

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

1937



Third Federal Reserve District

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FEDERAL RESERVE BANK
OF PHILADELPHIA

June 30, 1938.

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

It is my pleasure to present herewith the twenty-third annual report of this bank, giving a review of business and banking conditions in this district as well as an account of the operations of this bank during the year 1937.

JOHN S. SINCLAIR

President

Business conditions

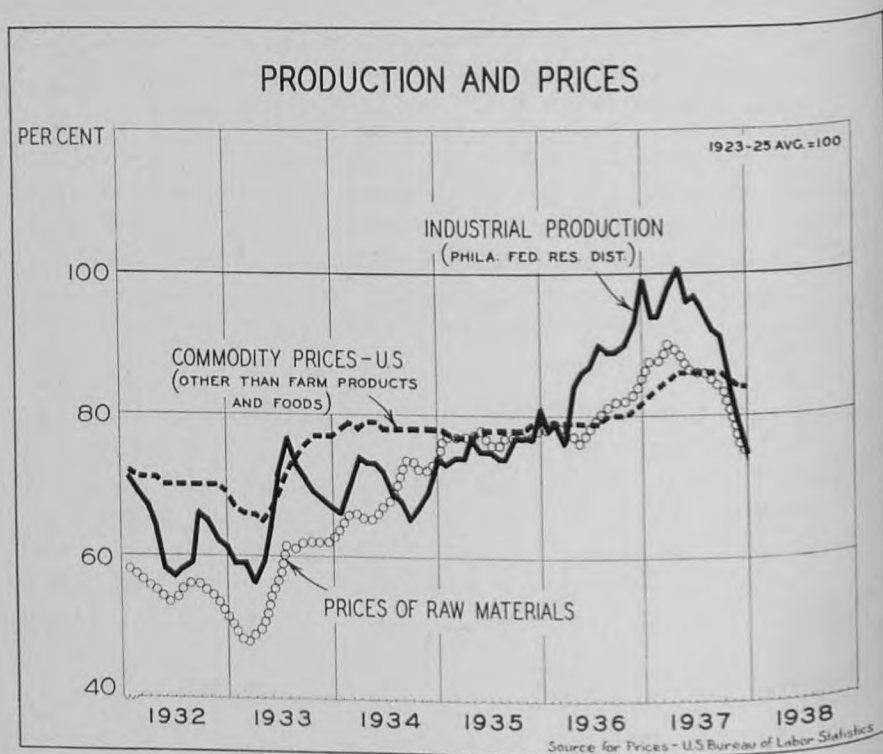
Industry Industrial activity in the Philadelphia Federal Reserve District during the first four months of 1937 expanded to the highest level in seven years but subsequently declined, first gradually and then precipitously, so that by the end of the year production was the lowest since 1935. In manufacturing the expansion in output during the first part of the year was principally in durable goods, but the subsequent drop in the production of these goods was greater than in any similar period shown by available records. Activity at industries producing nondurable goods began to slacken shortly after the first quarter and the recession during the last three quarters of the year, while unusually severe, was not so pronounced as that in industry producing heavy goods, particularly iron and steel products and building materials.

In anticipation of a continued rise in prices and in the face of labor unsettlement, forward buying which began in the previous year continued at an accelerating rate, with the result that the volume of unfilled orders in the first quarter of 1937 was the largest in many years. Following this quarter, new commitments fell off sharply and production was sustained largely by orders previously obtained. Cancellations of orders became widespread.

The effect of these developments was the accumulation of inventories of finished goods and raw materials, so that production was curtailed sharply along with declining demand. The accompanying table gives data on employee-hours actually worked in manufacturing industry to show the wide fluctuation in productive activity and to indicate inventory accumulation followed by a period of liquidation which was carried into 1938.

Production of bituminous coal at the end of the first quarter reached the largest volume since 1929 but thereafter fluctuated sharply downward to an unusually low level by the end of the year. Output of anthracite fuel was smaller than in the previous three years, receding to about the same level as that in 1932. Extraction of crude oil in the Bradford field expanded considerably in the summer months but contracted in the last quarter of the year.

Employee-hours actually worked in manufacturing industry—Pennsylvania	Index: 1935 avg. = 100	
	1936	1937
All manufacturing		
First quarter.....	108.4	149.2
Second quarter.....	124.0	153.3
Third quarter.....	131.9	144.6
Fourth quarter.....	144.8	119.2
Metal products		
First quarter.....	112.7	170.1
Second quarter.....	137.2	178.0
Third quarter.....	144.8	169.6
Fourth quarter.....	160.5	130.3
Textile products		
First quarter.....	100.6	121.6
Second quarter.....	97.7	112.0
Third quarter.....	107.6	101.7
Fourth quarter.....	118.4	85.7



Following a pronounced increase for four years, the output of electric power was highly irregular, showing a marked decline late in 1937, chiefly because of curtailed demand for power by industry.

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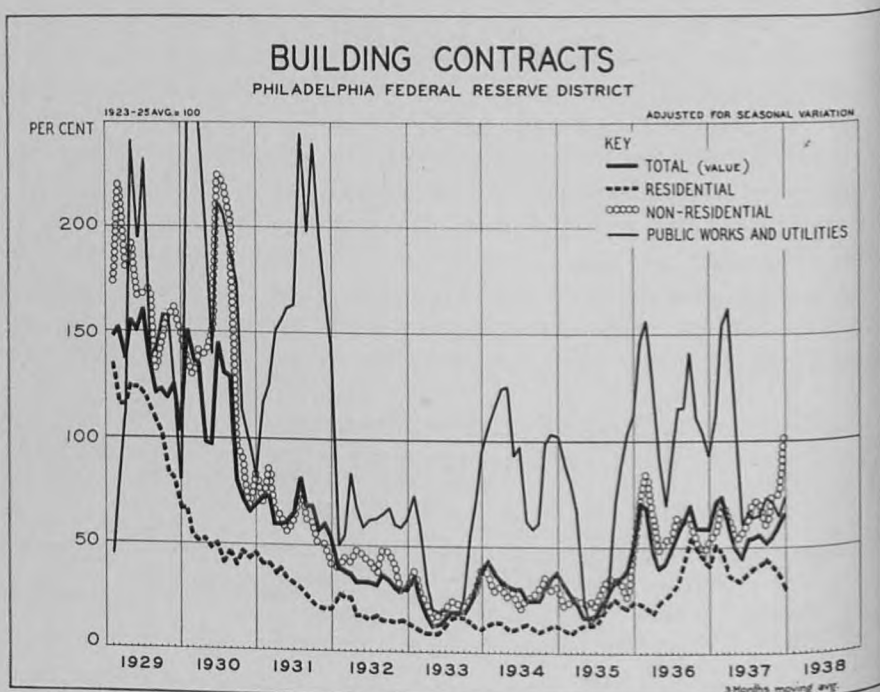
Building and construction activity in the aggregate continued in about the same volume as in the previous year, although there was a marked upward tendency in the last half of 1937. The expansion in the residential field which occurred in 1936 was not maintained and the level at the end of the year was substantially below a year earlier. There was some increase in nonresidential construction but a decrease in public works and utilities. Cost of building materials and labor increased in the first quarter and was maintained at a relatively high level for several months, but toward the end of the year prices of materials began to soften somewhat. High cost of construction is given as one of the principal deterrents to the expansion of activity in residential building.

The following figures give a general summary of industrial activity in this district during 1937 as compared with other years:

Productive activity Philadelphia Federal Reserve District (1923-25 average = 100)	Annual averages of monthly indexes						Monthly	
	1929	1932	1934	1935	1936	1937	Dec. 1936	Dec. 1937
Industrial production	110	63	70	76	86	92	99	76
Manufacturing.....	111	61	67	73	84	90	98	72
Durable goods.....	110	39	50	56	77	88	90	68
Non-durable goods.....	112	77	80	87	91	91	104	74
Coal mining.....	92	60	70	65	69	64	75	68
Anthracite.....	91	62	71	64	68	62	73	69
Bituminous.....	98	51	62	63	74	76	88	56
Crude oil.....	230	295	357	392	433	498	487	531
Electric power output.....	191	177	192	202	228	242	237	228
Building contracts awarded								
Total.....	132	34	31	31	56	57	59*	66*
Residential.....	104	17	12	18	36	38	41*	30*
Nonresidential.....	160	41	28	33	59	70	53*	102*
Public works and utilities....	146	66	92	65	108	83	94*	73*
Agricultural marketing								
Cash income (1932 avg. = 100) .	181	100	118	141	151	163	164	153

*Three-months' moving averages.

Agricultural conditions in 1937 showed considerable improvement over the previous year and were the most satisfactory since 1930. Output of important crops increased substantially as compared with 1936 and with few exceptions production was above the average for the five



years, 1931-1935. Prices of farm products advanced appreciably during the first quarter of the year, reaching in early April the highest level in seven years. Subsequently, prices of farm crops declined sharply to the lowest point since 1934.

Farm cash income from the sale of crops and livestock products increased substantially. Total receipts from the sale of agricultural commodities produced in Pennsylvania, New Jersey and Delaware approximated \$375,000,000, or 8 per cent more than in 1936. This total was about

Farm cash income— Penna., New Jersey, Delaware (In millions of dollars)	Crops	Livestock products	Government rental and benefit payments	Total
1929	\$153.5	\$266.4	\$...	\$419.9
1930	132.9	244.8	...	377.8
1931	101.7	194.0	...	295.7
1932	80.2	152.4	...	232.6
1933	105.6	151.0	.8	257.5
1934	96.6	176.4	2.3	275.4
1935	111.3	214.2	1.8	327.3
1936	123.6	224.1	3.0	350.7
1937	133.5	241.9	3.1	378.6

60 per cent above the low of 1932 but 10 per cent less than in the pre-depression year 1929. The preceding table shows the trend of farm income during the past nine years.

Wholesale commodity prices continued to advance until April, when they reached the highest level since 1930, but subsequently declined. The sharpest drop was in farm products, followed by foods in the closing months of the year. The general level of prices for industrial commodities was fairly stable and the December index was slightly higher than a year before. The following figures indicate the general trend of commodity prices:

Wholesale commodity prices (Bureau of Labor Statistics index, 1926 = 100)	Annual averages of monthly indexes				Monthly	
	1929	1932	1936	1937	Dec. 1936	Dec. 1937
All commodities (784).....	95	65	81	86	84	82
Raw materials.....	98	55	80	85	86	75
Semi-finished articles.....	94	59	76	85	82	78
Finished goods.....	95	70	82	87	84	85
Farm products.....	105	48	81	86	89	73
Foods.....	100	61	82	86	86	80
Other commodities.....	92	70	80	85	82	84

Employment

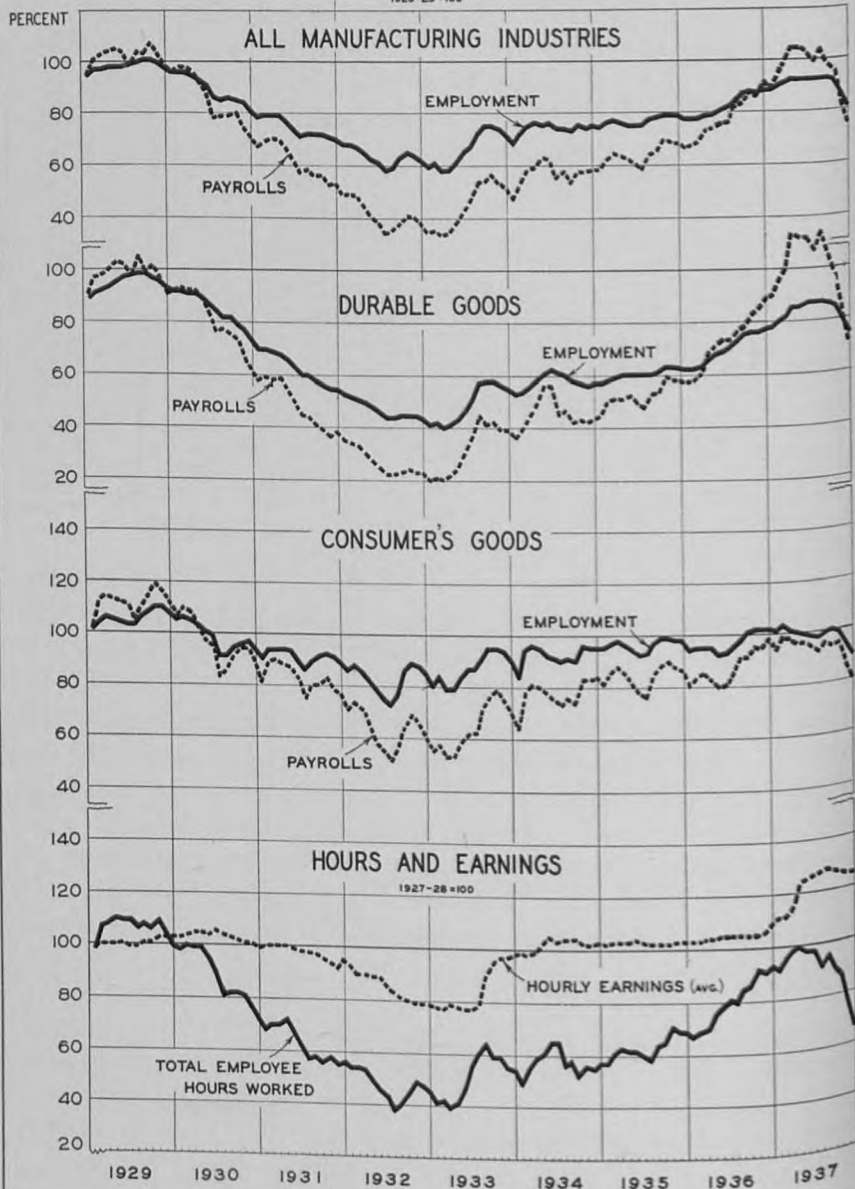
General employment in twelve branches of trade and industry was well maintained until the latter part of the year when a sharp decline took place. The amount of compensation reached the largest monthly volume in May and June but declined thereafter, reaching in December the lowest level since the early months of the previous year. This decline in payrolls was due primarily to a reduction in working hours reflecting largely an increased proportion of part-time work.

Working time in the manufacturing industry generally averaged in excess of 40 hours a week during the first four months but subsequently declined, reaching a weekly low of 32 hours in December. The average number of employee-hours actually worked in 1937 as a whole was 37.9 a week as compared with 38.6 in the previous year, 34.5 in 1935 and 32.6 in 1934. The average earnings per hour, on the other hand, increased from about 63 cents an hour in the first four months of the year to over

EMPLOYMENT AND PAYROLLS

PENNSYLVANIA

1923-25 = 100



70 cents an hour in the remaining months. The average for the year was nearly 69 cents an hour as compared with 59 cents in 1936, almost 58 cents in 1935 and 57 cents an hour in 1934.

The following table gives a general summary of the trend of industrial employment and payrolls:

Index of general employment and payrolls—Pennsylvania. (1932 avg. = 100; indexes are annual averages.)	Relative importance. % of total	Employment				Payrolls			
		1934	1935	1936	1937	1934	1935	1936	1937
General index*	100.0	108	108	114	123	118	127	151	179
Manufacturing.....	48.9	116	121	130	142	138	155	189	232
Anthracite.....	6.9	95	86	84	81	104	89	85	81
Bituminous coal.....	5.7	121	120	121	123	154	161	199	217
Quarrying.....	0.6	105	97	107	119	124	128	184	228
Crude petroleum.....	0.2	183	193	178	161	163	170	160	171
Public utilities.....	4.4	90	89	91	96	88	91	97	104
Retail trade.....	15.8	109	110	113	119	106	108	117	130
Wholesale trade.....	4.7	103	106	111	118	96	100	107	119
Hotels.....	1.1	106	104	106	112	100	103	111	123
Laundries.....	0.7	94	95	99	105	92	95	105	119
Dyeing and cleaning...	0.2	99	94	100	105	103	101	108	120

*Includes building and construction.

Labor disputes were quite prevalent in the early months of the year but as industrial activity slackened the number of strikes and lockouts diminished. Increases in wage rates continued well into the spring months, while toward the end of the year, there was evidence of downward adjustment in wages partly through voluntary cooperation between labor and management.

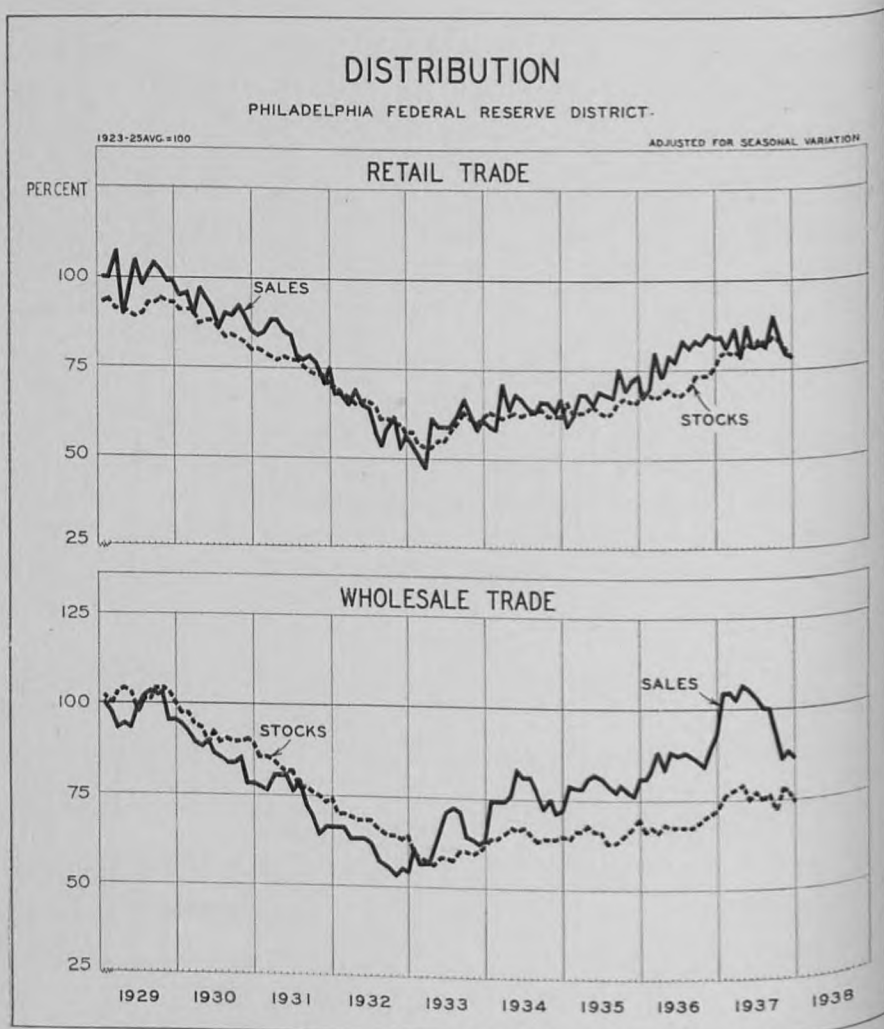
The volume of public relief, direct and through public works, con-

Public assistance in Pennsylvania in 1937 by type	Average number of persons	Amount spent
Direct relief.....	463,000	\$57,813,200
Federal work relief.....	700,000	*
Old age assistance.....	86,000	22,639,500
Pensions for the blind.....	11,000	3,749,000
Aid to dependent children.....	37,000	6,091,000
Total.....	1,297,000	

*The amount spent for Federal Work Relief is not available.

tinued substantial, increasing toward the end of the year, largely because of growing unemployment. Assistance rendered in other forms was larger than in the preceding year. The preceding table indicates the extent of public assistance given in 1937 by type.

Trade and Services Retail trade sales increased further during 1937, although Christmas business failed to measure up to the usual volume principally because of declining industrial activity and income.



Sales at wholesale establishments were well maintained in the first eight months but declined sharply in the closing months when seasonal changes are taken into consideration.

Inventories at retail establishments on the average were 16 per cent larger than in the previous year, although by the end of December they were reduced to a level where they were only 3 per cent larger than at the end of 1936. This was also substantially true of inventories at wholesale establishments.

Sales of new passenger automobiles for the year as a whole were the largest since 1929 but the decline in the second half of the year was quite drastic. Business at commercial hotels increased further by 4 per cent as compared with 1936.

The trend of commodity shipments by rail was similar to that of general industrial activity in that it increased in the first part but declined steadily in the last half of the year. Foreign trade at the Port of Philadelphia increased noticeably over the previous four years with respect to both exports and imports.

The following table summarizes the trend of distribution in this district:

Distribution Philadelphia Federal Reserve District (1923-25 average = 100)	Annual averages of monthly indexes						Monthly	
	1929	1933	1934	1935	1936	1937	Dec. 1936	Dec. 1937
Retail trade								
Sales.....	100	59	65	69	79	82	84	78
Stocks.....	92	57	62	65	70	81	76	78
Wholesale trade								
Sales.....	98	63	75	79	86	97	93	86
Stocks.....	102	59	65	66	68	76	72	74
New passenger automobiles	131	62	73	99	124	136	323	189
Commercial hotels (1934 = 100)								
Occupancy.....	...	86	100	106	119	123	110	109
Income—total.....	...	82	100	107	124	129	135	137
Freight car loadings								
Allegheny district.....	106	55	57	59	70	74	83	58
Phila. industrial area.....	107	62	58	62	68	70	73	63
Port of Philadelphia								
Exports.....	78	51	51	49	41	59	42	65
Imports.....	145	108	102	109	122	136	113	114
Domestic coastwise commerce..	163	223	237	250	279	290	...	...

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

Member bank reserves

At the opening of 1937 the volume of excess reserves of member banks in this district aggregated \$135,900,000 and demand balances carried by these banks with their correspondents totaled \$298,000,000. Excess reserves were 56 per cent and correspondent balances 123 per cent of required reserves.

The amount of excess reserves in the aggregate continued unusually large, even after the requirements were increased by one-half in the summer of the previous year. A similar situation prevailed in the entire System. In view of the expansionary tendencies that were apparent, the reserve requirements were increased further by one-third to the full measure of the law, one-half of the increase becoming effective on March 1 and the remainder on May 1.

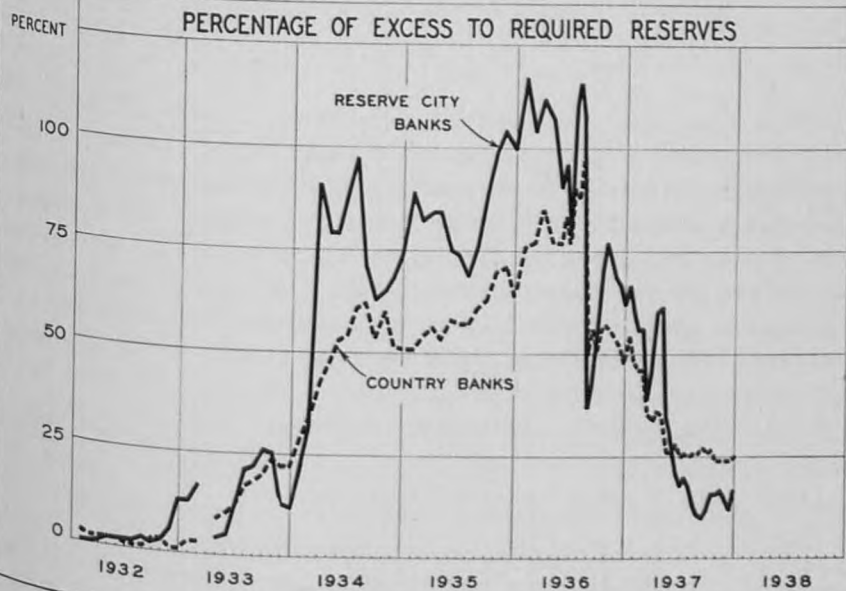
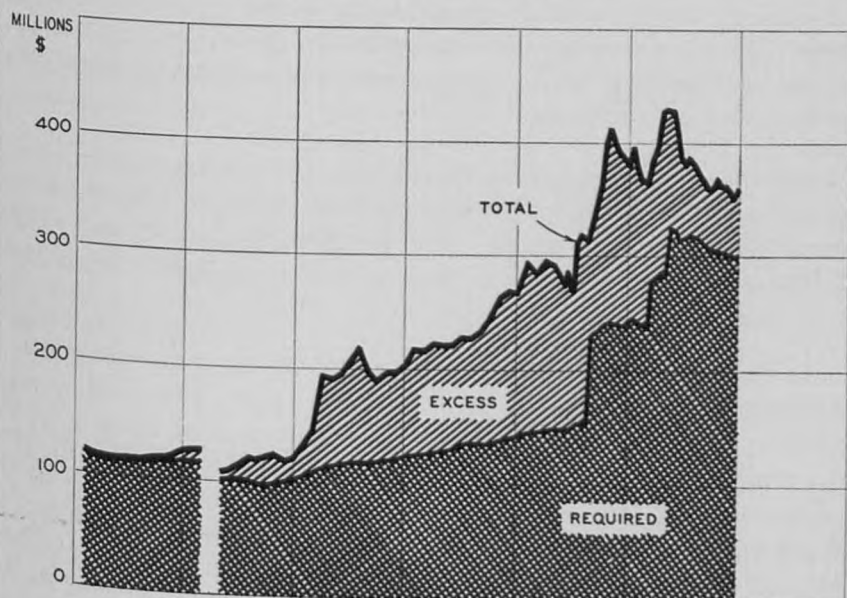
Not only were the reserves large in the aggregate but they also were substantial in the great majority of individual banks. According to an analysis made early in January 1937, nearly half of the members in this district had deposits with the reserve bank which were one-third or more in excess of requirements. Nine-tenths of the banks were in a position to meet an increase of the proportion indicated either with existing balances or by recalling one-half of the funds from their correspondents. In the case of the remaining banks, the amount of additional funds required was relatively small, only about \$1,000,000.

Banks in this district, therefore, had comparatively little difficulty in meeting the increase in requirements, although declining deposits prior to March 1 reduced somewhat the level of their reserves. Country banks, wherever necessary, supplemented reserves by drawing upon correspondents. There is little evidence to show that many banks had to resort to the sale of investments. Country banks actually increased loans and purchased governments during the first half of the year to a greater extent than they sold other securities.

Banks in Philadelphia also were well supplied with funds. In March and April their reserves were increased largely as a result of funds received from the marketing of electric utility securities and the accumulation of state balances preparatory to the redemption of securities. Under these circumstances, the excess reserves of banks in Philadelphia in the aggregate continued heavy, despite increased requirements and withdrawals by country banks.

RESERVE POSITION OF MEMBER BANKS

PHILADELPHIA FEDERAL RESERVE DISTRICT



In the first half of May, following the final increase, the reserves of Philadelphia banks were \$75,000,000 or 35 per cent and those of country banks were \$30,000,000 or 26 per cent above requirements. In the first half of June, 17 of the 24 member banks in Philadelphia had excess reserves and amounts due from banks equal to over 40 per cent of required reserves. In the case of the 632 country banks, 565 of them had surplus reserves and balances with correspondents which together exceeded 40 per cent of required reserves.

Over the last eight months of the year the reserve position of the country banks in this district was remarkably uniform. Semi-monthly figures show that the excess over requirements varied only from \$27,000,000 to \$32,000,000 or, in proportion to requirements, from 24 to 28 per cent.

In the case of the reserve city banks in Philadelphia, there was a continuing decline in deposits over the greater part of the summer and an accompanying expansion in loans. The funds to meet these demands were supplied partly by drawing upon reserves. By the first half of September excess reserves had declined to less than \$20,000,000 or 10 per cent of requirements. Further losses of deposits sustained thereafter were more than compensated for by reductions in loans and investments. Accordingly, the reserve position of the member banks in Philadelphia improved somewhat; the excess in the last half of December averaged \$31,000,000 or 17 per cent, and increased further in January.

While increased reserve requirements caused a sharp decline in the excess reserves of all classes of member banks throughout the country, those in the money centers were subject to additional pressure through the withdrawal of bankers' balances in order to meet the higher requirements and the increase in the demand for commercial loans. As a result, the excess reserves of central reserve city banks were as low as 5 per cent in August as compared with 15 per cent at reserve city and 31 per cent at country banks. To assure the continuance of easy credit conditions, several steps were taken. The discount rates of virtually all reserve banks were reduced in August or September, purchases of government securities for the System account were authorized, and \$300,000,000 of gold was released by the Treasury from its inactive account.

Despite marked fluctuations in reserves and correspondent balances, especially at banks in larger centers, aggregate surplus funds held by member banks at the end of the year were ample to meet any credit demands that could be reasonably anticipated.

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The reserve position of member banks in the Philadelphia Federal Reserve District in the week ended January 14, 1938 is shown by the following data:

Member banks Phila. F. R. Dist. (Dollar figures in millions)	Reserves			Due from domestic banks	Per cent of re- quired reserves	
	Held	Required	Excess		Excess reserves	Due from banks
Reserve city banks...	\$238.3	\$187.4	\$50.9	\$120.7	27%	64%
Country banks in cities and towns with population of—						
100,000 or more...	33.3	27.7	5.6	33.2	20"	120"
15,000 to 99,999...	49.5	37.1	12.4	26.8	33"	72"
Under 15,000.....	61.8	49.4	12.4	47.8	25"	97"
Totals.....	\$382.9	\$301.6	\$81.3	\$228.5	27%	76%

In this district excess reserves of \$81,300,000 immediately after the turn of the year compared with only \$3,000,000 in January 1929. Correspondent balances carried by the members with other banks at the end of 1929 totaled \$118,000,000 as compared with \$245,000,000 on June 30, 1937 and \$228,000,000 in the week of January 14, 1938. In sharp contrast to former years, these comparisons emphasize the amounts of unused funds after a year and a half, during which period requirements had been doubled.

Detailed analysis of the several classes of banks immediately after the close of 1937 indicated that holdings of excess funds were not confined to a few institutions but were quite general. There were no reserve city banks whose reserves were under requirements, but there were seven banks whose ratio of average reserve balances to average required reserves was under 110. The ratio of the remaining sixteen banks was above that figure. If one-half of the balances carried with other banks is added to excess reserves, a total of \$111,200,000 or nearly 60 per cent of required reserves is shown.

With respect to country banks located in cities and towns with a population of 100,000 or more, there was one bank whose reserves were slightly under requirements, a fact which was largely due to currency in transit. The amount due this bank from correspondents was nearly as large as its required reserves. There were also two banks whose ratios of reserve balances to required reserves were under 110. The remaining

seventeen banks had higher ratios. Excess reserves and one-half of the correspondent balances of the twenty banks in this group totaled \$22,200,000 or 80 per cent of required reserves.

The next group is made up of eighty-eight member banks in cities and towns with a population from 15,000 to 100,000. Here there were three banks whose reserves temporarily were under requirements by \$27,000. The amount due them from correspondents was about 144 per cent of required reserves. There also were in this group twenty-nine banks whose ratio of reserve balances to required reserves was under 110, while at the remaining banks the ratio was over that figure. Excess reserves plus one-half the amount of correspondent balances of this group were \$25,800,000 or 70 per cent of required reserves.

The last group comprised 523 member banks in towns having a population of less than 15,000. Twenty-two banks had reserves which totaled \$112,000 under requirements and correspondent balances equal to 49 per cent of required reserves. There were 165 banks whose reserve balances were less than 110 per cent of required reserves, while the others maintained ratios substantially above that figure. Excess reserves and one-half of the correspondent balances carried by the 523 banks totaled \$36,300,000 or about 75 per cent of required reserves.

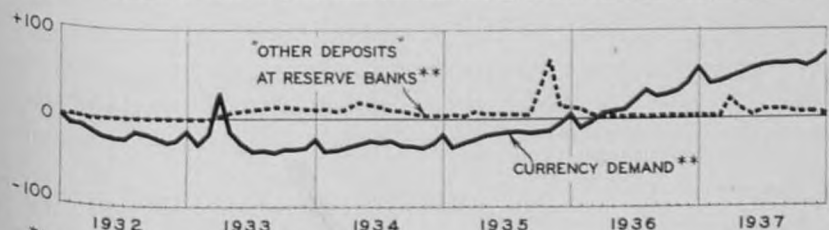
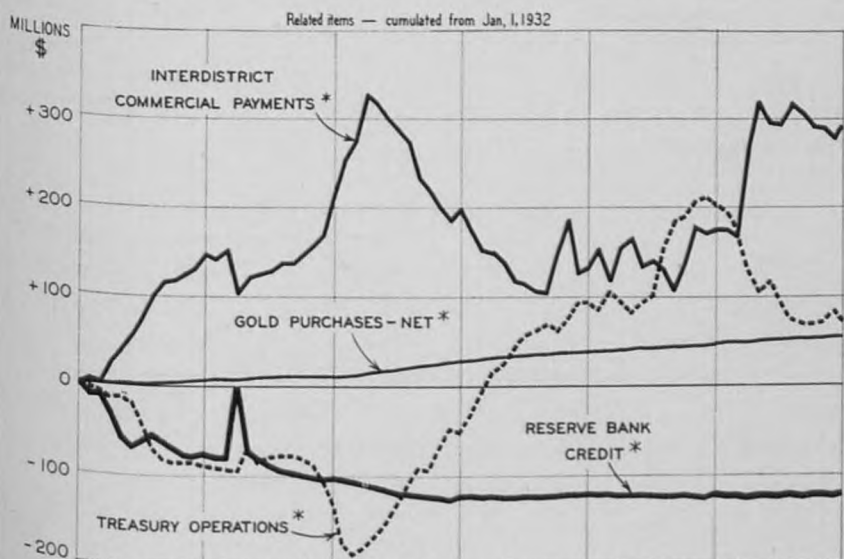
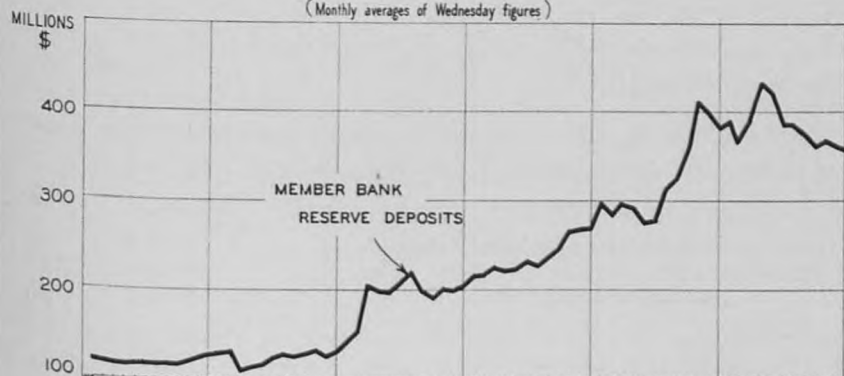
This analysis shows that all member banks in this district, shortly after the turn of the year, had \$81,300,000 in excess reserves and \$228,500,000 in balances carried with domestic banks, a total of \$309,800,000 as compared with required reserves of \$301,600,000. Adding one-half of correspondent balances to excess reserves, the member banks had a total of readily usable funds amounting to \$195,500,000, or 65 per cent of required reserves. This large volume was sufficient to expand credit by an amount in excess of the loans then outstanding.

A decrease in member bank reserve deposits from \$381,000,000 to \$365,000,000 during 1937 was due principally to a very substantial excess of Treasury receipts over local disbursements, which reflected partly a decline in work relief disbursements and large amounts of unemployment trust funds that were turned over by the states to the Treasury for investment. The withdrawal of funds from the local market through Treasury operations and additional demands upon the banks incident to a moderate increase in currency demand were largely offset by a favorable balance in commercial and financial transactions with other districts. The flow of funds to this district through the settlements was chiefly the result of local security issues and sales of investments by banks.

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

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The increase in currency demand was much smaller in 1937 than in 1936, when the needs resulting from active trade were supplemented in the early summer by the cashing of large amounts of adjusted service bonds for veterans. Even in the first half of 1937, demand for currency increased less and the seasonal rise prior to the December holidays fell materially below that experienced in 1936, owing principally to the decline in industrial payrolls and the failure of retail trade to measure up to the usual volume.

In the following table changes in member bank reserves and in related factors are shown for the years 1935, 1936 and 1937:

Member bank reserves and related items Philadelphia Federal Reserve District (Millions of dollars)	1935	1936	1937
Sources of funds:			
Reserve bank credit extended in district.....	+ 2	- 3	+ 2
Interdistrict commercial transfers.....	- 59	+ 47	+118
Mint gold purchases, net.....	+ 12	+ 8	+ 6
Treasury operations.....	+140	+101	-131
Total.....	+ 95	+153	- 5
Uses of funds:			
Currency demand.....	+ 25	+ 51	+ 12
Member bank reserve deposits.....	+ 63	+107	- 16
"Other deposits" at reserve bank.....	+ 8	- 8	...
Unexpended capital funds of reserve bank....	- 1	+ 3	- 1
Total.....	+ 95	+153	- 5

Condition of member banks

A sharp increase of over \$950,000,000 in deposits at member banks in this district from the middle of 1933 to the end of 1936 was followed

All member banks Philadelphia Fed. Res. District (Millions of dollars)	Dec. 1929	June 1933	Dec. 1936	Dec. 1937
Loans.....	1,859	1,085	939	956
Investments.....	828	957	1,455	1,355
Reserve with Federal Reserve Bank....	137	125	379	364
Demand balances with domestic banks.	118	156	298	248
Deposits.....	2,468	1,977	2,935	2,749
National bank notes outstanding.....	55	71	0	0
Bills payable and rediscounts.....	94	29	...	2
Capital account.....	649	473	493	495

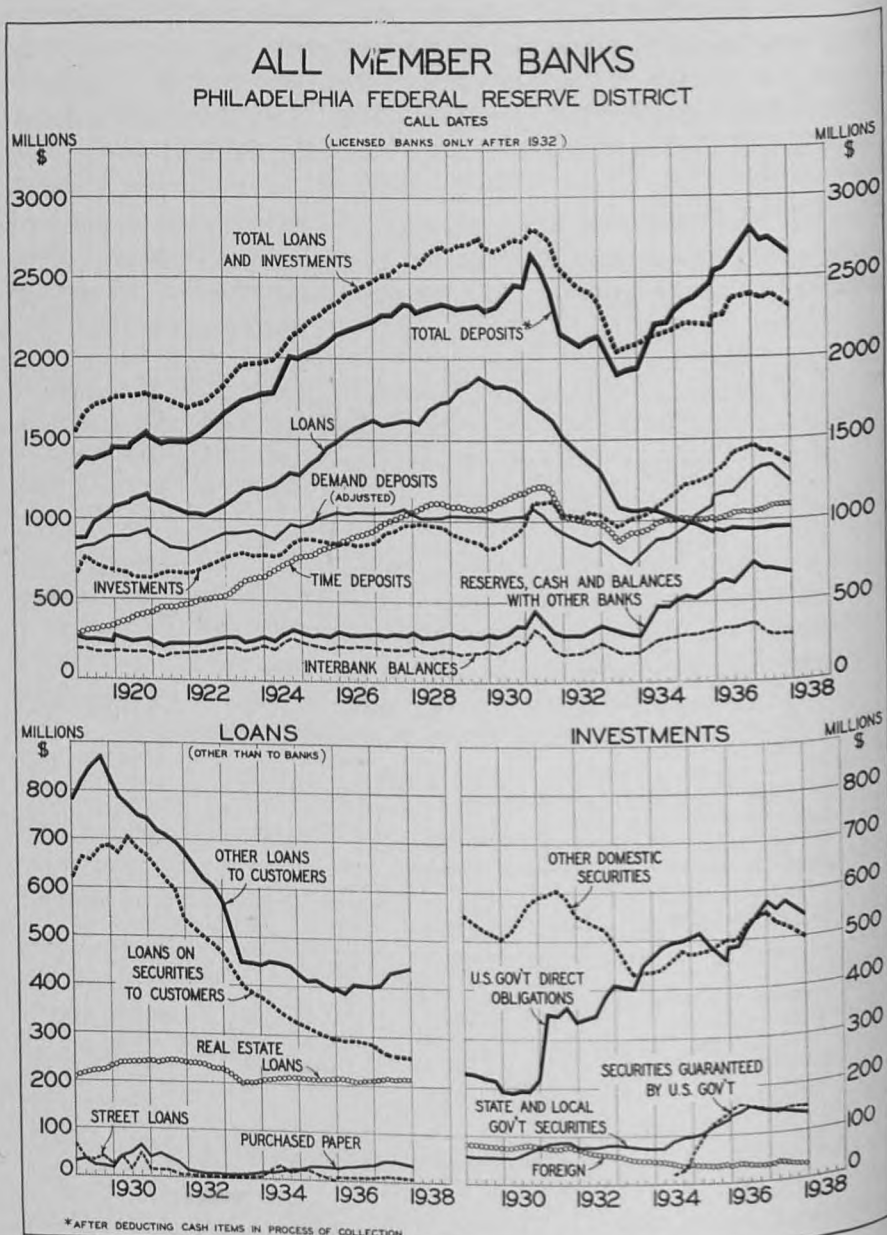
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by a decline of \$186,000,000 in 1937. A similar reversal of the earlier trend also occurred in member bank investments, reserves and correspondent balances. While increasing a little, loans fluctuated narrowly at a level far under the high average of 1929. Data showing changes in the principal assets and liabilities are given in the foregoing table.

Member bank deposits Deposits of member banks reached the highest point on record early in January. Thereafter the trend was irregularly downward to a low point in December. The decline of \$186,000,000 for the year as a whole was due to a contraction of \$226,000,000 in demand deposits, most of which occurred at Philadelphia banks. All classes of demand deposits declined, one-third of the drop being in bankers' balances. Substantial losses also were registered in balances held for the Treasury and for individuals and corporations.

Increases in time deposits were general, most of the aggregate gain of \$40,000,000 being at country banks. It is probable that the bulk of the increase was due to the accumulation of savings and to transfers of idle funds from demand to time in order to earn some return, particularly in view of the prohibition, effective in August, of payment of interest on demand deposits held for public bodies or savings institutions.

Deposits of member banks Phila. Fed. Res. District (Millions of dollars)	Reserve city banks			Country banks		
	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1937	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1937
Demand:						
Individuals, partnerships and corporations.....	700	761	716	399	506	489
U. S. Government.....	41	67	24	20	28	10
State and municipal.....	54	45	40	76	89	69
Interbank.....	286	335	263	9	9	7
All other.....	9	10	6	12	18	18
	1,090	1,218	1,049	516	650	593
Time:						
Individuals, partnerships and corporations.....	193	199	209	766	806	829
Postal savings.....	3	3	3	26	15	13
State and municipal.....	1	10	7	16	16	29
Interbank.....	17	17	16	1	1	1
	214	229	235	809	838	872
Total deposits.....	1,304	1,447	1,284	1,325	1,488	1,465



Loans and discounts

An increase in loans of member banks during 1937 was the first in any year since 1929, but the expansion was only from \$939,000,000 to \$956,000,000 and the average volume was about one-half of what it was in 1929.

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This rise in the year was due chiefly to a growth of \$41,000,000 in miscellaneous loans, largely at banks in Philadelphia. Much of the increase was in commercial loans, which expanded materially from the early spring up to September. During this period business was sustained in large volume relative to former years. Subsequently these loans declined, reflecting seasonal tendencies as well as the contraction of greater than usual amount in business activity.

Country banks expanded loans on real estate and added to their portfolios of open market paper. Philadelphia banks, on the other hand, reported declines in loans of these types.

A shrinkage of \$26,000,000 in loans on securities, chiefly at Philadelphia banks, constituted a substantial offset to expansion in several other classes of loans. This decline in security loans was to be expected in view of the sharp drop in prices and trading volume in the market for equities.

Member bank loans Phila. Fed. Res. District (Millions of dollars)	Philadelphia banks			Country banks		
	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1937	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1937
Loans on securities:						
To brokers and dealers in New York City.....	8	9	5	1	1	1
To brokers and dealers elsewhere.....	16	18	11	2	3	4
To others (except banks)...	123	120	108	155	139	135
Total loans on securities	147	147	124	158	143	140
Acceptances and commercial paper bought.....	18	21	12	9	14	19
Loans on real estate.....	58	53	47	154	158	169
Loans to banks.....	3	2	2	1	...	1
Other loans.....	158	176	211	238	225	231
Total loans.....	384	399	396	560	540	560

Investments Following an expansion in investments by \$500,000,000 between the middle of 1933 and the close of 1936, security holdings of member banks in this district declined in 1937 by \$100,000,000 to \$1,355,000,000. At the close of the year they were still 41 per cent of total assets and 59 per cent of aggregate loans and investments, as compared with 25 and 31 per cent respectively in 1929.

Holdings of governments by Philadelphia banks declined \$40,000,000; over half of this decline was in bonds and the remainder in Treasury

Analysis of Member Bank Investments

Figures as of end of year (000,000's omitted in dollar figures)	Philadelphia Fed. Res. District						Investment distribution: 1937			
	Reserve city (Philadelphia) banks			Country banks			Reserve city banks		Country banks	
	1935	1936	1937	1935	1936	1937	Phila. district	United States*	Phila. district	United States
Direct obligations: U. S. Government	\$265	\$308	\$268	\$216	\$268	\$276	46.2%	63.8%	35.6%	43.9%
Treasury bonds—										
Maturing by December 31, 1949.....	90	103	95	64	87	82	16.4 "	16.3 "	10.6 "	11.3 "
Maturing after December 31, 1949.....	64	122	109	88	118	127	18.8 "	20.1 "	16.4 "	17.6 "
Other bonds.....	0	0	...	2	1	3	...	.1 "	.4 "	.6 "
Treasury notes.....	111	83	64	61	60	63	11.0 "	25.6 "	8.1 "	13.9 "
Treasury bills.....	0	0	...	1	2	1	...	1.7 "	.1 "	.5 "
Obligations guaranteed by U. S. Government	\$90	\$84	\$78	\$58	\$63	\$73	13.5%	10.2%	9.4%	11.9%
Reconstruction Finance Corporation.....	0	0	...	...	0	...	...	.2 "	.2 "	.2 "
Federal Farm Mortgage Corporation.....	29	22	21	17	22	19	3.6 "	2.7 "	2.4 "	3.5 "
Home Owners' Loan Corporation.....	61	62	57	41	41	54	9.8 "	7.3 "	7.0 "	8.2 "
Other securities	\$255	\$274	\$234	\$417	\$458	\$426	40.3%	26.0%	55.0%	44.2%
Obligations of—										
States, counties, municipalities.....	73	75	68	66	73	66	11.7 "	11.0 "	8.5 "	15.3 "
Public utilities.....	40	46	37	121	133	118	6.4 "	2.7 "	15.2 "	8.7 "
Railroads.....	50	54	46	115	127	124	7.9 "	3.3 "	16.0 "	8.8 "
Federal land, joint stock and intermediate credit banks.....	5	10	8	14	14	11	1.4 "	1.5 "	1.4 "	1.7 "
Territorial and insular possessions.....	...	...	...	2	1	1	...	.1 "	.1 "	.1 "
Real estate corporations.....	3	3	3	4	3	3	.5 "	.4 "	.4 "	.3 "
Miscellaneous.....	32	35	25	54	70	67	4.3 "	2.8 "	8.7 "	5.8 "
Stocks, domestic corporations.....	39	37	35	18	19	19	6.0 "	3.4 "	2.5 "	2.2 "
Foreign securities.....	13	14	12	23	18	17	2.1 "	.8 "	2.2 "	1.3 "
Grand totals	\$610	\$666	\$580	\$691	\$789	\$775	100.0%	100.0%	100.0%	100.0%

*Central reserve city banks excluded.

notes. The amount of Treasury bills held by these banks was negligible. There were also decreases of \$6,000,000 in obligations guaranteed by the United States Government and of \$40,000,000 in other securities, chiefly corporate and municipal bonds.

The shrinkage of \$86,000,000 or 13 per cent in the investments of Philadelphia member banks was in sharp contrast with a decline of but \$14,000,000 or less than 2 per cent at the country member banks. The volume held by the latter was better sustained by virtue of increases of \$8,000,000 and \$10,000,000 respectively in direct and guaranteed obligations of the United States, which raised country bank holdings of these securities to the highest point on record. Approximately \$32,000,000 of other securities were sold or charged off, about \$15,000,000 being in utility bonds.

Banks in the Philadelphia district, especially the country banks, are heavy holders of rail and utility bonds. While all members in this district at the end of 1937 had but 7 per cent of the resources of all member banks in the Federal Reserve System, their holdings of both rail and public utility obligations were over 19 per cent of similar securities held by all member banks.

The greatly increased importance of bond investments in recent years has further complicated the problems of bank management. Obviously no loan or investment is entirely free from risk, the degree varying with the nature of assets involved. However, bonds are subject to constant price fluctuations in the market, as business and credit conditions, interest rates and many other factors affect their current value. In the case of loans a personal relationship usually exists between the borrower and the lender, whereas with bond investments this relationship is impersonal and remote. This basic distinction and the unavoidable change from loans to investments by banks call for reorientation of policy and methods with respect to the employment of funds.

An analysis of the investments of member banks in this district, as shown by examination reports available at the middle of the year, is given in the table on the next page.

Five-sixths of total investments were in direct or guaranteed obligations of the United States Government, municipal or state securities, or corporate obligations of the three highest grades. The balance consisted chiefly of lower grade corporate bonds, and smaller amounts of stocks and defaulted issues. Long-term issues predominated; securities having more than ten years to run to maturity comprised nearly two-thirds of the total, the ratio being especially high in the corporate issues.

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Distribution of securities investments of member banks by types and maturities Philadelphia Fed. Res. District	Maturity ranges					Percent of total investment
	0-5 years	5-10 years	10-15 years	15-20 years	Over 20 years	
United States Government direct and guaranteed obligations.....	14.1%	6.5%	11.2%	11.8%	6.6%	50.2%
Municipals, etc.....	4.7 "	2.1 "	1.0 "	2.2 "	3.4 "	13.4 "
Corporates: first three grades.....	2.5 "	2.2 "	2.8 "	2.0 "	11.0 "	20.5 "
" fourth grade.....	.8 "	1.1 "	1.1 "	1.0 "	2.9 "	6.9 "
" lower grades.....	.9 "	.7 "	.8 "	.7 "	1.6 "	4.7 "
Defaulted issues.....	..	..	..	..	1.8 "	1.8 "
Stocks.....	..	..	..	..	2.5 "	2.5 "
Totals.....	23.0%	12.6%	16.9%	17.7%	29.8%	100.0%

These proportions become especially significant when related to the capital funds of the banks, for it is these funds primarily that constitute the depositors' safeguard against losses. It appears that the proportion of corporate securities of the fourth and lower grades, defaulted issues and stocks to net capital funds was about 46 per cent. Similarly, securities maturing in over ten years were nearly double the net capital funds.

The proportion of capital funds to total deposits of member banks increased from 16.8 per cent in 1936 to 18 per cent in 1937. In other words, at the end of 1937 for every dollar of capital funds there were \$5.55 of deposit liabilities as compared with \$5.95 in 1936; in the period from 1927 to 1929 the average of deposit liabilities was about \$4.19 for every dollar of capital funds. The apparent improvement in the relationship between deposits and capital structure from 1936 to 1937 was due to a decline of \$186,000,000 in gross deposits and an increase of \$2,000,000 in capital funds, chiefly in surplus and undivided profits.

Figures for the System as a whole also show a rise in the proportion of capital funds to deposits during 1937. The ratios, however, were lower than those for this district, and indicate \$7.60 of deposits for each dollar of capital funds at the close of the year as against \$8.13 on December 31, 1936.

Earnings and expenses Member banks continued to experience increasing difficulties with respect to their earnings from current operations. Net profits in 1937 in the aggregate amounted to about \$23,498,000 as compared with \$28,679,000 in 1936. The average rate of net profits was 3.7 per cent of capital funds, includ-

ing capital stock, surplus, undivided profits and reserves. On total available funds, which also include deposits and borrowed money, the average rate of net profits in 1937 was 0.6 per cent.

Unusually low interest rates have been the principal factor affecting the earning position of banks in this district as elsewhere. Following a sharp increase in March, yields on high grade securities including governments declined almost steadily to the end of the year. Customers' rates, especially in larger centers, also continued to decrease and rates on open market paper including Treasury bills fluctuated at levels about one per cent or less. Loans in the first three quarters of the year showed a marked upward trend but subsequently declined. Investments, on the other hand, decreased following a sharp expansion in the previous three years. Under these and other influences income continued to show significant variations as compared with former years.

The following data illustrate fundamental changes in the sources of income of member banks in this district:

Member banks Philadelphia Federal Reserve District	1927-29 (averages)	1937	Per cent change
Loans.....	\$1,718,000,000	\$ 952,000,000	-45%
Earnings therefrom.....	95,501,000	42,790,000	-55 "
Investments.....	924,000,000	1,402,000,000	+52 "
Earnings therefrom.....	46,773,000	47,680,000	+ 2 "
Earnings from other sources.....	16,007,000	20,485,000	+28 "

An increase in total earnings from \$108,919,000 in 1936 to \$110,955,000 in 1937 was due principally to such diversified sources as trust departments, rents, service charges, commissions and foreign departments. A rise in current expenses from \$73,915,000 to \$76,409,000 reflected increases of \$2,702,000 in taxes other than those on real estate, and of \$1,014,000 in employee compensation and fees. Interest paid on deposits, on the other hand, decreased by \$1,122,000. Net earnings from current operations in 1937, therefore, declined to \$34,546,000 as compared with \$35,004,000 in the previous year.

Recoveries on assets previously charged off and profits on sales of securities totaled \$17,398,000 as compared with \$30,662,000 the year before. Losses and depreciation, on the other hand, amounted to \$28,446,000 as against \$36,987,000 in 1936. There was thus an excess of

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losses and depreciation over recoveries and profits on securities of \$11,048,000 in 1937 as against \$6,325,000 in 1936.

Profits on sales of securities declined to \$9,270,000 as compared with \$19,848,000 a year before. This change was probably due to the fact that bond prices in 1936 advanced rather rapidly and in consequence the turnover in securities for profit or portfolio adjustments increased, especially toward the end of the year. But in 1937 bond prices declined and the incentive to sell securities for profit diminished. In the case of loans, recoveries declined to \$3,139,000 as compared with \$3,592,000 in 1936, while losses decreased to \$10,523,000 from \$17,233,000, indicating a substantial improvement.

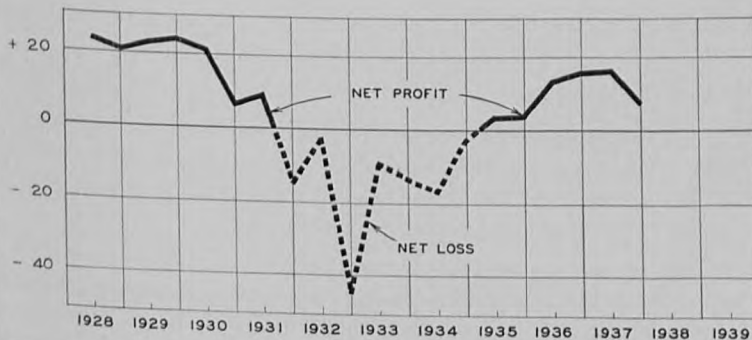
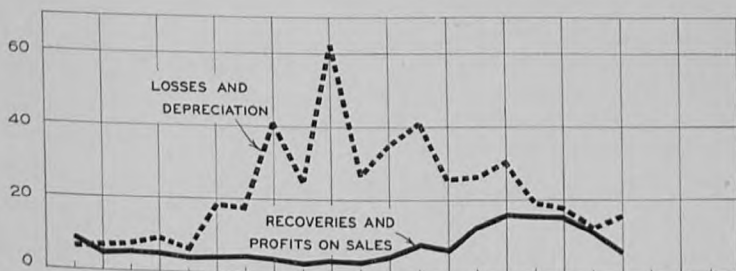
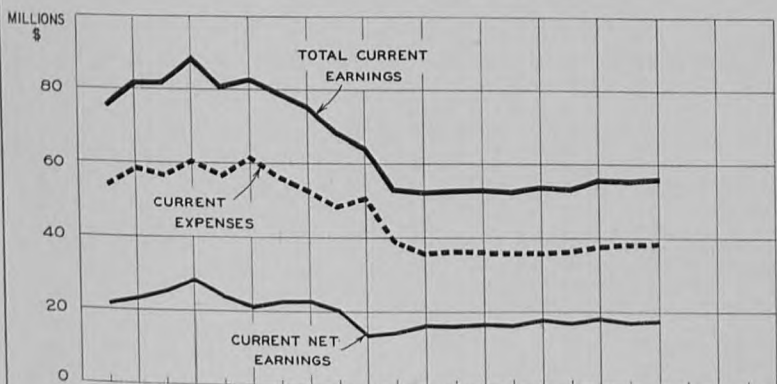
The following table summarizes the results of operations of member banks in this district:

Earnings and expenses of member banks Philadelphia Fed. Res. District	1937	1936	Averages 1927-28-29
Current earnings			
Interest and discount on loans.	\$ 42,790,000	\$ 42,736,000	\$ 95,501,000
Interest and dividends on securities.	47,680,000	47,542,000	46,773,000
Other.	20,485,000	18,641,000	16,007,000
Total.	\$110,955,000	\$108,919,000	\$158,281,000
Current expenses			
Salaries and wages.	\$ 27,207,000	\$ 26,249,000	\$ 29,069,000
Interest on deposits.	20,339,000	21,461,000	52,644,000
Other.	28,863,000	26,205,000	29,887,000
Total.	\$ 76,409,000	\$ 73,915,000	\$111,600,000
Net current earnings.	\$ 34,546,000	\$ 35,004,000	\$ 46,681,000
Recoveries and profits on sales.	17,398,000	30,662,000	12,292,000
	\$ 51,944,000	\$ 65,666,000	\$ 58,973,000
Losses and depreciation.	28,446,000	36,987,000	13,387,000
Net addition to profits.	\$ 23,498,000	\$ 28,679,000	\$ 45,586,000
Cash dividends declared.	19,597,000	18,588,000	29,488,000
Percentage of loans:			
Interest and discount.	4.5%	4.6%	5.6%
Percentage of investments:			
Interest and dividends.	3.4 "	3.4 "	5.1 "

Cash dividends declared by member banks in this district in 1937 amounted to \$19,597,000 or 5.4 per cent larger than in 1936 but were only about two-thirds of what they were in the years from 1927 through 1929. Similarly, for all member banks in the United States cash dividends declared, including interest paid on capital notes and debentures, in-

EARNINGS AND EXPENSES OF MEMBER BANKS

PHILADELPHIA FEDERAL RESERVE DISTRICT



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creased 1 per cent over 1936 but were only 57 per cent of the three-year average.

Membership The total membership in 1937 decreased from 658 to 655. As in the previous year there were 65 state bank members, while the number of national banks declined from 593 to 590 as a result of the absorption of two banks and the suspension of operations by a third bank.

At the close of the year member banks accounted for approximately 70 per cent of the number and resources of all banking institutions in the district. Details by states are given in the following table:

Banks in Philadelphia Federal Reserve District (Dollar figures in millions)	Pennsylvania*	New Jersey*	Delaware	District totals
Number of banks				
Total.....	777	118	57	952
Member banks.....	550	85	20	655
Proportion member of total.....	71%	72%	35%	69%
Total resources				
Total.....	\$4,027	\$399	\$253	\$4,679
Member banks.....	2,857	266	154	3,278
Proportion member of total.....	71%	67%	61%	70%

*Portion of state in Philadelphia district.

The number of member banks having the right to exercise fiduciary powers was unchanged at 255. An additional bank was granted these powers, but another bank which already had them was absorbed.

Federal Reserve Bank

Throughout most of 1937 total resources of the Federal Reserve Bank of Philadelphia exceeded \$800,000,000. A record high of approximately \$890,000,000 was reached in the latter part of March, when an inflow of funds raised deposits and cash reserves to new peaks.

Borrowings of member banks were light and there was little call for the extension of industrial loans. In consequence earnings from these assets were small and the principal source of income continued to be substantial holdings of United States Government securities. The bank was continually in a position to expand its outstanding credit very materially, as indicated by high ratios of reserves to liabilities.

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Annual averages of selected items contained in the statement of condition are given below. A more complete statement as of the year-end appears on page 33.

Federal Reserve Bank of Philadelphia (Dollar figures in millions)	Annual averages of daily figures			
	1934	1935	1936	1937
Bills discounted.....	\$ 9.6	\$ 0.6	\$ 0.4	\$ 1.4
Bills bought.....	1.7	0.5	0.4	0.3
Industrial advances.....	0.3	4.4	5.4	4.0
United States securities.....	167.1	172.7	193.8	208.9
Other securities.....	0.4	.....	0	0
Total bills and securities.....	\$179.1	\$178.2	\$200.0	\$214.7
Federal reserve note circulation.....	242.6	244.4	289.4	313.1
Member bank reserve deposits.....	190.8	235.3	324.6	381.2
Other deposits.....	13.8	21.5	27.1	32.6
Total cash reserves.....	296.7	345.0	464.0	534.4
Reserve ratio.....	66.3%	68.8%	72.4%	73.5%

Reserve bank credit Bill and security holdings of the Federal Reserve Bank of Philadelphia in 1937 averaged \$214,700,000 and were the largest since 1920, when discounts were exceedingly heavy. At the end of the year total holdings amounted to \$222,-926,000 or \$8,621,000 more than on the same date of the preceding year. This increase was due principally to an addition of \$7,864,000 in government obligations, resulting from participation in the System's account which was increased in April and November.

All obligations of the United States Government held by the System are pooled in a joint account, the allocation being made among the reserve banks in accordance with a formula, based chiefly on earning requirements, prescribed by the Federal Open Market Committee. The proportion to be held by each reserve bank is determined at quarterly intervals. By virtue of this participation, the holdings of the reserve banks also vary in composition and in total as the System purchases or sells various classes of Treasury securities. Changes in the holdings of the Federal Reserve Bank of Philadelphia, therefore, do not affect directly the reserves of member banks in the district.

The trend and composition of United States Government securities held by the Federal Reserve Bank of Philadelphia are shown by the following figures:

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(Thousands of dollars)	Bonds	Notes	Bills	Total
December 31:				
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
1937.....	63,561	97,685	55,607	216,853

Discounts for member banks at the end of 1937 amounted to \$2,153,-000 as compared with \$313,000 in 1936 and \$377,000 in 1935. While this was a substantial increase, the actual volume continued small in comparison with earlier years, discounts at the end of 1928, for example, being \$84,300,000. Banks generally had abundant funds for current requirements and the majority of the 159 borrowing banks needed only temporary accommodation for adjustment purposes.

Greater use than in 1936 was made of the privilege of borrowing under section 10(b), which permits the reserve bank to discount notes of member banks secured by sound assets acceptable to the reserve bank. Over most of the year borrowing under this section was intermittent, but in the spring and in the last two months a small amount of such accommodations was being extended at all times. The highest point reached at any one time, however, was only \$454,000, and the amount held at the close of the year was \$385,000.

Few requests were received from industry and trade for working capital loans, which the bank may grant for periods up to five years under the continuing provisions of section 13(b) of the Federal Reserve Act. Repayment of existing loans continued steadily, with the result that this bank's industrial advances declined from \$4,686,000 to \$3,627,-000 in the course of the year. Seventeen applications were received in 1937 for a dollar amount of \$1,922,000; nine were approved involving the extension of \$640,000. Annual totals showing applications received and approved were as follows:

Working capital loans Federal Reserve Bank of Philadelphia	Applications received		Applications approved	
	Number	Amount	Number	Amount
1934: June to December.....	340	\$15,664,000	67	\$ 6,338,400
1935.....	172	20,715,950	69	16,318,300
1936.....	64	2,650,900	27	1,017,900
1937.....	17	1,922,000	9	640,000
Totals.....	593	\$40,952,850	172	\$24,314,600

Statement of Condition

Federal Reserve Bank of Philadelphia (000's omitted in dollar figures)	December 31		
	1935	1936	1937
RESOURCES			
Gold certificates on hand and due from U. S. Treasury	\$370,230	\$495,308	\$474,891
Redemption fund—Federal reserve notes	1,168	194	500
Other cash	34,078	25,458	26,940
Total reserves	\$405,476	\$520,960	\$502,331
Bills discounted:			
Secured by U. S. Government obligations*	250	285	1,498
Other bills discounted	127	28	655
Total bills discounted	\$ 377	\$ 313	\$ 2,153
Bills bought in open market	484	317	293
Industrial advances	6,768	4,686	3,627
United States Government securities	177,120	208,989	216,853
Total bills and securities	\$184,749	\$214,305	\$222,926
Due from foreign banks	69	21	18
Federal reserve notes of other F. R. banks	1,507	1,736	1,662
Uncollected items	40,928	58,663	54,588
Bank premises	4,830	4,952	4,826
All other resources	3,801	3,122	5,067
Total resources	\$641,360	\$803,759	\$791,418
LIABILITIES			
Federal reserve notes in circulation	\$271,870	\$312,078	\$318,036
Deposits:			
Member bank reserve account	274,326	381,210	365,046
U. S. Treasurer—general account	10,519	6,258	1,092
Foreign bank	2,881	9,209	17,002
Other deposits	10,174	2,219	2,269
Total deposits	\$297,900	\$398,896	\$385,409
Deferred availability items	40,293	58,926	53,747
Capital paid in	12,328	12,211	12,258
Surplus—Section 7	13,406	13,362	13,466
Surplus—Section 13b	2,132	4,325	4,411
Reserve for contingencies	3,000	3,000	2,999
All other liabilities	431	961	1,092
Total liabilities	\$641,360	\$803,759	\$791,418
Ratio of total reserves to deposit and Federal reserve note liabilities combined	71.1%	73.3%	71.4%
Contingent liability on bills purchased for foreign correspondents	0	0	\$166
Commitments to make industrial advances	\$861	\$247	\$173

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

The amounts approved include credit extended by this bank on its own account and by other financing institutions which participated in the loans.

The volume of bills bought carried by the bank was negligible in 1937, as in 1936. The small amount on the books continued to reflect almost entirely participation in foreign bills held by the Federal Reserve System.

Loans made to banks, which subsequently suspended operations, are not carried among the bill and security holdings of the bank but are included in its miscellaneous assets. In April 1933, immediately after the banking holiday, the volume of such loans outstanding was \$29,316,000. By the end of 1937 this total was reduced through liquidation to \$1,776,000, secured by \$4,889,000 of collateral.

Reserve position The cash reserves of the bank during 1937 declined from \$520,960,000 to a low of \$502,331,000 at the end of the year. The high point of cash reserves was \$632,900,000 late in March. Very large amounts were acquired from other districts in the settlement of commercial and financial accounts, but they were more than offset by transfers made to other sections for the account of the Treasury.

The total deposit liability likewise declined from \$398,896,000 to \$385,409,000, but the average for the year was more than \$60,000,000 above that in 1936. Member bank reserves, the principal deposit item, advanced to new high levels in the spring, but showed a net decrease of \$16,164,000 in the year. Treasury balances also declined, while deposits of foreign banks increased.

The volume of Federal reserve notes in circulation expanded from \$312,078,000 to \$318,036,000 in the course of the year. Virtually all of the collateral pledged with the Federal Reserve Agent to secure outstanding notes was in the form of credits in a fund payable in gold certificates, as the amount of discounted paper on hand was small.

Under the statutory provision, the required reserves carried by this bank on December 31, 1937 were \$127,214,000 against Federal reserve notes and \$134,893,000 against deposit liabilities, making an aggregate requirement of \$262,107,000 out of total cash reserves amounting to \$502,331,000. The surplus reserves thus were \$240,224,000 or 92 per cent of requirements as compared with 97 per cent a year ago.

Fluctuations in the combined deposit and note liabilities were accompanied for the most part by largely compensating variations in the

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amount of cash reserves, so that the reserve ratio of the bank was quite steady. The average ratio was 73.5 as compared with 72.4 in 1936 and 68.8 in 1935. The high ratio in 1937 was 78.2 and the low 71.2.

**Discount
and
interest
rates**

Under the continuing pressure of unused funds in the hands of banks and other investors, the general level of money rates continued at very low levels throughout 1937. There were temporary advances in the early spring, but the highest points reached were under the levels prevailing in the 1920's. Depressed business conditions and reduced earning power, rather than monetary conditions, were responsible for substantial increases, extending into 1938, in the yields on corporate securities of the lower grades.

Money rates and yields	Annual averages			December 31	
	1935	1936	1937	1936	1937
Commercial paper, prime.....	.76%	.75%	.95%	.75%	1.00%
Bankers' acceptances, 90 days.....	.13 "	.15 "	.43 "	.19 "	.44 "
Call money renewals, New York.....	.56 "	.91 "	1.00 "	1.00 "	1.00 "
Treasury bills, 91-day.....	.17 "	.17 "	.28 "	.20 "	.12 "
Treasury notes, 3-5 year.....	1.29 "	1.11 "	1.40 "	1.13 "	1.23 "
Treasury bonds, over 8 years.....	2.70 "	2.47 "	2.57 "	2.27 "	2.52 "
Corporate bonds—Aaa rating.....	3.60 "	3.24 "	3.27 "	3.09 "	3.21 "
Corporate bonds—Baa rating.....	5.75 "	4.77 "	5.11 "	4.54 "	6.02 "

The general level of short-term rates continued substantially under the return on longer term bonds. Small increases occurred in rates on prime commercial paper and bankers' acceptances, but over most of the year rates on such paper did not fluctuate. The discount on Treasury bills opened the year at .20 per cent and advanced to approximately .625 per cent in April, but subsequently dropped materially and in the last two months was at new low levels of approximately .125 per cent.

It does not appear that there were significant changes during the year in rates charged by banks on loans to customers, although a drift downward in rates applying to high grade commercial loans at Philadelphia banks and a tendency elsewhere to reduce rates in the endeavor to acquire some of this desirable class of business was observable.

With other reserve banks, the Federal Reserve Bank of Philadelphia lowered its rate on rediscounts and advances to member banks under sections 13 and 13a of the Federal Reserve Act early in September. The

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reduction from 2 per cent, in effect since January 1935, to $1\frac{1}{2}$ per cent established the lowest rate of discount ever in effect at this bank and served to bring the rate into line with the level of short-term money rates. This change was accompanied by a reduction from $2\frac{1}{2}$ to 2 per cent in the rate on advances under section 10(b), which is set by law at a point not less than one-half per cent above the discount rate.

Interest rates in effect at this bank at the end of 1937 as compared with those on the same date of 1936 were as follows:

Discount and interest rates Federal Reserve Bank of Philadelphia	December 31	
	1936	1937
Discounts for member banks (Sections 13 and 13a)...	2%	$1\frac{1}{2}\%$
Advances to member banks under Section 10(b).....	$2\frac{1}{2}\%$	$\frac{2}{2}\%$
Discounts secured by U. S. Government obligations for individuals, partnerships and corporations under Section 13.....	4 "	4 "
Rates on industrial advances—Section 13(b):		
Advances direct to industrial or commercial organi- zations.....	4-6 "	4-6 "
Advances to financing institutions—		
On portion for which institution is obligated.....	(1% above established disc. rate)	(1% above established disc. rate)
On remaining portion.....	*	*
Commitments to make advances.....	$\frac{1}{2}$ -2%	$\frac{1}{2}$ -2%

*Same as to borrower: minimum of 4%.

Further reductions in rates paid by member banks on time and savings deposits were numerous. No change, however, was made in the maximum rates which may be paid under the regulations of the Board of Governors.

Volume of work Not all operations of a reserve bank can be measured statistically, but there are certain routine items which constitute a large volume of daily work. Some of these are presented in the table.

The largest volume of work was in connection with currency and check collection. Currency and coin received and counted during 1937 aggregated 507,800,000 pieces, an increase of over 4 per cent as compared with 1936. The average per working day was 679,000 pieces of currency and 1,019,000 of coin. The most striking expansion, however, was in the transit department, which handled over 86,000,000 of ordinary checks as compared with 75,600,000 in the previous year. These figures exclude millions of checks drawn on banks in this vicinity which are handled

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Volume of work Federal Reserve Bank of Philadelphia	Pieces or trans- actions handled (000's omitted)		Dollar amounts (000,000's omitted)	
	1936	1937	1936	1937
Discounts and advances.....	1	2	\$ 14	\$ 59
Currency counted.....	192,827	203,132	838	869
Coins counted.....	294,110	304,684	27	28
Ordinary checks.....	75,609	86,058	21,121	23,714
U. S. Government checks.....	3,019	2,700	715	465
Work relief checks.....	7,651	5,660	237	189
Collection items:				
Coupons of U. S. Government and agencies.....	1,106	1,193	42	48
All other.....	366	366	266	248
Transfers of funds.....	61	66	2,641	3,137
Issues, redemptions and exchanges by fiscal agency department:				
U. S. Government direct obliga- tions.....	1,568	201	651	394
All other.....	53	27	64	45

in packages by the automobile run service. The work becomes especially heavy following holidays that are not observed in other districts, requiring additional help in the transit department. The largest number of checks handled on any one day up to the close of the year was 580,000 on October 14 and the next largest volume was 576,000 on June 16.

The average amount of securities held in custody for member banks increased from \$589,000,000 in 1936 to \$668,000,000 in 1937. Security purchase and sale transactions, however, declined materially.

Operations handled for the United States Government decreased. This was particularly true of issues, redemptions and exchanges of securities. The decline in the volume of government and work relief checks received also was substantial, although the total of 8,360,000 items in 1937 was far greater than in any year preceding 1936.

The volume of work resulting from discount operations continued small, being chiefly confined to the handling of accounts receivable pledged as collateral for industrial loans. The work of the liquidation division declined. Other changes in the volume of operations during the year were minor.

**Earnings
and
expenses**

Current earnings of this reserve bank increased from \$3,256,000 in 1936 to \$3,559,000 in 1937. This was due principally to larger holdings of United States securities, which accounted for nearly 92 per cent of total income.

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Profit and loss account Federal Reserve Bank of Philadelphia (000's omitted)	1936	1937
Earnings from:		
Bills discounted.....	\$ 7	\$ 26
Bills bought.....	3	2
Industrial advances.....	312	223
United States Government securities.....	2,855	3,257
Other sources.....	79	51
Total earnings.....	\$3,256	\$3,559
Expenses:		
Operating expenses*.....	\$2,212	\$2,099
Cost of Federal reserve currency.....	152	141
Assessments for expenses of Board of Governors.....	161	172
Total net expenses.....	\$2,525	\$2,412
Current net earnings.....	\$ 731	\$1,147
Additions to current net earnings:		
Profits on sales of United States Government securities.....	\$ 582	\$ 201
Other additions.....	8	...
	\$ 590	\$ 201
Deductions from current net earnings:		
Assessment to apply on cost of building for Board of Governors.....	\$ 192	\$ 140
Prior service contributions to Retirement System.....	193	193
Added to reserve for contingencies.....	63	0
Other deductions.....	3	6
	\$ 451	\$ 339
Net additions to (+) or deductions from (-) current net earnings.....	+ \$ 139	- \$ 138
Net earnings available for distribution.....	\$ 870	\$1,009
Distribution of net earnings:		
Paid to Treasury of United States.....	\$ 84	\$ 84
Dividends paid to member banks.....	736	735
Transferred to surplus (Sec. 13b).....	94	86
Transferred from (-) or to (+) surplus (Sec. 7)....	- 44	+ 104

*After deducting reimbursements received for certain fiscal agency and other expenses.

Expenses, on the other hand, were reduced from \$2,525,000 to \$2,412,000. Current net earnings, therefore, increased from \$731,000 in 1936 to \$1,147,000 in 1937.

Profits on sales of United States securities were considerably smaller than in the previous year. The assessment to apply on the cost of building for the Board of Governors was reduced materially, while contribu-

tions to the retirement system for prior service continued unchanged. After adjustment for these and other items, current net earnings were reduced to \$1,009,000.

Out of this sum member banks received \$735,000 as dividends under statutory provisions. The amount of \$84,000 was paid to the Treasury of the United States as a return on funds received from it in connection with industrial loans. The balance of \$190,000 was added to the surplus accounts of this bank.

Changes in officers and directors There was no change during 1937 in the directors representing the member banks. C. Frederick C. Stout was re-elected by member banks comprising Group 1 to serve as a Class B director and J. B. Henning by banks in Group 3 as a Class A director. In August Thomas B. McCabe, President of the Scott Paper Company, was appointed by the Board of Governors to fill the vacancy in the Class C directorship. The term of Harry L. Cannon, a Class C director since 1924, expired at the close of the year. In accordance with the decision of the Board of Governors in January 1935 that

List of Directors as of January 1, 1938

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. B. Henning, President, Wyoming National Bank, Tunkhannock, Pa.	Tunkhannock, Pa.	Dec. 31, 1940
B	Group 1 C. Frederick C. Stout, Member, John R. Evans and Company, Philadelphia, Pa., and Camden, N. J.	Ardmore, Pa.	Dec. 31, 1940
	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
	Thomas B. McCabe, Deputy Chairman: President, Scott Paper Co., Chester, Pa. Vacancy*	Chester, Pa.	Dec. 31, 1939

*Filled by appointment of Francis C. Biddle in April 1938.

those directors who are appointed by the Board would not be reappointed if they had served six or more consecutive years, except in the cases of chairmen of the Federal reserve banks, Mr. Cannon was not reappointed. Richard L. Austin continued as Chairman of the Board and Federal Reserve Agent and Mr. McCabe was designated Deputy Chairman.

By appointment of the Board of Directors, Howard A. Loeb, Chairman of the Board of the Tradersmens National Bank and Trust Company of Philadelphia, continued during 1937 to serve as a member of the Federal Advisory Council representing the Third Federal Reserve District.

Under the statutory provision, John S. Sinclair, President, was elected by the boards of directors of the Federal Reserve Banks of Philadelphia and Cleveland to serve as a member of the Federal Open Market Committee.

Changes in the official staff at the end of the year consisted of the retirement of Samuel R. Earl, Assistant Cashier, and the appointment of Casimir A. Sienkiewicz as Assistant Vice President, in charge of research and statistics. Mr. Sienkiewicz previously had been Assistant to the President. The official staff at the beginning of 1938 was as follows:

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

THOMAS B. McCABE,
Deputy Chairman.

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.

C. A. SIENKIEWICZ,
Assistant Vice President.

ARTHUR E. POST,
Secretary.

JAMES M. TOY,
Assistant Cashier.

GLENN K. MORRIS,
Assistant Cashier.

The number of employees of the bank, other than officers, at the close of 1937 was 780, as against 799 a year earlier and 900 two years ago.