ANNUAL REPORT MCMLVIII

Federal Reserve Bank of Richmond

ANNUAL REPORT 1958

Federal Reserve Bank of Richmond

with Branches in Baltimore and Charlotte

TO THE MEMBER BANKS

We present this 44th Annual Report as a summation of the activities of this bank and of the economic developments in the Fifth District during 1958.

In addition to comparative financial statements and a report on operations, we feature our research department, which plays a valuable role in the collection and evaluation of economic information essential to the formulation of Federal Reserve policy. We hope that this article, along with the ones on credit policy and business and industry, will prove to be informative and useful to you.

On behalf of the directors and staff, we wish to express our appreciation for your fine cooperation and support throughout the year.

Very truly yours,

Hugh Leach

President

Alonzo G. Decker, Jr.

Chairman of the Board

RESEARCH
a basis for decision

re-search (*rĕ-sûrch′*), *n. 1. Careful search. 2. Studious inquiry with aim of revising accepted conclusions because of new facts brought to light.*

Economic research at a Federal Reserve Bank is many things. It includes the careful search for facts and an equally careful search for their meaning. It includes too the continual review of the accepted conclusions of economics, for each new set of facts provides a new test of previous conclusions as to the interrelationships within the economy.

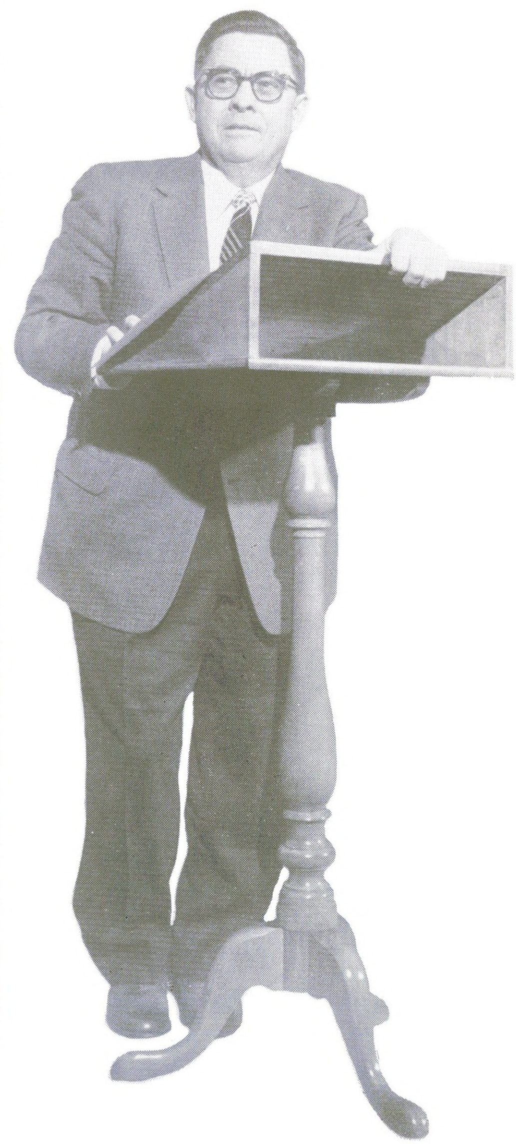
Search and study are not the ends of research, however. In few areas of intellectual endeavor is knowledge for its own sake valued so little as in economics. The economist looks to the goal of application of knowledge—he is a pragmatist concerned with facts as they are because of what they tell him of the facts that will be—or may be made to be. Thus, despite the distinction sometimes made between things theoretical and practical, the economist's theory has a very practical aspect as it is applied to the appraisal and interpretation of a myriad of facts and figures on a dynamic economy. In the process theory is repeatedly tested against the realities of fact.

This practical use is the purpose of economic research in the Federal Reserve Bank of Richmond. It is the reason for our having a staff of professional economists and statisticians, who, with their assistants, secretaries, librarians, and draftsman, number thirty-eight persons. About three per cent of the bank's total staff, they perform a function that stands close to the heart of central banking.

Research stems from need. Our need for economic research, in turn, rests upon the responsibilities of the Federal Reserve System for credit policy. Credit policy has effects that extend throughout the economy, and it must be based upon sound judgment buttressed by comprehensive knowledge. Similarly, to the extent that this is possible, its effects must be traced as they make themselves felt throughout the economic structure.

Meetings of the bank's Board of Directors illustrate a need for research and its uses. The directors, responsible for fixing the discount rate every two weeks, are regularly briefed by the research staff on current economic conditions. The president of the bank reviews financial developments for the Board, basing his discussion in part upon analyses prepared for him by the researchers. Discussions by the directors point up new needs for analysis and provide both new facts and new views on current economic events. It is only after this thorough exploration of the facts and their significance that the policy decision is made.

Policy frequently requires explaining to the public and occasionally to the Congress. These explanations—a very real requirement for a central bank in a democracy—call for research of an exacting nature, for to make facts understandable is frequently more difficult than to dig them out. The researchers work at this task of increasing understanding, and they frequently provide information used as background by spokesmen for the bank.



Research is a continuing process. There is a day-to-day flow of research products to the top management of the bank in diverse forms that range from periodic detailed reports on the District economy to discussions growing out of lunch-table conversation. Regardless of form, the process is aimed at providing pertinent information, analyzed as to its significance and appraised for its importance to the shaping of policy.

Every three weeks or so these research activities reach a climax in preparation for meetings of the Federal Open Market Committee. The president of the bank serves successively as a member of this committee, as an alternate member, and as an invited participant in its discussions. His preparation for each meeting is the occasion for bringing together recent economic information and looking to conclusions as to its meaning. Daily reports on credit developments are fitted into a pattern to provide further perspective, current facts and opinions on the District economy are weighed and distilled to summary statements, and the national economic developments are studied once again in search of answers as to the future. As the final step in the process, one of the bank's economists, who follows credit markets on well-nigh an hourly basis, accompanies the president to the meeting of the committee in Washington.

Washington is also frequently the scene of work on System research projects: studies of savings, the Federal funds market, improvement of statistical series, and the like. This bank's researchers join with those from the other Reserve banks and the Board of Governors' staff in carrying out many of these studies.

Research is writing, writing for our own use in special memoranda and periodic internal reports, for our bank's publications, and as part of research projects undertaken by the Federal Reserve System.

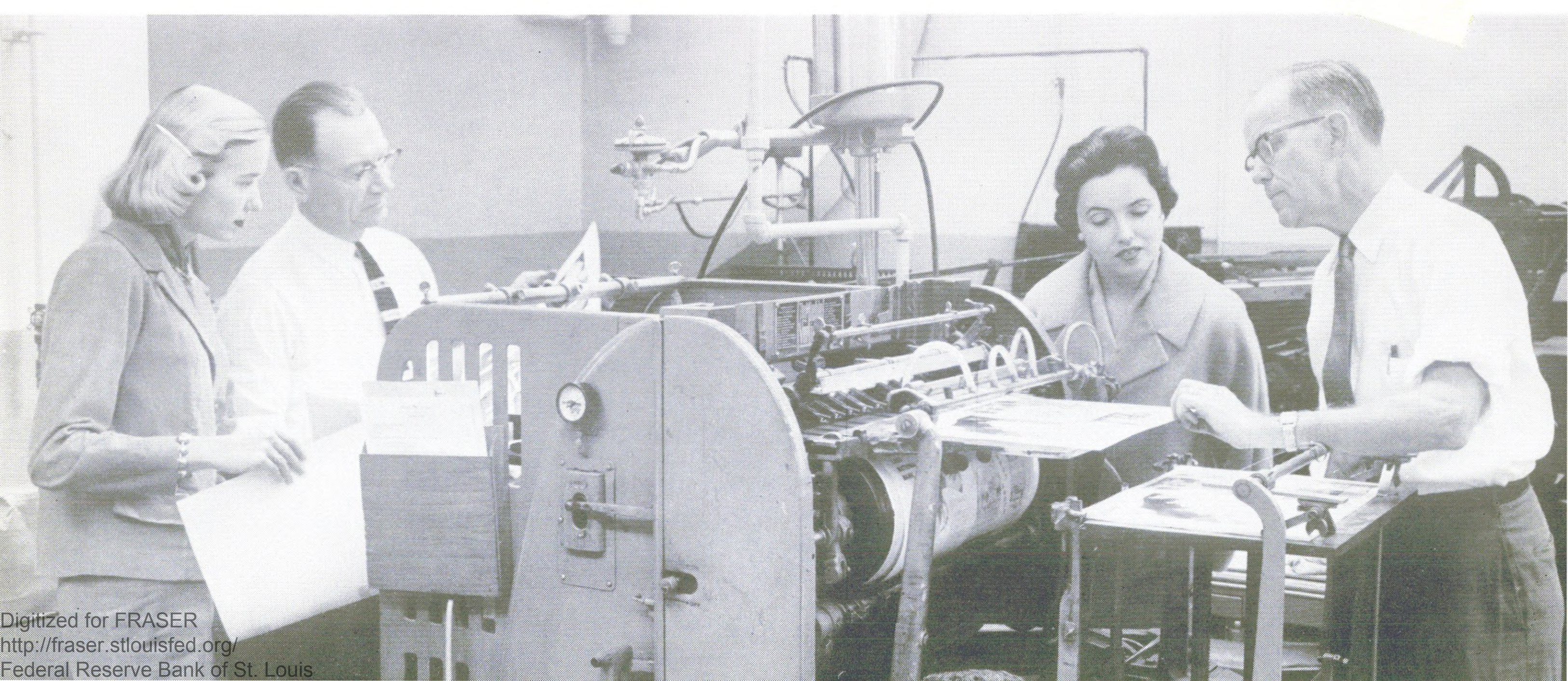
The *Monthly Review* carries much of our bank's research output that is intended for widespread reading. Industry studies, reports on agriculture, descriptions of economic processes, summaries of credit developments, a running account of activity in the Fifth District—all of these are found in the *Review*, illustrated by pictures and charts.

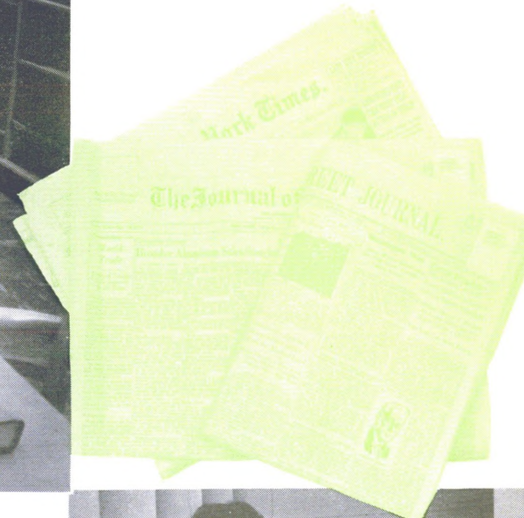
Research finds its way into our bank's *Annual Report* as well. This copy, for example, contains an overlook of the District economy in 1958 and a summary of credit developments during the year. Both are research products, and both play an important role in making clear the basis and the operation of credit policy in 1958.

Other economic publications are issued from time to time. The bank needed a collection of key statistics on the states of the District, and a small booklet called *Fifth District Figures* was prepared. We thought that our member bankers might find it useful; so, a copy was sent to each member bank.

A series of articles on money, banks, and the Federal Reserve System appeared in the *Monthly Review* several years ago, and the overwhelming requests for that publication led us to print the articles in a booklet entitled *Readings on Money*. Even as this report is printed, the eighth printing of that booklet is under way; more than 45,000 copies have been distributed to date.

For all these publications our bank relies heavily upon its staff of specialists in many fields. Cover design, layout of contents, typesetting, and printing—all of these essential steps in converting facts and ideas into a publication take place within the bank.





Research is fact-gathering, and the heart of any research organization is its library where much of this collection process takes place. Books, pamphlets, press releases, periodicals, reports—all kinds of publications enter the library's workrooms for routing to the people interested in their contents and for storage in the files and shelves of the library. The totals tell little of the work done or the service rendered, but some are impressive: 14,021 volumes in the collection, 18,493 pieces of material received in 1958.

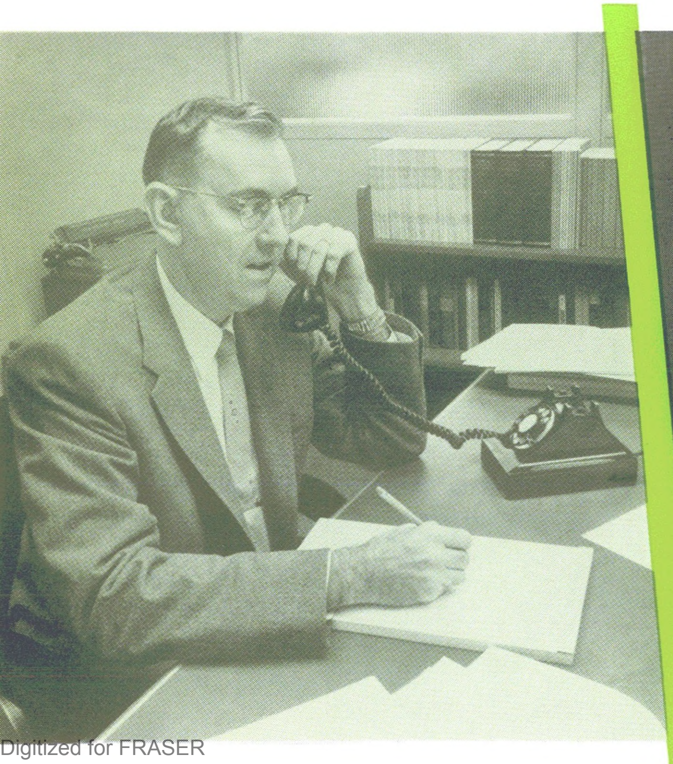
Research librarianship is more than just warehousing. Selective routing of new material and usable indexing of the library's contents call for professional abilities in library science and economics, and members of the library staff bring to their jobs formal training and experience in both fields. The research librarian and her staff participate quite actively in the bank's research projects. The result is good service to the researchers and to a broad group of other users of the library.

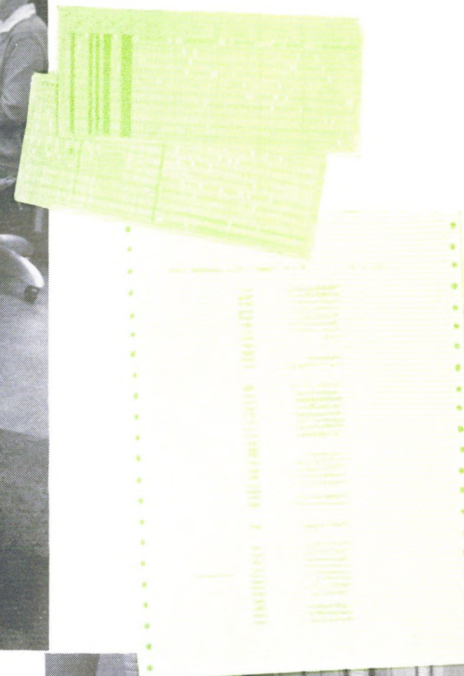
Indispensable as the weekly, monthly, and other periodical publications may be, the rush of events places a premium upon timely and complete news. A number of financial papers are received and carefully read each day. Items of special interest are clipped, perhaps brought to the attention of top management, and filed for future reference. A news ticker brings continual reports of current happenings in the nation's principal markets, and the System's leased wire teletype service brings frequent bulletins on developments in the national credit markets and prompt reports of basic banking statistics. This continuing flow of news is watched carefully by researchers who are alert for the significant events that merit prompt attention.

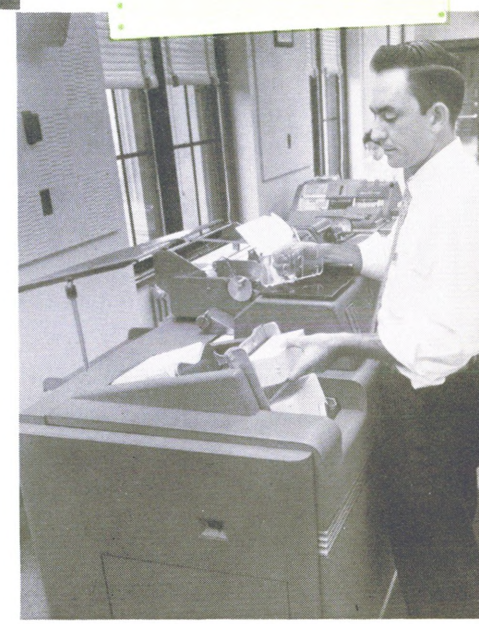
Behind the news are people. Personal contacts provide a fruitful source of information on events that are currently happening and those that are still in the planning stage. Concern with developments in the real estate mortgage field, for example, may lead one of our economists to conduct a telephone survey of his contacts among mortgage lenders in the leading cities of the District. The twenty-three members of our three boards of directors are much-used sources of current news on developments in their own lines of endeavor and in their geographical areas. Member bankers, informed on their communities and on financial conditions, are asked for their views on matters ranging from current credit trends to the outlook for a manufacturing industry represented among the member bank's customers. The senior officers of our bank frequently serve as researchers in drawing upon their experience and knowledge of the District to direct an inquiry to the banker or businessman most likely to have the required information.

In addition, the bank utilizes its traveling representatives as collectors of economic information. The examining force learns local economic news and plans from member bankers in the course of conducting an examination; this information is summarized in a report that goes directly to the president and to the researchers. Our officers and bank relations representatives make a point of inquiring about local business conditions in each community visited and make a similar report upon their return to the bank.

Finally, as members of their local communities, the management of the bank learns through day-to-day contacts of events still in the planning stage, of business and consumer attitudes, of expected developments if such-and-such occurs. These too are important ingredients of research.







Research is statistics. Numbers are used to write much of economic history, and many facts are uniquely expressed and understood as numbers. Originally entered and used perhaps as accounting records or for the control of production, the figures become statistics as they are gathered, summarized, and further processed to provide light for the continuing study of economic activity.

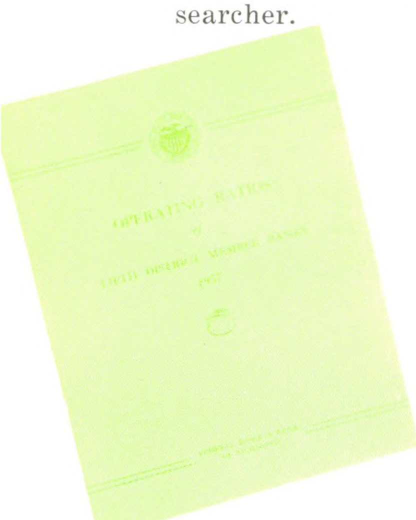
Our bank collects banking statistics of many kinds: call reports and earnings and dividends reports from all member banks, weekly condition reports from 38 members, monthly debits totals from all banks in 34 cities of the District, semimonthly outstandings of loans and investments from all members, and special surveys from time to time, such as the annual sampling of deposit ownership and the occasional loan surveys. These are generally handled by the researchers, frequently in cooperation with operating departments that receive the reports from the member banks or process the information that the reports contain.

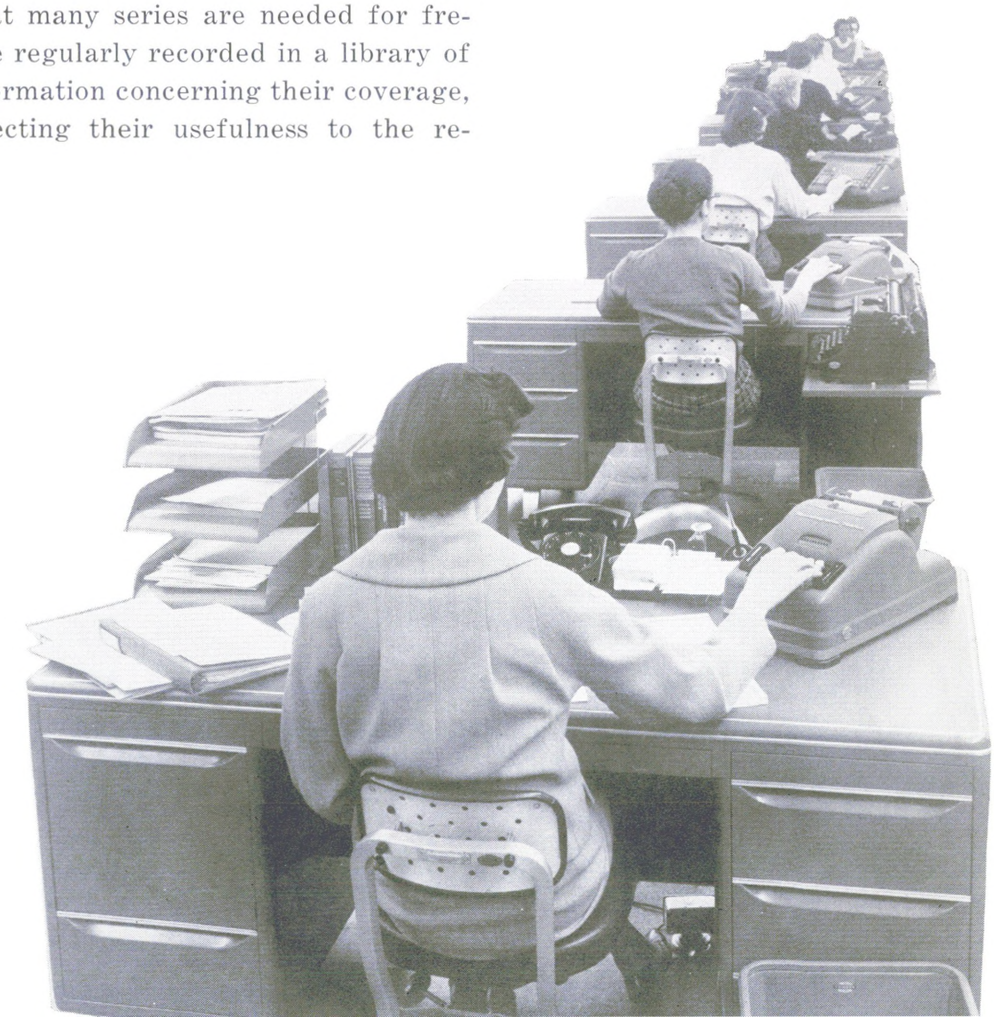
This joint effort is illustrated in the work that lies behind the operating ratios calculated each year. Call reports and earnings and dividends reports are received and checked by the Examining Department as one aspect of the function of supervising banks. After further editing in the Research Department, the reports are taken over by the Tabulating Department. Cards are cut, transcripts are made for use by several departments in the bank, and the ratios are calculated through the teamwork of Research and Tabulating. The operating ratios booklet goes forth to member banks as the product.

Besides banking figures, the researchers collect other financial statistics—such as those dealing with consumer credit—and a number of other economic series. Department stores and furniture stores report their sales and credit transactions, building inspectors tote up their building permits and send in the totals, automobile dealers report on their sales performance. All of this information provides additional insight into the workings of the Fifth District. It also provides no small work load for the researchers concerned with statistical collection and processing.

The emphasis is frequently on collection, for each reporting group has its laggards, its obviously erroneous reports, its special situations, such as mergers, new locations, and the like. Each requires attention and action in addition to the routine mailing out and receipt of forms, and each must be satisfactorily handled if the resulting series are to be of value. Despite the care and professional skill that go into designing indexes and deriving seasonal adjustment factors, the final product leans heavily upon the quality of the initial process of collection.

In addition to the statistics that our bank collects, we need many more figures. Some of these are readily available in usable form in volumes on the shelves of the library. Others become available each week or each month in a comparatively "raw" form and require conversion to index numbers or adjustment for seasonal factors before they are used; these are grist for the mill of the statistical researchers. A great many series are needed for frequent and urgent use; these are regularly recorded in a library of loose-leaf binders, with full information concerning their coverage, revisions, and other facts affecting their usefulness to the researcher.



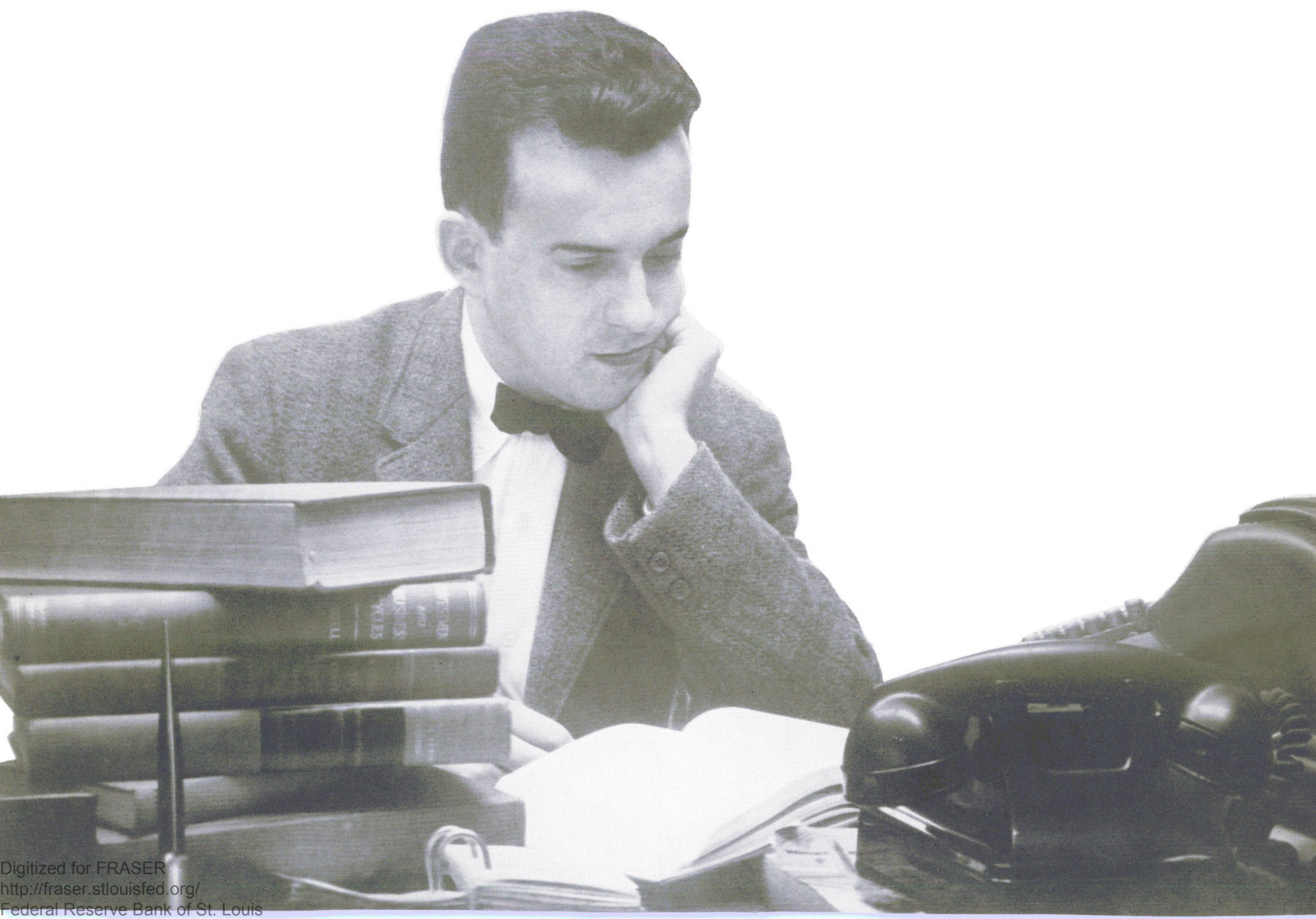


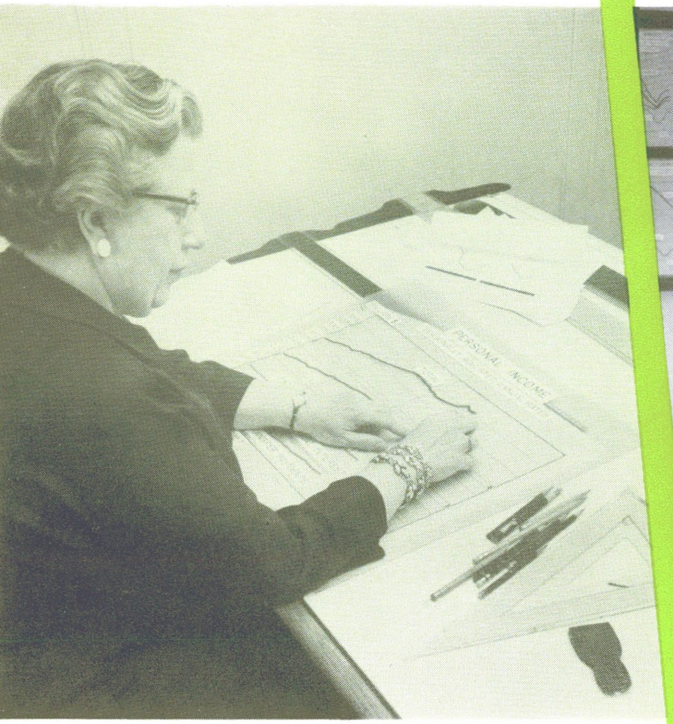
Research is thinking. With the need established, the problem defined, available information mustered into the most usable form, historical parallels dug out—when all these have been done, there still remains the application of the trained mind to the search for answers, whether they be explanations of what has occurred or forecasts of what will occur.

Sometimes the problem calls for explorations into previously uncharted or ill-charted waters, for ours is a dynamic economy in which "what the books say" is frequently outrun by the events. Sometimes the need is for new information gathering to solve a problem not contemplated by existing series. Frequently the product desired requires a relatively straight-forward analysis using readily available data—but only half enough time is available.

Whatever the need, one prerequisite for a satisfactory product is a professionally trained, analytical mind that is familiar with the facts and theories relevant to the problem at hand. Our professional staff includes eight economists and statisticians. All have graduate training in their fields of specialization, and five have the Ph.D. degree. They have, in addition, had an average of nearly thirteen years' experience with this bank.

They constitute the analytical production line of research.





Research is discussion. Even with a relatively small professional staff, specialization is necessary to insure comprehensive surveillance of the economy. As a result, some projects of necessity become joint projects drawing upon the knowledge and experience of several analysts.

An example is the periodic conference on economic developments. The professional staff there exchanges news of the latest happenings in the various areas of specialization, together with views as to their significance. Without attempting necessarily to find a common view, discussions lead on to statements of alternative forecasts for the future and the reasons therefore. Each analyst is able to broaden the factual base for his views and to gain added insight from the critical appraisal of the group.

This last is of crucial importance for worthwhile research. The give-and-take of group discussion, against a background of agreed-upon facts, sharpens and tempers analytical tools. It also frequently cuts short excursions into tempting but erroneous avenues of thought and opens new channels in the quest for understanding.

And that quest continues. Research in economics goes forward at an accelerated clip as compared with the pace of earlier years. Economists have achieved understanding of many processes that were but sources of mystery a quarter-century ago. Yet the opened door to increased knowledge has served to show also how great continue to be the areas of ignorance and uncertainty. The researchers stand in small danger of working themselves out of a job.

CREDIT POLICY
in recession and recovery

Few years in the history of the Federal Reserve System have presented such a complex combination of factors influencing the formulation of credit policy as has the year just past. At the beginning of the year, sharp recession was clearly defined—yet inflation was persistently pushing up the cost of living. In late spring of the year economic trends switched abruptly from recession to recovery—there was no muddling adjustment period at the bottom of the decline as in the previous two recessions. Early in the fall the indicators of recovery slowed their upward movement but then in November the rate of expansion in production improved. On the price front, the consumers' price index, after rising steadily through July, remained unchanged in August, September, and October, belying what seemed to be a fundamental upward pressure on prices stemming from the recently negotiated higher wage contracts and the steadily expanding demands against the existing supply of goods.

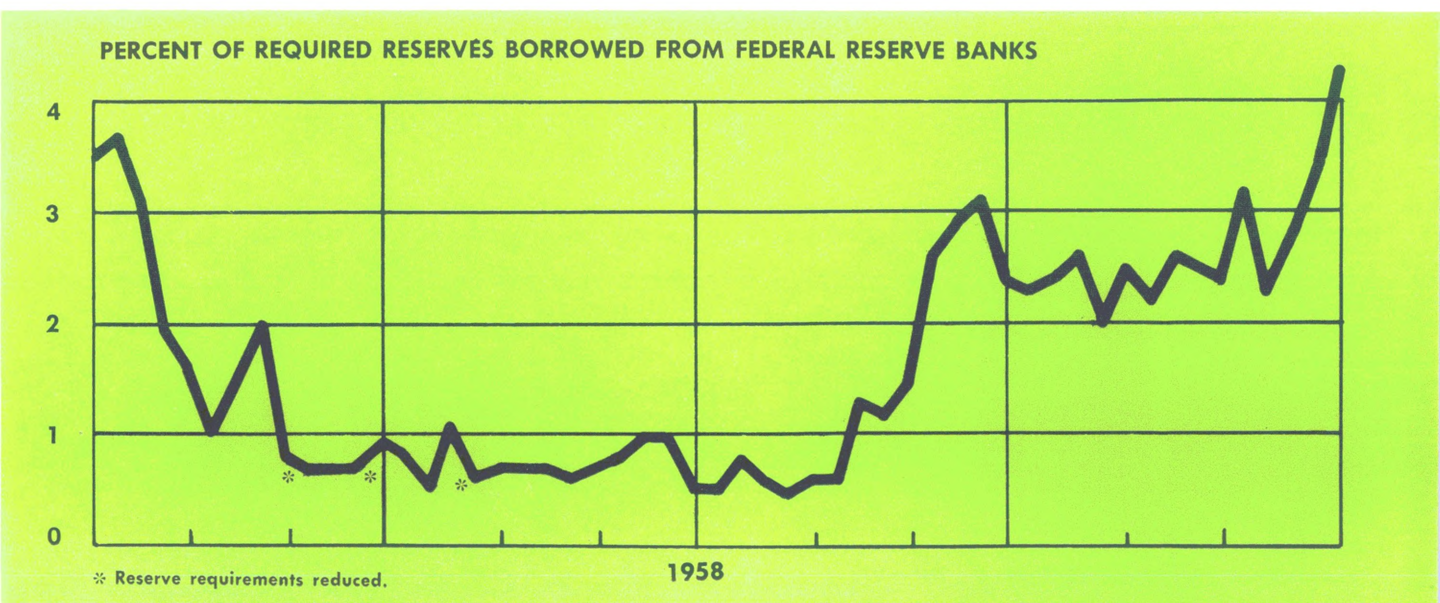
Monetary Ease in Recession

In the fall of 1957 the Federal Reserve took the initial actions, in a series that covered several months, to stem the quickly accelerating recession. Subsequent actions, those that were taken in the early months of 1958, included three reductions in member bank reserve requirements (in February, March, and April) freeing, altogether, approximately $1,440 million of reserve funds. In addition, the Reserve Banks reduced their discount rates in three steps from 3% to 1¾%—this bank's changes were made effective January 24, March 14, and April 25.

Along with the reserve requirements and discount rate reductions, the Federal Reserve System's transactions in U. S. Government securities in the open market were conducted to further promote credit conditions which would encourage the borrowing of money for business and personal uses. The System reduced its holdings by about $900 million in the first three weeks of January, offsetting the reserve funds made available by the customary after-Christmas return flow of currency from circulation. Then, after both buying and selling in moderate amounts during February and early March, the System purchased over $2 billion of Government securities over the next four months, about two-thirds of the total being added during the month of June alone. These purchases more than offset a $1.3 billion drain on bank reserves caused by a reduction in the monetary gold stock.

Reaction in the Banking System

Reflecting these easing actions taken by the Federal Reserve, member banks found it less necessary as the recession deepened to borrow from their Reserve Banks to meet unusual drains on funds. In periods of rapid economic expansion, when credit conditions tend to tighten, many individual banks are faced with



unpredictable reserve losses. To such banks the discount window at their Reserve Banks provides a dependable safety valve through which needed reserve funds are immediately available for a sufficient period of time to enable the banks to make a more permanent adjustment to the changed credit situation. Contrariwise, when credit conditions are eased, commercial banks find recourse to the Federal Reserve discount window less necessary.

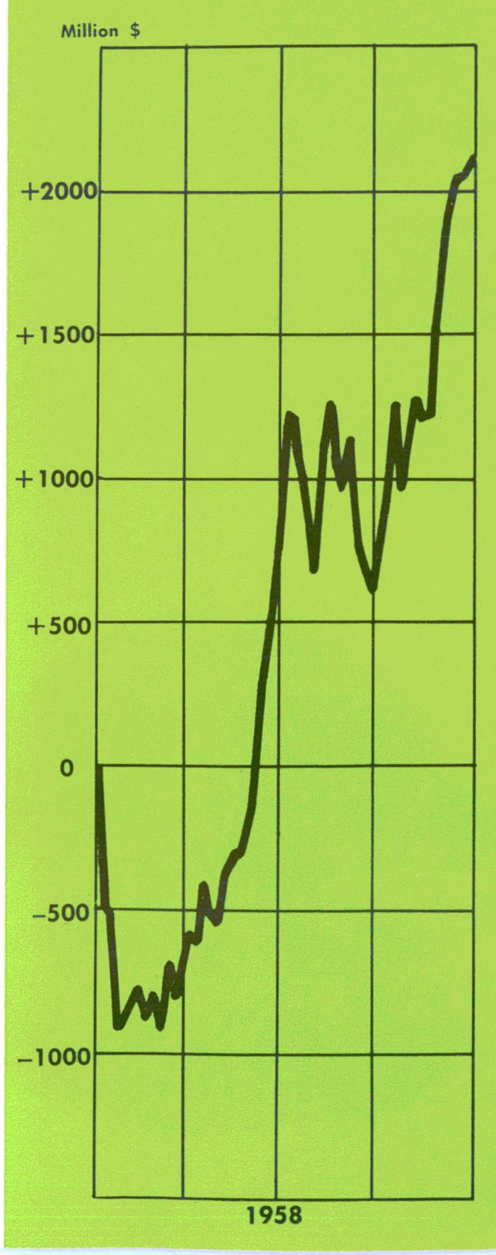
As indicated in the accompanying chart, showing the proportion of their total required reserves that member banks borrowed from their Reserve Banks during 1958, there was a sharp curtailment of such borrowing during the recession months of the year. The proportion of total required reserves that was borrowed from the Reserve Banks declined very sharply—from around 3½% in early January to less than 1% at the end of February. Borrowings remained between ½% and 1% of total required reserves during the ensuing five months.

Interest Costs Reflect Credit Ease

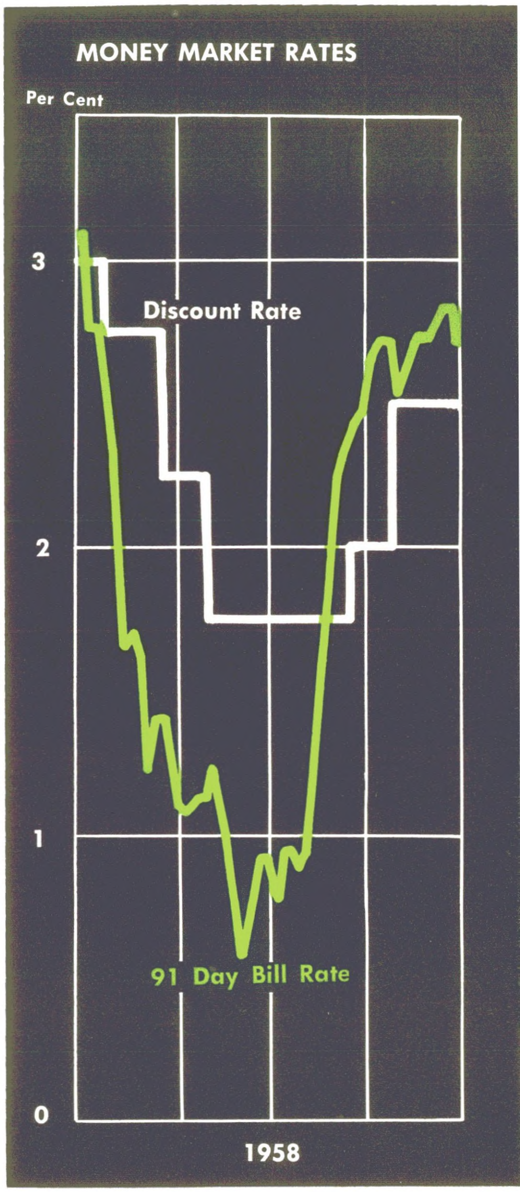
When in mid-November of 1957 four of the Federal Reserve Banks, including this bank, reduced their discount rates from 3½% to 3%, the financial markets reacted dramatically to this clear-cut signal of a reversal of monetary policy from restraint to ease. Anticipations of a downward movement in interest rates were immediately acted upon with the result that the decline in rates which might have materialized more gradually under other circumstances was compressed into a precipitous drop over just a few months. This psychological effect in the financial markets was buttressed in subsequent months by the growing ease in the banking system discussed above.

Although demands for funds from corporations and state and local governments remained at unusually high levels, the strong expectation of a declining interest trend plus an increased availability of credit was more than offsetting, and in January interest yields on virtually all types of debt instruments continued the sharp decline initiated in November 1957. An accompanying chart shows how the yield on the most actively traded debt instrument in the United States, U. S. Treasury bills, reacted to the growing ease in the banking system and other credit markets during the 1958 recession months. From an average of 3.10% in the last week of December 1957 the yield on 91-day bills tumbled to 1.22% in the week ending March 1, 1958. By the last week in May the yield was 0.58%.

CHANGES IN FEDERAL RESERVE HOLDINGS OF GOVERNMENT SECURITIES



In part as a technical reaction to the sharp drop in interest rates in December 1957 and January 1958 and in part in response to heavy corporate and municipal demands for funds, yields on most long-term securities inched upward during February and most of March, only to fall off again moderately in April. Illustrative of the drop in interest yields on long-term bonds is the decline from an average rate of 4.12% during the first week in November 1957 on corporate Aaa bonds to an average of 3.57% in the last week in April 1958. Yields on long-term U. S. Government bonds followed a somewhat similar pattern. Yields dropped from an average of 3.68% in the first week of November 1957 to an average of 3.07% in the final week of April.



More Money for Home Mortgages

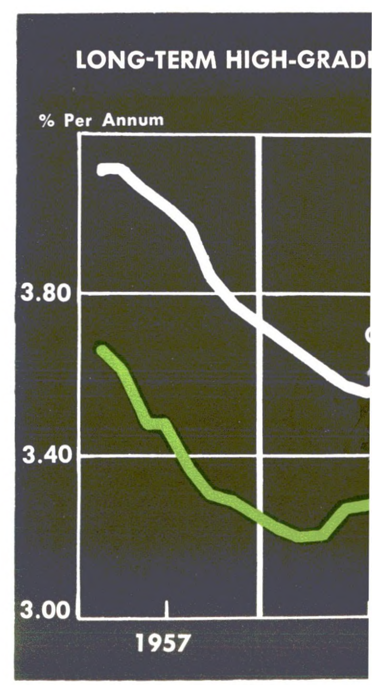
Other interest rates also declined during the recession months of 1958, a notable one among these being rates on home mortgage loans. As interest yields on marketable securities fell with the recession-induced monetary ease, the return from mortgage loans became much more attractive. This was especially true of mortgage loans insured or guaranteed by the Federal Government, which have interest rate ceilings set by legislation or by administrative ruling of the Government agencies involved. The greater attractiveness of mortgage loans resulted in an increased flow of funds to mortgage markets. As a result, rates on conventional loans were pulled down by from ½ to ¾ of a point—many prime mortgage loans being made in the late spring and early summer for from 5% to 5¼%. By late spring many lenders were also willing to accept lower yields on FHA 5¼% loans by making or purchasing such loans at par, while earlier they would handle such loans only at from 2 to 3 points discount.

Banking Trends Reversed

The increased availability of reserve funds to commercial banks stemming from the monetary policy of ease, in combination with the recession-induced weakness in demand for bank loans, put the investment managers of the nation's commercial banks in the limelight. With money to invest and a shortage of borrowing customers, the banks moved more heavily than normally into the securities markets in the latter months of 1957 and the first half of 1958. From the end of September 1957 through June 1958 the banks added almost $9 billion to their holdings of U. S. Government securities. In the same period they added $1.5 billion to their total loans outstanding—but all of the net increase in loans above the amount outstanding at the end of September 1957 came in the month of June 1958 and was primarily in the form of security loans and very short-term business borrowing to meet income tax payments due in that month. During July these loans were paid down heavily and the total outstanding at the end of the month was exactly the same as the amount outstanding at the end of September 1957.

The experience of member banks in the Fifth District states was very similar to that of all commercial banks in the nation. In the fall of 1957 District banks began acquiring U. S. Government securities and by the end of June 1958 they had added almost $200 million to their portfolios. Through the fall and winter months of 1957-58 loan demand in the District was weak, just as in the country as a whole. Then, as was the case nationwide, loans expanded in March and again in June, primarily to provide funds to meet Federal income tax payments in those months, but also in June to support the purchasing and carrying of securities.

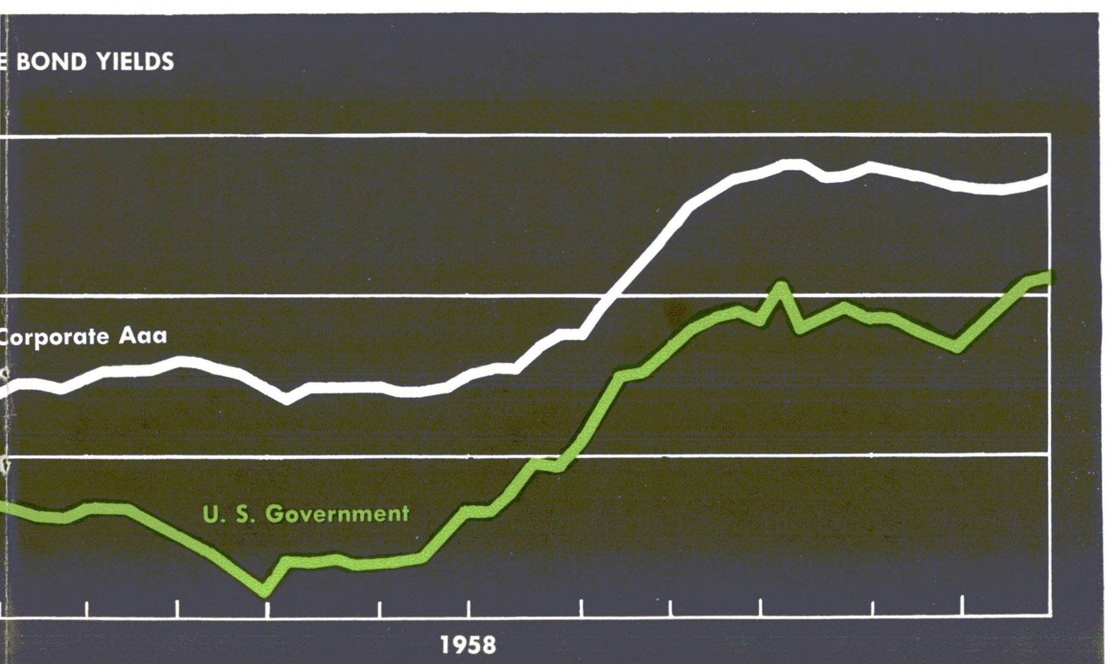
One very significant use of bank credit during the first half of 1958 was to finance transactions in the securities markets. The use of such credit may fluctuate widely from week to week and even from day to day. Consequently, the net change over a period of several months does not reveal the total amount of credit used for financing the purchase of securities during the period. Nevertheless, the trend in the use of such credit over the first half of the year is clearly indicated in the figures for loans outstanding. From the beginning of the year through March 4, 1958, member commercial banks increased the amount of securities loans on their books by $186 million. Then, as anticipations of rising bond prices spread visions of lush profits among an ever widening group of investors and speculators, including a growing number of people uninitiated in the complexities of the market place, the demand for credit to support security purchases increased markedly, and on June 23, 1958, outstanding securities loans at member banks were $1,237 million above the March 4 figure. The experience with the Treasury 2⅝% bonds of 1965 dated June 15, 1958, shattered many dreams of quick profits, and borrowings from banks to support security purchases fell off sharply after mid-June.



Less Ease with Recovery

The 1957-58 recession never "bottomed-out." By midsummer it was apparent that economic activity had simply stopped contracting in April and had started expanding in May. In spite of a disturbing unemployment picture, business activity increased forcefully through the summer months—and in each of these months through July consumer prices also advanced. Concern was frequently expressed over the renewal of inflationary pressures. In mid-August, the San Francisco Reserve Bank, with the approval of the Board of Governors of the Federal Reserve System, raised its discount rate from 1¾% to 2%. The other eleven Reserve Banks followed in the latter half of August or early September with a similar increase, this bank's increase being made effective September 12.

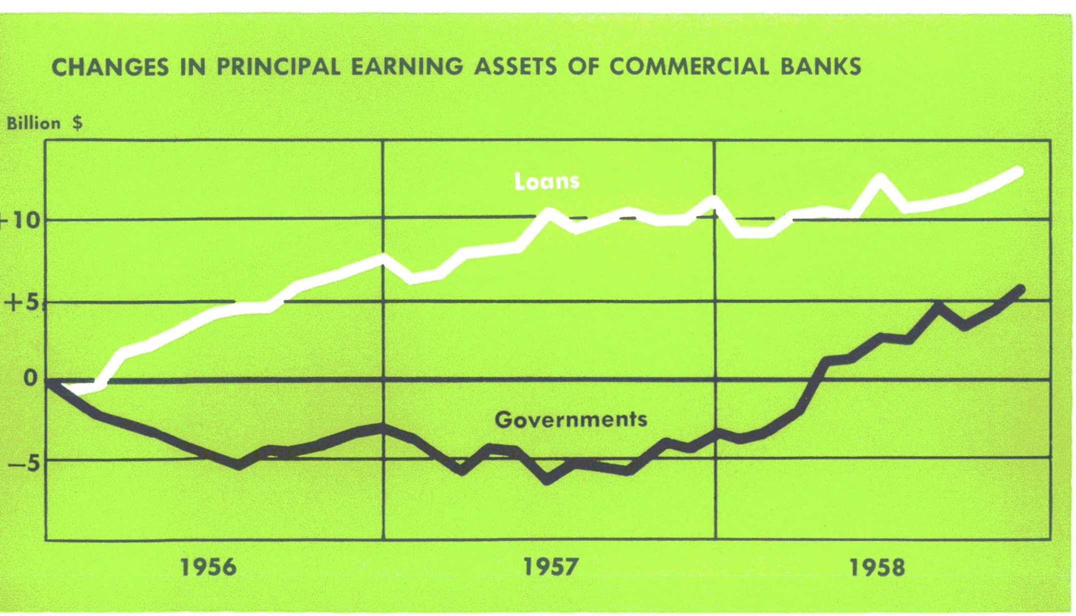
Federal Reserve open market operations were conducted during the late summer months to reduce somewhat the easy availability of reserve funds to commercial banks. The Federal Open Market Committee found it necessary to alleviate a growing disorderliness in the Government securities market in July by conducting some of its operations in securities other than Treasury bills. Then from the middle of August through the last Wednesday in September the System sold $659 million of Government securities. Reference to the chart at the beginning of the article reveals increasing recourse to the discount window by member banks in the first half of August and in early September. In the week ending September 17, the daily average of borrowings from the Reserve Banks reached 3.1% of total required reserves. Following this peak, borrowings stayed around 2 to 2½% of required reserves.

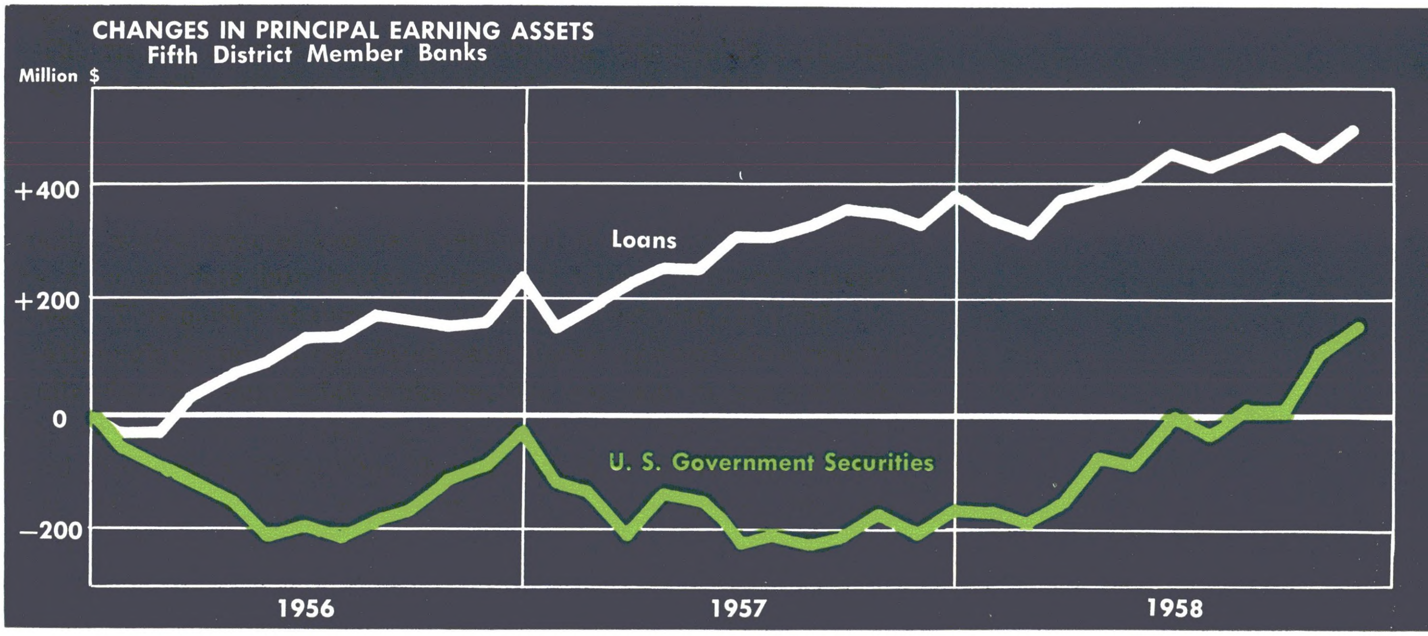


This lessened availability of reserve funds to commercial banks was accompanied by a switch in lending and investing activities. As pointed out above, commercial banks' loans dropped sharply in July on the heels of the fairly heavy borrowing in June to meet tax payments and to carry securities. Following a very small increase in August, total loans at all commercial banks moved up more strongly in September and October for an over-all increase since the end of July of $1.4 billion. Government security holdings, on the other hand, which had risen steadily and rapidly through the first half of the year, had their steady growth interrupted for the first time in July. Although in subsequent months commercial banks made some fairly substantial purchases of Government securities, principally of new issues offered by the Treasury either for cash or in exchange for maturing securities, they also found it necessary to liquidate holdings in sizeable amounts to meet other needs. In September, for example, commercial banks sold over $1.3 billion of securities from their portfolios of Governments.

Interest Costs Move Up

As the economic recovery proceeded with assurance through the summer months, the expectation grew in the markets that the trend of interest rates must be upward. The discounting of such expectations compressed into a single month almost as great a rise





in interest yields as the drop that was experienced just eight months earlier. The markets for very short-term and virtually riskless securities reflected both the changed expectations and the changed banking situation. The yield on 91-day Treasury bills (see chart), after remaining just under 1% during July, advanced smartly to an average of 2.23% during the final week of August. In subsequent weeks the bill yield advanced further, with moderate fluctuations. By the first week in December the average had reached 2.81%.

The rise in interest yields on short-term marketable securities in late summer and through the fall of the year put their general level well out of line with the 2% Reserve Bank discount rate. Consequently, in late October and early November, the Reserve Banks again raised their discount rates, this time to 2½%. The change was characterized as a technical move intended to bring the discount rate into better alignment with short-term market rates. This bank's change was made as of October 24, 1958.

Although money market rates have moved upward since reserve availability to commercial banks became less easy in late summer, the general trend of other interest rates was moderately downward from early September through most of November. Since then some rates have moved upward. As economic recovery progressed through the closing months of the year, credit was available in sufficient amounts to meet the seasonal and growth demands of the economy.

THE ECONOMY
the downtrend reversed

A Year of Contrasts

When held up for comparison with the economic history of 1957, the broad pattern of economic activity in the nation in 1958 appears like a reversed image in a mirror. Business activity entered 1958 in a downtrend amidst a deepening recession; it closed out the year in the recovery phase of the cycle. This was the reverse, of course, of 1957 which began with aggregate demand moving upward to record levels and closed with business activity sliding downhill.

The recession that began in the fall of 1957 was short-lived and moderate. It hit bottom in April 1958, as measured by industrial production, after a decline of 13% from the preceding peak. In contrast to the other two postwar recessions when activity dawdled for some time after reaching the low points, recovery in 1958 set in with a sharp rebound from the cyclical lows of the spring. This resilience was the distinguishing characteristic of economic activity in 1958. By the fourth quarter of the year, the dollar value of the gross national product was estimated to have exceeded the record annual rate of $446 billion reached in the third quarter of 1957.

Production Gains Pace Recovery

By the end of the year the broad and rapid recovery in the nation had carried industrial production almost all the way back to its August 1957 level. For 1958 as a whole industrial production was about 6% smaller than it was in 1957. As is typical of a recovery, gains in production outpaced the rise in employment. As late as November last year, nonfarm employment in the nation was still 1.7 million less than the peak figure of 1957. Despite lower levels of employment and production, however, personal income in the first half of 1958 was slightly higher than it was a year earlier. The continuing recovery in the second half of 1958 raised it more than 2% above what it was in the same period of 1957. Unemployment compensation payments were a major offset to reductions in wage and salary payments during the recession. Total transfer payments continued to rise during 1958 and in November were almost one-fifth larger than a year earlier.

District Fares Better

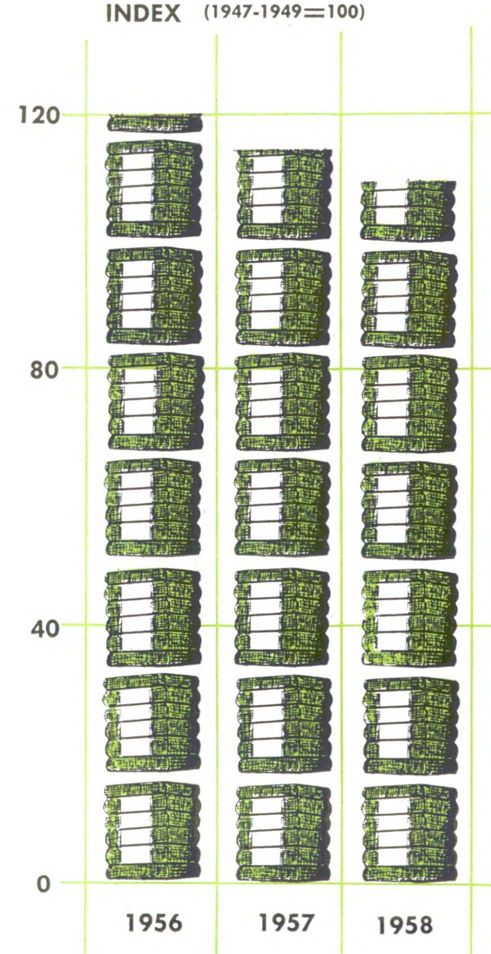
While the general trends of economic activity in 1958 in the Fifth District tended to parallel those for the nation, there were significant differences. The District as a whole experienced a milder recession than did the nation. The impact on employment, for example, was lighter in the District. Over the course of the recession, from August 1957 to April 1958, nonagricultural employment declined 4.6% in the United States and only 2.8% in the states of this District despite West Virginia's dip of 7.8%. A similar picture is obtained by comparing the first 11 months of 1958 with the same period of 1957.

The more favorable experience of the District is reflected also in manufacturing employment. Compared to a drop of 9.4% nationally, manufacturing employment in the states of the Fifth District declined only 5.1% during the recession. Again, only in West Virginia was there a greater reduction than in the nation, 11.7%. During the first 11 months of 1958 manufacturing employment in the United States averaged 8.3% less than it was a year earlier but only 4.7% less in District states. West Virginia exceeded the nation's decline with a drop of 9.7%, and Maryland was close with a decline of 7.7%.

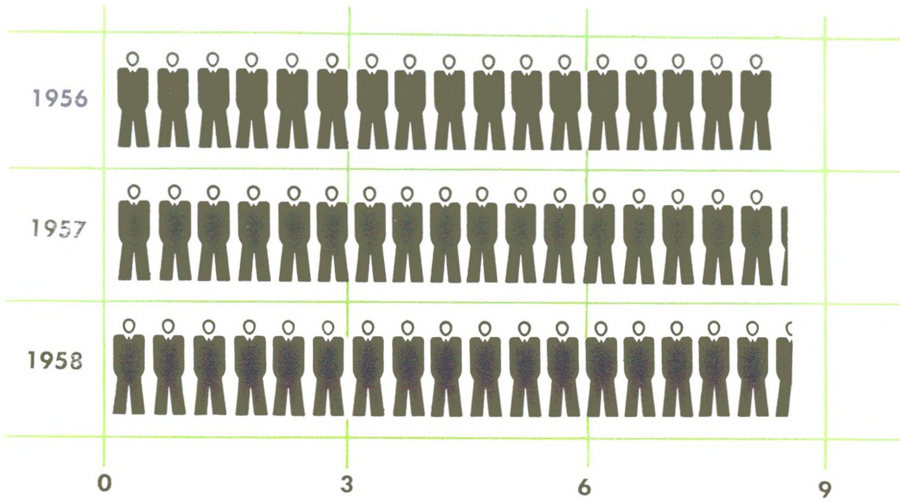
Comparisons of unemployment data confirm the foregoing story. In April 1958 insured unemployment in the United States was 8.1% of covered employment. In the Fifth District the rate ranged from 1.9% in the District of Columbia to 13.6% in West Virginia. The latter was the only state in the District in which the rate of unemployment was higher than it was in the nation.

COTTON CONSUMPTION

INDEX (1947-1949=100)

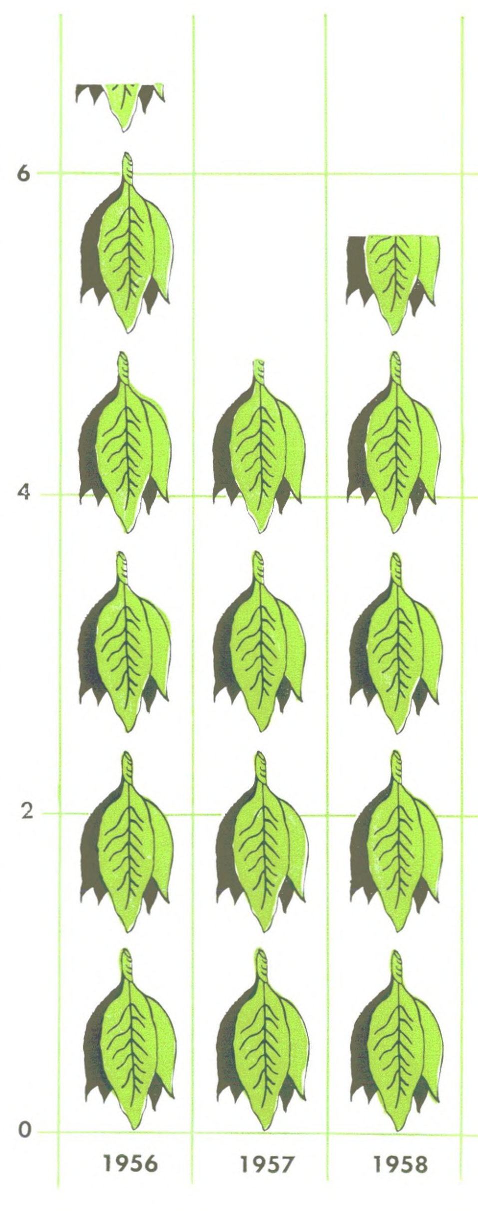


FEDERAL GOVERNMENT EMPLOYMENT
(Hundred Thousand)



Durables vs. Nondurables

VALUE OF FLUE-CURED TOBACCO CROP
(Hundred Million $)



One of the major reasons for the more favorable experience of the District last year, as compared to the nation, was the role of durable goods industries in the recession. The percentage decline in the national output of these industries from peak to trough was almost four times as great as that of nondurable goods. Similarly, the percentage decline in employment in durable goods industries was over three times as much as it was in nondurables. This latter difference was even more pronounced in the Fifth District, where the decline in employment in durable goods industries was almost four times larger than it was in nondurables.

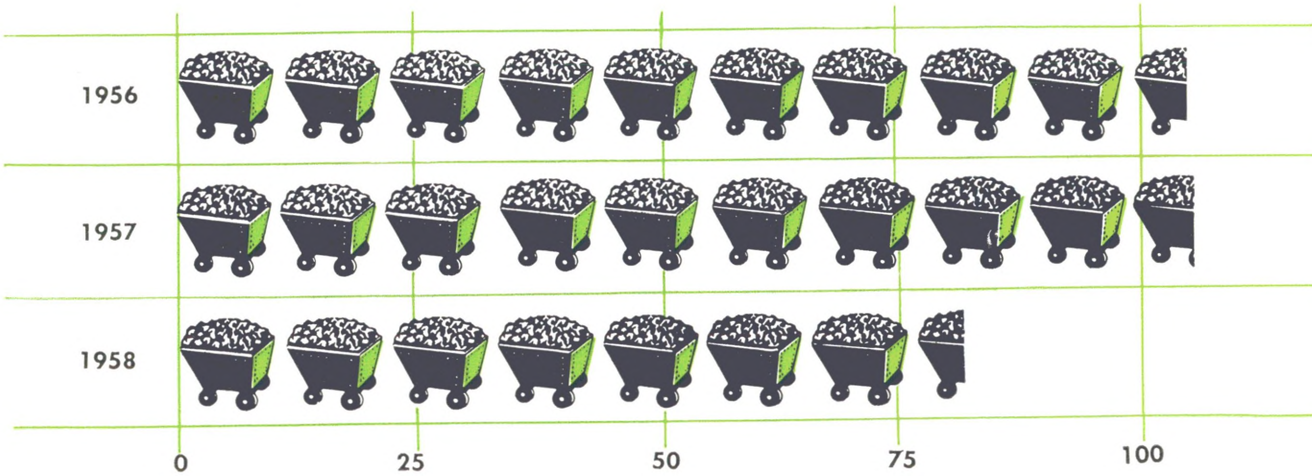
One of the principal characteristics—and faults, say some analysts—of the District's industrial structure is the preponderance of nondurable goods industries. Employment in District factories producing durable goods amounts to about one-tenth of total non-agricultural employment. In the nation it is almost one-fifth. Thus, the District was not as vulnerable as was the nation to declines in production and employment during the 1957-58 recession. In West Virginia, however, employment is greater in durable goods industries than it is in nondurable. This situation together with the relatively great importance of coal mining, itself hard hit, accounts for the greater severity of the recession in that state.

Similarly, durable goods industries are relatively more important than nondurables in Maryland. As a consequence, the decline in manufacturing employment there last year was relatively large. An offset existed, however, in the growth of government employment.

The greater relative importance of government employment in the Fifth District than in the nation is another factor that mitigated the impact of the recession in this area. In addition to an increase in government employment in the District during the first half of last year, a mid-year pay raise of 10% retroactive to January, boosted incomes of 300,000 Federal government workers in this District.

BITUMINOUS COAL PRODUCTION INDEX

(1947-1949=100)



Year-end Uptrend

Significantly, the year-end uptrend included the long-depressed textile industry. Recovery here appeared solidly based on a gradual improvement in demand over the fourth quarter, and on an across-the-board strength in markets from retail to mill for cloth for apparel and industrial uses, finished fabrics, and synthetic fabrics. Recovery in construction activity during 1958 reached the proportions of a boom. Contracts awarded declined in the fall from the very high totals reached during the summer but were still large enough to assure continued activity at relatively high levels well into 1959. On the agricultural front a bumper harvest, high rate of livestock production, relatively good prices, and an easing of the cost-price squeeze left District farmers with a considerably improved financial situation at the end of 1958.

An exception to the general uptrend in business activity in the latter part of 1958 was bituminous coal mining, due mainly to a weakened demand by important consumers like steel and electric utilities as well as a sluggish foreign market.

Generally, 1958 closed with the District's economy showing recovery on a broad front.

IV

OPERATIONS
a year's summary

Like the years that have gone before it, 1958 was an active year at this bank. Arriving in a period of declining economic activity, the year brought with it pressing economic problems. On the preceding pages we have described the work of this bank in areas touched by some of these problems, and have summarized their effect on the activities of business and industry in the Fifth District. In this section we present a rundown of our activities, and while lack of space forces us to reduce many of them to statistics, these figures are the results of a year's long hours of labor.

EMERGENCY PLANNING PROGRAM

Participating in the nation's emergency preparedness program has become a very important part of our activities. Not only have we carried out routine drills, provided stocked shelter areas, instructed many staff members in first aid and radiological defense; but as far back as 1953 we set up a program for maintaining duplicates of vital bank records. Under this program each of the three offices prepared and mailed daily, duplicates of its important records to one of the other offices. In 1956 office and storage space was obtained in another location, where these duplicate records from all three offices are now maintained.

In the event the head office is disabled for any reason, one of the branches will be temporarily designated as the head office. Should either of the branches become disabled, the head office will assume the operations of the disabled branch or branches.

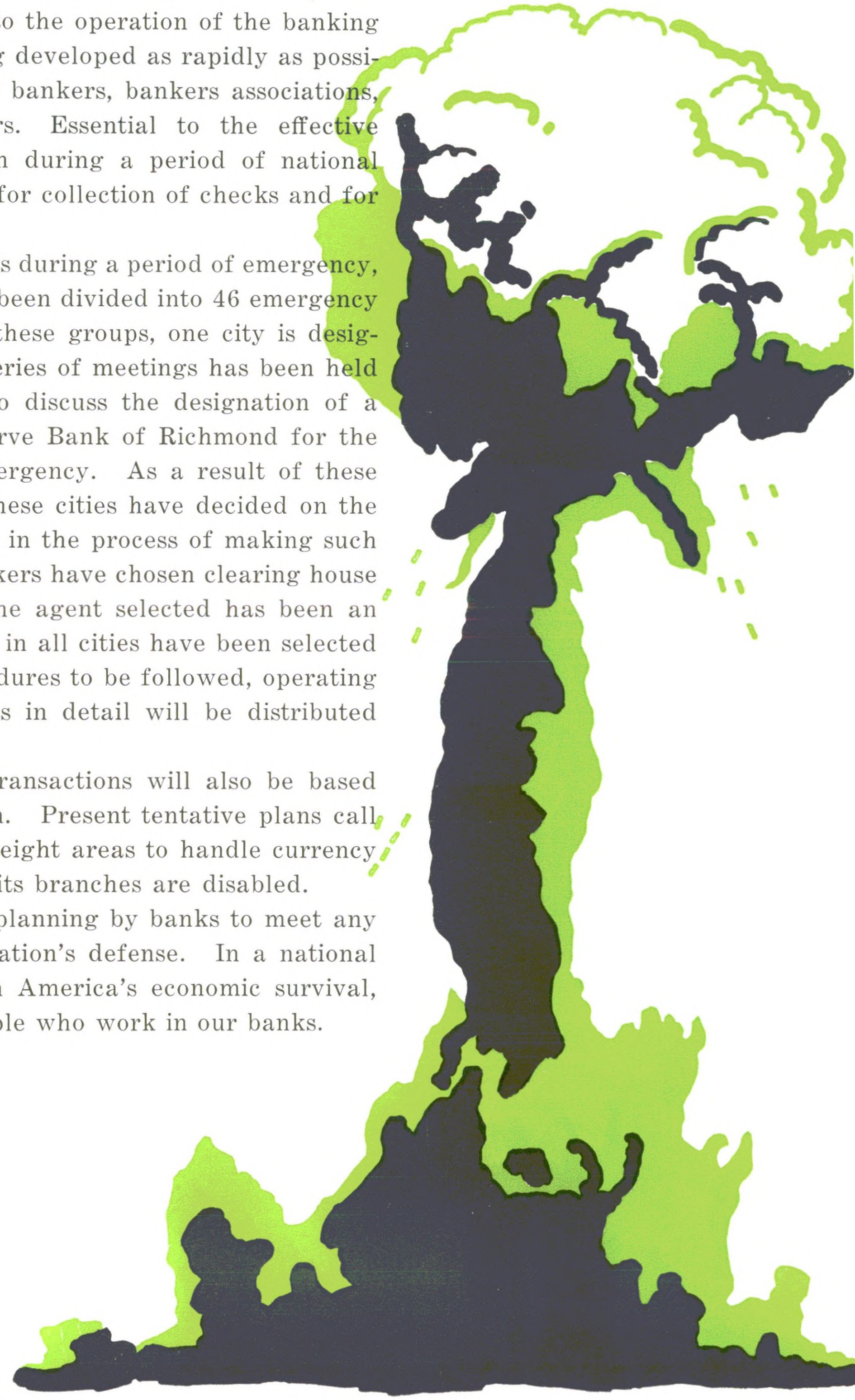
As a further precaution, arrangements for an alternate relocation site have been made.

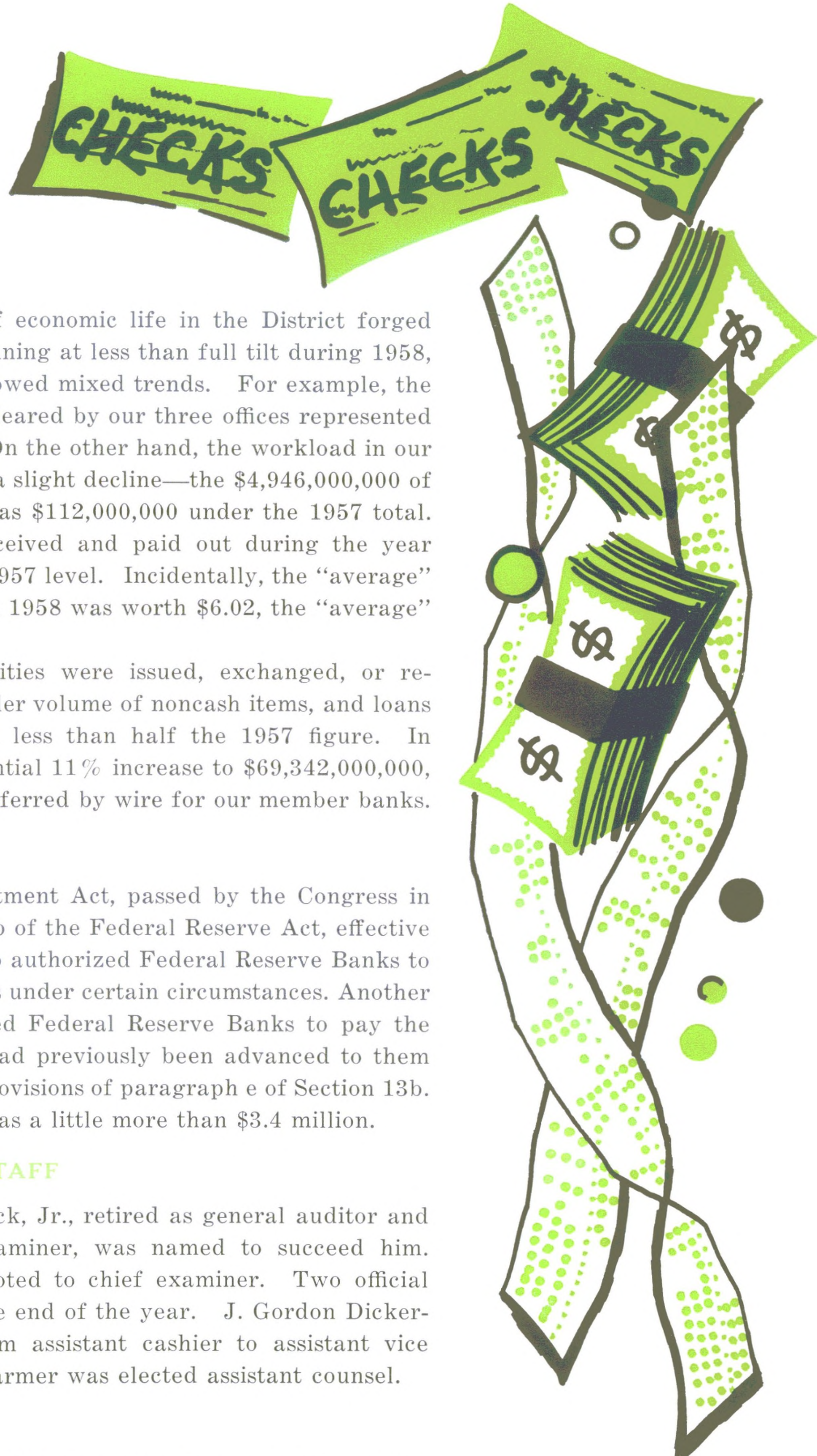
But our activities have not been limited to in-bank preparedness. The Federal Reserve System is responsible for the development of national security preparedness measures relating to monetary and credit policies and programs, and to the operation of the banking system. These programs are being developed as rapidly as possible, with the active cooperation of bankers, bankers associations, supervisory authorities and others. Essential to the effective functioning of the banking system during a period of national emergency are practical programs for collection of checks and for distribution of currency.

To provide for collection of checks during a period of emergency, all banks in the Fifth District have been divided into 46 emergency clearing groups. Within each of these groups, one city is designated as the clearing center. A series of meetings has been held with the bankers in these cities to discuss the designation of a specific agent of the Federal Reserve Bank of Richmond for the collection of checks during an emergency. As a result of these meetings, the bankers in each of these cities have decided on the selection of a specific agent, or are in the process of making such a selection. In some cases the bankers have chosen clearing house associations as agents, in others the agent selected has been an individual bank. After the agents in all cities have been selected and briefed on the collection procedures to be followed, operating circulars explaining the procedures in detail will be distributed to each bank in the District.

Plans for emergency currency transactions will also be based on the principle of decentralization. Present tentative plans call for dividing the Fifth District into eight areas to handle currency transactions in case this bank and its branches are disabled.

In the twentieth-century world, planning by banks to meet any emergency is a vital part of the nation's defense. In a national disaster such planning could mean America's economic survival, as well as life or death for the people who work in our banks.





OPERATIONS

Just as some segments of economic life in the District forged ahead while others were running at less than full tilt during 1958, our volume of operations showed mixed trends. For example, the $91,000,000,000 of checks cleared by our three offices represented an increase of about 3%. On the other hand, the workload in our Money Department showed a slight decline—the $4,946,000,000 of currency handled in 1958 was $112,000,000 under the 1957 total. The 1,400,000,000 coins received and paid out during the year was also slightly under the 1957 level. Incidentally, the "average" piece of currency handled in 1958 was worth $6.02, the "average" coin was 8.5 cents.

Fewer Government securities were issued, exchanged, or redeemed, we collected a smaller volume of noncash items, and loans to member banks averaged less than half the 1957 figure. In contrast, there was a substantial 11% increase to $69,342,000,000, in the amount of funds transferred by wire for our member banks.

SECTION 13b

The Small Business Investment Act, passed by the Congress in August, repealed Section 13b of the Federal Reserve Act, effective August 21, 1959. Section 13b authorized Federal Reserve Banks to make loans direct to business under certain circumstances. Another provision of this act required Federal Reserve Banks to pay the Treasury such amounts as had previously been advanced to them by the Treasury under the provisions of paragraph e of Section 13b. For this bank, the amount was a little more than $3.4 million.

CHANGES IN OFFICIAL STAFF

During the year R. S. Brock, Jr., retired as general auditor and G. Harold Snead, chief examiner, was named to succeed him. John C. Horigan was promoted to chief examiner. Two official promotions were made at the end of the year. J. Gordon Dickerson, Jr., was promoted from assistant cashier to assistant vice president, and Welford S. Farmer was elected assistant counsel.

NEW MEMBER BANKS

In 1958 four banks in the Fifth District became members of the Federal Reserve System. They were: Fairfax County National Bank, Falls Church, Virginia, which opened for business January 2; Schoolfield Bank & Trust Company, Danville Virginia, formerly a nonmember which was admitted to membership July 1; The Maryland State Bank of Montgomery County, Gaithersburg, which opened October 15; and the National Bank of Maryland, Silver Spring, a newly organized bank which opened November 24.

CHANGES IN BOARDS OF DIRECTORS

Alonzo G. Decker, Jr., executive vice president of The Black and Decker Manufacturing Company of Towson, Md., was named chairman of the Board and Federal Reserve agent of this bank by the Board of Governors to succeed John B. Woodward, Jr., who is retiring after ten years of service as a director. Mr. Decker has served on the Board since 1954. D. W. Colvard, dean of agriculture of North Carolina State College, and a director since 1955, was designated deputy chairman of the Board. Edwin Hyde, president of Miller & Rhoads of Richmond, was appointed to a three-year term as a Class C director. Mr. Hyde previously served on the Board from 1951 through 1954.

In November A. Scott Offutt, president of Anacostia National Bank of Washington, was elected to succeed the late Joseph E. Healy, who was president of The Citizens National Bank of Hampton, Va.; and L. Vinton Hershey, president of the Hagerstown Shoe Company, Md., was re-elected to the Board for a second term.

At the Baltimore branch, the Board of Governors appointed John T. Menzies, Jr., president of The Crosse & Blackwell Company of Baltimore, to succeed Wm. Purnell Hall as a director. Harvey E. Emmart, senior vice president and cashier of the Fidelity-Baltimore National Bank, was appointed to the Board to succeed Stanley B. Trott, who has served as a director since 1953. John W. Stout, president of The Parkersburg National Bank, West Virginia, was reappointed to the Board for a second term.

At the Charlotte branch, the Board of Governors appointed Clarence P. Street, secretary and general manager of McDevitt & Street Co. of Charlotte, to succeed T. Henry Wilson as a director. I. W. Stewart, chairman of the board of the American Commercial Bank of Charlotte, and G. G. Watts, president of The Merchants and Planters National Bank of Gaffney, S. C., were reappointed to the Board of Directors.

John S. Alfriend, chairman of the board and president of the National Bank of Commerce, Norfolk, was again selected by the directors of this bank to represent the Fifth District on the Federal Advisory Council.

Comparative Statement of Condition

ASSETS:	December 31, 1958	December 31, 1957
Gold certificate account	$1,033,458,931.24	$1,347,886,751.27
Redemption fund for Federal Reserve notes	85,802,850.00	73,569,035.78
Total Gold Certificate Reserves	1,119,261,781.24	1,421,455,787.05
Federal Reserve notes of other banks	57,451,560.00	45,902,310.00
Other cash	22,111,899.70	25,618,053.01
Discounts and advances	2,487,900.00	4,265,000.00
U. S. GOVERNMENT SECURITIES:		
Bills	146,487,000.00	62,844,000.00
Certificates	1,213,948,000.00	1,273,618,000.00
Notes	186,655,000.00	----------
Bonds	161,674,000.00	179,012,000.00
Total U. S. Government securities	1,708,764,000.00	1,515,474,000.00
Total loans and securities	1,711,251,900.00	1,519,739,000.00
Due from foreign banks	740.28	740.28
Uncollected cash items	433,573,331.73	421,537,623.58
Bank premises	6,654,466.73	6,996,259.30
Other assets	9,478,946.92	14,057,742.09
TOTAL ASSETS	$3,359,784,626.60	$3,455,307,515.31

LIABILITIES:		
Federal Reserve notes	$2,135,757,205.00	$2,188,220,565.00
DEPOSITS:		
Member bank—reserve accounts	764,579,827.90	801,083,446.15
U. S. Treasurer—general account	29,422,293.73	47,160,559.22
Foreign	11,985,000.00	17,391,000.00
Other	4,634,454.51	5,155,946.47
Total Deposits	810,621,576.14	870,790,951.84
Deferred availability cash items	343,292,737.60	327,773,004.22
Other liabilities	1,130,296.22	587,044.96
TOTAL LIABILITIES	3,290,801,814.96	3,387,371,566.02

CAPITAL ACCOUNTS:		
Capital paid in	16,438,600.00	15,695,050.00
Surplus (Section 7)	44,845,979.55	41,236,411.12
Surplus (Section 13b)	----------	3,349,144.81
Other capital accounts	7,698,232.09	7,655,343.36
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$3,359,784,626.60	$3,455,307,515.31

Contingent liability on acceptances purchased for foreign correspondents	$ 3,457,800.00	$ 3,881,100.00

Comparative Statement of Earnings and Expenses

	1958	1957
EARNINGS:		
Discounts and advances	$ 365,806.69	$ 1,180,778.42
Interest on U. S. Government securities	47,475,123.97	46,405,110.59
Other earnings	14,559.23	14,483.20
Total Current Earnings	47,855,489.89	47,600,372.21
EXPENSES:		
Operating expenses (including depreciation on bank premises) after deducting reimbursements received for certain Fiscal Agency and other expenses	9,168,681.94	8,718,644.60
Assessments for expenses of Board of Governors	301,300.00	380,800.00
Cost of Federal Reserve currency	580,121.83	660,458.96
Net Expenses	10,050,103.77	9,759,903.56
Current Net Earnings	37,805,386.12	37,840,468.65
ADDITIONS TO CURRENT NET EARNINGS:		
Profit on sales of U. S. Government securities (net)	9,794.79	10,405.94
Reimbursement for Fiscal Agency expenses incurred in prior years	———	116,135.27
All other	1,718.64	1,886.26
Total Additions	11,513.43	128,427.47
DEDUCTIONS FROM CURRENT NET EARNINGS:		
Reserves for contingencies	42,636.11	53,038.39
Retirement system (adjustment for revised benefits)	———	571,926.00
All other	2,080.06	533.02
Total Deductions	44,716.17	625,497.41
Net Additions (+) or Deductions (−)	−33,202.74	−497,069.94
NET EARNINGS BEFORE PAYMENTS TO U. S. TREASURY	$37,772,183.38	$37,343,398.71
Paid U. S. Treasury (interest on Federal Reserve notes)	$33,129,772.25	$32,783,688.22
Dividends paid	961,325.46	917,082.44
Transferred to surplus (Section 7)	3,681,085.67	3,642,628.05
Total	$37,772,183.38	$37,343,398.71

SURPLUS ACCOUNT (Section 7)

	1958	1957
Balance at close of previous year	$41,236,411.12	$37,593,783.07
Deduction account of transfer from Section 13b Surplus	71,517.24	———
	41,164,893.88	37,593,783.07
Addition account of profits for year	3,681,085.67	3,642,628.05
BALANCE AT CLOSE OF CURRENT YEAR	$44,845,979.55	$41,236,411.12

CAPITAL STOCK ACCOUNT

(Representing amount paid in, which is 50% of amount subscribed)

	1958	1957
Balance at close of previous year	$15,695,050.00	$14,817,100.00
Issued during the year	879,300.00	930,450.00
	16,574,350.00	15,747,550.00
Cancelled during the year	135,750.00	52,500.00
BALANCE AT CLOSE OF CURRENT YEAR	$16,438,600.00	$15,695,050.00

FEDERAL RESERVE

Directors

Alonzo G. Decker, Jr.	Chairman of the Board and Federal Reserve Agent
D. W. Colvard	Deputy Chairman of the Board

CLASS A

Robert Gage	President, The Commercial Bank Chester, South Carolina
Denver L. Morgan	Executive Vice President and Cashier, The Charleston National Bank Charleston, West Virginia
A. Scott Offutt	President, Anacostia National Bank of Washington Washington, D. C.

CLASS B

L. Vinton Hershey	President, Hagerstown Shoe Company Hagerstown, Maryland
Robert O. Huffman	President, Drexel Furniture Company Drexel, North Carolina
Wm. A. L. Sibley	Vice President and Treasurer, Monarch Mills Union, South Carolina

CLASS C

D. W. Colvard	Dean of Agriculture, North Carolina State College of Agriculture and Engineering Raleigh, North Carolina
Alonzo G. Decker, Jr.	Executive Vice President, The Black and Decker Manufacturing Company Towson, Maryland
Edwin Hyde	President, Miller & Rhoads, Inc. Richmond, Virginia

Member Federal Advisory Council

John S. Alfriend	Chairman of the Board and President, National Bank of Commerce of Norfolk Norfolk, Virginia

BANK OF RICHMOND

Officers

Hugh Leach	President
Edward A. Wayne	First Vice President
N. L. Armistead	Vice President
Robert L. Cherry	Vice President
J. Dewey Daane	Vice President
Donald F. Hagner	Vice President
Aubrey N. Heflin	Vice President and General Counsel
Upton S. Martin	Vice President
Joseph M. Nowlan	Vice President and Cashier
James M. Slay	Vice President
Thomas I. Storrs	Vice President
Clair B. Strathy	Vice President and Secretary
Charles W. Williams	Economic Adviser
J. Gordon Dickerson, Jr.	Assistant Vice President
H. Ernest Ford	Assistant Vice President
R. Pierce Lumpkin	Senior Economist
Edmund F. Mac Donald	Assistant Vice President
George W. McKinney, Jr.	Assistant Vice President
John L. Nosker	Assistant Vice President
Victor E. Pregeant, III	Assistant General Counsel
Clifford B. Beavers	Assistant Cashier
E. B. Coleman	Assistant Cashier
John G. Deitrick	Assistant Cashier
Welford S. Farmer	Assistant Counsel
Robert R. Fentress	Assistant Cashier
John E. Friend	Assistant Cashier
John C. Horigan	Chief Examiner
Raymond E. Sanders, Jr.	Assistant Cashier
Wythe B. Wakeham	Assistant Cashier

G. Harold Snead — General Auditor

BALTIMORE BRANCH

Directors

Gordon M. Cairns	Dean of Agriculture, University of Maryland College Park, Maryland
Harvey E. Emmart	Senior Vice President and Cashier, Fidelity-Baltimore National Bank Baltimore, Maryland
James W. McElroy	President, The First National Bank of Baltimore Baltimore, Maryland
John T. Menzies, Jr.	President, The Crosse & Blackwell Company Baltimore, Maryland
J. N. Shumate	President, The Farmers National Bank of Annapolis Annapolis, Maryland
John W. Stout	President, The Parkersburg National Bank Parkersburg, West Virginia
Clarence R. Zarfoss	Vice President, Western Maryland Railway Company Baltimore, Maryland

Officers

Donald F. Hagner	Vice President
A. A. Stewart, Jr.	Cashier
B. F. Armstrong	Assistant Cashier
E. Riggs Jones, Jr.	Assistant Cashier
A. C. Wienert	Assistant Cashier

CHARLOTTE BRANCH

Directors

George H. Aull	Agricultural Economist, Clemson College Clemson, South Carolina
William H. Grier	Executive Vice President, Rock Hill Printing and Finishing Company Rock Hill, South Carolina
Charles D. Parker	Vice Chairman of the Board and First Executive Vice President, First Union National Bank of North Carolina Charlotte, North Carolina
Ernest Patton	Chairman of the Board, The Peoples National Bank of Greenville Greenville, South Carolina
I. W. Stewart	Chairman of the Board, American Commercial Bank Charlotte, North Carolina
Clarence P. Street	Secretary and General Manager, McDevitt & Street Co. Charlotte, North Carolina
G. G. Watts	President, The Merchants and Planters National Bank of Gaffney Gaffney, South Carolina

Officers

Robert L. Cherry	Vice President
Stanhope A. Ligon	Cashier
R. Lee Honeycutt	Assistant Cashier
E. Clinton Mondy	Assistant Cashier

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Federal Reserve Bank of Richmond