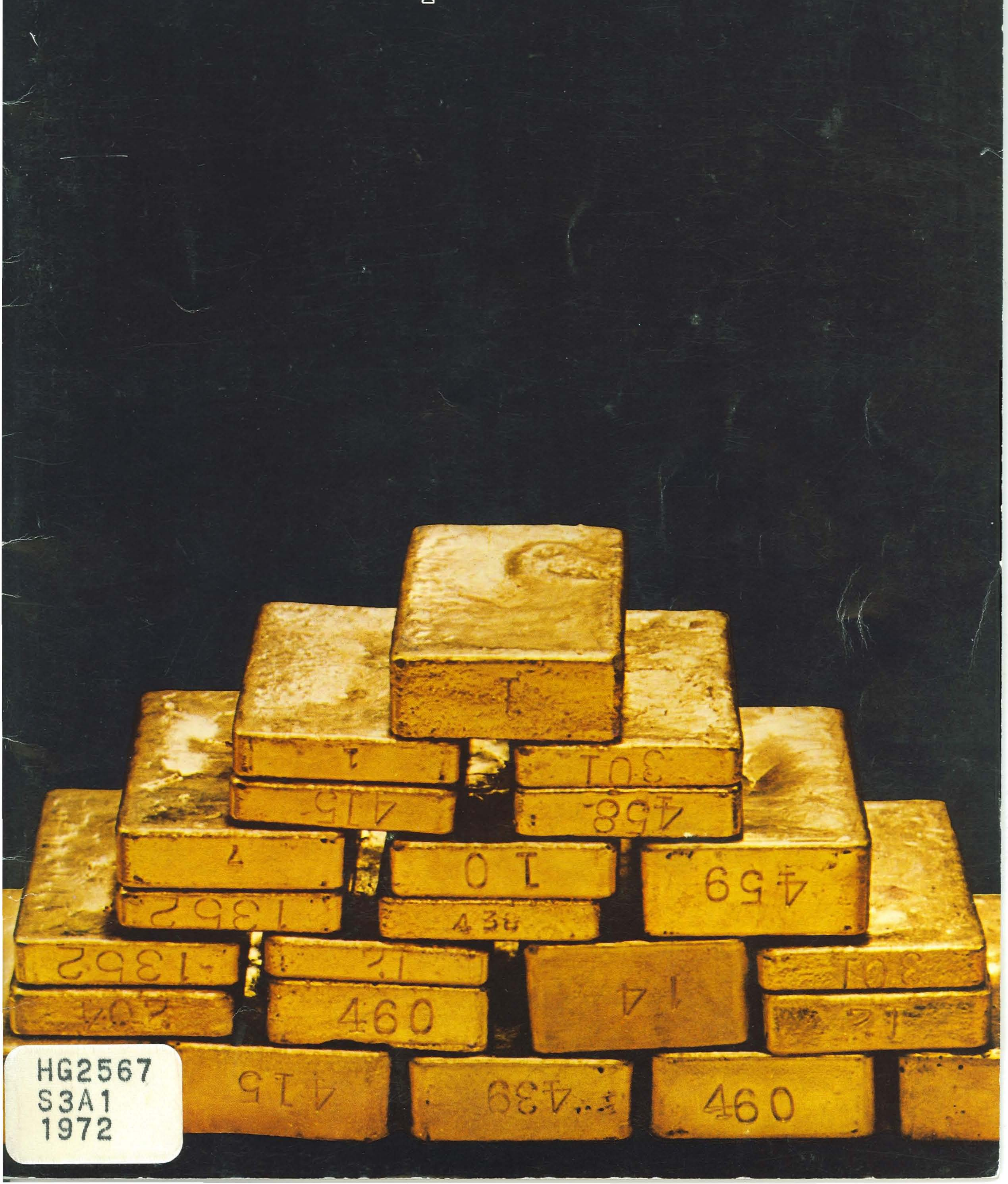
Federal Reserve Bank of San Francisco
1972 Annual Report



Annual Report 1972
Federal Reserve Bank of San Francisco

Changing of the Guard

John J. Balles (left) assumed office as President of the Federal Reserve Bank of San Francisco in September 1972, replacing Eliot J. Swan (right), who took early retirement in June. Mr. Balles came here from the Mellon National Bank and Trust Company of Pittsburgh, where he served as Senior Vice President.

At the Mellon Bank, Mr. Balles was in charge of the economic and corporate planning office, with responsibility for analysis of business and financial developments, management science, long-run planning, legislative relations, and liaison with bank supervisory agencies. He served there 13 years, and prior to that, he worked with the Federal Reserve Bank of Cleveland, first as Senior Financial Economist in the Research Department and later as Vice President in charge of the Credit Department and special advisor on monetary policy to the Bank's President.

Active in banking circles, Mr. Balles has served on the Administrative Committee of the American Bankers' Association Government Relations Council and on the Economic Advisory Committee. During 1971, he was chairman of the ABA Special Committee on the Presidential Commission on Financial Structure and Regulation. He also is past chairman of the Trustees of the Banking Research Fund of the Association of Reserve City Bankers and a past president of the Pennsylvania Bankers Association. Mr. Balles has served on the Board of Directors of North American Rockwell Corporation and has been chairman of the Consulting Committee of Bank Economists to the Comptroller of the Currency. He also is a former director of the American Finance Association and of the National Association of Business Economists.

He received his B.S. and M.A. degrees from the State University of Iowa, and he holds a Ph.D. degree in economics from Ohio State University. He also served as a faculty member in the economics department at Ohio State, and while there, coauthored a book entitled "Principles of Money and Banking."

Mr. Swan's career with the Federal Reserve Bank covered a span of 31 years—more than half the institution's lifespan. He came to the Bank in 1941 after teaching for a period of years at the University of California at Berkeley and also at St. Mary's College. He served in a number of staff and operating assignments at the Bank, until being named First Vice President in 1956. He became President—the Bank's eighth—in 1961, and served in that position until his retirement last year.

Business: Solid Expansion

The national economy surged forward in 1972, recording the best growth record of the past decade and the most favorable price performance of the past half-decade. GNP climbed almost 10 percent to $1,152 billion, on the basis of a 6½-percent increase in real (price adjusted) GNP and a 3-percent rise in the general level of prices. Other aggregate measures also reflected the strength of business activity, with personal income rising 8½ percent to $936 billion and civilian employment increasing 3 percent to 81.7 million.

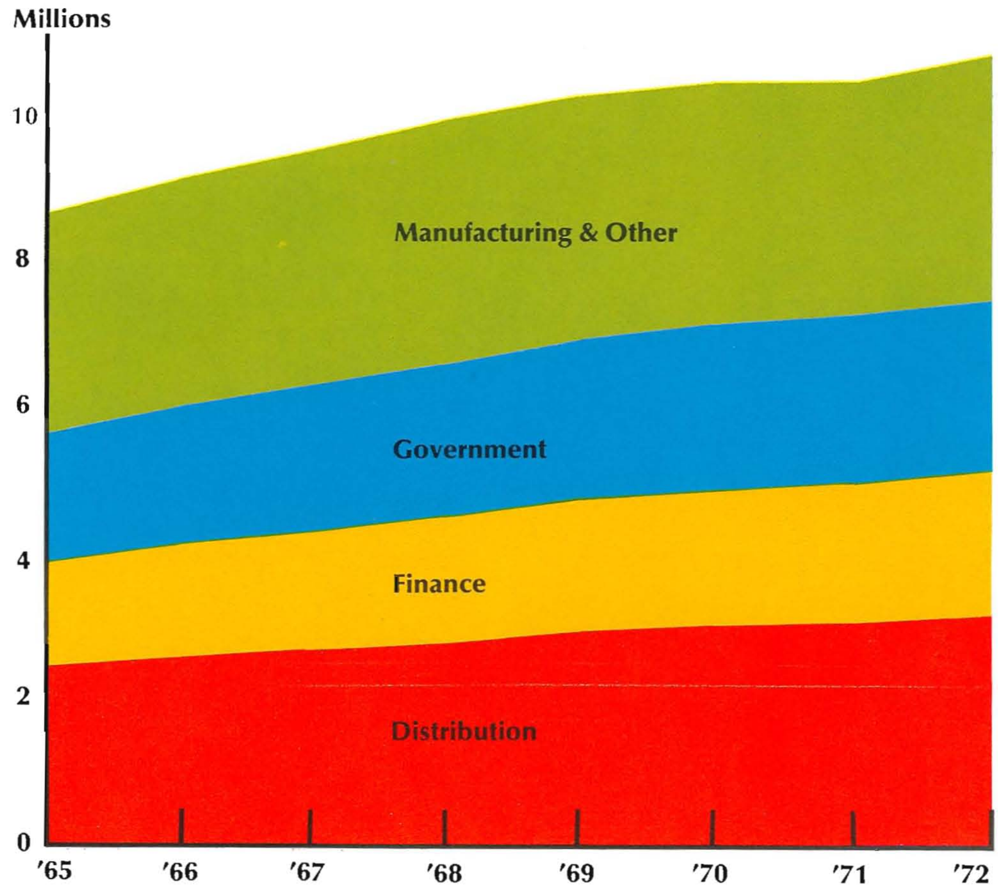
The 2.3 million expansion in employment was the largest gain of the past quarter century and almost twice the total gain of the 1970-71 period. With activity rising, however, millions of new jobseekers (adult women, returned veterans and teen-agers) poured into the labor market. Because of this rapid growth in the civilian labor force, the unemployment rate stayed relatively high until the last several months of the year, when it at length declined to 5.2 percent.

Inflation remained a worrisome problem for the nation's policymakers, despite the much reduced (3 percent) rate of increase in the GNP implicit price deflator—the broadest measure of price change—and despite the deceleration in consumer prices (except for food) during the Phase II period of controls. But wholesale prices rose more rapidly than at any other time of the past two decades, largely because of a price upsurge in farm products and processed foods and feeds, and thus presaged future problems for family budgets.

Substantial Western gains

West of the Continental Divide, business activity expanded strongly throughout 1972. The leading "export" industries, such as agriculture and aerospace manufacturing, reported respectable increases in output; the construction industry behaved spectacularly; and the region's extractive industries continued to participate in the fortunes of the sturdy nationwide expansion. Western banks, boasting a significant growth in bank credit, meanwhile helped to provide the financing for this substantial increase in business activity.

Personal income in the states of the San Francisco Federal Reserve District increased by more than 8½ percent during the year to a landmark $150 billion—almost one-sixth of the national total. (The District includes California, Hawaii, Oregon, Washington, Alaska, Idaho, Utah, Nevada, and all except the southeastern corner of Arizona.)
By this and other broad measures of activity, the pace of regional business was stronger than at any time since the late 1960's.



Employment expands strongly in the West in 1972, after three sluggish years . . . all sectors score significant gains

Nonfarm employment increased more than 3 percent during 1972, on the basis of a notable recovery in the cyclical manufacturing and construction industries, along with a solid expansion of jobs in trade, services and government. Employment gains were widespread throughout the West, most notably in Arizona, with almost a 9-percent gain for the year. Nonfarm jobs increased by 2 percent or less in California and Washington, but those figures contrasted with the actual declines recorded in those two key states during the previous year. Hawaii was the only state to report a significant slowdown in employment growth—and a significant increase in unemployment—largely because of recent shipping strikes and the earlier overbuilding of resort facilities.

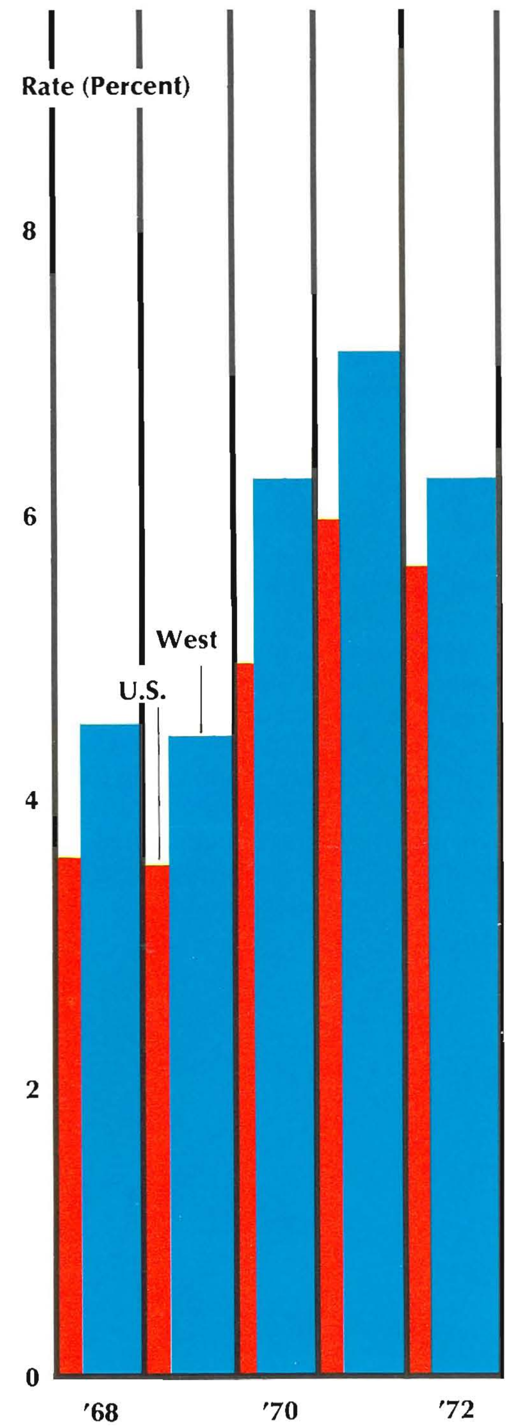
The regional unemployment rate dropped sharply, reaching 5.8 percent in late 1972 in contrast to the spring-1971 peak of 7.5 percent. The level of joblessness remained somewhat higher in almost every District state than in the nation, with its 5.2-percent rate at year-end; only Arizona showed signs of significant labor shortages. (National and regional data are not quite comparable statistically.) Yet in California and Washington, where unemployment had been extremely high as late as mid-1971, the recovery from the aerospace-related recession brought about a very sharp improvement within the short span of a year and a half—a 1½-percentage point decline in California to a 5.7-percent rate, and a 3-percentage point decline in Washington to 8.0-percent by year-end.

Stronger demand patterns

Western consumers responded to the more buoyant business atmosphere with an old-fashioned buying spree. In the Pacific region, retail sales increased almost 10 percent overall—significantly higher than nationally—and spending for autos, furniture, and other durables jumped almost 14 percent for the second straight year. Yet with the still significant amount of slack in the regional economy, consumer prices continued to rise at a slightly slower pace here than elsewhere, increasing by about 3.1 percent as against 3.3 percent nationally.

The buying boom was fueled by a 19-percent increase in bank consumer-credit loans, with autos and mobile homes accounting for a substantial share of the total. The earlier upsurge in credit-card extensions tapered off during the year, but as recompense, check-credit extensions rose very rapidly.

As the economy expanded, Western business firms loosened up their pursestrings and began spending more for plant, equipment and inventories. At the same time, corporations began to turn to the banks once again for financing—increasing their borrowings 10 percent after two sluggish years of loan demand—although they continued to obtain large amounts of funds from the commercial-paper market and from their own retained earnings. The heaviest bank borrowers were public utilities (especially communications firms) and trade and service firms.



Unemployment declines — especially in the West

The cost of borrowing rose over the course of the year, reflecting the rising trend in the prime business-loan rate; between the February and November survey dates, the average rate on regular short-term loans rose from 5.39 to 6.41 percent.

Easier fiscal position

Many regional governmental units, after subsisting for years practically on a hand-to-mouth basis, moved into a much stronger financial position in 1972. (For example, California now expects to find itself with an $850-million surplus after spending its $7.7-billion budget for fiscal 1973.) This healthy fiscal situation came about in part because of the overall acceleration of economic activity. In addition, it reflected the impact of previous tax legislation (such that California's revenues benefitted both from the payment of 1971 income taxes and from the startup of withholding for 1972 taxes) as well as a sharp rise in Federal grants, highlighted by the initial payment of revenue-sharing checks in December.

Not much tax legislation was passed in most District states (except California) during 1972. Washington and Oregon both acted to give property-tax relief to the elderly. Idaho re-adjusted personal-income tax rates, and also boosted rates on corporate income and on cigarette and motor-fuel sales. Most importantly, California adopted a $1.1-billion revenue bill designed for local-school support as well as property-tax relief, with most of the revenue being obtained from higher sales and corporate-income taxes. The tax bill came about as a response to a 1971 California Supreme Court ruling, which declared unconstitutional a public-school financing system based on local property taxes.

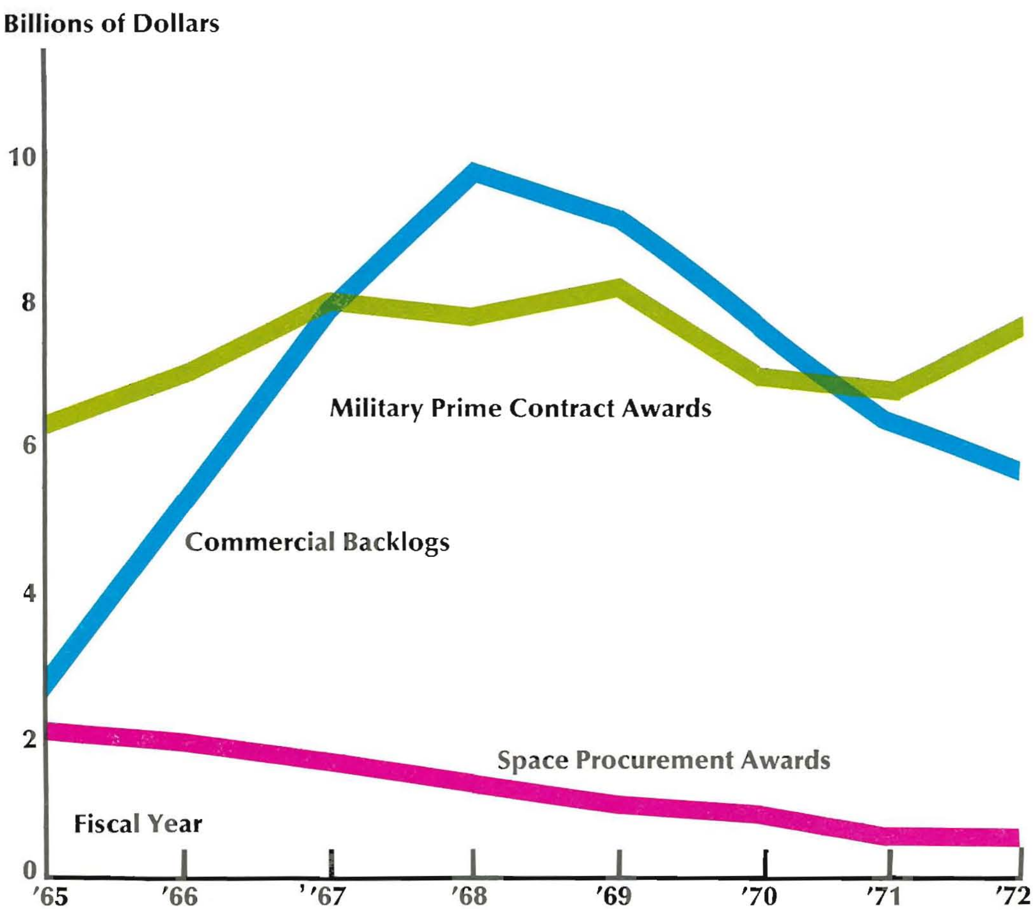
Municipal-bond calendars lightened considerably during 1972, reflecting the easier position of states and municipalities. Western governmental units borrowed $2.9 billion during the year—10 percent below the heavy borrowing pace of the previous year—and they borrowed at a slightly lower cost, with a decline in the average yield on rated general obligations from 5.24 to 5.13 percent. State governments borrowed $1.2 billion, and a vast range of local units borrowed $1.7 billion—in each case, considerably below the 1971 pace.

Aerospace out of tailspin

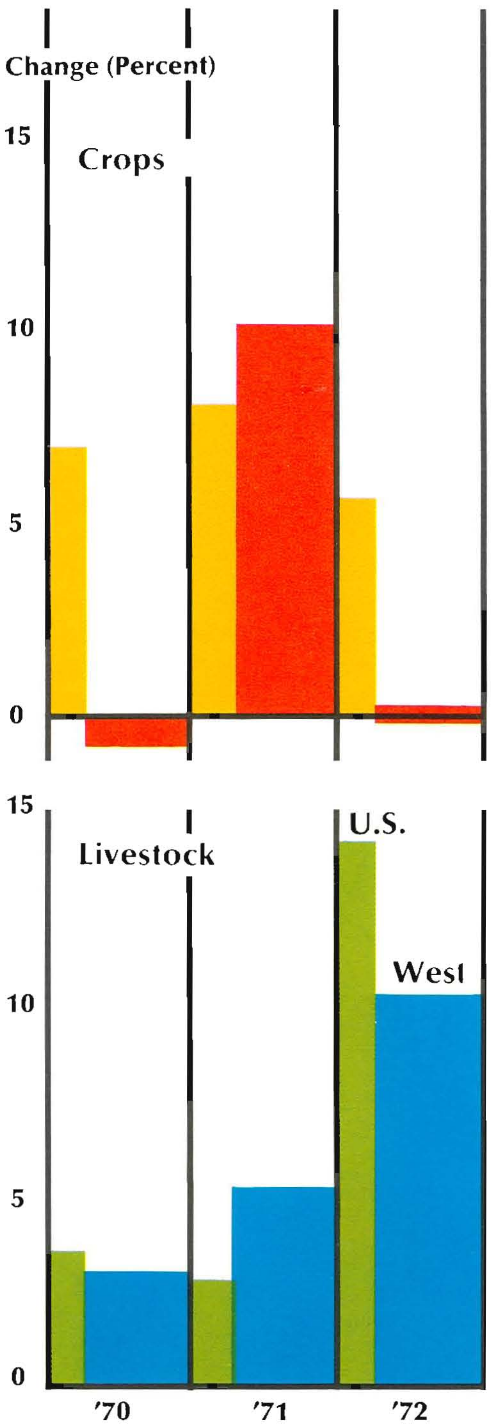
The Western aerospace industry pulled out of the tailspin it had been in for almost a half-decade, as aircraft and electronic producers boosted employment about 3 percent during the year. In absolute numbers, California accounted for most of the employment growth, but in percentage terms, Washington recorded a far larger gain. Yet even with this increase, regional employment at year-end totalled only 545,000—almost 200,000 below the peak reached five years before.

Military prime-contract awards to Western firms rose 16 percent in fiscal 1972 to $7.9 billion, as Western firms managed again to capture about one-fourth of the Pentagon's total business. Few new military projects got underway during the year, but awards for ongoing aircraft and missile projects increased sharply at both California and Washington facilities.

Space-agency work continued to decline; NASA's $544 million in new contracts in fiscal 1972 was roughly in line with the previous year's total but amounted only to about one-fourth of the 1965 peak. The $2.6-billion space-shuttle development contract awarded to North American Rockwell last summer promises eventually to reverse this prolonged decline. (The shuttle is planned as a reusable two-stage rocket capable of carrying a dozen passengers and a 65,000-pound payload into earth orbit.) However, the project has gotten underway rather slowly because of Federal fiscal constraints.



Aerospace sector benefits from sharp rise in military contracts . . .
commercial backlog declines despite larger inflow of new orders



Western livestock industry booms, but crop receipts fail to gain

The regional industry benefitted from an improvement in orders for commercial aircraft, although backlogs continued to trend downward most of the year. An increase in airline passenger traffic—combined with a return to profitability—encouraged the carriers to order additional equipment. However, they confined their purchases mainly to older-generation equipment, especially the Boeing 727. (During the year, the firm obtained its 1,000th order for this very popular plane.) Orders for the more expensive wide-bodied jets—the Boeing 747, the McDonnell Douglas DC-10 and the Lockheed L-1011—remained relatively weak until late in the year. Foreign airlines meanwhile provided a growing outlet for both older and newer-generation equipment, a historic breakthrough in this direction being China's $125-million purchase of 10 Boeing 707's.

Mixed results on the farm

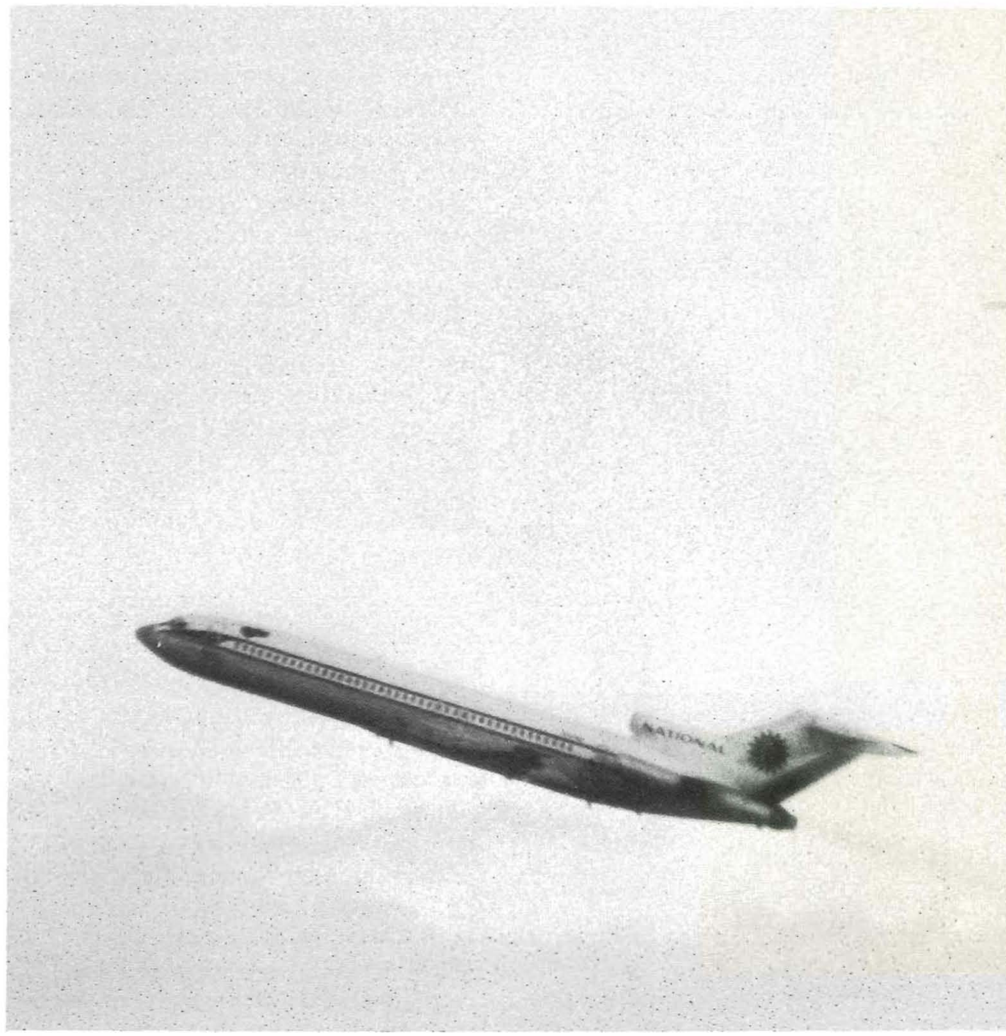
The farm sector reported mixed results in 1972; livestock producers benefitted from a 10-percent gain in cash receipts, while crop farmers reported no gain at all. Total cash receipts rose to a record $8.7 billion, for a 4-percent increase, or less than half the national pace. (The slower-than-national pace reflected the West's limited output of certain commodities, such as hogs, soybeans and feed grains, that have risen most rapidly in price over the past year.) But net income apparently remained stable, reflecting not only the modest gain in gross receipts but also a steady rise in farm production expenses and a decline in government payments.

Rising production and (especially) rising prices accounted for the strong gain in livestock income. Beef cattle prices rose 12 percent for the year, and prices of poultry, eggs, and dairy products also advanced sharply. Arizona and Nevada, the states most heavily dependent on cattle production, thus scored the largest gains in farm receipts. On the supply side, cattle slaughter and milk production continued to expand, and at a faster rate than nationally. Yet despite the high levels of fed beef prices, livestock profit margins declined as a reflection of the rising costs of feeder cattle and feed grains, partly caused by the early 1972 drought in the Southwest range country.

The sluggish behavior of crop receipts reflected the reduction in output brought about by bad weather—including the early-spring freeze damage to deciduous fruits (especially in the Mountain states) and the widespread freeze damage to citrus fruits and vegetables in the latter part of the year. Lower prices for oranges, lettuce and potatoes also cut into receipts, but these price declines were offset by the late-year upsurge in wheat demand, which sent prices soaring 73 percent above a year ago. Cotton prices also strengthened, and cotton yields were substantially higher than previously.

Wheat farmers benefitted from a shift from worldwide glut to shortage in a brief three-year period, as the giant consuming nations (India, China and the Soviet Union) all turned to this country for supplies. The Northwest harvest did not begin until the $1-billion deal with the U.S.S.R. had been publicized, so that farmers in that region, unlike their counterparts in the Southern Plains, were able to benefit from skyrocketing wheat prices as well as from an expansion in output.

Farm debt increased substantially in the West during 1972, reflecting both an expansion in farm activity and a favorable lending climate. Commercial banks were very active lenders; at midyear, banks reported a 7-percent year-to-year gain in farm mortgage debt outstanding (following two years' decline) along with an 8-percent gain in farm production loans. This increase in production credit reflected both an increase in purchases of farm equipment and an expansion of livestock herds.



Spectacular construction results
Construction activity burgeoned during 1972, as construction awards reached a record $15.7 billion, with every Western state sharing in the gain. Nonresidential awards rose 15 percent, bolstered by a substantial increase in contracts for factories and office buildings. Heavy construction rose 8 percent, with an increase in demand for streets, highways, reservoirs and water supply facilities. But in particular, the residential sector reported a 20-percent increase in new awards for the year, and in the process accounted for over one-half of the industry's total dollar volume.

About 550,000 new units were added to the region's housing stock last year, with 455,000 housing starts being supplemented by about 95,000 mobile homes. This 12-percent increase fell somewhat below the national pace—partly because of continued weakness in Washington's housing situation—and it was far below the 40-percent gain recorded in the West the preceding year. Nonetheless, it represented a substantial expansion in supply—perhaps too substantial, in view of a growing number of danger signals in the market. Vacancy rates (especially on rental units) increased as the year progressed, and at year-end, the number of units under construction and the unsold inventory of new single-family homes both reached record levels.

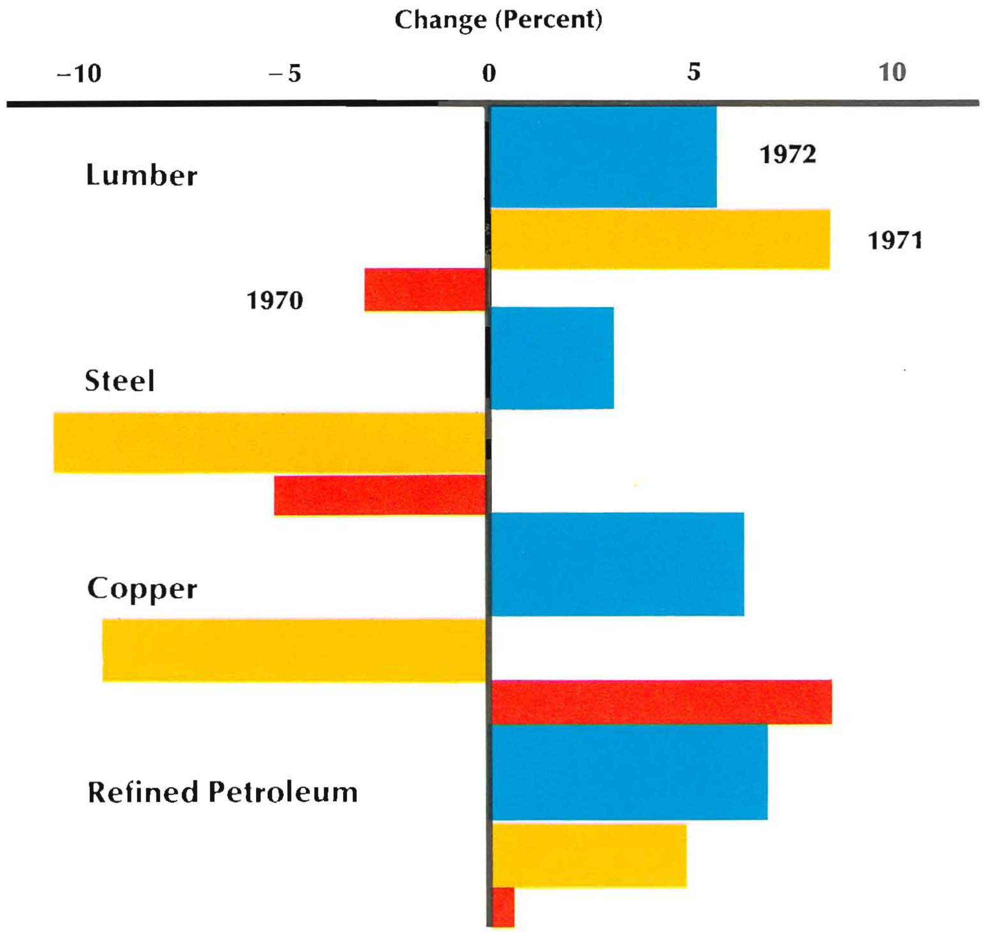
Construction financing and permanent mortgage financing were amply available to support the very strong pace of housing activity. The major lending institutions, almost inundated by heavy inflows of savings, vastly expanded their mortgage lending during the year. Savings-and-loan associations increased their net mortgage lending 36 percent to $6.8 billion. Commercial banks, although recording a considerably smaller savings inflow than in 1971, posted a $2.8-billion in mortgage portfolios—a 55-percent larger gain than in 1971—and sharply expanded their loans to mortgage companies and their outstanding credits on mobile homes. Compared to 1971, this increase in lending activity was carried out generally at lower interest rates, lower down payments and longer maturities.

One of the major building developments of the year was September's ruling by the California Supreme Court that environmental-impact statements must be filed with requests for building permits on all private construction projects where a "significant" impact occurs. The Court thus extended to private projects the same safeguards applied to public projects under California's 1970 environmental quality act. The decision threw California's building industry into a turmoil; some communities even reacted by stopping the issuance of building permits. However, much of this concern was alleviated when the state legislature voted to narrow the interpretation of the court's ruling.

Stronger lumber, steel demand

The record volume of housing activity nationwide translated into an insatiable demand for Western forest products during 1972. Lumber mills boosted production 6 percent to a near-record level, but they remained unable to keep up with the historic volume of orders. The result was a sharp run-up in prices, with lumber prices up 18 percent for the year and plywood prices up 22 percent, despite the presence of Phase II controls.

Lumber prices rose sharply early in the year, partly because of the absence of controls on raw timber, and partly because of provisions in "term limit" pricing agreements which permitted price boosts as high as 15 percent on some individual items. Further increases occurred early in the spring, when the Price Commission lifted wage and price controls on small firms, and the upsurge continued even after the Cost of Living Council reimposed controls on small lumber producers and wholesalers. Lumbermen themselves blamed much of the upward price pressure on the profit-limitation provisions of the control program, claiming that these provisions discouraged mills from producing at full capacity.



Output increases in the West's major extractive industries in 1972, following several years of general sluggishness

Western steel production rose 3 percent above 1971's depressed level to 6.2 million tons, but it remained considerably below the 1969 peak. Output declined sharply in early 1972, as a result of a six-week strike at a major integrated facility at Fontana, California, but then it recovered strongly, running far ahead of the pace of the inventory-liquidation period of late 1971. Steel prices increased 6 percent for the year, reflecting a first-quarter boost in quotations for most sheet and strip products. After that increase, producers held prices stable for the remainder of the year, partly because of competition from foreign steelmakers, but they raised prices again on a wide range of products in early 1973. Throughout this period, imports posed a major problem for the regional industry. A voluntary quota agreement reached with foreign producers in May held total imports nationwide below the peak level reached in 1971, but imports continued to flow into Pacific ports at a record pace, and in the process captured over one-third of the Western market.

Metals work off stocks

Demand picked up sharply at Northwest aluminum plants, enabling producers to reopen most of the potlines closed because of serious overproduction problems during the several preceding years. Producers reduced their inventories almost by half during 1972, but discounting from published prices remained a problem. In May, the industry announced a 14-percent cut in list prices on aluminum ingot (the primary form of the metal) but even that reduced quotation remained far above the actual selling price.

Copper was in a similar situation, since excess supplies in that industry acted to restrain prices despite a strong improvement in demand. Copper consumption reached the highest level of the past half-decade, with strength concentrated in the latter part of the year, but the higher prices quoted by producers in February failed to stick because of a 6-percent rise during the year in mine production and an even greater increase in refinery output. The domestic producer price reacted to the price quoted on the London Metal Exchange, weakening in June in response to the floating of the British pound, and strengthening in early 1973 in response to a strong industrial demand and to a speculative upsurge which took place in the face of a heavy buildup of inventories.

Silver proved newsworthy in 1972, partly because of the tragic fire which closed a major mine in Idaho for most of the year, and partly because of the tumultous market situation which sent prices soaring. Silver production declined substantially, reflecting mostly the losses at the fire-damaged mine, while industrial consumption and speculative buying both increased, so that the New York dealer price jumped from $1.29 to $2.03 an ounce between late 1971 and late 1972. But the domestic producer price held at the $1.61 ceiling until August, when the Cost of Living Council lifted controls to permit domestic producers to benefit from the sharp rise in world prices.

Oil confronts energy crisis

In the midst of growing discussion about an energy "crisis," Western oil refineries increased their output 7 percent in 1972, responding to a rising demand for gasoline and other fuels. But domestic sources provided only 65 percent of the regional industry's total crude supplies, as against 70 percent in 1971, with the gap being filled from Canadian and other sources. This situation reflected a 5-percent reduction in crude output from Western fields, as production continued to decline in both California and Alaska.

The fears of a developing crisis came about because of the nation's growing dependence on imported oil and natural gas, and because of the shortage of heating oil and other fuels already evident in many sections of the country. To avert a crisis, oil industry spokesmen and other concerned parties have urged the Federal government to develop a coordinated national energy policy, including incentives to spur the development of domestic supplies.

The proposed oil pipeline from Alaska's North Slope remained a symbol of the difficulties involved in reconciling the demands of a national energy policy with those of a national environmental policy. But even if the environmental problems were to be solved and construction immediately begun, the first oil supplies from this source would not reach West Coast markets for three more years, and the pipeline would not reach its full capacity of 2 million barrels/day until 1980. The conflict between energy and environment also surfaced in the proposals made by the Environmental Protection Agency in early 1973 to solve Southern California's severe smog problem; the proposals would involve an 80-percent reduction in auto travel during the peak May-October smog season (partly through actual gas rationing) along with limits on hydrocarbon emissions by industrial sources.

Finance: Rising Tempo

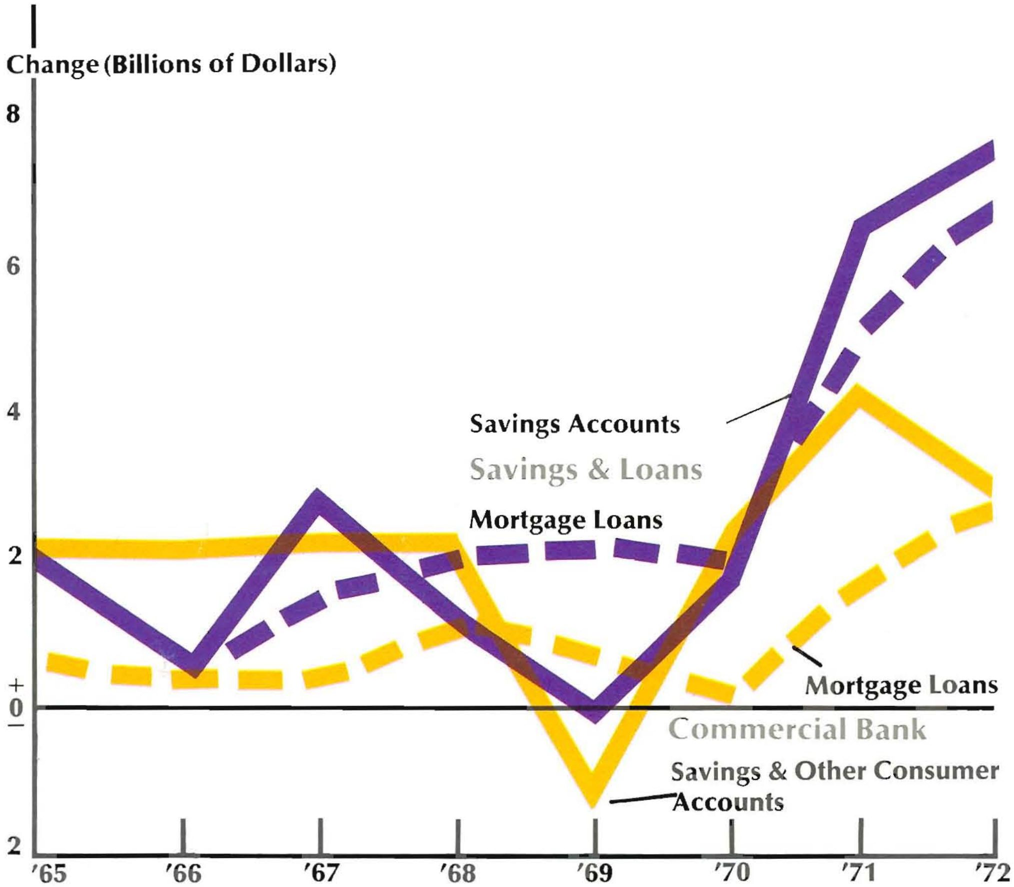
Financial activity expanded vigorously throughout the nation during 1972, helped along by a generally accommodative monetary policy which provided the funds needed for the substantial increase in GNP. The money stock—currency plus demand deposits—increased about 8 percent for the year, as against a 6-percent rise during 1971. Defined more broadly to include banks' consumer-type time and savings deposits, the money stock grew about 10½ percent, slightly less than in the previous year.

The Federal Reserve furnished reserves to the commercial-banking system at a faster clip during 1972, as RPD's—reserves available to support private nonbank deposits—grew about 10 percent for the year. Early in the year, the Fed began to use RPD's as a major criterion for guiding open-market operations, its major policy tool.

This large increase in bank reserves provided the basis for a record-shattering $70-billion (14 percent) increase in commercial-bank credit. The vast bulk of the expansion was concentrated in bank loans—up almost twice as fast as in 1971—as every major loan component increased at a record or near-record pace.

Short-term money rates moved irregularly upward throughout most of the year, reflecting this expansion of bank loan demand as well as an enlarged volume of money-market financing. Thus, 3-month Treasury bill rates rose more than two percentage points, to 5.03 percent, between February and December.

Long-term interest rates, in contrast, stayed relatively flat during 1972, although at very high levels by historical standards. The volume of both corporate and municipal borrowing declined significantly from 1971 levels. Net market demands of the U.S. Treasury also declined, as the budget situation improved on the basis of such factors as the substantial over-withholding of individual income-tax payments and the delayed outlays for social security and revenue sharing. But this decline in Treasury requirements was more than offset by a sharp rise in Federal agency financing, especially in the housing and farm sectors.



Mortgage lending continues to dominate Western financial scene . . . boom fueled by record savings inflows at banks and S&L's

Banks meet broad-based demands

Because of the rising tempo of regional business activity, Western banks were faced with broad-based demands for credit during 1972. At the same time, they operated in a changing financial environment, characterized by the rise in money-market rates which led to higher costs for funds as well as higher rates of return on earning assets. For the year, total loans and investments at Twelfth District banks increased $9.0 billion (12½ percent), while a $7.9-billion (11 percent) increase in deposits provided the major source of funds to fuel the rapid expansion of credit.

The 12½-percent gain in total credit lagged the national pace, reflecting the modest increase in security holdings which accompanied a sharp 18-percent increase in loan portfolios. In contrast to 1971, practically the entire increase in credit showed up in the loan category, in the wake of heavy loan demand by real-estate buyers, business firms, consumers and nonbank financial institutions. But security portfolios remained relatively stable, as banks alternately accumulated and reduced holdings of Treasury and other securities throughout the year.

Mortgages dominated lending activity for the second straight year—accounting for almost one-third of the total loan increase—but business lending also expanded substantially and the rate of consumer lending doubled. Loan-administration practices were affected by policy-makers' "moral suasion" over rate setting but also by a vigorous competitive atmosphere; increases in the prime business-loan rate were not accompanied by the usual degree of firming in other lending practices nor by comparable rate adjustments on mortgage and consumer loans.

Shifts in deposit patterns

The 11-percent increase in total deposits roughly matched the national pace, reflecting a faster rate of gain in private demand deposits but a slower pace in time deposits. The deposit expansion fell somewhat short of the 1971 regional expansion, largely because of a substantially slower pace of growth of individual savings. In contrast, states and political subdivisions played an increasingly important role as a source of bank funds, both in time-deposit money and in loans to banks under repurchase agreements. In addition, banks also relied heavily on the issuance of capital notes and debentures for longer-term funds.

Passbook savings increased at only about half the previous year's pace, reflecting in part the early-year reduction in rates paid on such deposits, and in part the increasing tendency of consumers to spend rather than save. At the same time, other types of consumer-savings instruments grew at a slightly faster pace during the year, as banks in late spring reversed earlier actions and again offered higher rates and longer maturities on such certificates.

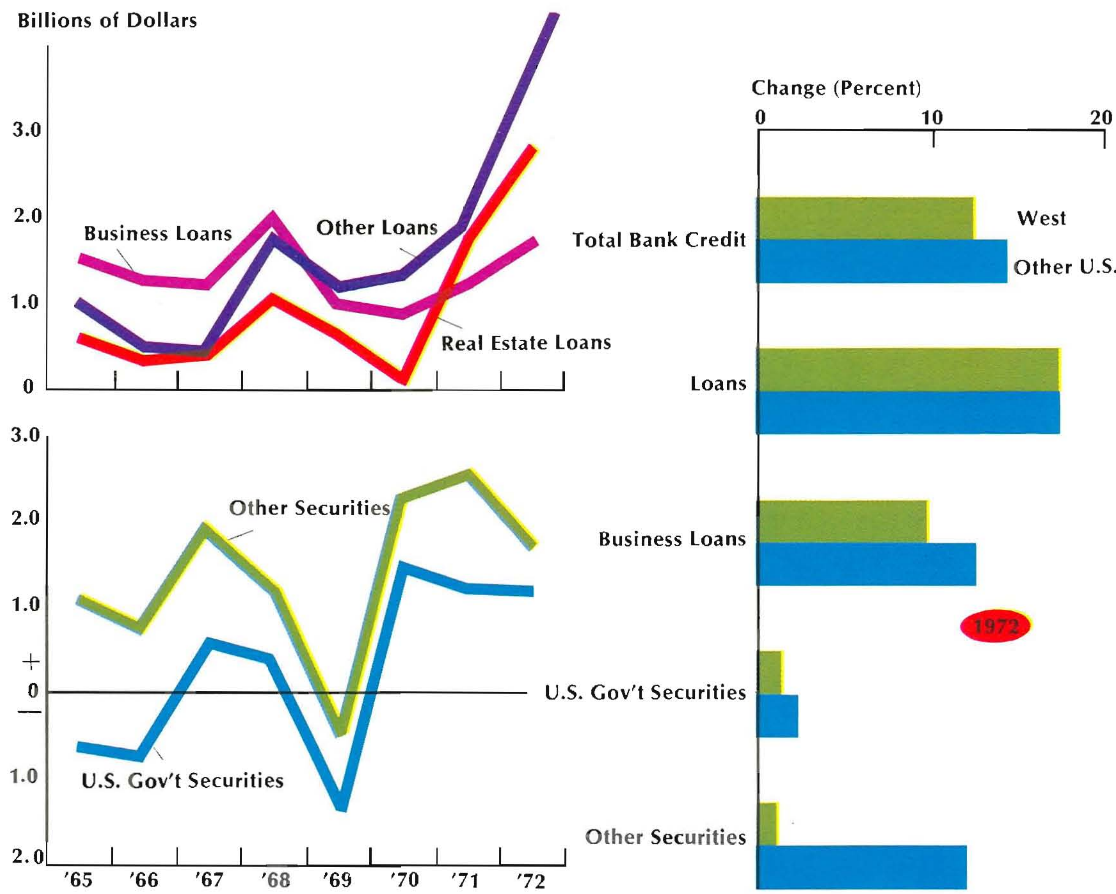
Banks substantially expanded their issuance of large-denomination time certificates, but corporations picked up only about half of these CD's, or far less than their usual share. And as noted above, time-deposit behavior was influenced far more than usual by governmental bodies; in April alone, California banks received almost $1.5 billion in public funds, partly because of the newly instituted withholding of income taxes, and in December, normal deposits of tax receipts were augmented by substantial deposits of Federal revenue-sharing checks.

The sharp expansion in bank lending caused some erosion in bank liquidity during 1972, as the ratio of loans to deposits (including Euro-dollar liabilities) rose from 70 to 75 percent over the year. An even sharper shift—a decline from 7 to 4 percent—occurred in the ratio of short-term (Treasury and municipal) securities to total deposits, reflecting the minimal increase in securities which accompanied the large expansion of deposits.

Earnings reflect rate movements

Earnings reports varied widely; some large banks reported substantial net gains and others substantial declines, while medium and small-size banks generally reported very large year-to-year increases in income. In some cases, a poorer performance came about because of failure to match the large gains in security transactions realized in the preceding year. However, rate movements (as always) were crucial to bank profit margins.

Early in the first quarter, District banks made a ¼-percentage point reduction (to 4¾ percent) in the prime business-loan rate, and followed this with reductions in mortgage and consumer loan rates. At the same time, many large banks alleviated some of the pressure on profit margins by posting a ½-percentage point reduction in the rate paid on consumer passbook savings. After money-market rates turned upward in the second quarter, the prime rate followed—finally reaching 6 percent in late December—but mortgage and consumer loan rates did not move in tandem. But since the cost of funds (except on passbook savings) generally moved upward with the rate of return on earning assets, and since operating expenditures pursued their inexorable rise, many banks experienced a squeeze on their profit margins as the year progressed. On the other hand, the expanded volume of earning assets brought in larger amounts of revenues.



Twelfth District's expansive banking year highlighted by sharp gains in all loan categories but slowdown in securities

Borrowings from the Fed

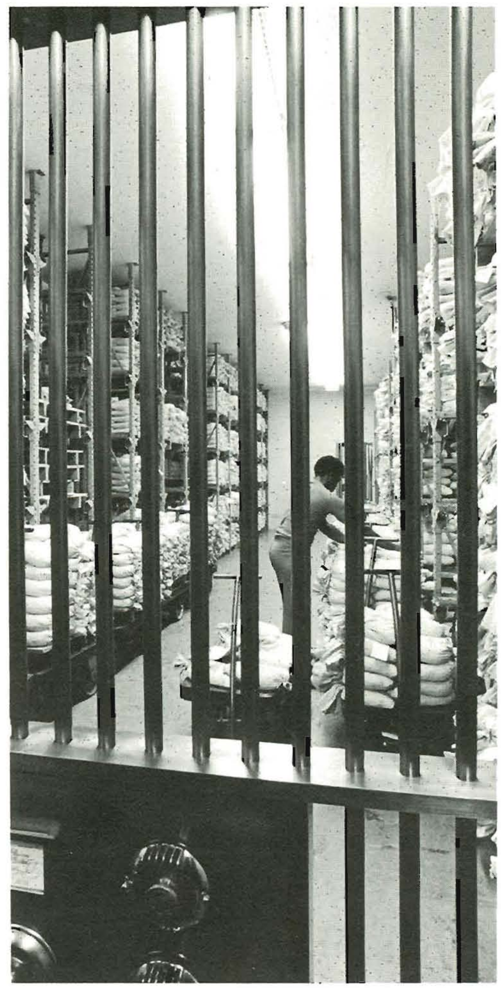
Deposits of District member banks increased $6.6 billion for the year (daily average basis), and the required reserves held against those deposits increased $454 million. As banks accommodated themselves to a policy of increasing firmness in the latter part of the year, some found it increasingly difficult to meet their reserve requirements without borrowing from the Federal Reserve Bank. Thus, while average borrowings actually declined during the year —from $27 to $18 million—the level of borrowings reached $40 million in the fourth quarter. (All funds were borrowed at a 4½-percent discount rate; however, the Bank then raised its rate to 5 percent in early 1973, to bring it closer into line with money-market rates.) Consequently, District banks showed net free reserves in the first half of the year and net borrowed reserves in the second half—making for a small ($1 million) net free reserve position for the year as a whole, in contrast to the borrowed reserve position of banks nationally.

On balance, large District banks were net sellers (lenders) in interbank Federal-funds transactions in 1972. Banks also were small net borrowers of funds from dealers in U.S. Government securities, and massive borrowers of funds under repurchase agreements with corporations and public agencies, especially the latter. Some of these borrowed funds were resold in the Fed-funds market, and thus helped account for the net sales position maintained by banks during most of the year.

Heavier loan demand?

As Western banks entered 1973, they were faced with the prospect of a further strengthening in business activity and in loan demand. The business sector may come to rely more heavily on banks this year, both for short-term credits to finance inventories and for long-term credits to finance capital expenditures. The volume of mortgage lending may decline significantly as the housing boom tapers off, but the possible slackening in that sector could be taken up by a further increase in consumer loans.

The deposit scene is somewhat murkier, although banks can expect some deposit gains early in the year as a result of the one-time windfall in tax refunds—especially in California, where State as well as Federal income taxes were overwithheld in 1972. Profit margins may be squeezed by the rising cost of borrowed funds, typified by the early 1973 increase in the discount rate and a higher Fed-funds rate, but on the other hand, they should be affected favorably by the rising rates of return on bank earning assets.



System 360
STORE/DISPLAY
DISPLAY
STORAGE DATA
INSTRUCTION COUNTER OR STORAGE ADDRESS
CHECK CONTROL
LOAD UNIT

The Bank: New Directions

Decentralization is an important characteristic of the Federal Reserve System. Each Reserve Bank and each branch office is a regional and local institution as well as part of a nationwide system, and its transactions are with regional and local banks and businesses. It gives effective representation to the views and interests of its particular region and at the same time helps to administer nationwide banking and credit policies.—The Federal Reserve System—Purposes and Functions.

The Federal Reserve System demonstrated again in 1972 this quality of decentralization which makes it practically unique among the world's central banks. At the same time, the operations of the Federal Reserve Bank of San Francisco were coordinated with those of the other components of the System to provide uniformity and to benefit the national economy as a whole.

RCPC—a new concept

Typical of this cooperative effort was the work carried out to improve the nation's payments mechanism—the complex process by which billions of dollars are transferred back and forth across the continent each business day. During 1972, particular attention was focused on accelerating the processing and collection of checks, the medium used in 90 percent of the nation's money transactions. In the process, a new set of initials was added to banking jargon, as each of the 12 Federal Reserve Banks initiated—or set the stage—for RCPC's (Regional Check Processing Centers).

Basically, an RCPC is a highly-computerized operation designed for one primary purpose—to achieve overnight processing and settlement for checks in a specific geographical area. By extending the "close-off" hours and operating on a round-the-clock basis, these regional centers (usually located at existing Federal Reserve offices) can accept checks from participating banks up to midnight, process them during the early morning hours, and have them on their way to the drawee banks by daybreak.

Banks receive immediate credit for checks cleared through the RCPC's, and they are expected to pay for their own checks in "immediately available funds" on the day of presentment. As a result, funds are collected and placed back in financial channels much sooner than was possible before development of the regional processing concept.

In the Twelfth Federal Reserve District, RCPC's will be established at each office of this bank—San Francisco, Los Angeles, Portland, Salt Lake City, and Seattle. In general, each RCPC will serve the same areas now included in the service zones of the Federal Reserve offices, except that Hawaii and Guam will not be included in the San Francisco RCPC when it first gets underway. Present plans call for the five regional centers to be operational by midyear.

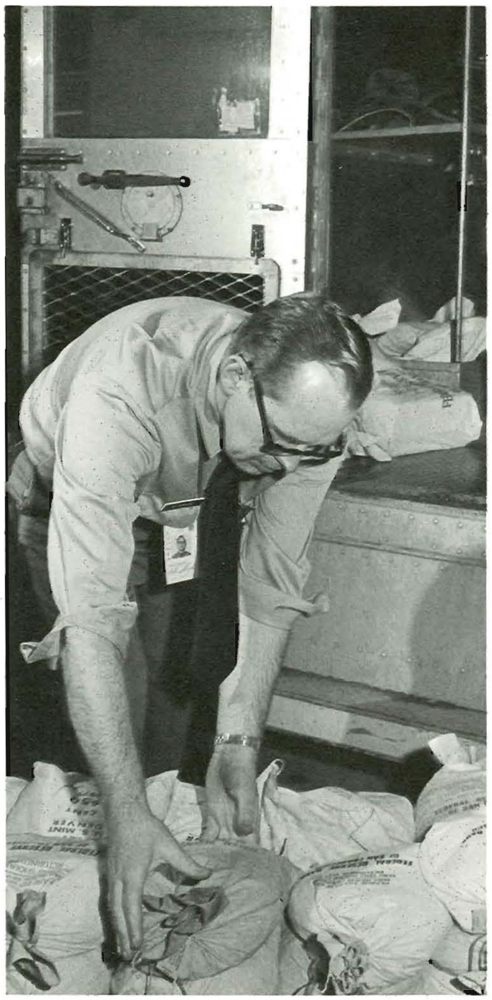
Why the push on clearing checks faster? Volume, for one thing. In 1972, Americans wrote probably around 26 billion checks, and this number is increasing at a fairly steady rate of 7 to 8 percent a year. Approximately a third of this check volume passes through the Federal Reserve System, and the five offices of the San Francisco Reserve Bank handle about an eighth of the total System volume. In 1972, for example, the San Francisco Fed offices processed an average of 3 million checks each business day, an annual total of nearly a billion items. In dollar terms, this represented $215 billion.

Major policy moves

During the year, the problem of "float" continued to provide a major impetus for developing faster methods of clearing and collecting checks. Congressional criticism has mounted over the growth in Federal Reserve float, which is viewed in some circles as an interest-free loan to banks. With the burgeoning use of checks, Federal Reserve float rose from around $1 billion a day in the early 1950's to more than $3 billion in late 1972.

Most of this float occurs because banks are given credit for checks they clear through the Federal Reserve according to a set time schedule, rather than when payment is actually received by the Fed. Until late 1972, for example, banks located outside Reserve cities were not required to pay for checks drawn on their accounts until the day after they were received from the Fed, which meant a delay in payment of three or more days for a large volume of checks. On the other hand, the maximum deferment of credit to depositing banks was two days, resulting in the creation of float that was absorbed by the Federal Reserve.

After several months of discussion with bankers and other interested groups, the Federal Reserve Board of Governors implemented an amendment to Regulation J on November 9, 1972, requiring banks to pay for all checks on the same day they are presented to them by the Federal Reserve Banks. By the same token, banks now also receive credit one day earlier for checks they present through the Fed. This action resulted in an immediate reduction of nearly $2 billion in float.

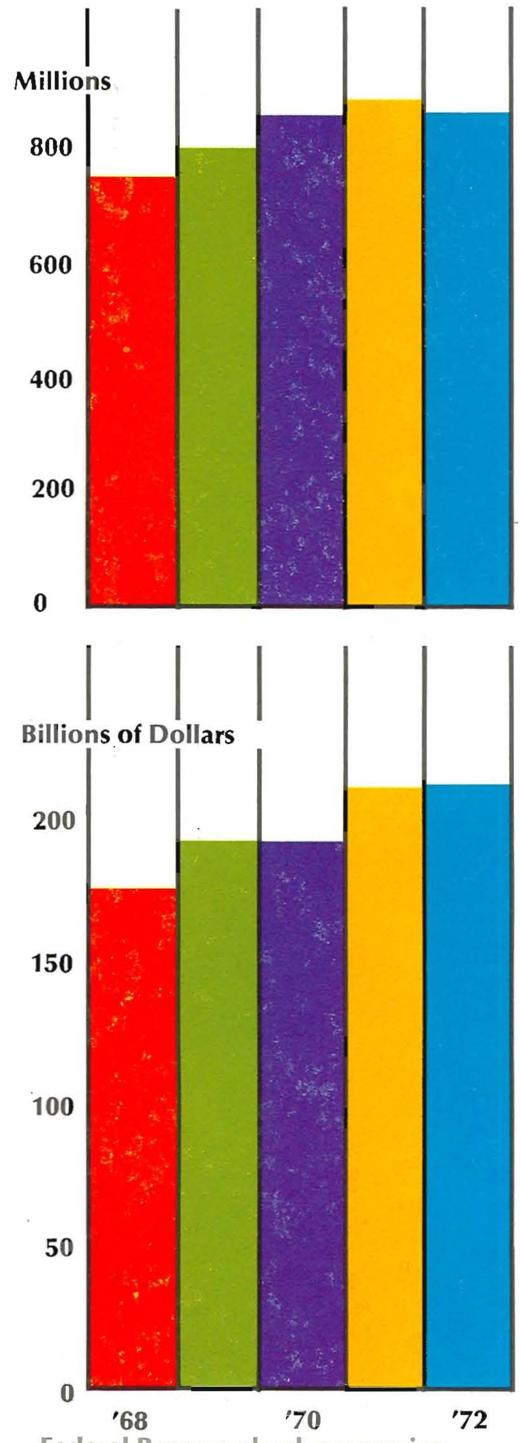


At the same time, the Federal Reserve Board made another historic move by changing drastically the structure of member-bank reserve requirements. Formerly, most member banks in cities where Federal Reserve Offices are located were classified as "reserve city banks," and were required to hold larger reserves than "country banks," those outside the Reserve cities. Under the revised Regulation D, a member bank no longer is required to keep reserves on the basis of its location; instead, member banks of equal size are assigned equal reserve requirements. Furthermore, overall reserve requirements for most banks were reduced materially, with the new structure ranging from 8 percent on net demand deposits of $2 million or less to 17½ percent on such deposits over $400 million. This action released about $3.2 billion in reserves, which more than offset the loss in float banks experienced as a result of the Regulation J amendment.

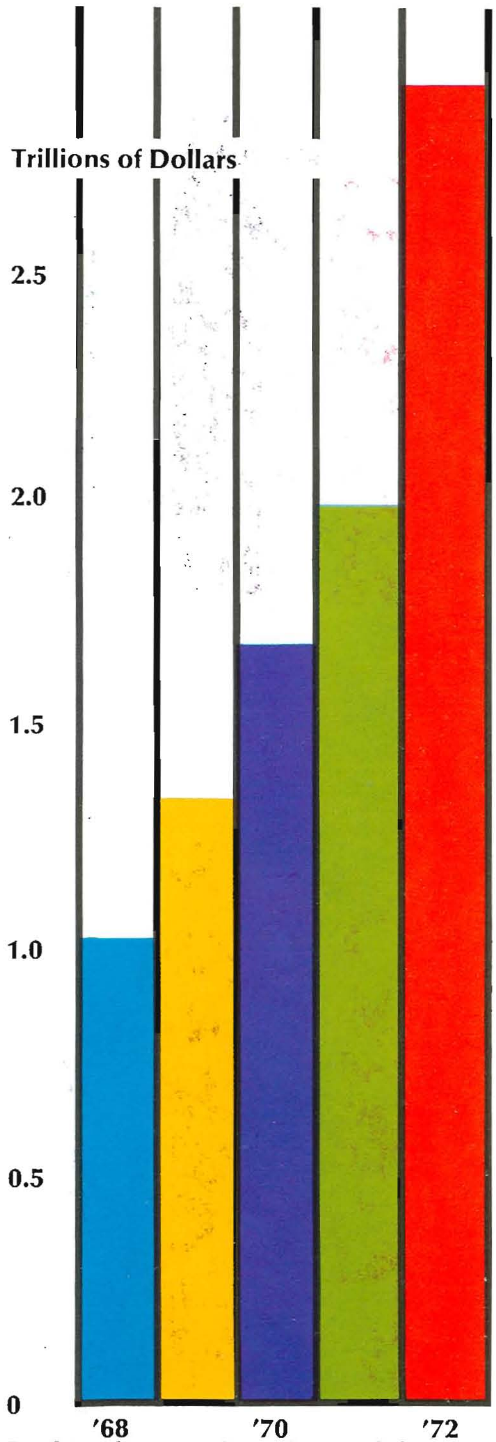
Reducing the paper load

The Federal Reserve worked not only to develop faster methods of processing and collecting checks, but also to promote alternatives capable of stemming the rising tide of paper checks. One of these projects is the SCOPE program, an acronym for "Special Committee on Paperless Entries." Conceived and organized by a group of California banks, SCOPE has become a model in numerous other cities and states for a computerized clearing system to process payrolls and dividend payments, as well as certain pre-authorized charges. The SCOPE plan permits employees of participating business firms to have their pay automatically deposited in the banks of their choice, without checks being prepared or processed. Eventually, they also will be able to pay their mortgages, insurance premiums, and other recurring bills in the same way.

To encourage such innovative efforts, the Federal Reserve Bank of San Francisco agreed to operate automated clearing houses for the SCOPE program at its San Francisco and Los Angeles offices. Additional equipment was installed and personnel were trained at both offices, specifically for this program. SCOPE had made a modest beginning by year-end, and from all indications, the educational and promotional efforts by commercial banks active in the program will bring about increased participation in 1973.



Federal Reserve check processing remains relatively stable over time



Bank's wire-transfer volume triples in only five years' time

Utilizing electronic transfers

The Federal Reserve continued to work with an electronic transfer system, realizing that the future course of payments transactions is indelibly linked to the electronic transfer of funds. It utilized a computerized communications switch, located at Culpeper, Virginia, which connects all 37 Federal Reserve offices throughout the nation, and makes it possible to transfer funds almost instantaneously from one commercial bank to another anywhere in the country.

The Western link in this communications system is the San Francisco Reserve Bank and its branches. Plans are underway to augment the System's communications network through installation of a switch at the San Francisco office which will connect all of this District's Federal Reserve offices. This will expedite transfers among Western banks, cutting down the need for intra-district messages to be sent through Culpeper.

At present, six member banks in San Francisco are directly linked with the communications system through the Federal Reserve Bank computer, and transfers by those banks are effected without handling by the Reserve Bank's wire transfer department. Ultimately, commercial banks will be able to transfer funds directly through their own computers to the computers of other member banks nearly anyplace in the nation.

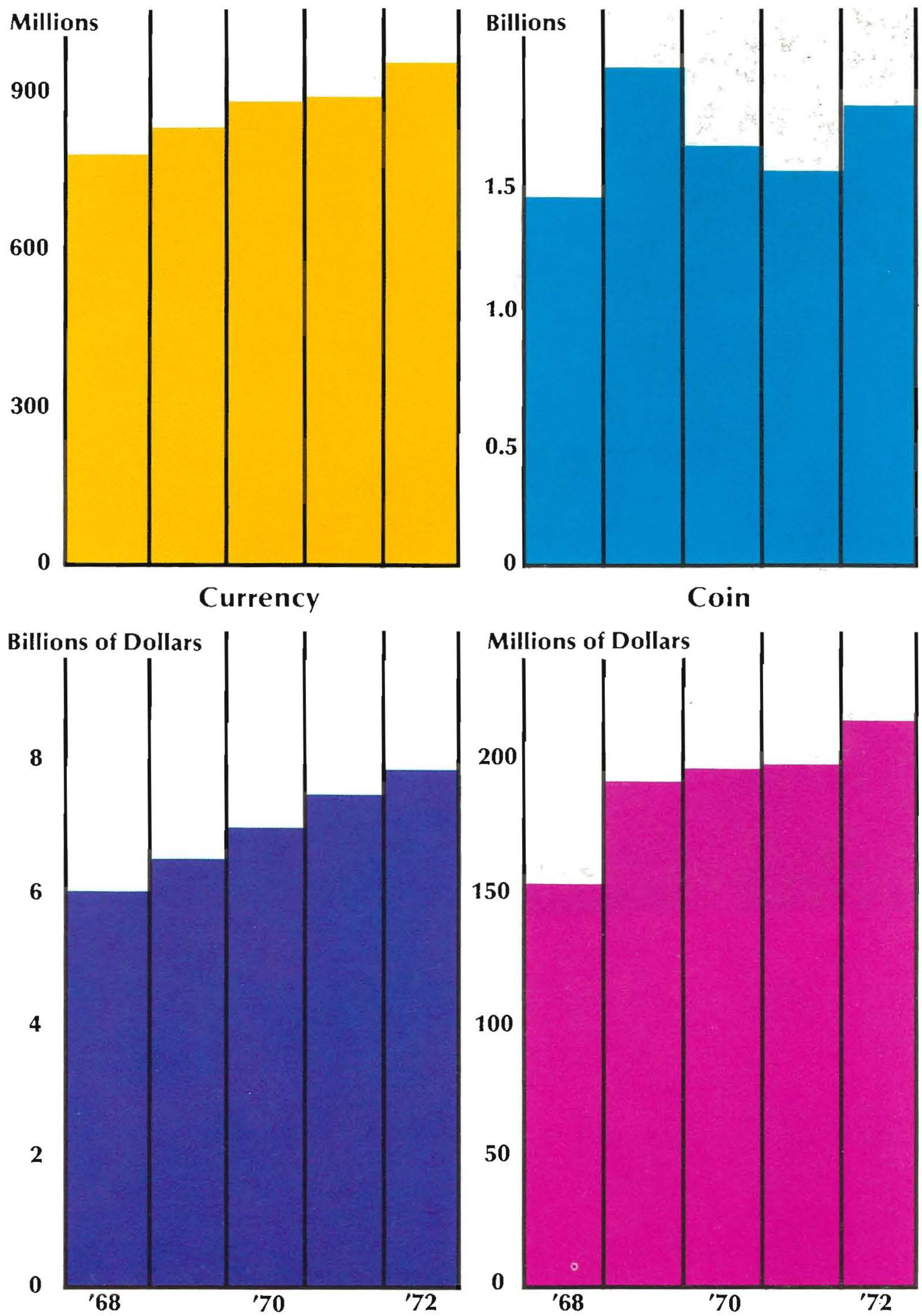
This method of transfering funds has expanded sharply in recent years. In 1972, the five offices of this Bank handled 874,000 transfers, representing a dollar volume of almost $3 trillion—an average of roughly $10 billion a day. Funds transferred by wire through the San Francisco Bank's network increased 50 percent last year alone, and more than tripled over the past five years.

Other major operations

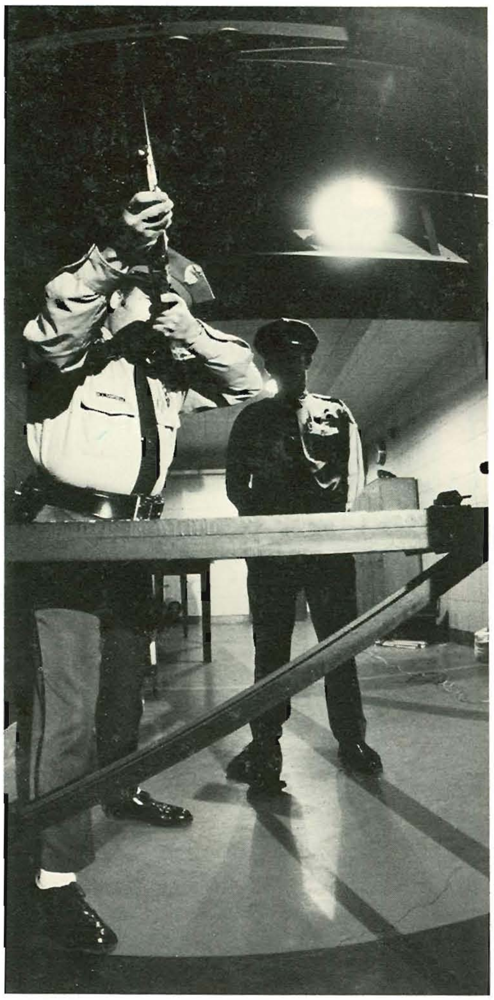
Despite the spotlight on the growth of checks as a form of money, currency and coin did not go out-of-style last year. The dollar volume of currency received and counted at this Bank increased 5 percent over the previous year, reaching a total of $7.9 billion. Furthermore, Federal Reserve Notes of this Bank in circulation rose $585 million during the year, totalling slightly more than $7 billion on December 31, 1972.

Last year was unusual in coin annals because there were no new developments; no shortages occurred in any coin denomination and no new coins were issued. The supply of Eisenhower dollars, first issued in late 1971, was adequate to meet all demands. Moreover, demand for the Kennedy half has been drastically reduced even though these coins are seldom found in general circulation.

As fiscal agent for the U.S. Government, the Federal Reserve Bank carried out its function of issuing and redeeming U.S. Treasury securities, including Savings Bonds. During 1972, the Treasury continued to be an active competitor for funds. Marketable securities issued, exchanged, and redeemed at the five offices of this Bank rose 40 percent in dollar volume compared with 1971, although increased book-entry procedures resulted in a substantial drop in the number of pieces handled. U.S. Savings Bond redemptions continued to exceed sales in the District, although the spread narrowed from $157 million in 1971 to $104 million in 1972. Savings Bond sales have shown good growth each year since 1970, when the rate on this savings instrument was boosted to 5½-percent.



Federal Reserve Bank handles almost a billion pieces of currency and twice that number of coins . . . dollar volume rises in 1972



One of the Reserve Bank's primary functions—making loans to member banks—remained relatively unused until the latter part of the year, when monetary policy began to shift away from its earlier posture of ease. As mentioned earlier, daily average borrowings by District member banks declined from $27 to $18 million over the year. The Bank's discount rate (the rate charged to member banks) remained unchanged at 4½ percent during the entire year.

The Federal Reserve credit function is an important monetary policy tool, of course, and the System is continuing to study ways of making the "discount window" more accessible to member banks. In November, the Board of Governors announced a proposed revision that would provide a seasonal borrowing privilege to member banks. This proposal is designed to assist banks that may not have access to national money markets in meeting seasonal needs for funds that result from recurring fluctuations in loans and deposits. Comments on this change were to be submitted to the Board by February 28, 1973. Furthermore, the earlier proposal for a virtually automatic basic borrowing privilege for each bank is receiving further study.

The Federal Reserve's supervisory function also continued to develop along new lines during 1972. Examination of state member banks is still a major activity, of course, but the bank examination staff also maintains a busy pace processing bank merger reports, applications for new branches, and bank holding-company investigations. In addition, the increasing number of computerized banking operations has necessitated the development of new techniques and procedures.

Thirty new banks and one trust company were formed during the year, the largest number of banks organized in the District since 1965. Because of mergers, the number of member banks declined by five, to 143 banks, but the number of member-bank offices increased by 111, climbing to 4,407 by year-end. Total non-member banking offices rose to 1,264, a gain of 100 over the previous year.

A review of Federal Reserve Bank operations would be incomplete without mention of a primary ingredient —its personnel. Despite the high degree of computerization, people still make things happen, and the pictures on the accompanying pages provide only a sample of the activities of the 1,800 employees of the Federal Reserve Bank of San Francisco. Accountants, programmers, guards and economists; planners, lawyers, clerks, and typists; auditors and secretaries, building staff and messengers; and countless others with special talents and abilities too numerous to mention—all contributed during 1972 to the successful operation of this institution.

Directors

Board of Directors — Federal Reserve Bank of San Francisco
Seated, left to right—Marron Kendrick, John J. Balles, President, O. Meredith Wilson, Chairman of the Board, and Joseph F. Alibrandi, Deputy Chairman. Standing—Joseph Rosenblatt, Abram B. Merritt, First Vice President, James E. Phillips, Carl E. Schroeder, A. W. Clausen, Charles Raymond Dahl, and Mas Oji.

Official Staff

In addition to the appointment of John J. Balles to succeed Eliot J. Swan as President of the Bank, the following changes in the official staff were announced during the year:

Promotions:

Kent O. Sims, Assistant Vice President to Vice President, July 1.

John J. Carson, Assistant Vice President (Los Angeles) to General Auditor, September 1.

Angelo A. Carella, Assistant Vice President, to Vice President, October 1.

James M. Brundy, Assistant Vice President to Vice President, January 1, 1973.

Appointments:

Maynard C. Petersen, Assistant Vice President (Portland Branch), May 1.

Jane W. Langhorne, Assistant Vice President, July 1.

Wilhelmine Stefansky, Senior Statistician, July 1.

William V. Woodward, Assistant Vice President (Los Angeles Branch), August 1.

Adrian A. Horvay, Assistant Vice President (Los Angeles Branch), September 1.

Donald R. Halsted, Assistant Vice President, October 1.

Kenneth A. Grant, Assistant Vice President, January 1, 1973.

Retirements:

Charles R. Petersen, Senior Economist, February 15.

F. K. Grimm, Assistant Vice President, Portland Branch, April 1.

George D. Parker, Assistant Vice President, Los Angeles Branch, August 1.

R. E. McKendry, General Auditor, September 1.

Directors of the Federal Reserve Bank of San Francisco

As a quasi-governmental institution, each Federal Reserve Bank is a corporation organized and operated for public service. Its shareholders are the member banks located within the district served by the Reserve Bank, but their voting privileges are limited to the election of six of the Reserve Bank's nine directors. These directors, who serve staggered three-year terms, are divided into three classes of three directors each and may be regarded as representing lenders, borrowers, and the general public. Class A directors are nearly always member bank officers or directors. Class B directors must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit and may not be directors, officers, or employees of any bank. Class C directors represent the general public and frequently include professional people such as educators and lawyers; they may not be directors, officers, employees or stockholders of any bank.

Class A and B directors are elected by the member banks, while Class C directors are appointed by the Board of Governors of the Federal Reserve System in Washington, D.C. One of the Class C directors is appointed by the Board of Governors as Chairman of the bank's board and another is designated as Deputy Chairman. The Board of Directors is charged with responsibility for overseeing and directing the management of the Reserve Bank in order to accomplish the broad public purposes of the Federal Reserve Act, which was passed by Congress in 1913 and has been amended several times in the intervening years to further serve the public. One of the primary responsibilities of the Board of Directors is to establish the discount rate, subject to review by the Board of Governors.

In addition, each of the Reserve Bank's branches has a Board of Directors. In the Twelfth District, the Los Angeles Branch has a seven-member board, four appointed by the San Francisco Reserve Bank's Board of Directors and three by the Board of Governors. Each of the other Branch offices—Portland, Salt Lake City, and Seattle—has five-member boards, three appointed by the San Francisco Bank's board and two by the Board of Governors.

Because of the public nature of these directorships and the demands upon the time of those who serve, changes occur each year in the composition of the various boards. In 1972, the following changes and reappointments were announced:

BOARD OF DIRECTORS, FEDERAL RESERVE BANK OF SAN FRANCISCO
Elected by Member Banks in the Twelfth District:

Class A Directors—
A. W. CLAUSEN, President and Chief Executive Officer, Bank of America, N.T.&S.A., to an unexpired term ending December 31, 1973, succeeding Ralph J. Voss, Chairman of the Board and Chief Executive Officer of the First National Bank of Oregon, Portland.

JAMES E. PHILLIPS, President of the First National Bank in Port Angeles, Washington, to a three-year term succeeding Carroll F. Byrd, Chairman of the Board and President of the First National Bank of Willows, California.

Class B Director—
JOSEPH ROSENBLATT, Honorary Chairman of The Eimco Corporation, Salt Lake City, re-elected to a three-year term.

Appointments by the Board of Governors, Federal Reserve System:

O. MEREDITH WILSON, President and Director of the Center for Advanced Study in the Behavioral Sciences, Stanford, California, reappointed Chairman of the Board for 1973.

JOSEPH F. ALIBRANDI, President of Whittaker Corporation, Los Angeles, to a three-year term as a director and as Deputy Chairman of the Board for 1973. He succeeds S. Alfred Halgren, Senior Vice President and Director of the Carnation Company, Los Angeles.

BOARDS OF DIRECTORS, BRANCH OFFICES
Los Angeles Branch:
Appointment by the Board of Governors—
LELAND D. PRATT, President of Kelco Company, San Diego, reappointed to a three-year term.
Appointments by San Francisco Reserve Bank's Board—
W. GORDON FERGUSON, President of the National Bank of Whittier, California, reappointed to a three-year term.
EDWARD A. SLOAN, President of Sloan's Dry Cleaners, Inc., Los Angeles, appointed Chairman of the Branch Board for 1973. Mr. Pratt served as Chairman during 1972.

Portland Branch:
Appointment by the Board of Governors—
JOHN R. HOWARD, President of Lewis and Clark College, Portland, reappointed to a two-year term.
Appointments by San Francisco Reserve Bank's Board—
FRANK L. SERVOSS, President of Crater National Bank, Medford, Oregon, and JAMES H. STANARD, Vice President of the First National Bank of McMinnville, Oregon, reappointed to two-year terms.
FRANK ANDERSON, farmer from Heppner, Oregon, appointed Chairman of the Branch Board for 1973. Mr. Howard served as Chairman during 1972.

Salt Lake City Branch:
Appointment by the Board of Governors—
SAM H. BENNION, Secretary-Treasurer of V-1 Oil Company, Inc., Idaho Falls, Idaho, to a two-year term succeeding JOHN H. BRECKENRIDGE, President of the L. L. Breckenridge Company, Twin Falls, Idaho.
Appointments by the San Francisco Reserve Bank's Board—
RODERICK H. BROWNING, President of the Bank of Utah, Ogden, and ROY W. SIMMONS, President of Zions First National Bank, Salt Lake City, reappointed to two-year terms.
THEODORE C. JACOBSEN, Chairman of the Board of Jacobsen Construction Company, Inc., Salt Lake City, appointed Chairman of the Branch Board for 1973. Mr. Breckenridge served as Chairman during 1972.

Seattle Branch:
Appointment by the Board of Governors—
C. HENRY BACON, JR., Vice Chairman of Simpson Timber Company, Seattle, reappointed to a two-year term.
Appointments by the San Francisco Reserve Bank's Board—
HARRY S. GOODFELLOW, Chairman of the Board and President of the Old National Bank of Washington, Spokane, and ROBERT C. WHITWAM, President of the American National Bank of Edmonds, Washington, appointed to two-year terms. They succeed A. E. SAUNDERS, Vice Charman of The Puget Sound National Bank, Tacoma, and PHILIP H. STANTON, President of the Washington Trust Bank, Spokane.
THOMAS HIRAI, a grower, packer, and shipper of potatoes from Quincy, Washington, was appointed Chairman of the Branch Board for 1973. Mr. Bacon served as Chairman during 1972.

Directors—January 1, 1973

Elected by Member Banks
CLASS "A"
A. W. CLAUSEN
President and Chief Executive Officer
Bank of America National Trust
and Savings Association
San Francisco, California
CARL E. SCHROEDER
President
The First National Bank
of Orange County
Orange, California
JAMES E. PHILLIPS
President
First National Bank in Port Angeles
Port Angeles, Washington

CLASS "B"
MARRON KENDRICK
President and Chairman
Schlage Lock Company
San Francisco, California
CHARLES RAYMOND DAHL
President and Chief Executive Officer
Crown Zellerbach Corporation
San Francisco, California
JOSEPH ROSENBLATT
Honorary Chairman of the Board
The Eimco Corporation
Salt Lake City, Utah

Appointed by Board of Governors
CLASS "C"
O. MEREDITH WILSON
Chairman of the Board and
Federal Reserve Agent.
President and Director
Center for Advanced Study in the
Behavioral Sciences
Stanford, California
MAS OJI
President, Oji Bros. Farm, Inc.
Yuba City, California
JOSEPH F. ALIBRANDI, Deputy Chairman.
President
Whittaker Corporation
Los Angeles, California

Los Angeles Branch Directors

Appointed by Head Office Board of Directors
CARL E. HARTNACK
President
Security Pacific National Bank
Los Angeles, California
LINUS E. SOUTHWICK
President
Valley National Bank
Glendale, California
RAYBURN S. DEZEMBER
Chairman and President
American National Bank
Bakersfield, California
W. GORDON FERGUSON
President
National Bank of Whittier
Whittier, California

Appointed by Board of Governors
EDWARD A. SLOAN, Chairman
President
Sloan's Dry Cleaners, Inc.
Los Angeles, California
RUTH HANDLER
President
Mattel, Inc.
Hawthorne, California
LELAND D. PRATT
President
Kelco Company
San Diego, California

Portland Branch Directors

Appointed by Head Office Board of Directors
LeROY B. STAVER
Chairman of the Board and
Chief Executive Officer
United States National Bank of Oregon
Portland, Oregon
FRANK L. SERVOSS
President
Crater National Bank
Medford, Oregon
JAMES H. STANARD
Vice President
First National Bank of McMinnville
McMinnville, Oregon

Appointed by Board of Governors
FRANK ANDERSON, Chairman
Farmer
Heppner, Oregon
JOHN R. HOWARD
President
Lewis and Clark College
Portland, Oregon

Salt Lake City Branch Directors

Appointed by Head Office Board of Directors
JOSEPH BIANCO
Chairman and President
Bank of Idaho
Boise, Idaho
RODERICK H. BROWNING
President
Bank of Utah
Ogden, Utah
ROY W. SIMMONS
President
Zions First National Bank
Salt Lake City, Utah

Appointed by Board of Governors
THEODORE C. JACOBSEN, Chairman
Chairman of the Board
Jacobsen Construction Company, Inc.
Salt Lake City, Utah
SAM H. BENNION
Secretary-Treasurer
V-1 Oil Company, Inc.
Idaho Falls, Idaho

Seattle Branch Directors

Appointed by Head Office Board of Directors
JOSEPH CEBERT BAILLARGEON
Chairman and Chief Executive Officer
Seattle Trust & Savings Bank
Seattle, Washington
HARRY S. GOODFELLOW
Chairman of the Board and President
Old National Bank of Washington
Spokane, Washington
ROBERT C. WHITWAM
President
American National Bank of Edmonds
Edmonds, Washington

Appointed by Board of Governors
THOMAS HIRAI, Chairman
Grower, Packer, Shipper of Potatoes
Quincy, Washington
C. HENRY BACON, JR.
Vice Chairman
Simpson Timber Company
Seattle, Washington

Federal Advisory Council

HAROLD A. ROGERS, President of Peoples National Bank of Washington, Seattle, was named as the Twelfth District member of the Federal Advisory Council for 1973. Mr. Rogers succeeds A. W. Clausen, who had been the District's representative since 1970. The Council is composed of representatives from all 12 Federal Reserve Districts, appointed by each Reserve Bank's Board of Directors annually. The Council was established by the original Federal Reserve Act and is required to meet in Washington, D.C., at least four times each year to advise the Board of Governors on matters of concern to the Federal Reserve System.

Officers—January 1, 1973

San Francisco

John J. Balles, President
Abram B. Merritt, First Vice President

J. HOWARD CRAVEN, Senior Vice President
KENT O. SIMS, Vice President, Research
WILLIAM M. BURKE, Assistant Vice President (Research Publications)
GAULT W. LYNN, Director of Research
VERLE B. JOHNSTON, Senior Economist
ERNEST C. OLSON, Senior Economist
HERBERT R. RUNYON, Senior Economist
WILHELMINE STEFANSKY, Senior Statistician

GERALD R. KELLY, Senior Vice President
WARREN H. HUTCHINS, Vice President (Personnel)
JANE W. LANGHORNE, Assistant Vice President (Personnel)
ELWOOD E. BERNSTEIN, Assistant Vice President (Payments Mechanism)
JAMES J. CURRAN, Assistant Vice President (Check Collection and Processing, Mail)

JOHN B. WILLIAMS, Senior Vice President
JAMES M. BRUNDY, Vice President (Data Processing)
KENNETH A. GRANT, Assistant Vice President (Programming)
RICHARD G. LAMBERT, Assistant Vice President (Electronic Equipment)
ERNEST E. LIVINGSTON, Assistant Vice President (Communications)
DONALD L. ALEXANDER, Assistant Vice President (Bank and Public Information)
DONALD R. HALSTED, Assistant Vice President (Planning)

ANGELO S. CARELLA, Vice President
WILLIAM E. O'DONNELL, Assistant Vice President (Cash)
CLAUDE WOESSNER, Assistant Vice President (Fiscal Agency, Verification)

DONALD M. DAVENPORT, Vice President (Ombudsman)

HENRY B. JAMISON, Vice President
ROBERT C. JOHNSEN, Assistant Vice President (Bank Examination)
ROY A. KARLSSON, Chief Examiner
MARTIN S. DEPPER, Examining Officer
J. NORMAN AAMODT, Examining Officer, (Los Angeles)

DONALD V. MASTEN, Vice President
ROY A. REMEDIOS, Assistant Vice President (Credit)
E. ALLEN WELLS, Assistant Vice President (Accounting, Purchasing and Filing)

RIX MAURER, JR., Vice President
GEORGE P. GALLOWAY, Assistant Vice President (Buildings, Protection, Emergency Planning)

LOUIS E. REILLY, Vice President and General Counsel
WILLIAM L. COOPER, Associate General Counsel

RICHARD G. RETALLICK, Vice President (Special Assignment)

JOHN J. CARSON, General Auditor
AMADEO G. CONTE, Assistant General Auditor

Los Angeles

PAUL W. CAVAN, Senior Vice President and Manager
WESLEY G. DeVRIES, Vice President (Accounting, Building)
HAROLD A. ERNE, Assistant Vice President (Personnel, Purchasing and Supply)
ADRIAN A. HORVAY, Assistant Vice President (Credit, Data Processing, Planning, Transfer and Telegraph)
JOHN F. LUCEY, JR., Assistant Vice President (Fiscal, Savings Bonds)
EUGENE A. THOMAS, Assistant Vice President (Cash, Protection)
WILLIAM V. WOODWARD, Assistant Vice President (Check Collection and Processing, Mail)

Portland

WILLIAM M. BROWN, Vice President and Manager
RICHARD C. DUNN, Assistant Vice President and Assistant Manager (Credit, Personnel, Planning)
WILLIAM K. GINTER, Assistant Vice President (Accounting, Building, Fiscal)
MAYNARD C. PETERSEN, Assistant Vice President (Cash, Check Processing, Protection)

Salt Lake City

ARTHUR L. PRICE, Vice President and Manager
A. GRANT HOLMAN, Assistant Vice President and Assistant Manager (Building, Credit, Transfer)
H. PETER FRANZEL, Assistant Vice President (Accounting, Check Processing, Mail, Filing and Supply)
DON W. SHEETS, Assistant Vice President (Cash, Fiscal, Collection, Protection)

Seattle

WILLIAM R. SANDSTROM, Vice President and Manager
JAMES M. DAVIS, Assistant Vice President and Assistant Manager (Building, Credit, Personnel)
E. RONALD LIGGETT, Assistant Vice President (Accounting, Fiscal, Mail, Protection)
PARKER R. SMITH, Assistant Vice President (Cash, Check Processing, Planning)

Comparative Statement of Condition

Assets (Thousands of dollars)	December 31, 1972	December 31, 1971
Gold certificate account	$ 1,288,518	$ 1,832,851
Special Drawing Rights certificate account	49,000	49,000
Federal Reserve notes of other Federal Reserve banks	118,748	129,215
Other cash	35,104	29,571
Loans to Member Banks:		
Secured by United States Government and Agency obligations	112,105	10,000
Other eligible paper	41,895	—0—
Other paper	45,000	—0—
Federal Agency obligations	184,193	66,984
United States Government securities:		
Bills	4,166,671	4,164,707
Notes	5,152,238	4,910,276
Bonds	486,321	453,868
Total United States Government securities	$ 9,805,230	$ 9,528,851
Total loans and securities	10,188,423	9,605,835
Cash items in process of collection	1,180,521	1,354,451
Bank premises	7,890	7,950
Other assets:		
Denominated in foreign currencies	24,768	2,142
All other	151,175	113,775
TOTAL ASSETS	$13,044,148	$13,124,792
Liabilities		
Federal Reserve notes	$ 7,046,268	$ 6,461,423
Deposits:		
Member bank-reserve accounts	4,747,686	5,085,675
United States Treasurer-general account	174,428	213,031
Foreign	37,410	35,280
Other deposits	65,713	81,007
Total deposits	$ 5,025,237	$ 5,414,993
Deferred availability cash items	698,206	948,653
Other liabilities	75,697	108,800
TOTAL LIABILITIES	$12,845,409	$12,933,869
Capital Accounts		
Capital paid in	99,370	95,462
Surplus	99,370	95,462
Total Liabilities and Capital Accounts	13,044,148	13,124,792
Contingent liability on acceptances purchased for foreign correspondents	$ 23,091	$ 32,117

Earnings and Expenses

(Thousands of dollars)

Current Earnings	1972	1971
Discounts and advances	$ 888	$ 1,334
United States Government securities	516,382	509,924
Foreign currencies	143	335
All other	80	66
Total current earnings	$517,492	$ 511,660
Current Expenses		
Total current expenses	$ 40,560	$ 37,822
Less Reimbursement for certain fiscal agency and other expenses	2,724	2,764
Net expenses	$ 37,836	$ 35,057
Profit and Loss		
Current net earnings	$479,656	$ 476,602
Additions to current net earnings:		
Profits on sales of United States Government Securities (net)	$ 401	$ 14,198
Profits on foreign exchange transactions	—0—	—0—
All other	124	17
Total additions	$ 525	$ 14,214
Deductions from current net earnings:		
Loss on foreign exchange transactions (net)	$ 6,687	$ 1,031
All other	10	22
Total deductions	$ 6,697	$ 1,053
Net additions (+)/deductions (—)	$—6,172	$+13,161
Net earnings before payments to United States Treasury	473,484	$ 489,763
Dividends paid	5,899	5,520
Payments to United States Treasury (interest on Federal Reserve notes)	463,677	477,165
Transferred to Surplus	$ 3,908	$ 7,078
Surplus January 1	95,462	88,383
Surplus December 31	$ 99,370	$ 95,462