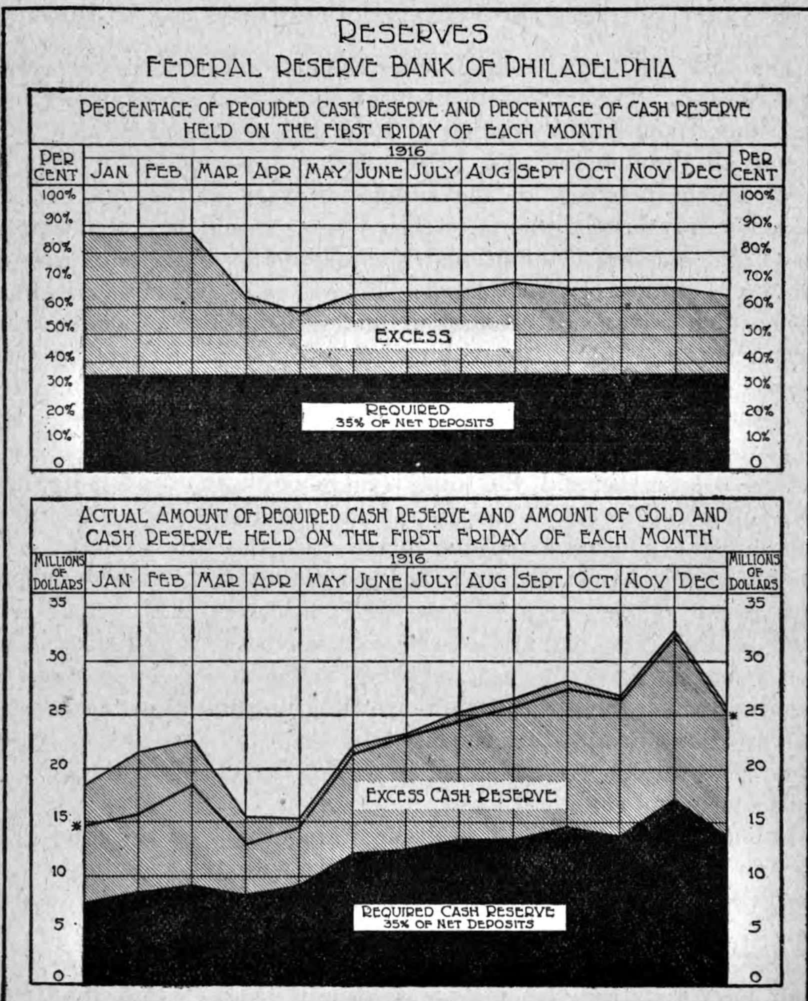
At the beginning of the year the banks of the district were carrying excessive reserves and the rates for money were unusually low. Deposits of all banks in the district increased largely, but notwithstanding the unusual expansion in business, the strong condition of the banks was maintained up to the last month of the year, by which time, however, the excess of reserves had been greatly reduced and their loaning rates had advanced ¾ to 1 per cent from the low rates at the beginning of the year. Owing to the easy condition of our member banks, there was little borrowing by them from the Federal Reserve Bank until within the last 60 days of the year, during which time, however, there was loaned to them $15,332,000 in the form of rediscounts and collateral loans.

This bank has been in a position during the year to perform all the functions expected of it in compliance with the requirements of the Federal Reserve Act and the regulations of the Federal Reserve Board.

The percentage of reserve carried by the Federal Reserve Bank each month during the year is shown in chart 1 and the table following.

Cash reserve.

Month.	Amount of cash reserve required.	Cash reserve carried.		Gold reserve carried.		Amount of excess cash reserve.
		Amount.	Percentage.	Amount.	Percentage.	
1916.						
January	$7,500,000	$18,600,000	87.2	$14,800,000	69.5	$11,100,000
February	8,700,000	21,700,000	87.1	15,800,000	63.4	13,000,000
March	9,100,000	22,800,000	87.3	18,600,000	71.4	13,700,000
April	8,500,000	15,600,000	63.9	13,100,000	53.8	7,100,000
May	9,200,000	15,400,000	58.6	14,400,000	55.0	6,200,000
June	12,100,000	22,200,000	64.5	21,700,000	62.9	10,200,000
July	12,500,000	23,300,000	65.2	23,200,000	64.8	10,800,000
August	13,400,000	25,300,000	65.8	24,700,000	64.5	11,900,000
September	13,400,000	26,600,000	69.3	25,900,000	67.3	13,200,000
October	14,700,000	28,200,000	66.9	27,600,000	65.6	13,500,000
November	13,900,000	26,900,000	67.6	26,500,000	66.6	13,000,000
December	17,000,000	32,800,000	67.4	32,500,000	66.8	15,800,000



*NOTE:- THE HEAVY BLACK LINE REPRESENTS THE AMOUNT OF GOLD HELD

CHART 1.

II. Results of Operation.

Comparative statement of condition of the Federal Reserve Bank of Philadelphia.

	Dec. 30, 1916.	Dec. 31, 1915.
RESOURCES.		
Collateral notes—members	$900,000.00	
Bills discounted—members	663,076.79	$168,274.06
Bills bought in open market	13,656,430.08	2,542,975.94
United States bonds and notes	2,825,000.00	1,993,750.00
Municipal warrants	465,112.22	1,484,147.13
Earning assets	18,509,619.09	6,189,147.13
Interest accrued on United States bonds	17,057.93	10,142.15
Cost of unissued Federal Reserve notes	27,708.01	43,172.04
Expenses paid in advance	2,445.83	1,684.23
Transit department expense	1,367.18	
Furniture and equipment—general		18,491.31
Furniture and equipment—transit department	15,409.87	
Organization expense		31,517.06
Due from Federal Reserve banks—net	5,382,501.30	3,025,971.02
Due from banks and bankers	609,389.97	
Exchanges for clearing house, cash items, etc	3,864,733.22	1,046,543.43
Due from member banks—overdrafts		33,959.73
Federal Reserve notes on hand	171,140.00	380,267.50
National and Federal Reserve notes of other banks	463,476.00	215,885.00
Nickels and cents	121.89	100.83
Mutilated currency forwarded for redemption	132,500.00	
Gold settlement fund	8,042,000.00	9,695,000.00
Gold redemption fund	100,000.00	
Gold coin and certificates	16,988,892.50	7,445,485.00
Other lawful money	466,154.30	3,358,145.30
Reserve	25,597,046.80	20,498,630.30
Total resources	54,794,517.09	31,495,511.73
LIABILITIES.		
Capital	5,228,100.00	5,269,600.00
Profit and loss	89,966.68	
Unearned discount and unearned interest	39,559.33	14,009.25
Government deposits	3,145,549.05	787,178.48
Due to member banks	44,965,072.26	25,424,376.56
Cashier's checks outstanding	26,015.72	107.63
Federal Reserve notes—net liability	1,300,000.00	
Miscellaneous liabilities	254.05	239.81
Total liabilities	54,794,517.09	31,495,511.73

The following statement shows the results of the operation of the bank for the year 1916:

Profit and loss statement of year's operation.

Earnings, 1916		$417,939.27
Expenses of operation of the bank proper, exclusive of transit department	$130,742.26	
Cost of Federal Reserve notes used	16,600.00	
Miscellaneous charges on account of note issues	1,002.79	
Depreciation in furniture and equipment	15,652.78	
Disbursements of transit department in excess of net service charge	4,000.00	
Total		167,997.83
Excess of earnings		249,941.44
Deduct organization expenses		31,517.06
Net earnings		218,424.38
Surplus, Jan. 1, 1916		
Total		218,424.38
Dividends paid Dec. 30, 1916, for period covered from Nov. 2, 1914, to June 30, 1915		128,457.70
Profit and loss credit balance, Jan. 1, 1917		89,966.68

As a result of the operations for the year, a dividend was declared on December 20 at the rate of 6 per cent per annum, for the period from November 2, 1914, to June 30, 1915, amounting to $128,457. After charging off all expenses of organization and paying the dividend, $89,966 remained in the profit and loss account.

The amount of earnings and current expenses, including the cost of issuing Federal Reserve notes, for each month of operation during the year 1916 is shown in chart 2 and the following table. It will be seen that earnings have increased rapidly while expenses during the year have been fairly stable. This table also shows the percentage of the net earnings to the capital stock.

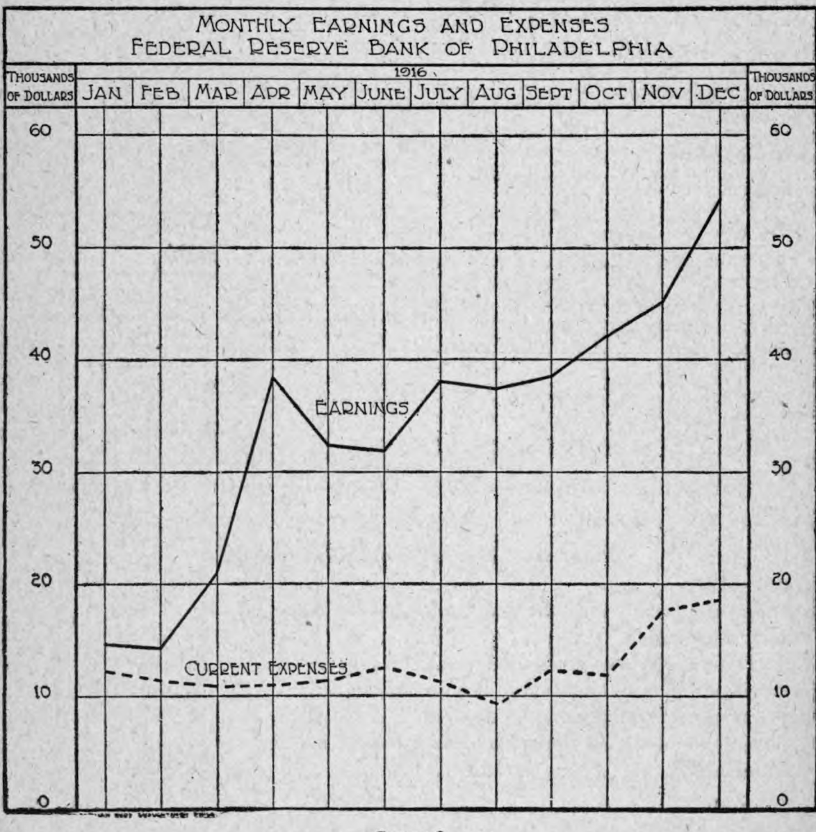


CHART 2.

Earnings and expenses.

Month.	Earnings.				Current expenses (including cost of Federal Reserve notes issued).	[1] Net earnings.	
	From investments.	From sale of United States securities.	Sundry profits	Total earnings.		Amount.	Percentage to paid-in capital stock.
1916.							
January	$14,512		$214	$14,726	$12,167	$2,559	0.6
February	14,113		17	14,130	11,210	2,920	.7
March	20,464		378	20,842	10,649	10,193	2.3
April	25,619		12,910	38,529	10,758	27,771	6.4
May	31,969		298	32,267	11,160	21,107	4.8
June	31,464		299	31,763	12,410	19,353	4.5
July	36,418		1,713	38,131	11,031	27,100	6.2
August	35,596		1,869	37,465	9,254	28,211	6.5
September	36,107	$1,995	299	38,401	12,303	26,098	6.0
October	40,531	1,300	324	42,155	11,817	30,338	7.0
November	37,362	7,590	343	45,295	17,592	27,703	6.4
December	52,743	285	1,473	54,501	18,653	35,848	7.9

[1] This item represents gross earnings less current expenses only, not including any deductions for depreciation on furniture and equipment or organization expenses.

The percentage of the net earnings to the capital stock for each month of the year is also shown in chart 3.

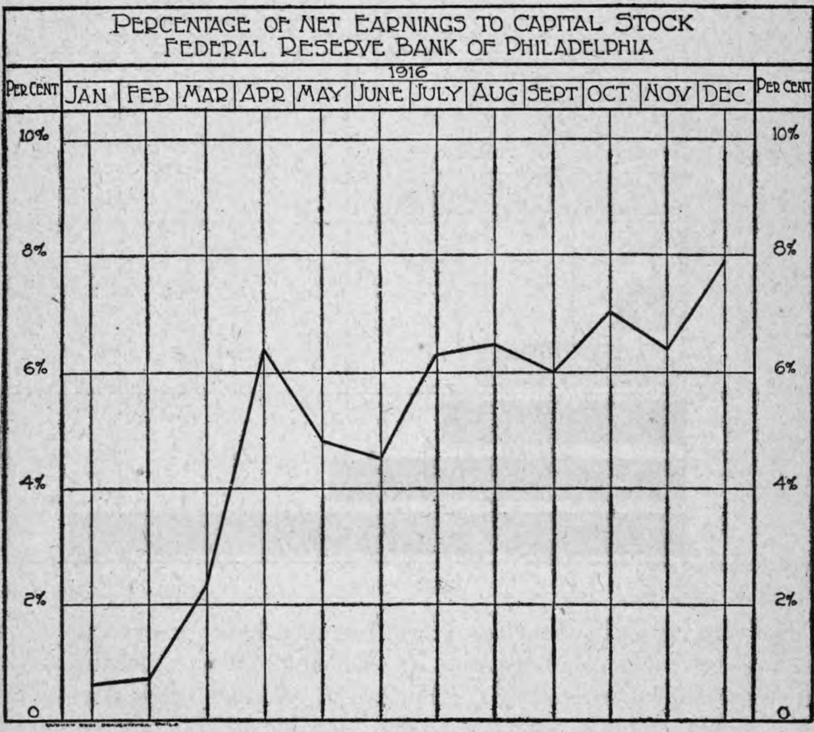


CHART 3.

Referring to the statement of condition, it indicates that the operations of all the departments of the Federal Reserve Bank increased largely during the year.

Member bank reserve deposits increased $19,541,000 through the operation of the Federal Reserve Act, which required payments to the Federal Reserve Bank during the year of two installments of reserves of member banks.

The balance to the credit of the United States Government shows a large gain since January 1, 1916, when the Reserve Bank became the fiscal agent of the Government.

Invested funds, including the items, bills discounted-members, collateral notes-members, bills bought in the open market, United States bonds, and municipal warrants, increased $12,320,000.

Reserve, including gold and lawful money in vault and the gold settlement fund balance in Washington, increased $5,098,000.

The growth in total resources, cash reserve, and earning assets of the Reserve Bank during the past two years is shown in the following chart:

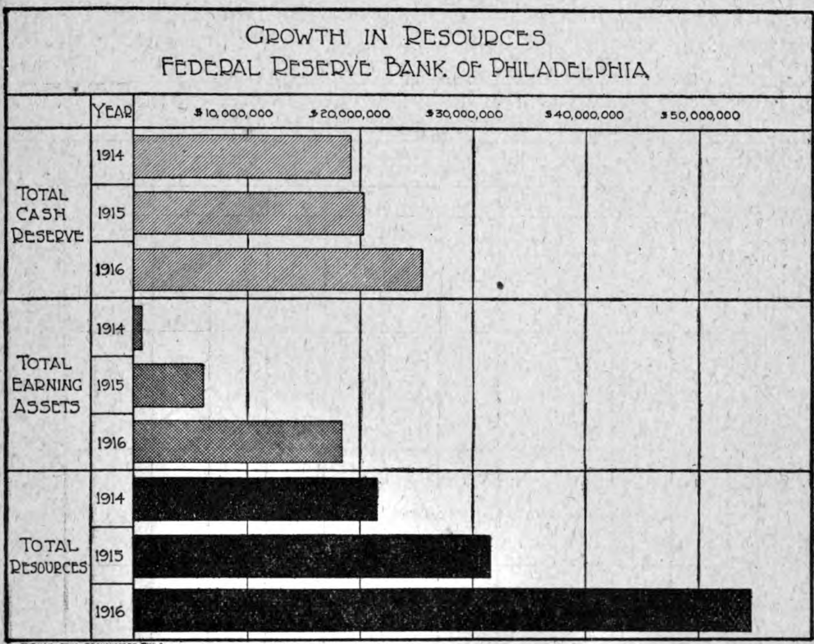


CHART 4.

The variations in total resources, member bank reserve deposits, cash reserve, and earning assets of the bank, by months during the year, are shown in chart 5. The rise in member bank deposits in May and November was due to the increase in the percentages of reserve to be carried in the Federal Reserve Bank as required by the Federal Reserve Act. Steady increase in this item is also due to the continuous growth throughout the year of the amounts of individual and bank deposits of member banks, thereby increasing the amount of reserve required to be kept with the Federal Reserve Bank.

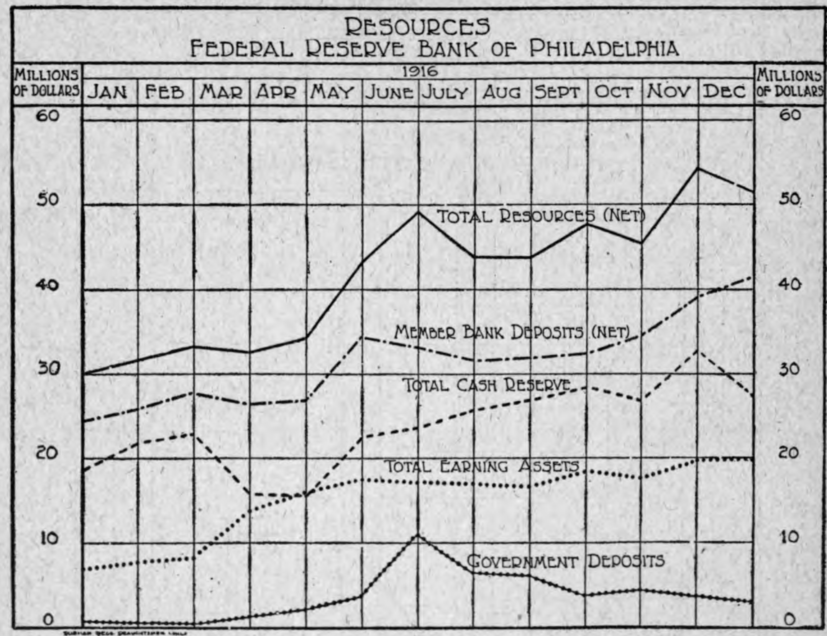


CHART 5.

III. INVESTMENTS OF THE BANK.

Considerable increase in the earning assets of the Federal Reserve Bank is noticeable by referring to chart 6 and the following table, which show the amount of the invested funds of the bank on the first of each month:

Total invested funds.

Month.	Total investment operations.	Average daily amount of invested funds.	Earnings. Average rate of return from all invested funds.	Earnings. Total earnings.
1916.				
January	$3,012,800	$7,722,182	2.21	$14,512
February	1,948,800	8,140,448	2.18	14,113
March	6,542,700	11,140,662	2.16	20,464
April	5,296,500	13,950,526	2.24	25,619
May	6,362,000	16,719,120	2.25	31,969
June	7,329,200	17,120,064	2.24	31,464
July	7,318,400	18,119,076	2.37	36,418
August	4,476,100	17,357,542	2.42	35,596
September	7,571,500	17,728,745	2.48	36,107
October	7,469,300	18,881,183	2.53	40,531
November	9,462,600	17,972,828	2.53	37,362
December	18,781,700	22,239,398	2.80	52,743
	85,771,600	15,590,981	2.42	376,898

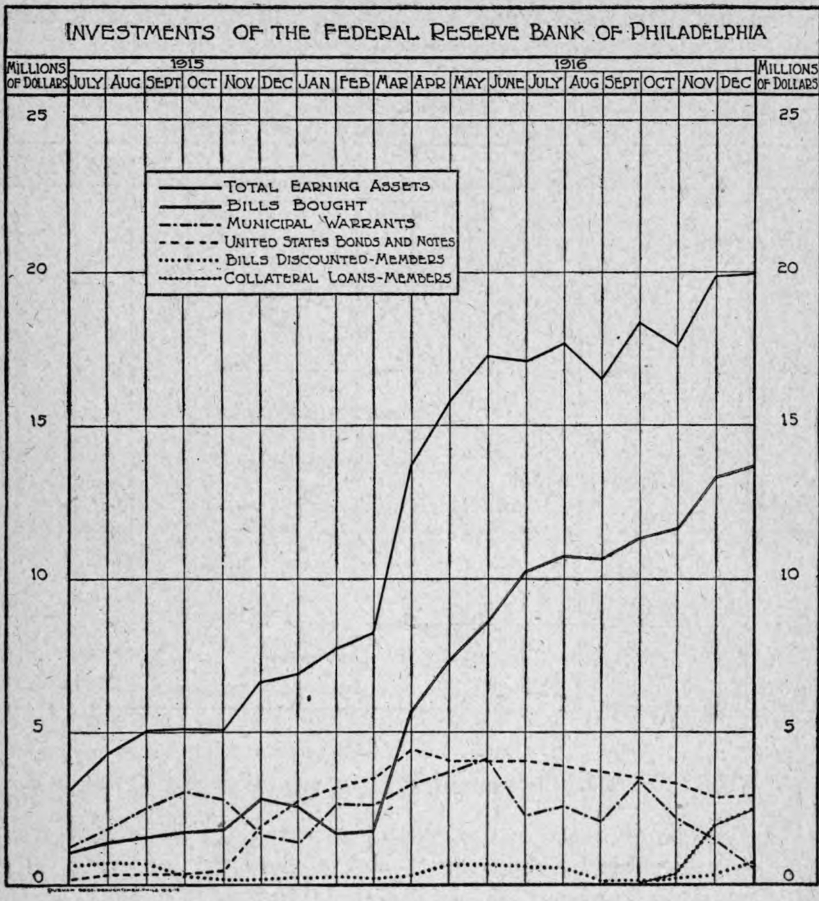


CHART 6.

Reference to chart 7 and the following table shows that the major portion of the earning assets of the Federal Reserve Bank have been, as a rule, paper of less than 60 days' maturity.

Maturities of invested funds (not including United States bonds or notes).

Month.	Maturities of amounts held on last Friday of month.					
	1 to 10 days.	11 to 30 days.	31 to 60 days.	61 to 90 days.	91 days to 6 months.	Total invested funds.
1916.						
January	$921,264	$835,274	$1,406,368	$340,284	$1,770,298	$5,273,488
February	767,035	849,429	509,576	269,356	2,336,735	4,732,131
March	709,942	1,679,007	1,563,729	4,573,314	322,767	8,848,759
April	642,838	2,047,223	5,519,986	2,446,459	301,090	10,957,596
May	1,873,387	4.896,803	3,726,931	2,167,563	961,886	13,626,570
June	1,588,427	2,872,628	3,570,247	3,357,641	1,315,597	12,704,540
July	2,280,562	2,640,270	4,471,783	3,441,849	1,531,671	14,366,135
August	1,742,325	2,932,987	3,848,354	3,739,104	546,085	12,808,855
September	2,420,344	2,918,411	4,604,153	3,878,941	73,013	13,894,862
October	3,364,895	2,615,853	6,454,234	3,559,581	58,974	16,053,537
November	2,670,292	5,111,535	5,903,828	2,304,225	82,593	16,072,473
December	5,076,416	4,666,472	4,176,413	3,121,287	88,029	17,128,617

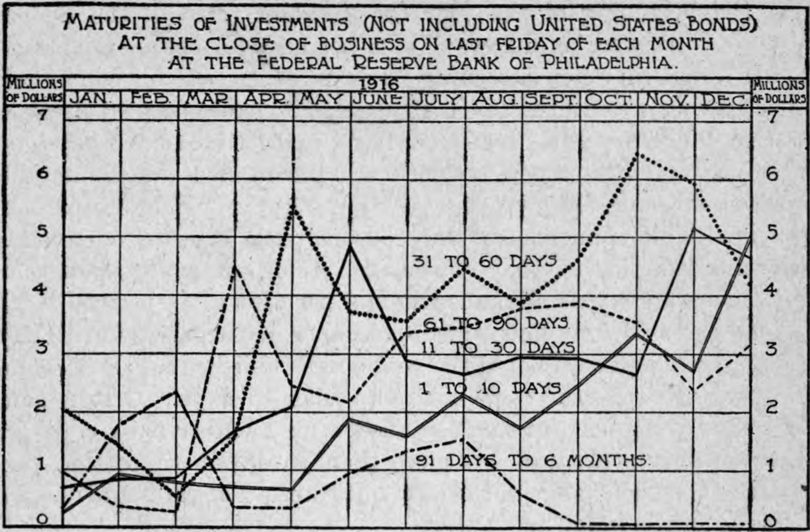


CHART 7.

BILLS DISCOUNTED—MEMBERS.

The rediscount operations for the year 1916 amounted to $8,684,332, as compared to $5,137,083 in 1915. Rediscounts were made for 45 member banks, of which 10 were in Philadelphia, 24 elsewhere in Pennsylvania, 10 in New Jersey, and 1 in Delaware. These were the result of 331 applications, covering 3,292 pieces of paper, averaging $2,638 per piece. The smallest note was for $1.33, while the largest was for $100,000. The minimum amount of rediscounted paper held by the Reserve Bank at any time during the year was $70,030, on October 17, while the maximum amount was $1,219,569, on July 19. A summary of the year's operations is given in the following table:

Bills discounted—Members (exclusive of member banks' collateral notes).

Month.	Banks rediscounting.	Total rediscount operations.	Average daily amount of rediscounts on hand.	Earnings. Average rate.	Earnings. Amount.
1916.					
January	20	$242,773	$184,040	4.03	$629
February	10	109,247	217,425	4.10	707
March	13	212,010	243,312	4.09	845
April	16	922,680	484,626	3.74	1,487
May	15	1,590,123	775,309	3.78	2,488
June	13	945,730	547,013	3.67	1,646
July	11	1,380,125	721,273	3.93	2,406
August	6	739,515	388,923	3.96	1,307
September	7	521,346	177,480	3.98	580
October	7	87,303	93,024	4.11	324
November	7	382,521	216,223	3.89	691
December	18	1,550,959	661,395	3.89	2,183
	143	8,684,332	392,504	3.90	15,293

At the beginning of the year the discount rates of the Federal Reserve Bank were as follows: Three per cent for commercial paper having a maturity not exceeding 10 days; 4 per cent for commercial paper having a maturity over 10 days, not exceeding 90 days; 4½ per cent for agricultural paper having a maturity over 90 days, not exceeding 6 months; 3 per cent for trade acceptances and commodity paper having a maturity not exceeding 90 days. These rates continued without change until July 5, when the rate for commercial paper maturing within 10 days and the rate on commodity paper and trade acceptances was advanced from 3 per cent to 3½ per cent. On September 21 the rate for commercial paper maturing within 10 days was abolished and a rate of 3½ per cent was established for the discount of paper with a maturity of not more than 15 days. On the same day a rate of 3½ per cent was established for member bank collateral notes with a maturity of not more than 15 days. Since that time there has been no change in the discount rates. The rates and changes are given in the following table:

Discount rates.

Classes of discounts and loans.	Changes made in rates.		
	Oct. 14, 1915.	July 6, 1916.	Sept. 21, 1916.
Commercial paper:			
1 to 10[1] days' maturity	3	3½	....
11 to 30[1] days' maturity	4	4	....
1 to 15 days' maturity	....	....	3½
16 to 30 days' maturity	....	....	4
31 to 60 days' maturity	4	4	4
61 to 90 days' maturity	4	4	4
Agricultural and live-stock paper: 91 days to 6 months' maturity	4½	4½	4½
Collateral notes—members: 1 to 15 days' maturity	....	....	3½
Trade acceptances:			
1 to 10 days' maturity	3	3½	3½
11 to 30 days' maturity	3	3½	3½
31 to 90 days' maturity	3	3½	3½
Commodity paper:			
1 to 30 days' maturity	3	3½	3½
31 to 60 days' maturity	3	3½	3½
61 to 90 days' maturity	3	3½	3½

[1] Rates discontinued Sept. 21, 1916.

Bankers' acceptances—authorized discount rate: Minimum, 2 per cent; maximum, 4 per cent.

COLLATERAL NOTES—MEMBERS.

Authority to make advances to member banks on their own promissory notes having a maturity of not over 15 days was given by an amendment to the Federal Reserve Act, approved September 7, 1916. Since September 21, when the discount rate was announced, the Federal Reserve Bank has made loans to member banks on their own notes amounting to $13,644,268, the amount of such notes on hand December 30, 1916, being $900,000. The maximum amount held was $5,251,268 on December 21. Detailed figures of these transactions are as follows:

Collateral notes—members.

Month.	Number of banks borrowing.	Amount of note operations.	Average daily amount on hand.	Earnings.	
				Average rate.	Amount.
1916.					
September	1	$25,000	$4,167	3.5	$12
October	2	220,000	90,000	3.5	271
November	5	3,032,500	493,133	3.5	1,439
December	10	10,366,768	3,775,613	3.5	11,379
		13,644,268	1,090,728	3.5	13,101

ACCEPTANCES.

By far the largest part of the Federal Reserve Bank's earning assets consists of bankers' acceptances bought in the open market. These acceptances originated in the exportation and importation of goods to and from nearly all parts of the world and cover transactions in chemicals, coal, coffee, copper, cotton, fish, flour, gold, grain, hair, hides, machinery, meat, oil, pulp, railroad cars and materials, rubber, ships, shoes, silk, steel products, sugar, tobacco, wool, and various other kinds of merchandise. The total amount of acceptances purchased during the year was $53,122,000, as compared to $7,566,000 in 1915. The amount of acceptances on hand has fluctuated between $1,544,000, on February 15, and $14,816,000 on December 8. The lowest rate at which they were bought was 2 per cent, and the highest rate was 3¼ per cent, in December. There were no purchases of domestic acceptances during the year. Details of the purchase of acceptances are as follows:

Bills bought in open market.

Month.	Acceptances purchased.			Average daily amount of acceptances on hand.	Earnings.	
	Bankers' acceptances.	Trade acceptances.	Total.		Average rate.	Amount.
1916.						
January	$194,000	....	$194,000	$2,367,000	2.08	$4,179
February	658,000	$51,000	709,000	1,674,000	2.07	2,743
March	4,744,000	15,000	4,759,000	3,751,000	2.05	6,519
April	3,837,000	153,000	3,990,000	5,972,000	2.03	9,961
May	3,956,000	153,000	4,109,000	8,036,000	2.05	14,007
June	5,602,000	164,000	5,766,000	9,611,000	2.10	16,581
July	4,922,000	127,000	5,049,000	10,990,000	2.17	20,255
August	3,582,000	79,000	3,661,000	10,662,000	2.28	20,679
September	6,360,000	231,000	6,591,000	11,624,000	2.42	23,092
October	5,749,000	213,000	5,962,000	11,883,000	2.45	24,681
November	5,514,000	156,000	5,670,000	12,352,000	2.43	24,638
December	6,651,000	11,000	6,662,000	14,102,000	2.58	30,908
	51,769,000	1,353,000	53,122,000	8,585,000	2.31	198,243

UNITED STATES BONDS AND TREASURY NOTES.

Since January 1, 1916, the Federal Reserve Bank has purchased $2,500,000 of 2 per cent United States Government bonds at an average price of 99.88 per cent. Of this total, $1,000,000 were purchased from member banks. On December 31, 1915, there were $1,993,750 of these bonds on hand, making a total of $4,493,750 subject to conversion under the terms of the Federal Reserve Act. In accordance with the ruling of the Secretary of the Treasury, $2,849,000 were converted into 30-year 3 per cent bonds and 1-year 3 per cent Treasury notes. All of the 30-year conversion three's have been sold at a premium, resulting in a profit of $25,900. As the 2 per cent bonds were purchased at a discount and converted into three's at par, the bank derived a further profit of $9,734, making a total profit of $35,634 from United States bond operations during the year. The following table shows the average amounts of bonds and notes held, with earnings, for each month during the year:

United States bonds and notes.

Month.	United States bonds.			United States notes.		
	Average daily amount on hand.	Earnings.		Average daily amount on hand.	Earnings.	
		Average rate.	Amount.		Average rate.	Amount.
1916.						
January	$2,809,844	2.01	$4,807			
February	3,286,891	2.02	5,268			
March	3,905,911	2.01	6,651			
April	4,175,070	2.28	7,819			
May	4,000,000	2.24	7,594			
June	4,000,000	2.24	7,348			
July	3,172,613	2.11	6,011	$818,000	3.00	$2,068
August	2,935,677	2.17	5,414	818,000	3.00	2,067
September	2,819,333	2.13	4,933	818,000	3.00	2,000
October	2,278,065	2.25	4,356	1,174,000	3.00	2,967
November	1,874,600	2.05	3,152	1,174,000	3.00	2,871
December	1,654,065	1.98	2,787	1,174,000	3.00	2,967
Average for the year	3,076,005	2.12	66,140	498,000	3.00	14,940

MUNICIPAL WARRANTS.

Warrants amounting to $7,823,000 were purchased during the year, the average income yield being about 2.6 per cent. These warrants were issued by cities, States, and townships of Arizona, California, Connecticut, Georgia, Kentucky, Maine, Massachusetts, Missouri, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Tennessee, and Washington. Details are given in the following table:

Municipal warrants.

Month.	Amount of warrants purchased.	Average daily amount of warrants on hand.	Earnings.	
			Average rate.	Amount.
1916.				
January	$1,576,000	$2,361,500	2.44	$4,897
February	630,600	2,962,000	2.29	5,395
March	855,700	3,240,000	2.35	6,449
April	100,000	3,318,700	2.33	6,352
May	862,800	3,908,000	2.38	7,880
June	617,600	2,962,300	2.42	5,889
July	889,800	2,416,900	2.93	5,680
August	75,600	2,553,400	2.83	6,129
September	434,200	2,285,900	2.93	5,490
October	1,200,300	3,362,500	2.78	7,932
November	378,200	1,863,100	2.99	4,571
December	202,200	872,600	3.40	2,519
	7,823,000	2,675,600	2.58	69,183

IV. General Banking Conditions in the District and Relations With Member Banks.

The Philadelphia district has a population of 6,540,000 and an area of 37,198 square miles. There are 632 national banks, 137 state banks, and 231 trust companies in the district. Five national banks have been organized during the year; two have gone into liquidation, and one has failed.

The total resources of the national banks of the district amount to $1,195,983,000; and the resources of state institutions to $915,084,000 making the total banking resources of the district $2,111,067,000, exclusive of savings banks and private bankers. It should be noted that trust funds which are held by the trust companies of this district to an amount probably in excess of $1,000,000,000 are not included in the above figures.

The Federal Reserve Bank is located in the only reserve city in the district. Only thirty member banks, or less than 5 per cent of the total number, are in Philadelphia. These have a capital and surplus of $59,430,000 or 34 per cent of the total for all the banks of the district and carry balances with the Federal Reserve Bank of $25,558,482, or 58 per cent of the total member bank deposits with the Federal Reserve Bank.

Chart 8 shows that the banking resources of this district have gained materially during the last two years. The combined resources of the national banks, state banks and trust companies have increased approximately $294,000,000, or 16 per cent within a year, as shown in the following tables. The trust companies have gained $152,000,000, or nearly 24 per cent, and the national banks $141,000,000, slightly more than 13 per cent.

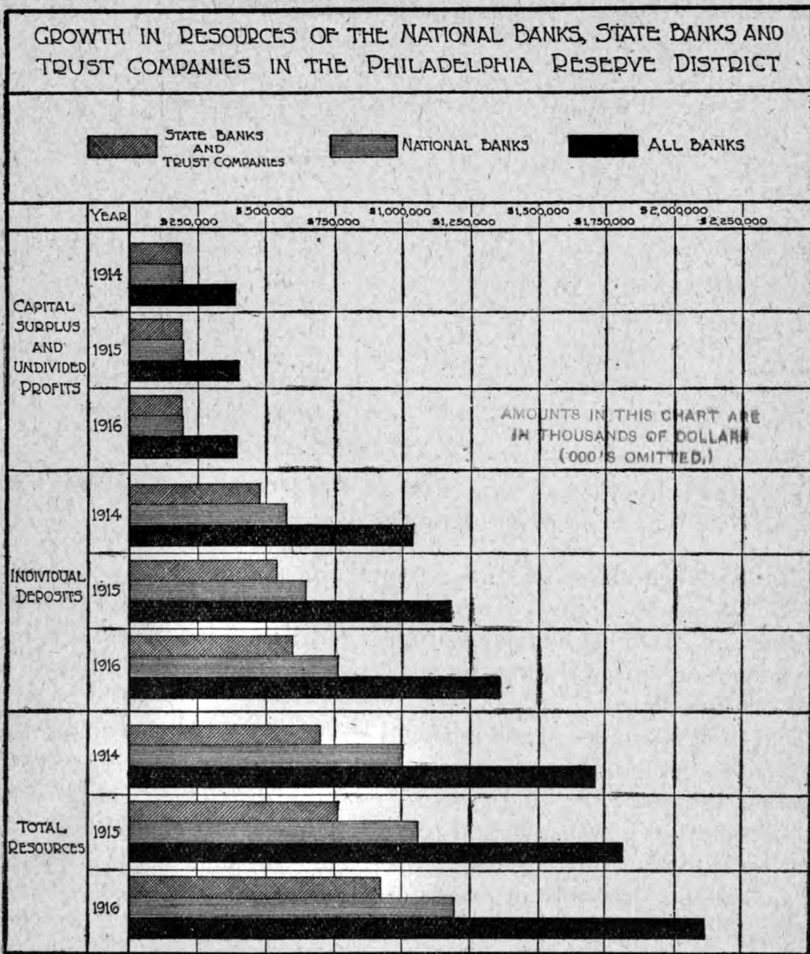


CHART 8.

Combined total resources of the national banks, State banks, and trust companies in the district.

State.	National banks.			State banks.		
	1914	1915	1916	1914	1915	1916
Delaware	$14,834,000	$15,278,000	$17,689,000	$3,804,000	$4,442,000	$5,095,000
New Jersey	77,745,000	81,802,000	95,094,000	9,412,000	9,761,000	9,612,000
Pennsylvania	910,899,000	958,028,000	1,083,200,000	104,109,000	106,344,000	107,069,000
Total	1,003,478,000	1,055,108,000	1,195,983,000	117,325,000	120,547,000	121,776,000

State.	Trust companies.			Total for all banks in this district.		
	1914	1915	1916	1914	1915	1916
Delaware	$18,683,000	$21,288,000	$27,887,000	$37,321,000	$41,008,000	$50,671,000
New Jersey	43,752,000	45,916,000	52,865,000	130,909,000	137,479,000	157,571,000
Pennsylvania	518,620,000	574,471,000	712,556,000	1,533,628,000	1,638,843,000	1,902,825,000
Total	581,055,000	641,675,000	793,308,000	1,701,858,000	1,817,330,000	2,111,067,000

NOTE.—Figures of the same date could not be secured for the various classes of banks in the different States and it was impossible to get complete returns in some cases, therefore, the figures in this and the following table should be considered as reliable estimates rather than as exact calculations.

Combined total resources of the national banks, State banks, and trust companies in the district—Continued.

PERCENTAGE OF INCREASE IN RESOURCES.

State.	National banks.		State banks.		Trust companies.		All banks.	
	1915 over 1914.	1916 over 1915.	1915 over 1914.	1916 over 1915.	1915 over 1914.	1916 over 1915.	1915 over 1914.	1916 over 1915.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Delaware	3.0	15.8	16.5	14.8	14.0	31.0	9.9	23.3
New Jersey	5.2	16.2	3.7	[1] 1.5	5.0	15.1	5.0	14.6
Pennsylvania	5.1	13.1	2.2	0.7	10.7	24.0	6.9	16.1
Total	5.1	13.3	2.7	1.0	10.4	23.6	6.8	16.2

[1] Decrease.

Combined statement of condition of member banks.

	Comptroller's call of—		
	Sept. 12, 1914.[1]	Sept. 2, 1915.	Sept. 12, 1916.
RESOURCES.			
Loans and discounts	$518,774,000	$527,799,000	$597,371,000
United States bonds	60,843,000	61,438,000	58,812,000
Other bonds, securities, etc	156,673,000	198,582,000	244,462,000
All other resources	267,188,000	267,289,000	295,338,000
Total	1,003,478,000	1,055,108,000	1,195,983,000
LIABILITIES.			
Capital stock	76,875,000	77,248,000	76,814,000
Surplus	98,761,000	98,150,000	97,304,000
Undivided profits	20,759,000	21,100,000	24,460,000
National bank notes outstanding	64,197,000	58,278,000	56,291,000
Individual deposits	570,342,000	640,860,000	759,894,000
Bank deposits	159,796,000	149,604,000	166,926,000
All other liabilities	12,748,000	9,868,000	14,294,000
Total	1,003,478,000	1,055,108,000	1,195,983,000

[1] The figures for 1914 include only those banks now in this district.

Banking and credit conditions within the district during the past year have been such that there has not been much opportunity for the Federal Reserve Bank to demonstrate its real usefulness to member banks. The following table of borrowings by member banks shows, however, that the Reserve Bank is assuming an increasingly important position with its member banks.

Summary of borrowings by member banks in district No. 3.

Date of comptroller's call.	Number of borrowing banks.	Amount of rediscounts with Federal Reserve Bank.[1]	Total amount of rediscounts.	Total amount of borrowings
Dec. 31, 1915	116	$168,274	$646,482	$2,935,182
Mar. 7, 1916	76	215,307	492,126	1,806,126
May 1, 1916	95	519,295	924,948	2,757,948
June 30, 1916	92	534,242	942,990	2,636,490
Sept. 12, 1916	54	262,605	468,262	1,483,762
Nov. 17, 1916	61	509,667	804,569	1,825,381
Dec. 27, 1916	76	4,257,745	4,452,354	5,708,151

[1] This amount includes collateral notes, members.

The growth and development of business in this district during the past year is evidenced by the increase in bank clearings. In Philadelphia the increase was $4,220,000,000, or 48 per cent, for 1916 over 1915; for the other cities in the district, $155,000,000, or 45 per cent, over last year.

The clearings for the district, for Philadelphia alone, and for the country banks of the district, by months during the past two years, are shown in chart 9 and the following table. It will be noticed that the clearings for Philadelphia and for the district, for November, 1916, were nearly twice as large as in January, 1915.

Bank clearings.

City.	Clearings, 1915.	Clearings, 1916.	Increase 1916 over 1915.	Per cent increase 1916 over 1915.
Altoona	$27,189,489	$31,235,885	$4,046,396	15
Chester	39,780,519	61,787,108	22,006,589	55
Harrisburg	87,767,765	99,946,156	12,178,391	14
Lancaster	85,067,499	98,474,466	13,406,967	16
Norristown	25,627,504	29,415,156	3,787,652	15
Philadelphia	8,863,633,292	13,083,317,712	4,219,684,420	48
Reading	95,820,425	117,472,670	21,652,245	23
Scranton	164,023,379	165,075,943	1,052,564	1
Trenton	99,501,058	116,304,782	16,803,724	17
Wilkes-Barre	87,017,610	92,539,090	5,521,480	6
Wilmington	107,730,062	156,347,614	48,617,552	45
York	47,851,799	53,801,515	5,949,716	12
Total	9,731,010,401	14,105,718,097	4,374,707,696	45

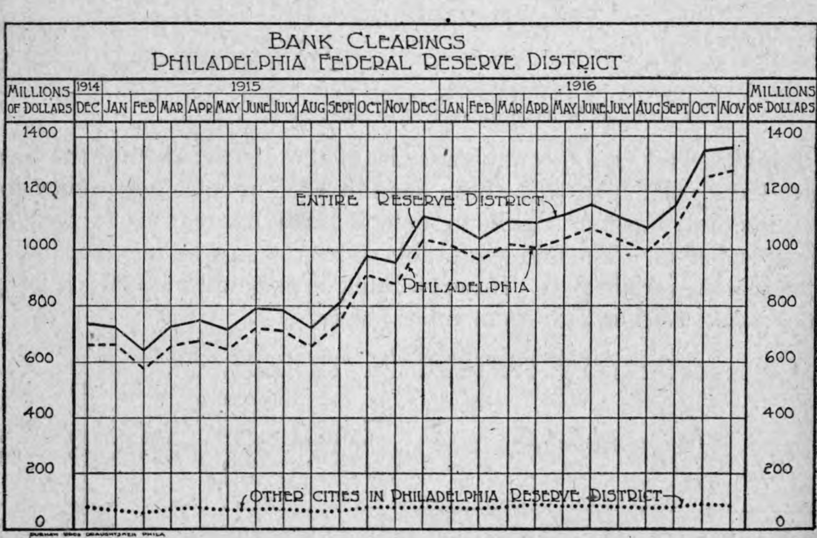


CHART 9.

The use of American bank and bankers' acceptances in financing export and import business is increasing rapidly. The following table shows aggregate acceptance liabilities of the member banks in

Philadelphia at various dates during the past year. So far as is known, nonmember banks in the district have not made any acceptances.

Date of comptroller's call:	Acceptance liabilities.
Dec. 31, 1915	$2,809,000
Mar. 7, 1916	5,751,000
May 1, 1916	6,219,000
June 30, 1916	5,234,000
Sept. 12, 1916	5,084,000
Nov. 17, 1916	8,640,000
Dec. 27, 1916	8,309,000

The subject of the use of trade acceptances has been under earnest discussion during the year and is one worthy of the attention of trade organizations, member banks, and business men. A more general adoption of this method of carrying the purchase of goods, instead of the open book accounts, would be a step forward in good banking practice.

Through the establishment of the collection system, active relations maintained with all the member banks, it is believed, will grow more intimate. Through the collection system, the Reserve Bank also has direct dealings with about half of the nonmember banks of the district, and it is expected that in the near future, direct relations will be extended to all the banks in the district.

Some member banks still follow the policy of keeping only the required portion of their reserves with their Federal Reserve Bank, while others find it to their advantage to keep a larger portion with it. As gold in the Federal Reserve Bank serves a much larger purpose than in the vaults of the member banks, it is hoped that it will not be long before all the banks will reduce their holdings of cash to the minimum necessary for counter purposes and keep as much of their reserve as possible with their Federal Reserve Bank. This would also relieve member banks of the responsibility incident to keeping on hand large amounts of cash. The following table shows the changes in the reserve position during the past 18 months:

Reserve condition of member banks.

[000's omitted.]

Date of comptroller's call.	In vault.		With Federal Reserve Bank.		With approved reserve agents.		Total.		Excess.
	Held.	Required.	Held.	Required.	Held.	Required.	Held.	Required.	
1915.									
Sept. 2	48,299	36,516	19,443	16,625	98,752	36,516	166,493	89,657	76,836
Nov. 10	50,420	38,428	20,238	17,550	94,407	38,428	165,065	94,406	70,659
Dec. 31	50,886	37,822	27,267	24,092	75,215	30,957	153,368	92,872	60,496
1916.									
Mar. 7	55,568	40,663	28,899	25,954	93,868	33,309	178,335	99,926	78,409
May 1	51,157	40,898	26,712	26,106	87,232	33,501	165,101	100,505	64,596
June 30	46,863	40,324	34,108	33,013	73,487	25,704	154,458	99,041	55,417
Sept. 12	55,485	42,591	41,294	34,856	80,821	27,120	177,600	104,567	73,033
Nov. 17	51,633	44,308	47,443	44,308	78,036	20,222	177,112	108,838	68,274
Dec. 27	53,492	44,038	62,114	44,038	66,690	20,032	182,296	108,108	74,188

It is felt desirable to remind the officers and directors of member banks that this bank is their institution and its officers would be glad to have them call more frequently to discuss the affairs of the Reserve Bank and other matters of common interest.

The Chairman wishes to express his deep appreciation of the cooperation and assistance rendered by the officers of banking institutions in the district in furnishing information as to business conditions in their communities and of the hearty way they responded to all requests for such information.

V. The Federal Reserve Bank and the Government.

Since January 1, 1916, the Federal Reserve Bank has been acting as fiscal agent of the United States Government. At that time the accounts in some of the national banks of Philadelphia were closed and the balances amounting to about $800,000 were transferred to this bank. Since then a portion of the receipts of the Government has been deposited in the Reserve Bank daily, involving the handling of a large amount of checks and cash. The volume of such deposits varies considerably. The maximum amount to the credit of the Government was $10,750,000 on July 8, when the receipts of the internal-revenue office were especially large, due to the payment of taxes on incomes.

The Reserve Bank has had intimate and active relations with the subtreasurer at Philadelphia and the chief national-bank examiner of the district, and it affords much pleasure to acknowledge the courteous attention and hearty cooperation which has been extended to the bank by those connected with these departments.

VI. Federal Reserve Note Issues.

The issuance of Federal Reserve notes largely increased during the year, as shown by the following comparative statement:

	Dec. 30, 1916.		Dec. 31, 1915.	
Federal Reserve notes received from Comptroller of Currency, from organization of bank		$30,480,000		$12,480,000
Federal Reserve notes returned to Comptroller of Currency for redemption and destruction, from organization of bank		6,150,410		640,000
Federal Reserve notes on hand		7,260,000		2,680,000
Federal Reserve notes issued to the bank		17,069,590		9,160,000
Gold deposited with agent to retire outstanding Federal Reserve notes:				
Gold on hand	$3,730,000		$4,160,000	
Credit balance with Federal Reserve Board	11,180,000		5,000,000	
Credit balance in gold redemption fund	859,590			
		15,769,590		9,160,000
Paper held by agent to secure Federal Reserve notes		1,300,000		None.

As a result of the issue of Federal Reserve notes, the gold in the hands of the Federal Reserve Agent increased $6,609,590 during the year. Much strength is added to the Federal Reserve Bank by the accumulation of gold through the issue of Federal Reserve notes. Due to the activity of business, a much larger amount of currency was used for pay roll and other purposes. The Federal Reserve notes outstanding have increased from $9,160,000 to $17,069,590, which are secured by a deposit of gold and commercial paper with the Federal Reserve Agent. Should an unusual demand for loans be experienced, the reserve of the bank could be increased through the release of all the gold held by the Federal Reserve Agent by the substitution with him by the bank of an equal amount of commercial paper. According to the statement of the agent of December 30, 1916, the bank's gold reserve in that case would be increased nearly $10,000,000, which is evidence of the potential strength of the gold fund accumulated through the issuance of Federal Reserve notes.

The amount of Federal Reserve notes outstanding, by months, during the past two years, is shown in chart 10 and the following table:

Federal Reserve notes.

Month.	Amount outstanding at beginning of month.	Amount issued during month.	Amount redeemed.	Amount outstanding at end of month.	Amount held by bank at end of month.	Amount in circulation at end of month.
1916.						
January	$9,160,000		$500,000	$8,660,000	$561,445	$8,098,555
February	8,660,000	$325,000	1,297,450	7,687,550	202,500	7,485,050
March	7,687,550		509,300	7,178,250	115,795	7,062,455
April	7,178,250		372,500	6,805,750	150,695	6,655,055
May	6,805,750		490,900	6,314,850	158,470	6,156,380
June	6,314,850	1,472,700	474,900	7,312,650	633,520	6,679,130
July	7,312,650	900,000	380,000	7,832,650	510,650	7,322,000
August	7,832,650		469,200	7,363,450	443,440	6,920,010
September	7,363,450	680,000	437,200	7,606,250	472,170	7,134,080
October	7,606,250	1,360,000	493,110	8,473,140	425,850	8,047,290
November	8,473,140	6,080,000	432,500	14,120,640	1,519,010	12,601,630
December	14,120,640	3,340,000	391,050	17,069,590	171,140	16,898,450
Total		14,157,700	[1] 6,248,110			

[1] Of this amount, $5,510,410 were notes unfit for circulation, which were delivered to the Comptroller of Currency for destruction. The balance, $737,700, were notes fit for circulation, which were reissued to the bank by the Federal Reserve Agent.

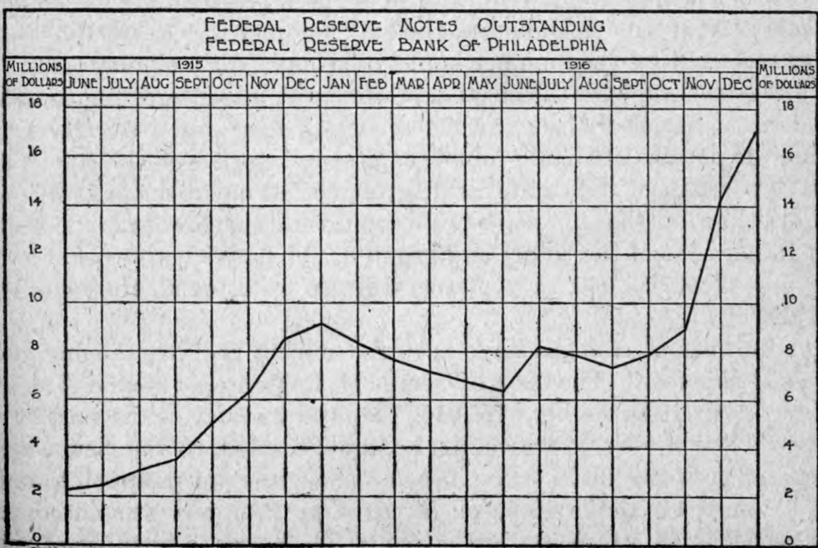


CHART 10.

The next table shows that note issues were heaviest during the fall of the year and that all of the notes issued were of $5, $10, and $20 denominations.

Denominations of Federal Reserve notes issued during 1916.

Month.	Fives.	Tens.	Twenties.	Total.
1916.				
January				
February		$214,800	$110,200	$325,000
March				
April				
May				
June	$512,700	480,000	480,000	1,472,700
July	260,000	480,000	160,000	900,000
August				
September	400,000	200,000	80,000	680,000
October	640,000		720,000	1,360,000
November	2,280,000	2,040,000	1,760,000	6,080,000
December	1,660,000	560,000	1,120,000	3,340,000
Total	5,752,700	3,974,800	4,430,200	14,157,700

The issue of Federal Reserve notes covered by gold is not a matter of any profit to the Reserve Bank, but is an expense equal to the cost of printing and shipping them. Experience has shown that this amounts to about 1 cent a note. As notes issued under these circumstances are for the benefit of the public, it has been suggested that the Government assume the cost of issuing them.

VII. Internal Management of the Bank.

BOARD OF DIRECTORS.

In December, 1916, M. J. Murphy, of Clarks Green, Pa., was reelected a class A director of the Federal Reserve Bank by the member banks in group 3, for a term of three years ending December 31, 1919, and Alba B. Johnson, the only nominee for class B director, was reelected by the member banks in group 1 for a similar term.

In connection with the election of directors, it is interesting to note that as a result of the grouping of banks as required by the Act, group 1 contains 210 banks having capital and surplus of $137,748,000, or 79 per cent of the capital and surplus of all member banks in the district; group 2 has 211 banks with capital and surplus of $26,217,000, or 15 per cent of the total; and group 3, 211 banks with capital and surplus of $9,653,000, or 6 per cent of the total for all the member banks.

A number of changes have occurred during the year among the class C directors. The term of George M. LaMonte, of Bound Brook, N. J., expired December 31, 1915. By the transfer of the northern part of New Jersey, in which Mr. LaMonte resided, to the New York Federal Reserve district, he became ineligible for reappointment and Vance C. McCormick, of Harrisburg, Pa., was appointed to succeed him as a director, while George W. Norris, a member of the

Board, was appointed deputy Federal Reserve Agent and deputy chairman. Mr. McCormick retired in July and J. Davis Brodhead, of South Bethlehem, Pa., was appointed in September. In August Mr. Norris resigned to become Commissioner of the Federal Farm Loan Board, and Henry B. Thompson, of Wilmington, Del., was appointed to his place and designated as deputy Federal Reserve Agent and deputy chairman. Mr. Thompson has since been appointed by the Board to serve for a three-year term, ending December 31, 1919.

The men who retired from the board were experienced in financial and commercial affairs; were highly esteemed as colleagues and respected as counsellors; and the severing of their connection with the board was the cause of the deepest regret to their associates.

With one or two exceptions in midsummer, meetings of the board of directors and of the executive committee have been held regularly during the year. All the loans and investments made were submitted to and acted upon by them, and discount rates and all other matters of importance affecting the operation of the bank were considered by them. The directors have manifested, at all times, a deep interest in the bank and have given much consideration to its affairs.

CHANGES IN OFFICIAL AND CLERICAL STAFF.

Thomas Gamon, jr., formerly chief clerk of the bank, was elected assistant cashier in January, 1916.

There were 89 employees of the Reserve Bank at the end of the year, as compared with 45 at the beginning; 28 men were added to the force of the transit department; 2 to the teller's department; 5 to the bookkeeping department; 1 to the auditing department; and 2 were regularly assigned to handle the work incident to Government deposits.

The clerical staff has rendered faithful and efficient service. In solving the many problems in connection with the development of the operations of the institution, especially in connection with the inauguration of the check collection system, which involved a large amount of extra service, excess hours of labor were cheerfully given and all the work most satisfactorily performed, evidencing the heartiest cooperation of officers and clerks.

WORK OF THE FEDERAL RESERVE AGENT'S DEPARTMENT.

On January 15, 1916, the Federal Reserve Board authorized the appointment of an assistant to the Federal Reserve Agent, and Arthur E. Post was appointed to the position.

The local office of the Federal Reserve Board has been maintained in the Federal Reserve Bank as required by the Act, with a sufficient force to do the work in connection with the issuing of notes, making of reports, and other matters pertaining to the office.

VIII. Transit Department Operations.

The number of items handled by this department has increased rapidly, partly because of the gradual increase in the number of banks using the system. Chart 11, together with the following tables, shows the average number and amount of items handled daily and the total number and amount handled each month. During June, the last month of operation of the system then in force, a daily average of 6,298 items were handled, as compared to 31,299 in December under the new plan.

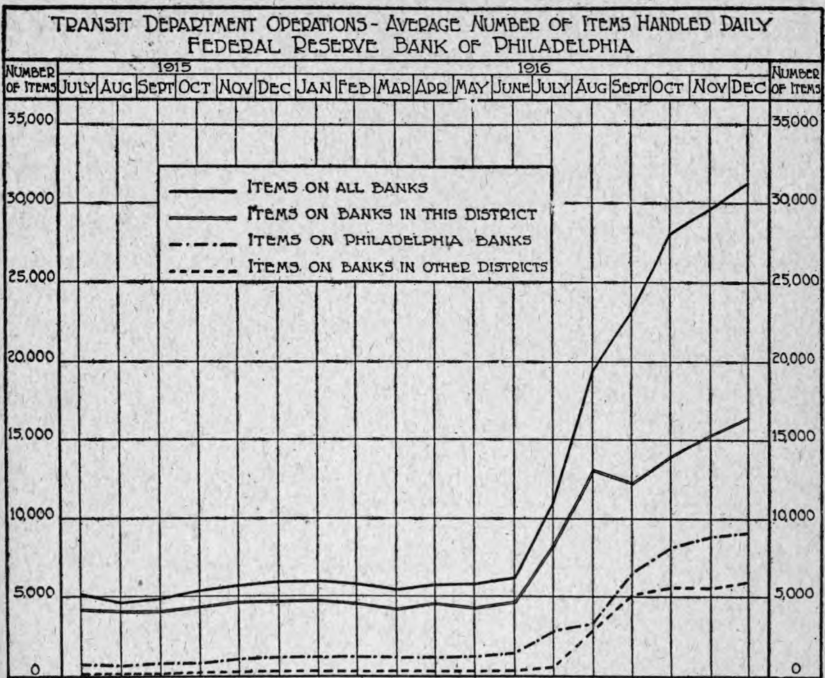
Transit department operations.

Month.	Average number of items handled daily.							
	On Philadelphia banks.		On country banks in this district.		On banks in other reserve districts.		Total.	
	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.
1916.								
January	1,272	$1,740,933	4,717	$464,830	85	$1,417,109	6,074	$3,622,872
February	1,262	1,746,935	4,612	432,936	87	1,974,414	5,961	4,154,285
March	1,087	2,081,444	4,177	423,187	127	1,819,939	5,391	4,324,570
April	1,155	2,373,427	4,576	464,105	170	2,141,092	5,901	4,978,624
May	1,247	2,560,451	4,443	459,918	178	2,024,932	5,868	5,045,301
June	1,503	2,671,149	4,653	471,700	142	2,501,917	6,298	5,644,766
July 1 to July 14	1,684	3,356,974	4,661	504,481	166	2,958,077	6,511	6,819,532
July 15[1] to July 31	2,322	3,957,102	11,437	1,375,391	968	2,793,092	14,727	8,125,585
August	3,438	4,497,927	13,124	1,516,512	3,051	3,317,912	19,613	9,332,351
September	5,695	5,735,277	12,240	1,589,865	5,011	4,099,548	22,946	11,424,690
October	8,279	7,667,741	14,066	1,754,711	5,785	5,196,789	28,130	14,619,241
November	8,941	8,084,550	15,137	1,806,792	5,568	5,885,762	29,646	15,777,104
December	8,957	9,025,654	16,374	2,046,101	5,968	6,610,018	31,299	17,681,773

[1] The universal par collection system started July 15, 1916.

Total number and amount of checks handled monthly.

Month.	On Philadelphia banks.		On country banks.		On banks in other reserve districts.		Total.	
	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.
January	31,791	$43,523,325	117,920	$11,620,757	2,136	$35,427,723	151,847	$90,571,805
February	29,033	40,179,514	106,067	9,957,538	1,996	45,411,514	137,096	95,548,566
March	29,341	56,198,999	112,786	11,426,067	3,417	49,138,325	145,544	116,763,391
April	27,729	56,962,252	109,816	11,138,528	4,083	51,386,203	141,628	119,486,983
May	32,435	66,571,738	115,526	11,957,845	4,610	52,648,237	152,571	131,177,820
June	39,089	69,449,871	120,970	12,264,212	3,699	65,049,832	163,758	146,763,915
July 1 to July 14	18,521	36,926,717	51,273	5,549,296	1,829	32,538,848	71,623	75,014,861
July 15 to July 31	32,504	55,399,443	160,123	19,255,471	13,563	39,103,285	206,190	113,758,199
August	92,825	121,444,031	354,350	40,945,825	82,389	89,583,625	529,564	251,973,481
September	142,385	143,381,917	306,006	39,746,631	125,267	102,488,698	573,658	285,617,246
October	206,992	191,693,522	351,645	43,867,772	144,625	129,919,727	703,262	365,481,021
November	214,600	194,029,195	363,280	43,363,005	133,634	141,258,294	711,514	378,650,494
December	223,934	225,641,340	409,348	51,152,535	149,206	165,250,451	782,488	442,044,326
Total	1,121,179	1,301,401,864	2,679,110	312,245,482	670,454	999,204,762	4,470,743	2,612,852,108



NOTE:- THE INAUGURATION OF THE INTERDISTRICT COLLECTION SYSTEM ON JULY 15, 1916 CAUSED THE INCREASE IN VOLUME OF BUSINESS HANDLED IN JULY AND SUBSEQUENT MONTHS

CHART 11.

A glance at the chart, which is based upon daily averages, reveals some striking changes under the new system. Checks on banks in other reserve districts show a large increase. These items for the most part come from Philadelphia member banks, some of which now send practically all of their foreign items to the Federal Reserve Bank. The number of items on Philadelphia banks also shows a large increase, the greater part of the gain coming from checks received from other Federal Reserve Banks.

Under the regulations of the Federal Reserve Board for the handling of checks on nonmember banks, arrangements have been made with 143 nonmember banks, outside of Philadelphia, for the collection of their checks. Checks on all nonmember banks in Philadelphia, amounting to 69, are also handled, making the total number of nonmember banks whose checks are handled through the collection system 212.

In organizing the new check collection system, this bank is indebted to the officers and transit department managers of some of the Philadelphia member banks for the helpful service they rendered.