1996 Annual Report

Federal Reserve Bank of Philadelphia

The Third District Economy Builds Momentum in 1996

Contents

A Letter from the President

The nation's economy turned in a remarkable performance in 1996. The expansion entered its sixth year. Output of goods and services grew at a robust pace. Nearly three million jobs were added to the nation's payrolls. And the underlying rate of inflation was the lowest in over 30 years. Thus far the expansion of the 1990s has shown the kind of measured pace and balance that should sustain it for the foreseeable future.

Here in the Third District, the economy turned in a surprisingly strong performance in 1996. The pace of job growth in the tri-state area came closer to matching the nation's than at any time in this expansion. And the momentum the local economy built up seems to be carrying into the new year.

Because the District's economy has been slower to recover than the nation's, it is particularly important for us that the national expansion continue for as long as possible. The pace of the national economy has always put bounds on how fast the region grows. For the local momentum to be realized, the national expansion must be sustained. Keeping inflation low is a key contribution the Fed can make toward sustainable growth and job creation.

Sustained expansion will bring steady improvements to all communities in the Third District. But the biggest benefits will come to those areas that are just beginning to turn around, including the city of Philadelphia, which in 1996 recorded its first job growth in five years.

As I write this, signs are positive that both the national and regional economies will continue to expand in 1997 in an environment of low inflation.

Edward G. Boehne

A Letter from the First Vice President

The year 1996 was one of solid accomplishment for the Federal Reserve Bank of Philadelphia. Recognizing that profound changes to the nation's payments system were under way, we have been investing in new equipment, new technologies, and better ways of doing business. Those efforts brought significant rewards this past year. And we expect them to yield still greater rewards in years to come.

In keeping with its role as an industry leader in check collection, the Bank introduced in August a new "check imaging" service for depository institutions. By capturing the digital image of a paper check, the Bank can make processing, storage, and retrieval faster, easier, and cheaper. We will expand our imaging capability in 1997, and we will be among the first Reserve Banks to image U.S. Treasury checks.

The new computer system that supports check imaging will serve as the springboard for other innovations as well. In fact, the Bank introduced two new electronic check deposit products in 1996.

The Bank also spearheaded the Federal Reserve's participation in the rollout of the new $100 bill. The "new look" currency, which includes a variety of innovative anti-counterfeiting features, will be introduced for smaller denomination bills over the next several years.

Meanwhile, as part of the Federal Reserve's efforts to streamline electronic payments, the Bank reorganized its Automated Clearing House operation and successfully integrated its electronic funds and securities transactions into a new consolidated computer system.

Much has been accomplished, but maintaining a leadership role in the fast-changing payments business requires an ongoing effort. Thus the Bank has embarked on an aggressive campaign to continuously improve performance by achieving high standards of product quality and customer service and by encouraging greater creativity and innovation.

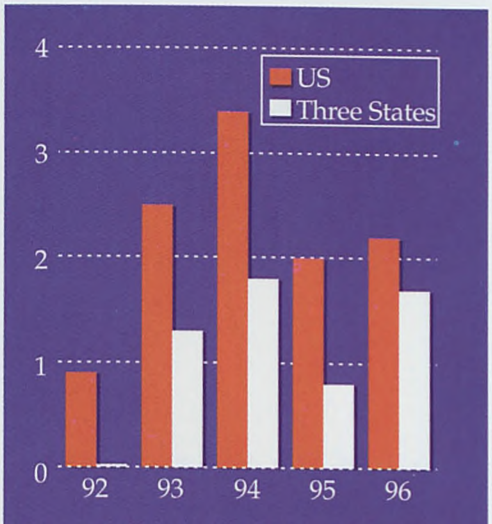
As the nation's central bank, the Federal Reserve System is charged with fostering the kind of reliable, accessible, and efficient payments system the economy needs in order to grow. Here at the Federal Reserve Bank of Philadelphia, we are committed to serving the System and the nation as an innovative leader in the provision of high-quality payments services.

William H Stone Jr.

The Third District Economy Builds Momentum in 1996

For the economy of the Third Federal Reserve District, 1996 was a year of significant improvement. The momentum the District economy built up during the year puts us in position to make further gains in 1997 as the national expansion continues to unfold. Indeed, early indications from local labor and housing markets and from our own Business Outlook Survey suggest that 1997 will bring another year of solid growth. And so we can look back on 1996 as a year in which the District reaped some of the benefits of sustained economic growth and job creation.

Payroll Job Growth
(Percent)



Source: Bureau of Labor Statistics. Data are seasonally adjusted by FRB Philadelphia and changes are fourth quarter to fourth quarter.

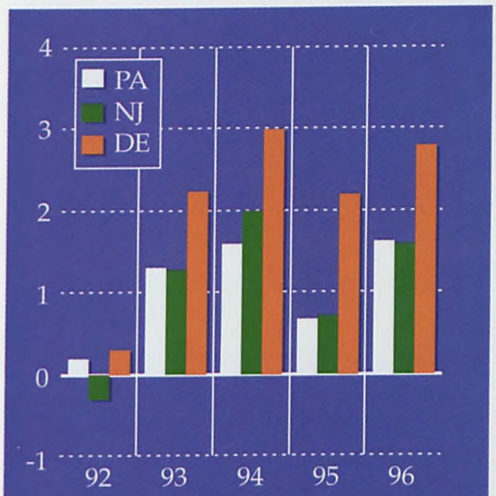
Through most of this expansion we have said the three-state region has been lagging the nation. And that is well illustrated by a comparison of national and regional job growth over the past five years (see *Payroll Job Growth* for the U.S. and the three-state region on this page). With slower-than-average growth, the region did not regain all the jobs lost in the recession until the end of 1995. Since our economy generally recovers more slowly than the nation's, it is particularly important for us that expansions continue as long as possible by maintaining sustainable growth at the national level. Keeping inflation low helps prolong economic expansions and job creation.

Even though jobs continued to grow at a slower pace in the tri-state region than in the nation in 1996, we came closer to the national average than at any other time in the expansion. Moreover, total jobs in the three states grew faster in 1996 than we had anticipated earlier in the year. Our projections were for job growth in the region to be slightly less than 1 percent. It turned out to be 1.7 percent. The national economy also grew faster than most forecasters had predicted.

When we look at the data for the individual states, we see a familiar pattern (see *Payroll Job Growth* for Pennsylvania, New Jersey, and Delaware on the next page). Job growth was significantly higher in Delaware than in the other two states. For the second consecutive year payrolls in Delaware increased faster than the national average. Jobs grew at an almost identical rate in Pennsylvania and New Jersey last year—1.6 percent. And total job growth over the past five years for these two states has differed by less than 0.1 percent. Pennsylvania recovered all the jobs lost in the recession by mid-1994. But during the recession, job losses in New Jersey were much deeper than in Pennsylvania, so New Jersey has not yet recovered all the jobs lost between 1989 and 1992. If recent growth rates continue, New Jersey's job levels should reach a new high sometime in 1997.

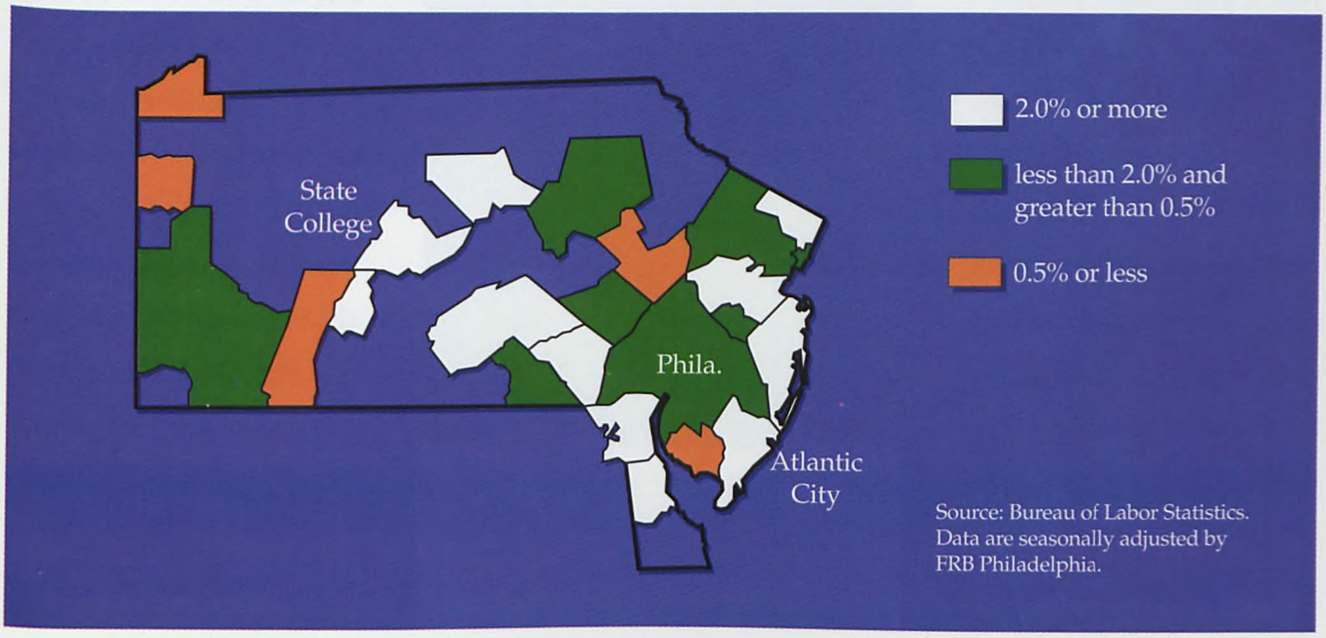
In the local labor markets across the District, job growth varied considerably last year. All the metropolitan areas shown in white on the map below had job growth of 2 percent or more. Besides the two metro areas in Delaware, the high growth areas in our District were in central and south central Pennsylvania and along the New Jersey shore. State College had the fastest growth in Pennsylvania, with a job gain of 4 percent, and Atlantic City had the fastest growth in New Jersey, with an increase of 3 percent. But Atlantic City still has the second highest unemployment rate in the state. At the other end of the scale, those areas shown in orange on the map had growth of less than 0.5 percent in 1996. And Johnstown and Vineland actually experienced some job losses on a fourth-quarter-over-fourth-quarter basis.

Payroll Job Growth
(Percent)



Source: Bureau of Labor Statistics. Data are seasonally adjusted by FRB Philadelphia and changes are fourth quarter to fourth quarter.

Job Growth 1995:IV to 1996:IV

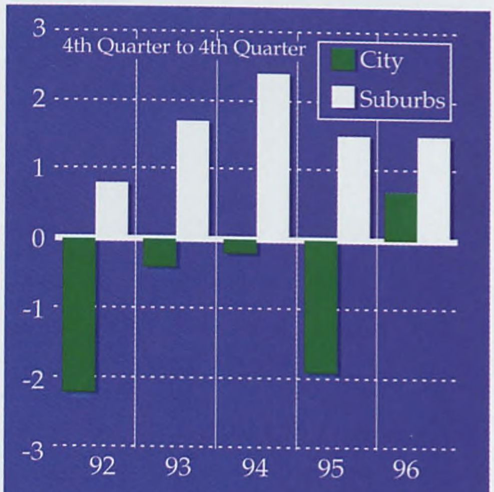


Source: Bureau of Labor Statistics. Data are seasonally adjusted by FRB Philadelphia.

For the Philadelphia metro area as a whole, jobs increased about 1 1/4 percent in 1996; that was up from less than 0.5 percent in the previous year. The suburbs grew at about the same pace in 1996 as they did in 1995 (see *Philadelphia City & Suburban Job Growth*). The big difference was the increase in jobs in the city. The data in the figure are fourth-quarter-over-fourth-quarter numbers, and the annual averages show a less dramatic improvement. But even if we use annual averages, job levels stabilized in the city last year.

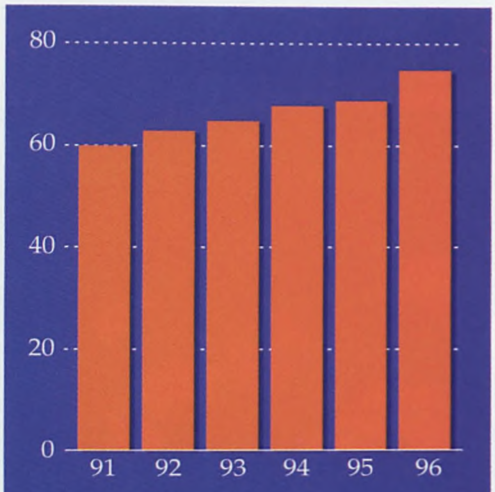
By either measure, last year's experience provides hope that Philadelphia can stem the tide of job losses that has plagued the city since 1988. If sustained expansions are important for the tri-state region, they are even more important for the city. It has taken the city more than five years since the end of the national recession to record any year-over-year job growth.

Philadelphia City & Suburban Job Growth
(Percent)



Source: Bureau of Labor Statistics. Data are seasonally adjusted by FRB Philadelphia.

Hotel Occupancy Rates Center City Philadelphia
(Percent)



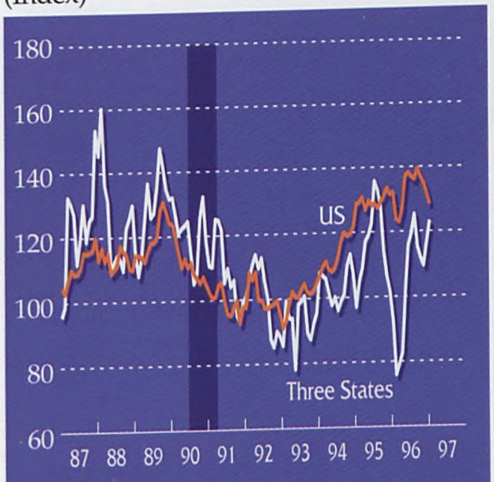
Source: PKF Consulting

One factor in the improvement in the city's economy was its continuing success in attracting tourists and conventioneers. This success is reflected in the hotel occupancy rate for Center City; it increased from 60 percent in 1991 to 75 percent in 1996 (see *Hotel Occupancy Rates*). And this upward trend is even more impressive than it appears at first glance. During this period the number of hotel rooms in Center City increased significantly with the opening of the Marriott. The increase in visitors in 1996 was due not only to the new Convention Center but also to some special events like the baseball All-Star game and the well-promoted Cézanne exhibit at the Art Museum. The good news is that the city was able to capitalize on these opportunities. The challenge is that these are not recurring events, so efforts to attract and promote similar events will have to be launched every year just to stay even.

The city's improvement, of course, was not just the result of special events; it was also part of a general rebound in the tri-state economy. As usual, the service-producing industries provided the bulk of the new jobs in the three states. But the area's rebound is best seen in some statistics from the construction and manufacturing industries.

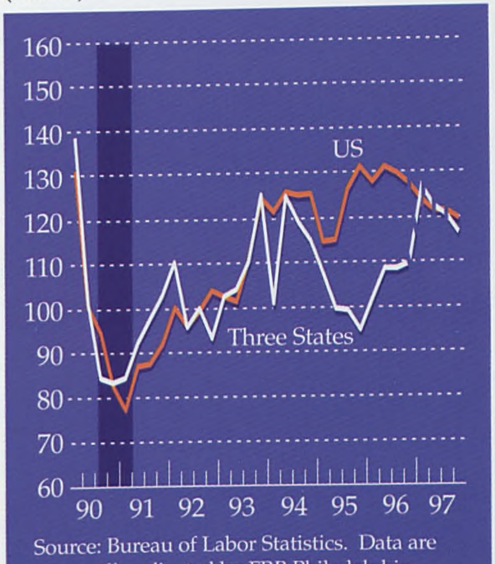
Construction jobs increased more than 4 percent on a fourth-quarter-over-fourth-quarter basis, reversing the decline in the previous year. Contracts for nonresidential buildings fell sharply in the last quarter of 1995 and the first quarter of 1996. But they rebounded by mid-year (see *Nonresidential Buildings*). Shaded areas on the graphs represent the national recession. The fluctuations in contracts we see at the end of 1996 in this graph are not unusual for nonresidential construction. And there are indications that nonresidential contracts will increase in 1997 or at least be sustained at current levels. New casino development is in the works for Atlantic City. Several Philadelphia suburbs have office occupancy rates in excess of 90 percent, which makes them ripe for new construction. And the high hotel occupancy rate for Center City is an incentive to add more rooms. Recently, plans were announced to convert the PSFS Building at 12th and Market streets into a 600-room hotel.

Nonresidential Buildings
Value of Contracts
(Index)



Source: F.W. Dodge. Data are three-month moving averages.

Housing Permits
(Index)



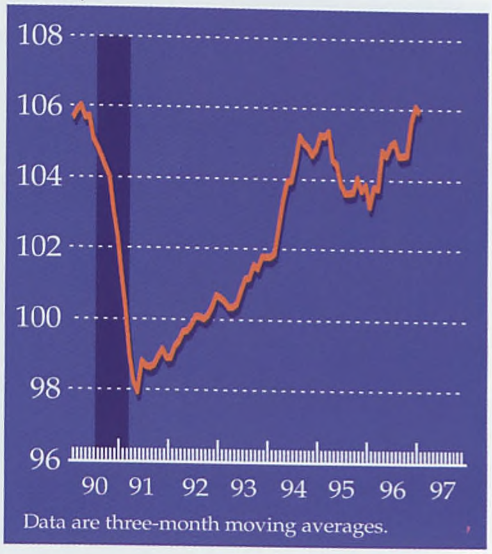
Source: Bureau of Labor Statistics. Data are seasonally adjusted by FRB Philadelphia.

Residential construction in the region also bounced back last year from a slide that started in mid-1994. The slide began with a rise in mortgage rates. Rates rose in 1994 for the first time following the 1991-92 recession. Rates declined again in 1995, but by that time, job growth had slowed significantly in the tri-state area.

As mortgage rates rose in 1994, housing permits in this region declined, and they fell even further in 1995 as job growth slowed (see *Housing Permits*). A significant gap opened up between housing growth in the region and the nation. But with the pickup in overall job growth in the three states last year, permits increased almost 20 percent. Our 1997 forecast of housing permits is shown by the dotted line on the Housing Permits graph. After a rise in the first quarter, we are looking for a gradual decline in permits through the rest of the year.

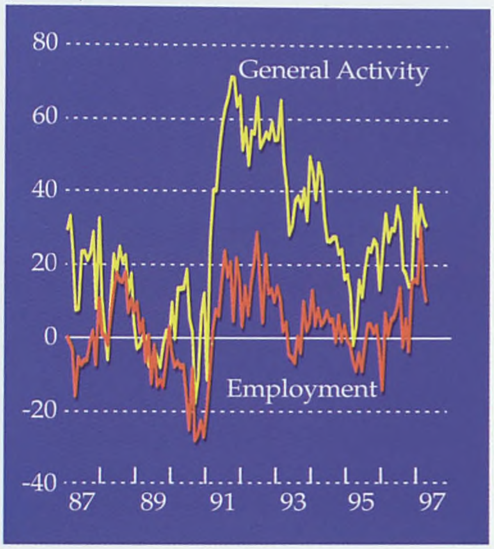
In the region's manufacturing sector, the 1996 rebound is best seen in our Mid-Atlantic Manufacturing Index, which covers our three states plus New York (see *Mid-Atlantic Manufacturing Index*). Employment data do not always give us an accurate picture of how well manufacturing is doing. With the rapid productivity increases this country has experienced in manufacturing, the tri-state region has been losing industrial jobs even in years when output has gone up. Indeed, last year was the ninth consecutive year of job losses in the region's manufacturing sector. The index on this graph is a measure of manufacturing output. Since the recession, output has increased in every year except 1995. And the decline in 1995 was more than reversed last year. The responses to our monthly survey of manufacturers in the District also reflected this decline in 1995 and pickup in 1996.

Mid-Atlantic Manufacturing Index
(Index)



Data are three-month moving averages.

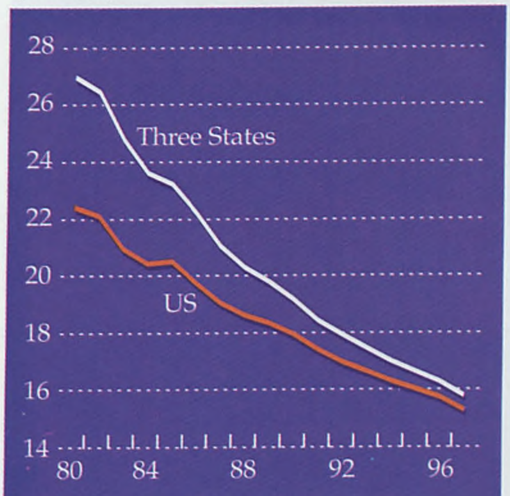
Business Outlook Survey Expectations
(Index)



In our Business Outlook Survey we ask the respondents not only about the current month's activity but also about what they expect over the next six months (see *Business Outlook Survey Expectations*). We form an index for each measure, such as overall activity or employment, by subtracting the percentage of respondents who expect a decrease from the percentage who expect an increase. So far this year the index of future activity has been near its highs for the past three years, and the index of future employment has recently had some of its highest readings in the last 10 years. These indexes suggest that over the near term, we should see continued growth in the manufacturing sector and even some pickup in employment. According to the early payroll data for 1997, we may already be seeing some increase in factory jobs.

Any pickup in manufacturing jobs in 1997 is not likely to signal the beginning of a new trend in the region's manufacturing sector. The *Manufacturing Employment* graph on this page shows the percentage of the region's nonfarm jobs that are in manufacturing and the percentage of the nation's jobs in manufacturing. Since 1980 the percentages have declined as manufacturing workers have become more productive. Today, both the nation and the region have fewer manufacturing workers and more output than in 1980. The region's much greater concentration in manufacturing in 1980 can be seen in the gap between the two lines. If we extended these lines further back in time, the gap would be even wider. Today, the region's economy is still slightly more manufacturing-oriented than the nation's, but not nearly as much as it was 15 or 16 years ago.

Manufacturing Employment As Percent of Total Employment
(Percent)



Source: Bureau of Labor Statistics.

An article in a recent issue of our *Business Review* discusses some of the factors that have made our region less competitive for manufacturing. Here are a few of the major ones. First, manufacturers tend to locate new facilities in rapidly expanding markets, and the mid-Atlantic region has had the slowest population growth of any region in the nation in recent decades. Also, many private costs for manufacturers tend to be higher in our region than elsewhere. These include labor costs, such as wages and benefits, and energy costs. For example, electricity prices in Pennsylvania and New Jersey are typically 20 to 50 percent higher than the national average. This is not true in Delaware. Finally, the business tax burden can tip the balance in the decision about where to locate a new plant. The business-related taxes in our region that tend to be much higher than the national averages are the corporate income tax in Pennsylvania and the property tax in New Jersey.

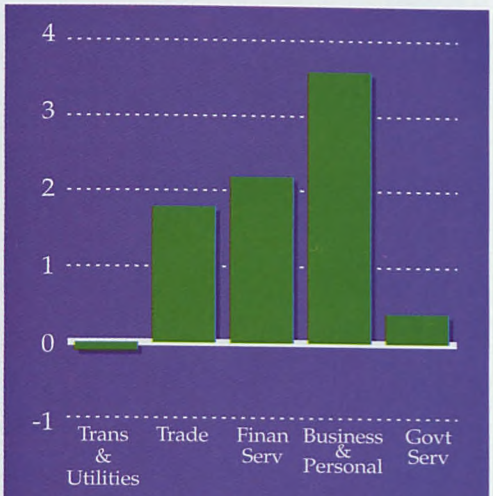
With the loss of manufacturing jobs in 1996, the private service-producing industries and government essentially provided all the new jobs in the region. They also account for most of the existing jobs. The five categories shown in the graph

(*Service-Producing Sector*) account for 80 percent of the jobs in the tri-state area, and two categories—trade and business and personal services—account for more than half.

The biggest generator of new jobs was the broad category of business and personal services. Within this group, business support services, such as computer programming and maintenance, advertising, and direct mail, grew more than 7 percent.

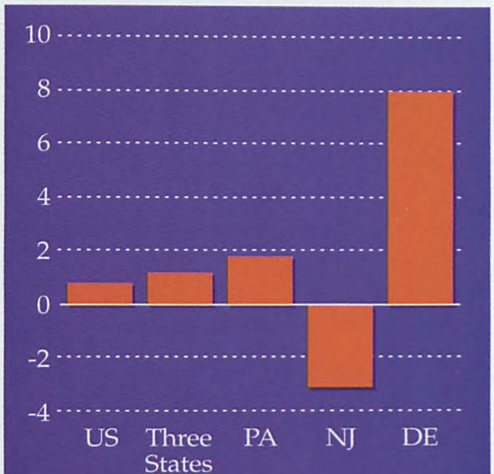
The first bar in the graph, however, shows a slight decline in jobs in the transportation and utilities industries. This is a sober reminder that service-producing industries are not immune to the kinds of cutbacks that we have often seen in manufacturing. Cost-cutting reduced jobs at gas and electric utility companies in the region more than 4 percent last year. This was the second year in a row for major job reductions in the industry. Cost-cutting and consolidation helped limit job growth in other service industries as well. While there has been a lot of job creation in some parts of the communications industry, such as cellular phones, paging, and fax services, there have been job cuts in some more traditional areas, especially at some large firms. Legal services continue to be under cost-cutting pressures, and the industry had very meager job growth in the three states last year, following a decline in the previous year.

Service-Producing Sector
Tri-State Job Growth
1995:IV to 1996:IV (Percent)



Source: Bureau of Labor Statistics. Data are seasonally adjusted by FRB Philadelphia.

Depository Institutions
Job Growth 1995:IV to 1996:IV
(Percent)

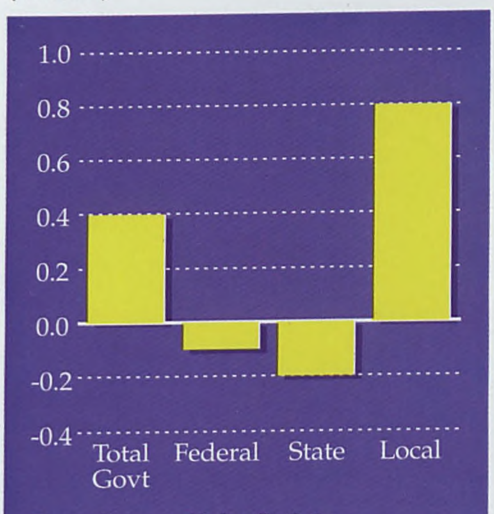


Source: Bureau of Labor Statistics. Data are seasonally adjusted by FRB Philadelphia.

In the region as a whole, job growth at banks and other depository institutions was greater than 1 percent last year, but banks continued to have different growth profiles across the three states (*Depository Institutions*). Led by the credit card banks, banking jobs in Delaware increased 8 percent. In New Jersey, on the other hand, jobs declined 3 percent in 1996 after a 5 percent loss in the preceding year. And we shouldn't read too much into the better-than-average job growth in Pennsylvania's banking industry last year. This increase represents the return of only about half the jobs lost in the previous year.

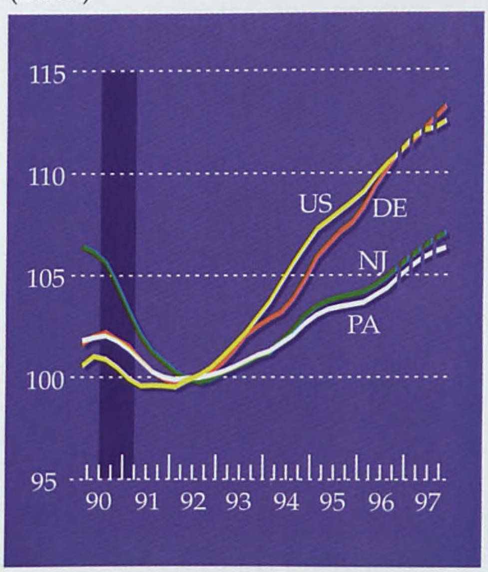
The growth in total government employment in 1996 also hides some differences among the three levels of government (*Government Sector Job Growth*). All the net job growth in the tri-state region was at the local level. And this growth is basically being driven by increased enrollments in the public schools. Federal jobs in the three states declined only slightly last year, but 1996 was the eighth consecutive year of decline. Nationwide, federal jobs are now at their lowest level since 1982.

Government Sector Job Growth
Three States 1995:IV to 1996:IV
(Percent)



Source: Bureau of Labor Statistics.

Payroll Jobs
(Index)



This look at some individual sectors shows that even in a year of good job growth there can be a great deal of shuffling among the various industries and within industries. We are likely to see more of the same in 1997, but what will overall growth look like?

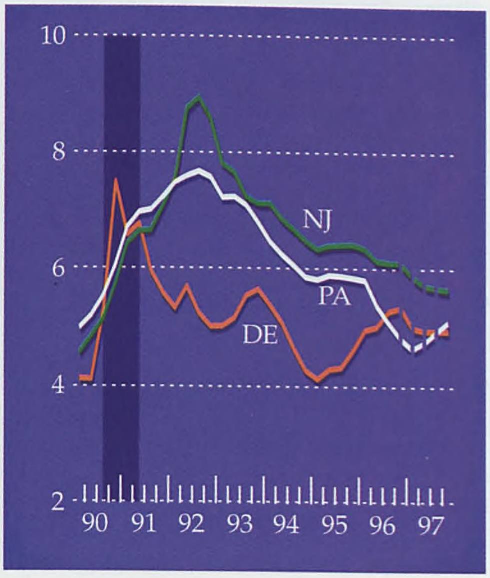
Three important factors will determine the overall pace of growth in the region in 1997. First, the momentum from 1996 has already carried over into 1997. It has shown up in the early employment and housing statistics. Last year's growth, however, was helped by the fact that the region was rebounding from a weak year in 1995. That will not be true this year; there is less slack in the region's economy than there was a year ago. Finally, the national economy is expected to grow more slowly in 1997 than it did in 1996. And the pace of the national economy has always put bounds on how fast the region grows.

So while we expect solid growth in 1997, job growth in each of the three states is forecast to be somewhat slower than in 1996 (*Payroll Jobs*). Jobs in Delaware are expected to grow a little more than 2 percent, which is faster growth than we have projected for the nation as a whole. Jobs in New

Jersey are expected to grow a little less than 1.5 percent, and that is the same as we are projecting for the nation. Pennsylvania's labor market has less slack than New Jersey's. And jobs in Pennsylvania are expected to grow only about 1 percent in 1997.

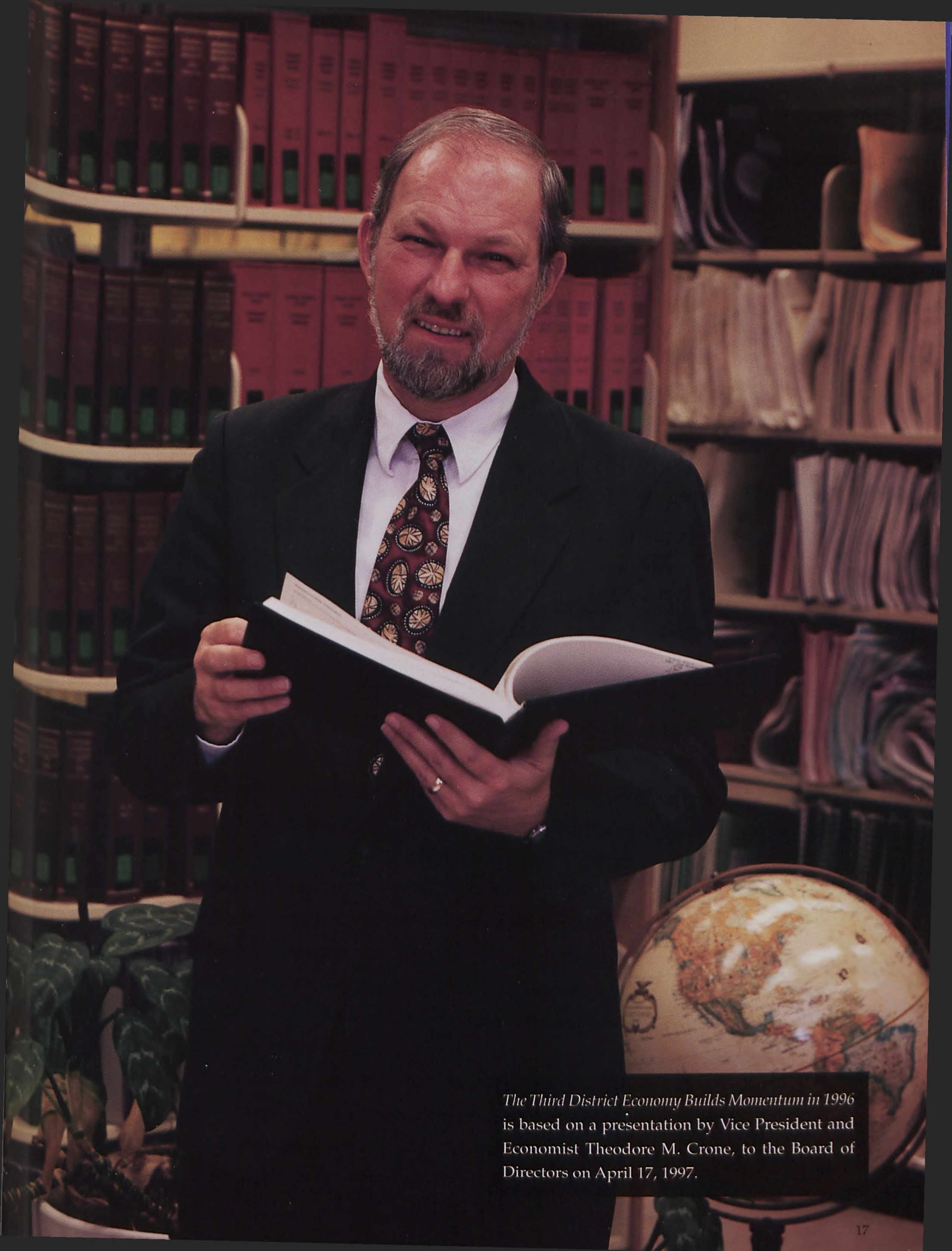
We have been predicting a decline in the first-quarter unemployment rates for all three states this year (*Unemployment Rate*). The preliminary numbers for the first two months do show a decline in New Jersey and Delaware. And we expect the rates in these two states to stay at these levels for the rest of the year or drift a little lower. The preliminary numbers show little change in Pennsylvania's unemployment rate in the first quarter of 1997. The final numbers may show a slight dip in the rate, but our forecast calls for Pennsylvania's unemployment rate to tick up again before the end of the year.

Unemployment Rate
(Percent)



In conclusion, there are two issues that should not alter the overall outlook for the region but could have a significant impact on certain industries or local labor markets. First, how much cost-cutting and consolidation will take place in 1997? Recent legislation and pending mergers and acquisitions indicate that there will be a considerable amount. With electricity deregulation on the horizon in Pennsylvania and New Jersey, utilities will remain under severe cost-cutting pressures. Furthermore, the breakup of Conrail will undoubtedly lead to a loss of jobs in the area; we just don't know how many. And the merger of Bell Atlantic and Nynex will result in job cuts and a shift of some jobs out of our region.

Second, the effect of welfare reform on labor markets is not yet clear, but it could be substantial in large urban areas. For example, more than 40 percent of Pennsylvania's welfare cases are in the city of Philadelphia, and about 50 percent are in the five southeastern counties. If the five-county area were to meet its share of the state's quota under the new federal law, 13,000 adults would either have to find work or in some way be removed from the roles. That is about half the number of jobs that were added in the metropolitan area last year. Depending on how well welfare reform works, it could increase job growth in large urban areas like Philadelphia, or it could push up the unemployment rate. We will probably have to wait until the end of the year to see which scenario plays out.



The Third District Economy Builds Momentum in 1996 is based on a presentation by Vice President and Economist Theodore M. Crone, to the Board of Directors on April 17, 1997.

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International
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Chief Executive Officer
Delmarva Power and
Light Company
Wilmington, DE

Officers

In 1996, numerous promotions and administrative changes took place among the official staff:

Milissa M. Tadeo was named Senior Vice President responsible for the Fiscal and Treasury Direct departments.

Henry T. Kern was named Vice President, General Administrative Services.

Arun K. Jain was named Vice President, Retail Payments Processing, including both the Automated Clearing House and Check Processing.

Theodore M. Crone was named Vice President and Economist.

Loretta J. Mester was named Vice President and Economist.

Beverly L. Evans was named Assistant Vice President, Applications and Banking Structure, in the Supervision, Regulation and Credit Department.

Donna L. Franco was appointed Budget Officer, Business Planning and Budget Department.

Howard M. James, Jr. was appointed Support Services Officer for the Supervision, Regulation and Credit Department.

J. Warren Bowman, Jr., Vice President, became the officer in charge of Wholesale Payment Services.

Robert J. Bucco, Vice President, became the officer in charge of Cash Services.

Marie Tkaczyk, Assistant Vice President, became responsible for all Systems Development and Support, Data Base Administration, and the Information Center.

Patrick M. Regan, Assistant Vice President, in addition to his responsibilities for Technical Support and Data Processing Operations, became responsible for Automation Planning and Data Security Administration and became the Bank's Information Security Officer.

Edward G. Boehne
President

William H. Stone, Jr.
First Vice President

Donald F. Doros
Executive
Vice President

Edward J. Coia
Senior Vice President
and Manager, Cash/
Fiscal Product Office

Michael E. Collins
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D. Blake Prichard
Senior Vice President

Milissa M. Tadeo
Senior Vice President

J. Warren Bowman, Jr.
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Vice President

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Check Adjustments Officer

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Support Services Officer

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Assistant Vice President

Mary M. Labaree
Assistant Vice President and Assistant General Auditor

Thomas P. Lambinus
Assistant Vice President

Joseph L. McCann
Administrative Services Officer and Security Officer

Alice J. Menzano
Assistant Vice President, Cash/Fiscal Product Officer and Assistant Secretary

Edward Morrison
Operations Officer

Camille M. Ochman
Assistant Vice President

Jeanette Paladino
Assistant Counsel

A. Reed Raymond, III
Assistant Vice President and Examination Review Officer

Patrick M. Regan
Assistant Vice President and Information Security Officer

Sherrill Shaffer
Assistant Vice President

Richard A. Sheaffer
Assistant Vice President

Ronald R. Sheldon
Assistant Vice President

Marie Tkaczyk
Assistant Vice President

Sharon N. Tomlinson
Assistant Vice President

Richard A. Valente
Audit Officer

Annie R. Ward
Assistant Vice President

Bernard M. Wennemer
Assistant Vice President

Anthony J. White
Financial Services Officer

Michael P. Zamulinsky
Assistant Vice President

Advisory Councils

The Federal Reserve Bank's three advisory councils include representatives from many of the Third District's leading industries. The regular meetings between members of the councils and the Bank's senior officers provide a venue for exchanging important information about local business and the economy.

Small Business & Agriculture Council

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Thomas J. McGinley
President and
Chief Executive Officer
McGinley Mills
Easton, PA

Deputy Chairperson
Sharon Dauito-Baxter
President
Ralph Dauito & Sons
Vineland, NJ

Ruben Bermudez
President
Juvante Inc.
Vineland, NJ

Art Daube
General Manager
WBRE-TV
Wilkes-Barre, PA

Geraldine A. Henwood
President and
Chief Executive Officer
Bio-Pharm Clinical
Services
Blue Bell, PA

Thomas E. Hoversen
President
Comarco Products
Camden, NJ

Rodney L. Metzler
Owner
Pleasantview Farms
Martinsburg, PA

David R. Rice
President
Rice Fruit Company
Gardners, PA

G. Erwin Sheppard
Vice President
Sheppard Farms, Inc.
Cedarville, NJ

Steven J. Shotz
President
Quantum Group
Wilmington, DE

Clinton Tymes
Director
Delaware Small
Business
Development Center
Newark, DE

W. Gregory Wood
President
Hocher Manufacturing
Company, Inc.
Rehoboth Beach, DE

Credit Union Council

Chairperson
Betty Benfield
President
K of C FCU
Philadelphia, PA

Deputy Chairperson
Sue S. Smiley
Chief Executive Officer
DPL FCU
Newark, DE

Beverly K. Brown
Treasurer & CEO
CUMCO FCU
South Vineland, NJ

Bruce K. Foulke
President & Treasurer
American Heritage FCU
Philadelphia, PA

Mary Jane Griffith
Vice President & CFO
South Jersey FCU
Deptford, NJ

Cathy S. Henry
President & CEO
Heritage Valley FCU
York, PA

David F. LaSala
Executive
Vice President
Benchmark FCU
West Chester, PA

Francis R. Muto
Manager & CEO
Peoples First CU
Allentown, PA

Heloise L. Osborne
Manager
Gemco Employee FCU
Wilmington, DE

Gary H. Penrose
President & CEO
Mercer County
Teachers FCU
Hamilton, NJ

James M. Reynolds
General Manager
Camden Community
CU
Camden, NJ

Leonard V. Shimko
President
Cross Valley FCU
Wilkes-Barre, PA

Community Bank Council

Chairperson
Betsy Z. Cohen
Chairperson & CEO
The Jefferson Bank
Haverford, PA

Deputy Chairman
Dennis S. Marlo
President & CEO
Main Line Bank
Villanova, PA

Steven Brady
President
Ocean City Home
Savings & Loan
Association
Ocean City, NJ

Thomas L. Gray
President & CEO
Carnegie Bank N.A.
Princeton, NJ

Ronald L. Hankey
President & CEO
Adams County
National Bank
Gettysburg, PA

Frederick E. Kutteroff
President & CEO
Keystone Savings Bank
Bethlehem, PA

Frederick A. Marcell, Jr.
President
Willow Grove Bank
Maple Glen, PA

Donald L. Masten
Chairman & CEO
The Pennsville National
Bank
Pennsville, NJ

Zvi H. Muscal
President & CEO
First Executive Bank
Philadelphia, PA

Erwin T. Straw
Chairman & CEO
Prime Bank
Philadelphia, PA

Thomas V. Stress
President
American Eagle Savings
Bank, PaSa
Boothwyn, PA

John F. Tremblay
President & CEO
Bank of Mid-Jersey
Bordentown Township,
NJ

Statement of Condition *(in millions)*

	December 31, 1996	December 31, 1995
ASSETS		
Gold certificates	$ 423	$ 433
Special drawing rights certificates	396	413
Coin	43	26
Items in process of collection	476	254
Loans to depository institutions	9	1
U.S. government and federal agency securities, net	15,259	16,567
Investments denominated in foreign currencies	924	923
Accrued interest receivable	138	169
Bank premises and equipment, net	74	70
Other assets	13	27
Total Assets	**$ 17,755**	**$ 18,883**
LIABILITIES AND CAPITAL		
LIABILITIES		
Federal Reserve notes outstanding, net	$ 13,822	$ 16,223
Deposits:		
Depository institutions	1,297	1,702
Other deposits	8	8
Deferred credit items	261	251
Interest on Federal Reserve notes due U.S. Treasury	—	27
Statutory surplus transfer due U.S. Treasury	7	—
Interdistrict settlement account	1,762	237
Accrued benefit cost	47	46
Other liabilities	10	9
Total Liabilities	**17,214**	**18,503**
CAPITAL		
Capital paid-in	273	190
Surplus	268	190
Total Capital	**541**	**380**
Total Liabilities and Capital	**$ 17,755**	**$ 18,883**

Note to Statement of Condition, Statement of Income, and Statement of Changes in Capital: Supplemental information, including 1996 financial statement footnote disclosures, is available upon request by contacting the Public Affairs Department of the Federal Reserve Bank of Philadelphia.

Statement of Income *(in millions)*

	For the years ended December 31, 1996	December 31, 1995
INTEREST INCOME		
Interest on U.S. government securities	$ 944	$ 996
Interest on foreign currencies	21	34
Total Interest Income	**965**	**1,030**
OTHER OPERATING INCOME		
Income from services	41	39
Reimbursable services to government agencies	18	18
Foreign currency gains (losses), net	(80)	44
Government securities gains, net	1	—
Other income	4	4
Total Other Operating Income (Loss)	**(16)**	**105**
OPERATING EXPENSES		
Salaries and other benefits	64	65
Occupancy expense	8	8
Equipment expense	9	8
Cost of unreimbursed Treasury services	3	2
Assessments by Board of Governors	24	23
Other expenses	48	47
Total Operating Expenses	**156**	**153**
Income before cumulative effect of accounting change	793	982
Cumulative effect of changes in accounting principles	—	(5)
Net Income Prior to Distribution	**$ 793**	**$ 977**
DISTRIBUTION OF NET INCOME		
Dividends paid to member banks	$ 12	$ 11
Transferred to surplus	83	29
Payments to U.S. Treasury as interest on Federal Reserve notes	553	937
Payments to U.S. Treasury as required by statute	145	—
	$ 793	**$ 977**

Statement of Changes in Capital *(in millions)*

For the years ended December 31, 1996 and December 31, 1995

	Capital Paid-in	Surplus	Total Capital
Balance at January 1, 1995 (3.2 million shares)	$ 161	$ 161	$ 322
Net income transferred to surplus		29	29
Net change in capital stock issued (.6 million shares)	29		29
Balance at December 31, 1995 (3.8 million shares)	$ 190	$ 190	$ 380
Net income transferred to surplus		83	83
Net change in capital stock issued (1.7 million shares)	83		83
Statutory surplus transfer to the U.S. Treasury		(5)	(5)
Balance at December 31, 1996 (5.5 million shares)	$ 273	$ 268	$ 541

Operating Statistics

	1996 Volume	1996 Dollar Value	1995 Volume	1995 Dollar Value
SERVICES TO DEPOSITORY INSTITUTIONS				
Wire Transfer of funds	6.9 million transfers	$17.6 trillion	6.5 million transfers	$16.3 trillion
ACH:				
Government	58.7 million items	$77.1 billion	49.3 million items	$58.3 billion
Commercial	189.2 million items	$662.0 billion	164.2 million items	$574.5 billion
Check processing:				
U.S. Government	20.4 million checks	$21.4 billion	20.9 million checks	$23.7 billion
All others	816.4 million checks	$932.4 billion	827.3 million checks	$996 billion
Cash operations:				
Currency processed	961.8 million notes	$17.0 billion	1.08 billion notes	$15.9 billion
Coin processed	94.1 thousand bags	$47.2 million	98.3 thousand bags	$64.6 million
Loans to depository institutions	457 loans	$1.1 billion	438 loans	$942 million
SERVICES TO U.S. TREASURY				
Electronic book-entry transfers:	1.5 million transfers	$19.1 trillion	1.3 million transfers	$16.4 trillion
Food coupons processed:	156.8 million coupons	$802.5 million	156.4 million coupons	$808.9 million