

Twenty-second Annual Report
of the
FEDERAL RESERVE BANK
OF PHILADELPHIA

1936



Third Federal Reserve District

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FEDERAL RESERVE BANK
OF PHILADELPHIA

June 30, 1937.

*To the Stockholders of the
Federal Reserve Bank of Philadelphia:*

It is my privilege to present herewith the twenty-second annual report, containing a review of business and banking conditions in this district as well as an account of the operations of this bank during the year 1936.

The annual report in previous years has been in the nature of a report by the Federal Reserve Agent to the Board of Governors of the Federal Reserve System. By virtue of organization changes brought about through recent legislation, the report for 1936 and for subsequent years will be made directly by the President to the stockholders.

JOHN S. SINCLAIR

President

Annual Report of the Federal Reserve Bank of Philadelphia for 1936

Business recovery in this district continued during 1936 and the rate of expansion was more rapid than in any other year since the low level of the depression. Industrial production and employment increased substantially between the spring and the end of the year, owing principally to sharp additional advances in the output of durable goods. The demand for capital equipment was increasingly active, particularly in the latter part of the year. Commodity prices advanced sharply and the volume of forward commitments in the last quarter of the year showed aspects of speculative buying. In consequence of industrial improvement and larger earnings, activity in the various lines of trade and services increased further, reaching the highest levels since 1931, when general conditions had already reflected declining business.

The benefits of the continuous recovery have been pervasive and cumulative. Labor felt the influence of an increased volume of work, larger payrolls and rising wage rates. There was a further increase in industrial disputes and strikes, which at times impeded production to a considerable extent. This is a characteristic phase of business revival. Nevertheless, the aggregate income of labor as well as the average number of wage earners employed expanded greatly, thereby lightening the burden of public relief through the absorption of the unemployed. Largely as a result of increased demand and higher prices for agricultural products, the cash income of farmers rose almost steadily to the largest volume in several years and was only partly offset by the rising prices for commodities bought by the farmers. Corporate earnings also increased materially and in some lines of enterprise they were not far behind income realized in pre-depression years.

Demand for bank credit showed gains, particularly in the larger industrial centers, though in the aggregate it lagged noticeably behind the rate of industrial expansion and was far under the volume recorded in 1928 and in 1929. Commercial loans of member banks in Philadelphia increased but similar loans of banks elsewhere in the district generally declined. Loans on securities to customers also decreased, while real estate loans continued virtually unchanged.

Member bank investments in securities, on the other hand, increased further. Holdings of direct obligations of the United States Government rose sharply in the course of the year following a decline in the second half of the previous year, while securities guaranteed by the United States Government as to principal and interest registered little change. Holdings of other domestic securities, chiefly state and local governments, public utility, railroad, and miscellaneous industrial obligations, continued to expand for the third consecutive year. At the end of 1936, the volume of all types of securities held by member banks was slightly over 60 per cent of total loans and investments, a somewhat larger proportion than was the case in the previous two years and a substantially greater amount than in the years of the late twenties.

The volume of deposits expanded greatly and at the end of the year was the largest on record. The increase was especially pronounced in demand funds to the credit of individuals, firms, and corporations, and the gain in time deposits over a year ago was relatively smaller. Balances of member banks with the reserve bank and with correspondent banks late in the year reached a record volume. Reserves were greatly in excess of legal requirements. Even after an increase in August of one-half in required percentages to be held at the reserve bank against deposits, the volume of excess reserves at the end of the year remained very substantial, while the opportunity for employing these funds continued to be limited. Figures on deposits at all classes of banks, together with those of other financial institutions including insurance companies and various savings agencies, indicate that the volume of savings by individuals and business grew considerably during the year.

Profits of member banks improved materially despite the low yields of securities and short-term open market paper. This was due principally to a reduction in the amount of charge-offs and in smaller measure to increased recoveries on assets and profits from sales of securities. Income from current operations also made a better showing than in recent years. Current expenses absorbed about two-thirds of gross earnings.

The principal developments in the condition of this Federal reserve bank consisted of a substantial expansion in the volume of member bank deposits and of a large rise in its own cash reserves. There was a noticeable increase in currency demand throughout the year, chiefly in response to increased payrolls, larger volume of trade, and the cashing of adjusted service checks

Statement of Condition

Federal Reserve Bank of Philadelphia (000's omitted in dollar figures)	December 31		
	1934	1935	1936
RESOURCES			
Gold certificates on hand and due from U. S. Treasury	\$271,119	\$370,230	\$495,308
Redemption fund—Federal reserve notes	2,525	1,168	194
Other cash	35,662	34,078	25,458
Total reserves	\$309,306	\$405,476	\$520,960
Bills discounted:			
Secured by U. S. Government obligations*	556	250	285
Other bills discounted	437	127	28
Total bills discounted	\$ 993	\$ 377	\$ 313
Bills bought in open market	584	484	317
Industrial advances	3,236	6,768	4,686
United States Government securities	167,120	177,120	208,989
Total bills and securities	\$171,933	\$184,749	\$214,305
Due from foreign banks	87	69	21
Federal reserve notes of other F. R. banks	1,373	1,507	1,736
Uncollected items	38,755	40,928	58,663
Bank premises	4,411	4,830	4,952
All other resources	5,178	3,801	3,122
Total resources	\$531,043	\$641,360	\$803,759
LIABILITIES			
Federal reserve notes in circulation	\$240,443	\$271,870	\$312,078
Deposits:			
Member bank reserve account	211,579	274,326	381,210
U. S. Treasurer—general account	4,315	10,519	6,258
Foreign bank	1,995	2,881	9,209
Other deposits	1,977	10,174	2,219
Total deposits	\$219,866	\$297,900	\$398,896
Deferred availability items	37,578	40,293	58,926
Capital paid in	15,131	12,328	12,211
Surplus—Section 7	13,470	13,406	13,362
Surplus—Section 13b	1,049	2,132	4,325
Reserve for contingencies	2,996	3,000	3,000
All other liabilities	510	431	961
Total liabilities	\$531,043	\$641,360	\$803,759
Ratio of total reserves to deposit and Federal reserve note liabilities combined	67.2%	71.1%	73.3%
Contingent liability on bills purchased for foreign correspondents	\$68	0	0
Commitments to make industrial advances	\$399	\$861	\$247

* Includes bills secured by obligations fully guaranteed by the United States Government.

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for veterans. Changes in discounts and advances were of no significance, indicating that member banks were able to take care of such demands for funds as were made upon them by customers. The discount rate continued unchanged at 2 per cent. Total resources of the reserve bank at the end of the year were over \$800,000,000.

The earnings of this reserve bank from discounts were negli-

Profit and loss account Federal Reserve Bank of Philadelphia (000's omitted)	1935	1936
Earnings from:		
Bills discounted.....	\$ 12	\$ 7
Bills bought.....	4	3
Industrial advances.....	255	312
United States Government securities.....	2,821	2,855
Other sources.....	32	79
Total earnings.....	\$3,124	\$3,256
Expenses:		
Operating expenses*.....	\$2,114	\$2,212
Cost of Federal reserve currency.....	119	152
Assessments for expenses of Board of Governors.....	139	161
Total net expenses.....	\$2,372	\$2,525
Current net earnings.....	\$752	\$731
Additions to current net earnings:		
Profits on sales of United States Government securities.....	\$ 390	\$ 582
Other additions.....	22	8
	\$ 412	\$ 590
Deductions from current net earnings:		
Assessment to apply on cost of building for Board of Governors.....	\$ 99	\$ 192
Prior service contributions to Retirement System.....	192	193
Added to reserve for contingencies.....	4	63
Other deductions.....	1	3
	\$ 296	\$ 451
Net additions to current net earnings.....	\$ 116	\$ 139
Net earnings available for distribution.....	\$ 868	\$ 870
Distribution of net earnings:		
Paid to Treasury of United States.....	\$ 42	\$ 84
Dividends paid to member banks.....	856	736
Transferred to surplus (Sec. 13b).....	34	94
Transferred from surplus (Sec. 7).....	— 64	— 44

*After deducting reimbursement received for certain fiscal agency and other expenses

gible and, even when supplemented by income from industrial advances, were below the amount needed to meet operating expenses. The principal source of income, therefore, has been the bank's participation in Federal Reserve System holdings of United States Government obligations. Current net earnings for the year as a whole were slightly less than the amount required for dividend payments. After sundry adjustments, however, a sufficient amount remained to cover dividends and payments to the Treasury of the United States on funds received in connection with industrial loans and to increase the combined surplus accounts by about \$50,000.

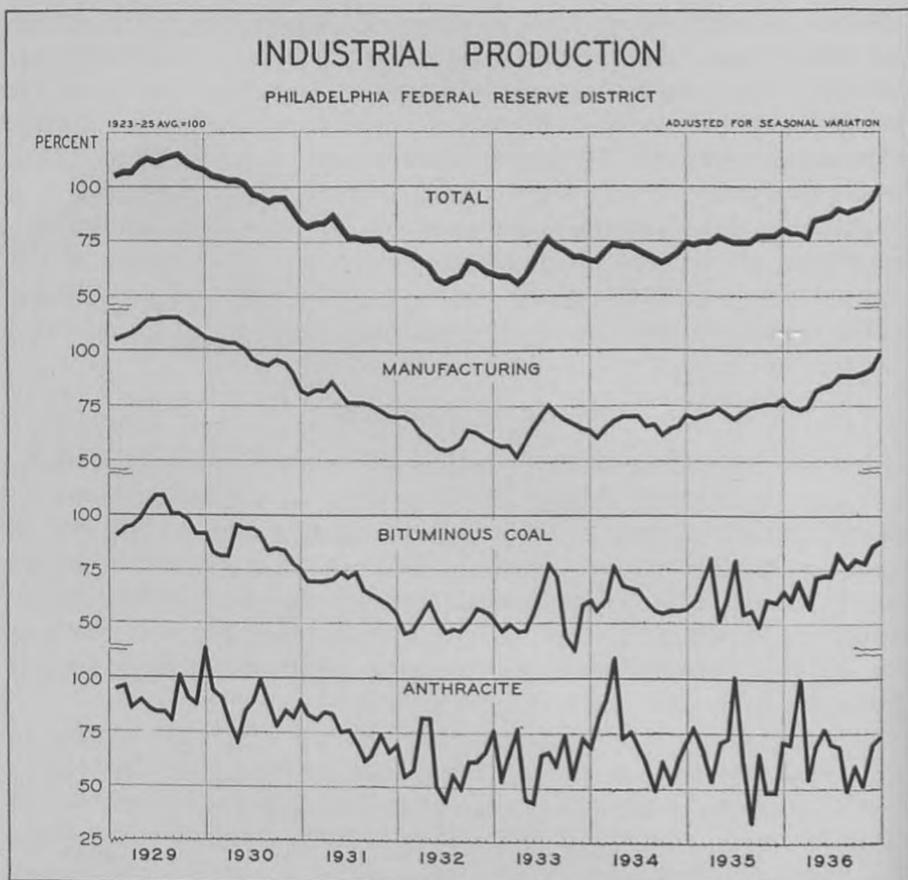
Business conditions

Industry Business activity in the Philadelphia Federal Reserve District during 1936 expanded at an unusually rapid pace. Industrial production increased sharply and by the end of the year was at about the same level as that prevailing in the three years, 1923-1925. Demand for all classes of commodities was increasingly active and buying of raw materials and products for further manufacture and processing continued in large volume throughout the year, extending into 1937.

Prices of commodities advanced sharply after the spring of the year, following a comparatively narrow range of fluctuation in the previous year. The most pronounced increase occurred in farm products, while food prices showed little change. Quotations for industrial products, chiefly manufactures, rose in the second half of the year, after a three-year period of comparative stability. The following data show comparisons for selected periods to indicate trends of wholesale prices.

Commodity prices (Indexes: 1926 = 100)	Annual averages of monthly indexes				Monthly	
	1929	1932	1935	1936	Dec. 1935	Dec. 1936
All commodities (784)	95	65	80	81	81	84
Raw materials	98	55	77	80	78	86
Semi-finished articles	94	59	74	76	75	82
Finished goods	95	70	82	82	83	84
Farm products	105	48	79	81	78	89
Foods	100	61	84	82	86	86
Other commodities	92	70	78	80	79	82

Source: Bureau of Labor Statistics.



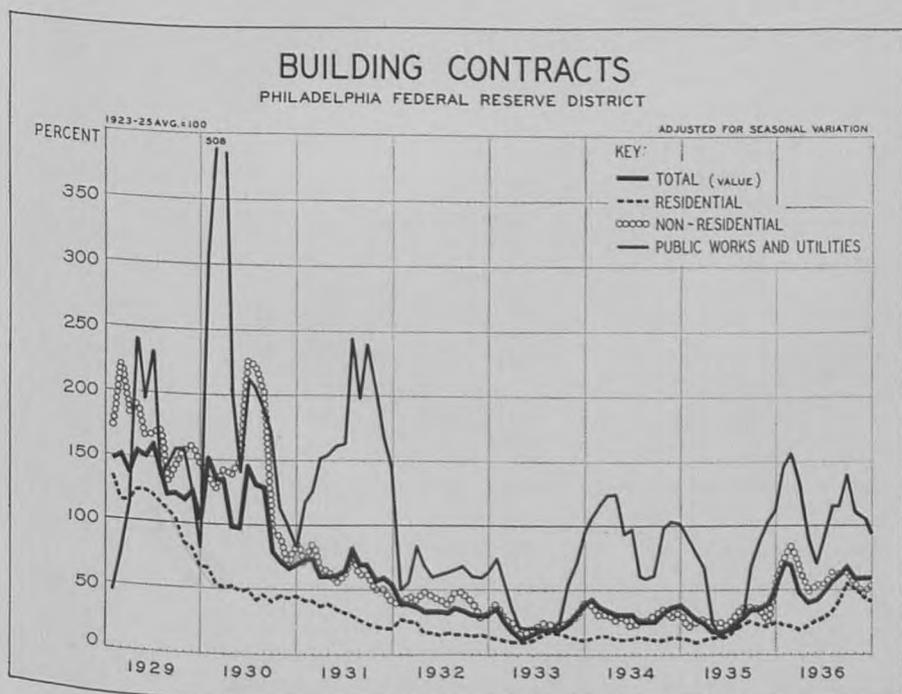
Inventories of finished goods held by industrial establishments in this district at the end of the year as a whole showed no significant changes as compared with a year before. Stocks of raw materials at plants were larger, as is to be expected in a period of increasing business. The supply of raw materials, including foodstuffs, at source and at warehouses in this country and elsewhere, on the other hand, showed additional declines and at the end of the year appeared to be the smallest in many years. This decline was accompanied by increasing production and rising prices, reflecting a rather normal development in a period of business recovery.

The sharpest expansion in manufacturing activity occurred in the output of durable goods, including metal products, transportation equipment, and building materials. By the end of the year, the index number, measuring the rate of activity in this branch of

industry, rose to 90 per cent of the 1923-25 average as compared to the depression low of 29. Productive activity in the industries manufacturing such non-durable goods as textile products, shoes and other commodities for quick consumption also expanded somewhat during the year, reaching in December an index number of 104 as against a low of 67 in 1932.

In general, all lines of manufacture have shared in this expansion. The aggregate volume of commitments at the end of the year was the largest since 1930 and was sufficient to sustain activity at relatively high levels for several months of the ensuing year.

Mineral industries as a whole also registered gains. The sharpest increase occurred in the output of bituminous coal, resulting principally from larger industrial demand for this fuel. The output of anthracite, on the other hand, just about held the rate that prevailed in the preceding year, owing largely to the adverse effect of mild weather upon domestic consumption. Extraction of crude oil increased at an even greater rate than it did in 1929, shortly after the installation of a changed method of production in the Bradford field. The unusual increase in the output of electric power reflected chiefly a substantial gain in industrial consumption,



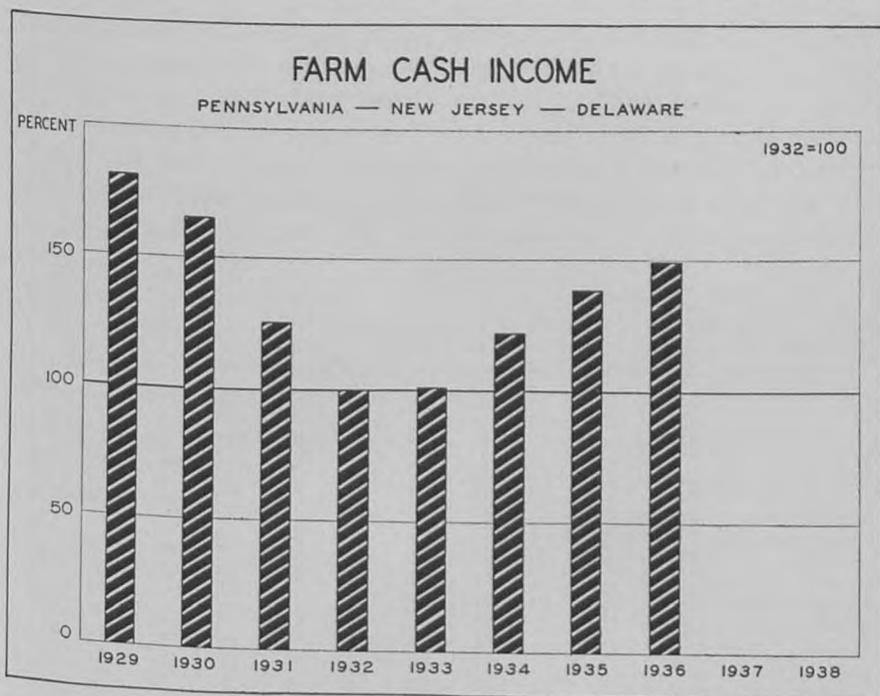
although the use of electricity for household purposes also expanded at a considerable rate, partly in consequence of the increasing use of electrical appliances.

Building and construction activity increased further to the highest level since 1931, although it was still very much lower than in the period from 1924 to 1930. The aggregate value of contracts awarded for new construction of all types during 1936 amounted to about \$170,000,000 as compared with \$94,000,000 in 1935 and a low of \$68,000,000 in 1933. But this amount was small when compared with the 1923-25 average of \$305,000,000 and the record high of \$503,000,000 established in 1928. Awards for residential construction, particularly of one- and two-family houses, registered the largest gain in the year and constituted about 30 per cent of the 1936 total. Contracts let for non-residential buildings made up nearly 40 per cent of the total while the remainder was for public works.

Trends of industrial production, building, and farm income are indicated by the following data:

Productive activity Philadelphia Federal Reserve District (1923-25 average = 100)	Annual averages of monthly indexes						Monthly	
	1929	1932	1933	1934	1935	1936	Dec. 1935	Dec. 1936
Industrial production	110	63	66	70	75	86	81	100
Manufacturing.....	111	61	64	67	73	84	78	98
Durable goods.....	110	39	40	50	56	77	62	90
Non-durable goods.....	112	77	82	80	87	91	91	104
Coal mining.....	92	60	60	70	65	68	71	75
Anthracite.....	91	62	61	71	65	67	72	73
Bituminous.....	98	51	54	62	63	74	66	88
Crude oil.....	230	295	302	357	392	432	415	487
Electric power output.....	191	177	181	192	202	228	210	237
Building and construction contracts awarded								
Total (3-month moving avg.)	136	34	22	32	28	56	53	59
Residential.....	108	18	12	12	17	34	24	41
Non-residential.....	168	41	25	29	29	59	52	53
Public works and utilities.....	144	63	43	94	59	111	112	94
Agricultural activity (1932 avg. = 100)								
Farm cash income.....	181	100	101	122	133	149	137	164

The results of agricultural operations on the whole were more satisfactory in 1936 than in any previous year since the beginning



of the depression. Cash income of farmers increased by 7 per cent to about \$319,000,000, and this was a gain of nearly 50 per cent over the 1932 low. This gain in income was due principally to higher prices inasmuch as the yield of most commercial crops was somewhat smaller than in 1935. Income from the sales of livestock and livestock products, which accounts for about 70 per cent of total farm cash income in this district, also was larger than in the previous year. The accompanying figures show changes in prices for products sold by farmers as well as in prices paid by farmers for articles used in domestic consumption and supplies necessary on the farms.

(1910-1914 average = 100)	Pennsylvania			New Jersey			United States		
	1932	1935	1936	1932	1935	1936	1932	1935	1936
Prices received	75	104	114	88	121	127	65	108	114
Prices paid	107	125	124	107	125	124	107	125	124
Ratio	70	83	92	82	97	102	61	86	92

Source: Federal-State Crop Reporting Service, Department of Agriculture.

Employment Industrial employment and payrolls showed marked gains during the year and reached the largest volume since 1929-1930. The expansion in wage earnings and working time was quite pronounced. Increases in wage rates were widespread, especially after the middle of the year, and this tendency has been carried into 1937. The following table shows the trend of employment and payrolls over the past four years:

Index of general employment and payrolls—Pennsylvania. (1932 average = 100; indexes are annual averages.)	Employment				Payrolls			
	1933	1934	1935	1936	1933	1934	1935	1936
General index (weighted)*	99	108	108	114	97	118	126	151
Manufacturing.....	105	116	121	130	108	138	155	189
Anthracite mining.....	83	95	86	84	85	104	89	85
Bituminous coal mining.....	99	121	120	121	100	154	161	199
Quarrying and non-metallic mining.....	93	105	97	107	94	124	128	184
Crude petroleum producing.....	139	183	193	180	122	163	170	178
Public utilities.....	92	90	89	91	86	88	91	97
Retail trade.....	101	109	110	113	95	106	108	117
Wholesale trade.....	98	103	106	111	91	96	100	107
Hotels.....	94	106	104	106	82	100	103	111
Laundries.....	93	94	95	99	85	92	95	105
Dyeing and cleaning.....	99	99	94	100	90	103	101	108

* Includes building and construction.

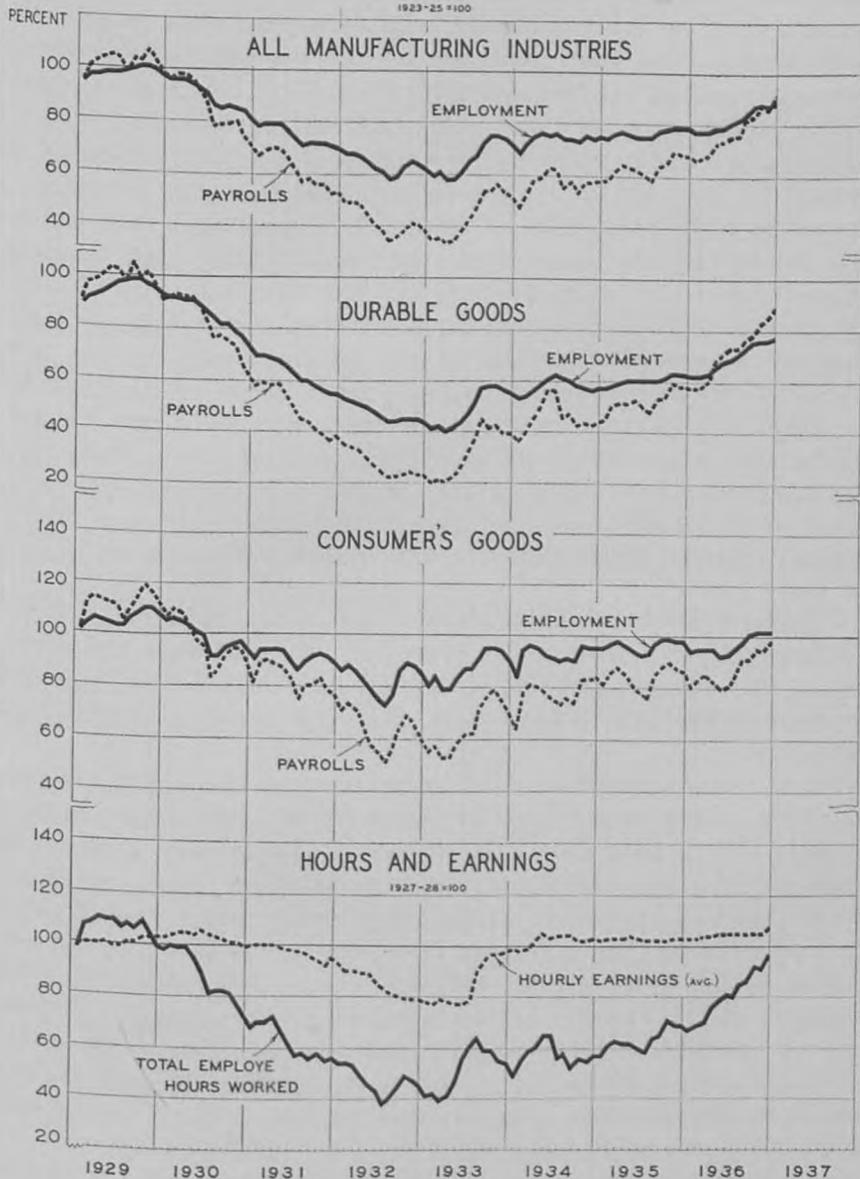
Industrial disputes again increased during 1936, a feature that usually accompanies business recovery and advancing prices. Available figures indicate that the number of industrial plants affected by strikes in this district was noticeably larger than in the previous year. The severity and duration of these disputes also were more pronounced.

While the improved industrial condition resulted in a considerable absorption of the unemployed workers, the burden of public relief in various forms continued heavy. The amount expended for direct relief in Pennsylvania, for example, totaled about \$63,000,000 while in 1935 it approximated \$149,000,000, but this decline accompanied a sharp increase in the amount spent for work relief. During the period from July 1935 to April 10, 1937, Federal commitments in Pennsylvania, New Jersey and Delaware under the appropriations pursuant to emergency relief acts of 1935 and 1936 aggregated over \$709,000,000. This figure does not include expenditures for materials, supplies and supervision incurred by the local governmental sponsors. These and other forms of public expenditures necessarily had a stimulating effect on trade activity.

EMPLOYMENT AND PAYROLLS

PENNSYLVANIA

1923-25 = 100



Trade and services Higher incomes from such important sources as wages, salaries, dividends, and the sale of farm products resulted in larger purchases of goods and services during 1936. The value of retail trade sales by all reporting stores combined was 14 per cent larger than in the previous year. Consumer buying on the installment plan showed an even greater rate of expansion than that indicated by the general average for all reporting retail lines. For example, the sales of credit stores which handle chiefly furniture and other household equipment such as refrigerators, radios, vacuum cleaners and washing machines increased 31 per cent as compared with 1935 and 46 per cent as compared with 1934. Retail financing of passenger automobiles also showed a large gain over other recent years and the total volume of new and used cars sold was the largest in several years.

Several factors accounted for the increase in installment sales. Among these were reductions in the amounts required for down payments, lower carrying charges, longer terms of sale and the extension of the installment plan to more classes of merchandise, particularly goods which depreciate in a comparatively short time. The basic reason underlying this development is probably to be found in the improvement of general business conditions, higher incomes and the belief that business stability is to be maintained for some time.

Dollar sales by eight wholesale lines in the aggregate showed a gain of 11 per cent over the preceding year and were the largest since 1930, reflecting in part higher prices. The greatest increases occurred in the sale of dry goods, electrical supplies, jewelry, and hardware.

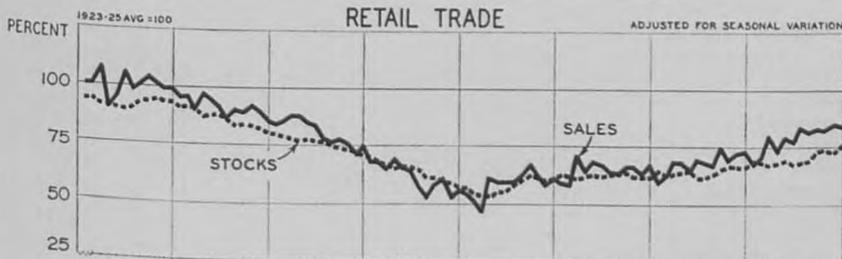
The dollar volume of retail inventories at the end of the year was 15 per cent larger than at the same time last year, while at wholesale establishments the value of stocks was 6 per cent greater. The rate of stock turnover at retail stores continued to rise, the ratio for all reporting stores being about 4.6 as against 4.3 a year before. As in former years, the rate at which inventories moved varied considerably between the individual stores. For example, in the case of Philadelphia department stores the turnover of inventories ranged from slightly over four to less than six times a year, while the weighted average for these stores was almost five times. The rate of stock turnover for the eight lines of wholesale trade also increased from 5.7 in 1935 to 6.1 in 1936.

Settlements of customers' accounts at retail stores showed additional gains throughout the year, the ratio of collections to

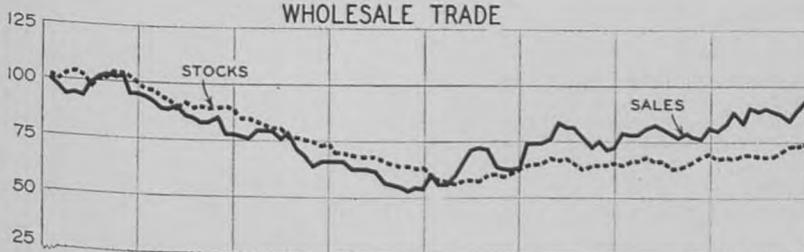
DISTRIBUTION

PHILADELPHIA FEDERAL RESERVE DISTRICT

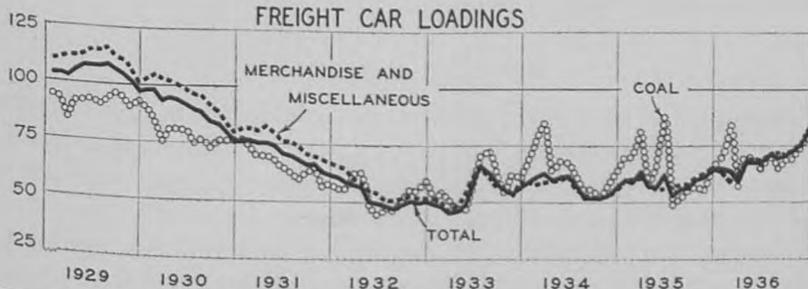
RETAIL TRADE



WHOLESALE TRADE



FREIGHT CAR LOADINGS



receivables rising about 6 per cent. In the case of regular charge accounts at department stores the average ratio of collections to receivables was nearly 10 per cent higher than in the previous year, the gains being increasingly pronounced as the year progressed. A similar ratio measuring payments of installment accounts, on the other hand, was only slightly higher than in 1935. For wholesale establishments the collection ratio registered an average increase of 9 per cent over that in the preceding year.

Other indicators relating to the distribution of goods and services generally have registered continued improvement whether

measured in value or in volume. The following table gives a statistical summary of the trend in this branch of business:

Distribution Philadelphia Federal Reserve District (1923-25 average = 100)	Annual averages of monthly indexes						Monthly	
	1929	1932	1933	1934	1935	1936	Dec. 1935	Dec. 1936
Retail trade								
Sales.....	100	61	59	65	69	79	73	84
Stocks.....	92	64	57	62	65	70	66	76
Wholesale trade								
Sales.....	98	59	63	75	79	87	81	94
Stocks.....	102	66	59	65	66	69	70	74
New passenger automobiles ..	131	51	62	73	99	124	245	323
Commercial hotels (1934 = 100)								
Occupancy.....	...	...	86	100	106	119	96	110
Income—total.....	...	...	82	100	107	124	110	135
Freight car loadings								
Allegheny district.....	106	52	55	57	59	70	65	83
Phila. industrial area.....	107	65	62	58	62	68	66	73
Port of Philadelphia								
Exports.....	78	42	51	51	49	41	43	42
Imports.....	145	100	108	102	109	122	95	113
Coastwise and intercoastal....	164	179	198	202	210	225	220	195

Note: December figures are adjusted for seasonal variations except those for commercial hotels and the Port of Philadelphia.

Banking conditions

Among the principal features characterizing the banking situation in this district have been a large accumulation of deposits at the banks, a pronounced expansion in member bank balances held with the reserve bank and a smaller rise in those with correspondent banks, a continuance of negligible demand for commercial loans generally as well as for discounts and advances at the reserve bank, increased demand for currency, and an improvement in bank profits. Short-term money rates and yields on bonds have continued at extremely low levels, reflecting the influence of easy conditions engendered by the abundant supply of funds and a limited demand for them.

The large volume of excess bank reserves throughout the country including this district was curtailed by increased reserve requirements to prevent the possibility at a later date of injurious expansion of bank credit at a time of increasing business and rising prices. Margin requirements on security loans by brokers and dealers were raised and margin requirements were extended to loans made by banks to purchase or carry registered stocks. More-

over, to neutralize the effect of incoming gold on the credit base, the Treasury in December adopted a policy of segregating gold in an "inactive" account, thereby eliminating the expansionary effect it formerly had on the reserves of banks. These measures were taken in the interest of maintaining sound credit conditions.

Reserve bank credit The most important development with respect to credit extended by this bank during the year was a further increase in the holdings of United States Government securities through the usual participation of this bank

in the Federal Reserve System holdings. In the first half of the year the amount held by this bank remained fairly steady at about \$177,000,000 but at the end of June it was increased to more than \$211,000,000. This expansion was due to an adjustment made in the distribution of securities among the several reserve banks in accordance with a revised formula for allotment prescribed by the Federal Open Market Committee and based on earning requirements for each quarterly period. At the same time such government securities as were held in the separate investment accounts of the reserve banks were transferred to the System Open Market Account. In the last quarter of the year, total holdings of this bank declined to less than \$209,000,000. The following figures show changes in the total and in the composition of United States obligations held by this bank at the end of each of the past four years.

United States Government Securities
held by the Federal Reserve Bank of Philadelphia
(in thousands of dollars)

End of year	Bonds	Notes	Bills	Total
1933	28,068	74,042	65,010	167,120
1934	25,138	104,810	37,172	167,120
1935	16,848	120,857	39,415	177,120
1936	42,193	115,317	51,479	208,989

Borrowings by member banks during the year continued to be negligible, the discounts seldom averaging more than half a million dollars in any one month. Little eligible paper was tendered for rediscount, loans secured by government obligations making up the largest part of total loans to members. Only one small loan was made under Section 10(b) of the Federal Reserve Act, as amended in 1935, and this loan was liquidated after nine days.

The small quantity of bills included in the earning assets of this bank represented a participation in foreign bills held by the Reserve System.

Industrial advances under Section 13(b) of the Federal Reserve Act declined from about \$6,700,000 in January to \$4,800,000 in December, although the average outstanding for the year was larger than in 1935. The decline in the number of applications and in the amount of advances reflected largely the improvement in general business conditions and the increasing ease in the credit situation generally, with a consequent decrease in the demand for working capital loans of this character. The accompanying table shows changes in the activity of these loans since they were authorized in June 1934. The figures refer to both the reserve bank and other participating institutions.

Industrial loans (Participations of other financing institutions included)	June 1934 to Dec. 1935	June 1934 to Dec. 1936
In number:		
Applications received—net.....	512	576
Under consideration December 31.....	6	0
	506	576
Loans and commitments*.....	136	163
In dollars:		
Applications received—net.....	\$36,380,000	\$39,031,000
Under consideration December 31.....	660,000	0
	\$35,720,000	\$39,031,000
Loans and commitments*.....	22,992,000	24,090,000
Actual advances made.....	\$12,378,000	\$13,148,000
Repayments.....	3,391,000	6,326,000
Advances outstanding at end of year.....	\$ 8,987,000	\$ 6,822,000
Commitments outstanding at end of year.....	1,307,000	439,000

* Includes approved applications that subsequently were reduced or withdrawn, or expired unused.

There follows a statistical summary of changes in the principal types of reserve bank credit outstanding:

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Bill and security holdings F. R. B. of Phila. (Millions of dollars)	Bills dis- counted	Bills bought	In- dustrial advances	United States securities	Other securities	Total
Annual averages:						
1933.....	45.3	3.6	0	146.3	0.6	195.8
1934.....	9.6	1.7	0.3	167.1	0.4	179.1
1935.....	0.6	0.5	4.4	172.7	...	178.2
1936.....	0.4	0.4	5.4	193.8	0	200.0
Monthly averages:						
1935—Dec.....	0.5	0.5	6.8	177.1	0	184.9
1936—Jan.....	0.4	0.5	6.7	177.1	0	184.7
Feb.....	0.6	0.5	6.6	177.1	0	184.8
Mar.....	0.5	0.5	5.6	177.1	0	183.7
Apr.....	0.4	0.5	5.3	177.1	0	183.3
May.....	0.4	0.4	5.2	177.1	0	183.1
June.....	0.5	0.3	5.2	178.2	0	184.2
July.....	0.2	0.3	5.1	211.2	0	216.8
Aug.....	0.3	0.3	5.1	211.2	0	216.9
Sept.....	0.4	0.3	5.0	211.2	0	216.9
Oct.....	0.2	0.3	5.0	209.0	0	214.5
Nov.....	0.2	0.3	5.0	209.0	0	214.5
Dec.....	0.4	0.3	4.8	209.3	0	214.8

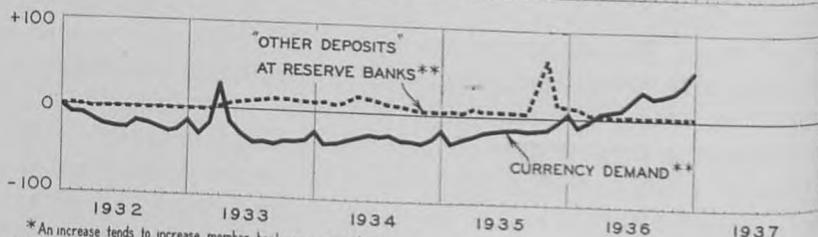
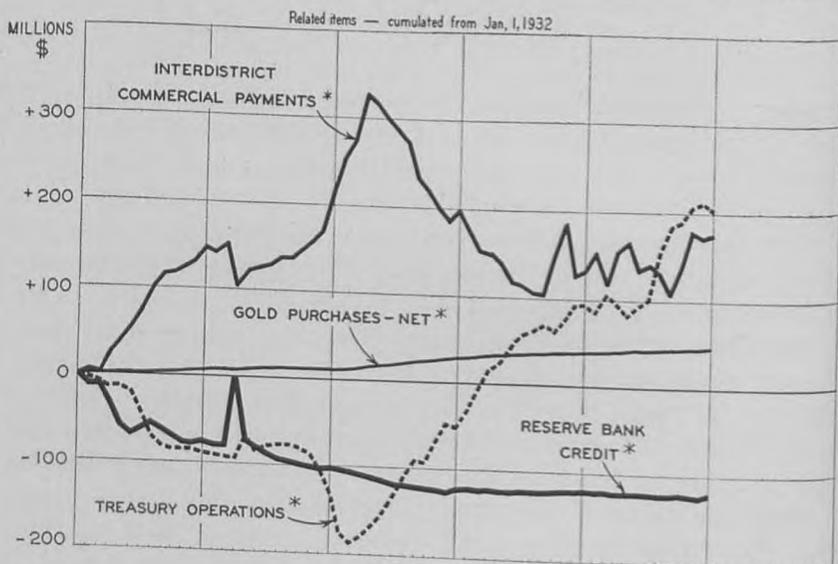
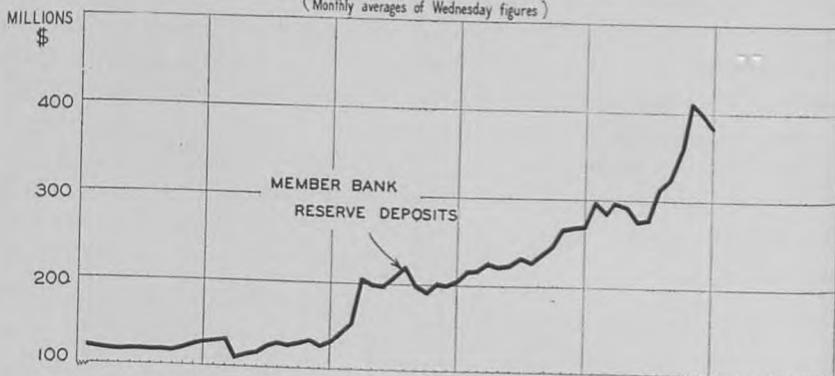
Member bank reserves Reserve balances of member banks in this district increased from \$274,000,000 to \$381,000,000 during 1936 and this was the largest expansion shown for any year in the history of this bank. Pronounced fluctuations in early months were followed by a general trend downward to the middle of June. But in the last half of that month this movement was reversed sharply upward as a result of large payments made by the Treasury in cashing adjusted service checks for veterans. Though declining in volume, this factor continued to exert an influence on bank reserves over the summer months. Moreover, in the autumn a further substantial rise in reserves resulted partly from the flow of funds to this district in payment for a new issue of securities by the Commonwealth of Pennsylvania. The highest level reached by member bank reserves was over \$422,000,000 on October 20 and subsequently it declined to \$381,000,000 at the end of the year. The daily average of member bank reserve balances was \$325,000,000 as compared with \$235,000,000 in 1935, \$191,000,000 in 1934, and \$121,000,000 in 1933.

Over the greater part of the first seven months of 1936, reserves of member banks in Philadelphia were more than double legal requirements and those of members outside of this city averaged about 80 per cent above requirements. Effective August 16, the percentages of reserves required to be maintained against

MEMBER BANK RESERVE DEPOSITS AND RELATED ITEMS

PHILADELPHIA FEDERAL RESERVE DISTRICT

(Monthly averages of Wednesday figures)



* An increase tends to increase member bank reserves and vice versa
 ** An increase tends to reduce member bank reserves and vice versa

deposits were increased by one-half by action of the Board of Governors of the Federal Reserve System. The effect of this increase upon the excess reserves of member banks in this district was virtually nullified by an immediate and pronounced increase in reserves of country banks and within a month or so by a sharp rise in those of city banks. As a result, reserve balances continued into 1937 substantially above requirements. In December, for example, Philadelphia member banks still had average excess reserves of 64 per cent and country banks 50 per cent over requirements. Member banks in this district at the end of the year reported large balances with their correspondents, far in excess of those carried prior to the depression.

RESERVE DEPOSITS OF MEMBER BANKS

PHILADELPHIA FEDERAL RESERVE DISTRICT



The large expansion in bank reserves throughout the country has reflected principally the influence of gold which has been coming into this country in unusually large amounts. While the immediate result of imported gold is to increase deposits and reserve balances of banks at the port of entry, its subsequent effect on deposits and reserves of banks in the interior is essentially the same because of the quick diffusion of funds among the various groups and classes of banks as well as different sections of the country. This distri-

bution takes place partly through the normal processes of business and financial transactions and to a greater extent in recent years through the operations of the United States Treasury.

Payments arising out of innumerable commercial transactions involving goods, securities and services are made constantly between the various parts of the country. Each payment involves a transfer of bank reserves in one form or another through the clearance system. Public expenditures of funds obtained through taxation and the sale of government securities to banks, especially those in larger cities, exert an extremely important influence upon the distribution of reserves among all banks. The disbursement of funds by the Treasury continued to be widespread and member banks outside large centers shared very substantially in the growth of total bank reserves.

In the Philadelphia Federal Reserve District, the excess of Treasury payments over receipts was especially large late in June and in July when veterans were actively cashing adjusted service bonds. Payments in connection with work relief during the year also were large. The amount of disbursements by the United States Treasury in this district exceeded the aggregate receipts by \$101,000,000 and this was the greatest single factor contributing to a rise of \$107,000,000 in member bank reserves during 1936.

This district gained \$47,000,000 in commercial and financial transactions with other districts. This favorable balance, however, was due to the payment for securities sold by the Reconstruction Finance Corporation outside this district. The proceeds of these sales were credited to the local account of the Treasury and had no effect on member bank reserves here until expended through Treasury operations. In other transactions the balance of payments was adverse to this district since banks made substantial purchases of securities elsewhere requiring a transfer of funds to other districts, particularly New York.

The demand for currency continued to increase, largely as a result of expanding trade and industrial payrolls. For the year as a whole this increase amounted to \$50,000,000 and its obvious effect was to reduce member bank reserves. The sharp rise in currency shipments in June was due chiefly to the cashing of checks for the veterans. Following several months of small changes there was a rise in demand at the winter holiday season, the expansion this year being greater than is usual at that time.

A detailed analysis of changes in the various factors affecting member bank reserves is given in the following table:

Twenty-second Annual Report, Federal Reserve Bank of Philadelphia

Member bank reserves and related items (Millions of dollars)	Changes during 1936				
	Jan. 1- June 17	June 18- Sept. 9	Sept. 10- Oct. 21	Oct. 22- Dec. 31	Total
Sources of funds:					
Reserve bank credit extended in district.....	+ 1.0	- 1.7	- 0.9	- 1.5	- 3.1
Interdistrict commercial transfers.....	+12.7	- 24.0	+59.0	- 1.0	+ 46.7
Mint gold purchases, net.....	+ 4.1	+ 1.4	+ 0.7	+ 2.0	+ 8.2
Treasury operations.....	-15.4	+120.5	+10.8	-15.0	+100.9
Total.....	+ 2.4	+ 96.2	+69.6	-15.5	+152.7
Uses of funds:					
Currency demand.....	+21.3	+ 6.4	+ 0.5	+22.4	+ 50.6
Member bank reserve deposits.....	-14.3	+ 91.3	+69.0	-39.1	+106.9
"Other deposits" at reserve bank.....	- 6.7	- 1.7	- 0.2	+ 0.6	- 8.0
Unexpended capital funds of reserve bank.....	+ 2.1	+ 0.2	+ 0.3	+ 0.6	+ 3.2
Total.....	+ 2.4	+ 96.2	+69.6	-15.5	+152.7

Reserve position of Federal Reserve Bank Cash reserves of this bank at the end of the year aggregated about \$521,000,000 as against \$405,000,000 a year ago. The low volume for the year was \$392,000,000 in the middle of February and the high was \$540,000,000 in October. The increase was due principally to transfers of funds to this district by the Treasury and to deposits made by the Treasury to the credit of this bank in the interdistrict settlement fund, and in a smaller measure to a gain in commercial and financial transactions with other districts.

Deposit liabilities also increased from \$298,000,000 at the beginning of 1936 to almost \$400,000,000 at the end of that year. Similarly, the circulation of Federal reserve notes issued by this bank expanded from \$272,000,000 to \$312,000,000, the daily average being about \$289,000,000 or substantially larger than in the previous three years. The amount of collateral held by the Federal Reserve Agent as security for notes issued to the bank on December 31 totaled \$332,285,000. Credits in the gold certificate fund made up \$332,000,000 of the total, while eligible paper was only \$285,000. On only a few days of the year were United States Government obligations used as collateral.

The ratio of reserves to Federal reserve note and deposit liabilities combined averaged 72.4, the highest for several years, although it declined below 70 in the summer, following the increase in the holdings of government securities. Subsequently it advanced

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and at the end of the year was 73.3. The following table gives annual averages of the reserve ratio derived from daily figures and of the factors used in its calculation:

Reserve position Federal Reserve Bank of Phila. (Millions of dollars)	Federal reserve note cir- culation	Member bank reserve deposits	Total deposits	Total cash reserves	Reserve ratio
Annual averages:					
1933.....	245.6	121.5	134.7	228.3	60.0%
1934.....	242.6	190.8	204.6	296.7	66.3 "
1935.....	244.4	235.3	256.8	345.0	68.8 "
1936.....	289.4	324.6	351.7	464.0	72.4 "
Monthly averages:					
1935—December.....	273.1	266.3	289.4	396.6	70.5 "
1936—January.....	265.5	294.3	329.3	431.6	72.6 "
February.....	269.3	283.2	298.6	405.4	71.4 "
March.....	277.7	295.2	330.6	446.3	73.4 "
April.....	280.3	292.5	340.1	460.0	74.1 "
May.....	281.9	275.6	313.2	435.1	73.1 "
June.....	291.6	276.1	316.4	447.0	73.5 "
July.....	299.6	315.6	343.9	449.6	69.9 "
August.....	295.3	320.3	342.1	443.5	69.6 "
September.....	296.3	353.8	374.4	476.4	71.0 "
October.....	297.3	405.8	419.8	525.2	73.3 "
November.....	303.9	397.4	410.6	523.7	73.3 "
December.....	313.9	383.0	399.7	521.5	73.1 "

Discount and interest rates Money rates during 1936 continued at abnormally low levels, owing principally to a large supply of funds seeking investment and a restricted demand for these funds from various classes of borrowers. Fractional advances on street loans and bankers' bills were insignificant in effect. Commercial paper sold at an unchanged rate of $\frac{3}{4}$ per cent for the second year; the lowest rate in many years prior to 1930 was $3\frac{1}{8}$ per cent in 1924. Short-term rates as a rule have continued considerably below those prevailing in the long-term money markets.

The most common rates charged customers by member banks in this district on commercial and industrial loans in the latter part of the year were from 5 to 6 per cent, although they were lower in a number of instances depending on terms and conditions of the loan and the risk involved. The same general observation is equally applicable to other types of customer loans such as farm and urban real estate and agricultural loans. The range of rates on loans in cities with population of 100,000 or over was wider than in other places in this district.

Long-term rates declined to the lowest levels of the present century. Yields of United States Government bonds in 1936 averaged less than $2\frac{1}{2}$ per cent as compared with the lowest average of over $3\frac{1}{4}$ per cent reached by these bonds in the twenties. Corporate bonds of the first three grades have sold on the average yield basis of 3.24, 3.47 and 4.02 per cent, respectively, the lowest rates in nearly three decades. The effect of such low rates on bank earnings constituted a problem for the banking system.

The Federal Reserve Bank of Philadelphia made no change during the year in its rates of discount and rediscount. The rate applying to rediscounts and advances to member banks under sections 13 and 13a of the Federal Reserve Act continued at 2 per cent since January 1935, and the rate on advances under section 10(b), secured to the satisfaction of the reserve bank, remained one-half per cent above the discount rate. Rates on other classes of paper follow:

Advances to individuals, partnerships and corporations secured by direct obligations of the United States (under last paragraph of Section 13 of the Federal Reserve Act).....	4%
Rates on industrial advances:	
Advances direct to industrial or commercial organizations....	4-6%
Advances to financing institutions—	
On portion for which institution is obligated.....	{ 1% above established discount rate *
On remaining portion.....	
Commitments to make advances.....	$\frac{1}{2}$ -2%

* Same as to borrower; minimum of 4%.

Maximum rates payable by member banks on time and savings deposits, under regulations of the Board of Governors, continued unchanged during the year. They were:

Savings deposits	$2\frac{1}{2}$ %
Postal Savings deposits.....	$2\frac{1}{2}$ "
Other time deposits payable in—	
Six months or more.....	$2\frac{1}{2}$ "
Ninety days to six months.....	2 "
Less than ninety days.....	1 "

The great majority of member banks of this district in the last quarter of the year paid a flat rate of 2 or $2\frac{1}{2}$ per cent on savings deposits. A number of banks had scales of rates which varied in accordance with the amount of the deposits, such rates being as low as $\frac{1}{2}$ per cent. Substantially the same rates were paid on time deposits having a maturity date of six months or

more. The most common flat rates on time deposits maturing between ninety days and six months were $\frac{1}{2}$ and 1 per cent in cities of 100,000 population or over and 2 per cent in smaller places. In the case of time deposits payable in less than ninety days the most frequent flat rate was 1 per cent and the lowest reported rate was $\frac{1}{4}$ per cent.

Condition of member banks Continuing the upward trend from the depression low levels, the deposits of member banks in this district increased further by over \$300,000,000 to a new record volume of \$2,935,000,000 on December 31. All types of deposits expanded except postal savings which again showed a marked decline. Deposits of the United States Government registered the largest relative growth. The increase in demand deposits of individuals, firms and corporations was considerable at member banks as a whole but especially so at country banks. Whereas Philadelphia members showed an expansion of 9 per cent in this type of deposits, country banks had a rise of over 26 per cent between the end of 1935 and that of 1936. Time deposits likewise increased at both classes of banks but by a smaller proportion than in the case of demand funds.

Changes in various types of deposits are indicated by the following figures:

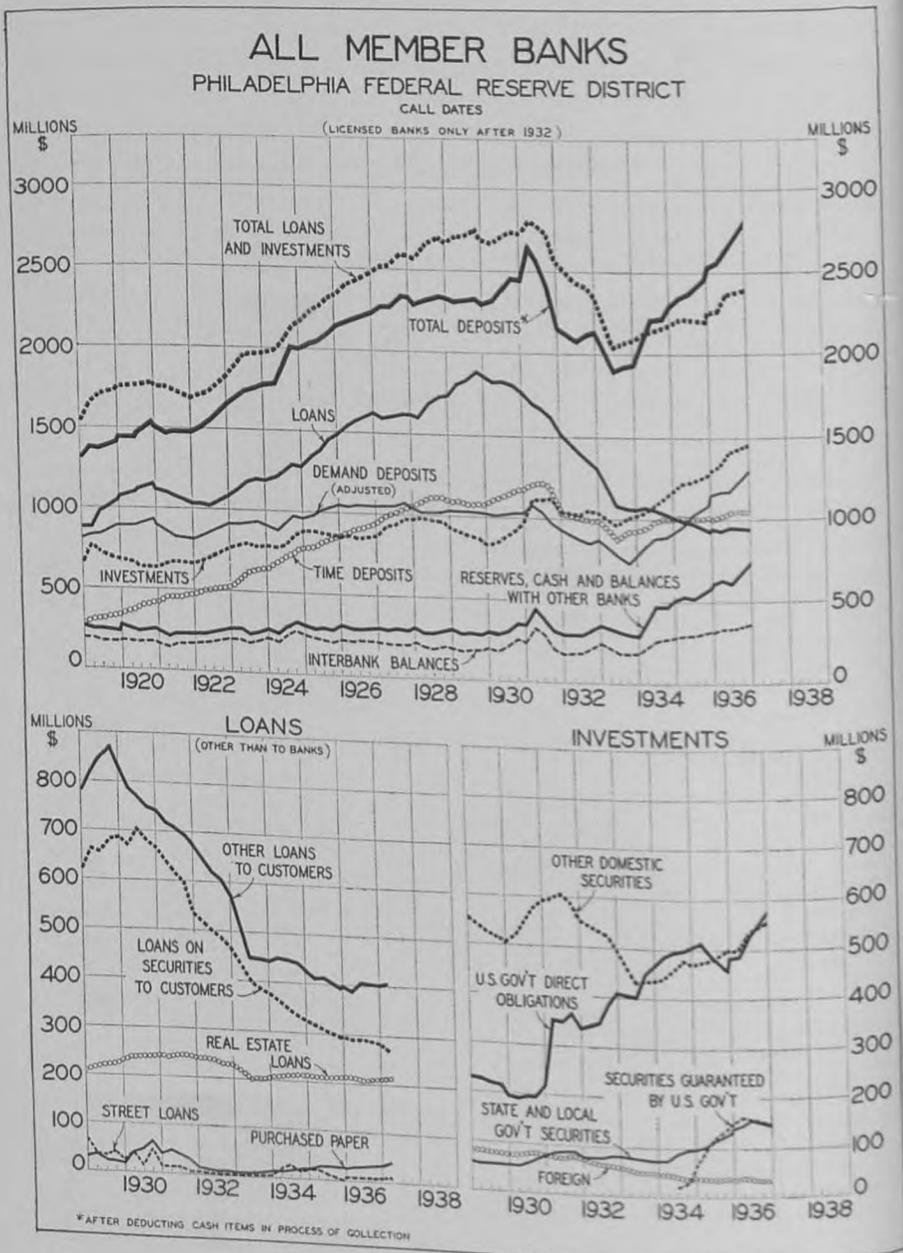
Member bank deposits Philadelphia Federal Reserve District (Millions of dollars)	Philadelphia banks		Country banks	
	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1935	Dec. 31, 1936
Individuals, partnerships and corporations:				
Demand.....	700	760	400	506
Time.....	193	199	766	806
State, county and municipal.....	55	54	92	105
Interbank.....	303	353	9	10
United States Government and Postal Savings.....	44	70	46	43
All other.....	9	10	12	19
Total.....	1,304	1,446	1,325	1,489

Total loans declined to \$939,000,000 at the end of the year as compared with \$945,000,000 a year before. This reduction was due chiefly to a decrease of \$18,000,000 in loans on securities to customers other than brokers and dealers, in the face of sharp advances in security prices. Decreases in interbank and real estate loans

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Licensed member banks Philadelphia Federal Reserve District (000,000's omitted)	Dec. 31, 1934	Dec. 31, 1935	Dec. 31 1936
ASSETS			
Loans on securities:			
To brokers and dealers in New York City	\$ 22	\$ 9	\$ 9
To brokers and dealers elsewhere	18	18	21
To others (except banks)	306	278	260
Total loans on securities to others than banks	\$ 346	\$ 305	\$ 290
Acceptances and commercial paper bought	22	27	35
Loans on real estate	212	212	211
Loans to banks	6	4	2
Other loans	426	397	401
Total loans	\$1,012	\$ 945	\$ 939
United States Government securities	505	482	576
Securities fully guaranteed by U. S. Government	62	148	147
Other securities	606	671	732
Total loans and investments	\$2,185	\$2,246	\$2,394
Banking house, furniture and fixtures	88	88	86
Other real estate owned	55	69	76
Reserve with Federal Reserve Bank	211	275	379
Cash in vault	42	47	46
Balances with other banks	255	285	317
Checks and other cash items	96	104	134
Other assets	34	30	29
Total assets	\$2,966	\$3,144	\$3,461
LIABILITIES			
Deposits:			
United States	\$ 93	\$ 61	\$ 95
State, county and municipal	120	147	159
Postal savings	44	29	18
Interbank	276	312	363
Other demand	912	1,121	1,295
Other time	937	959	1,005
Total deposits	\$2,382	\$2,629	\$2,935
National bank notes outstanding	73	0	0
Bills payable and rediscounts	2	1	—
Other liabilities	30	31	32
Capital account:			
Capital stock	195	198	194
Surplus	215	212	214
Undivided profits—net	41	48	58
Reserves for contingencies	28	24	27
Retirement fund for preferred stock	—	1	1
Total liabilities	\$2,966	\$3,144	\$3,461
Number of member banks	656	656	658

generally were of no consequence. The volume of bills and commercial paper purchased, loans to brokers and dealers, and other loans largely to business and agriculture rose by \$15,000,000.



While business activity continued to expand at a rapid rate, commercial loans in the aggregate increased only \$4,000,000. This gain reflected largely the activity of member banks in Philadelphia, especially in the second and third quarters of the year. Commercial

loans by country banks were smaller at the end of 1936 than at the end of 1935. Undoubtedly new loans were made by these banks but they were offset by repayments so that the net change was a decline. The volume of this class of loans was less than one-half of that in 1929 and substantially smaller than in other years when business and prices were advancing.

Among the various explanations offered to account for this trend is the fact that the method of financing business has been changing over a period of years. The chief characteristics of this change are reflected principally in the increase of corporate funds resulting from such factors as mergers, consolidations and financial readjustments, rapid turnover of goods, improved transportation facilities, prompt payments by customers, and large government disbursements. While some of these developments may be transitory, they have been significant factors affecting the income of banks from a source which was most important in earlier years. In consequence, banks have been searching for new sources for the employment of the large supply of funds on hand.

Figures below indicate changes in loans by type:

Member bank loans Philadelphia Federal Reserve District (Millions of dollars)	Philadelphia banks		Country banks	
	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1935	Dec. 31, 1936
Loans on securities:				
To brokers and dealers in N. Y. City.....	8	9	1	1
To brokers and dealers elsewhere.....	16	18	2	3
To others (except banks).....	123	120	155	139
Total loans on securities.....	147	147	158	143
Acceptances and commercial paper bought..	18	21	9	14
Loans on real estate.....	58	53	154	158
Loans to banks.....	3	2	1	—
Other loans.....	158	176	238	225
Total loans.....	384	399	560	540

In striking contrast to the trend in commercial loans, the volume of investments increased substantially. Holdings of direct issues of the United States rose \$94,000,000 to \$576,000,000, the highest on record and nearly one-quarter of the earning assets of the banks. About three-quarters of these holdings were in bonds while the remainder was almost entirely in Treasury notes. Obligations fully guaranteed by the United States as to principal and

Analysis of Member Bank Investments Philadelphia Federal Reserve District

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Figures are as of the end of year (000's omitted in dollar figures)	Philadelphia banks			Country banks			Composition: 1936	
	1935	1936	Change	1935	1936	Change	Phila. banks	Country banks
Direct obligations—U. S. Government	\$265,503	\$307,940	+16%	\$216,666	\$268,168	+ 24%	46.2%	34.0%
Treasury bonds—								
Maturing by Dec. 31, 1949.....	89,881	103,334	+15 "	64,511	86,865	+ 35 "	15.5 "	11.0 "
Maturing after Dec. 31, 1949.....	64,629	121,557	+88 "	88,053	118,258	+ 34 "	18.2 "	15.0 "
Other bonds.....	0	0	0	1,668	1,508	- 10 "	0	0.2 "
Treasury notes.....	110,993	83,049	-25 "	60,860	59,985	- 1 "	12.5 "	7.6 "
Treasury bills.....	0	0	0	1,574	1,552	- 1 "	0	0.2 "
Obligations guaranteed by U. S. Govern- ment	\$89,838	\$84,074	- 6%	\$58,014	\$62,574	+ 8%	12.6%	7.9%
Reconstruction Finance Corporation.....	0	25	+	50	0	-100 "	0.0 "+	0
Federal Farm Mortgage Corporation.....	28,543	21,727	-24 "	17,429	22,030	+ 26 "	3.3 "	2.8 "
Home Owners' Loan Corporation.....	61,295	62,322	+ 2 "	40,535	40,544	+ 0 "	9.3 "	5.1 "
Other securities	\$254,689	\$274,568	+ 8%	\$416,748	\$457,994	+ 10%	41.2%	58.1%
Obligations of—								
States, counties, municipalities.....	72,715	74,870	+ 3 "	65,771	72,721	+ 11 "	11.2 "	9.2 "
Public utilities.....	40,570	45,936	+13 "	120,586	132,730	+ 10 "	6.9 "	16.8 "
Railroads.....	49,740	54,339	+ 9 "	115,442	126,818	+ 10 "	8.2 "	16.1 "
Federal land, joint stock and intermediate credit banks.....	4,834	9,599	+99 "	13,781	14,166	+ 3 "	1.4 "	1.8 "
Territorial and insular possessions.....	277	237	-14 "	2,050	878	- 57 "	0.0 "+	0.1 "
Real estate corporations.....	2,991	2,961	- 1 "	3,931	3,520	- 10 "	0.4 "	0.5 "
Miscellaneous.....	31,847	35,111	+10 "	54,387	70,282	+ 29 "	5.3 "	8.9 "
Stocks, domestic corporations.....	38,970	37,054	- 5 "	18,346	18,723	+ 2 "	5.6 "	2.4 "
Foreign securities.....	12,745	14,461	+13 "	22,454	18,156	- 19 "	2.2 "	2.3 "
Grand totals	\$610,030	\$666,582	+ 9%	\$691,428	\$788,736	+ 14%	100.0%	100.0%

interest amounted to \$147,000,000 or about the same as in the previous year. The holdings of other securities, chiefly obligations of state and local governments, public utilities, railroads and miscellaneous industrials, expanded by \$61,000,000 to \$732,000,000, the largest in several years. An accompanying table presents a detailed analysis of the investments of member banks in this district.

Two general observations are suggested by the figures in this table—one relating to the change in investments during the year and the other bearing on the composition of investments. It is clear that member bank holdings of United States Government securities increased considerably and that this increase was more pronounced both actually and relatively in the case of country banks than in that of Philadelphia banks. A small decline in obligations guaranteed by the United States Government at Philadelphia banks was largely offset by an increase at country banks. Increases in holdings of other securities were greater at country banks than at those in Philadelphia. Investments in all types of securities at the end of the year were 9 per cent larger at Philadelphia member banks and 14 per cent larger at country member banks than on the same date of the preceding year.

With respect to the composition of these holdings, the analysis shows that at the end of the year Philadelphia banks had a greater concentration of investment in both direct and guaranteed obligations of the Federal government than did the country banks. The preponderance of other securities held by the latter was due principally to substantial amounts of public utility and railroad obligations, each of which made up about one-sixth of the investments of these banks.

From this summary it is obvious that expansion of member bank credit from \$2,246,000,000 to \$2,394,000,000 during the year was due primarily to investment in securities, particularly United States Government obligations. This increase was less than one-half of the rise in total deposits. The remainder of the deposited funds was held unused largely in the form of increased balances at the reserve banks and with correspondent banks. In the aggregate these balances were about two and one-half times as large at the end of 1936 as they were at the close of 1929, although total deposits increased less than one-fifth in this period.

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Member banks Phila. Fed. Res. District (Millions of dollars)	Gross deposits	Reserves at F. R. Bank	Balances with other banks	Bills payable and rediscounts
Banks in Philadelphia:				
1936—Dec. 31.....	1,446	244	164	0
1935—Dec. 31.....	1,304	188	165	0
1933—Dec. 30.....	961	72	84	3
1929—Dec. 31.....	1,090	73	70	33
Banks outside Philadelphia:				
1936—Dec. 31.....	1,489	134	153	—
1935—Dec. 31.....	1,325	87	119	1
1933—Dec. 30.....	1,046	54	44	20
1929—Dec. 31.....	1,378	64	51	61

Capital funds of member banks—capital stock, surplus, undivided profits and reserves—during 1936 increased over 1935 by \$10,000,000 to \$493,000,000 as compared with a low of \$471,000,000 at the end of 1933 and about \$650,000,000 in 1929. Deposit liabilities also increased to \$2,935,000,000 as compared with a depression low of about \$2,000,000,000 in 1933 and \$2,500,000,000 in 1929. The ratio of capital funds to deposits has declined almost steadily since 1931 and at the end of the year was less than 17 per cent.

To express this relationship in another way: for every \$1.00 of capital funds there were \$5.95 of deposit liabilities at the end of 1936 as compared with \$3.80 in 1929. Figures for all member banks in the country showed a similar trend. Whereas in 1929 the ratio of deposit liabilities to capital funds was \$5.67 to \$1.00, it was \$8.13 to \$1.00 at the end of 1936. In view of the change in the character of earning assets of banks over a period of years, this tendency in the relationship between deposit liabilities and capital funds takes on added significance, and imposes upon bank management the responsibility for exercising special care and skill in the formulation and execution of sound loan and investment policies.

*Member
bank
earnings and
expenses*

In 1936 member banks showed net profits of \$28,700,000, or about 26 per cent of total earnings from current operations. This followed \$6,400,000 of profits realized in 1935 and a period of losses aggregating \$95,000,000 in the four years 1931 to 1934. Although the experience of individual banks varied considerably, the ratio of profits to current earnings in 1936, with the exception of one group, was remarkably even among all groups of banks of various sizes as measured by their average deposits.

The accompanying table shows the trend of the items determining net profit or loss.

(Millions of dollars)	Total current earnings	Current expenses	Net current earnings	Recoveries and profits on sales of securities	Losses and depreciation	Net profit (+) or net loss (-)
1928.....	156.8	112.3	44.5	13.2	13.4	+44.3
1929.....	170.2	116.9	53.3	10.1	16.8	+46.6
1930.....	162.8	118.0	44.8	7.7	24.8	+27.7
1931.....	154.6	109.4	45.2	7.9	58.5	- 5.4
1932.....	132.7	98.9	33.8	6.2	87.4	-47.4
1933*.....	105.4	74.6	30.8	7.8	61.6	-23.0
1934*.....	105.6	72.6	33.0	14.4	66.6	-19.2
1935*.....	105.9	71.6	34.3	28.7	56.6	+ 6.4
1936*.....	108.9	73.9	35.0	30.7	37.0	+28.7

* Licensed banks only.

The important change in current earnings since 1929 has been a growth in income from investments and a decline in that from loans. About two-thirds of the member banks reported income from service charges on deposit accounts in 1936 but in amount this source contributed less than 2 per cent of the gross income of all banks. In late years income has improved particularly because of a substantial increase in recoveries and profits on securities sold, as well as a decrease in the items showing losses and depreciation.

The reduction in current expenses since 1929 has been in about the same proportion as that shown by total earnings from current operations. This has been due principally to the elimination of interest on virtually all demand deposits and to a marked decline in interest rates paid on time deposits. Labor expenditure has decreased in actual amount but in relation to total earnings the trend has been upward. In the past two years salaries and wages have constituted the largest single item of current expenses.

Changes in membership The number of member banks in this district increased during 1936 from 656 to 658, comprising 65 state bank members and 593 national banks. Two state institutions were admitted to membership, one new national bank was organized, and one national bank was absorbed by another national bank. The number of national banks empowered to exercise part or all of the fiduciary powers authorized by the Federal Reserve Act declined from 256 to 255, one bank voluntarily relinquishing its privilege.

Volume of work

The volume of work at this reserve bank, other than that relating to certain emergency functions, increased further during 1936, as partly indicated by the data below showing some of the routine operations which are statistically measurable. This increase occurred principally in various items comprising fiscal transactions for the Treasury, the supply of currency, and the clearance of cash and non-cash items.

Largely as a result of increasing business activity, the amount of currency and coin counted and the volume of ordinary checks handled expanded both in number of pieces and in value. The usual transactions for the Treasury incident to the issue, redemption and exchange of securities, the cashing of coupons and the handling of government checks, were materially increased by a great expansion in the number of work relief checks and over part of the year by the preparation of adjusted service bonds for distribution to veterans.

Discounts continued negligible, but the handling of accounts receivable pledged as collateral for industrial loans continued in substantial volume. Transfers of funds arising out of the operation of the group clearings systems, which now cover most of the district, expanded in number. Increased use of the custody service was indicated by a rise in the average amount of securities so held for member banks from \$503,000,000 in 1935 to \$589,000,000 in

Departmental operations Federal Reserve Bank of Philadelphia	Pieces or trans- actions handled (000's omitted)		Dollar amounts handled (000,000's omitted)	
	1935	1936	1935	1936
Notes discounted (including transactions under Section 13b).....		1	\$28	\$14
Currency counted.....	2			838
Coins counted.....	185,017	192,827	796	
Ordinary checks handled (including return items).....	271,050	294,110	26	27
U. S. Government checks handled.....	72,050	75,609	19,178	21,121
Work relief checks handled.....	2,292	3,019	496	715
Items payable at a future date:	816	7,651	23	237
Coupons of United States and agencies.....				42
Other collection items.....	1,319	1,106	39	
Transfers of funds (other than for group clearings systems).....	352	366	255	266
Issues, redemptions and exchanges by fiscal agency department:	64	61	2,526	2,641
U. S. Government direct obligations.....				651
All other.....	429	1,568	906	
	96	53	127	64

1936. Security purchase and sale transactions declined in number, though not in dollar volume.

Changes in directors and officers

At an election held in the autumn of 1936 George W. Reily was reelected by member banks in Group 2 as a Class A director and J. Carl De La Cour was reelected by the banks in Group 3 as a Class B director, each to serve for a term of three years beginning January 1, 1937. The vacancy in a Class C directorship, resulting from the resignation of J. David Stern in December, had not been filled by the Board of Governors up to the issuance of this report. Richard L. Austin was reappointed by the Board of Governors as a Class C director to serve for three years beginning January 1, 1936. Throughout the year Mr. Austin served as Chairman of the Board and Federal Reserve Agent.

Directors of this bank at the beginning of 1937 were as follows:

Class and group	Name	Residence	Term expires
A. Group 1	Joseph Wayne, Jr., President, Philadelphia National Bank, Philadelphia, Pa.	Philadelphia, Pa.	Dec. 31, 1938
Group 2	George W. Reily, President, Harrisburg National Bank, Harrisburg, Pa.	Harrisburg, Pa.	Dec. 31, 1939
Group 3	J. G. Henning, President, Wyoming National Bank, Tunkhannock, Pa.	Tunkhannock, Pa.	Dec. 31, 1937
B. Group 1	C. Frederick C. Stout, Member, John R. Evans and Company, Philadelphia, Pa.	Ardmore, Pa.	Dec. 31, 1937
Group 2	Arthur W. Sewall, General Asphalt Company, Philadelphia, Pa.	Philadelphia, Pa.	Dec. 31, 1938
Group 3	J. Carl De La Cour, Vice President, Wm. S. Scull Company, Camden, N. J.	Riverton, N. J.	Dec. 31, 1939
C.	Richard L. Austin, Chairman of the Board	Philadelphia, Pa.	Dec. 31, 1938
	Harry L. Cannon, Farmer and packer Vacancy	Bridgeville, Del.	Dec. 31, 1937

The Board of Directors of this bank reappointed Howard A. Loeb, Chairman of the Board of the Tradesmens National Bank

and Trust Company of Philadelphia, to serve for the year 1936 as a member of the Federal Advisory Council representing the Third Federal Reserve District.

Changes were made in the titles and status of certain officers of this bank pursuant to the amendment to the Federal Reserve Act which became effective March 1, 1936, and which reads in part as follows: "The president shall be the chief executive officer of the bank and shall be appointed by the Board of Directors, with the approval of the Board of Governors of the Federal Reserve System, for a term of five years; and all other executive officers and all employees of the bank shall be directly responsible to him. The first vice president of the bank shall be appointed in the same manner and for the same term as the president, and shall in the absence or disability of the president or during a vacancy in the office of president, serve as chief executive officer of the bank."

George W. Norris, who served as governor of this bank for sixteen years, and who was appointed president effective as of March 1, 1936, retired shortly thereafter. William H. Hutt, formerly deputy governor, was appointed and approved as first vice president. He resigned effective as of April 30, 1936.

John S. Sinclair, formerly a deputy governor and later a vice president, was appointed president for the term of five years ending February 28, 1941 and this appointment was approved by the Board of Governors of the Federal Reserve System. He assumed the duties of president of this bank on March 14, 1936. Frank J. Drinnen was appointed and approved as first vice president for a like term and assumed the duties of this office on June 1, 1936.

Other changes in official titles were made as follows: C. A. McIlhenny was appointed vice president and cashier; W. J. Davis was made vice president; William G. McCreedy and L. E. Donaldson were appointed assistant vice presidents. James M. Toy, Samuel R. Earl and Glenn K. Morris continued as assistant cashiers.

The non-statutory duties of the federal reserve agent were transferred on October 1 to the bank and responsibility for their performance was assumed by the president. Ernest C. Hill, formerly an assistant federal reserve agent, was made vice president in charge of bank examinations. Arthur E. Post continued to serve as assistant federal reserve agent, performing the statutory duties of this office, and later was appointed secretary of the bank, an office which was formerly held by the cashier.

During 1936 John S. Sinclair, president, served as an alternate

member of the Federal Open Market Committee, which consists of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal reserve banks. The Federal Reserve Banks of Philadelphia and Cleveland jointly elect each year one representative to serve on this committee.

As a result of these changes the official staff of the bank at the close of 1936 was as follows:

RICHARD L. AUSTIN
Chairman of the Board
and Federal Reserve Agent

JOHN S. SINCLAIR
President

FRANK J. DRINNEN
First Vice President

C. A. McILHENNY
Vice President and Cashier

W. J. DAVIS
Vice President

ERNEST C. HILL
Vice President

WILLIAM G. McCREEDY
Assistant Vice President

L. E. DONALDSON
Assistant Vice President

ARTHUR E. POST
Secretary

JAMES M. TOY
Assistant Cashier

SAMUEL R. EARL
Assistant Cashier

GLENN K. MORRIS
Assistant Cashier