

*Twenty-fifth Annual Report*  
*of the*  
**FEDERAL RESERVE BANK  
OF PHILADELPHIA**

1939



**Third Federal Reserve District**

## Directors

as of May 1, 1939

	<i>Group</i>	<i>Term expires Dec. 31</i>
<b>Class A:</b>		
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
<b>Class B:</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
<b>Class C:</b>		
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, <i>First Vice President</i>	L. E. DONALDSON, <i>Assistant Vice President</i>
C. A. McILHENNY, <i>Vice President and Cashier</i>	C. A. SIENKIEWICZ <i>Assistant Vice President</i>
W. J. DAVIS, <i>Vice President</i>	JAMES M. TOY, <i>Assistant Cashier</i>
ERNEST C. HILL, <i>Vice President</i>	GLENN K. MORRIS, <i>Assistant Cashier</i>
WILLIAM G. MCCREEDY, <i>Assistant Vice President</i>	ARTHUR E. POST, <i>Secretary</i>
PHILIP M. POORMAN, <i>Auditor</i>	



FEDERAL RESERVE BANK  
OF PHILADELPHIA

## CONTENTS

---

	Page
Business conditions .....	1
Industry .....	3
Income .....	9
Distribution .....	15
Prices .....	17
Banking and credit conditions.....	20
Bank reserves .....	20
Federal Reserve Bank.....	20
Member banks .....	22
Condition of member banks.....	26
Deposits .....	26
Loans and discounts.....	27
Investments .....	30
Capital funds .....	37
Earnings and expenses.....	38
Analysis of member bank investments.....	40
Money rates .....	52
Federal Reserve Bank.....	57
Reserve bank credit.....	59
Industrial advances .....	60
Volume of work.....	62
Earnings and expenses.....	63
Membership .....	65
Changes in officers and directors.....	66

FEDERAL RESERVE BANK  
OF PHILADELPHIA

April 30, 1940.

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

For your information there is presented here-with the twenty-fifth annual report of this bank. It contains a review of the operations of the bank and a survey of developments in business, banking and credit conditions in the Third Federal Reserve District during 1939. It also gives a brief analysis of investments of member banks in this district.

JOHN S. SINCLAIR

*President*

## *Business Conditions*

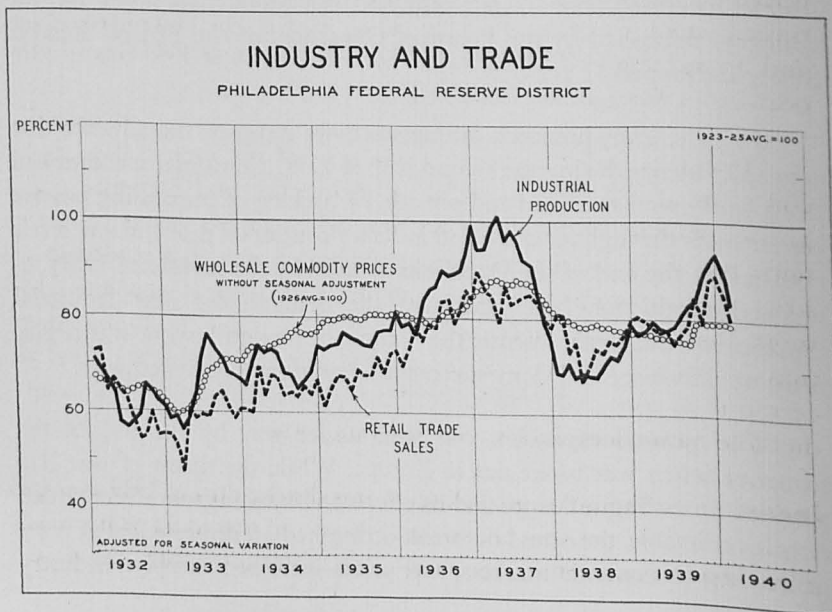
Industrial and trade conditions in the Third Federal Reserve District improved substantially during 1939, and by the end of the year activity approached the high levels reached in 1937. The expansion occurred in the second half of the year, as in the first five months the sharp upward trend which began in the middle of 1938 was temporarily halted. Buyers had been cautious throughout the earlier expansion period, and after the turn of the year the volume of purchases declined somewhat further as domestic business slackened, apparently to appraise the outlook following the sustained advance. The most unsettling feature of the situation at that time was the growing possibility of war in Europe in addition to that in the Orient. During the first five months, the seasonally adjusted index of industrial production in this district declined about 2 per cent and the production index for the country, published by the Board of Governors of the Federal Reserve System, dropped 12 per cent.

In June 1939, however, business activity resumed the advance that was in evidence during the second half of 1938. Consumer incomes had been fairly well sustained and provided a backlog of purchasing power; inventories throughout trade and industry continued near the low levels reached at the end of the liquidation period in the middle of 1938; increased production had stimulated the demand for new industrial equipment and replacements; the volume of foreign buying was beginning to increase; and domestic credit conditions continued easy.

The general expansion was well under way by the end of the summer when war broke out in Europe. While the threat of war had been an unsettling influence and its effects on business generally regarded as unpredictable, the actual outbreak occasioned an unprecedented wave of buying in domestic markets, and prices increased sharply. Industry

anticipated large foreign orders in addition to active local demand, and the current high operating levels gave rise to widespread anxiety with respect to prompt deliveries. The effects were particularly apparent in the markets for imported goods including many essential materials, owing to the possibility of interrupted ocean shipments. Industrial activity increased sharply as a result of these large orders, especially in such lines as machine tools, airplanes, chemical products, railway equipment, and automobiles. Between May and December the adjusted index of production in the Third District advanced 21 per cent, nearly two-thirds of the gain occurring after the middle of September.

The expansion began to taper off in December, and in January and February 1940 activity declined. The war demand which had been anticipated was not generally in evidence. Costs of production had increased sharply in several industries, and inventories had been expanded. The volume of goods on hand was not unusually large in relation to the level of business, but supplies were adequate to assure reasonably prompt deliveries. The volume of new orders declined sub-



stantially from the unusually high level reached in the middle of October, and by the end of the year operating rates were being reduced toward levels more consistent with incoming business.

The outlook for industry and trade in 1940 was regarded as generally favorable at the turn of the year, although some decline from the December highs was in prospect for the first quarter. Consumer incomes were large and a substantial unsatisfied demand was still in evidence for such durable goods as dwellings, household equipment, and automobiles, as well as for clothing and other nondurable items. Industrial purchases of equipment and expansion of plants were increasing somewhat and a larger volume of foreign orders for war materials was beginning to appear. Shipments of peacetime goods to other nations on the whole were well sustained.

The heavy backlogs of orders accumulated in the fall were largely worked off by the end of January but were still high in industries with long fabricating processes, such as machinery and equipment. Cancellations on the heavy commitments made in previous months continued small, specifications were being received in substantial volume and an increase in orders later in the first quarter of 1940 was in prospect in some important lines.

Prices continued weak after the turn of the year, following declines in several raw materials in November and December. The greater stability in quotations on finished goods last fall as compared with the sharp rise in raw and semi-finished materials tended to restrict profit margins somewhat, but the high level of operations had more than offset this influence in most lines. Basic unsettling conditions, however, continued to prevail, the principal problems being uncertainty as to various aspects of the domestic outlook and the unpredictable nature and duration of the wars abroad.

**Industry** Industrial production in this district during 1939 averaged 17 per cent above the level of the preceding year, reflecting a sharp expansion in the output of manufactures, coal, and electric

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

power. Production of crude oil declined slightly. Construction activity averaged 19 per cent above the level of 1938. Employment in general industry during the year was 3 per cent higher and income to wage earners was 14 per cent larger than in the preceding year.

Productive activity Philadelphia Federal Reserve District (1923-25 average = 100)	Annual averages of monthly indexes						Monthly	
	1929	1932	1936	1937	1938	1939	Dec. 1938	Dec. 1939
<b>Industrial production</b> . . . . .	<b>110</b>	<b>63</b>	<b>86</b>	<b>91</b>	<b>70</b>	<b>82</b>	<b>79</b>	<b>94</b>
Manufacturing . . . . .	<b>111</b>	<b>61</b>	<b>84</b>	<b>89</b>	<b>68</b>	<b>80</b>	<b>76</b>	<b>93</b>
Durable goods . . . . .	110	39	77	88	55	72	62	95
Nondurable goods . . . . .	112	77	91	91	77	87	87	92
Coal mining . . . . .	<b>92</b>	<b>60</b>	<b>68</b>	<b>65</b>	<b>56</b>	<b>63</b>	<b>66</b>	<b>61</b>
Anthracite . . . . .	91	62	67	64	56	63	67	59
Bituminous . . . . .	98	51	75	76	53	63	62	76
Crude oil . . . . .	<b>230</b>	<b>295</b>	<b>433</b>	<b>498</b>	<b>445</b>	<b>437</b>	<b>437</b>	<b>479</b>
Electric power output . . . . .	<b>191</b>	<b>177</b>	<b>228</b>	<b>242</b>	<b>238</b>	<b>263</b>	<b>248</b>	<b>269</b>
<b>Building contracts awarded</b>								
<b>Total</b> . . . . .	<b>132</b>	<b>34</b>	<b>56</b>	<b>57</b>	<b>54</b>	<b>65</b>	<b>60*</b>	<b>53*</b>
Residential . . . . .	104	17	36	38	35	57	44*	52*
Nonresidential . . . . .	160	41	58	71	66	50	72*	45*
Public works and utilities . . . . .	146	66	108	84	87	124	95*	85*
<b>Agricultural marketing</b>								
Cash income (1932 avg. = 100) . . . . .	<b>181</b>	<b>100</b>	<b>149</b>	<b>166</b>	<b>152</b>	<b>152</b>	<b>141</b>	<b>148</b>

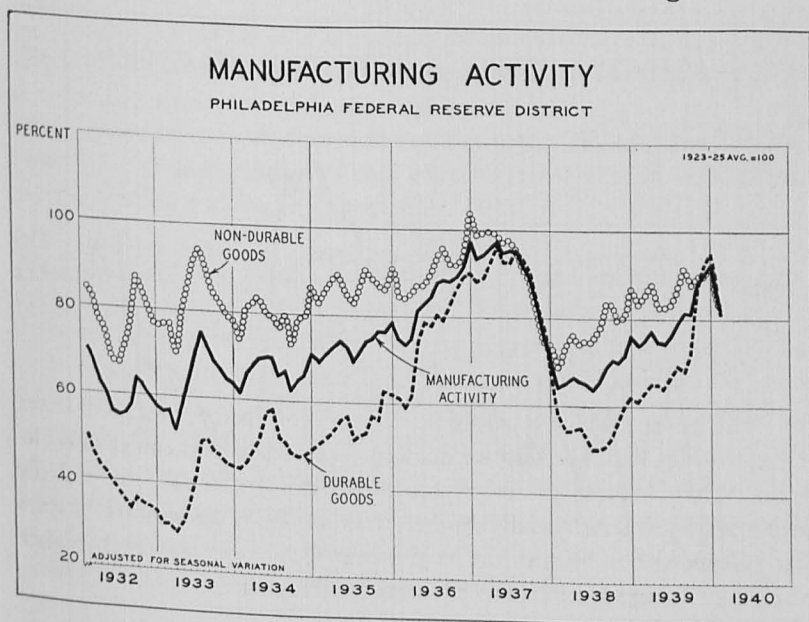
\*Three-month moving average.

Retail and wholesale trade sales by December were well above December 1938, and for 1939 as a whole averaged 8 and 10 per cent higher than the year before. The volume of freight shipments by rail increased 22 per cent from 1938 to 1939.

The general level of wholesale commodity prices averaged lower for 1939 than for 1938, despite marked increases in September and October. After August, prices of staple industrial materials rose sharply and continued substantially higher than in 1938; agricultural staples also advanced but by the end of the year they were not much higher than the average level in the previous fifteen months.

Manufacturing activity in the first five months of 1939 declined about 2 per cent from the relatively high level reached in the preceding December. The output of nondurable goods was reduced about 5 per cent, the sharpest contraction being in the production of textiles. The output of silk goods, hosiery, and woolens and worsteds showed particularly large declines in this period. The production of durable manufactures, on the other hand, continued the advance which started in September 1938 and by May 1939 was 3 per cent above the level at the end of the previous year. The output of railway and electrical equipment expanded substantially in the five months ended in May.

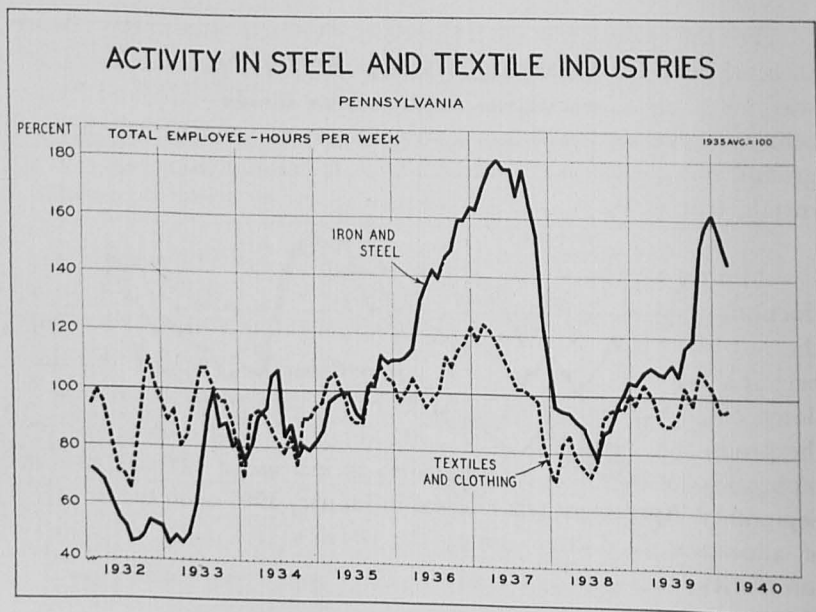
During the balance of the year manufacturing activity advanced considerably, increasing 24 per cent from May to December, on a seasonally adjusted basis. The output of durable goods rose 49 per cent, the largest gains among the major groups being in the production of metals and metal products, building materials, and transportation equipment. Production of pig iron more than doubled, that of crude steel increased 90 per cent, and iron and steel castings advanced



close to 60 per cent. In finished and semifinished metal lines, the largest gains were in locomotives and cars, motor vehicles, automobile bodies and parts, ships, and electrical apparatus.

The greatest improvement in the output of durable goods occurred in October, following the heavy wave of buying that started in the middle of September. In the final quarter of the year production of these materials increased 31 per cent.

Activity in consumers' goods industries turned up slightly in June and more sharply in July and August, increasing 11 per cent between May and the end of the year but only 5 per cent in the final quarter. The only marked expansion was in the output of textiles, the weaving of carpets and rugs, woolens and worsteds, and cotton products showing particularly large gains. Much of the increase in the output of consumers' materials in the final quarter was in woolens and worsteds, owing primarily to widespread fears that the supply of wool would be curtailed and that prices would advance further.



*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

Employee-hours in Pennsylvania factories	Index: 1935 average = 100			
	1936	1937	1938	1939
<b>All manufacturing</b>				
First quarter.....	108.4	149.2	91.1	104.3
Second quarter.....	124.0	153.3	85.5	103.7
Third quarter.....	131.9	144.7	87.6	110.0
Fourth quarter.....	144.8	119.4	101.2	139.1
Average.....	127.3	141.6	91.4	114.3
<b>Metal products</b>				
First quarter.....	112.7	170.1	94.8	107.6
Second quarter.....	137.2	178.0	87.0	108.9
Third quarter.....	144.8	169.6	84.6	114.3
Fourth quarter.....	160.5	130.5	101.1	157.0
Average.....	138.8	162.0	91.9	121.9
<b>Textile products</b>				
First quarter.....	100.6	121.6	79.8	100.4
Second quarter.....	97.7	112.0	75.4	90.7
Third quarter.....	107.6	101.6	87.9	98.0
Fourth quarter.....	118.4	85.6	97.4	106.0
Average.....	106.1	105.2	85.1	98.8

For the year as a whole the output of manufactures in this district increased in all major lines. The average gain of 19 per cent over 1938 was due to an increase of 32 per cent in the durable lines and 12 per cent in industries producing nondurable goods. Among the specific groups, the greatest improvements were in transportation equipment, metals, textiles, and building materials.

Mining activity in this district also increased substantially. Production of anthracite amounted to 50,800,000 tons, or 10 per cent above the record low of 46,100,000 in 1938 but 2 per cent below 1937. The principal factors in the anthracite situation during 1939 were the shut-down of bituminous mines in April, which resulted in an increase in the production of anthracite of 1,700,000 tons in that month, and the outbreak of war, which contributed to an increase of 1,000,000 tons in September. Agreement was reached in January 1940 upon the problem of allocating production among the so-called line and independent companies.

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

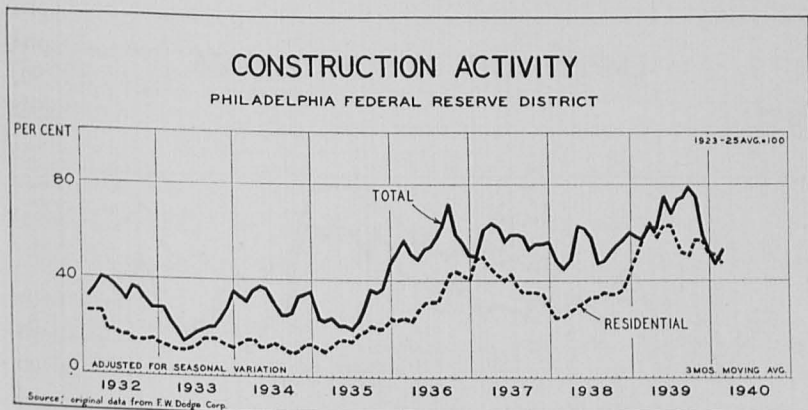
Despite the six weeks' shutdown in bituminous mines, when production declined from 8,600,000 tons in March to 137,000 tons in April, the output of bituminous coal for the year as a whole aggregated 90,800,000 tons, or 18 per cent more than the 77,000,000 produced in 1938 but 18 per cent less than the seven-year high in 1937. Following the curtailed operations in the spring, production increased more than seasonally through November, partly to replenish stocks and partly as a result of improved industrial conditions.

The output of crude oil in the Bradford Field fluctuated irregularly in the first three-quarters of the year but increased substantially in the final quarter, contrary to the usual tendency. The expansion appeared to be due primarily to an anticipated increase in foreign and domestic demand for lubricants, as stocks of finished petroleum products were accumulated. Production for the year totaled 14,700,000 barrels, or 2 per cent less than in 1938 and 12 per cent below 1937, when a record of 16,700,000 barrels was reached.

The output of electric power in this district followed an irregular upward trend to a record peak in October and for the year as a whole averaged 10 per cent above 1938. Total sales by companies representing about 95 per cent of the aggregate sales in this district declined in the early part of the year but advanced thereafter to an all-time high of 708,000,000 kwh. in December. Total sales for the year were 7,782,000,000 kwh. or 11 per cent more than in 1938. Sales to industry amounted to about 3,850,000,000 kwh. or 13 per cent more than a year before, and, at a record high in December, were 16 per cent above a year earlier.

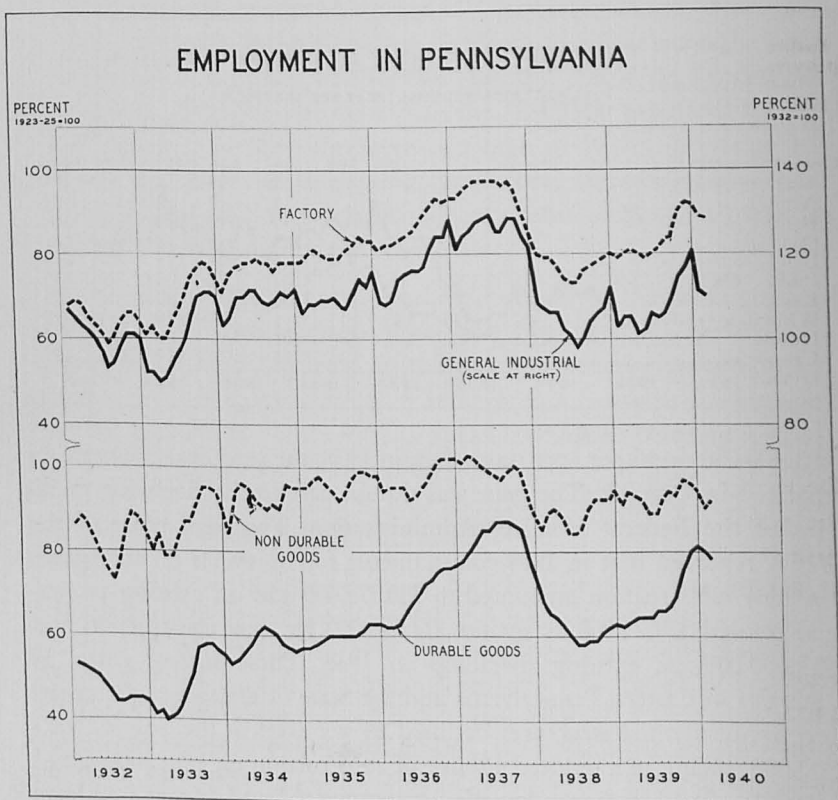
Awards of construction contracts in the district in 1939 amounted to \$196,900,000 or 19 per cent more than in 1938 and 13 per cent above 1937. The total was the largest since \$329,200,000 was awarded in 1930. Activity expanded irregularly in the first ten months of the year; on a seasonally adjusted basis, the peak was reached in September and was the highest since 1931.

Residential building increased 64 per cent in the year to \$81,350,000, the highest since 1929. Awards for family houses totaled



\$61,400,000 or 46 per cent more than in 1938, the peak in activity being reached in October. The gain was due in part to the financing facilities of the Federal Housing Administration. The local office of the FHA reported that in 1939 commitments for insurance on mortgages on new construction amounted to \$30,878,600 and on existing properties totaled \$7,074,000 as against \$17,500,000 for new construction and \$11,000,000 on existing dwellings in 1938. These figures cover 38 counties in Eastern Pennsylvania and the State of Delaware. Contracts for nonresidential structures declined 24 per cent in the year to \$55,700,000, owing to a reduced volume of construction on educational and miscellaneous buildings. Awards for commercial and factory buildings increased 38 per cent to nearly \$26,900,000, about 19 per cent below 1937 but, except for that year, the highest since the \$102,400,000 each in 1929 and 1930. This type of construction was unusually active in October and November when declines were to be expected. Contracts for public works and utilities increased 43 per cent in the year to \$59,900,000, the highest since 1931.

**Income** Employment and consumers' income in 1939 improved substantially as a result of the sharp expansion in industrial activity in the second half of the year. In twelve lines of trade and industry, employment and payrolls in Pennsylvania declined in the first four months of 1939, but in the last eight months of the year



employment increased 20 per cent and wage disbursements expanded 33 per cent, over two-thirds of this gain occurring after August. By December, employment was 8 per cent and payrolls 19 per cent above the previous year. The principal gains were at factories and quarries.

Factory employment in Pennsylvania increased 16 per cent from the low in the late spring to the peak at the end of the year, and wage payments expanded 33 per cent. For 1939 as a whole employment averaged about 869,000 workers, or 8 per cent above the 801,000 employed in 1938 and 12 per cent below 1937. Employment in the peak year 1929 averaged over 1,000,000 workers. Wage payments in 1939 averaged \$20,500,000 a week, reaching a peak of about \$24,000,000 in

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

Index of general employment and payrolls—Pennsylvania. (1932 avg. = 100; indexes are annual averages.)	Relative importance—% of total	Employment				Payrolls			
		1936	1937	1938	1939	1936	1937	1938	1939
<b>General index*</b> .....	<b>100.0</b>	<b>117</b>	<b>125</b>	<b>105</b>	<b>108</b>	<b>146</b>	<b>172</b>	<b>129</b>	<b>146</b>
Manufacturing.....	48.9	135	147	120	129	180	217	152	184
Anthracite.....	6.9	84	81	70	67	85	81	66	67
Bituminous coal.....	5.7	121	123	102	89	199	217	158	167
Quarrying.....	0.6	107	119	94	101	184	228	154	186
Crude petroleum.....	0.2	178	161	145	132	160	171	164	155
Public utilities.....	4.4	91	96	95	94	97	104	103	105
Retail trade.....	15.8	113	119	107	106	117	130	122	123
Wholesale trade.....	4.7	111	118	113	116	107	119	114	119
Hotels.....	1.1	106	112	110	106	111	123	123	119
Laundries.....	0.7	99	105	100	98	105	119	121	125
Dyeing and cleaning..	0.2	100	105	104	96	108	120	126	117

\*Includes building and construction.

December. Total wage income of factory workers in Pennsylvania in the year amounted to over \$1,000,000,000, or 21 per cent more than in 1938 but 15 per cent less than in 1937. In 1929 the total was about \$1,380,000,000.

Employment in the manufacture of durable goods increased almost steadily throughout the year and in December was 31 per cent above January. Most of the gain occurred after May and nearly two-thirds of the increase was in the final quarter. Wage disbursements in durable goods industries also expanded steadily except for fractional declines in April and May, and in December were 56 per cent above the year's low in January, 52 per cent above May, and 34 per cent above September. The level in December was the highest in two and one-half years. In consumers' goods lines, employment declined from February to June but recovered to a peak in October, about 9 per cent above the year's low. Wage disbursements at these plants were the smallest for the year in May but by October had expanded 15 per cent to the highest level since the spring of 1937.

The largest increase in wage payments from the low point of the year was 58 per cent in iron and steel lines. Transportation equipment followed, with an expansion of 36 per cent from April to December, reflecting principally gains at establishments producing loco-

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

motives and cars and at railroad repair shops. Large advances also occurred in the nonferrous metal; lumber; stone, clay and glass; and coke industries, and in certain chemical industries. Wage disbursements at textile and clothing mills increased about 13 per cent from May to December but at the end of the year were about the same as in December 1938, despite sharp gains at mills turning out cotton products, carpets and rugs, and knit goods other than hosiery. Wage payments to hosiery workers in December were about 21 per cent below a year earlier.

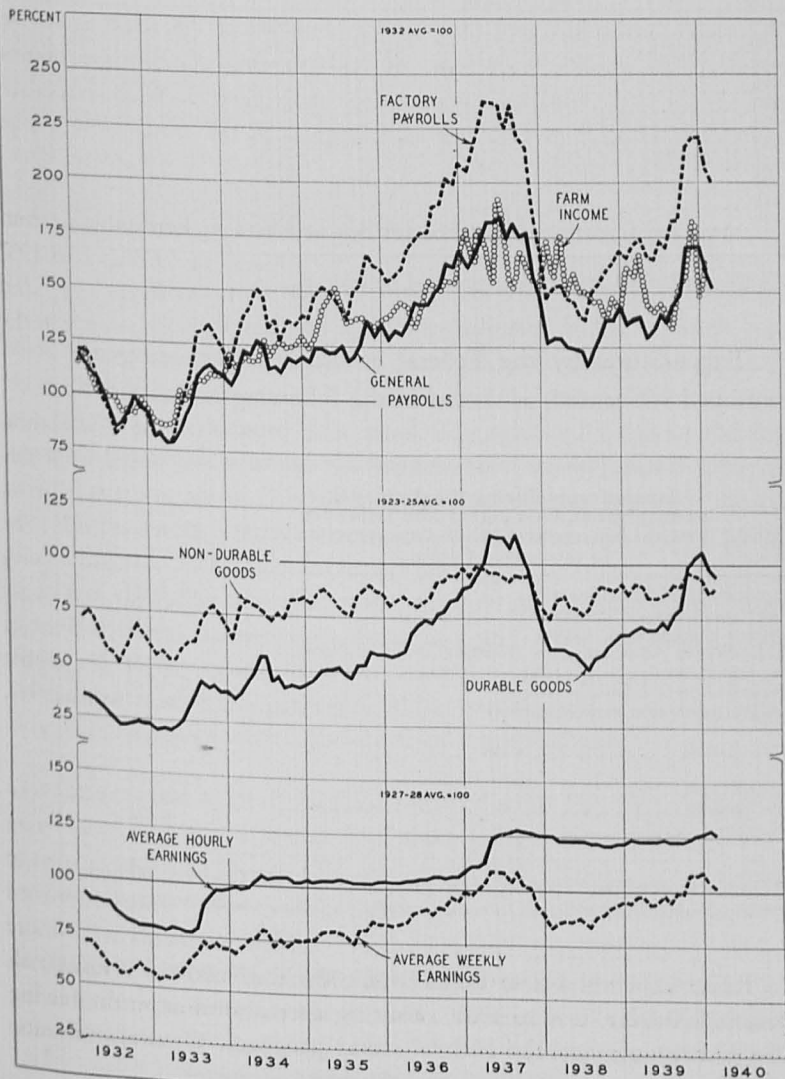
Average hourly earnings of factory workers in Pennsylvania during 1939 amounted to 69 cents, about the same as in 1938 and in 1937 but 10 cents an hour above 1936, 21 cents an hour above 1932 and 1933, and 11 to 12 cents an hour above 1929-1930. The peak for the year was 71 cents in December.

Weekly earnings of factory workers in 1939 averaged \$25.08 compared with only \$22.31 in 1938. The peak for the year of \$27.36 in December was more than double the depression low in early 1933 and in the past ten years was exceeded only in April and May 1937. The average work week at factories in 1939 was 36.3 hours compared with 32.5 in 1938 and 37.9 in 1937. In 1929, when weekly earnings were only \$1.89 more, work weeks averaged 12½ hours longer. The cost of living for wage earners and lower salaried workers in Philadelphia was 1 per cent lower in 1939 than in 1938, about 2 per cent below 1937, and 18 per cent below 1929.

Total farm cash income in Pennsylvania, New Jersey, and Delaware was estimated at \$388,535,000 in 1939 or 2 per cent more than in 1938. Receipts from the sale of crops increased about 10 per cent to \$125,100,000, while income from sales of livestock products declined 3 per cent to \$255,200,000. Government benefit payments were more than doubled from \$4,000,000 to \$8,200,000. The increase in farm cash income, however, was partially offset by a small decline in the buying power of the agricultural income dollar, calculated by taking the ratio of prices received to prices paid by farmers.

# INCOME

PHILADELPHIA FEDERAL RESERVE DISTRICT



*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

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.....	137.8	248.6	3.0	389.4
1937.....	136.0	269.4	3.2	408.6
1938.....	114.2	261.9	4.0	380.1
1939.....	125.1	255.2	8.2	388.5

Source: United States Department of Agriculture.

Expenditures by the Federal government for emergency relief continued substantial, as shown in the following table.

Expenditures during fiscal years in Pennsylvania, New Jersey and Delaware Under Federal Emergency Relief Appropriation Acts* (In thousands of dollars)	Total 1935-1938	1939
Department of Agriculture**.....	\$21,188	\$4,594
Other executive departments**.....	30,806	7,814
Civilian Conservation Corps.....	43,590	(cr.) 15
Public Works Administration (housing, loans and grants to states, etc.).....	27,451	694
Works Progress Administration**.....	674,786	287,938
Other independent establishments**.....	184,413	12,359
Total.....	\$982,234	\$313,384
Pennsylvania.....	\$709,909	\$221,289
New Jersey.....	262,647	89,026
Delaware.....	9,678	3,069

\*From Report of the President of the United States to the Congress, January 15, 1940.

\*\*Allocation of expenditures revised according to departmental reorganization.

Relief expenditures in Pennsylvania declined about \$20,000,000 to \$260,000,000 from 1938 to 1939, reflecting decreases in expenditures for old-age assistance and the Federal works program. General assistance and aid to dependent children and the blind increased.

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

Public assistance in Pennsylvania by type	Average number of persons (in thousands)			Amount spent (in millions)		
	1937	1938	1939	1937	1938	1939
Direct relief. . . . .	463	642	744	\$57.8	\$76.0	\$91.6
Federal work relief. . . . .	700	897	694	134.1	169.5	132.7
Old-age assistance. . . . .	86	91	83	22.6	23.5	20.3
Pensions for the blind. . . . .	10	11	12	3.8	4.2	4.4
Aid to dependent children. . . . .	37	61	93	6.1	7.2	10.9
Total. . . . .	1,296	1,672*	1,564*	\$224.4	\$280.4	\$259.9

\*Adjusted to eliminate duplication.

Source: Pennsylvania Department of Public Assistance.

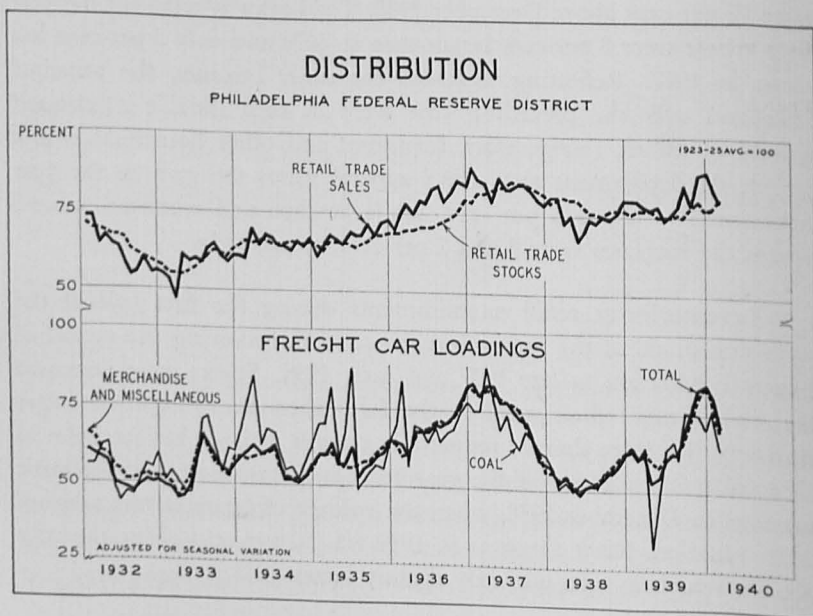
**Distri-  
bution**      Retail trade sales increased less than usual in the first half of 1939 and the seasonally adjusted index declined 7 per cent from January to June. Sales advanced sharply, however, after the mid-summer lull, and between June and December expanded 20 per cent more than usual. The adjusted index in the final month of the year reached the highest level since January 1937 and was 12 per cent above December 1938. Total sales at retail for the year as a whole were 8 per cent larger than in 1938 and only 3 per cent less than in 1937. Reflecting increased consumer incomes, the principal increases over the preceding year were in such durable consumers' goods as radios, refrigerators, furniture, and other household equipment. At department and men's apparel stores the gain in the year amounted to about 8 per cent, while at shoe and women's apparel stores the increases were 3 and 2 per cent, respectively.

Inventories at retail establishments during the first half of the year continued at the lowest level since 1936, following the period of heavy liquidation in late 1937 and early 1938. Stocks were increased somewhat more than usual in the fall, when stores expected active business, but were sharply reduced as a result of large holiday sales in December. At the end of the year retail inventories were at the same level as in December 1938, when the volume of business was substantially smaller. Stock turnover in 1939 was 10 per cent above the year before, which in turn was only slightly below 1937.

Sales of new passenger automobiles in the district in 1939 increased 38 per cent over 1938 to 160,600 units. Except for the 217,800 in 1937 and the 200,800 in 1936 the volume of registrations was the highest in the past ten years.

Wholesale trade sales were well sustained, despite the continued cautious attitude on the part of retailers. The unusually small volume of inventories at retail stores necessitated extensive reordering throughout the year. Following the summer lull, buying in the wholesale markets became very active and in September was 24 per cent above that in the previous year, reflecting prospective increases in consumer purchases and possibilities of delayed deliveries. Total sales at wholesale during the year were 10 per cent above 1938, gains being particularly large in sales of electrical supplies, hardware, paper, and jewelry. Inventories at wholesale establishments at the end of the year were about 12 per cent above the same period in 1938.

Freight shipments by rail in the Allegheny District declined in the first four months of the year, after allowing for seasonal changes, but



*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

expanded almost steadily thereafter to a level which in December was 34 per cent above a year ago and the highest since January 1937. Car loadings for the year averaged about 563,000 cars a month or 22 per cent above 1938 but 11 per cent below 1937. The largest gains in the year were in shipments of ore and coke, reflecting increased activity in the steel industry. Loadings of merchandise and miscellaneous goods, accounting for nearly two-thirds of total shipments, in December reached the highest level since 1930 and for the year as a whole averaged 21 per cent above 1938. Freight shipments originating in Philadelphia, comprising chiefly manufactured goods, increased 13 per cent from 1938 but were 6 per cent below 1937.

Distribution Philadelphia Federal Reserve District (1923-25 average = 100)	Annual averages of monthly indexes						Monthly	
	1929	1933	1936	1937	1938	1939	Dec. 1938	Dec. 1939
<b>Retail trade</b>								
Sales.....	100	59	80	83	75	81	80*	89*
Stocks.....	94	59	72	83	78	77	77*	77*
<b>New passenger automobiles.....</b>	131	62	124	136	73	101	122	122
<b>Commercial hotels (1934 = 100)</b>								
Occupancy.....		86	119	123	117	114	101	106
Income—total.....		82	124	129	122	119	124	136
<b>Freight-car loadings</b>								
Allegheny District—total.....	106	55	70	74	54	66	62*	84*
Merchandise and miscellaneous	112	56	70	74	55	66	62*	84*
Coal.....	92	58	70	71	55	64	62*	71*
Philadelphia industrial area.....	107	62	68	70	61	62	64*	72*
<b>Port of Philadelphia</b>								
Exports (1935-37 = 100).....	170	66	89	127	121	127	136	177
Imports (1935-37 = 100).....	156	58	101	122	69	84	69	85

\*Adjusted for seasonal variation.

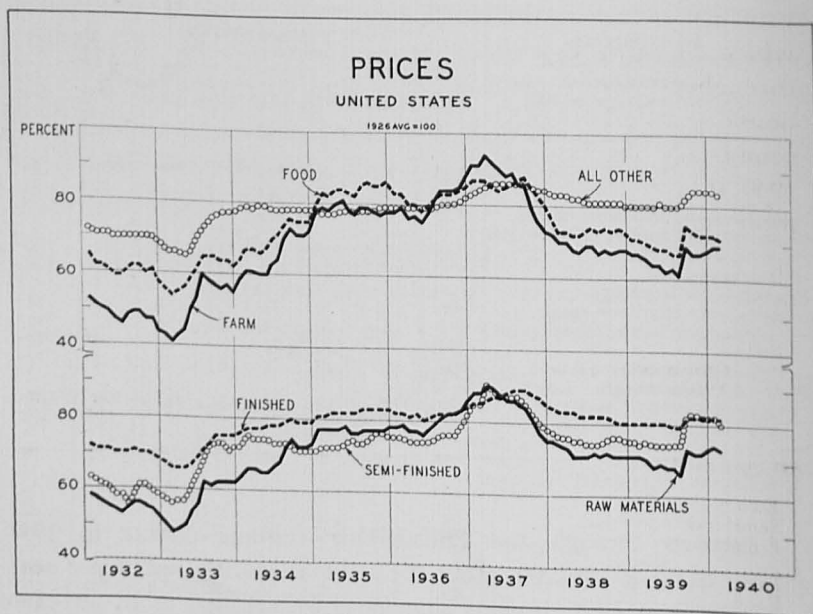
Exports through the Philadelphia customs district in 1939 amounted to \$92,840,000, about the same as in 1937 and 5 per cent larger than in 1938. Imports aggregated \$131,885,000 or 22 per cent above 1938 but 31 per cent below 1937.

**Prices**

Prices of commodities continued to decline somewhat during the first eight months of the year but advanced sharply after the outbreak of war. The index of wholesale prices of

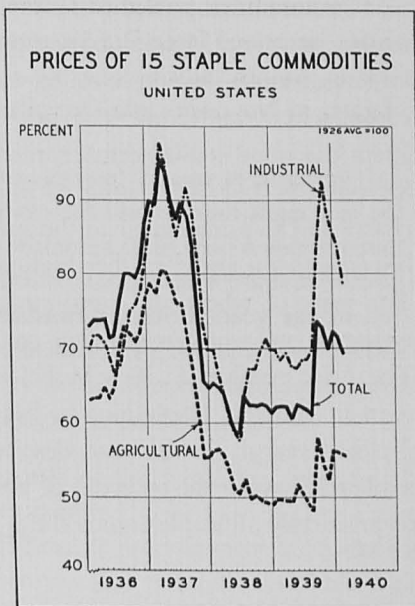
813 commodities, published by the United States Bureau of Labor Statistics, decreased from 76.9 per cent of the 1926 average in January to 75.0 in August, advanced to a peak of 79.4 in October and declined slightly in November and December.

Prices of farm and food products showed the greatest declines in the first eight months and the sharpest recovery in September. Quotations on raw materials and semifinished goods also declined to August, advanced sharply in September and October, and receded toward the end of the year. Prices of finished goods were more stable and the spread between raw and finished goods narrowed appreciably in the latter part of the year.



In the markets for staple commodities, prices of industrial materials were weak in the first five months, especially in the case of hides, steel scrap, and copper. From May to October quotations advanced sharply, steel scrap rising from \$14.08 to \$22.50 a ton, copper from 10 cents a pound to 12½ cents, wool from 72 cents a pound to \$1.10,

hides from 10 cents a pound to 16½ cents, and rubber from 16.2 cents to 21½ cents a pound. These sharp gains, particularly in imported materials, reflected the expectation of heavy war demand, increased domestic purchases, and the possibility of interrupted shipments. Quotations on most industrial staple commodities declined somewhat toward the end of the year, the principal exception being silk, which advanced almost steadily throughout 1939 from \$1.90 a pound in January to \$4.65 in December. In the first quarter of 1940 the price of silk dropped more than \$2.00 a pound.



Commodity prices (1926 average = 100)	Annual averages of monthly indexes						Monthly	
	1929	1932	1936	1937	1938	1939	Dec. 1938	Dec. 1939
All commodities*	95	65	81	86	79	77	77	79
Raw materials	98	55	80	85	72	70	71	73
Semifinished articles	94	59	76	85	75	77	75	82
Finished goods	95	70	82	87	82	80	80	82
Farm products	105	48	81	86	69	65	68	68
Foods	100	61	82	86	74	70	73	72
Other commodities	92	70	80	85	82	81	80	84
<b>Staple commodities**</b>	..	<b>39</b>	<b>77</b>	<b>84</b>	<b>62</b>	<b>65</b>	<b>61</b>	<b>72</b>
Agricultural	..	..	68	71	52	52	49	56
Industrial	..	..	72	87	65	75	70	86

\*United States Bureau of Labor Statistics index of wholesale prices of 813 commodities.

\*\*Total—Moody's index of prices of 15 staple commodities.

Quotations on agricultural staples were generally steady until September, when anticipation of war buying forced prices up sharply. The largest advances were in so-called war commodities such as sugar, hogs, cocoa, wheat, and corn. The price of cotton continued to rise until about the middle of December, reaching 11.4 cents a pound as against 8.8 cents in January, owing to increased foreign and domestic purchases and to some extent to the substitution of the fiber for burlap in heavy bagging and for other high-priced fibers in various textile lines. The price of wheat also continued to rise until the end of the year, owing to unfavorable growing conditions in the winter wheat belt. The price reached \$1.30 a bushel in December compared with 86.5 cents in January. Quotations on livestock products, on the other hand, declined sharply in the year, despite a temporary abrupt rise in September following the outbreak of war. After the turn of the year prices of practically all staple commodities weakened.

## ***Banking and Credit Conditions***

### ***Bank Reserves***

***Federal Reserve Bank*** The cash reserves of the Federal Reserve Bank of Philadelphia increased by \$296,700,000 during 1939 to a record high of \$873,600,000, an expansion of about 50 per cent during the year. The aggregate cash holdings of the twelve Federal Reserve banks, which comprise the basic monetary reserves of the banking system, expanded 28 per cent to \$15,524,000,000, reflecting principally the large volume of gold received in this country in payment for goods or services or as transfers of capital occasioned by disturbed conditions abroad. Much of this gold was used in payment of trade balances, thus tending to increase bank reserves in all sections of the country. Short term bank balances held on foreign account were concentrated primarily in New York City.

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

Funds gained by member banks in commercial and financial transactions with other districts, were the principal source of the increase in the cash reserves of this bank. Only \$52,000,000 represented Treasury deposits of gold certificates in the interdistrict settlement fund for the account of this bank or transfers on Treasury account from other districts. Smaller amounts were derived from payments made to this bank as a result of reduced participation in System holdings of government securities and increased balances held for foreign central banks. The aggregate gain of \$296,700,000 in cash reserves was the largest for any year since the establishment of the Federal Reserve System. The increase was entirely in the form of gold certificates. Holdings of other cash, including silver certificates, United States notes, coin, and other types of Treasury currency, declined slightly.

The expansion in the cash reserves of this bank was substantially larger than the increase in reserves required to be held against larger volumes of deposits and of Federal Reserve notes in circulation. At the close of the year, reserves were considerably more than double legal requirements, as shown in the accompanying table, and would have been adequate to support twice the volume of notes in circulation and deposits held at that time. These deposits at the Reserve banks consist primarily of member bank reserves.

Cash reserves of the Federal Reserve banks (End of year; dollar figures in millions)	Philadelphia		All Federal Reserve banks	
	1938	1939	1938	1939
<b>Total reserves</b> .....	\$576.9	\$873.6	\$12,165.8	\$15,524.2
Required reserves:				
Against Federal Reserve notes.. (40% in gold certificates)	128.2	139.6	1,780.7	1,983.4
Against deposits..... (35% in gold certificates or lawful money)	160.6	251.9	3,530.8	4,529.3
Total required.....	\$288.8	\$391.5	\$5,311.5	\$6,512.7
<b>Excess reserves</b> .....	\$288.1	\$482.1	\$6,854.3	\$9,011.5
Proportion of total to required...	200%	223%	229%	238%

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

**Member banks** Reserve balances of all member banks increased 34 per cent in 1939 to \$11,653,000,000 at the end of the year, of which more than \$5,200,000,000 was in excess of legal requirements. The reserves of member banks in this district expanded 60 per cent in 1939 to \$598,600,000 and in the middle of January 1940 reached a record high of \$641,700,000. These balances totaled more than twice the amount required by law.

The sharpest increase was at banks in Philadelphia, where average reserves in the first half of January 1940 were 110 per cent in excess of requirements as against only 80 per cent in the case of country banks.

Member banks Phila. Fed. Res. District (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
<b>Philadelphia banks</b>						
1938—Jan.: 2nd week	\$238.3	\$187.4	\$50.9	\$120.7	27%	64%
1939—Jan.: 1st half	243.8	174.3	69.5	140.1	40	80
July: 1st half	345.2	187.6	157.6	167.0	84	89
1940—Jan.: 1st half	444.8	210.8	234.0	174.8	111	83
<b>Country banks</b>						
Cities with population of 100,000 or more						
1938—Jan.: 2nd week	33.3	27.7	5.6	33.2	20	120
1939—Jan.: 1st half	40.4	23.5	16.9	52.7	72	224
July: 1st half	39.4	23.8	15.6	63.5	66	267
1940—Jan.: 1st half	40.9	25.0	15.9	83.1	64	332
Cities with population of 15,000 to 100,000						
1938—Jan.: 2nd week	49.5	37.1	12.4	26.8	33	72
1939—Jan.: 1st half	47.4	31.6	15.8	35.4	50	112
July: 1st half	53.7	31.0	22.7	46.1	73	149
1940—Jan.: 1st half	60.2	32.3	27.9	50.6	86	157
Cities with population under 15,000						
1938—Jan.: 2nd week	61.8	49.4	12.4	47.8	25	97
1939—Jan.: 1st half	60.3	41.4	18.9	58.0	45	140
July: 1st half	64.0	40.4	23.6	70.1	58	174
1940—Jan.: 1st half	74.6	40.5	34.1	92.2	84	228
<b>All member banks</b>						
1938—Jan.: 2nd week	\$382.9	\$301.6	\$81.3	\$228.5	27%	76%
1939—Jan.: 1st half	391.9	270.8	121.1	286.2	45	106
July: 1st half	502.3	282.8	219.5	346.7	78	123
1940—Jan.: 1st half	620.5	308.6	311.9	400.7	101	130

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

A year earlier Philadelphia banks and country banks respectively held excess reserves of 41 and 53 per cent.

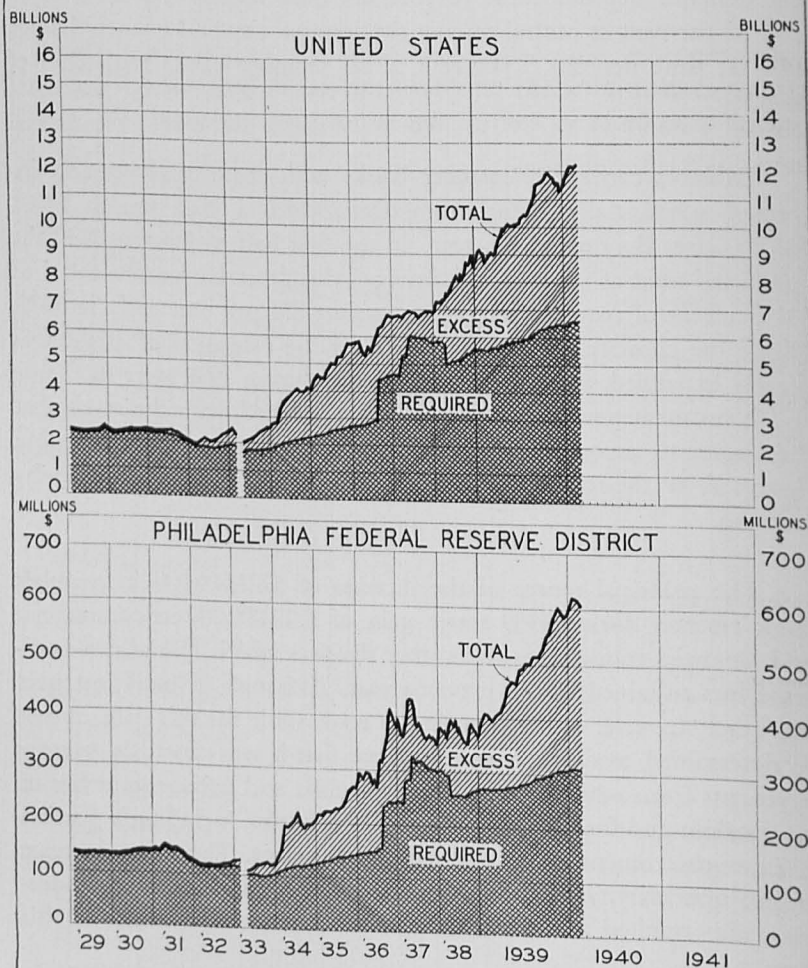
The percentages of deposits, which member banks are legally required to hold as reserves, were unchanged throughout the year at the levels established in April 1938 when requirements were reduced. On net demand deposits these proportions were respectively 22¾, 17½, and 12 per cent at central reserve city, reserve city and country banks, and on time deposits 5 per cent at all member banks regardless of location.

Balances carried by member banks with correspondents also increased substantially, rising from \$286,200,000 a year ago to \$400,700,000 after the turn of the year. In the first half of January 1940 the combined total of reserves and amounts due from banks was equal to 331 per cent of required reserves as against 251 per cent early in 1939. While the capacity of member banks for the extension of credit was greatly expanded, actual increases in loans during 1939 were moderate and investment portfolios were somewhat reduced, with the result that the aggregate amount of their cash increased further. The preceding figures show the reserve positions of member banks in this district by location.

The principal source of the increase of \$224,000,000 in member bank reserves during 1939 was a gain of \$219,000,000 in commercial and financial transactions with other districts which followed a moderate loss sustained in the previous year. Although in most instances the exact character of the transactions responsible for this gain cannot be determined, available records indicate that it was caused in part by payments from other districts for new public and private securities of local origin and for other securities sold by banks, including a portion of new government issues received on allotment. The sharp increase in business activity, particularly in the heavy manufacturing industries, also resulted in an increased flow of business payments to this district.

Treasury operations contributed substantially to the increase in reserve funds, as government disbursements were \$66,000,000 greater than local receipts. The excess of disbursements was somewhat smaller than in 1938, owing in part to a reduction in payments for work re-

## MEMBER BANK RESERVES



*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

lief. Expenditures by the Treasury included heavy payments in connection with the shipbuilding and armament programs which involve particularly large purchases from the industries in this district. The amount of unemployment trust funds paid into the Treasury for investment was considerably larger than the total amount withdrawn by the states for benefit payments.

Demand for currency in this district in 1939 increased \$53,000,000, offsetting in part the large volume of funds gained through the inter-district settlements and Treasury transactions. The need for additional currency was met chiefly through increased issues of Federal Reserve notes and silver certificates.

This demand for currency was occasioned primarily by the sharp expansion in industrial payrolls and in trade activity, but it also reflected some increase in amounts held by individuals. Figures for the country as a whole showed that about \$330,000,000 of the increase of \$740,000,000 in money in circulation during the year was in notes of \$50 and higher denominations. A substantial volume of currency moved abroad in the spring, and later, during the period of smaller shipments, additional currency withdrawn was probably held in this country for foreign account.

<b>Member bank reserves and related items</b> Philadelphia Federal Reserve District (Millions of dollars)	1937	1938	1939
<b>Sources of funds:</b>			
Reserve bank credit extended in district.....	+ 2	- 5	+ 2
Interdistrict commercial transfers.....	+118	- 39	+219
Mint gold purchases, net.....	+ 6	+ 5	+ 5
Treasury operations.....	-131	+ 74	+ 61
<b>Total.....</b>	<b>- 5</b>	<b>+ 35</b>	<b>+287</b>
<b>Uses of funds:</b>			
Currency demand.....	+ 12	+ 22	+ 53
Member bank reserve deposits.....	- 16	+ 9	+224
"Other deposits" at reserve bank.....	.....	+ 5	+ 10
Other Federal Reserve accounts.....	- 1	- 1	.....
<b>Total.....</b>	<b>- 5</b>	<b>+ 35</b>	<b>+287</b>

The influence of other factors upon member bank reserves was less marked. An increase of \$10,000,000 in unclassified deposits with this bank was due chiefly to an increase in officers' checks issued in connection with special transactions. The volume of Reserve bank credit extended directly within the district expanded but slightly.

### *Condition of Member Banks*

**Deposits** The volume of deposits at member banks in this district in 1939 increased by \$370,000,000 to \$3,231,000,000, the largest on record. This expansion was due principally to funds gained through business or security transactions with other districts and through Treasury operations. The amount of deposits arising from increased loans and investments was comparatively small.

Over 97 per cent of the increase was in demand deposits, most of this being to the credit of individuals, partnerships, and corporations. This was in contrast with the trend in 1938, when the growth in deposits reflected chiefly interbank and government balances. In 1939, interbank deposits also expanded more sharply than in 1938 and by the end of the year they were at the highest level on record.

The volume of time deposits continued practically unchanged, and for all banks was 34 per cent of total deposits as compared with an average of 44 per cent in the period from 1927 to 1929.

Nearly three-fourths of the total expansion in deposits was at member banks in Philadelphia, where a sharp increase in demand balances of individuals, partnerships, and corporations was supplemented by heavy receipts of funds to be held for other banks. Proportionately the increase in individual demand deposits at country banks approached that reported by the city institutions, but the gain in the dollar amount was much smaller. Nearly one-half of the deposits of country banks are in savings balances, and these registered a comparatively small increase from 1938 to 1939.

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

Deposits at member banks Phila. Fed. Res. District (Millions of dollars)	Actual—end of year			Changes in—	
	1937	1938	1939	1938	1939
<b>Demand:</b>					
Individuals, partnerships, and corporations.....	1,204.5	1,232.2	1,452.7	+ 27.7	+220.5
U. S. Government.....	34.5	76.8	77.8	+ 42.3	+ 1.0
States and political subdivisions....	109.2	103.9	123.9	- 5.3	+ 20.0
Interbank.....	270.0	322.3	439.4	+ 52.3	+117.1
Other.....	24.4	20.4	22.8	- 4.0	+ 2.4
<b>Total demand.....</b>	<b>1,642.6</b>	<b>1,755.6</b>	<b>2,116.6</b>	<b>+113.0</b>	<b>+361.0</b>
<b>Time:</b>					
Individuals, partnerships, and corporations.....	1,037.4	1,046.2	1,056.5	+ 8.8	+ 10.3
Postal savings.....	16.3	12.1*	10.2*	- 4.2	- 1.9
States and political subdivisions....	35.7	34.9	31.0	- .8	- 3.9
Interbank.....	17.6	12.1	17.1	- 5.5	+ 5.0
<b>Total time.....</b>	<b>1,107.0</b>	<b>1,105.3</b>	<b>1,114.8</b>	<b>- 1.7</b>	<b>+ 9.5</b>
<b>Total deposits.....</b>	<b>2,749.6</b>	<b>2,860.9</b>	<b>3,231.4</b>	<b>+111.3</b>	<b>+370.5</b>

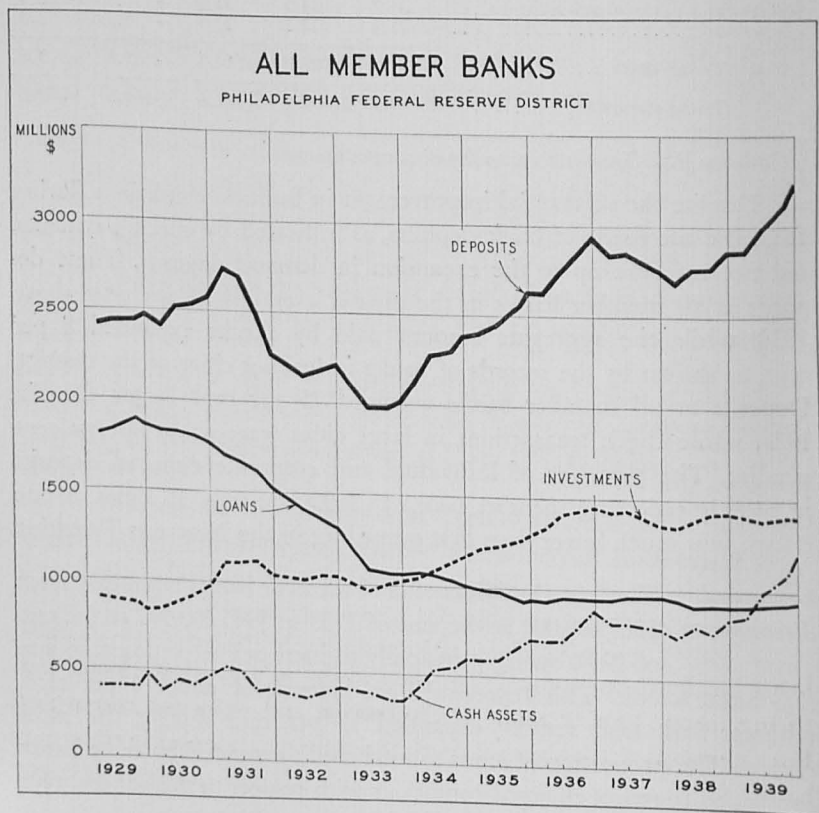
\*Includes U. S. Treasurer's time deposits, open account.

Despite the substantial improvement in business conditions during 1939, the use made of bank deposits, as indicated by check payments, did not measure up to the expansion in demand deposits. These deposits at all member banks in the district averaged 15 per cent above 1938, while the aggregate amount paid by checks expanded 8 per cent, as shown by the records of banks in leading cities of the district. Deposits at all member banks averaged 25 per cent larger than in 1929, while check transactions in large cities were about 40 per cent smaller. The turnover of individual and corporate demand deposits at weekly reporting member banks in 1939 was only 18 times, a rate which was much lower than that prevailing in the Nineteen Twenties.

**Loans and discounts** The loans and discounts of member banks expanded from \$905,600,000 at the end of 1938 to \$945,400,000 at the end of 1939, owing principally to increases in commercial and real estate credit. This represented an increase of about 4 per cent, whereas industrial activity expanded 17 per cent during the same period. The proportion of loans to total credit extended by these banks continued to reflect changed conditions with respect to the general type

of bank credit, as indicated by the fact that total loans at the end of 1939 constituted only 40 per cent of loans and investments combined as against almost 70 per cent in 1929.

About one-half of the increase in total loans was in the form of business loans extended to commerce, industry and agriculture. That borrowing for current productive purposes increased only about 7 per cent in the face of expanding activity was due partly to the fact that inventories on the whole were controlled and that the resources of many enterprises continued adequate to finance the volume of current business at prevailing price levels. A further evidence of ample work-



ing capital is found in the sharp expansion in demand deposits of individuals, firms and corporations.

The increase of about 7 per cent in real estate loans occurred solely at member banks outside of Philadelphia. Most of this gain was due to mortgage loans on residences, many of which are insured by the Federal Housing Administration, and on business properties. The increase in loans on farms was relatively small.

Changes in other short term credit, including open market paper, brokers' and security loans, and loans to banks were of minor importance. The so-called "other loans", which include small personal loans, declined at Philadelphia banks but increased somewhat at country banks.

The following data show changes in various categories of loans between 1938 and 1939:

Loans of member banks Phila. Fed. Res. District (Millions of dollars)	Actual—December 30, 1939			Changes in 1939		
	Phila- delphia banks	Country banks	All member banks	Phila- delphia banks	Country banks	All member banks
Commercial. . . . .	188.0	138.4	326.4	+13.5	+ 7.2	+20.7
Open market paper. . . . .	18.6	18.5	37.1	+ 1.3	+ 2.6	+ 3.9
Brokers' loans. . . . .	21.1	4.6	25.7	+ 4.3	+ .4	+ 4.7
Other loans to carry securities	22.4	38.8	61.2	+ .2	- 4.9	- 4.8
Real estate loans. . . . .	39.7	205.3	245.0	- .3	+16.4	+16.2
Loans to banks. . . . .	.8	.2	1.0	- .7	- .2	- .9
Other loans. . . . .	78.6	170.4	249.0	- 4.4	+ 4.4	0
<b>Total loans. . . . .</b>	<b>369.2</b>	<b>576.2</b>	<b>945.4</b>	<b>+13.9</b>	<b>+25.9</b>	<b>+39.8</b>

Probably the most important development in the field of bank loans has been the gradual expansion in the so-called term loans, maturing in one year or more, to commercial and industrial enterprises. For example, outstanding loans of this type by the weekly reporting banks in April amounted to about \$16,200,000 or 4 per cent of total

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

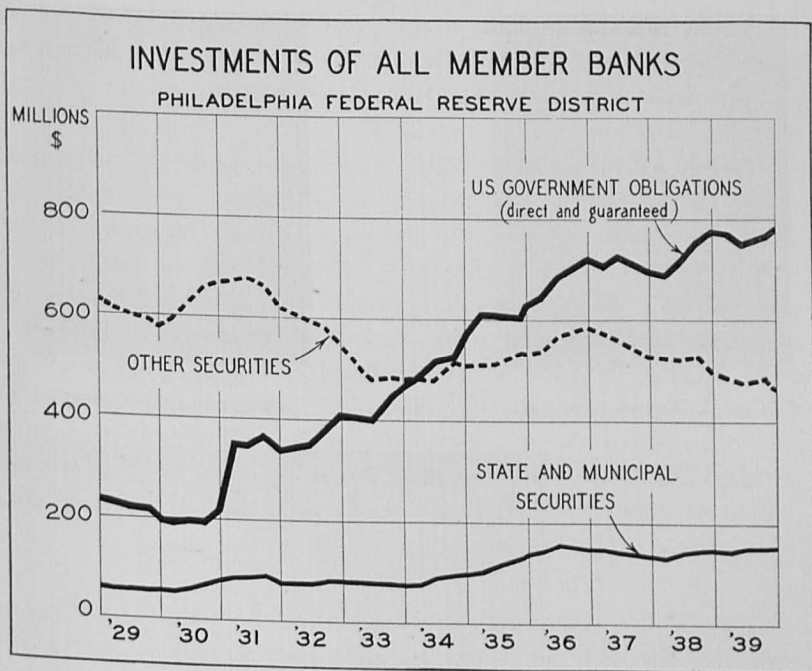
loans. The original amounts of such loans aggregated \$20,400,000, of which nearly two-thirds had been made for three years or longer. Loans averaging less than \$100,000 predominated in number.

Another evidence of the activity of banks in the lending field is shown by the survey made by the American Bankers Association in Pennsylvania, New Jersey and Delaware. Reports from 763 of the 1,504 commercial banks in these states show that 459,279 new business and personal loans for an aggregate amount of \$592,069,000, or an average of \$1,289, were made in the first six months of 1939. Renewal loans in the same period numbered 1,326,101 and amounted to \$1,352,770,000, the average being \$1,020. In addition, 12,444 new mortgage loans were made, showing a dollar total of \$53,384,000 or an average of \$4,290. This survey also showed that customers of 129 banks as of June 30, 1939 were using only 27 per cent of the lines of credit that were made available to them.

The trend toward more diversified types of loans, longer term credit, and the purchase of insured mortgages on an amortized basis reflects (a) an adaptation of banking to changing business requirements, (b) a changed attitude of the bankers in their interpretation of short and long term credit, with a consequent recognition of the part that banks must play in meeting varied business needs, and (c) an effort to employ idle funds in order to serve business communities and sustain bank earnings. These factors in the lending situation appear to have been in greater evidence during 1939 than in previous years.

**Invest-  
ments**

Changes in the investments of member banks during 1939 reflect diverse trends. At the end of the year banks in Philadelphia held in their portfolios almost \$15,000,000 more in securities while banks in other parts of the district held \$40,000,000 less in securities than at the end of 1938. As a result, the total investments of all member banks in this district declined to \$1,396,000,000 on December 30, 1939 as compared with \$1,421,000,000 a year before.



Banks sold substantial amounts of their holdings during the first half of 1939 when prices of high grade bonds were advancing to record levels. But in the second half of the year member banks in Philadelphia increased their investments, despite some liquidation early in September when the European war broke out, while member banks outside of that city continued to reduce their holdings to the end of the year, reflecting in part the influence of disturbed world conditions and in part domestic uncertainties with respect to the trend of business and money markets.

The most striking developments to be noted are the changes in composition, type and maturity of holdings by member banks in Philadelphia and by those in other parts of this district. These changes are indicated in general by the accompanying analysis of investments held by these two classes of banks.

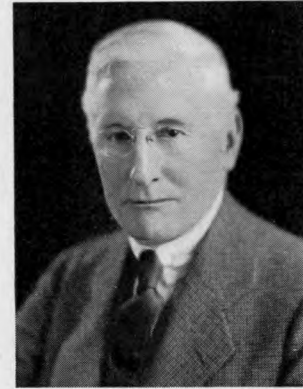
DIRECTORS, PRESIDENT AND FIRST VICE-PRESIDENT  
FEDERAL RESERVE BANK OF PHILADELPHIA



JOSEPH WAYNE, JR.  
Class A Director—Group 1



GEORGE W. REILY  
Class A Director—Group 2



C. FREDERICK C. STOUT  
Class B Director—Group 1



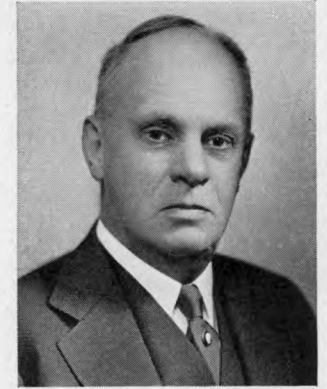
HARRY L. CANNON  
Class B Director—Group 2



THOMAS B. McCABE  
Chairman, Class C Director



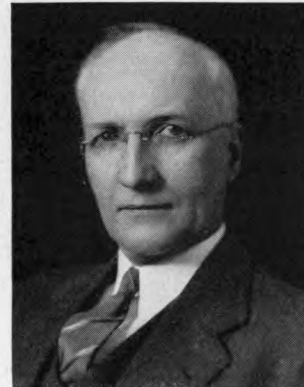
ALFRED H. WILLIAMS  
Deputy Chairman—Class C Director



WARD D. KERLIN  
Class B Director—Group 3



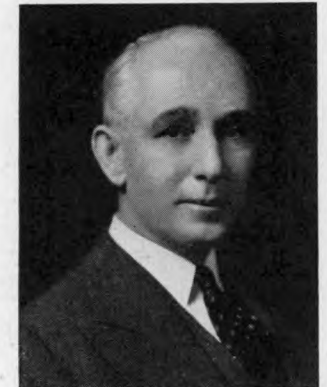
WARREN F. WHITTIER  
Class C Director



JOHN B. HENNING  
Class A Director—Group 3



JOHN S. SINCLAIR  
President



FRANK J. DRINNEN  
First Vice-President

# Analysis of Member Bank Investments

Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia

Philadelphia Federal Reserve District (Dollar figures in millions)	December 30, 1939						Changes during 1939		
	Actual figures			Percentage distribution			Total	Phila. banks	Country banks
	Total	Phila. banks	Country banks	Total	Phila. banks	Country banks			
<b>U. S. Government direct obligations</b> .....	<b>\$613.2</b>	<b>\$342.5</b>	<b>\$270.7</b>	<b>43.9%</b>	<b>50.8%</b>	<b>37.5%</b>	<b>-\$14.4</b>	<b>+\$8.3</b>	<b>-\$22.7</b>
Treasury bills.....	.7	.2	.5	.1	...	.1	+.7	+.2	+.5
Treasury notes.....	64.0	20.7	43.3	4.6	3.1	6.0	- 37.4	- 18.7	- 18.7
Bonds: Due within 5 years.....	33.8	11.8	22.1	2.4	1.8	3.1	- 3.1	- 1.4	- 1.7
Due 5 to 10 years.....	162.6	91.8	70.8	11.6	13.6	9.8	+ 14.4	+ 3.3	+ 17.7
Due 10 to 20 years.....	243.6	145.8	97.7	17.4	21.6	13.5	+ 24.7	+ 31.7	+ 7.0
Due over 20 years.....	108.5	72.2	36.3	7.8	10.7	5.0	- 13.7	- .2	- 13.5
<b>Obligations guaranteed by U. S. Government</b>	<b>\$167.8</b>	<b>\$83.2</b>	<b>\$84.6</b>	<b>12.0%</b>	<b>12.3%</b>	<b>11.7%</b>	<b>+\$18.4</b>	<b>+\$4.1</b>	<b>+\$14.3</b>
Reconstruction Finance Corporation.....	16.0	6.3	9.7	1.1	.9	1.3	+ 12.2	+ 4.6	+ 7.6
Home Owners' Loan Corporation.....	117.0	65.0	52.0	8.4	9.6	7.2	+ 7.2	+ 1.4	+ 5.8
Federal Farm Mortgage Corporation.....	18.9	5.8	13.1	1.4	.9	1.8	- 14.0	- 7.3	- 6.7
All other.....	15.9	6.1	9.8	1.1	.9	1.4	+ 13.0	+ 5.4	+ 7.6
<i>Maturing within 5 years</i> .....	73.2	33.3	39.9	5.2	4.9	5.5	+ 42.7	+ 14.4	+ 28.3
<b>Obligations of states and political subdivisions</b>	<b>\$153.7</b>	<b>\$81.1</b>	<b>\$72.6</b>	<b>11.0%</b>	<b>12.0%</b>	<b>10.1%</b>	<b>+\$5.5</b>	<b>+\$5</b>	<b>+\$5.0</b>
<i>Maturing within 5 years</i> .....	68.4	35.8	32.6	4.9	5.3	4.5	+ 11.2	+ 6.4	+ 4.8
<b>Other bonds, notes and debentures:</b>									
Government corporations and agencies, not guaranteed.....	<b>\$18.4</b>	<b>\$4.7</b>	<b>\$13.7</b>	<b>1.3%</b>	<b>.7%</b>	<b>1.9%</b>	<b>+\$1.4</b>	<b>-\$2.7</b>	<b>+\$4.1</b>
<i>Maturing within 5 years</i> .....	9.1	2.4	6.7	.7	.4	.9	+ 7.2	+ 1.7	+ 5.5
Other domestic corporations.....	<b>\$375.1</b>	<b>\$124.1</b>	<b>\$251.0</b>	<b>26.9%</b>	<b>18.4%</b>	<b>34.8%</b>	<b>-\$37.8</b>	<b>+\$1.8</b>	<b>-\$39.6</b>
Railroads.....	159.3	49.1	110.2	11.4	7.3	15.3	- 8.0	- .4	- 7.6
Public utilities.....	122.9	41.4	81.5	8.8	6.1	11.3	- 22.6	+ 1.3	- 23.9
Industrials.....	81.8	28.9	52.8	5.9	4.3	7.3	- 7.7	- 1.1	- 6.6
All other.....	11.1	4.7	6.4	.8	.7	.9	+ .5	+ 2.0	+ 1.5
<i>Maturing within 5 years*</i> .....	52.4	23.4	28.9	3.7	3.5	4.0	+ 1.5	+ .9	+ .5
<b>Corporate stocks, domestic</b> .....	<b>\$37.0</b>	<b>\$21.0</b>	<b>\$16.0</b>	<b>2.7%</b>	<b>3.1%</b>	<b>2.2%</b>	<b>-\$1.9</b>	<b>-\$1.6</b>	<b>-\$3</b>
<b>Foreign securities</b> .....	<b>\$31.1</b>	<b>\$17.8</b>	<b>\$13.3</b>	<b>2.2%</b>	<b>2.7%</b>	<b>1.8%</b>	<b>+\$3.5</b>	<b>+\$4.5</b>	<b>-\$1.0</b>
<b>Total investments</b> .....	<b>\$1,396.2</b>	<b>\$674.4</b>	<b>\$721.8</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-\$25.3</b>	<b>+\$14.9</b>	<b>-\$40.2</b>
<i>Maturing within 5 years</i> .....	301.7	127.6	174.0	21.6	18.9	24.1	+ 22.8	+ 3.5	+ 19.3
Defaulted securities.....	13.1	5.9	7.2	.9	.9	1.0	- 1.9	- .6	- 1.3

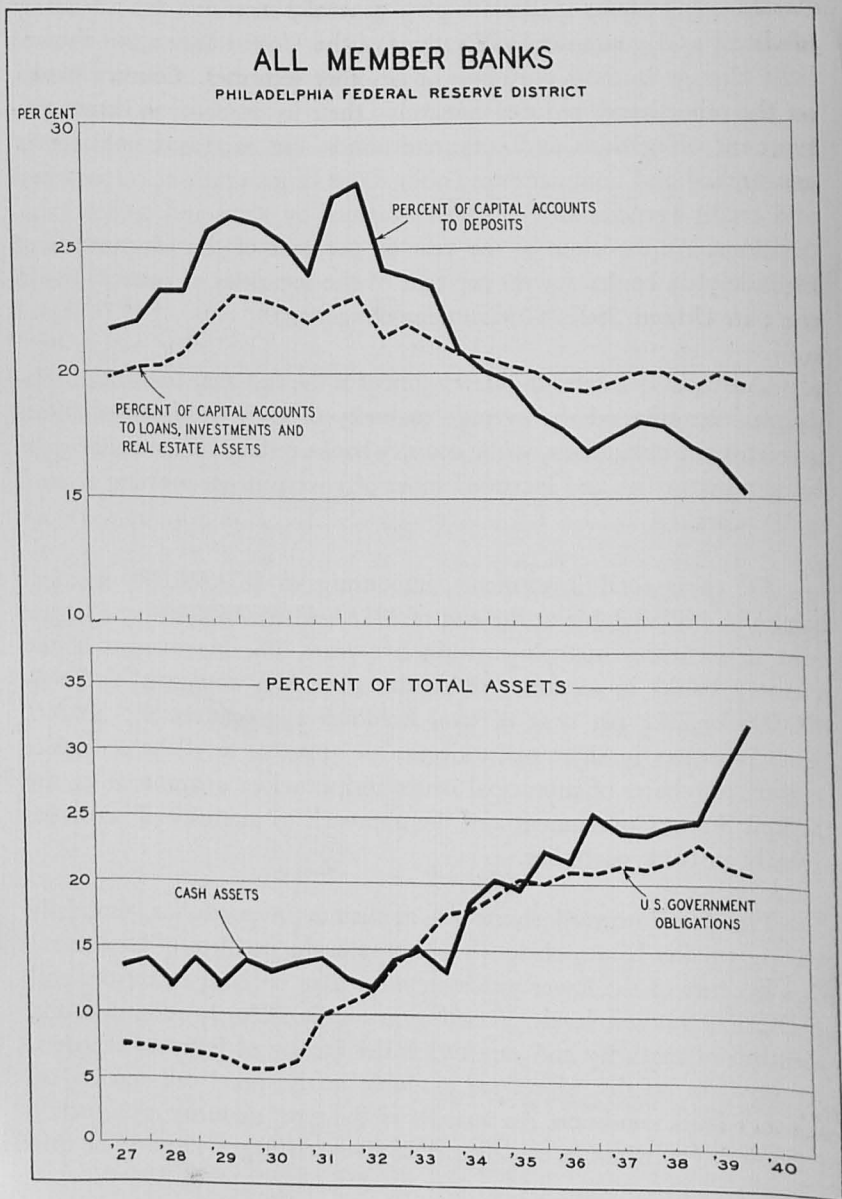
\*Includes foreign securities.

Member banks in Philadelphia generally increased their holdings of direct and guaranteed obligations of the United States, but showed little change in their portfolios of all other securities. Country banks, on the other hand, reduced noticeably their investments in direct government obligations and corporate bonds, but increased holdings of guaranteed and nonguaranteed obligations of government corporations and credit agencies and of securities issued by states and political subdivisions. At the close of the year 63 per cent of the investments of Philadelphia banks and 49 per cent of the securities of country banks were in United States Government obligations.

An equally interesting development is the fact that banks in Philadelphia lengthened the average maturity of their holdings of direct government obligations, while country banks reduced their holdings of longer maturities and increased those of governments running from 5 to 10 years.

Of their total investments amounting to \$674,400,000, member banks in Philadelphia at the end of 1939 held \$127,600,000 or 18.9 per cent in securities maturing within five years. The investments of the country banks in securities of similar maturities amounted to \$174,000,000 or 24.1 per cent of total holdings aggregating \$721,800,000. Such increases in short maturities as are apparent at all banks reflect in part purchases of municipal issues and securities guaranteed by the United States Government and the approach to maturity of securities already in bank portfolios.

The trend toward shortened maturities in portfolios, especially among smaller banks, obviously accentuates the problem of bank earnings because of the lower yields on short than on long maturities and of the low interest levels prevailing generally. Closely related to the question of maturity and earnings is the quality of investment assets, but no data on this aspect are available in the usual call reports on member bank condition. An analysis of the type, maturity and quality of bank investments in this district is given on pages 40 to 51 of this report.



*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

**Capital funds** Member banks in 1939 increased their capital accounts by \$2,900,000 to \$490,000,000 at the close of the year. This increase was much smaller than the expansion in deposits, so that the proportion of capital accounts to deposits declined from 17 to 15.2 per cent. In 1929, when deposits were smaller, the percentage was 26.3.

While the cushion of capital has been reduced, cash assets have increased sharply from an average of 13½ per cent of total assets in the period from 1927 to 1933 to 32 per cent at the close of 1939. Assets subject to depreciation—loans, investments, and real estate—have been reduced from an average of 85 to 67 per cent of total resources. The proportion of capital accounts to depreciable assets at the close of 1939 was 19.5 per cent, about the same as in the previous three years.

Real estate assets declined \$8,600,000 during 1939 to \$172,400,000 or 35 per cent of capital accounts as against 37 per cent a year earlier. This ratio was 24 per cent for all member banks of the Federal Reserve System.

All member banks End of year	Philadelphia Federal Reserve District		United States
	1938	1939	1939
<b>Capital accounts: Percentage of—</b>			
Deposits.....	17.0%	15.2%	11.2%
Loans, investments and real estate assets*.....	19.4	19.5	15.7
Investments.....	34.3	35.1	27.6
Investments other than U. S. Government obligations.....	75.6	79.6	97.7
<b>Surplus, undivided profits and reserves:</b>			
Percentage of—			
Loans, investments, and real estate assets*.....	11.9	12.0	9.0
Investments.....	20.9	21.6	15.8
Investments other than U. S. Government obligations.....	46.1	49.0	55.9
<b>Banking house, equipment and other real estate*: Percentage of—</b>			
Capital accounts.....	37.2	35.2	24.3

\*Includes assets indirectly representing real estate.

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

**Earnings and expenses** The net profits of member banks in this District more than doubled from 1938 to 1939, rising from \$10,000,000 to approximately \$21,200,000. This was due principally to increased profits from security sales in the first half of the year. Dividend payments were reduced by \$600,000 to \$17,400,000.

As in other recent years, the volume of the principal earning assets and the sources of bank earnings are in striking contrast to the Nineteen Twenties. In general, the amount of and income from loans declined drastically, but holdings of investments expanded greatly, while income from this source decreased, owing largely to the changed composition of security portfolios and to generally lower yields on bonds. The following data indicate these diverse trends:

All member banks Philadelphia Federal Reserve District	1927-29 (average)	1939	Per cent change
Deposits.....	\$2,434,000,000	\$3,047,000,000	+25%
Loans.....	1,718,000,000	925,000,000	-46
Earnings therefrom.....	95,501,000	42,099,000	-56
Investments.....	924,000,000	1,394,000,000	+51
Earnings therefrom.....	46,773,000	44,772,000	-4
Earnings from other sources.....	16,007,000	21,012,000	+31
Total current earnings.....	158,281,000	107,883,000	-32

Gross earnings from current operations declined from \$108,400,000 in 1938 to \$107,900,000 in 1939. Increased income was reported from loans, service charges, and from miscellaneous sources, but these gains were more than offset by a smaller amount of interest on securities and lower earnings from trust departments.

Current expenses were reduced more than earnings, declining from \$73,100,000 in 1938 to \$72,000,000 in 1939. This was due to a decrease of \$1,900,000 or about 10 per cent in the interest paid on time and savings deposits. On the basis of combined dollar totals for all member banks, the rate paid on these deposits in 1939 was 1.5 per cent, which

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

compared with 4.6 per cent earned on loans and 3.2 per cent on investments. In the years 1927-29, when the rate paid on time deposits was about 3.2 per cent, the average returns on loans and investments were respectively 5.6 and 5.1 per cent.

Earnings from current operations remaining after the payment of expenses have been rising slowly in late years, \$35,900,000 being reported in 1939, as against \$35,300,000 in 1938 and \$34,500,000 in 1937. In recent years the amounts available for final distribution have been

<b>Earnings and expenses of member banks</b> Philadelphia Federal Reserve District (000's omitted)	1937	1938	1939
<b>Current earnings:</b>			
Interest and discount on loans.....	\$42,790	\$41,501	\$42,099
Interest and dividends on securities.....	47,680	46,007	44,772
Trust department.....	8,943	9,168	8,827
Service charges on deposits.....	2,034	2,317	2,501
All other.....	9,508	9,399	9,684
Total.....	\$110,955	\$108,392	\$107,883
<b>Current expenses:</b>			
Salaries and wages.....	\$27,207	\$27,498	\$27,616
Interest on time and savings deposits.....	19,883	18,474	16,557
Taxes—real estate.....	2,737	2,738	2,795
Taxes—other.....	6,166	4,754	5,149
All other.....	20,416	19,612	19,863
Total.....	\$76,409	\$73,076	\$71,980
<b>Net earnings from current operations</b> ..	\$34,546	\$35,316	\$35,903
<b>Recoveries and profits on sales:</b>			
Recoveries on loans.....	\$3,139	\$1,449	\$1,867
Recoveries on securities.....	3,293	3,097	6,218
Profits on security sales.....	9,270	10,631	16,630
All other.....	1,696	1,509	1,279
Total.....	\$17,398	\$16,686	\$25,994
<b>Losses and depreciation:</b>			
On loans.....	\$10,523	\$10,625	\$12,167
On securities.....	11,947	22,067	18,706
On banking house and equipment.....	2,981	2,705	3,053
All other.....	2,995	6,631	6,773
Total.....	\$28,446	\$42,028	\$40,699
<b>Net addition to profits</b> .....	\$23,498	\$9,974	\$21,198
Cash dividends declared.....	19,597	17,982	17,385

smaller than net current earnings, as losses and depreciation have exceeded recoveries and profits on sales.

Recoveries and profits on sales increased sharply from \$16,700,000 in 1938 to \$26,000,000 in 1939. This was due chiefly to heavy profits from security sales. Recoveries on securities also increased materially, the amount realized from this source being double the 1938 figure.

Losses and depreciation declined \$1,300,000 from 1938 to 1939, but in the latter year were still in the heavy volume of \$40,700,000. A small part of this is accounted for by the charging off of premiums on securities and on insured mortgages.

### *Analysis of Member Bank Investments*

In view of the increased importance of investments in the earning assets of commercial banks and the accompanying change in the nature of credit problems, the Federal Reserve Bank of Philadelphia undertook studies of the bond portfolios of member banks in 1937 and again in 1939. The sharp decline in the proportion of bank loans and the expansion in investments have reflected several influences and created new problems of earnings and management.

This change in the character of bank assets has been due primarily to an increasing tendency on the part of business to finance operations through the open security market rather than by direct private borrowing, to the substantial reduction in the use of credit after 1930, and to the growth in public financing during the past decade. The effect of these changed conditions has been accentuated by the inflow of over \$10,000,000,000 in gold from abroad, which was primarily the result of disturbed world conditions. In consequence, the funds available to banks and the reserves of banks have expanded sharply, while the traditional medium for the use of bank funds in commercial lending has been less in evidence, and banks generally have found it increasingly necessary to employ their funds in the investment market.

Constant study of bond portfolios is essential in view of recurring uncertainties in money markets, the increase in unpredictable elements in business and finance, and the widespread industrial obsolescence occasioned by the introduction of new products and methods.

The purpose of the analysis of bond portfolios in 1939 was to ascertain the character of the investments of member banks in the Third Federal Reserve District and the extent to which the composition of investments is consistent with the general and specific operating conditions of the institutions. The data used in the study were taken from reports of examinations of 652 banks made, for the most part, during the first eight months of the year, prior to the outbreak of war in Europe. As these reports were not available for all institutions at any given date, the statistics were not strictly comparable throughout, but this technical limitation may be minimized by the fact that investment positions were relatively stable during the period. In making the analysis, percentage distributions were computed covering the general nature of assets and liabilities, the quality, type, and maturity of investment holdings, the quality of loans, the composition of the capital accounts, and the relation of capital to liabilities and to depreciable assets. These data were further distributed to show variations occasioned by differences in size, location, and types of assets and liabilities.

The analysis showed certain broad changes from the investment position of member banks in 1937. The average volume of investments in 1939 was about \$1,400,000,000 as against approximately \$1,450,000,000 in 1937. The nature of the investments in 1939 was somewhat different from the earlier period. The proportion of portfolios in the form of direct and guaranteed obligations of the United States increased from 50 per cent in 1937 to 55 per cent in 1939. Holdings of state, municipal and other local governmental obligations and of corporate securities of the first three grades declined from 34 per cent to 25 per cent of total investments, while the proportion of corporate securities rated in the fourth grade was unchanged and that of lower grade bonds increased. The average maturity of portfolios was somewhat shorter in 1939 than in 1937, as bonds maturing in over ten years, defaulted issues,

and stocks declined from 64 per cent to 58 per cent of the total, while securities due in from five to ten years increased from 13 per cent to 23 per cent. Proportions of shorter term securities declined somewhat in the period. The proportion of earning assets in the form of investments was unchanged at 60 per cent, but the cushion of capital against deposits and substandard investments declined.

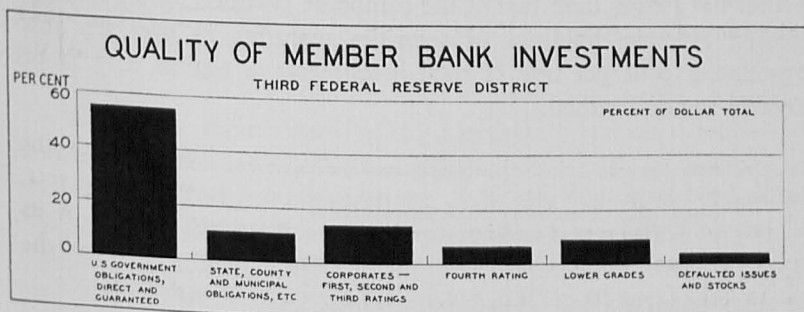
Funds available for investment by banks are traditionally regarded as being supplied by time deposits and by that portion of capital which is not utilized in fixed assets. In the period of the study, 39 per cent of the total dollar volume of deposits was in the form of time deposits, and the average proportion of time to total deposits among the individual banks was 65 per cent. Of the volume of capital funds, 42 per cent was in fixed assets, the average proportion among the banks being 38 per cent. Although 60 per cent of earning assets was in the form of investments, only 80 per cent of the volume of funds available for the extension of this long term credit was used for this purpose. The banks on the average used scarcely more than one-half of their so-called investment funds in securities.

Owing to the lack of profitable outlets for lendable funds the banks held large proportions of unused cash. At the end of the year, 32 per cent of member bank assets was in the form of cash or its equivalent, and during the period of the study over 88 per cent of the banks held from 10 to 30 per cent of their assets in this form.

On a dollar basis the quality of member bank investments in the aggregate was generally high, over one-half or 55 per cent being in direct and guaranteed obligations of the United States, about 11 per cent in state, county, and municipal obligations, and 14 per cent in corporate securities of the first three grades, a total of 80 per cent in high grade issues. Of the remaining 20 per cent in lower quality securities, 7 per cent comprised holdings of fourth grade corporate bonds, 9 per cent was in lower grade bonds, 3 per cent in stocks, and 1 per cent in defaulted issues. The average holdings of individual banks, however, showed only 69 per cent in the high grade issues, reflecting smaller

proportions of government securities and larger holdings of all grades of corporates. Variations among individual banks and groups of banks were pronounced, and in many cases substantial proportions of inferior assets were in evidence. The quality of aggregate investments of member banks is shown in the accompanying table and chart.

Quality of member bank investments (Per cent of total investments)	Total dollar volume	Average of ratios
U. S. Government obligations, direct and guaranteed.....	54.6%	39.7%
State, county and municipal obligations, etc.....	11.3	10.2
Corporate securities of the first three grades.....	13.9	19.1
Corporate securities of the fourth grade.....	7.0	11.3
Lower grade bonds.....	9.1	16.8
Defaulted issues.....	1.4	1.7
Stocks.....	2.7	1.2
Total.....	100.0%	100.0%



On the basis of types of securities, 66 per cent of the volume of investments was in obligations of Federal and other governmental bodies. Holdings of corporate issues totaled about 28 per cent of the aggregate portfolio, comprising 12 per cent in obligations of railroads, 10 per cent in public utilities, and 6 per cent in industrial bonds. Foreign obligations comprised only 2 per cent of member bank investments. On the average, however, the individual banks held about 50 per cent in public obligations, with 18 per cent in railroads, 16 per cent in public utilities, and 10 per cent in industrials. The following table shows the holdings of various types of securities on a dollar basis and

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

on the basis of the average proportion of each type held at individual banks:

Types of securities in member bank portfolios (Per cent of total investments)	Total dollar volume	Average of ratios
U. S. Government obligations, direct and guaranteed.....	54.6%	39.7%
State, county and municipal obligations.....	11.9	10.6
Railroads.....	11.5	18.0
Public utilities.....	9.6	16.1
Industrials.....	5.9	10.2
Foreign.....	1.9	1.8
Miscellaneous.....	0.5	0.7
Defaulted issues.....	1.4	1.7
Stocks.....	2.7	1.2
Total.....	100.0%	100.0%

The average maturity of investments in individual banks was somewhat longer than that of the composite portfolio for all banks together. Average holdings of securities maturing in over ten years amounted to 61 per cent of total investments as against only 54 per cent in the dollar total.

Maturities of member bank investments (Per cent of total investments)	Total dollar volume	Average of ratios
Up to 5 years.....	19.3%	16.0%
5 to 10 years.....	22.6	20.0
Over 10 years.....	54.0	61.1
Defaulted issues and stocks.....	4.1	2.9
Total.....	100.0%	100.0%

The aggregate capital position of member banks in this district was relatively strong in some respects. The figures in many instances, however, indicate need for considerable improvement, particularly in the case of certain individual banks and groups of banks, where variations were wide. Total deposit liabilities amounted to less than six times capital accounts comprising capital stock, surplus, profits, and reserves. The total of substandard loans and investments, including fourth

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

grade corporate securities, however, was equal to 85 per cent of capital funds, substandard investments alone being equal to 55 per cent of stockholders' equity. But after deducting the amount of capital invested in fixed assets, substandard investments represented 95 per cent of the remaining capital funds, and substandard loans and investments combined were nearly one-half again as much as net available capital. The following table shows the aggregate capital position of the banks.

Capital position of member banks (Based upon aggregate dollar volume)	Ratios in per cent
Ratio of—	
Deposits to capital account.....	581%
Fixed assets to capital account.....	42
Substandard assets—	
To capital account.....	85
To capital account minus fixed assets.....	145
Substandard investments—	
To capital account.....	55
To capital account minus fixed assets.....	95
Long term investments—	
To capital account.....	164
To capital account minus fixed assets.....	282

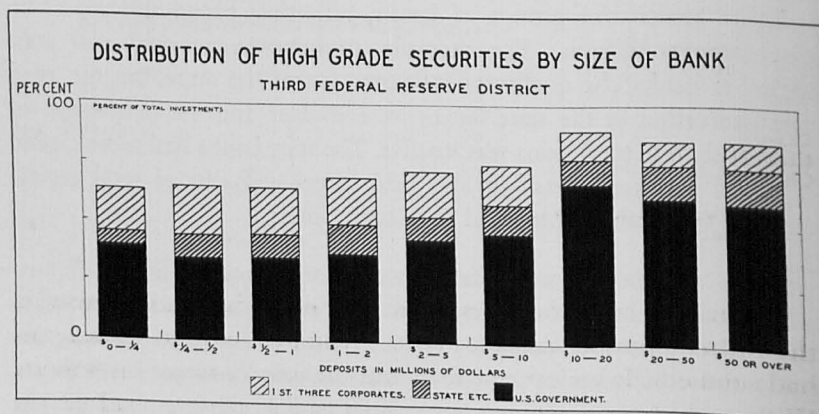
While these figures showing the aggregate investment position of all member banks are significant, large variations were shown among various banks and groups of banks, reflecting broad differences in operating conditions. For example, as between national and state member banks, the quality of investments was the same, but the average maturities at the state banks were shorter and the proportion of substandard to total loans was smaller. The state banks had more capital invested in fixed assets but also held larger cushions of total capital against both substandard and long term bonds.

Wide variations were also apparent in the composition of portfolios among banks of different sizes. The small banks held somewhat larger proportions of defaulted securities and of corporate issues, especially those of lower ratings, than was the case in larger institutions. Banks with deposits ranging up to \$2,000,000 on the average held less than 40 per cent of their investments in the form of direct and guaranteed obligations of the United States, while banks with \$10,000,000 or

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

more in deposits held from 60 to 70 per cent in this form. Conversely, the group of smaller banks held from 19 to 23 per cent of their portfolios in bonds below the fourth grade and in defaulted issues, as against only 6 to 8 per cent at the larger institutions. Differences in the quality of investments in banks of varying size are shown in the following table:

Quality of investments by size of banks	Deposits in millions of dollars								
	0— ¼	¼— ½	½— 1	1— 2	2— 5	5— 10	10— 20	20— 50	50 & over
U. S. Government obligations, direct and guaranteed.....	39%	35%	35%	37%	43%	46%	67%	61%	59%
State, county and municipal obligations, etc.....	6	9	9	12	10	12	10	14	15
Corporate securities of the first three grades.....	18	21	20	20	19	17	12	10	11
<b>Subtotal.....</b>	<b>63%</b>	<b>65%</b>	<b>64%</b>	<b>69%</b>	<b>72%</b>	<b>75%</b>	<b>89%</b>	<b>85%</b>	<b>85%</b>
Corporate securities of the fourth grade.....	13	13	13	11	11	9	4	4	4
Lower grade bonds.....	20	19	20	17	15	12	5	5	6
Defaulted issues.....	3	2	2	2	1	2	1	1	2
Stocks.....	1	1	1	1	1	2	1	5	3
<b>Total.....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



Among the corporate securities, banks with deposits up to \$2,000,000 held from 17 to 20 per cent of total investments in railroad bonds

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

and the same proportion in public utility bonds, while banks with \$10,000,000 or more in deposits held from 6 to 10 per cent in each of these types of securities. Holdings of industrial issues ranged from 10 to 13 per cent in the group of smaller banks as compared with 3 and 4 per cent in the larger banks.

Maturities of investments also varied widely among the banks of different sizes. The proportion of portfolios in securities maturing up to five years increased from 9 per cent at institutions with less than \$250,000 in deposits to 30 per cent at banks with \$10,000,000 to \$20,000,000 in deposits. There was little variation in holdings of medium term securities, but in the case of bonds maturing in over ten years the smallest banks held about 70 per cent of their portfolios in this form while the largest, with \$20,000,000 or more in deposits, held only about 40 per cent.

The proportion of substandard loans at the smallest banks constitutes 7 per cent of total loans, while they were as much as 18 per cent in some groups of larger-sized banks. The following data show the varying quality of loans at banks of different size.

Quality of loans by size of banks	Deposits in millions of dollars								
	0— ¼	¼— ½	½— 1	1— 2	2— 5	5— 10	10— 20	20— 50	50 & over
Class II.....	6%	10%	9%	11%	12%	15%	11%	14%	10%
Class III.....	1	1	1	1	1	2	3	3	3
Class IV.....	0	0	0	0	0	1	1	1	1
<b>Total—substandard loans.....</b>	<b>7%</b>	<b>11%</b>	<b>10%</b>	<b>12%</b>	<b>13%</b>	<b>18%</b>	<b>15%</b>	<b>18%</b>	<b>14%</b>

The large banks held a larger proportion of their earning assets in the form of investments, had smaller proportions of time deposits, and had substantially lower rates of earnings on both loans and investments. With respect to capital positions, large banks generally had heavier investments in fixed assets, higher ratios of deposits to capital, and larger cushions of capital against substandard investments.

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

Capital position of member banks by size of banks	Deposits in millions of dollars								
	0— ¼	¼— ½	½— 1	1— 2	2— 5	5— 10	10— 20	20— 50	50 & over
Ratio of—									
Deposits to capital account.	352%	455%	523%	517%	523%	549%	643%	600%	687%
Fixed assets to capital account.....	30	28	37	37	38	57	51	71	37
Substandard investments to capital account.....	56	71	84	74	66	62	31	34	47

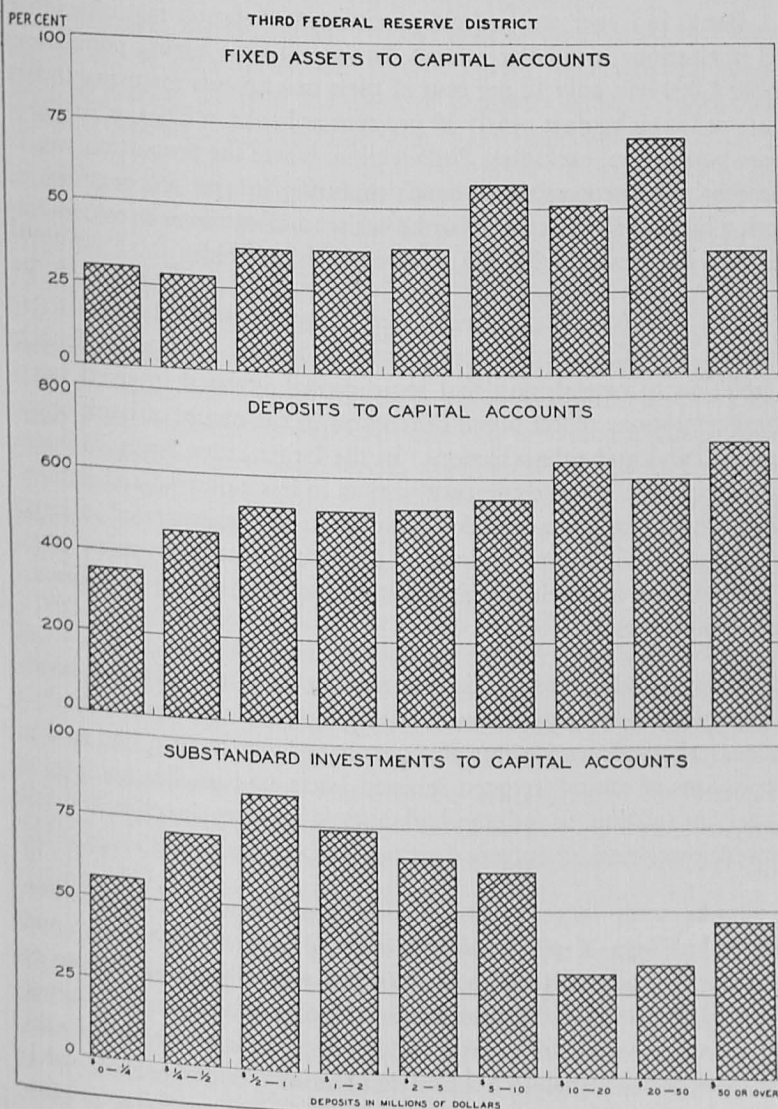
The variation in the amount of capital in relation to substandard investments among banks of varying size is further illustrated in the following table.

Percentage of sub- standard invest- ments to capital accounts by size of banks	Num- ber of banks	Per cent of banks	0—	40—	80—	120—	160%	Total
			39.9%	79.9%	119.9%	159.9%	and over	
Deposit ranges (Thousands of dollars)								
Up to 249	25	3.8%	40.0%	36.0%	16.0%	8.0%	0%	100.0%
250— 499	96	14.7	29.1	28.1	27.1	14.6	1.1	100.0
500— 999	156	23.9	21.1	26.3	30.1	16.7	5.8	100.0
1,000— 1,999	162	24.9	19.7	40.1	27.8	9.9	2.5	100.0
2,000— 4,999	140	21.5	27.8	40.0	22.9	6.4	2.9	100.0
5,000— 9,999	41	6.3	31.7	43.9	17.1	4.9	2.4	100.0
10,000—19,999	15	2.3	73.3	20.0	6.7	0	0	100.0
20,000—49,999	8	1.2	75.0	25.0	0	0	0	100.0
50,000 and over...	9	1.4	33.3	55.6	11.1	0	0	100.0
Total.....	652	100.0%						

The size of the communities in which banks operate naturally has a direct bearing upon the size of the banks themselves, and differences in population are also reflected in the composition of the portfolios of banks serving the areas. Banks in cities of 50,000 or more population held over 50 per cent of their portfolios in the form of direct and guaranteed obligations of the United States as against proportions of less than 40 per cent in towns with population up to 3,000. Holdings of these obligations ranged from 35 per cent of total portfolios at banks in towns with less than 1,000 in population to 55 per cent at Philadelphia banks. Investments in bonds of state and local governments also

## CAPITAL POSITIONS BY SIZE OF BANK

THIRD FEDERAL RESERVE DISTRICT



increased as population increased, and conversely, holdings of corporate obligations declined.

Banks in larger centers held portfolios with shorter maturities than did institutions in smaller centers. Banks in towns having populations under 1,000 had only 10 per cent of their investments maturing in five years or less as against nearly 30 per cent at banks in cities of 50,000 or more population, excluding Philadelphia, where the proportion was 23 per cent. The proportion of bonds maturing in over ten years varied from a high of 68 per cent at banks in the smallest towns to a low of 44 per cent in cities over 100,000, excluding Philadelphia.

The banks in larger centers also showed lower rates of current earnings on both loans and investments, had larger volumes of deposits in relation to capital, and had more capital invested in fixed assets. These conditions reflect broad differences in the nature of bank operations in rural and urban sections. In the larger cities, financial operations are generally more competitive than in less industrialized sections; correspondent balances held for other banks are concentrated in larger centers; and proportions of demand deposits are larger in cities, where manufacturing and primary distribution require frequent and substantial outlays of cash.

Banks with large proportions of earning assets in the form of bonds, as compared with banks concentrating upon a commercial lending business, showed investments of somewhat higher quality, had smaller proportions of capital invested in fixed assets, had smaller holdings of capital in relation to substandard and long term investments, and showed lower rates of current earnings on both loans and investments.

Banks with large proportions of time deposits had relatively smaller holdings of public obligations and larger proportions of all grades and types of corporate securities, especially those below the fourth rating, than did banks whose deposits were primarily of the demand type. As would be expected, because of the lower rate of turnover in deposits at banks holding substantially larger proportions of time and savings accounts, average maturities of portfolios at these

institutions were longer than at banks doing a primarily commercial business. Because of the limited demand for short term bank credit, commercial banks as well as savings institutions have had to resort to the investment market for the employment of their funds, so that on the whole no great differences appeared with respect to the proportion of earning assets in the form of securities at banks with heavy demand deposits as against those with heavy time deposits.

In general, banks with loans and investments of high quality showed substantially different investment and capital positions from those found at institutions with larger proportions of substandard and borderline loans and securities. Average maturities of portfolios at banks with a higher grade of assets were shorter, larger proportions of earning assets were in the form of investments, rates of current earnings on investments were lower and on loans were higher, proportions of time to total deposits were smaller, cushions of capital against deposits and substandard assets were larger, holdings of cash were larger, and the relative amounts of capital utilized in the form of fixed assets were smaller than at banks where the quality of assets was lower.

The general investment position of the member banks in the Third Federal Reserve District, as shown by this analysis, appears to be fairly well adapted to current operating conditions. Wide variations in the composition of portfolios and in the nature of other assets and liabilities, however, exist among individual banks and groups of banks. These variations in the quality and types of security holdings and in their relations to capital and liabilities reflect in part the changes in credit positions and ratings of bonds occasioned by the wide fluctuations in business activity in recent years. But in many cases investment positions suggest the absence of an effective portfolio policy and program.

The adaptation of the policies of banks to the changed and changing financial requirements of the communities they serve is necessarily and properly a matter of evolution. Recent developments indicate that the sweeping changes in the nature of bank credit have been recognized by the banks and that increasing attention is being given to the management of investments in order to meet the new credit problems.

### ***Money Rates***

Money rates in 1939 continued the irregular downward trend which has prevailed since early 1932. Disturbed political and economic conditions throughout the world sharply stimulated the flow of gold to this country to a record volume of over three billion dollars, swelling bank deposits and reserves to new high levels. The demand from business for new capital was even less than in the preceding year, despite rapidly improving industrial and trade conditions. Such new issues of both corporate and government securities as were marketed were well received, as investors under the continuing pressure of idle funds were willing to accept unprecedentedly low returns.

Yields on investment securities in the middle of the year declined to the lowest levels on record, and short-term funds continued virtually unchanged from the low levels of the previous two years. During the summer, when international relations were growing increasingly strained, rates advanced somewhat, and immediately after the outbreak of war in September the investment market was subjected to considerable selling pressure chiefly from smaller banks and non-institutional investors. In this period of sharp decline in the bond market, the Federal Open Market Committee of the Federal Reserve System purchased United States Government obligations amounting to about \$470,000,000 from August 28 to September 25 to aid in maintaining orderly conditions in the market. Some banks in large money centers and investing institutions generally bought securities on the decline. As the bond market subsequently showed strength and demand for high grade bonds again became active, the Committee sold securities. As a result of the active demand for securities, yields by the end of the year declined to prewar levels.

Rates on new 91-day Treasury bills fluctuated considerably during the year, varying from a slight negative yield on a few issues which were purchased for tax purposes to a discount rate as high as .159 per cent on the issue offered in the first week of the war. The average place-

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

ment rate for the year on new issues, however, was only .022 per cent, compared with .053 per cent in 1938. The average rate on outstanding 91-day bills was .05 per cent, or .02 points below the year before.

The supply of commercial paper during the year was again extremely limited, and the demand continued active. Offerings by dealers were allocated among customers, who were seeking a liquid form of asset in which to employ their large volume of cash. The average rate on this type of paper was only .59 per cent in 1939 as against .81 per cent in 1938 and .95 in 1937.

The return on Treasury notes maturing in 3 to 5 years averaged .59 per cent during the year, and reached a low of .35 per cent in the early summer. The average yield for 1938 was .83 per cent.

The yield on long-term Treasury bonds declined to a record low of 2.07 per cent early in June and for the year as a whole averaged 2.36, the lowest on record and more than 1 per cent under the 3.42 per cent which prevailed in the period from 1927 to 1929. In the case of municipal bonds, average returns reached a new low of 2.52 per cent in December and for the year averaged below the level in 1938. The rates on the highest grade of corporate bonds also reached a new low in the summer, these bonds selling to yield 2.88 per cent. After advancing to a temporary peak in the early fall, returns again declined, reaching 2.91 per cent at the end of the year. Speculative corporate issues, reflecting more fully the uncertainties in the international and domestic business situations, sold at rates substantially above the lows of early 1937. The average yield for the year, however, was below 1937 and 1938.

The demand for new money in the capital market was sustained primarily by federal and local government issues. New obligations of the United States Government offered to the public in 1939 amounted to about \$1,600,000,000 excluding savings bonds. Issues of states and municipalities to obtain new capital totaled \$931,000,000. Flotations of new corporate securities, on the other hand, aggregated only \$371,000,000, compared with \$872,000,000 in 1938, about \$1,225,000,000 in 1937, and an average of \$6,000,000,000 in the years 1927-29.

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

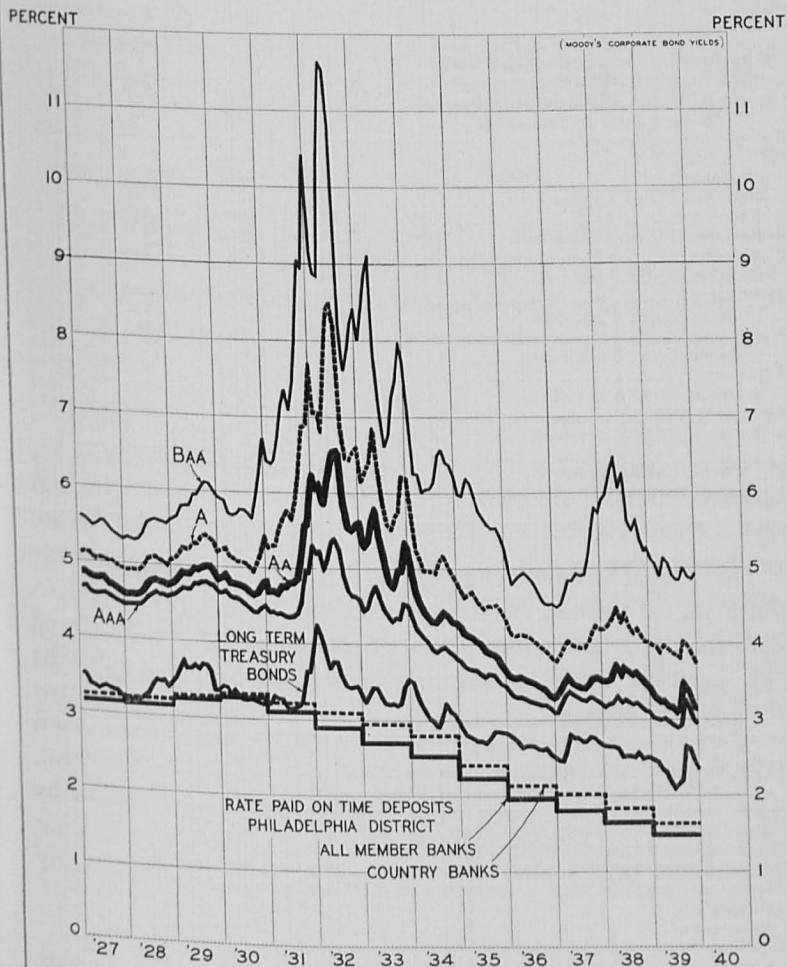
Annual averages of money and security rates and the levels prevailing at the end of the past two years are shown in the following table:

Money rates and yields	Annual averages			End of year	
	1937	1938	1939	1938	1939
Commercial paper, prime.....	.95%	.81%	.59%	.62%	.56%
Bankers' acceptances, 90 days.....	.43	.44	.44	.44	.44
Call money renewals, New York.....	1.00	1.00	1.00	1.00	1.00
Treasury bills, 91-day (dealers).....	.28	.07	.05	.05	.04
Treasury notes, 3-5 year.....	1.40	.83	.59	.69	.46
Treasury bonds, over 12 years.....	2.68	2.56	2.36	2.48	2.30
Municipal bonds (Stand. Statistics)...	3.10	2.91	2.76	2.71	2.52
Corporate bonds (Moody):					
Rating—Aaa.....	3.26	3.19	3.01	3.05	2.91
Aa.....	3.46	3.56	3.22	3.39	3.10
A.....	4.01	4.22	3.89	3.99	3.72
Baa.....	5.03	5.80	4.96	5.17	4.89
Type—Industrials.....	3.55	3.50	3.30	3.36	3.15
Public utilities.....	3.93	3.87	3.48	3.61	3.36
Rails.....	4.34	5.21	4.53	4.73	4.44

Average rates of interest paid to customers on time and savings deposits continued below the returns on the highest grades of securities. Although the legal maximum rate that member banks generally are allowed to pay is  $2\frac{1}{2}$  per cent, the trend of rates actually paid on such deposits has been downward. In the case of New Jersey the legal maximum for banks was reduced to 1 per cent in July 1939. The spread between interest rates paid on deposits and yields on securities has widened since 1935. Average yields on long-term governments and Aaa corporate bonds in 1939 were respectively 2.36 and 3.01 per cent, showing declines of .43 and .59 per cent from 1935. The rate paid by member banks on time and savings deposits, calculated from dollar totals, showed a reduction of  $\frac{3}{4}$  per cent in this period to approximately  $1\frac{1}{2}$  per cent.

The continued easy money conditions in the investment markets caused by increasing supplies of idle funds and limited demand for capital and credit were also reflected in the market for commercial loans. The volume of loans made by large Philadelphia banks at low rates increased substantially toward the end of the year. The average

## BOND YIELDS AND INTEREST ON DEPOSITS



rate on the dollar volume of new and renewed loans with maturities of 30 days or more, declined to 2.7 per cent in the first half of December. The corresponding rate in September was 3.4 per cent and in June

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

and March, 3.6 per cent. From 80 to 90 per cent of the total number of loans made by these banks in 1939 bore from 4 to 6 per cent interest. The quarterly reports for 1939 are summarized below.

<b>Commercial and industrial loans maturing in 30 days or more made by seven Philadelphia banks</b> (Dollar figures in thousands)	Mar. 16-31, 1939	Jun. 1-15, 1939	Sep. 1-15, 1939	Dec. 1-15, 1939
Rate				
1 per cent. ....	0	\$211	0	\$1,167
Between 1 and 1½ per cent. ....	0	250	\$700	500
1½ per cent. ....	\$2,040	2,080	3,350	10,151
Between 1½ and 2 per cent. ....	200	150	197	115
2 per cent. ....	1,524	332	1,234	754
Between 2 and 3 per cent. ....	1,011	548	814	2,260
3 per cent. ....	2,520	3,096	1,985	2,460
Between 3 and 4 per cent. ....	437	1,265	1,129	2,824
4 per cent. ....	2,059	2,147	2,262	2,550
Between 4 and 5 per cent. ....	1,748	1,767	1,527	948
5 per cent. ....	2,239	1,350	1,862	1,614
Between 5 and 6 per cent. ....	607	250	243	249
6 per cent. ....	1,575	1,547	1,805	1,179
Between 6 and 7 per cent. ....	0	0	0	9
<b>Total, dollar amount</b> .....	<b>\$15,960</b>	<b>\$14,993</b>	<b>\$17,108</b>	<b>\$26,780</b>
<b>Total number</b> .....	<b>1,117</b>	<b>991</b>	<b>1,184</b>	<b>1,115</b>

The rate of discount charged by this bank on advances to and rediscounts for member banks under sections 13 and 13a of the Federal Reserve Act has continued since September 1937 at a record low of 1½ per cent. Rates on advances to member banks under section

<b>Discount and interest rates</b> Federal Reserve Bank of Philadelphia	December 31, 1939
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 last paragraph of Section 13:	
To banks .....	1½
To others .....	2½
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%.

10(b) and on industrial advances under 13b were also unchanged in the year. On advances to individuals, partnerships, and corporations secured by direct obligations of the Federal Government, the rate was reduced as of September 1 from 4 per cent to 1½ per cent in the case of nonmember banks and 2½ per cent for others. The preceding table shows the schedule of rates in effect at the close of 1939.

### *Federal Reserve Bank*

Total resources of the Federal Reserve Bank of Philadelphia increased substantially during 1939, reaching at the end of the year \$1,176,000,000 as compared with \$870,000,000 at the same time in 1938. This expansion of about 35 per cent in resources was due to gains in cash reserves.

As the rise in cash reserves materially exceeded increased requirements against Federal Reserve note and deposit liabilities, the capacity for the extension of credit was greatly enlarged. But the volume of credit outstanding declined. Loans and advances to member banks continued small and the Reserve bank credit outstanding was principally in the form of government securities, comprising 98 per cent of the earning assets.

<b>Federal Reserve Bank of Philadelphia</b> (Dollar figures in millions)	Annual averages of daily figures				
	1936	1937	1938	1939	1929
Bills discounted.....	\$0.4	\$1.4	\$1.6	\$0.5	\$88.9
Bills bought.....	0.4	0.3	.....	.....	13.1
Industrial advances.....	5.4	4.0	3.2	2.8	0
United States government obligations.....	193.8	208.9	219.1	214.5	20.4
Other securities.....	0	0	0	0	0.5
<b>Total bills and securities.....</b>	<b>\$200.0</b>	<b>\$214.7</b>	<b>\$223.9</b>	<b>\$217.9</b>	<b>\$122.9</b>
Federal Reserve note circulation	289.4	313.1	308.3	323.1	147.0
Member bank reserve deposits..	324.6	381.2	375.1	494.8	136.5
Other deposits.....	27.1	32.6	48.2	86.9	
Total cash reserves.....	464.0	534.4	530.5	708.2	191.8
Reserve ratio.....	72.4%	73.5%	72.5%	78.3%	67.6%

Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia

Statement of Condition

Federal Reserve Bank of Philadelphia (000's omitted in dollar figures)	End of year		
	1937	1938	1939
<b>RESOURCES</b>			
Gold certificates on hand and due from U.S. Treasury.....	\$474,891	\$546,461	\$846,062
Redemption fund—Federal Reserve notes.....	500	1,236	1,071
Other cash.....	26,940	29,221	26,470
<b>Total reserves.....</b>	<b>\$502,331</b>	<b>\$576,918</b>	<b>\$873,603</b>
Bills discounted:			
Secured by U. S. Government obligations*	1,498	704	150
Other bills discounted.....	655	473	513
<b>Total bills discounted.....</b>	<b>\$2,153</b>	<b>\$1,177</b>	<b>\$663</b>
Bills bought in open market.....	293	56	0
Industrial advances.....	3,627	3,120	3,084
United States Government securities.....	216,853	222,761	212,695
<b>Total bills and securities.....</b>	<b>\$222,926</b>	<b>\$227,114</b>	<b>\$216,442</b>
Due from foreign banks.....	18	17	5
Federal Reserve notes of other F. R. banks.....	1,662	2,081	1,945
Uncollected items.....	54,588	54,506	73,955
Bank premises.....	4,826	4,699	4,572
All other resources.....	5,067	4,637	5,830
<b>Total resources.....</b>	<b>\$791,418</b>	<b>\$869,972</b>	<b>\$1,176,352</b>
<b>LIABILITIES</b>			
Federal Reserve notes in circulation.....	\$318,036	\$320,562	\$348,938
Deposits:			
Member bank reserve account.....	365,046	374,231	598,597
U. S. Treasurer—general account.....	1,092	58,155	65,043
Foreign bank.....	17,002	19,545	39,416
Other deposits.....	2,269	6,899	16,821
<b>Total deposits.....</b>	<b>\$385,409</b>	<b>\$458,830</b>	<b>\$719,877</b>
Deferred availability items.....	53,747	57,591	73,866
Other liabilities.....	1,092	664	965
<b>Total liabilities.....</b>	<b>\$758,284</b>	<b>\$837,647</b>	<b>\$1,143,646</b>
<b>CAPITAL ACCOUNTS</b>			
Capital paid in.....	12,258	12,213	12,115
Surplus—Section 7.....	13,466	13,696	14,198
Surplus—Section 13b.....	4,411	4,416	4,393
Other capital accounts.....	2,999	2,000	2,000
<b>Total liabilities and capital accounts.....</b>	<b>\$791,418</b>	<b>\$869,972</b>	<b>\$1,176,352</b>
Ratio of total reserves to deposit and Federal Reserve note liabilities combined.....	71.4%	74.0%	81.7%
Contingent liability on bills purchased for foreign correspondents.....	\$166	\$7	\$0
Commitments to make industrial advances.....	173	1,525	930

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

Moderately increased earnings and reduced expenses contributed to a rise in net earnings available for distribution. Statements of the earnings and expenses for the years 1938 and 1939 are given on page 64 of this report.

The table on page 57 shows the types of Reserve bank credit outstanding and the items which are used in determining the reserve position of the bank.

**Reserve bank credit** Bill and security holdings of the Federal Reserve Bank of Philadelphia at the end of 1939 amounted to \$216,400,000 as compared with \$227,100,000 at the same time in 1938. The largest reduction and accompanying fluctuations occurred in holdings of United States Government obligations, although bills and industrial advances also declined.

Holdings of government securities, which represent a participation in the System Open Market Account, declined from \$222,800,000 to \$212,700,000. The dollar volume varies in accordance with changes in total holdings of the System and the proportion allocated quarterly to this bank. At the lowest point of the year this bank held \$205,200,000, while the peak was \$243,500,000 in September, following active purchases by the Federal Open Market Committee in the disturbed markets immediately preceding and following the outbreak of war in Europe. The sharp changes in composition shown in the accompany-

<b>U. S. Government securities held</b> Federal Reserve Bank of Philadelphia End of year	Bonds	Notes	Bills	Total
Dollars (000's omitted)				
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
1939.....	115,673	97,022	0	212,695
Percentage distribution:				
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
1939.....	54.4	45.6	0	100.0

ing table reflect three principal factors: purchases of securities late in August and in September; the exchange of a portion of the note holdings for bonds under the terms of Treasury refunding offers; and the maturity of Treasury bills without replacement.

In view of the increasing volume and wide distribution of surplus funds, member bank borrowing continued almost negligible, declining further during 1939 from \$1,177,000 to \$176,000. At the close of the year total holdings of bills discounted by this bank amounted to \$663,000.

Discounts for member banks dropped as low as \$30,000 in November. Comparatively few banks were borrowing at any one time; only 86 banks borrowed during the year as against 143 in 1938. Advances under section 10(b) at the highest points reached in January and February amounted to \$495,000 and for half of the year no bank was borrowing under this provision. There was no demand for loans by individuals, partnerships, or corporations under the provisions of the last paragraph of section 13 of the Federal Reserve Act, even though interest rates were reduced in the late summer.

**Industrial advances** Outstanding industrial advances by this bank to provide working capital maturing in up to five years to established business concerns declined from \$3,120,000 at the close of 1938 to less than \$2,500,000 in the summer of 1939, but by the end of the year had increased to \$3,084,000. Outstanding commitments to make industrial advances at the end of the year amounted to \$930,000 as compared with \$1,525,000 at the end of 1938.

The number of inquiries for industrial loans has been declining in recent years. In 1939 only 89 inquiries were received and many of these did not reach the stage of formal application. Applications were received from 27 prospective borrowers seeking advances in the aggregate amount of \$5,051,000 as compared with 27 applicants asking for \$6,065,000 in 1938. In 12 cases the applicants had previously borrowed from this bank.

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

Approval was given to 17 applications for a total amount of \$4,013,000. Most of these were from manufacturers. Eight applications calling for an aggregate of \$948,000 were rejected because of unsatisfactory financial condition, inadequate management, uncertain business prospects, insufficient collateral, or because the credit was available elsewhere. In several instances applications were withdrawn or the amount of credit requested was reduced before action was taken by this bank.

The following table shows the disposition of applications received during 1939 and since June 1934.

<b>Applications for industrial loans</b> Federal Reserve Bank of Philadelphia	1939	June 30, 1934— Dec. 30, 1939
<b>Number</b>		
Approved.....	17	208
Rejected.....	8	422
Withdrawn.....	2	49
<b>Total number.....</b>	<b>27</b>	<b>679</b>
<b>Dollar amount</b>		
Approved.....	\$4,013,000	\$32,828,000
Rejected.....	948,000	15,883,000
Withdrawn.....	90,000	2,459,000
<b>Total amount.....</b>	<b>\$5,051,000</b>	<b>\$51,170,000</b>

The daily average of loans and commitments outstanding over the period from June 30, 1934, when industrial advances first were authorized, to December 30, 1939 was \$4,182,000. Income totaled \$1,143,000, against which were charged expenses of \$328,000 and losses and reserves for losses in the amount of \$155,000. This leaves net income of \$660,000 from these operations. Of this amount \$366,000 has been retained and added to the surplus accounts of this bank and \$294,000 has been paid to the Secretary of the Treasury as a return on funds transferred to this bank for the purpose of making industrial loans.

In view of the risk implicit in this form of credit, the volume of advances still outstanding, and the number of actual and potential "trouble" cases, the amount of \$366,000 in net income which was added

to surplus accounts should be viewed in the light of possible further losses, as the final outcome of outstanding loans cannot be predicted at this time.

**Volume of work** The volume of work done by this bank during the year increased further. The number of ordinary checks handled rose from 91,762,000 in 1938 to 97,232,000 in 1939, reflecting the expansion in business. The aggregate dollar volume of these checks was \$23,467,000,000. In recent years the number of checks for smaller amounts has been increasing. For example, in 1929 ordinary checks handled by this bank numbered 70,234,000, but their dollar total amounted to \$39,123,000,000. While the daily average of checks handled in 1939 numbered 325,000, operations on individual days were considerably greater, reaching a new high point of nearly 700,000 on June 15. In addition to the items handled individually, 16,370,000 checks received in packages were distributed by the automobile run service to banks which are not members of the local clearing house.

Transfers of funds increased from \$2,813,000,000 in 1938 to \$3,197,000,000 in 1939, but the number of items declined somewhat. Collection items handled, including notes, drafts and coupons, decreased slightly in number but increased in amount.

In 1939 approximately 167,000,000 pieces of currency and 1,300 tons of coin were received and counted. These figures show some decline from 1938. Money tended to stay in circulation as the public demand increased and banks continued to cooperate with this bank in restricting return shipments to currency unfit for further use.

As fiscal agent of the United States Government, this bank received subscriptions totaling over \$1,100,000,000 for direct and guaranteed obligations and allotted \$77,000,000 for cash and \$146,000,000 on an exchange basis. Securities numbering about 246,000 pieces were handled in issue, redemption and exchange transactions, as compared with 200,000 pieces in 1938. The volume of work relief checks dropped from 6,971,000 to 5,613,000, but the number of other government checks received increased from 3,055,000 to 3,117,000.

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

The number of discounts for and advances to member banks and advances for working capital to industry declined in 1939 to 434 and the dollar amount to about \$11,000,000. This was in contrast with \$43,000,000 in 1938.

An average of \$640,000,000 of securities was held in custody for member banks, chiefly for those outside of Philadelphia. In connection with this service, 490,000 coupons were clipped during the year. This bank held also in custody for purchasers at the end of the year 5,117 United States savings bonds. During the year, the bank handled for member banks 16,089 security transactions amounting to \$315,000,000.

Volume of work Federal Reserve Bank of Philadelphia	Pieces or trans- actions handled (000's omitted)		Dollar amounts (000,000's omitted)	
	1938	1939	1938	1939
Discounts and advances.....	2	*	\$43	\$11
Currency counted.....	171,726	166,628	698	677
Coins counted.....	280,876	273,429	26	26
Ordinary checks.....	91,762	97,232	21,666	23,467
Checks handled in packages by automobile run service.....	15,819	16,370	.....	.....
U. S. Government checks.....	3,055	3,117	554	669
Work relief checks.....	6,971	5,613	213	160
Collection items:				
Coupons of U. S. Government and agencies.....	1,233	1,230	49	50
All other (notes, drafts, and coupons)	350	337	189	197
Transfers of funds.....	61	56	2,813	3,197
Issues, redemptions and exchanges by fiscal agency department:				
U. S. Government direct obligations	182	194	469	396
All other.....	18	52	47	122

\*Less than 500.

**Earnings and expenses** Total earnings of this bank increased from \$3,151,000 in 1938 to \$3,264,000 in 1939. This was due principally to a gain of \$134,000 in the income from participation in System holdings of government securities, which provided about 94 per cent of the bank's earnings. Income from miscellaneous sources also expanded, while earnings from discounts and advances declined. Net expenses were reduced \$57,000 to \$2,341,000, chiefly through lower costs in connection with Federal Reserve note issues.

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

Increased income and reduced expenses were reflected in an expansion from \$753,000 to \$923,000 in current net earnings. Supplementary income from profits on security sales decreased sharply, but there was also a substantial decline in deductions from current income. The deductions reported in 1939 were largely for the setting up of reserves for losses on industrial loans.

Net profits, after additions to and deductions from net current earnings, amounted to \$1,205,000, an increase of \$152,000 over 1938

<b>Profit and loss account</b> Federal Reserve Bank of Philadelphia (000's omitted)	1938	1939
<b>Earnings from:</b>		
Bills discounted.....	\$26	\$7
Bills bought.....	.....	.....
Industrial advances.....	168	133
United States Government securities.....	2,936	3,070
Other sources.....	21	54
Total earnings.....	\$3,151	\$3,264
<b>Expenses:</b>		
Operating expenses*.....	\$2,078	\$2,080
Cost of Federal Reserve currency.....	152	103
Assessment for expenses of Board of Governors.....	168	158
Total net expenses.....	\$2,398	\$2,341
<b>Current net earnings</b> .....	\$753	\$923
<b>Additions to current net earnings:</b>		
Profits on sales of U. S. Government securities.....	\$697	\$370
Other additions.....	24	37
	\$721	\$407
<b>Deductions from current net earnings:</b>		
Prior service contributions to Retirement System.....	\$387	\$0
Other deductions.....	34	125
	\$421	\$125
<b>Net additions to current net earnings</b> .....	<b>\$300</b>	<b>\$282</b>
<b>Net earnings available for distribution</b> .....	<b>\$1,053</b>	<b>\$1,205</b>
<b>Distribution of net earnings:</b>		
Paid to Treasury of United States, Sec. 13b.....	\$84	\$0
Dividends paid to member banks.....	734	725
Transferred to surplus (Sec. 13b).....	5	- 22**
Transferred to surplus (Sec. 7).....	230	502

\*After deducting reimbursements received for certain fiscal agency and other expenses. \*\*Transfers from surplus (Section 13b).

*Twenty-fifth Annual Report, Federal Reserve Bank of Philadelphia*

and the largest since 1932. The disposition of these profits included payment of \$725,000 in dividends to member banks and the transfer of the remaining \$480,000 to the regular surplus account of this bank. In addition, an amount of \$22,000 was transferred from the surplus held separately under Section 13b to the regular surplus. No payments to the Treasury of the United States under Section 13b were necessary as reserves set aside against losses exceeded net earnings from this source.

The preceding statement shows the profit and loss account of this bank for 1938 and 1939.

**Membership** During 1939 the number of member banks in this district declined from 655 to 652. No banks were admitted to membership, but two national banks were absorbed by a member trust company and a third national bank was liquidated. As a result, the number of national banks was reduced from 589 to 586, while the number of state bank members remained at 66.

The combined assets of all banking institutions in the district increased by \$433,000,000 during the year to \$5,217,000,000. Member bank assets expanded \$373,000,000 to \$3,746,000,000, or 72 per cent of the assets of all banks.

The following table shows by states the number and the assets of member banks compared with all banks in the district.

<b>Banks in Philadelphia Federal Reserve District</b> December 30, 1939 (Dollar figures in millions)	Pennsyl- vania*	New Jersey*	Delaware	District totals
<b>Number of banks</b>				
Total.....	769	108	55†	932
Member banks.....	550	83	19	652
Proportion member of total.....	72%	77%	35%	70%
<b>Total assets</b>				
Total.....	\$4,497	\$427	\$293	\$5,217
Member banks.....	3,260	300	186	3,746
Proportion member of total.....	72%	70%	63%	72%

\*Portion of the state in Philadelphia Federal Reserve District.

†Includes 9 branches of nonmember banks.

No additional grants of fiduciary powers were made to national banks in this district during 1939. The number possessing trust powers was reduced from 255 to 252 by the absorption of two banks which had full powers and the termination of restricted powers held by another bank.

**Changes in officers and directors** The terms of George W. Reily and J. Carl De La Cour as directors of this bank expired December 31, 1939. Mr. Reily was reelected in November by the banks in Group 2 as a Class A director for a term of three years. Ward D. Kerlin, Secretary and Treasurer of the Camden Forge Company of Camden, New Jersey, was nominated and elected by the banks in Group 3 to serve as a Class B director, succeeding Mr. De La Cour, who had requested that his name not be proposed for renomination.

By appointment of the Board of Governors of the Federal Reserve System, Thomas B. McCabe served as Chairman of the Board of this bank and Federal Reserve Agent during 1939. He was reappointed to serve in these capacities during 1940, and his term as a Class C director was extended for three years from January 1, 1940.

A vacancy among the Class C directors was filled by the appointment in March 1939 of Alfred H. Williams, Dean of the Wharton School of Finance and Commerce of the University of Pennsylvania. His term expires December 31, 1941.

Francis C. Biddle, Deputy Chairman of the Board of this bank, resigned as a Class C director in April 1939 to take office as a judge of the United States Circuit Court of Appeals for the Third District. Early in December, Warren F. Whittier, farmer, dairyman, and cattle breeder of Lonicera Farms, Douglassville, Pennsylvania, was appointed by the Board of Governors to complete Mr. Biddle's unexpired term. Dean Williams was designated Deputy Chairman for the year 1940.

Howard A. Loeb, Chairman of the Board of the Tradesmens National Bank and Trust Company of Philadelphia, who has represented

his bank on the Federal Advisory Council since 1930, served during 1939 and was chosen again for 1940. He continued in office as Vice-President of the Council during 1939 and was reelected for 1940.

President John S. Sinclair represented the Federal Reserve Banks of Philadelphia and Cleveland on the Federal Open Market Committee for a period of two years ended March 1939. Thereafter, M. J. Fleming, President of the Federal Reserve Bank of Cleveland, served as the representative and Mr. Sinclair as the alternate. Mr. Sinclair was elected to serve on the Committee for the year ending March 1941.

The only change in the official staff during 1939 was the appointment in March of Philip M. Poorman as Auditor. Early in 1940 Glenn K. Morris, an Assistant Cashier, resigned to become Vice-President of the National Bank of Germantown and Trust Company, Philadelphia.

On December 31, 1939 this bank had 769 employees other than officers as compared with 772 at the close of 1938.



## Directors

as of March 30, 1940

	Group	<i>Term expires Dec. 31</i>
<b>Class A:</b>		
Joseph Wayne, Jr. . . . . President, Philadelphia National Bank, Philadelphia, Pennsylvania.	1	1941
George W. Reily . . . . . President, Harrisburg National Bank, Harrisburg, Pennsylvania.	2	1942
J. B. Henning . . . . . President, Wyoming National Bank, Tunkhannock, Pennsylvania.	3	1940
<b>Class B:</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
Ward D. Kerlin . . . . . Secretary-Treasurer, Camden Forge Company, Camden, New Jersey.	3	1942
<b>Class C:</b>		
Thomas B. McCabe, Chairman and Federal Reserve Agent . . . . . President, Scott Paper Company, Chester, Pennsylvania.		1942
Alfred H. Williams, Deputy Chairman . . . . . Dean, Wharton School, University of Pennsylvania, Philadelphia.		1941
Warren F. Whittier . . . . . Lonicera Farms, Douglassville, Pennsylvania.		1940

## Officers

JOHN S. SINCLAIR, *President*

FRANK J. DRINNEN, <i>First Vice-President</i>	L. E. DONALDSON, <i>Assistant Vice-President</i>
C. A. McILHENNY, <i>Vice-President and Cashier</i>	C. A. SIENKIEWICZ, <i>Assistant Vice-President</i>
W. J. DAVIS, <i>Vice-President</i>	JAMES M. TOY, <i>Assistant Cashier</i>
ERNEST C. HILL, <i>Vice-President</i>	ARTHUR E. POST, <i>Secretary</i>
WILLIAM G. MCCREEDY, <i>Assistant Vice-President</i>	PHILIP M. POORMAN, <i>Auditor</i>