

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

1938



Third Federal Reserve District

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FEDERAL RESERVE BANK
OF PHILADELPHIA

June 10, 1939.

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

There is presented herewith the twenty-fourth annual report of this bank containing a review of business, banking and credit conditions in the Third Federal Reserve District, together with an account of the operations of this bank during 1938.

JOHN S. SINCLAIR

President

Business conditions

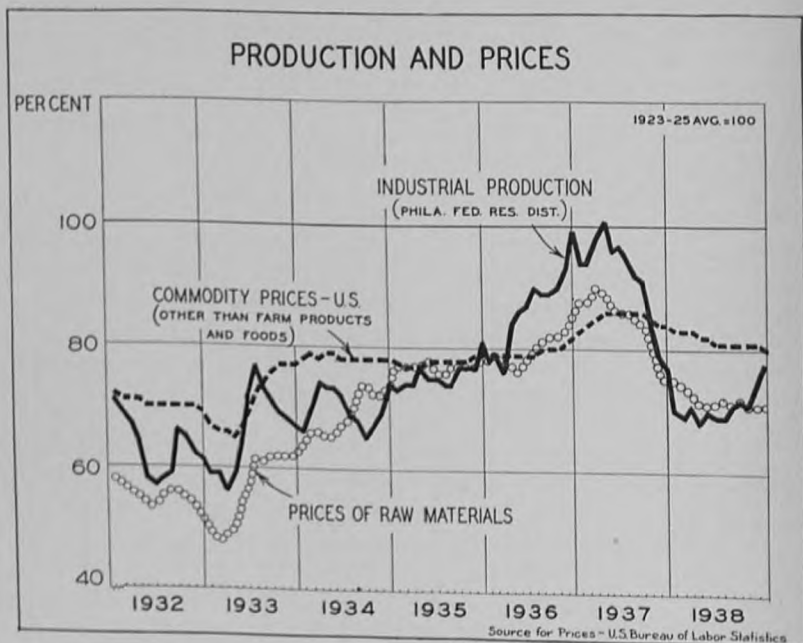
Industry Business activity in the Third Federal Reserve District declined precipitously from the middle of 1937 until the late spring of 1938 but showed marked improvement throughout the remainder of the year. As the demand for goods and services expanded and the liquidation of inventories became more effective, general sentiment grew optimistic with respect to business prospects.

Industrial conditions at the close of the year showed a substantial improvement over a year earlier. Inventories were reduced, the movement of prices exhibited firmness, the demand for metal products and other specific lines of capital goods was increasing slightly, and retail trade sales were better than a year before. After the turn of the year, however, buying slackened and a new hesitation appeared with respect to forward commitments, reflecting the influence of the uncertain outlook in both domestic and foreign affairs.

The adjusted index of industrial production in the twelve months following the high point reached in April 1937 declined more than 33 per cent and continued low until August 1938, when an advance set in which carried the index up 17 per cent by December 1938 to the highest level in fourteen months. Despite the gains in the latter part of the year, industrial activity in December was still well below the peak in the spring of 1937.

The upturn in general business was led by increased residential construction in April. Retail trade and freight-car loadings followed with gains beginning in June, and production, employment, wage payments, and wholesale trade advanced thereafter. Subsequently, the gains were general and continuous, and all of the major indicators of business conditions reached or approximated the year's highest levels in December.

Despite this sharp upward trend, the total volume of business in 1938 was substantially less than in 1937. The sharpest decline for the year was in manufacturing, where activity showed an average contraction of



24 per cent. Wholesale trade sales followed with a decline of 16 per cent. Mining was down 15 per cent, retail trade sales and the output of crude oil 10 and 11 per cent respectively, farm cash income 8 per cent, and total building activity 5 per cent.

The drop in business in 1937 and 1938, which was much sharper, though briefer, than that eight years earlier, has been attributed for the most part to accumulation of excessive inventories. Stocks of goods in producing and distributing channels are estimated to have increased from 20 to 40 per cent in 1936 and 1937 compared with an improvement of less than 20 per cent in industry, trade, and income, so that at the end of the period the supply of goods was out of line with consumption.

Business activity was restrained well into the third quarter of 1938 by the necessity for liquidating these surplus inventories and, even when stocks finally were substantially reduced, new purchases were limited and business establishments generally resorted to hand-to-mouth buying in an intensified form. Buying continued on a restricted basis well into 1939. Tendencies toward increased forward orders, which appeared shortly

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Employee-hours in Pennsylvania factories	Index: 1935 Average = 100		
	1936	1937	1938
All manufacturing			
First quarter.....	108.4	149.2	90.7
Second quarter.....	124.0	153.3	84.9
Third quarter.....	131.9	144.7	87.2
Fourth quarter.....	144.8	119.3	100.7
Average.....	127.3	141.6	90.9
Metal products			
First quarter.....	112.7	170.1	93.8
Second quarter.....	137.2	178.0	86.0
Third quarter.....	144.8	169.6	83.7
Fourth quarter.....	160.5	130.3	100.0
Average.....	138.8	162.0	90.9
Textile products			
First quarter.....	100.6	121.6	79.8
Second quarter.....	97.7	112.0	75.2
Third quarter.....	107.6	101.6	87.8
Fourth quarter.....	118.4	85.6	97.3
Average.....	106.1	105.2	85.0

after the turn of the year, failed to materialize as current uncertainty displaced the earlier optimism.

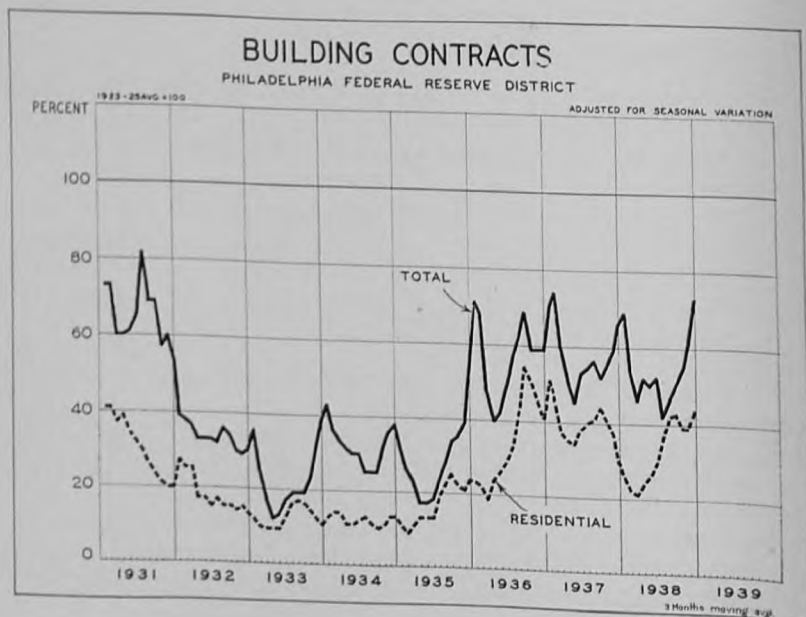
Manufacturing activity declined nearly 35 per cent from the spring of 1937 to the middle of 1938, owing principally to the reduced output of heavy goods. The index of factory production, after allowing for seasonal variation, receded to 64 per cent of the 1923-25 average in June but thereafter increased steadily and by December was nearly 20 per cent above the year's low. The upturn during the summer was led by an expansion in the output of consumers' goods but in subsequent months this type of activity showed a tendency to level off, while the production of capital goods improved substantially.

Among individual lines, the output of shoes and textiles showed the sharpest gains. The weaving of carpets and rugs, for example, was more than doubled during the year and the output of hosiery and silk goods expanded over 50 per cent. For the year as a whole, the greatest contraction was in the production of metals and metal products, owing principally to the low level of capital expenditures by industry. Some increase was shown in these lines toward the end of the year, and the outlook for 1939 was regarded favorably because of the accumulated de-

preciation in plants and equipment. By the end of the first quarter of 1939, railroad buying was well ahead of the year before and there were signs of improvement in purchases of equipment by selected textile lines, but the output of capital goods in general had failed to measure up to earlier expectations.

The output of mines in this district was also sharply reduced in 1938. Only 45,000,000 tons of anthracite, excluding the so-called "boot-leg" coal, were mined during the year, the smallest amount on record. This volume compared with 52,000,000 tons in the preceding year and the post-war high of over 93,000,000 in 1923. The reduced demand in 1938 was due in large part to unfavorable business conditions, but an important factor in the downward trend since 1923 has been the competition of other fuels.

Production of bituminous coal in the State of Pennsylvania also reached a record low of 77,000,000 tons compared with 110,000,000 in the preceding year. The principal demand for this fuel comes from industry, including public utilities, and the decline in 1938 resulted from reduced industrial activity.



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Building activity in this district in 1938 was only slightly less than in the year before, owing to a small gain in the construction of public works and utilities. Construction of both residential and nonresidential buildings for the year as a whole was below 1937. Activity in the residential field turned up first, advancing sharply in April and during the following five months. The erection of family houses was stimulated by the Federal Housing Administration which, according to the records of the local office, accepted mortgages for new construction in eastern Pennsylvania and Delaware totaling \$17,500,000 in 1938 compared with only \$9,500,000 in 1937. Mortgages covering existing construction declined from \$13,700,000 to \$11,000,000. The erection of commercial and factory buildings showed the sharpest decrease in the year, the adjusted index reaching a low point in July. From then until January 1939 there was steady improvement, but this gain was less marked than in other types of construction.

Total output and sales of electric power were only 2 per cent less than in 1937, while sales of power to industry showed a decline of 9 per cent.

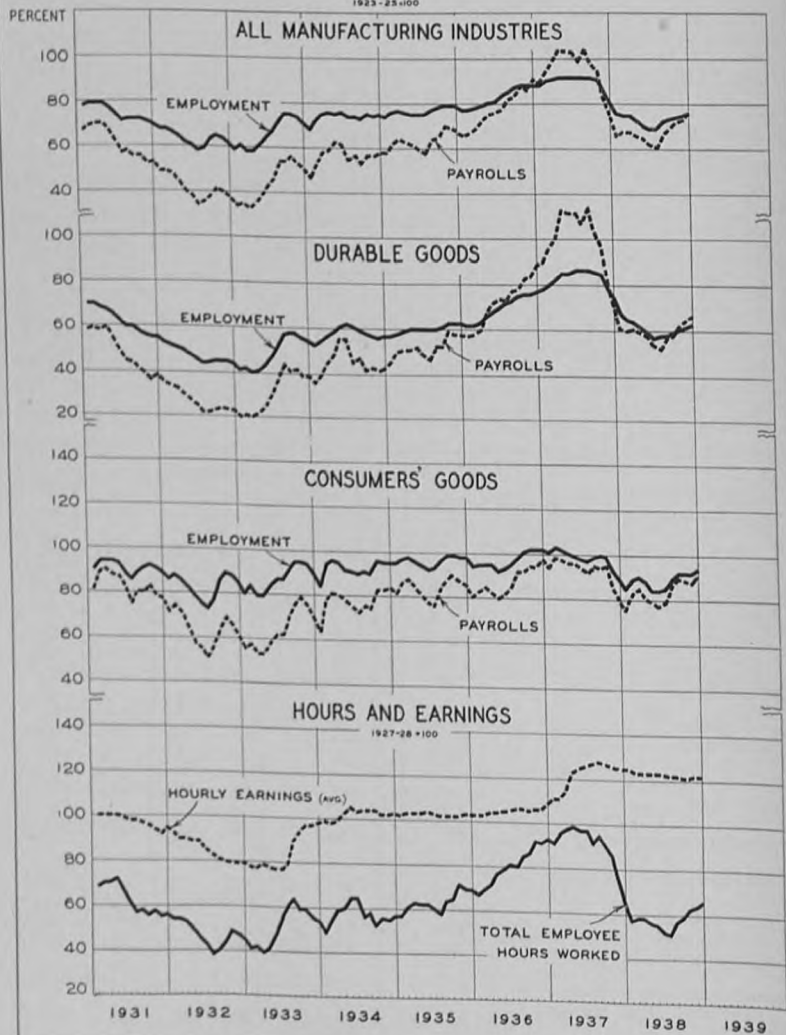
Productive activity Philadelphia Federal Reserve District (1923-25 average = 100)	Annual averages of monthly indexes						Monthly	
	1929	1932	1935	1936	1937	1938	Dec. 1937	Dec. 1938
Industrial production	110	63	76	86	91	70	76	78
Manufacturing	111	61	73	84	89	68	71	76
Durable goods	110	39	56	77	91	58	71	65
Nondurable goods	112	77	87	91	91	77	74	86
Coal mining	92	60	65	69	65	56	68	66
Anthracite	91	62	64	68	64	56	70	66
Bituminous	98	51	63	74	76	53	56	62
Crude oil	230	295	392	433	498	445	531	437
Electric power output	191	177	202	228	242	238	228	248
Building contracts awarded								
Total	132	34	31	56	57	54	66*	73*
Residential	104	17	18	36	38	35	30*	44*
Nonresidential	160	41	33	59	70	65	102*	86*
Public works & utilities	146	66	65	108	83	86	73*	98*
Agricultural marketing								
Cash income (1932 avg. = 100)	181	100	138	149	166	152	153	141

*Three-months' moving averages.

EMPLOYMENT AND PAYROLLS

PENNSYLVANIA

1923-25=100



Income Consumer incomes and purchases in 1938 showed a large reduction from the previous year, reflecting the influence of unfavorable industrial conditions. A large body of unemployed continued in existence; the index of employment in twelve lines of trade and industry in Pennsylvania decreased 16 per cent from 1937 to 1938. Wage payments declined by nearly 25 per cent from 1937.

Index of general employment and payrolls—Pennsylvania. (1932 avg. = 100; indexes are annual averages.)	Relative importance, % of total	Employment				Payrolls			
		1935	1936	1937	1938	1935	1936	1937	1938
General index*	100.0	108	114	123	103	127	151	179	135
Manufacturing.....	48.9	121	130	142	115	155	189	232	165
Anthracite.....	6.9	86	84	81	70	89	85	81	66
Bituminous coal.....	5.7	120	121	123	102	161	199	217	158
Quarrying.....	0.6	97	107	119	94	128	184	228	154
Crude petroleum.....	0.2	193	178	161	145	170	160	171	165
Public utilities.....	4.4	89	91	96	95	91	97	104	103
Retail trade.....	15.8	110	113	119	107	108	117	130	122
Wholesale trade.....	4.7	106	111	118	113	100	107	119	114
Hotels.....	1.1	104	106	112	110	103	111	123	123
Laundries.....	0.7	95	99	105	100	95	105	119	121
Dyeing and cleaning...	0.2	94	100	105	104	101	108	120	126

*Includes building and construction.

Factory employment and payrolls in Pennsylvania reached the year's low points in June and July respectively. The index of employment decreased from 81 per cent of the 1923-25 average at the end of 1937 to 70 per cent in the middle of the ensuing year, rising again to 76 by December 1938. The index of wages paid was as low as 61 in July but by December had made up all of the year's loss, closing at 76, slightly higher than the level prevailing a year earlier. For 1938 as a whole, factory employment showed a decline of 19 per cent and payrolls 29 per cent. The loss of wages on account of strikes was less than in the two previous years, the most serious difficulties being in the construction and hosiery industries, where settlements were reached during the spring.

Average weekly earnings of Pennsylvania factory workers increased from \$20.94 in January 1938 to \$24.53 in February 1939. This improvement was due to an increase in the average number of hours worked per week by each employee, since average hourly earnings declined during this period from 70 cents to 69 cents.

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Consumers' purchasing power declined somewhat less than cash incomes, since the average cost of living was reduced. The index of cost of goods purchased by wage earners and lower-salaried workers receded from 84.5 to 82.9 per cent of the 1923-25 average in the country as a whole and from 83.7 to 82.5 in Philadelphia.

Farm cash income in Pennsylvania, New Jersey, and Delaware in 1938 was approximately \$376,600,000 or 7 per cent less than the year before, the adjusted index reaching a low in October. In the final two months of the year, adjusted receipts were increased principally by sales of dairy and poultry products. Agricultural income was reduced in 1938 by substantial declines in prices as well as by smaller sales. The decrease in farm purchasing power was slightly less since prices of non-agricultural commodities also declined in the year.

Farm cash income— Penna., New Jersey, Delaware (In millions of dollars)	Crops		Livestock products	Government rental and benefit payments	Total
	1937	1938			
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.....	137.7	263.9	3.2	404.8	
1938.....	116.5	256.2	3.9	376.6	

Expenditures for general relief assistance in Pennsylvania amounted to \$75,979,000 in 1938 as against \$57,813,000 in the preceding year, and the other principal types of relief expenditures were also larger.

Public assistance in Pennsylvania by type	Average number of persons		Amount spent	
	1937	1938	1937	1938
	Direct relief.....	463,000	642,000	\$57,813,200	$75,979,000
Federal work relief.....	700,000	897,000	134,136,000	166,671,000
Old age assistance.....	86,000	91,000	22,639,500	23,477,000
Pensions for the blind.....	10,000	12,000	3,749,000	4,178,500
Aid to dependent children.....	37,000	44,000	6,091,000	7,265,200
Total.....	1,296,000	1,686,000	\$224,428,700	\$277,570,700

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Emergency expenditures by the Federal Government continued heavy, as shown in the following table:

Expenditures in Penna., New Jersey and Delaware Under Federal Emergency Relief Appropriation Acts* (In thousands of dollars)	Total 1935-1937	1938
Department of Agriculture.....	\$34,386	\$19,208
Other executive departments.....	24,893	10,572
Civilian Conservation Corps.....	43,561	29
Public Works Administration (housing, loans and grants to states, etc.).....	20,557	6,894
Works Progress Administration.....	470,253	222,644
Other independent establishments†.....	128,467	770
Total.....	\$722,117	\$260,117
Pennsylvania.....	\$525,584	\$184,325
New Jersey.....	188,877	73,770
Delaware.....	7,656	2,022

*From Report of the President of the United States to the Congress, January 10, 1939.

†Grants to states by the Federal Emergency Relief Administration were discontinued by 1938.

Withdrawals through taxes on employers to provide unemployment compensation in Pennsylvania, New Jersey, and Delaware amounted to \$108,000,000 in 1938 compared with \$99,000,000 in 1937. In the case of Pennsylvania \$70,000,000 was collected in each year, and in 1938 approximately \$72,000,000 of the accumulated fund was distributed among unemployed workers. Payment of unemployment compensation in New Jersey and Delaware was not started until 1939. Taxes collected in the three states for old age pensions under the Social Security Act totaled approximately \$65,000,000 in 1938 as against \$71,000,000 in the previous year.

Distribution

Retail trade sales in 1938 were 10 per cent less than a year before, reflecting industrial conditions and reduced incomes.

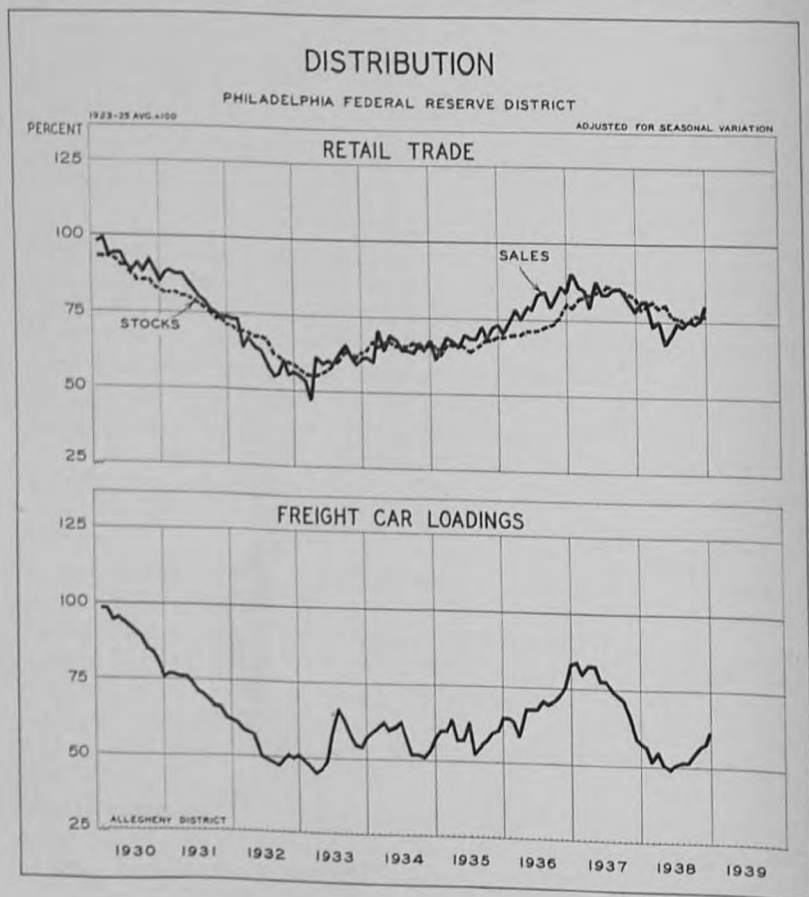
The adjusted index of retail trade in this district declined over 20 per cent from a high in September 1937 to the 1938 low in May. Subsequently trade improved almost steadily, the gains culminating in an unusually large volume of Christmas business. Sales leveled off in the first two months of 1939 but improved in March.

Retail inventories started to accumulate in the late summer of 1936 and reached a peak in July 1937. Almost a year was required to liquidate surpluses in many lines, and new buying was restricted. In December

1938, after some accumulation in the fall, inventories were 6 per cent below a year earlier.

Wholesale trade reached the year's lowest level in July and subsequently increased sharply. Sales for the entire twelve months averaged 14 per cent less than in 1937. As in retail stores, inventories at wholesale establishments were sharply curtailed and in December were 24 per cent below a year earlier.

Registrations of new passenger automobiles in this district were 46 per cent less in 1938 than in 1937. Following the introduction of new



models in the fall, registrations increased sharply and by December exceeded the corresponding month of the previous year.

Railroad freight shipments, after allowing for seasonal changes, decreased almost steadily from March 1937, when the index was 83 per cent of the 1923-25 average, to a low of 49 in May 1938. From that time on, however, there was consistent improvement, and since December shipments have exceeded those of a year earlier.

The value of merchandise exported through the Port of Philadelphia declined from \$97,002,000 in 1937 to \$88,321,000 in 1938, and imports were reduced from \$205,949,000 to \$104,848,000.

Distribution Philadelphia Federal Reserve District (1923-25 average = 100)	Annual averages of monthly indexes						Monthly	
	1929	1933	1935	1936	1937	1938	Dec. 1937	Dec. 1938
Retail trade								
Sales.....	100	59	69	80	83	75	78*	80*
Stocks.....	94	59	66	72	83	78	82*	77*
Wholesale trade								
Sales.....	98	63	79	86	97	84	97	89
Stocks.....	102	59	66	68	76	60	69	52
New passenger automobiles	131	62	99	124	136	72	102	122
Commercial hotels (1934 = 100)								
Occupancy.....	...	86	106	119	123	117	109	101
Income—total.....	...	82	107	124	129	122	137	125
Freight car loadings								
Allegheny district.....	106	55	59	70	74	54	58*	62*
Philadelphia industrial area.....	107	62	62	68	70	61	63*	64*
Port of Philadelphia								
Exports†.....	78	51	49	41	59	42	...	...
Imports†.....	145	108	109	122	136	102	...	...

*Adjusted for seasonal variation. †Index based on tonnage reported by U. S. Custom House.

Prices

Prices declined in 1938, particularly in the case of agricultural commodities. The index of 813 wholesale commodity prices, compiled by the Bureau of Labor Statistics, declined from a high of 88 per cent of the 1926 average in July 1937 to less than 78 in the late spring of 1938. In the summer there was some recovery as business improved, but by the end of the year the price index had receded to 77. Quotations on agricultural staples declined irregularly to a low the first of June 1938 and, after a temporary increase in the early part of the

summer, receded again in August. Since then quotations have fluctuated narrowly. Prices of industrial staples, after declining sharply until June 1938, increased steadily until November and have since shown little change.

Wholesale commodity prices (Bureau of Labor Statistics index, 1926 = 100)	Annual averages of monthly indexes					Monthly	
	1929	1932	1936	1937	1938	Dec. 1937	Dec. 1938
All commodities (813).....	95	65	81	86	79	82	77
Raw materials.....	98	55	80	85	72	75	71
Semi-finished articles.....	94	59	76	85	75	78	75
Finished goods.....	95	70	82	87	82	85	80
Farm products.....	105	48	81	86	69	73	68
Foods.....	100	61	82	86	74	80	73
Other commodities.....	92	70	80	85	82	84	80

Prices of both raw and finished goods during 1938 were disturbed by widespread cutting to meet competitive conditions, particularly in certain types of steel and textile industries. Wide fluctuations in foreign exchanges and market conditions, reflecting unsettlement in Europe, also were a disturbing factor in the case of many important raw materials, such as rubber, lead, and zinc.

Survey of credit and capital requirements

For the purpose of ascertaining the existence, nature and scope of requirements for credit and capital by business establishments of small and medium size in the Third Federal Reserve District, this bank made a survey in November and December 1938, comprising analyses of data obtained from representative business concerns and banks throughout this district, and from records of this bank in connection with industrial advances for working capital to established business enterprises. Copies of this survey are being mailed to the banks in this district. Additional copies may be obtained upon request.

Banking and credit conditions

Bank reserves

Federal Reserve Bank Reserves of this bank, consisting of gold certificates and other cash, increased substantially in the first half of 1938, reaching a high of \$591,756,000 on June 8. Subsequently, they declined to \$483,569,000 on September 12, the low for the year, but rose again in the closing months of 1938. On December 31, total reserves aggregated \$576,918,000 as compared with \$502,331,000 on December 31, 1937.

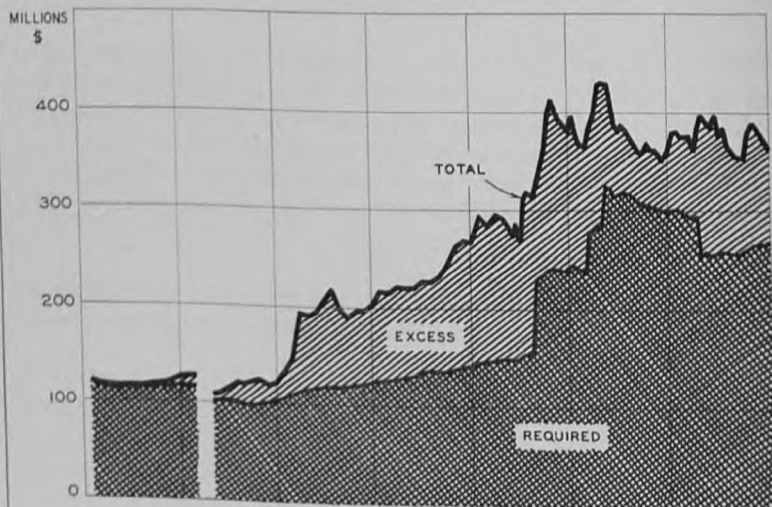
The following data measure the reserve position of the Federal Reserve Bank of Philadelphia and that of all Federal Reserve banks at the beginning and at the end of 1938:

Cash reserves of the Federal Reserve banks (Dollar figures in millions as of end of year)	Philadelphia		All Federal Reserve banks	
	1937	1938	1937	1938
Total reserves.....	\$502.3	\$576.9	\$9,481.0	\$12,165.8
Required reserves:				
Against Federal Reserve notes... (40% in gold certificates)	127.2	128.2	1,713.4	1,780.7
Against deposits..... (35% in gold certificates or lawful money)	134.9	160.6	2,651.8	3,530.8
Total required.....	\$262.1	\$288.8	\$4,365.2	\$5,311.5
Excess reserves.....	\$240.2	\$288.1	1,115.8	\$6,854.3
Proportion of total to required....	191.7%	199.8%	117.2%	229.0%

These figures show that this bank at the end of 1938 held a sufficient amount of reserves to support twice the volume of notes in circulation and deposits combined. The proportionate amount of reserves held by all Reserve banks at the same time was even greater than in the case of this bank. In both instances the percentage of total to required reserves was larger at the end of 1938 than a year before. The reserve position of the Reserve banks has shown increasing strength in the past five years.

RESERVE POSITION OF MEMBER BANKS

PHILADELPHIA FEDERAL RESERVE DISTRICT



PERCENT

PERCENTAGE OF EXCESS TO REQUIRED RESERVES



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Member banks The total reserves of the member banks held at the Federal Reserve Bank of Philadelphia shortly after the close of 1938 aggregated \$391,900,000 as compared with \$382,900,000 a year before. But the amount of reserves required to be held against deposits decreased from \$301,600,000 at the opening of the year to \$270,800,000. This decline was due principally to the release of \$41,000,000 by a reduction, effective April 16, in the percentage of reserves required against deposits. In the case of demand deposits the reduction was from 26 per cent to 22¾ per cent for banks in central reserve cities, from 20 per cent to 17½ per cent for reserve city banks, and from 14 to 12 per cent for country banks; reserves required against time deposits of all member banks were reduced from 6 per cent to 5 per cent.

As a result, the volume of excess reserves expanded substantially between early in January of 1938 and the same time in 1939. This was especially true in the case of member banks outside Philadelphia. In a

Member banks Phila. Fed. Res. Dist. (Dollar figures in millions)	Reserves with Federal Reserve Bank			Due from domestic banks	Per cent of required reserves	
	Held	Required	Excess		Excess reserves	Due from banks
Philadelphia banks (23)						
1938—Jan.: 2nd week	\$238.3	\$187.4	\$50.9	\$120.7	27%	64%
June: 1st half	261.1	165.2	95.9	130.1	58 "	79 "
1939—Jan.: 1st half	243.8	174.3	69.5	140.1	40 "	80 "
Country banks (631)						
Cities with population of 100,000 or more (20)						
1938—Jan.: 2nd week	33.3	27.7	5.6	33.2	20 "	120 "
June: 1st half	34.0	21.7	12.3	44.5	57 "	205 "
1939—Jan.: 1st half	40.4	23.5	16.9	52.7	72 "	224 "
Cities with population of 15,000 to 100,000 (89)						
1938—Jan.: 2nd week	49.5	37.1	12.4	26.8	33 "	72 "
June: 1st half	44.9	29.6	15.3	34.7	52 "	117 "
1939—Jan.: 1st half	47.4	31.6	15.8	35.4	50 "	112 "
Cities with population under 15,000 (522)						
1938—Jan.: 2nd week	61.8	49.4	12.4	47.8	25 "	97 "
June: 1st half	57.7	39.8	17.9	53.9	45 "	135 "
1939—Jan.: 1st half	60.3	41.4	18.9	58.0	45 "	140 "
All member banks (654)						
1938—Jan.: 2nd week	\$382.9	\$301.6	\$81.3	\$228.5	27%	76%
June: 1st half	397.7	256.3	141.4	263.2	55 "	103 "
1939—Jan.: 1st half	391.9	270.8	121.1	286.2	45 "	106 "

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great many instances the proportion of total to required reserves ranged from 125 per cent to 200 per cent and higher. Country banks reported large expansion during 1938 in their deposits with correspondent banks. Half of these banks carried balances with their correspondents at the end of 1938 which were as large as, or larger than, required reserves. These balances held for country banks aggregated \$146,100,000 as compared with required reserves of \$96,500,000. Correspondent balances due to member banks in Philadelphia at the same time totaled \$140,100,000 as against required reserves of \$174,300,000.

The foregoing table and chart show changes in the reserve position of member banks in this district. For easy reference the figures are given in dollars and in percentages.

The large expansion in excess reserves and in correspondent balances of member banks in this district clearly demonstrates the great amount of funds available as a basis for credit extension to industry, commerce and agriculture. But the demand for this type of credit actually declined from 1937 to 1938, and the use of private deposits continued at a low rate. As a result of decreased borrowing by business and under the pressure for earnings, banks have increased their investments considerably since the spring of 1938.

Factors which influenced changes in total reserves of member banks in this district are summarized in the following table:

Member bank reserves and related items Philadelphia Federal Reserve District (Millions of dollars)	1936	1937	1938
Sources of funds:			
Reserve bank credit extended in district.....	- 3	+ 2	- 5
Interdistrict commercial transfers.....	+ 47	+118	- 39
Mint gold purchases, net.....	+ 8	+ 6	+ 5
Treasury operations.....	+101	-131	+ 74
Total.....	+153	- 5	+ 35
Uses of funds:			
Currency demand.....	+ 51	+ 12	+ 22
Member bank reserve deposits.....	+107	- 16	+ 9
"Other deposits" at Reserve bank.....	- 8	.....	+ 5
Other Federal Reserve accounts.....	+ 3	- 1	- 1
Total.....	+153	- 5	+ 35

Expenditures by the United States Treasury during 1938, resulting in transfers of funds from other districts to member banks in the Philadelphia district, constituted the most important factor in the expansion of member bank reserves in this district. The net addition from this source amounted to \$79,000,000 as against the net withdrawal of \$125,000,000 in 1937. This reversal was due partly (a) to a substantial amount of unemployment trust funds returned to this district for distribution to the eligible unemployed, and (b) to increased expenditure for relief purposes, as indicated by the volume of work relief checks cleared through this bank.

The principal developments that tended to reduce member bank reserves included a net loss of \$39,000,000 to other districts through the interdistrict settlements, reflecting largely security purchases by banks, as against the sale of securities in 1937. The demand for currency also increased by \$22,000,000, as a result of expanding trade and payrolls in the second half of the year and to some extent because of hoarding which coincided with renewed disturbances abroad. Among minor changes was a drop of \$5,000,000 in Reserve bank credit and an increase of \$5,000,000 in "Other deposits".

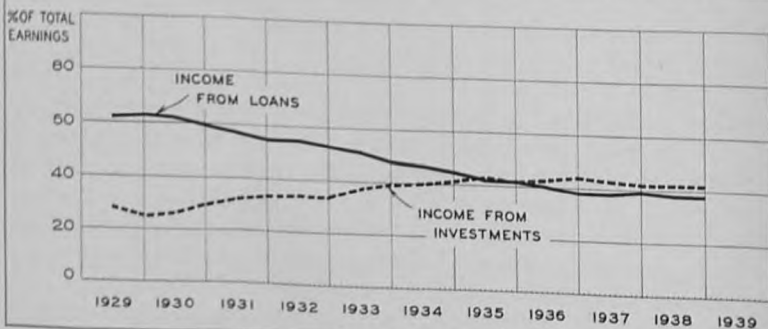
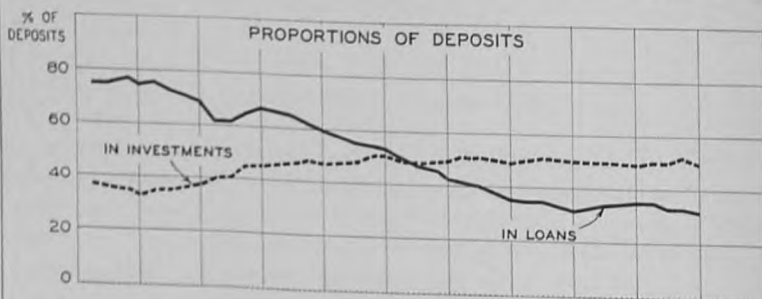
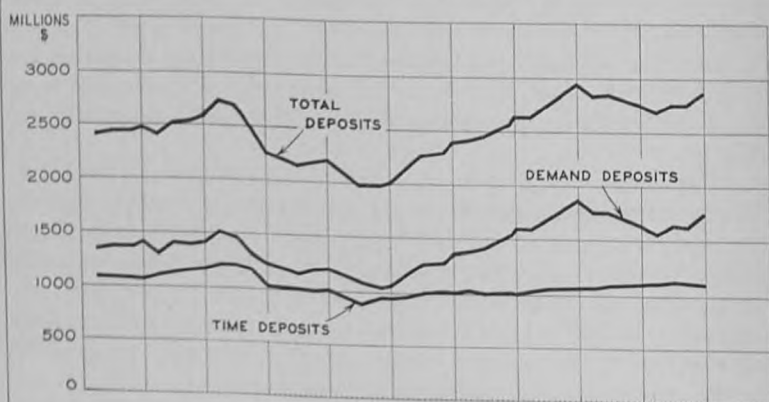
Condition of member banks

Basic trends in banking and credit conditions, which have been in evidence during recent years, continued in 1938. There was a large increase in deposits, a considerable expansion in the excess reserves of member banks, continued declines in commercial and security loans, and a rise in investments under the persistent pressure for bank earnings. With large resources on hand and with shrinking demand for bank credit from the usual sources, banks have been searching for new outlets for the safe employment of their idle funds.

Deposits There was a sharp upward trend in the supply of funds from the middle of 1933 to the close of 1936, a period in which the deposits at member banks in this district increased nearly a billion dollars. A temporary reversal of this trend, lasting into the first quarter of 1938, was due chiefly to withdrawals of interbank funds, reduction in government balances, and payments in connection with Social Security and the unemployment trust fund. Most of this loss, however, was recovered in the last three quarters of 1938, deposits rising sharply to \$2,861,000,000, the second largest volume on record. This expansion

ALL MEMBER BANKS

PHILADELPHIA FEDERAL RESERVE DISTRICT



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reflected principally substantial local disbursements by the Treasury and the country-wide increase in funds resulting from heavy inflow of gold to this country from abroad on capital account or in payment of merchandise balances. Deposits of the United States Treasury were increased by credits for securities, and heavier balances were held for other banks.

Deposits at member banks in Philadelphia on December 31 aggregated \$1,376,000,000, an increase of \$92,000,000 over the previous year but a decrease of \$71,000,000 from the record high reached in 1936. At country banks total deposits of \$1,485,000,000 were \$20,000,000 larger than in 1937 and were in about the same volume as in 1936. The following data show changes in the various types of deposits:

Deposits at member banks Phila. Fed. Res. District (Millions of dollars)	Philadelphia banks December 31			Country banks December 31		
	1936	1937	1938	1936	1937	1938
Individuals, partnerships, and corporations:						
Demand.....	761	716	731	506	489	501
Savings.....	124	123	119	724	743	745
Other time.....	75	86	104	82	85	78
U. S. Government.....	67	24	52	28	11	25
Postal savings.....	3	3	2	15	13	10
State and local government.....	54	47	38	105	98	101
Interbank.....	353	279	325	10	8	9
All other.....	10	6	5	19	18	16
Total deposits.....	1,447	1,284	1,376	1,489	1,465	1,485

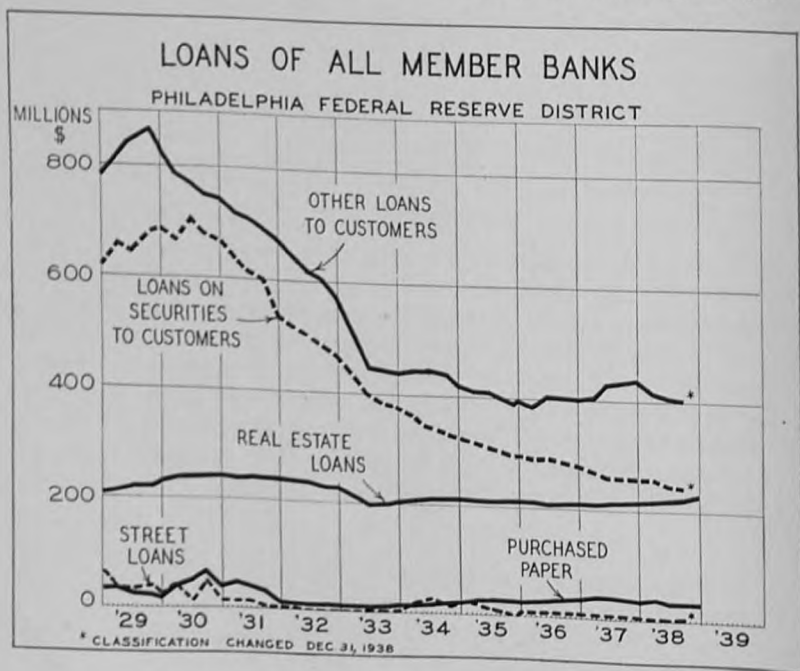
Increases during 1938 were largely in several classifications of demand deposits. An expansion of over 16 per cent in interbank deposits at member banks in Philadelphia was the most pronounced, indicating lack of opportunity for the employment of these funds in the interior. Increases also were reported by both city and country banks, in demand balances of individuals, partnerships and corporations, and in deposits of the Federal Government. Time deposits of individuals, partnerships and corporations also increased at Philadelphia banks, apparently representing the transfer of business funds to a time basis, but savings deposits declined.

Total time deposits, amounting to \$1,105,000,000 at the end of 1938, accounted for 39 per cent of total deposits. The proportion in 1929 was 43 per cent, although time deposits in that year were somewhat smaller in dollar amount.

Loans and discounts From a seasonal peak in the autumn of 1937 the loans of member banks declined through the first three quarters of 1938 to the lowest point since March 1919. There was only a small recovery in the last three months, and total loans of \$906,000,000 at the turn of the year were less than half of the average amount outstanding in 1929.

The decrease of approximately \$40,000,000 during 1938 was due principally to a contraction in commercial loans, reflecting reduced business activity and declining prices over the first half of the year and the ability of business to handle increased volume in the second half of 1938 with little additional borrowing. Close buying and rigid control of costs minimized the demand for credit. Continued repayments on old obligations in the late summer and autumn apparently offset new borrowing, so that there was virtually no sign of the usual seasonal expansion in commercial loans.

Many individual banks have endeavored to maintain the volume of loans by the extension of personal loans, automobile financing, the pur-



chase of insured mortgages, and other types of loans which are somewhat different from those handled formerly. Others have extended credit under more liberal terms than heretofore and have made advances on accounts receivable where collateral of other types could not be obtained. Term loans also have become more common, with provision for amortization over the life of the loan and maturities of three years or even longer periods in exceptional cases.

The decline in loans during 1938 was greatest at Philadelphia banks, which reported a substantial decrease in commercial accommodation. At the country banks the contraction in loans was much smaller, as a marked increase in advances on real estate largely offset declines in other classifications.

Commercial loans at the end of 1938 made up nearly half of the total loans of member banks in Philadelphia and less than a quarter of the loans of the country banks. The proportions of real estate loans held by Philadelphia and outside banks, on the other hand, were respectively 11 and 34 per cent. The analysis of loans given in the following table is based chiefly on the use to be made of the proceeds:

Loans of member banks Phila. Fed. Res. District December 31, 1938	Millions of dollars		Percentage	
	Philadel- phia banks	Country banks	Philadel- phia banks	Country banks
Commercial loans.....	174	131	49%	24%
Open market paper.....	17	16	5 "	3 "
Brokers' loans.....	17	4	5 "	1 "
Other loans to carry securities....	22	44	6 "	8 "
Real estate loans:				
On farm land.....	..	18	..	3 "
On residential properties.....	17	125	5 "	23 "
On other properties.....	23	45	6 "	8 "
Loans to banks.....	2	1	1 "	..
Other loans.....	83	166	23 "	30 "
Total loans.....	355	550	100%	100%

Investments Investments of member banks in this district increased \$66,700,000 during 1938 to \$1,421,500,000, approaching the record volume held two years ago. This increase was due to expansion of \$79,400,000 at banks in Philadelphia, as country banks reduced their holdings by \$12,700,000. At the close of the year investments comprised 61 per cent of the credit outstanding, as compared with 59 per cent at the

Analysis of Member Bank Investments

Figures as of end of year (000,000's omitted in dollar figures)	Philadelphia Federal Reserve District						Investment distribution: 1938			
	All member banks		Philadel- phia banks		Country banks		Reserve city banks		Country banks	
	1937	1938	1937	1938	1937	1938	Phila. district	United States*	Phila. district	United States
Direct obligations: U. S. Government	\$544	\$627	\$268	\$334	\$276	\$294	50.7%	63.9%	38.6%	46.5%
Bonds.....	415	526	204	295	212	232	44.8 "	44.8 "	30.5 "	33.4 "
Treasury notes.....	128	101	64	39	63	62	5.9 "	18.3 "	8.1 "	12.9 "
Treasury bills.....	1	.....	0	0	1	.....	.0 "	.8 "	.....	.2 "
Obligations guaranteed by U. S. Government	\$151	\$149	\$78	\$79	\$73	\$70	12.0%	11.1%	9.2%	10.5%
Reconstruction Finance Corp.....	.....	4	.....	2	.....	2	.3 "	1.0 "	.3 "	.8 "
Federal Farm Mortgage Corp.....	39	33	21	13	19	20	2.0 "	2.5 "	2.6 "	2.9 "
Home Owners' Loan Corp.....	111	109	57	63	54	46	9.6 "	6.7 "	6.0 "	6.3 "
All other.....	.....	3	.....	1	.....	2	.1 "	.9 "	.3 "	.5 "
Other securities	\$660	\$645	\$234	\$246	\$426	\$398	37.3%	25.0%	52.2%	43.0%
Obligations of—										
States and political subdivisions.....	135	148	68	81	67	68	12.3 "	12.1 "	8.9 "	17.3 "
Public utilities.....	155	146	37	40	118	106	6.1 "	2.6 "	13.9 "	7.5 "
Railroads.....	170	167	46	49	124	118	7.4 "	2.8 "	15.5 "	8.0 "
Federal Land and Federal Intermediate Credit Banks.....	18	15	7	7	11	8	1.0 "	1.0 "	1.1 "	1.1 "
All other.....	99	102	28	33	71	68	5.0 "	3.4 "	8.9 "	6.1 "
Stocks of domestic corporations.....	54	39	36	23	18	16	3.5 "	2.3 "	2.1 "	1.8 "
Foreign securities.....	29	28	12	13	17	14	2.0 "	.8 "	1.8 "	1.2 "
Grand Totals	\$1,355	\$1,421	\$580	\$659	\$775	\$762	100.0%	100.0%	100.0%	100.0%

*Central reserve city banks excluded.

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end of 1937, about 47 per cent in the middle of 1933, and an average of but 32 per cent in 1929.

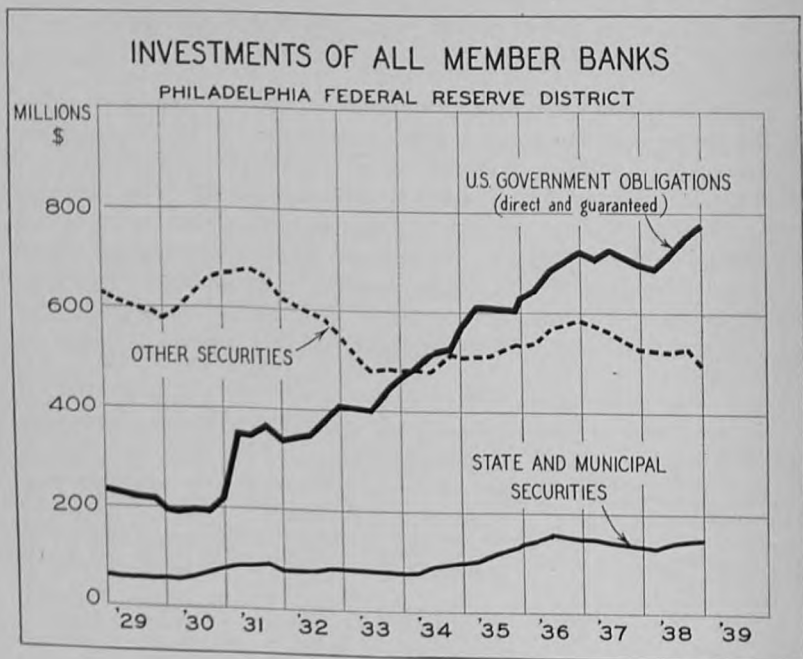
Nearly 55 per cent of the investments of member banks at the close of the year was in direct and guaranteed obligations of the United States Government. Holdings of direct issues reached the record volume of \$627,600,000, having increased \$83,800,000 during 1938. The expansion was especially large in holdings of longer maturities, particularly at the Philadelphia banks, owing in part to bonds taken in exchange for Treasury notes. On December 31 bonds maturing in ten years or more made up 56 per cent of direct governments at Philadelphia banks and 53 per cent at country banks. Figures in detail for both classes of banks are shown below.

U. S. Government securities held by member banks December 31, 1938	Philadelphia banks		Country banks	
	Amount	Per cent	Amount	Per cent
Treasury bills.....	0	0	\$60,000	.....
Treasury notes.....	\$39,439,000	11.8%	61,976,000	21.1%
Bonds maturing:				
1939-43.....	13,156,000	3.9 "	23,761,000	8.1 "
1944-48.....	95,047,000	28.4 "	53,072,000	18.1 "
1949-58.....	114,167,000	34.2 "	104,719,000	35.7 "
1959 or later.....	72,394,000	21.7 "	49,818,000	17.0 "
Total.....	\$334,203,000	100.0%	\$293,406,000	100.0%

Holdings of securities guaranteed by the United States Government consist chiefly of issues of the Home Owners' Loan Corporation and the Federal Farm Mortgage Corporation. Member banks in this district report a decrease of \$1,400,000 in guaranteed securities during 1938 to \$149,400,000, although the amount available in the market was increased by additional issues during the year.

The only major category of investments other than direct issues of the Federal Government which showed an increase during 1938 was obligations of states and political subdivisions. Holdings of these securities expanded \$12,800,000 to \$148,200,000.

Other investments, principally corporate obligations, held by member banks in this district decreased \$28,000,000 during 1938 to \$496,000,000, owing chiefly to a decline of \$10,000,000 in utility obligations and of \$15,000,000 in various stocks. The decline in stocks is accounted for



largely by the removal from investments to another classification of certain assets indirectly representing bank premises and other real estate.

The banks in this district held unusually large quantities of public utility and railroad obligations, as shown by the figures on page 26. At the close of 1938 utilities made up 10 per cent and rails 12 per cent of total investments, whereas figures for all member banks of the System showed 4 per cent for each of these classifications.

Of the total investments of \$1,421,500,000, approximately 20 per cent will mature in the years 1939-43, inclusive. In figures covering all member banks in the United States outside of central reserve cities this proportion was 33 per cent.

Earnings and expenses The proportion of earning assets of member banks held in the form of investments was higher in 1938 than in any previous year. Income from both investments and loans declined in the year, while earnings from miscellaneous sources again increased.

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The following data indicate the trend in loans and investments, together with earnings therefrom:

Member banks Philadelphia Federal Reserve District	1927-29 (average)	1938	Per cent change
Deposits.....	\$2,434,000,000	\$2,764,000,000	+14%
Loans.....	1,718,000,000	917,000,000	-47 "
Earnings therefrom.....	95,501,000	41,501,000	-56 "
Investments.....	924,000,000	1,390,000,000	+50 "
Earnings therefrom.....	46,773,000	46,007,000	- 2 "
Earnings from other sources.....	16,007,000	20,884,000	+30 "

Following a sharp decline between 1929 and 1933, net earnings of member banks from current operations have shown little variation. In 1935 net earnings approximated \$34,000,000, and in 1936 and 1937 amounted to \$35,000,000 and \$34,500,000 respectively. According to a study made by this bank and furnished to member banks in this district, net earnings from current operations in 1938 were \$35,300,000.

The operating results during 1938, compared with the two preceding years and with the high levels in 1929, are summarized on page 30.

A decline in total earnings from about \$110,900,000 in 1937 to \$108,400,000 in 1938 was due principally to reduced income from loans and investments, reflecting in part a lower rate of return on securities. Income from other sources increased further by about 2 per cent.

Current expenses were reduced from \$76,400,000 in 1937 to \$73,100,000 in 1938. The two principal items in this reduction were: first, a decline in interest payments on time deposits, the average rate dropping from 2.1 per cent in 1937 to 1.9 per cent in 1938; and, second, a substantial decrease in tax payments, resulting from losses and depreciation on loans and investments. These declines were more than sufficient to offset an increase of about 1 per cent in salaries and wages.

Recoveries on loans and securities previously charged off were considerably smaller while profits on securities sold were larger in 1938 than in 1937. Total income from profits and recoveries declined to \$16,700,000 as compared with \$17,400,000 in 1937 and \$30,700,000 in 1936.

Aggregate losses and depreciation increased to \$42,000,000 from \$28,400,000 in 1937 and about \$37,000,000 in 1936. The most important

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Earnings and expenses of member banks Philadelphia Federal Reserve District (000's omitted)	1936	1937	1938	1929
Current earnings				
Interest and discount on loans.....	\$42,736	\$42,790	\$41,501	\$106,616
Interest and dividends on securities.....	47,542	47,680	46,007	45,478
Trust department.....	8,120	8,943	9,168	7,596
Service charges on deposits.....	1,768	2,034	2,317	} 10,532
All other.....	8,753	9,508	9,399	
Total.....	\$108,919	\$110,955	\$108,392	\$170,222
Current expenses				
Salaries and wages.....	\$26,249	\$27,207	\$27,498	\$30,766
Interest on deposits.....	21,461	20,339	18,474	52,726
Interest on borrowed money.....	51	50	40	7,031
Taxes—real estate.....	2,862	2,737	2,738	} 8,543
Taxes—other.....	3,464	6,166	4,754	
All other.....	19,828	19,910	19,572	17,835
Total.....	\$73,915	\$76,409	\$73,076	\$116,901
Net earnings from current operations	\$35,004	\$34,546	\$35,316	\$53,321
Recoveries and profits on sales				
Recoveries on loans.....	\$3,592	\$3,139	\$1,449	\$782
Recoveries on securities.....	5,818	3,293	3,097	783
Profits on security sales.....	19,848	9,270	10,631	8,074
All other.....	1,404	1,696	1,509	463
Total.....	\$30,662	\$17,398	\$16,686	\$10,102
Losses and depreciation				
On loans.....	\$17,233	\$10,523	\$10,625	\$6,365
On investments.....	11,542	11,947	22,067	5,670
On banking house and equipment.....	2,777	2,981	2,705	2,028
All other.....	5,435	2,995	6,631	2,718
Total.....	\$36,987	\$28,446	\$42,028	\$16,781
Net addition to profits	\$28,679	\$23,498	\$9,974	\$46,642
Cash dividends declared.....	18,588	19,597	17,982	33,070

item in this category consisted of charge-offs on securities, which increased to more than \$22,000,000, or 20 per cent of current earnings, as compared with \$11,900,000 in 1937 and \$11,500,000 in 1936.

In consequence of these changes, the net addition to profits was only about \$10,000,000 as compared with \$23,500,000 in 1937 and \$28,700,000 in 1936. Cash dividends declared totaled nearly \$18,000,000, somewhat less than in each of the previous two years. In 1929 dividends declared by member banks exceeded \$33,000,000 as against net profits of \$46,600,000.

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Capital funds The capital funds of member banks in this district, comprising stock, surplus, undivided profits, and reserves, decreased \$8,400,000 during 1938 to \$487,100,000 at the end of the year. This decline was due principally to losses on investments and to the fact that many banks paid dividends in excess of their net profits for the year. To some extent it also reflected the retirement of preferred stock.

As a result of the decrease in capital funds in 1938 and growth in deposits, the number of dollars of deposits per dollar of capital funds increased to \$5.87, compared with \$5.55 at the end of 1937 and \$5.95 on December 31, 1936. Figures for all member banks of the System likewise show a rise in this proportion from \$7.60 to \$7.99 during 1938.

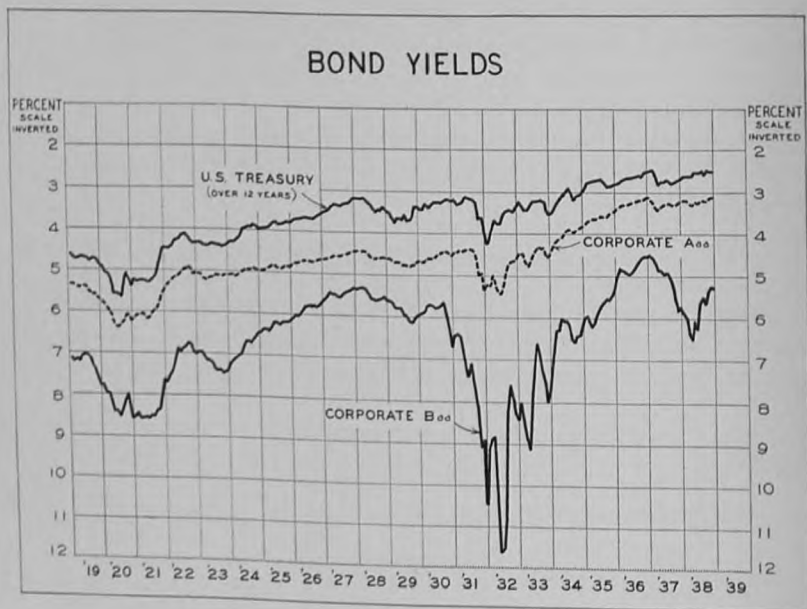
The following data have been computed to show the relation of capital funds to deposits, loans and investments, and fixed assets:

December 31, 1938	Member banks Phila. Fed. Res. District	United States	
		All member banks	Nonmember in- sured banks*
Capital accounts: Percentage of—			
Deposits.....	17.0%	12.5%	15.8%
Total loans and investments.....	20.9 "	16.9 "	18.7 "
Investments.....	34.3 "	28.8 "	39.1 "
Investments other than U. S. Government obligations— direct and guaranteed.....	75.6 "	96.2 "	77.6 "
Surplus, undivided profits and reserves: Percentage of—			
Total loans and investments.....	12.8 "	9.4 "	8.0 "
Investments.....	20.9 "	16.0 "	16.7 "
Investments other than U. S. Government obligations— direct and guaranteed.....	46.1 "	53.5 "	33.2 "
Banking house, equipment, and other real estate†: Percentage of—			
Capital funds.....	37.1 "	26.1 "	35.0 "

*Commercial banks. †Includes assets indirectly representing such items.

Money rates

The trend of interest rates and bond yields was downward in 1938 and early in 1939. This easy condition in the money market reflected an



increasingly large supply of funds seeking employment and an absence of any substantial demand for funds by business or the capital market. The growth in the supply of funds was due principally to the inflow of gold from abroad and the reduction in reserve requirements in April. The most important factor on the demand side consisted of security issues by federal, state and local governments, as flotations of corporate securities to obtain new capital were in smaller volume during 1938 than in either of the two preceding years. Corporate refunding at lower rates continued in substantial volume and to that extent affected income of financial institutions in this district as elsewhere.

Bond yields for the year as a whole declined. Such disturbances as occurred in March and September reflected international tension, while variations early in the year in corporate bonds of lower ratings were due primarily to domestic uncertainties with respect to business activity and earnings.

The downward movement in yields on Treasury bonds continued almost without interruption, reaching in the first quarter of 1939 the lowest

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rate on record. The return on Treasury notes maturing in from 3 to 5 years also declined to a new low level, and in the case of several issues of earlier maturity the yield was negative because such notes served as rights in tendering subscriptions to government refunding obligations. Treasury bills continued to be quoted in the market at lower rates than in 1937 and bids on new issues over the turn of the year were at par or a no-yield basis as a result of special demand for them in the money centers.

Bankers' acceptances and call money in New York were quoted nominally at unchanged rates throughout 1938, but prime commercial paper declined in the open market to a record low of $\frac{5}{8}$ per cent.

Money rates and yields	Annual averages			December 31	
	1936	1937	1938	1937	1938
Commercial paper, prime.....	.75%	.95%	.81%	1.00%	.62%
Bankers' acceptances, 90 days.....	.15 "	.43 "	.44 "	.44 "	.44 "
Call money renewals, New York.....	.91 "	1.00 "	1.00 "	1.00 "	1.00 "
Treasury bills, 91-day (dealers).....	.17 "	.28 "	.07 "	.12 "	.05 "
Treasury notes, 3-5 year.....	1.11 "	1.40 "	.83 "	1.23 "	.69 "
Treasury bonds, over 12 years.....	2.65 "	2.68 "	2.56 "	2.68 "	2.48 "
Municipal bonds (Stand. Statistics)...	3.07 "	3.10 "	2.91 "	3.12 "	2.71 "
Corporate bonds (Moody):					
Rating—Aaa.....	3.24 "	3.26 "	3.19 "	3.18 "	3.05 "
Aa.....	3.46 "	3.46 "	3.56 "	3.47 "	3.39 "
A.....	4.02 "	4.01 "	4.22 "	4.18 "	3.99 "
Baa.....	4.77 "	5.03 "	5.80 "	5.77 "	5.17 "
Type—Industrials.....	3.50 "	3.55 "	3.50 "	3.64 "	3.36 "
Public utilities.....	3.88 "	3.93 "	3.87 "	4.04 "	3.61 "
Rails.....	4.24 "	4.34 "	5.21 "	4.78 "	4.73 "

Customers' rates charged by banks in this district for the most part continued close to 1937 levels. Reports from several leading banks in Philadelphia showed that the average rate of interest on commercial loans made in the first half of September was 3.7 per cent, weighted according to the dollar volume of loans. In number 2.8 per cent of the loans were made at 2 per cent or less, but they accounted for nearly one-quarter of the total amount. Approximately half of the loans were at 6 per cent, but the volume at this rate was only 15 per cent of the total amount. Details are given in the table on the next page.

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New commercial and industrial loans made by seven Philadelphia banks September 1-15, 1938	Number		Dollar volume	
	Actual	Per cent	Actual	Per cent
Rate				
1 per cent.	0	0	0	0
Between 1 and 2 per cent.	13	1.3%	\$1,690,000	21.5%
2 per cent.	15	1.5 "	263,000	3.3 "
Between 2 and 3 per cent.	6	.6 "	428,000	5.5 "
3 per cent.	46	4.5 "	734,000	9.3 "
Between 3 and 4 per cent.	23	2.3 "	453,000	5.8 "
4 per cent.	145	14.2 "	1,383,000	17.6 "
Between 4 and 5 per cent.	68	6.7 "	543,000	6.9 "
5 per cent.	195	19.2 "	1,120,000	14.3 "
Between 5 and 6 per cent.	32	3.1 "	80,000	1.0 "
6 per cent.	474	46.6 "	1,159,000	14.8 "
Total.	1,017	100.0%	\$7,853,000	100.0%

No changes were made in this bank's rates of discount or rediscount during 1938. The 1½ per cent rate charged on rediscounts and advances under sections 13 and 13a of the Federal Reserve Act, established in September 1937, has continued in effect and is the lowest rate in the history of this bank. Advances to member banks under section 10(b) were made at 2 per cent, as in the last quarter of 1937. A complete schedule of rates at the end of 1938 follows:

Discount and interest rates Federal Reserve Bank of Philadelphia	December 31, 1938
Discounts for member banks (Sections 13 and 13a).....	1½%
Advances to member banks under Section 10(b).....	2 "
Advances secured by U. S. Government direct obligations for individuals, partnerships and corporations under Section 13.....	4 "
Rates on industrial advances—Section 13b:	
Advances direct to industrial or commercial organizations.....	4-6 "
Advances to financing institutions—	
On portion for which institution is obligated.....	2½ "
On remaining portion.....	*
Commitments to make advances.....	½-2 "

*Same as to borrower; minimum of 4%.

Federal Reserve Bank

Discounts and advances by the Federal Reserve Bank of Philadelphia during 1938 continued in small volume. Reserve bank credit was extended chiefly through participation in System holdings of United

Twenty-fourth Annual Report, Federal Reserve Bank of Philadelphia

States securities. While cash reserves fluctuated widely throughout the year, they were greatly in excess of statutory requirements. Total resources of this bank increased to \$870,000,000 at the end of 1938 from \$791,000,000 a year earlier.

Total earnings declined principally as a result of lower rates of return on investments. But this was more than offset by increased profits realized on the sale of securities, so that the net amount available for distribution increased somewhat over 1937.

Annual averages of the earning assets and of the factors used in the calculation of reserve position are given below. Statements of condition as of the close of the past three years are shown on page 36.

Federal Reserve Bank of Philadelphia (Dollar figures in millions)	Annual averages of daily figures				
	1935	1936	1937	1938	1929
Bills discounted.....	\$ 0.6	\$ 0.4	\$ 1.4	\$ 1.6	\$ 88.9
Bills bought.....	0.5	0.4	0.3	.....	13.1
Industrial advances.....	4.4	5.4	4.0	3.2	.0
United States securities.....	172.7	193.8	208.9	219.1	20.4
Other securities.....	.....	0	0	0	0.5
Total bills and securities.....	\$178.2	\$200.0	\$214.7	\$223.9	\$122.9
Federal Reserve note circulation.....	244.4	289.4	313.1	308.3	147.0
Member bank reserve deposits.....	235.3	324.6	381.2	375.1	} 136.5
Other deposits.....	21.5	27.1	32.6	48.2	
Total cash reserves.....	345.0	464.0	534.4	530.5	191.8
Reserve ratio.....	68.8%	72.4%	73.5%	72.5%	67.6%

Reserve bank credit Outstanding credit of this bank increased from an average of \$214,700,000 in 1937 to \$223,900,000 in 1938, a new high for the past eighteen years. This expansion in 1938 was due to larger holdings of government securities.

Throughout 1938 the System's portfolio of United States securities remained constant in volume. Holdings of Treasury bills were substantially reduced and notes acquired in their place, while part of the Treasury notes, in turn, was exchanged for Treasury bonds. The effect was to lengthen the average maturity of the investment account. The proportion falling due within one year declined from nearly 39 to 32 per cent, while

Statement of Condition

Federal Reserve Bank of Philadelphia (000's omitted in dollar figures)	December 31		
	1936	1937	1938
RESOURCES			
Gold certificates on hand and due from U. S. Treasury.....	\$195,308	\$174,891	\$546,461
Redemption fund—Federal Reserve notes.....	194	500	1,236
Other cash.....	25,458	26,940	29,221
Total reserves.....	\$520,960	\$502,331	\$576,918
Bills discounted:			
Secured by U. S. Government obligations*	285	1,498	704
Other bills discounted.....	28	655	473
Total bills discounted.....	\$ 313	\$ 2,153	\$ 1,177
Bills bought in open market.....	317	293	56
Industrial advances.....	4,686	3,627	3,120
United States Government securities.....	208,989	216,853	222,761
Total bills and securities.....	\$214,305	\$222,926	\$227,114
Due from foreign banks.....	21	18	17
Federal Reserve notes of other F. R. banks.....	1,736	1,662	2,081
Uncollected items.....	58,663	54,588	54,506
Bank premises.....	4,952	4,826	4,699
All other resources.....	3,122	5,067	4,637
Total resources.....	\$803,759	\$791,418	\$869,972
LIABILITIES			
Federal Reserve notes in circulation.....	\$312,078	\$318,036	\$320,562
Deposits:			
Member bank reserve account.....	381,210	365,046	374,231
U. S. Treasurer—general account.....	6,258	1,092	58,155
Foreign bank.....	9,209	17,002	19,545
Other deposits.....	2,219	2,269	6,899
Total deposits.....	\$398,896	\$385,409	\$458,830
Deferred availability items.....	58,926	53,747	57,591
Other liabilities.....	961	1,092	664
Total liabilities.....	\$770,861	\$758,284	\$837,647
CAPITAL ACCOUNTS			
Capital paid in.....	12,211	12,258	12,213
Surplus—Section 7.....	13,362	13,466	13,696
Surplus—Section 13b.....	4,325	4,411	4,416
Other capital accounts.....	3,000	2,999	2,000
Total liabilities and capital accounts.....	\$803,759	\$791,418	\$869,972
Ratio of total reserves to deposit and Federal Reserve note liabilities combined.....	73.3%	71.4%	74.0%
Contingent liability on bills purchased for foreign correspondents.....	0	\$ 166	\$ 7
Commitments to make industrial advances.....	\$ 247	173	1,525

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

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one to five year maturities increased from 34 to 38 per cent, and those due in over five years from 27 to 30 per cent. This bank was allotted an increased proportion of the System total, so that its holdings rose from \$216,900,000 on January 1 to \$222,800,000 on December 31. A distribution according to type as of the year-end follows:

U. S. Government securities held Federal Reserve Bank of Phila. December 31	Bonds	Notes	Bills	Total
Dollars (000's omitted):				
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
1938.....	73,057	100,515	49,189	222,761
Percentage distribution:				
1935.....	9.5%	68.2%	22.3%	100.0%
1936.....	20.2 "	55.2 "	24.6 "	100.0 "
1937.....	29.3 "	45.0 "	25.7 "	100.0 "
1938.....	32.8 "	45.1 "	22.1 "	100.0 "

The average volume of discounts on the books of this bank in 1938 was \$1,600,000, an amount larger than in each of the three previous years, but was only 2 per cent of the average volume in the years 1927-29. The largest volume of discounts and advances outstanding was \$2,887,000 early in January, while the smallest was \$934,000 in September. Subsequently, discounts increased seasonally and at the close of the year amounted to \$1,177,000. There were 143 individual banks which received accommodation from this bank during 1938, primarily to take care of their temporary requirements. Advances under section 10(b) of the Federal Reserve Act fluctuated between a high of \$1,010,000 and a low of \$323,000; the average volume outstanding was larger than in 1937.

The negligible holdings of bills bought, amounting to \$56,000 at the end of 1938, represented participation by this bank in System holdings of foreign currency bills.

Industrial loans Advances by this bank under section 13b to supply working capital to established business declined from \$3,627,000 to \$3,120,000 in the course of the year. Demand for this type of credit continued quiet, although it increased somewhat toward the end of the year. For the year as a whole 19 applications were approved for a total amount of \$4,500,750, as against 9 applications for \$640,000 in 1937, and 27 applications for \$1,017,900 in 1936.

During the period of four and one-half years, from June 30, 1934 to December 31, 1938, this bank received 2,497 inquiries from banks and business concerns with regard to industrial loans. Out of these inquiries there resulted 652 formal applications, of which 191, or about 29 per cent were approved, while 414, or 64 per cent were rejected, and 46 applications, or 7 per cent, were withdrawn before action was taken. The amount of credit sought by the approved applications aggregated \$28,815,000, or 62.5 per cent of the total indicated by the applications filed.

A large number of inquiring concerns showed no further interest after receiving information. Many others could not meet requirements because they were seeking proprietary or refunding capital rather than working capital as provided in the Act. Apart from ineligibility, the past earning records, current financial position, and future prospects of many inquirers were found to be unsatisfactory.

Loans aggregating \$19,408,000 were actually disbursed either directly by this bank or in participation with other banks to 127 borrowers, while 64 borrowers withdrew their applications after approval. About 72 per cent of disbursed loans went to manufacturers, 18 per cent to coal operators, and the balance of the total disbursements was divided among construction, trade and services.

Most of the borrowers under Section 13b were small and medium-sized concerns. About 35 per cent of the borrowers had net worth under \$100,000 and 56 per cent were between \$100,000 and \$1,000,000. The loans themselves were for the most part small, more than four-fifths in number being under \$100,000.

Of the total number of loans disbursed, 34 had to have original maturities extended and, owing to underestimated requirements or to unforeseen developments, additional advances had to be made to 22 borrowers or 17 per cent of all those receiving credit. These additions totaled nearly \$6,500,000 or 160 per cent of the original extensions to these borrowers. In 5 cases more than one additional advance was needed.

Despite the unusual care exercised at the time the loans were made, there were seven loans placed on the so-called "trouble list" and five borrowers who availed themselves of the provisions of Section 77B of the bankruptcy law after the loans were made to them. The amount outstanding at the end of 1938 in the first case was \$462,845, while in the

second instance it was only \$153,972. The principal reasons for the difficulties among these less satisfactory borrowers were inadequate management, unfavorable competitive positions, heavy burdens of debt, and disturbed buying and selling prices.

Of the 127 borrowers, 60 repaid their loans and are continuing in business. In these cases the loans were beneficial as they helped to maintain employment and to rehabilitate the credit standing of the concerns.

The daily volume of outstanding loans and commitments from the middle of 1934 to the end of 1938 averaged \$4,185,000. The experience of this bank in servicing such loans so far has been rather satisfactory, although costs and losses in handling this type of credit are neither controllable nor predictable. Largely by reason of experienced personnel and adequate facilities already in existence when the law went into effect, expenses have been relatively low and excessive losses have been avoided.

Volume of work As borrowings by member banks continued very light throughout 1938, the principal operations of the discount department were in connection with the handling of industrial loans.

The number of ordinary checks handled by the transit department of this bank increased from 86,058,000 in 1937 to 91,762,000 in 1938, despite the lower average level of business activity in the latter year. The average per working day was 307,000, but there were peak days on which the number exceeded 600,000. In addition, the automobile run service distributed 15,800,000 checks in packages among the local banks which are not members of the Philadelphia Clearing House.

The volume of checks required to be handled by this bank is lessened by the operation of 26 county clearings systems, covering most of the district, in the operation of which banks mail checks directly to the institutions on which they are drawn, settlement being effected on the books of the Federal Reserve Bank. This method of clearance, as well as the arrangements entered into for the settlement of clearing house balances of 20 leading cities of this district by wire and for the direct sending of checks drawn on banks in other districts, makes funds more quickly available.

Issues, redemptions, and exchanges of securities of the United States and its agencies by the fiscal agency department of this bank declined

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somewhat in 1938, but the number of work relief checks handled increased from 5,660,000 to 6,971,000 and other government checks increased from 2,700,000 to 3,055,000. There also was a slight increase in the number of government coupons received for collection, while the volume of commercial collections showed a small decline, as did transfers of funds.

A decrease from 1937 to 1938 in the number of pieces of currency received and counted was due in part to the cooperation of member banks in following the suggestion made to them last spring that they sort out and retain fit currency for further use, rather than ship all receipts to this bank and immediately draw upon it to replenish their tills.

This bank held an average volume of \$641,000,000 of securities in custody for its member banks during 1938. Additional service rendered to members included 15,756 purchases and sales of securities amounting to \$405,000,000.

Volume of work Federal Reserve Bank of Philadelphia	Pieces or trans- actions handled (000's omitted)		Dollar amounts (000,000's omitted)	
	1937	1938	1937	1938
Discounts and advances	2	2	\$ 59	\$ 43
Currency counted	203,132	171,726	869	698
Coins counted	304,684	280,876	28	26
Ordinary checks	86,058	91,762	23,714	21,666
Checks handled in packages by auto- mobile run service	16,253	15,819		
U. S. Government checks	2,700	3,055	465	554
Work relief checks	5,660	6,971	189	213
Collection items:				
Coupons of U. S. Government and agencies	1,193	1,233	48	49
All other	366	350	248	189
Transfers of funds	66	61	3,137	2,813
Issues, redemptions and exchanges by fiscal agency department:				
U.S. Government direct obligations	201	182	394	469
All other	27	18	45	47

Earnings and expenses A declining rate of return on holdings of United States Government securities was principally responsible for a drop in the total earnings of this bank from \$3,559,000 in 1937 to \$3,151,000 in 1938. Current expenses declined but slightly from \$2,412,000 to \$2,398,000.

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While net earnings from current operations decreased from \$1,147,000 in 1937 to \$753,000 in 1938, additions thereto, chiefly from profits on sales of securities, increased from \$201,000 to \$721,000. Deductions amounted to \$421,000 as compared with \$339,000 in 1937, the principal item being prior service contributions to the retirement system for 1938 and 1939, which completed the payments on this account. As a result of

Profit and loss account Federal Reserve Bank of Philadelphia (000's omitted)	1937	1938
Earnings from:		
Bills discounted.....	\$ 26	\$ 26
Bills bought.....	2	..
Industrial advances.....	223	168
United States Government securities.....	3,257	2,936
Other sources.....	51	21
Total earnings.....	\$3,559	\$3,151
Expenses:		
Operating expenses*.....	\$2,099	\$2,078
Cost of Federal Reserve currency.....	141	152
Assessment for expenses of Board of Governors.....	172	168
Total net expenses.....	\$2,412	\$2,398
Current net earnings.....	\$1,147	\$ 753
Additions to current net earnings:		
Profits on sales of U. S. Government securities.....	\$ 201	\$ 697
Other additions.....	..	24
	\$ 201	\$ 721
Deductions from current net earnings:		
Assessment to apply on cost of building for Board of Governors.....	\$ 140	0
Prior service contributions to Retirement System.....	193	\$ 387**
Other deductions.....	6	34
	\$ 339	\$ 421
Net additions to (+) or deductions from (-) cur- rent net earnings.....	-\$ 138	+\$ 300
Net earnings available for distribution.....	\$1,009	\$1,053
Distribution of net earnings:		
Paid to Treasury of United States, Sec. 13b.....	\$ 84	\$ 84
Dividends paid to member banks.....	735	734
Transferred to surplus (Sec. 13b).....	86	5
Transferred to surplus (Sec. 7).....	104	230

*After deducting reimbursements received for certain fiscal agency and other expenses. **Covers 1938 and 1939.

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these changes, the net amount available for distribution increased to \$1,053,000 as compared with \$1,009,000 in 1937.

Dividend disbursements to member banks amounted to \$734,000. The sum of \$84,000 was paid to the Treasury under section 13b, which requires that up to 2 per cent, if earned, shall be paid to the government on funds turned over to this bank by the Treasury for the purpose of making industrial loans. Of the remaining earnings, \$5,000 was added to the surplus designated as "Section 13b" and \$230,000 to the regular surplus account of this bank.

Membership The number of member banks in this district at the end of 1938 was 655, the same as at the beginning of the year. State bank members increased from 65 to 66, but the number of national banks decreased from 590 to 589, owing to the liquidation of one bank that was succeeded by a nonmember. At the close of the year member banks accounted for 69 per cent of the number and 71 per cent of the assets of all banks in this district.

Total assets of the 944 banking institutions in operation on December 31 aggregated \$4,784,000,000, showing an increase of \$105,000,000 over 1937, of which all but \$10,000,000 was at member banks.

The following data show the ratios of member banks and their assets to all banks in this district:

Banks in Philadelphia Federal Reserve District (Dollar figures in millions)	Pennsyl- vania*	New Jersey*	Delaware	District Totals
Number of banks				
Total	772	115	57 #	944
Member banks	550	85	20	655
Proportion member of total.....	71%	74%	35%	69%
Total assets				
Total	\$4,138	\$392	\$254	\$4,784
Member banks	2,944	276	153	3,373
Proportion member of total.....	71%	70%	60%	71%

*Portion of the state in Philadelphia Federal Reserve District.

Includes 9 branches of nonmember banks.

The number of national banks in this district having fiduciary powers was unchanged at 255.

Changes in officers and directors In the elections held last November Joseph Wayne, Jr. was reelected by the banks of Group 1 to serve as their Class A representative on this bank's Board of Directors, and Harry L. Cannon, a Class C director up to the close of 1937, was elected by the banks of Group 2 to serve as a Class B director. Mr. Cannon replaced Mr. Sewall, a director of this bank since 1927, whose term expired and who had become ineligible for reelection because of retirement from active business.

Richard L. Austin, Chairman of the Board of Directors and Federal Reserve Agent since the establishment of this bank in 1914, retired at the close of 1938 when his term as a Class C director expired. By appointment of the Board of Governors of the Federal Reserve System, Thomas B. McCabe, Deputy Chairman, succeeded Mr. Austin as Chairman of the Board, and Francis C. Biddle, who had been appointed a Class C director in April 1938, became Deputy Chairman. Early in 1939 Mr. Biddle was appointed a Judge of the U. S. Circuit Court of Appeals for the Third District and resigned as a director of this bank in April 1939. In March 1939 Dr. Alfred H. Williams, Dean of the Wharton School of Finance and Commerce of the University of Pennsylvania, was appointed a Class C director for a term expiring December 31, 1941.

Howard A. Loeb, Chairman of the Board of the Tradesmens National Bank and Trust Company of Philadelphia, continued to represent this bank on the Federal Advisory Council during 1938 and was reelected for the year 1939. Mr. Loeb was reelected Vice President of the Council.

President John S. Sinclair served throughout the year as the representative of the Federal Reserve Banks of Philadelphia and Cleveland on the Federal Open Market Committee. M. J. Fleming, President of the Cleveland Bank, served as alternate.

Philip M. Poorman was made Auditor of this bank in March 1939.

At the close of 1938 this bank had 772 employees, exclusive of officers, as against 780 at the end of 1937.

Directors

as of May 1, 1939

	Group	Term expires Dec. 31
Class A:		
Joseph Wayne, Jr. President, Philadelphia National Bank, Philadelphia, Pennsylvania.	1	1941
George W. Reily President, Harrisburg National Bank, Harrisburg, Pennsylvania.	2	1939
J. B. Henning President, Wyoming National Bank, Tunkhannock, Pennsylvania.	3	1940
Class B:		
C. Frederick C. Stout John R. Evans and Company, Camden, New Jersey.	1	1940
Harry L. Cannon H. P. Cannon & Son, Inc., Bridgeville, Delaware.	2	1941
J. Carl De La Cour Vice President, Wm. S. Scull Company, Camden, New Jersey.	3	1939
Class C:		
Thomas B. McCabe, Chairman and Federal Reserve Agent President, Scott Paper Company, Chester, Pennsylvania.		1939
Alfred H. Williams Dean, Wharton School, University of Pennsylvania, Philadelphia.		1941
Vacancy		1940

Officers

JOHN S. SINCLAIR, *President*

FRANK J. DRINNEN,
First Vice President

L. E. DONALDSON,
Assistant Vice President

C. A. McILHENNY,
Vice President and Cashier

C. A. SIENKIEWICZ
Assistant Vice President

W. J. DAVIS,
Vice President

JAMES M. TOY,
Assistant Cashier

ERNEST C. HILL,
Vice President

GLENN K. MORRIS,
Assistant Cashier

WILLIAM G. MCCREEDY,
Assistant Vice President

ARTHUR E. POST,
Secretary

PHILIP M. POORMAN, *Auditor*