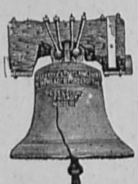
ANOTHER YEAR OF WAR

Thirtieth Annual Report

of the

FEDERAL RESERVE BANK

OF PHILADELPHIA



1944

Third Federal Reserve District

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FEDERAL RESERVE BANK
OF PHILADELPHIA

April 30, 1945.

To the Member Banks in the
Third Federal Reserve District:

Developments in business and banking in the Third Federal Reserve District over another year of war are presented in the accompanying Thirtieth Annual Report of the Federal Reserve Bank of Philadelphia.

ALFRED H. WILLIAMS
President.

ANOTHER YEAR OF WAR

The mobilization of our human and material resources in 1944 reached a height and intensity never before known in our recorded experience. Our armed forces have broadened the attack on our enemies on all fronts. Those at home virtually maintained for the whole year the very high rate of output reached late in 1943. The year's record shows the economy almost completely transformed to the waging of the greatest war in history.

Total output of goods and services, or the gross national product, reached an unprecedented record of almost $200 billion, about 6 per cent higher than in 1943. It was about equally divided between expenditures by Government, largely for war, and output available for private use. This output met the needs on the fighting fronts and afforded civilians a greater dollar volume of consumption than in any previous year. The achievements of our war economy are revealed by the fact that over one-half of the munitions schedules were no longer rising and some were declining.

Never before was labor in this district as in the country employed so extensively and intensively as at present. About 64 million people, or 61 per cent of the population over fourteen years of age, were in the labor force. Of these, 12 million were in the armed forces, and 52 million were engaged in various occupations. Nine million were employed in munitions production, 7 million in other manufacturing industries, 9 million in agriculture, and 27 million in transportation, trade, and related service occupations. Further expansion of the armed services caused a shrinkage in the civilian labor force, but average employment did not decline as much as the labor force, since unemployment dropped to an unprecedented low of less than one million. Manpower shortage has become an acute problem, particularly in certain industrial areas such as Philadelphia.

The people of the United States, as individuals, received \$157 billion income in 1944. They paid \$19 billion in personal taxes, saved \$40 billion, and spent \$98 billion. Over three-fifths of the expenditures—\$60 billion—were for nondurable goods, \$31 billion for services, and \$7 billion for durable goods.

The dollar amount of goods and services purchased by civilians has increased steadily since 1939. The increase in dollar volume is due in part, of course, to higher prices, even though quality has deteriorated. Many services, customary in peacetime, have been greatly reduced or virtually disappeared during the war. The significant fact is that our industry has been able both to produce and deliver a staggering volume of war goods and to meet increasing demands of civilian consumers. This is a record of exceptional achievement.

War Finance in 1944

Treasury borrowing

When the war has run its course, the period since 1943 may well prove to have been the costliest in men, materials, and money. Disbursements by the Treasury and Government corporations were in excess of \$96 billion, including \$91 billion for war. Taxes and other revenues applicable to this huge total were \$44 billion, leaving a deficit of \$52 billion to be met by borrowing. The Federal Government actually borrowed well over \$60 billion, as financing toward the close of the year also resulted in a sharp increase in the Treasury's cash balance.

Borrowing operations during 1944 followed closely the plans developed earlier in the war. Loan drives—the Fourth, Fifth, and Sixth of the war—were the principal means of obtaining new money. In each, a "basket of securities" suitable for diverse investment requirements was offered to the public. In addition to savings bonds and savings notes, the basket included a variety of marketable issues. Shortest among these were the ⅞ per cent certificates of indebtedness maturing in one year, and longest were the 2½ per cent bonds having more than twenty years to run. Within these extremes were 2 or 2¼ per cent bonds and, in the last two drives, 1¼ per cent notes. These offerings fitted into the general pattern of rates which had prevailed since early in the war period.

Offerings in all three drives were restricted to investors other than commercial banks, although commercial banks were given certain opportunities for limited investment of their time deposits, concurrently with the drives but not as a part of them. During the three war loans $59 billion of new securities were sold to non-bank investors, of which $2.9 billion, or 5 per cent, were credited to the sixty counties of the Third Federal Reserve District. The district and national results of the war loan drives are shown in the table by class of investor. Sales also are summarized to indicate the relative importance of the District in each of the six drives.

Loan Drive sales in 1944 (Dollar amounts in millions)	Third Fed. Res. Dist.	United States	% Third District of U. S.
Investor class:			
Individuals, partnerships, and personal trusts	$1,024	$17,542	5.8
Savings banks	260	5,101	5.1
Insurance companies	283	8,106	3.5
Brokers and dealers	12	1,283	0.9
State and local governments and their agencies	274*	3,348	8.2
All other (nonfinancial corporations, associations, etc.)	1,072	23,610	4.5
Total	$2,925*	$58,990	5.0
E bonds (included above in sales to individuals)	497	9,091	5.5
Total sales to nonbank investors:			
First Drive	$ 335	$ 7,860	4.3
Second Drive	659	13,476	4.9
Third Drive	934	18,944	4.9
Fourth Drive	856	16,730	5.1
Fifth Drive	1,003*	20,639	4.9
Sixth Drive	1,065*	21,621	4.9
Total—all drives	$4,852*	$99,270	4.9

* Including proportionate share of purchases by Commonwealth of Pennsylvania, which in the last two drives were not allocated by counties.

Apart from the drives, substantial sales of savings bonds and savings notes contributed funds to support the war effort. Increased weekly offerings of Treasury bills, largely taken by the banking system, also were part of the financing plan. Total credits to the Treasury by this Bank, covering cash sales of all classes of securities, were nearly $5 billion in 1944.

With many short term securities outstanding, and with maturities coming at frequent intervals, refunding operations also were an important aspect of Treasury financing. During 1944 holders of a number of issues guaranteed by the Treasury likewise were given the opportunity to exchange them for direct issues of the Government.

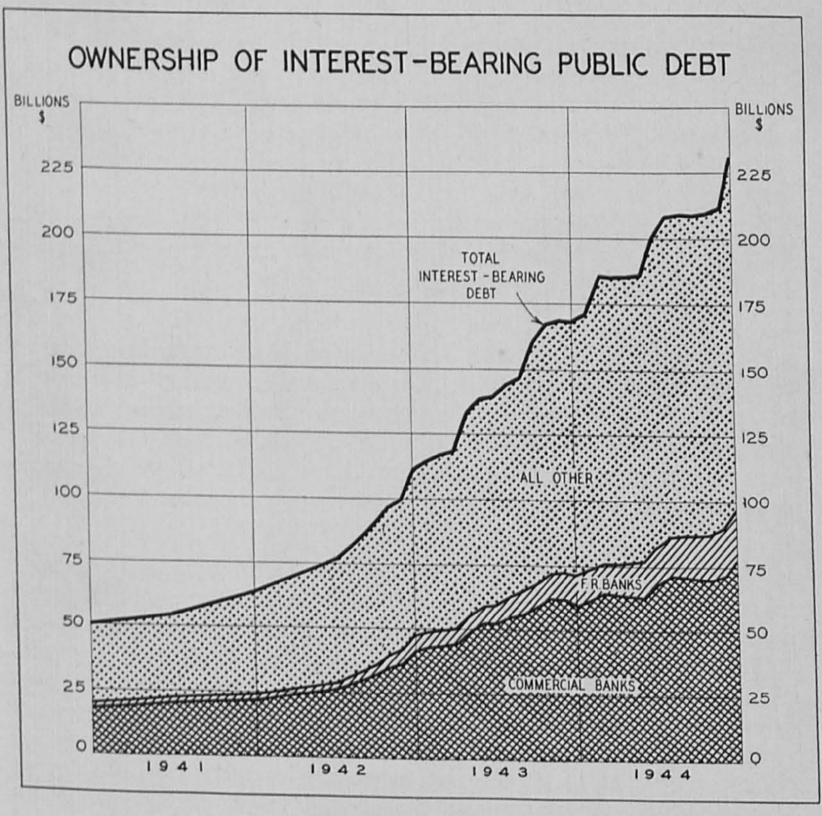
Bank credit and war financing

From the outbreak of the war the Treasury has kept four objectives in mind: (1) to secure all needed funds, (2) to raise a maximum from nonbank sources, (3) to keep banks liquid, and (4) to keep the cost of financing down. Initially, when the rate of war expenditures was rising very rapidly, primary attention was necessarily directed to securing sufficient funds; but as the economy became absorbed into the war effort, emphasis was shifted to securing funds from least inflationary sources. This shift in emphasis is reflected in the decrease from 41 per cent of the increase in public debt absorbed by commercial banks in 1942 to 29 per cent in 1944. If Federal Reserve Bank holdings are included, the reduction was from 50 per cent in 1942 to 40 per cent in 1944.

Bank credit and war financing	Calendar years					
	1942		1943		1944	
	Billions $	Per cent	Billions $	Per cent	Billions $	Per cent
Uses of funds:						
Expenditures	57	89	90	98	96	91
Increase in working balance	7	11	2	2	10	9
Total	64	100	92	100	106	100
Sources of funds:						
Receipts from taxes, etc.	16	25	35	38	44	42
Borrowing	48	75	57	62	62	58
Increase in nonbank holdings	24	38	33	36	37	35
Increase in Federal Reserve Bank holdings	4	6	5	5	7	6
Increase in commercial bank holdings	20	31	19	21	18	17
	64	100	92	100	106	100

In the early period of war financing, before the machinery for selling securities to nonbank investors was developed, banks were encouraged to invest in Government securities and war loan accounts were made exempt from reserve requirements. This relief during war loan drives was considered necessary because the rate of war expenditures was increasing very rapidly and banks seemed hesitant to buy a sufficient volume of Government securities.

As war expenditures reached a peak and sales organizations were developed, larger proportions of securities could be sold to nonbank investors. It was no longer necessary to rely so heavily



on bank purchases. Beginning with the Fourth Drive in January 1944 commercial bank subscriptions to new issues were limited to a proportion of their time deposits. As customers bought securities, their deposits—which required reserves—were shifted to war loan account, which did not require reserves. Thus, the exemption of war loan accounts from reserve requirements, designed to prevent deficits in reserves as a result of direct bank subscriptions, produced large excess reserves during war loan drives. Such excess reserves stimulated banks to increase their investments.

Bank credit, largely excluded from direct participation in war bond drives, thus entered war financing indirectly as banks purchased outstanding issues during and after drives. Some customers have sold to banks at a premium securities acquired at par in war loan drives and have reinvested the proceeds in new issues of succeeding drives. This has facilitated the meeting of quotas, but has increased the expansion of bank credit. It has been necessary to scrutinize subscriptions in order to restrict development of such undesirable practices as indirect acquisition of securities by banks for their own account through customers and acquisitions of outstanding Government securities with the understanding that sellers would use the proceeds to pay for subscriptions entered through the institution during drives.

Commercial banks also supplied credit by extending loans to customers for the purchase of Government securities. Along with other Reserve Banks, this Bank issued circulars urging banks to discourage borrowing for speculative purchases of Government securities and to confine security loans to those which can be repaid out of anticipated income within six months.

The System continued to supply reserves, primarily to meet increased demands for currency and reserves against enlarged deposits as well as reductions in gold stock. In so doing it acquired $7 billion of additional Government securities. Generally speaking, the Reserve Banks acquired securities between drives as reserve positions tightened and reduced their holdings during drives when reserve positions eased. In continuation of the Treasury bill policy, initiated in 1942, the System increased its holdings of Treasury bills, which expanded from 52 to 68 per cent of those outstanding. To an increasing extent banks resorted to borrowing from the Reserve Banks when they needed reserve funds.

During most of 1944 the System maintained the pattern of interest rates with little significant alteration. At the close of the year and in the early months of 1945, however, a marked preference of banks and other investors for longer-term issues raised market prices of certain Government securities sharply and lowered yields correspondingly. Between December and the middle of February gains of a full point or more were registered by some of the taxable 2 per cent bonds, and substantial gains also occurred in quotations on other intermediate and long-term bonds. On February 19, 1945 the 2's of December 1952-54 issued at par in the Sixth Drive yielded 1.77 per cent to call date. Banks and others who may have bought in the desire to safeguard against possible future offerings of lower-rate securities have in effect tended to bring about the very situation they sought to avoid.

The activities of member banks in the Third Federal Reserve District have formed a part of the general picture of bank participation in war financing and have conformed closely to the average for the country as a whole. During 1942, 1943, and 1944 member banks in this district increased their holdings of Government securities by $2,579 million, or 250 per cent. This percentage increase corresponded closely to that for all member banks. At the end of 1944 member banks in the district held 5.3 per cent of the Government securities owned by all member banks—approximately the same proportion that they held at the end of 1941.

Economy of the Third District in 1944

Developments in business

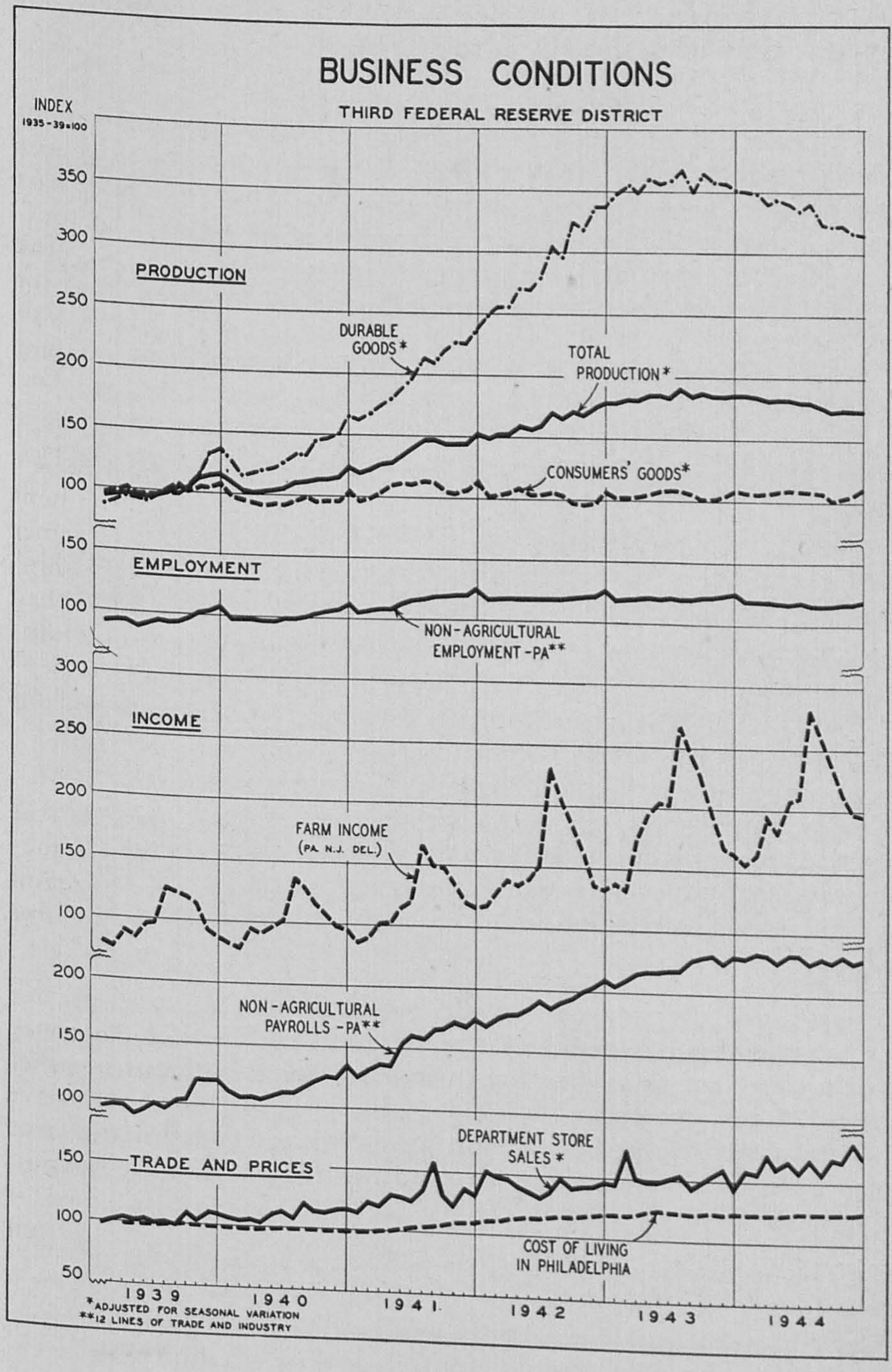
Industrial production Industrial production in the Third Federal Reserve District was maintained during virtually the entire year at just under the all-time peak reached in the middle of 1943. At the close of 1944 output was still 75 per cent greater than before the war. Similarly, the index of industrial production in the United States, which rose to a peak of 247 in October 1943, was still at 232 by the end of 1944, or more than twice the pre-war level. These indexes indicate the comparatively milder stimulus of the war in this district.

Although it is impossible to calculate future requirements of war materials, it appears that the peak of war production has been passed. Since 1939 durable goods accounted for the greater part of the increase in industrial production in this district. The output of durable goods rose from a pre-war base of 100 to a peak of 368 in July 1943 and then declined; but at the end of 1944 the flow of output was still more than three times that of pre-war. The decline reflects cut-backs in production schedules of some classes of munitions.

A great variety of war materials is produced in this district, but the outstanding contributions are transportation equipment and fabricated metal products. Production of the former expanded several times by reason of the Delaware River shipbuilding facilities, and the output of metal products more than doubled. Activity in the manufacture of transportation equipment has declined substantially since the peak attained in September 1943, and production of metal products has leveled off slightly from the peak output in January 1944.

Output of consumer goods, except tobacco, shoes, and textile products, was slightly above that of 1943. Since 1939, production of consumer goods has been irregular and wartime controls have limited expansion to very modest proportions. At no time has the expansion been in excess of 14 per cent of pre-war levels.

Although the war stimulus greatly increased industrial activity in this district, it was on the whole somewhat less than in other areas. Primarily a manufacturing region, this district might have been expected to share in major war contracts in about the same proportion as its pre-war contribution to manufacturing output. But it received a somewhat smaller share of the dollar volume of contracts owing to considerations of strategic location, utilization of available labor, and other factors.


BUSINESS CONDITIONS
THIRD FEDERAL RESERVE DISTRICT
INDEX
1935-39=100
PRODUCTION
DURABLE GOODS *
TOTAL PRODUCTION *
CONSUMERS' GOODS *
EMPLOYMENT
NON-AGRICULTURAL EMPLOYMENT - PA**
INCOME
FARM INCOME (PA. N.J. DEL.)
NON-AGRICULTURAL PAYROLLS - PA**
TRADE AND PRICES
DEPARTMENT STORE SALES *
COST OF LIVING IN PHILADELPHIA
1939
1940
1941
1942
1943
1944
*ADJUSTED FOR SEASONAL VARIATION
**12 LINES OF TRADE AND INDUSTRY

Through December 1944 only 6 per cent of the major war supply contracts were awarded in this district, which in 1939 employed 9.0 per cent of the country's manufacturing workers and produced 8.1 per cent of the value added by manufacture. The proportion in contracts for aircraft (2.6 per cent) was especially small, and in ordnance (6.9 per cent) somewhat less than might have been expected. Placements for ships (8.0 per cent) were in line with the specialized capacity of this area, and those for miscellaneous items (8.6 per cent) apparently took cognizance of the diversified facilities of local industry.

Similarly, by reason of its established industrial facilities, this district did not receive as many new facility projects as other areas. Through November 1944 only about 4¾ per cent of all new industrial facilities were assigned to the 60 counties of the district. Data on military installations, though incomplete, indicate that the proportion of military facilities was still smaller. This is quite natural in view of the strategic need for dispersal of forces and requirements for maneuvers away from centers of population.

Employment and earnings Employment in Pennsylvania remained at a very high level, though a trifle lower than in the preceding year. As the armed forces continued to draw upon the labor supply, employers encountered more and more difficulty in replacing workers. In Philadelphia, for example, the labor situation became increasingly acute throughout the year. In September it became necessary to make the 48-hour week mandatory for essential industries, and war procurement agencies were directed to divert new contracts to other areas where labor was more plentiful.

Advance preparation for national defense is revealed in the early rise of employment. At the time of Pearl Harbor, Pennsylvania employment in manufacturing and nonmanufacturing was about 25 per cent above the 1935-39 level. The process of building the armed forces to full fighting strength depleted manpower reserves so that the working force at home is now smaller than at the outset of war.

The industries of this area turned out a huge volume of output despite wartime shortages of labor. This was accomplished partly by substantial increases in working time. That it has been possible in this way to maintain output at near all-time peak levels for a long period is a tribute to the stamina of the working population. The average workweek of all Pennsylvania industries was stepped up nine hours above the 1939 level. Most of the increased effort was concentrated in the war industries. In iron and steel and transportation equipment the average number of hours worked was expanded from a pre-war level of about 37 hours to 47 hours in 1944. This is in marked contrast to the 37-hour week that prevailed in consumer goods industries such as clothing.

Payroll disbursements of manufacturing establishments in Pennsylvania reached about $3 billion in 1944. This was considerably over twice the amount paid out in 1939. A combination of substantially full employment, longer hours, and higher rates of pay accounts for the huge expansion in total earnings. Workers averaged better than a dollar an hour in contrast to the 69-cent pre-war level.

Construction All except the most essential building and construction had to be sidetracked as a result of more pressing needs for materials and manpower. In this area contracts were awarded in only about one-fourth of the 1942 volume when expansion of wartime facilities was at its peak. Half of the local contracts awarded last year were for urgently needed industrial structures, utilities, and public works.

Mineral production Throughout the war, the mineral industries have been under steadily increasing pressure for greater output and at the same time handicapped by continued loss of manpower. Since 1939 anthracite output has been increased 25 per cent despite a 21 per cent decline in employment. This was accomplished by improved operating practices and increased working time. The peak output of 64 million tons last year is considerably below the 100 million-ton peak attained during the last World War, because in the meantime many consumers have shifted to oil for domestic heating.

The war imposed sharply increased demand upon industrial fuels. Bituminous tonnage in Pennsylvania was stepped up about 60 per cent. As in the case of anthracite, increased production was attained with a smaller labor force by extending the working time and by greater use of machinery.

Agricultural income Agricultural income in Pennsylvania, New Jersey, and Delaware was over $800 million, more than double that of 1939. Higher prices are primarily responsible for the larger flow of income. Farmers are utilizing their increased returns to much better advantage in this war than they did in the first World War. They came out of the last war with a heavier mortgage burden, because of land speculation, but in the present war farmers are using their wartime gains to reduce their mortgage debts.

Total income payments The tremendously increased tempo of wartime activity on the farms, in the mines, and in the factories has boosted income payments in Pennsylvania to well over $10 billion. This was the highest ever attained and was considerably above the record peace time year of 1929.

Trade The swollen stream of income would have brought retail merchants still greater volume of business had they been able to obtain the merchandise. Department store sales were two-thirds above pre-war volume and still rising, though some of the expansion was due to higher prices. Dollar sales were higher in all major lines of merchandise, with greatest gains in women's apparel. Last year's sales volume in practically all individual lines also surpassed that of the preceding year. The few exceptions were electrical household appliances, floor coverings, and furs.

Prices Execution and administration of the President's order to "hold the line" have kept prices well under control, especially in view of the large buying power in the hands of the public. The cost of living at the turn of the year was 29 per cent above August 1939, and only two points above December 1943. Prices of clothing, which rose 9 per cent in 1944, and housefurnishings, which rose 13 per cent, were the principal exceptions to the generally stable price structure during 1944. Shortages of low-priced items in both clothing and housefurnishings forced customers to buy higher priced products, in some cases of better quality and in others of poorer quality. This situation also applied to many other items so that the index understates the effective rise in the cost of living. Nevertheless, in contrast to the last war, a much better job has been done in "holding the line," especially in view of the fact that inflationary pressures have been ever so much stronger.

Developments in banking

Member banks in the Third District continue to reflect the impact of war financing. The most important change was an increase of $846 million, or 31 per cent, in United States obligations accompanied by an almost equal increase of $837 million, or 17 per cent, in total deposit liabilities. Major changes are shown in the accompanying table.

Assets The outstanding development in bank assets, of course, has been the continuous and enormous increase in United States Government securities. Acquisition of the major portion of these securities has resulted in creation of additional deposits. To the extent necessary reserves have been provided by the Reserve Banks to enable member banks to meet the resulting increase in requirements. When the war broke out in Europe, banks had large excess reserves. Since that time they have moved to a much more fully invested position so that the relative increase in cash assets has been small compared with that in deposits. As the table shows, banks also have disposed of other assets as they have acquired Government securities.

The trend of loans has continued downward, although at a declining rate. At Philadelphia banks the declines have not wiped out the substantial increase that occurred prior to Pearl Harbor, and the volume remains above 1939 levels. At members outside Philadelphia, however, loans were almost one-fourth lower in December 1944 than in June 1939. Banks also liquidated substantial portions of other securities and miscellaneous assets—partly real estate—as they acquired Governments.

The net result of these several factors has been to change asset distributions completely in four and one-half years. The proportion of Government securities to total assets is almost three times as great as in 1939. Offsetting this change, loans are only half as important, other securities and miscellaneous assets only one-third as important, and cash two-thirds as important as in 1939.

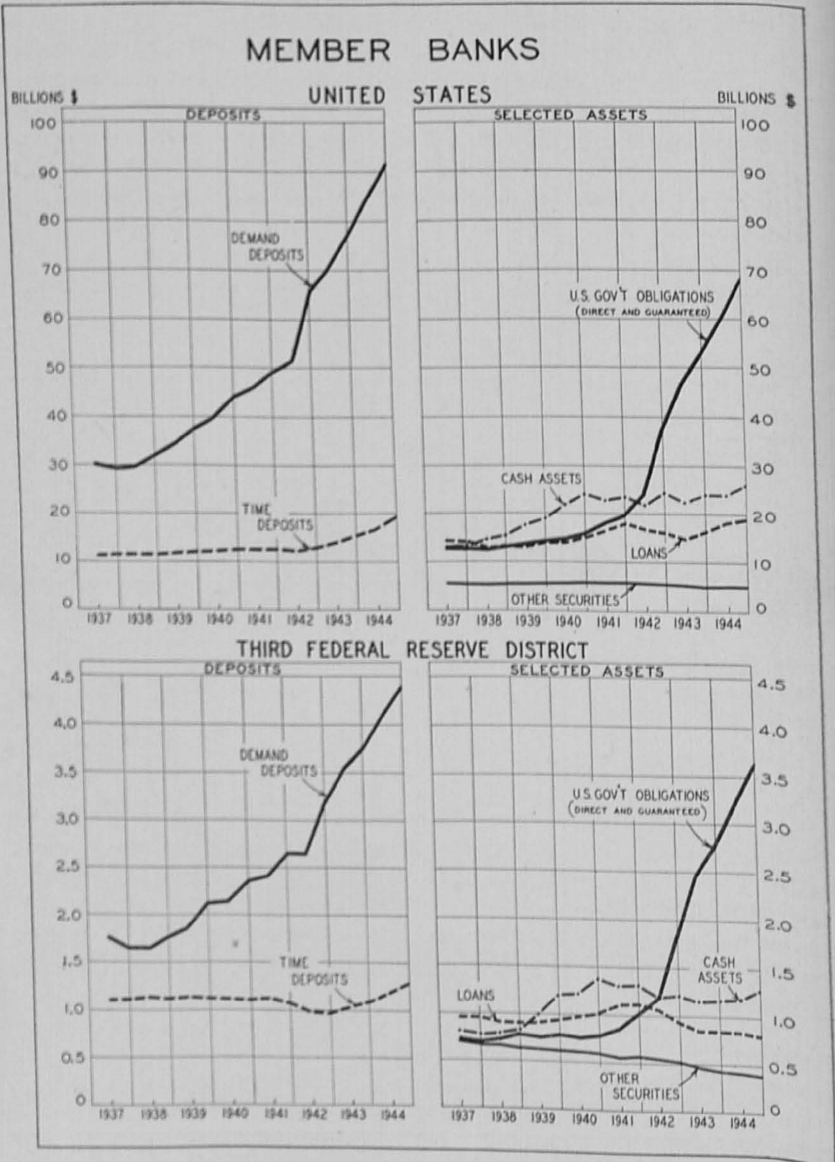
Deposits The continued expansion in deposits in 1944 provides an even clearer picture of the wartime movement of funds. Total deposits of member banks in this district increased only 17 per cent, although deposits of all member banks in the United States increased 20 per cent. Philadelphia member banks showed an increase of only 13 per cent during the past year, as compared with an increase of 22 per cent for other member banks in the district.

Resources of member banks Third Federal Reserve District	Dec. 30, 1944 (Million $)	Per cent change from			Per cent distribution	
		Dec. 31, 1943	Dec. 31, 1941	June 30, 1939	Dec. 30, 1944	June 30, 1939
All member banks:						
Cash assets*	1,277	+ 9.4	— 4.1	+ 27.8	20.6	28.6
Loans	808	— 5.2	— 27.7	— 12.2	13.0	26.3
U. S. Government obligations	3,610	+ 30.6	+249.8	+382.6	58.2	21.4
Other securities	399	— 6.6	— 29.8	— 36.5	6.4	17.9
Other assets	109	— 16.8	— 31.4	— 46.6	1.8	5.8
Total resources	6,203	+ 16.1	+ 47.4	+ 77.3	100.0	100.0
Philadelphia member banks:						
Cash assets*	627	+ 3.1	— 19.2	+ 4.3	21.6	35.6
Loans	380	— 6.2	— 22.8	+ 7.0	13.1	21.0
U. S. Government obligations	1,708	+ 26.1	+221.7	+329.1	58.9	23.6
Other securities	138	— 13.8	— 43.2	— 42.5	4.8	14.2
Other assets	48	— 17.2	— 26.2	— 49.5	1.6	5.6
Total resources	2,901	+ 12.2	+ 37.7	+ 71.8	100.0	100.0
Country member banks:						
Cash assets*	650	+ 16.1	+ 17.1	+ 63.3	19.7	22.0
Loans	428	— 4.3	— 31.6	— 24.2	13.0	31.2
U. S. Government obligations	1,902	+ 35.0	+280.4	+443.4	57.6	19.4
Other securities	261	— 2.2	— 19.9	— 32.7	7.9	21.4
Other assets	61	— 15.3	— 35.1	— 44.0	1.8	6.0
Total resources	3,302	+ 19.9	+ 57.2	+ 82.4	100.0	100.0

* Includes reciprocal bank balances prior to 1942.

The past two years have seen a significant change in the development of time deposits at the member banks. From the end of 1937 to the end of 1942 time deposits remained relatively stable. In the years following 1939 banks ceased to solicit and in many cases discouraged growth of time accounts by reducing or eliminating interest payments, by limiting amounts, and by recommending that such accounts be withdrawn for investment in Government securities or placement with specialized savings insti-

Liabilities and capital accounts of member banks Third Federal Reserve District	Dec. 30, 1944 (Million $)	Per cent change from Dec. 31, 1943	Per cent change from Dec. 31, 1941	Per cent change from June 30, 1939	Per cent distribution Dec. 30, 1944	Per cent distribution June 30, 1939
All member banks:						
Demand deposits*	4,384	+ 17.1	+ 66.4	+135.7	70.7	53.1
Time deposits	1,284	+ 18.3	+ 20.1	+ 13.9	20.7	32.2
Total deposits	5,668	+ 17.3	+ 53.0	+ 89.8	91.4	85.3
Other liabilities	24	+ 26.3	+ 9.1	+ 14.3	.4	.6
Capital accounts	511	+ 4.1	+ 6.2	+ 3.9	8.2	14.1
Total liabilities and capital accounts	6,203	+ 16.1	+ 47.4	+ 77.3	100.0	100.0
Philadelphia member banks:						
Demand deposits*	2,519	+ 12.8	+ 48.1	+104.1	86.8	73.0
Time deposits	155	+ 13.1	— 22.5	— 37.2	5.4	14.6
Total deposits	2,674	+ 12.8	+ 40.7	+ 80.7	92.2	87.6
Other liabilities	18	+ 28.6	+ 12.5	+ 28.6	.6	.8
Capital accounts	209	+ 4.5	+ 10.0	+ 7.2	7.2	11.6
Total liabilities and capital accounts	2,901	+ 12.2	+ 37.7	+ 71.8	100.0	100.0
Country member banks:						
Demand deposits*	1,865	+ 23.4	+ 99.7	+197.9	56.5	34.6
Time deposits	1,129	+ 19.0	+ 29.8	+ 28.3	34.2	48.6
Total deposits	2,994	+ 21.7	+ 66.0	+ 98.8	90.7	83.2
Other liabilities	6	+ 20.0	....	— 14.3	.2	.4
Capital accounts	302	+ 3.8	+ 3.8	+ 1.7	9.1	16.4
Total liabilities and capital accounts	3,302	+ 19.9	+ 57.2	+ 82.4	100.0	100.0


MEMBER BANKS
UNITED STATES
THIRD FEDERAL RESERVE DISTRICT
BILLIONS $
DEPOSITS
SELECTED ASSETS
DEMAND DEPOSITS
TIME DEPOSITS
U.S. GOV'T OBLIGATIONS (DIRECT AND GUARANTEED)
CASH ASSETS
LOANS
OTHER SECURITIES
1937 1938 1939 1940 1941 1942 1943 1944

tutions. A very large reduction in time deposits occurred in Philadelphia in 1942.

The sudden change in trend occurred both nationally and within the district beginning with 1943. In the past two years time deposits of member banks increased 51 per cent in the country as a whole and 32 per cent in this district. This growth compares with an increase of only 4 per cent nationally and a decrease of 11 per cent locally in the preceding two years. The differences in the rates of total deposit expansion in the country as a whole and in this district in the last two years are explained primarily by the behavior of time deposits.

Time deposits of member banks	United States		Third District					
			Total		Phila. banks		Country banks	
	Millions $	% change	Millions $	% change	Millions $	% change	Millions $	% change
End of year:								
1937	11,522		1,107		235		872	
1938	11,510	— .1	1,106	— 0.1	241	+ 2.6	865	— 0.8
1939	11,852	+ 3.0	1,115	+ 0.8	245	+ 1.7	870	+ 0.6
1940	12,319	+ 3.9	1,099	— 1.4	222	— 9.4	877	+ 0.8
1941	12,487	+ 1.4	1,069	— 2.7	200	— 9.9	870	— 0.8
1942	12,841	+ 2.8	974	— 8.9	121	— 39.5	853	— 2.0
1943	15,330	+ 19.4	1,085	+ 11.4	137	+ 13.2	949	+ 11.3
1944	19,317	+ 26.0	1,284	+ 18.3	155	+ 13.1	1,129	+ 19.0

The rapid changes in the volume of time deposits indicate the importance of analyzing their ownership. Such deposits are but one way in which idle balances may be held. Although the rate of expansion has been increasing and the over-all peak appears not to have been reached, individual bankers may find time accounts more volatile than they once supposed, particularly those that are being accumulated against post-war purchases.

Deposit ownership The broad trends in ownership of deposits that have been evident since surveys were initiated in July 1943 continue. Personal deposits still grow more rapidly than business deposits, and hence increase gradually in relative importance. Among business balances, those of trade enterprises show the most consistent increase in relative importance and those of public utilities the most consistent decline. Some of these trends may be expected to continue as long as conditions of all-out war prevail, but changes in ownership are not likely to be of sufficient size to alter the general pattern very greatly.

Conflicting opinions are current as to the effects of transfers of ownership among groups of depositors in the post-war period. The importance of the issue arises, of course, from the fact that a change in ownership affects the behavior of deposits and therefore the investment policies of banks. Periodic surveys will be continued in order to ascertain any evidences of changes in trend as soon as possible after they arise.

Ownership of demand deposits of individuals, partnerships, and corporations Third Fed. Res. District	Amount (Millions $)			Percentage distribution		
	Feb. 29, 1944	July 31, 1944	Jan. 31, 1945	Feb. 29, 1944	July 31, 1944	Jan. 31, 1945
Domestic business:						
Nonfinancial—						
Manufacturing and mining	823	851	929	26.8	27.2	26.5
Public utilities	224	209	188	7.3	6.7	5.4
Trade	376	392	463	12.3	12.5	13.2
Other nonfinancial	140	146	157	4.6	4.7	4.5
Total nonfinancial	1,563	1,598	1,737	51.0	51.1	49.6
Financial—						
Insurance companies	69	82	77	2.2	2.6	2.2
Other financial	156	141	178	5.1	4.5	5.1
Total domestic business	1,788	1,821	1,992	58.3	58.2	56.9
Trust funds	191	202	223	6.2	6.5	6.4
Nonprofit associations	98	87	114	3.2	2.8	3.2
Personal (incl. farmers)	987	1,017	1,172	32.2	32.5	33.5
Foreign	2	2	2	*	*	*
Grand total	**3,066**	**3,129**	**3,503**	**100.0**	**100.0**	**100.0**

* Less than 0.1 per cent.

Reserves One of the effects of war financing has been to induce banks to move closer to fully invested positions. Since banks entered the war with substantial excess reserves, they were able to expand their deposits without substantial changes in total reserves. Country member banks in this district experienced considerable increases, but these were more than offset by decreases at Philadelphia members. By the end of 1943, however, excess reserves, especially at Philadelphia members, had been reduced to an operating minimum. During 1944 total reserves increased significantly for the first time since 1940. Further expansion in deposits will call for additional reserves. Analysis of reserves is complicated by the war loan drives because they result in shifts from deposits against which reserves are required to reserve-free war loan accounts. But such increases in excess reserves—or reductions in total reserves—are only temporary.

Capital position Member banks in this district have maintained a substantially stronger capital position than those in the entire country. In addition, they have improved their relative position since 1939. It is generally conceded that the traditional ratio of capital to deposits is an inappropriate measure of capital adequacy and that the basic elements are nature and quality of assets relative to liabilities—contingent as well as actual. The accompanying table presents three different measures of capital adequacy.

Capital positions continue to be influenced more by changes in deposits and resources than by changes in capital accounts. The chief additions to capital during 1944 came from retained earnings. Instead of increasing dividends banks are retaining enlarged earnings to be in position to resume their traditional function of calculated, well-considered, efficiently administered risk taking.

The traditional measure of capital adequacy—capital funds to deposits—has been influenced since 1939 primarily by a 90 per cent increase in deposits as compared with a 4 per cent increase in capital. At the end of 1944 the ratio for members in this district was half again as high as for all member banks in the country.

Adequacy of capital may also be measured in relation to the risks that capital must cover. One such measure is the ratio of capital to risk assets, which are usually assumed to be all assets other than cash and Government securities. Such a definition of

Capital ratios of member banks	June 30, 1939	Dec. 31, 1943	Dec. 30, 1944
Capital funds to deposits			
Third District:			
Philadelphia banks	13.1	8.5	7.8
Country banks	19.7	11.8	10.1
All member banks	16.5	10.2	9.0
United States:			
All member banks	12.0	7.0	6.3
Capital funds to "risk assets"			
Third District:			
Philadelphia banks	28.2	32.4	36.9
Country banks	28.0	36.8	40.3
All member banks	28.1	34.9	38.8
United States:			
All member banks	26.8	28.6	27.7
"Net capital" to deposits less cash and Government securities			
Third District:			
Philadelphia banks	25.1	40.0	53.4
Country banks	25.7	45.0	55.7
All member banks	25.5	42.8	54.7
United States:			
All member banks	28.4	35.2	34.7

risk assets is necessarily somewhat arbitrary, but it provides a more realistic measure of capital adequacy than the traditional ratio. On this basis, member banks in this district have shown marked and continuous improvement, primarily through reductions in risk assets.

A third measure of capital adequacy was developed from experience which demonstrates that capital invested in real estate cannot be realized readily and that some deposits are covered by riskless assets. In view of these considerations a ratio is computed between capital less real estate, called "net capital," and deposits less cash and Governments. For member banks in this district this ratio shows a remarkable improvement in the last year and especially since 1939.

Earnings Net profits of member banks in this district increased an additional 19 per cent to $36 million and were the largest since 1929. Banks are using the increase in profits to build up capital accounts rather than to pay them out as dividends, which changed little. In this way they are preparing to resume risk taking in the post-war period. Furthermore, by inference one may conclude that capital has improved more in the past five years than appears from the mere quantitative increase. At an earlier period banks utilized a substantial part of net earnings to charge off doubtful assets. Net charge-offs last year were only one-sixth those in 1939, suggesting that weak assets are at a minimum.

Growth of 8 per cent in total earnings to $120 million was offset in part by somewhat higher expenses. Most of the increase shown below in current expenses, however, is accounted for by higher taxes on income.

Earnings and expenses Third District member banks (Millions $)	1929	1939	1943	1944
Total earnings:				
On securities	45.5	44.8	53.3	64.2
On loans	106.6*	42.1*	35.2	32.5
Other	18.1	21.0	22.1	23.1
Total	170.2	107.9	110.6	119.8
Current expenses:				
Salaries and wages	30.8	27.6	30.9	32.2
Interest on deposits	52.7	16.6	9.7	10.2
Other (including taxes)	33.4	27.8	34.7	38.6
Total	116.9	72.0	75.3	81.0
Net current earnings	**53.3**	**35.9**	**35.3**	**38.8**
Net charge-offs	— 6.7	— 14.7	— 4.8	— 2.4
Net profits	**46.6**	**21.2**	**30.5**	**36.4**
Cash dividends declared	33.1	17.4	15.8	16.4

*Excluding service charges and fees on loans.

Problems of bank operation in wartime

Commercial banking shares with industry the problems of carrying on an increased volume of operations in the face of much greater difficulties in maintaining personnel. Routine operations, such as maintenance of deposit records, cashing and collection of checks, and provision of currency, have increased with the growth of business. The small bank of 1939 is medium-sized today; the erstwhile medium-sized bank has blossomed into a moderately large one. In addition, banks have taken on many war services, such as ration banking, sale and redemption of war savings bonds, and tax withholding.

Commercial banking is not classed as an "essential industry", and many experienced employees have been lost to the armed forces or have been attracted to war industries by higher wages. As a result, banks have had to perform the enlarged operations with less experienced help and are being confronted with a much higher rate of turnover than customary.

Prospects of the Third District

This district was affected very little by the large movement of people to wartime boom centers on the Pacific Coast and in other areas, and its civilian population was about the same in March 1943 as it had been in April 1940. But substantial population shifts occurred within the district. The expansion of industrial activity brought about 160,000 people into Philadelphia and other counties of the Delaware River Valley—Bucks, Chester, Delaware, and Montgomery. Whether they will stay after the war depends, of course, primarily upon employment opportunities.

Business prospects

Although the general level of post-war business activity in this district will depend largely upon general business conditions throughout the country, it will be influenced by the character of the region and its residents. The area has two material advantages: its pre-war pattern of industrial activity was well diversified, and the new facilities built during the war have not seriously distorted the pattern of its economy.

Formerly, manufacturing, which employed one-third of all gainfully employed here, was so diversified that no major industrial group accounted for more than one-sixth of the total employment. In contrast with other areas, a larger proportion of the new Government-financed facilities built in the district during the war could be converted to produce durable peacetime products. Increased productive capacity in metals and machinery may enable this area to participate more favorably in the post-war program of "catching up" on durable goods production.

Manufacturing employment in Pennsylvania rose from almost 1,200 thousand in 1940 to a wartime peak of 1,600 thousand in 1943. In the service industries—trade, transportation, and others—the number of workers increased from 1,400 thousand to 1,424 thousand, but in the extractive industries—agriculture, forestry, fishing, and mining—there was a decline from 417 thousand to 372 thousand.

Although Pennsylvania is primarily an industrial state, manufacturing cannot be counted upon to take up the slack in the post-war labor market. Service industries consistently employ more than manufacturing and for many years the service industries have grown more rapidly. If long-time trends are continued to 1951, it appears that manufacturing would employ about 200,000 fewer workers than at the wartime peak, whereas the service industries would offer prospective employment for about 250,000 more than at the wartime peak.

Post-war prospects in this region may be indicated partly by the available evidence with respect to Philadelphia, its industrial center. Through active cooperation with the Philadelphia Committee for Economic Development, this Bank has obtained a composite judgment of a majority of Philadelphia's leading industrialists as to the volume of business and employment they expect in the first post-war year.

The dollar volume of products manufactured in Philadelphia, which rose from $1,400 million in 1939 to $2,700 million in 1943, is estimated for the first post-war year at $2,300 million, or about 60 per cent above the pre-war volume. Total employment in

Philadelphia, which rose from 700 thousand in 1939 to 880 thousand in 1943, is expected to be 824 thousand in the first post-war year.

Manufacturing activities, which afforded jobs for about 400 thousand workers at the wartime peak, are expected to employ 330 thousand workers in the first post-war year. Nonmanufacturing activities have been estimated to require 495 thousand workers in Philadelphia in the first year after the war. This is 11 per cent more than the pre-war employment and 4 per cent more than the wartime peak.

In manufacturing, most of the declines will doubtless be in iron and steel, machinery, and transportation equipment—especially shipbuilding. Declines in these industries may be offset in part by gains in the food, textile, leather, and printing and publishing industries.

In nonmanufacturing activities a substantial decline anticipated in Government service is expected to be more than compensated for by increased employment opportunities in trade and other services.

On the basis of reports and estimates from leading industrial concerns it appears that about 900 thousand workers will be in the post-war labor market of Philadelphia competing for the 824 thousand jobs. With a reasonable allowance for workers in the course of changing from one job to another, seasonality of occupation, sickness, and the like, unemployment in the first post-war year might be in the neighborhood of 36 thousand. While this is not a prediction, it is the most reliable appraisal of the task for which advance preparation must be made.

Concerted efforts by industry and labor are being made to provide jobs for all who seek work. The Federal Reserve Bank of Philadelphia cooperated with the Committee for Economic Development in stimulating individual firms to devise programs to expand post-war activity. In 1944 joint labor-industry forums were held with twenty of the leading manufacturing industries of Philadelphia. Members of the Bank's research staff prepared economic analyses of each industry's development, the importance of Philadelphia's position in the industry, and an appraisal of the post-war outlook. Representatives of labor and industry participated in discussions of the problems of each industry.

It was brought out at these forums that in some industries the major post-war problem will be shortages of raw materials, particularly imported. In other instances it will be the need for modernization of equipment or simplification of product lines, or, again, shortages of specialized labor skills. As a result of the forums, each industry appointed a special committee to deal with its problems. The purpose of the forums has been to encourage industry to seek new ways of employing more people productively—to provide the additional jobs that would prevent or minimize serious unemployment. The preliminary estimates of possible unemployment were made to serve as a challenge rather than as a prediction of things to come.

Reconversion of industrial facilities to peace time production apparently can be accomplished in a short time and at moderate cost. Two-thirds of the reporting Philadelphia concerns indicate no reconversion problem whatsoever, and 95 per cent reported that reconversion would require three months or less. Retooling may require only several months, but it may take a year or more before industry can attain sufficient volume to meet peacetime requirements of civilian goods.

A recent survey of Philadelphia manufacturing concerns indicates that they are at present planning to spend about $100 million on new construction and equipment alone as soon as the war ends. Nearly two-thirds of this amount is to be expended for machinery and the remainder for new construction. These contemplated expenditures may appear small, but it should be noted that they do not include any amounts for replenishment of inventories, trade credit, or other working capital requirements.

Our economy must continue to operate under great strain until the greatest war of all times is brought to a successful conclusion. The over-all job of reshaping the economy for peace will be a monumental task. However, an early termination of the war in Europe would make possible an easier transition to a peacetime basis.

Banking prospects

Two interrelated problems of concern to bankers are the demand for bank credit and changes in bank deposits. Answers to other problems of banking depend largely upon these factors. From the standpoint of the banking system as a whole, changes in the volume of bank loans and investments are one side of the shield and changes in the level of deposits are the other side, but from the standpoint of individual bankers this condition does not necessarily hold.

Total deposits of the banking system

Regardless of the levels of business activity and employment which may prevail in the post-war period, total bank deposits are not likely to decrease below the figure which will be reached by the end of the war. Deficit financing will probably continue for a time after the fighting stops, and commercial bank holdings of Government securities are almost certain to increase. New budgetary deficits, however, may provide less of a problem to the Treasury than refinancing run-offs and redemptions, along with support of the market against possible liquidation through sale of market issues. These problems can hardly be met successfully by the Treasury without considerable help from the commercial banking system.

Indeed it is difficult to visualize possible conditions in the first few years after the war in which bank deposits will not increase. Such a complete change in the character of commercial banks' earning assets has occurred over the last fifteen years that contraction of business borrowing in time of liquidation and depression is no longer capable of reducing commercial bank deposits by any appreciable amount, whereas Government deficit financing, return flow of currency from circulation, or an increase in either long-term or short-term financing of individuals or business enterprises may increase bank deposits.

In our present domestic economy there are only three potential developments that might cause substantial reduction in deposits. The first would be a desire on the part of the public to use more currency and less deposit credit. The second would be a repayment by the Federal Government of debt now in bank portfolios in excess of expansion in other types of banking assets. The third possibility would be a movement of Government securities from banks to nonbank investors, without an offsetting increase in other loans or investments.

None of these developments is likely for some time after the war. Withdrawals of deposits in cash in amounts sufficient to affect the volume of deposits substantially are unlikely. A reduction in Government debt of sufficient magnitude to be deflationary is highly improbable unless preceded by several years of boom prosperity. The prospect of banks voluntarily reducing their holdings of Governments, except to acquire other securities or obligations which carry more attractive yields, would seem remote.

Private credit demand

There is little doubt that the end of the war will find both business organizations and consumers with a considerable accumulation of needs that could not be filled during the war. A heavy potential demand for consumers' durable goods is generally conceded. Greater differences of opinion exist as to the magnitude of business needs for plant expansion, additional equipment, and acquisition of inventory.

The enormous expansion in productive capacity during the war has led many to assume that existing facilities will exceed the requirements of a peacetime economy and that industrial construction and equipment needs will be below normal for some years after the war. This assumption overlooks the fact that a substantial part of our war plant is specialized and not adapted to peacetime needs. Furthermore, a mere return to pre-war levels of production will not support the level of national income necessary for a high level of employment. In modernizing our peacetime industry, management must cope with obsolescence and accumulated wear and tear and in many cases must correct a lack of balance in equipment which has been the outgrowth of specialized war production. The prospect for increased capital expenditures thus may be considerably greater than is supposed in some quarters.

The difficult reconversion problem is not just to produce civilian goods; it is to adapt our productive facilities to turning out types and quantities of products desired by the post-war world and to utilize effectively the cumulative improvement in technology and in materials which has been one of the useful by-products of an otherwise destructive war. Expansion and modernization will be necessary if our economy is to be efficient and is to maintain high levels of productivity beyond that interim period when accumulated consumers' demand for goods will provide a temporary stimulus to employment.

Termination of war contracts will leave some concerns with large amounts of working capital tied up in inventories which are not well adapted to peacetime needs. Furthermore, concerns at present engaged in civilian activities may end the war with large amounts of substitute or inferior grade products that may prove unsalable or salable only at less than cost. In both cases working capital will shrink and the need for new inventory will be urgent. American industry and trade may emerge from the war with appropriate inventories at the lowest level in recent history. Such a situation will require heavy expenditures by business if our economy is to move forward and not slump into heavy unemployment.

Opinions differ even more widely as to the amount of bank credit which will be required by individuals and business enterprises in meeting their post-war expenditures. American business, generally, will face reconversion with more liquid funds than at any previous time in its history, and the same is true of consumers as a class. It has been estimated that deposits, currency, and Government securities held by nonfinancial business in the United States at the end of 1944 would total between \$65 and \$70 billion, and that the value of such liquid assets held by individuals on the same date was approximately \$130 billion. Comparable estimates of liquid assets for the Third District would indicate holdings of between \$3 and \$3.5 billion by nonfinancial business and between \$7 and \$8 billion by individuals. The tendency has been strong in some quarters to interpret these figures as indicating that there will be little demand for consumer credit after the war and that, since liquid resources of business in the aggregate exceed probable reconversion costs, business enterprise will have little need for funds from outside sources.

Such conclusions are based on inadequate data and analysis. Aggregate figures and averages are not representative of individual cases, and liquid funds are not distributed in proportion to expenditure needs. The fact that John Smith has accumulated $5,000 in savings bonds and cash will not enable William Jones to buy a badly needed automobile when new cars again become available. Similarly, the fact that one business concern possesses five times more liquid funds than it will need to spend on post-war changes will not help another concern with slim cash resources and heavy reconversion costs.

These principles are illustrated concretely by a recent survey of manufacturing concerns in the City of Philadelphia, in which this Bank cooperated with the Philadelphia Committee for Economic Development. The survey indicated that one-quarter of post-war expenditures now planned by Philadelphia manufacturers for new construction and equipment would require bank financing. This was true despite the fact that total holdings of Government securities and demand deposits by Philadelphia manufacturers at the end of 1944 were conservatively estimated to be three-quarters of a billion dollars.

A large part of business holdings of Governments can be directly offset against present huge tax liabilities; and, judging by pre-war conditions, at least two-thirds of existing demand deposits will be required as normal operating balances. Termination of war contracts undoubtedly will tie up large amounts of working capital pending eventual settlement, unless replaced through interim financial arrangements such as those afforded by T loans or other access to bank credit.

The greater danger is not that there will be insufficient demand for bank credit, but that too much expansion may occur. If liquidation of individual and business holdings of Government securities after the war requires additional bank purchases of such securities, and if at the same time there is a tendency for expansion of private borrowing from banks, widespread price inflation may develop. It is this danger that suggests a continuation of controls on consumer credit and effective checks on any tendency toward expansion of credit for speculative uses in securities, commodities, or real estate.

Deposit prospects Even if total deposits for the country remain unchanged in the post-war period, deposits of individual banks may alter considerably. Funds will move in considerable volume between sections of the country and between banks within an area. What effects are such shifts likely to have on the volume of deposits in this district?

The table indicates the unequal expansion of member bank deposits in different parts of the country during the past five years. It is apparent that the northeastern section of the United States and Chicago have not expanded as rapidly as other parts of the country. Philadelphia member banks expanded least of all. These differences in rates of growth have been incidental results of wartime activity and financing. Heavy Government expenditures—far in excess of receipts from taxes and sales of securities—were made in southern and western districts as part of strategic decentralization of specialized war industries and concentration of military personnel in areas favored by climate and possessed of ample space for maneuvers. In addition, agricultural regions in general have experienced the greatest increases in income so that smaller communities and agricultural areas have expanded more than large centers of population.

Wartime deposit shifts Member banks	Gains in deposits Dec. 1939 to Dec. 1944		Changes necessary to equalize rates of expansion	
	Billions $	Per cent	Billions $	Per cent
Philadelphia Reserve City Banks	**1.0**	**64.2**	**+ 1.0**	**+ 36.4**
Philadelphia District	**2.4**	**76.7**	**+ 1.5**	**+ 26.8**
Large New York City banks	12.3	84.7	+ 5.7	+ 21.3
Philadelphia Country Banks	**1.4**	**89.6**	**+ .5**	**+ 18.1**
Large Chicago city banks	3.1	92.2	+ 1.1	+ 16.5
Boston district	3.0	109.1	+ .4	+ 7.1
Other New York district	3.9	122.4	+ .1	+ .7
All member banks	**61.0**	**124.0**	—	—
Cleveland district	4.7	124.1	— .0	— .0
St. Louis district	2.4	138.4	— .2	— 6.0
Minneapolis district	1.7	147.5	— .3	— 9.5
Kansas City district	2.9	156.6	— .6	— 12.7
Richmond district	3.2	161.3	— .7	— 14.3
San Francisco district	8.7	178.6	— 2.7	— 19.6
Dallas district	2.8	179.2	— .9	— 19.8
Atlanta district	3.1	183.2	— 1.0	— 20.9
Other Chicago district	6.8	190.1	— 2.4	— 22.8

It seems reasonable to expect most of these factors to operate in reverse after the war, even though total deposits for the country as a whole reach a plateau. For example, it is unlikely that urban dwellers will then increase purchases of agricultural products by as much as farmers will increase their purchases of manufactured products, many of which have been unavailable during the war. Similarly, after troops are demobilized and war contracts are terminated, the Government will no longer spend such huge sums at cantonments and in areas with specialized munitions plants. Doubtless some unemployed war workers will leave areas where population increases have been greatest during the war.

The last two columns have been included in the table to indicate the shifts that would be necessary to equalize rates of deposit expansion. They should not be interpreted as predictions. Rather they would appear to set a limit in one direction of the amount of change that may occur. The other limit would be no post-war change at all. Thus, on analytical grounds, it would appear that even if we had no further expansion in total deposits the Third District might expect to gain up to perhaps $1.5 billion or one-fourth of its present holdings of deposits.

Individual localities or banks, of course, may gain or lose deposits, depending upon the net result of many factors. Deposits are likely to shift from purely agricultural communities toward urban centers. Accounts of customers engaged in specialized war production may well decline, if their facilities are not readily adaptable to turning out desired civilian products. Individuals' deposits, which have been built up to abnormally high levels during the war, may decline when funds can again be used to acquire consumers' durable goods, to repair, remodel, or build homes, and to meet other deferred demands.

The general tendency in analyzing potential deposit losses and gains by an individual bank is to stress the accounts which may be expected to decline. But when deposits as a whole are not declining, funds lost from one deposit do not disappear from the banking system. No matter how fast deposits are spent they merely end up in other deposits, perhaps even in the same bank. A bank may expect to lose funds only when its community, or its particular group of depositors, has a net outflow of cash funds. It is more difficult to identify factors which will increase customers' accounts in the future, but the best approach is to survey the relative demand for products and services which the community is equipped to supply, as compared with community needs which must be supplied from outside.

Federal Reserve Bank

The importance of the Reserve Banks in the war effort was recognized when they were declared an essential industry. And, indeed, their operations illustrate in miniature the adjustments that war industry has had to make to meet the increased responsibilities under the impact of war.

Fiscal Agency

Take for example the Fiscal Agency Department of this Bank which issues, exchanges, transfers, redeems, and performs other services incident to the enormous volume of United States Government securities in this district. There was no way of knowing, in 1939 or 1941, what problems would be encountered in financing the war; consequently, there was no way of knowing what the ultimate task of the Fiscal Agency Department might be. The immediate problem was an insistent need to increase the capacity for handling an avalanche of work. The organization had to be expanded rapidly without knowledge as to its ultimate size. Urgency of the task allowed little time for over-all planning and training. Even the newest and most inexperienced employees had to work immediately on operations which normally would have required months of experience.

In addition, requirements fluctuated greatly. Periodic war loan drives increased volume suddenly and enormously, while between drives the manhours required might fall off at times as much as 50 per cent. Especially the early drives could be handled only because of the loyal cooperation of personnel of the entire Bank. All departments worked harder and longer to release some members for aid to "Fiscal." Many employees simply remained at their posts until the work of the day was completed. During the Third Drive 12,500 hours of overtime were worked by members of the department, and in some cases individual employees worked double the usual number of hours in a single week.

But even the fullest cooperation of other departments was not enough, and more help had to be obtained from a labor market which was already straining under the demands of war industry. Women previously unemployed, high school and college students on vacation, and part-time employees who were working regular hours in other employment were a few of the sources from which help was drawn. This introduced serious problems of training. Operations were subdivided into segments which could be performed by inexperienced workers after a few days' training, but a greater strain was placed on supervisors and others responsible for coordinating the results.

Mechanical devices, such as card punching and recording machines, were introduced as rapidly as they could be secured and new operations could be standardized. This also raised additional problems because of the shortage of trained supervisors, operators, and maintenance men. Installation of a new system was itself a further temporary strain on current accomplishment.

The rapid growth of the organization provided a constant threat to efficiency through overcrowding. Space was acquired outside of the Bank, but moving to new quarters without interrupting current performance and the resulting decentralization proved a serious additional burden. Early in the summer of 1944 all savings bond functions and about 94 per cent of the department's personnel were moved to new and more spacious quarters to concentrate operations at one place. But the move itself involved transferring some 500 employees and many tons of equipment without interrupting current operations.

The staff, which numbered only 28 in 1941, expanded twenty-fold to 577 during the Fifth War Loan Drive in July 1944. This was the peak. Thereafter the continuing efforts to increase efficiency through planning, training, introduction of new procedures and labor saving devices, and various short cuts began to be reflected in significant increases in output per man-hour. It was possible, by the end of December, to reduce the number of employees to 478 and simultaneously to reduce overtime despite addition of several operations formerly performed by other departments.

The department experienced what in some respects resembled a partial cancellation of contract for a manufacturing concern, when qualified banks were authorized to redeem savings bonds on October 1. The purpose of this move was to relieve the load on Federal Reserve Banks and to provide a convenient service to the public. Agents, of course, have not relieved the Reserve Banks of all operations in connection with redemptions. In the last three months of the year 32,000 transmittal letters, listing paid bonds, were received from redeeming banks.

The great volume of work, its exacting nature, and its urgency presented a task that could not have been well performed without a deep sense of patriotism and close cooperation on the part of everyone throughout the Bank. This record adds to the total war efforts on the financial front in this district.

Other departments

Changes in the life of the region also are reflected promptly in other departments of the Bank. The great expansion in recent years has put burdens on them similar to those encountered in Fiscal Agency, though in less extreme form. To illustrate: the number of Treasury checks handled by the Transit Department increased from 3 million in 1939 to 23 million in 1943 and to 52 million last year. Most of these were allotment and allowance checks for families of our rapidly expanding armed forces. The number of ordinary checks also increased as the dollar total almost doubled that of 1939.

Both larger incomes and changing methods of payment moreover are reflected in operations of the Currency Department, which supplies hand-to-hand money to the district. It sorted and counted 167 million pieces of currency in 1939 and nearly 210 million last year. In addition, it counted 273 million coins in 1939 and 437 million in 1944.

Acting as agents for the War and Navy Departments and the Maritime Commission, the Bank continued to assist commercial banks to extend loans to war industry by making guarantees under Regulation V. Although the dollar volume of loans approved, and on which guarantees were executed, was 36 per cent less than in 1943, the total volume of loans outstanding was substantially greater. The work of servicing loans expanded cumulatively with the total volume outstanding, and the growing complexity of contracts and regulations relating both to V-loans and the newer T-loans has further increased the responsibilities of the Credit Department.

Administration of the examination function in connection with member banks, and of the regulations pertaining to foreign funds and consumer credit were other important facets of the Bank's operations. Research along industrial and banking lines has been extended considerably as an important part of effective preparation for meeting current and post-war problems by the Federal Reserve System, the banking institutions, business, and the Government. This required a broadened scope of cooperation with public and private agencies, organizations, and establishments. To meet this responsibility as well as opportunity, representatives of the Bank participated in a great many activities throughout the district, sparing no effort in making their contribution on the home front.

Credit policy

Credit policy of the Reserve System continued to be directed toward assuring success of war finance with a minimum extension of bank credit and maintenance of reasonable stability in the Government securities market. All member banks of the System were supplied with about $7½ billion of additional Federal Reserve credit primarily to offset almost $5 billion of additional currency and approximately $1 billion each for loss of gold and increased reserve requirements. Acquisitions of Treasury bills continued to be the largest means of supplying funds to the market, although purchases of certificates and notes were much more important than in earlier years.

In this district, as elsewhere, there was a small but significant shift from use of bills to direct borrowing from this Bank as a means of adjusting reserve positions. The number of borrowing institutions increased from 50 in 1943 to 69 in 1944, but the largest amount under discount at any one time was less than $17½ million.

This bank assisted the War Finance Committees of the region in selling as many securities as possible to nonbank investors. It also adopted measures to curtail excessive purchases of outstanding issues by banks, especially during and following war loan drives. To obtain as large an amount of funds as possible from noninflationary sources has been the principal objective toward which the efforts of the Bank were vigorously directed.

Membership

During the year the number of member banks increased from 646 to 647. Three state banks were admitted to membership and one state member consolidated with a national bank. During the same period one new national bank was organized and two others were absorbed by a third national bank. Summary figures showing the principal assets and liabilities of member and other banking institutions in this district are given in the appendix.

Directors and officers

The regular elections for directors of this Bank were held in the fall of the year. They resulted in the unanimous reelection of Howard A. Loeb, Chairman of the Tradesmens National Bank and Trust Company of Philadelphia to represent Group 1 banks as a Class A director, and of Harry L. Cannon as the representative of Group 2 banks among directors of Class B.

It was a great shock to all when Mr. Cannon suddenly died on November 9, 1944. This was a great loss to the Bank and the district which he had served most effectively for nearly twenty years as a director of the Bank. His death, of course, necessitated a special election of his successor.

Early in 1945 Charles A. Higgins, Chairman and President of the Hercules Powder Company of Wilmington, Delaware, was selected by the Group 2 banks for the term beginning January 1, 1945. C. Canby Balderston, Dean of the Wharton School of Finance and Commerce of the University of Pennsylvania, was reappointed as a Class C director by the Board of Governors of the Federal Reserve System, beginning his new term on January 1, 1945.

Appointments by the Board of Governors for the year 1944 included Thomas B. McCabe as Chairman of the Board and Federal Reserve Agent, and Warren F. Whittier as Deputy Chairman. The Board of Directors of this Bank again designated William Fulton Kurtz, President of the Pennsylvania Company for Insurances on Lives and Granting Annuities, to represent the Third Federal Reserve District on the Federal Advisory Council during 1944.

A number of changes occurred in the official staff of the Bank. In May Wallace M. Catanach was made an Assistant Cashier, and in August Karl R. Bopp, Director of Research, was made an officer. William D. Cobb also became an Assistant Cashier, effective January 1, 1945, succeeding James M. Toy, who retired at the end of 1944 following more than twenty-seven years of effective service. Philip F. Coleman, an Assistant Vice President, resigned as of the close of the year to become a Vice President of the First National Bank of Philadelphia.

The appendix, beginning on page 40, contains the following tables:

Directors

as of January 1, 1945

Class A:	Group	Term Expires December 31
Howard A. Loeb Chairman, Tradesmens National Bank and Trust Company, Philadelphia, Pennsylvania.	1	1947
George W. Reily President, Harrisburg National Bank, Harrisburg, Pennsylvania.	2	1945
John B. Henning President, Wyoming National Bank, Tunkhannock, Pennsylvania.	3	1946
Class B:		
James T. Buckley Chairman, Executive Committee, Philco Corporation, Philadelphia, Pennsylvania.	1	1946
Charles A. Higgins Chairman and President, Hercules Powder Company, Wilmington, Delaware. (Elected February 8, 1945.)	2	1947
Ward D. Kerlin Secretary and Treasurer, Camden Forge Company, Camden, New Jersey.	3	1945
Class C:		
Thomas B. McCabe, Chairman and Federal Reserve Agent President, Scott Paper Company, Chester, Pennsylvania.		1945
Warren F. Whittier, Deputy Chairman Chester Springs, Pennsylvania.		1946
C. Canby Balderston Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pennsylvania.		1947

Officers
as of January 1, 1945

ALFRED H. WILLIAMS, *President*

FRANK J. DRINNEN,
First Vice President

C. A. MCILHENNY,
Vice President and Cashier

W. J. DAVIS,
Vice President

ERNEST C. HILL,
Vice President

C. A. SIENKIEWICZ,
Vice President

WILLIAM G. MCCREEDY,
Assistant Vice President and Secretary

L. E. DONALDSON,
Assistant Vice President

ROBERT N. HILKERT,
Assistant Vice President

KARL R. BOPP,
Director of Research

WALLACE M. CATANACH,
Assistant Cashier

WILLIAM D. COBB,
Assistant Cashier

PHILIP M. POORMAN,
General Auditor

Statement of Condition

Federal Reserve Bank of Philadelphia (000's omitted in dollar figures)	December 31 1942	1943	1944
RESOURCES			
Gold certificates	$1,147,114	$1,029,794	$ 945,229
Redemption fund—Federal Reserve notes	5,666	24,120	42,799
Other cash	21,190	24,499	17,815
Total reserve	$1,173,970	$1,078,413	$1,005,844
Discounts and advances	2,380	700	505
Industrial loans	4,710	4,046	2,570
United States Government securities	440,168	861,738	1,252,245
Total loans and securities	$ 447,258	$ 866,484	$1,255,320
Due from foreign banks	5	13	12
Federal Reserve notes of other F. R. banks	2,541	4,620	4,042
Uncollected items	114,047	117,062	153,977
Bank premises	4,755	3,600	3,457
All other resources	6,925	4,815	3,278
Total resources	$1,749,501	$2,075,007	$2,425,930
LIABILITIES			
Federal Reserve notes	$ 848,682	$1,149,726	$1,427,510
Deposits:			
Member bank reserve account	651,566	645,809	710,778
United States Treasurer—general account	52,643	31,375	28,722
Foreign	67,100	120,273	106,353
Other deposits	4,672	5,351	4,578
Total deposits	$ 775,981	$ 802,808	$ 850,431
Deferred availability items	89,503	84,031	105,809
Other liabilities	524	875	613
Total liabilities	$1,714,691	$2,037,441	$2,384,363
CAPITAL ACCOUNTS			
Capital paid in	$ 11,747	$ 11,686	$ 12,227
Surplus—Section 7	15,670	17,859	19,872
Surplus—Section 13b	4,393	4,421	4,468
Reserves for contingencies	3,000	3,600	5,000
Total liabilities and capital accounts	$1,749,501	$2,075,007	$2,425,930
Ratio of total reserves to deposit and Federal Reserve note liabilities combined	72.3%	55.2%	44.2%
Commitments to make industrial advances	$1,346	$1,930	$3,048

Profit and loss account Federal Reserve Bank of Philadelphia (000's omitted)	1942	1943	1944
Earnings from:			
United States Government securities	$3,947	$5,122	$7,275
Other sources	227	217	165
Total earnings	$4,174	$5,339	$7,440
Expenses:			
Operating expenses*	$2,455	$2,498	$2,827
Cost of Federal Reserve currency	334	409	524
Assessment for expenses of Board of Governors	167	229	211
Total net expenses	$2,956	$3,136	$3,563
Current net earnings	$1,218	$2,203	$3,877
Additions to current net earnings:			
Profit on sales of U. S. Government securities	$ 277	$2,928	$ 263
Transfers of reserves in excess of requirements	150	100	86
Other additions	8	13	41
	$ 435	$3,041	$ 390
Deductions from current net earnings	414	1,642**	4
Net additions to current net earnings	$ 21	$1,399	$ 386
Net earnings available for distribution	$1,239	$3,602	$4,263
Distribution of net earnings:			
Paid to Treasury of United States, Sec. 13b	$ 32	$ 84	$ 84
Dividends paid to member banks	708	701	719
Transferred to surplus (Sec. 13b)	0	28	47
Transferred to surplus (Sec. 7)	499	2,789	3,413†

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

** Principally charge-off on bank premises and payments to Retirement System.

† $1,400,000 transferred to Reserves for Contingencies.

Volume of operations Federal Reserve Bank of Philadelphia	1939	1943	1944
Pieces or transactions handled (000's omitted)			
Discounts and advances	*	1	1
Currency counted	166,628	200,093	209,594
Coins counted	273,429	433,502	437,431
Ordinary checks	97,232	110,713	112,036
Checks handled in packages by automobile run service	16,370	17,608	16,320
U. S. Government checks (including Treasury card checks first handled in 1943)	3,117	23,389	52,426
Work relief checks	5,613	0	0
Ration checks	0	4,993	5,275
Collection items:			
Coupons of U. S. Government and agencies	1,230	1,214	1,299
All other (notes, drafts and coupons)	337	212	185
Transfer of funds	56	62	63
Issues, redemptions, and exchanges by Fiscal Agency Department:			
U. S. Government direct obligations	194	19,717**	25,479**
All other	52	4	36
Dollar amounts (000,000's omitted)			
Discounts and advances	$ 11	$ 327	$ 509
Currency counted	677	1,015	1,077
Coins counted	26	40	41
Ordinary checks	23,467	43,593	45,548
U. S. Government checks (including Treasury card checks first handled in 1943)	669	6,723	8,188
Work relief checks	160	0	0
Collection items:			
Coupons of U. S. Government and agencies	50	78	103
All other (notes, drafts, and coupons)	197	224	243
Transfers of funds	3,197	7,158	8,424
Issues, redemptions, and exchanges by Fiscal Agency Department:			
U. S. Government direct obligations	396	8,014**	9,788**
All other	122	17	110
Securities held in custody for member banks at end of year	Average $640 mil.	$1,651 mil.	$1,921 mil.
Savings bonds in safekeeping at end of year (number of pieces)		133,000	229,000

*Less than 500. **Includes savings bonds sold through other issuing agents, and redemptions through commercial banks qualified during the last three months of 1944.

Applications for industrial loans Federal Reserve Bank of Philadelphia	1944	June 30, 1934-December 31, 1944
Number		
Approved	6	353
Rejected	0	457
Withdrawn	0	68
Under consideration	1	1
Total number	7	879
Amount		
Approved	$3,185,000	$59,641,426
Rejected	0	17,126,350
Withdrawn	0	3,991,700
Under consideration	500,000	500,000
Total amount	$3,685,000	$81,259,476

Member bank reserves Third Federal Reserve District (Dollar figures in millions)	Actually held	Required	Excess	Ratio of excess to required
Philadelphia banks:				
1942: Jan. 1-15	$449	$294	$155	53%
1943: Jan. 1-15	418	358	60	17
1944: Jan. 1-15	370	357	13	4
1945: Jan. 1-15	388	374	15	4
Country banks:				
1942: Jan. 1-15	224	145	79	55
1943: Jan. 1-15	256	184	72	39
1944: Jan. 1-15	272	215	57	26
1945: Jan. 1-15	316	247	69	28
All members:				
1942: Jan. 1-15	673	439	234	53
1943: Jan. 1-15	674	542	132	24
1944: Jan. 1-15	642	572	70	12
1945: Jan. 1-15	704	621	84	14

Changes in member bank reserves and related items Third Federal Reserve District (Millions of dollars)	1942	1943	1944
Sources of funds:			
Reserve Bank credit extended in district	+ 39	+210	— 31
Interdistrict commercial transfers	+876	+846	+1,053
Mint gold purchases, net	+ 2	+ 0	— 0
Treasury operations	—659	—755	— 676
Total	+258	+301	+ 346
Uses of funds:			
Currency demand	+280	+305	+ 281
Member bank reserve deposits	— 10	— 6	+ 65
"Other deposits" at Reserve Bank	— 8	+ 1	— 1
Other Federal Reserve accounts	— 4	+ 1	— 0
Total	+258	+301	+ 346

Banks in Third Fed. Res. District (Partly derived) (Millions $) December 30, 1944	Total	Member banks	Mutual savings banks	Other non-members
Assets				
Loans and discounts	1,067	808	83	176
U. S. Government obligations	4,808	3,610	506	692
Other securities	783	400	272	111
Cash assets	1,491	1,277	28	186
Fixed assets	137	84	15	38
Other assets	36	24	4	8
Total	8,322	6,203	908	1,211
Liabilities and capital accounts				
Deposits:				
Individuals, partnerships, and corporations—				
Demand	3,457	2,956	—	501
Time	2,415	1,243	837	335
U. S. Government	1,001	861	—	140
Bank	404	397	—	7
Other	299	210	—	89
Total deposits	7,576	5,667	837	1,072
Other liabilities	32	25	1	6
Capital accounts	714	511	70	133
Total	8,322	6,203	908	1,211
Number of banks	885	647	10	228