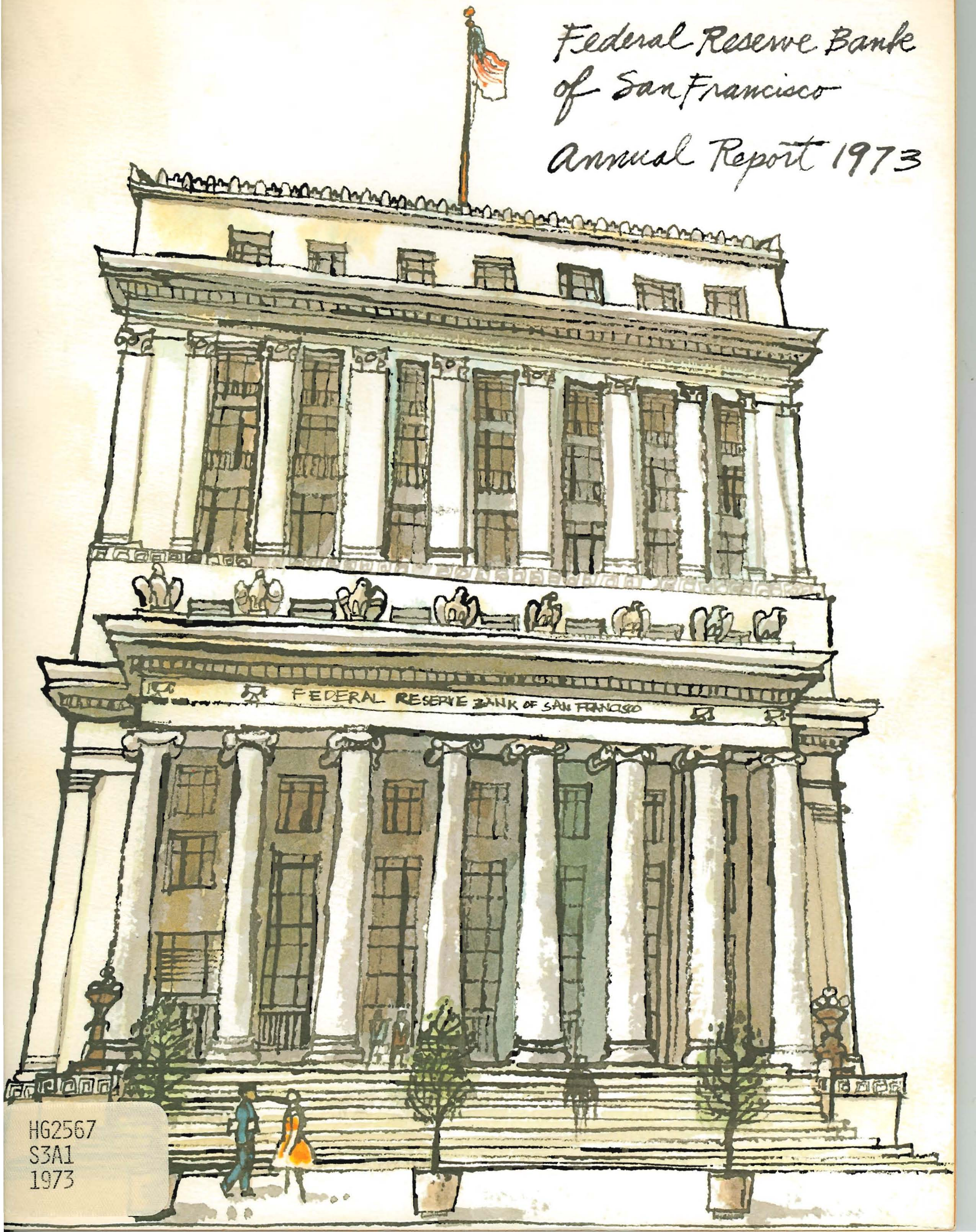
Federal Reserve Bank of San Francisco

Annual Report 1973



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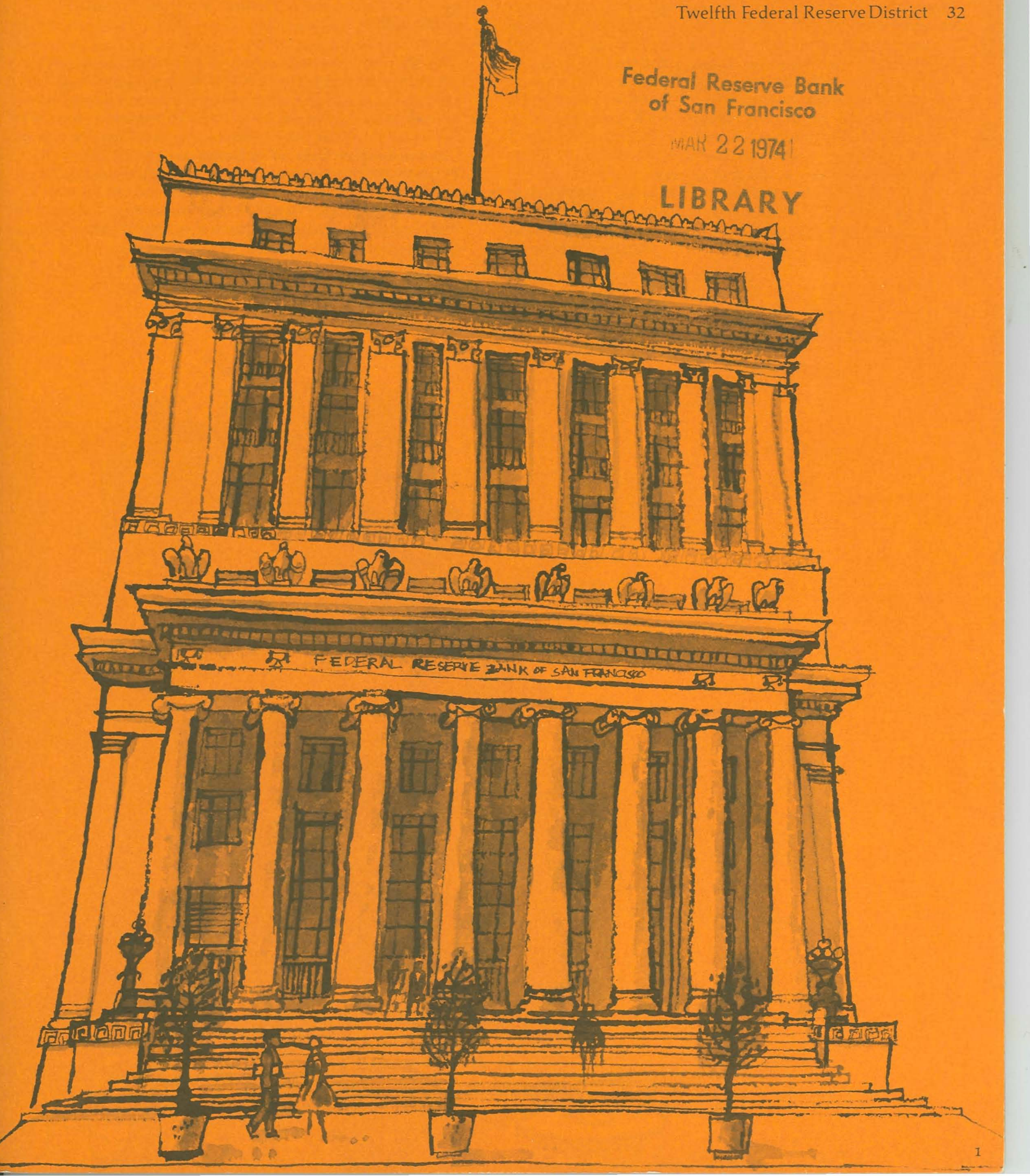


From the Boardroom

A perusal of the historical record of 1973 leaves the reader with distinctly mixed feelings. We can be proud of the economic growth which permitted the nation (and the West) to serve as granary as well as workshop for the world. At the same time, we can only be dismayed by the persistence of the inflation which did so much to disturb the economic and political stability of the nation.

The financial system last year felt the full impact of the pressures generated by the inflationary boom, but it performed creditably in meeting the heavy demands placed upon it. The dollar figures alone were impressive. For example, banks in the San Francisco (Twelfth) Federal Reserve District recorded a 13-percent increase in loans and investments in 1973, to a year-end total of $92 billion. Even more impressive was the system's ability to meet the frenzied credit demands of early 1973 and then settle down to a more sustainable pace in the latter part of the year.

The Federal Reserve's more restrictive policy stance played a major role in this transition. Through our participation in this policy-making process, we attempted to bring about a return to a non-inflationary growth path, fully realizing the complexities of this task in the new atmosphere of supply shortages.

Our Bank made a major improvement in the money payments system last year, with the establishment of four regional check-processing centers to provide overnight processing and settlement of checks in their service areas. Even so, this advance only represents an interim step along the road to an electronic payments system. We are determined to proceed further along that road, building on our ongoing work with electronic funds transfers and automated clearing houses.

In its supervisory activities, the Bank faced a major problem with the failure of a large Southern California bank, but it cooperated with other supervisory agencies in that action to protect the interests of individual depositors and of the regional economy. In other operations, we continued to support the smooth performance of the Western economy, through the provision of fiscal, coin, currency and other services. Also, we worked to improve the efficiency of internal administration, notably through our initiatives in budget making and personnel practices.

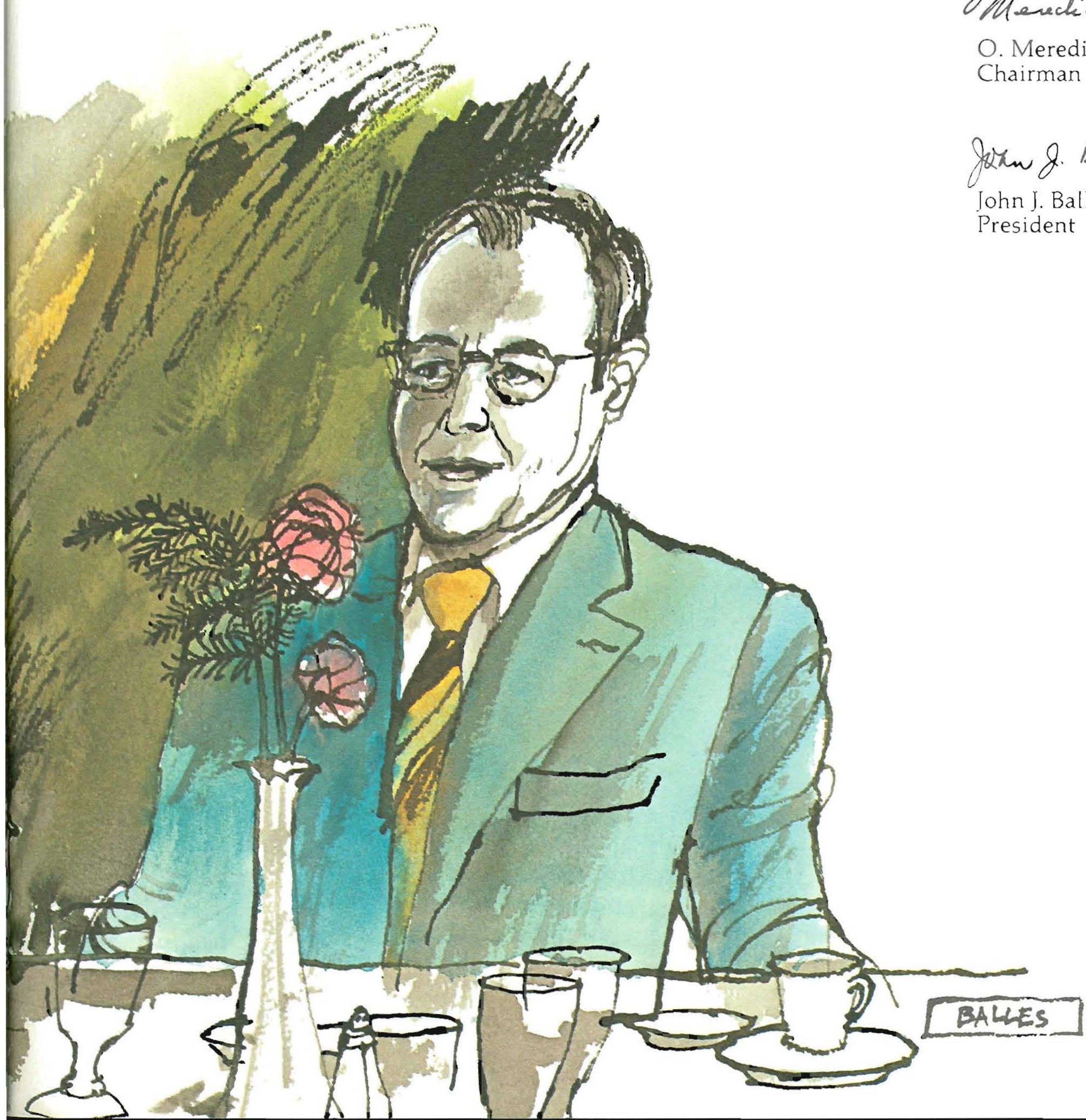
Our thanks go to the financial, industry, and community leaders who served as directors in 1973, helping to guide the Bank through that difficult year. In particular, we should note our appreciation for those who completed terms as directors during the period: Marron Kendrick (President and Board Chairman, Schlage Lock Company) at Head Office; Ruth Handler (President, Mattel, Inc.), Carl E. Hartnack (President, Security Pacific National Bank), and Edward A. Sloan (President, Sloan's Dry Cleaners) at Los Angeles; and Frank Anderson (Farmer) at Portland. A special note of appreciation is due A. B. Merritt, who retired last year as First Vice-President after a distinguished and productive 30-year career as a central banker.

Meredith Wilson

O. Meredith Wilson
Chairman

John J. Balles

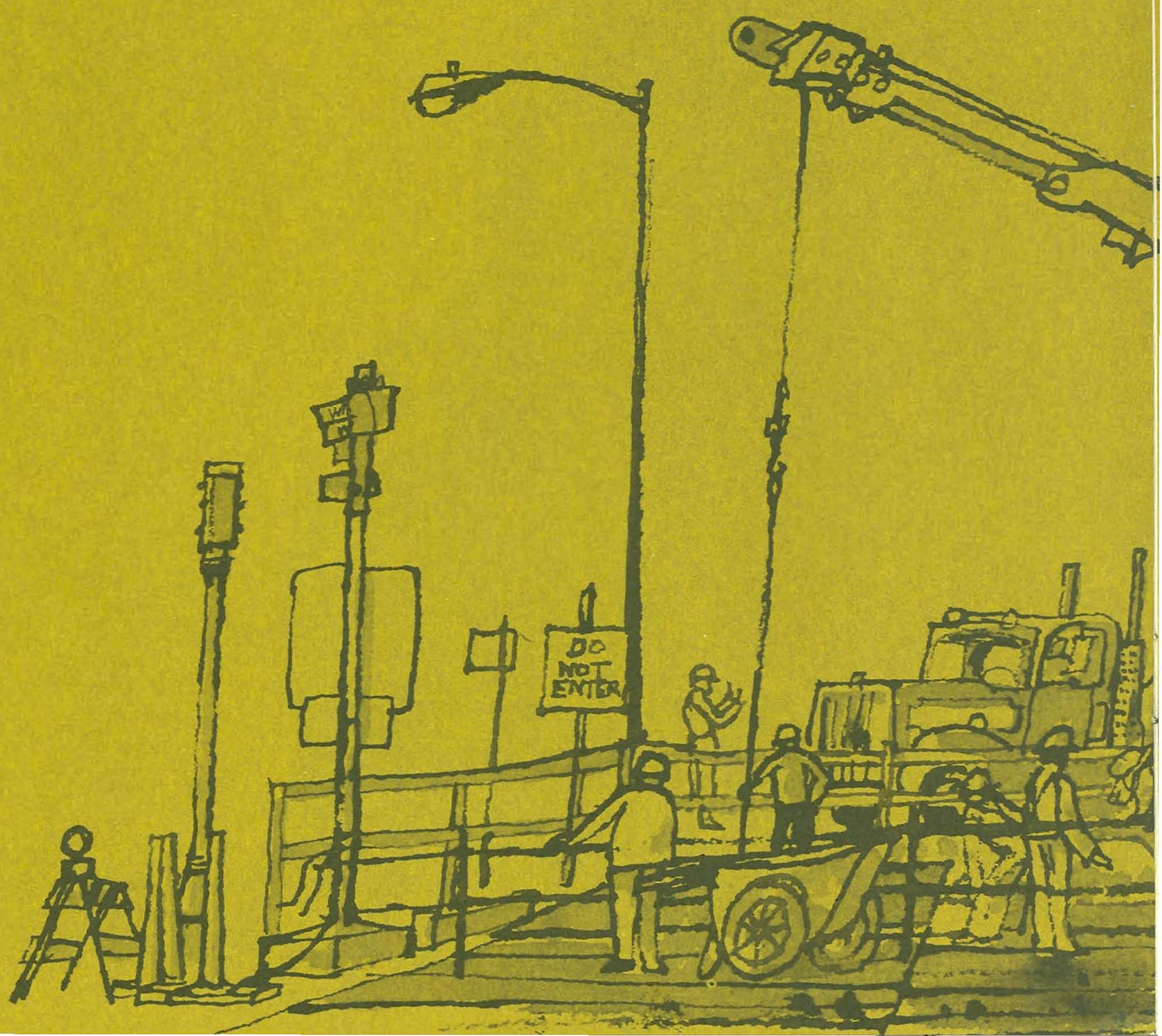
John J. Balles
President



Troubled Prosperity

The nation's economic performance was mixed in 1973; a number of things went wrong, but a number of things also went right during the year. Real output grew 5.9 percent, nearly matching the performance of 1972, while a gain of over 3 million jobs helped bring unemployment to its lowest level of the past three years. The trade balance with other nations, in deficit since 1971, turned around in the wake of devaluation and the institution of floating exchange rates. The resultant price differential in this country's favor helped stimulate a heavy export trade, first in agricultural commodities and later in industrial goods.

The record of prosperity was badly flawed, however, by the resurgence of inflationary pressures. An increase of 5.3 percent in the general level of prices was well above the 3.2-percent price advance of 1972. Indeed, almost everything that could go wrong on the price front apparently did so during the year.



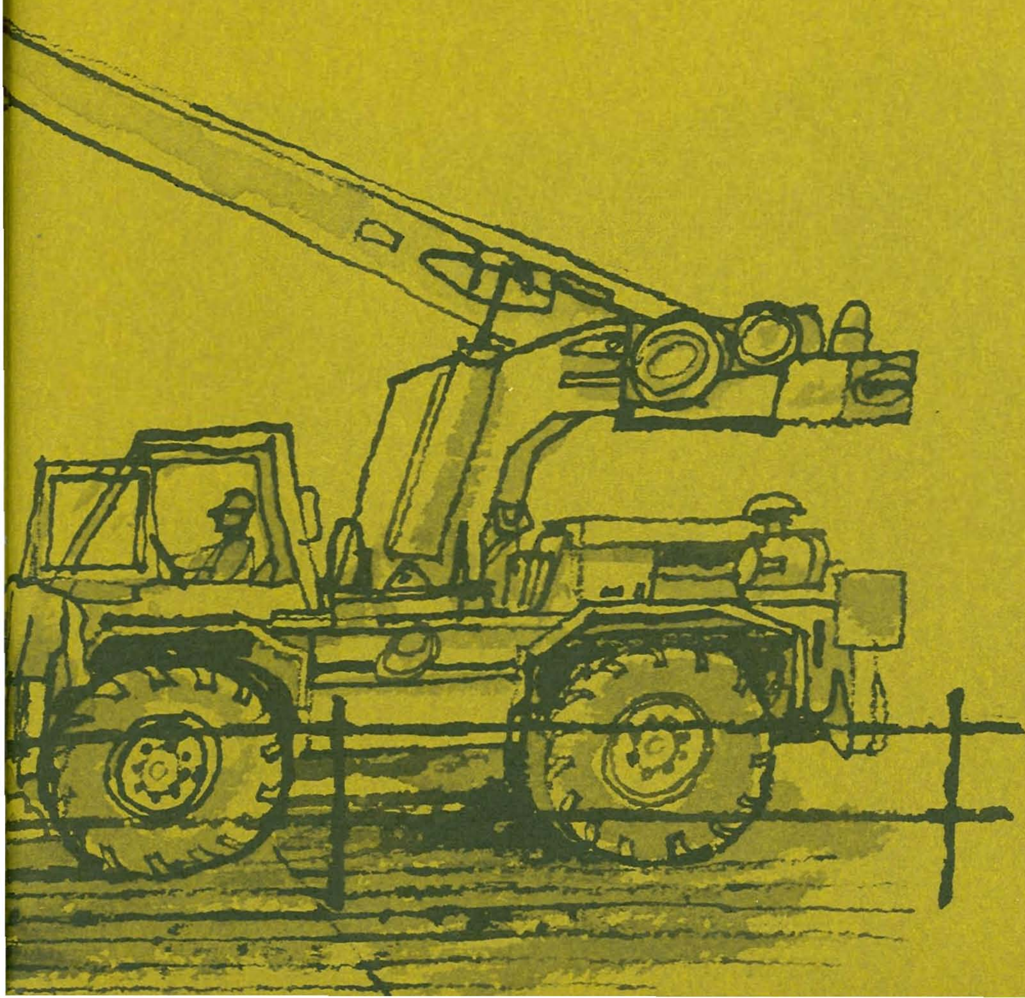
Severe price pressures developed first in the farm-products and food category, partly because of the effect of massive grain exports on domestic food stocks. These pressures were accentuated by seemingly unrelated phenomena, such as the upsurge in soybean prices caused by the disappearance of the Peruvian anchovy, another major animal feed. Meanwhile, on the demand side, sharply rising incomes supported strong demands for meat at a time when available supplies were down from a year ago. Although the increase in retail food prices decelerated in the final quarter, by year-end prices were still 20 percent higher than a year earlier.

In addition, the massive industrial expansion which had developed over the preceding year and a half kept many industries operating near the limits of their physical capacity during 1973. Shortages of many industrial commodities became endemic, leading to a 15-percent rise during 1973 in that category of the wholesale price index. Late in the year, the energy crisis resulted in sharp increases in prices of petroleum and other fuels, thereby creating increased pressures on the overall indexes. During the year, price controls of one type or another were utilized—Phase III, Freeze II and then Phase IV—but these attempts to keep inflation under control generally failed, because of the severe shortages and heavy demand pressures which beset an economy with very little unused capacity.

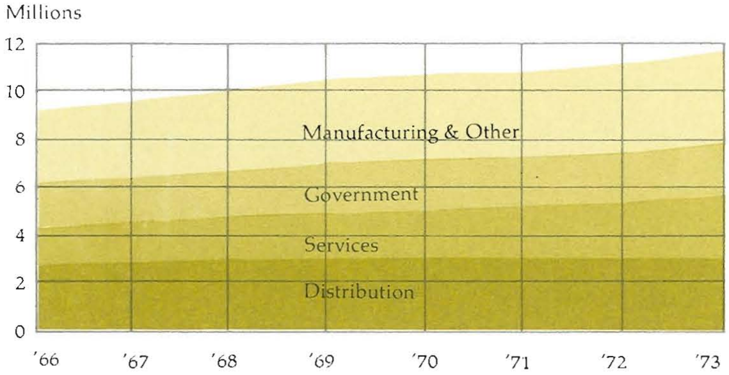
Triumphs and defeats

The Western economy experienced the same production triumphs, and suffered the same price defeats, as did its national counterpart. The regional boom was based mostly on heavy national and international demands for the products of Western farms, forests and mines. Pockets of weakness remained in some geographic areas and regional industries, but the overall boom supported a strong 10-percent advance (to $165 billion) in personal income in the states of the San Francisco Federal Reserve District (California, Hawaii, Oregon, Washington, Alaska, Idaho, Nevada, Utah and Arizona).

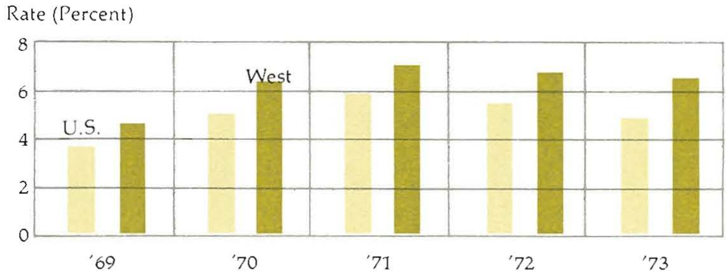
Nonfarm employment increased 4.2 percent in 1973, on the basis of impressive gains in manufacturing, construction, finance and services. Only the Federal government reported a decline in employment during the year. By state, employment gains ranged from 2.0 percent in Hawaii and 3.6 percent in California (matching the U.S. gain), all the way to an 8.5-percent increase in Arizona.



Employment rises more than 4 percent in the West, with strong gains in factory and construction jobs



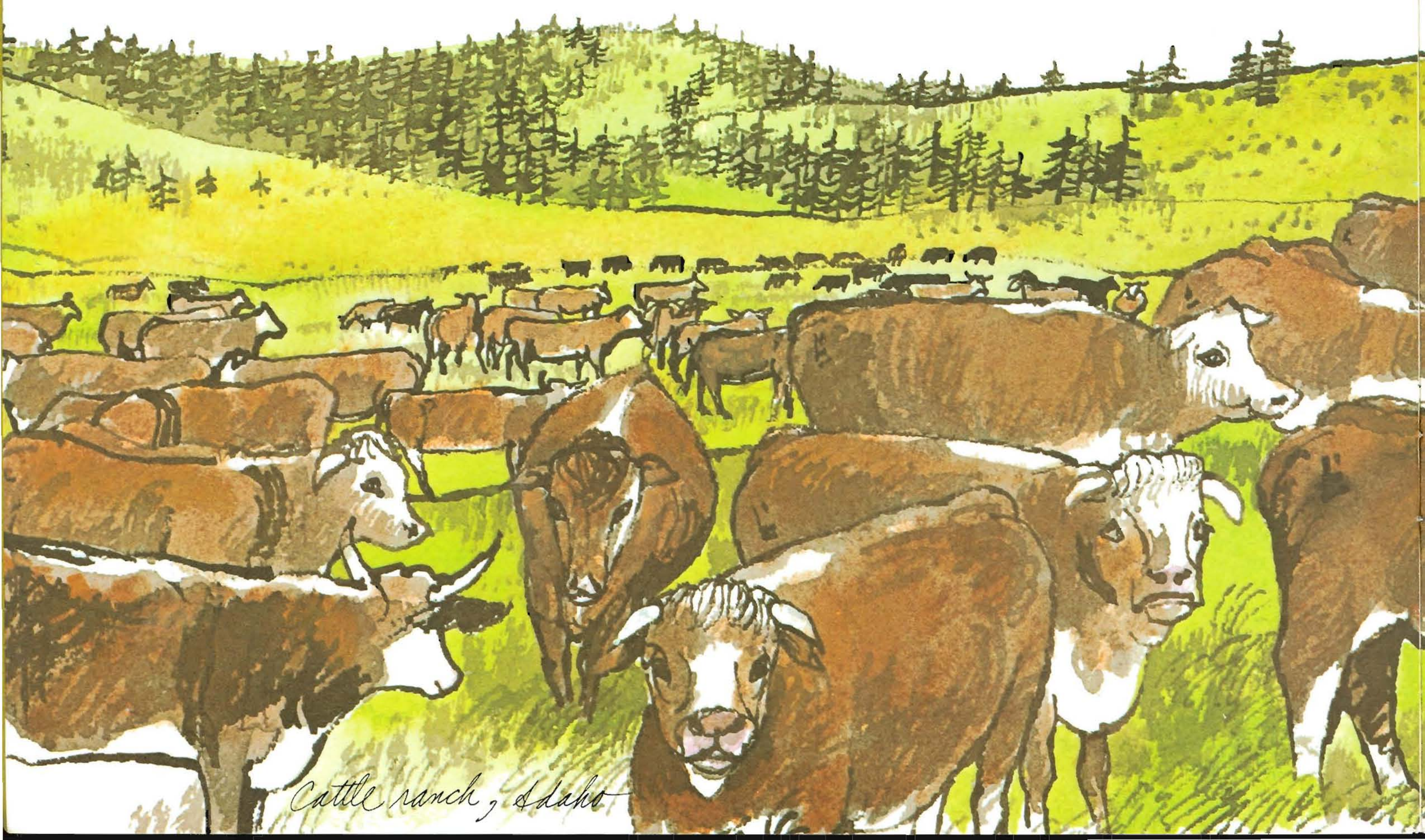
Regional unemployment falls from recession levels, but still remains high by national standards



Unemployment averaged 6.4 percent of the labor force for the region as a whole, down somewhat from the 6.8-percent figure of the previous year. Several states which had been hit hardest by the turn-of-the-decade recession, notably Washington and California, showed the strongest improvement in this regard in 1973. Still, unemployment remained a problem in these and other regional states, and only Arizona, with a 3.7-percent jobless rate, fell comfortably below the national norm of 4.9 percent. Moreover, unemployment appeared to be on the increase again as the year came to an end.

Strength in demand

The strong gains in employment and income were reflected in an 11-percent rise in retail sales. Auto and other durable-goods sales rose sharply, although not so strongly as in the preceding two-year period. Supermarket and restaurant sales also expanded rapidly, but this gain in dollar volume was far overshadowed by a sharp rise in prices, suggesting a shift by households away from more expensive food items.



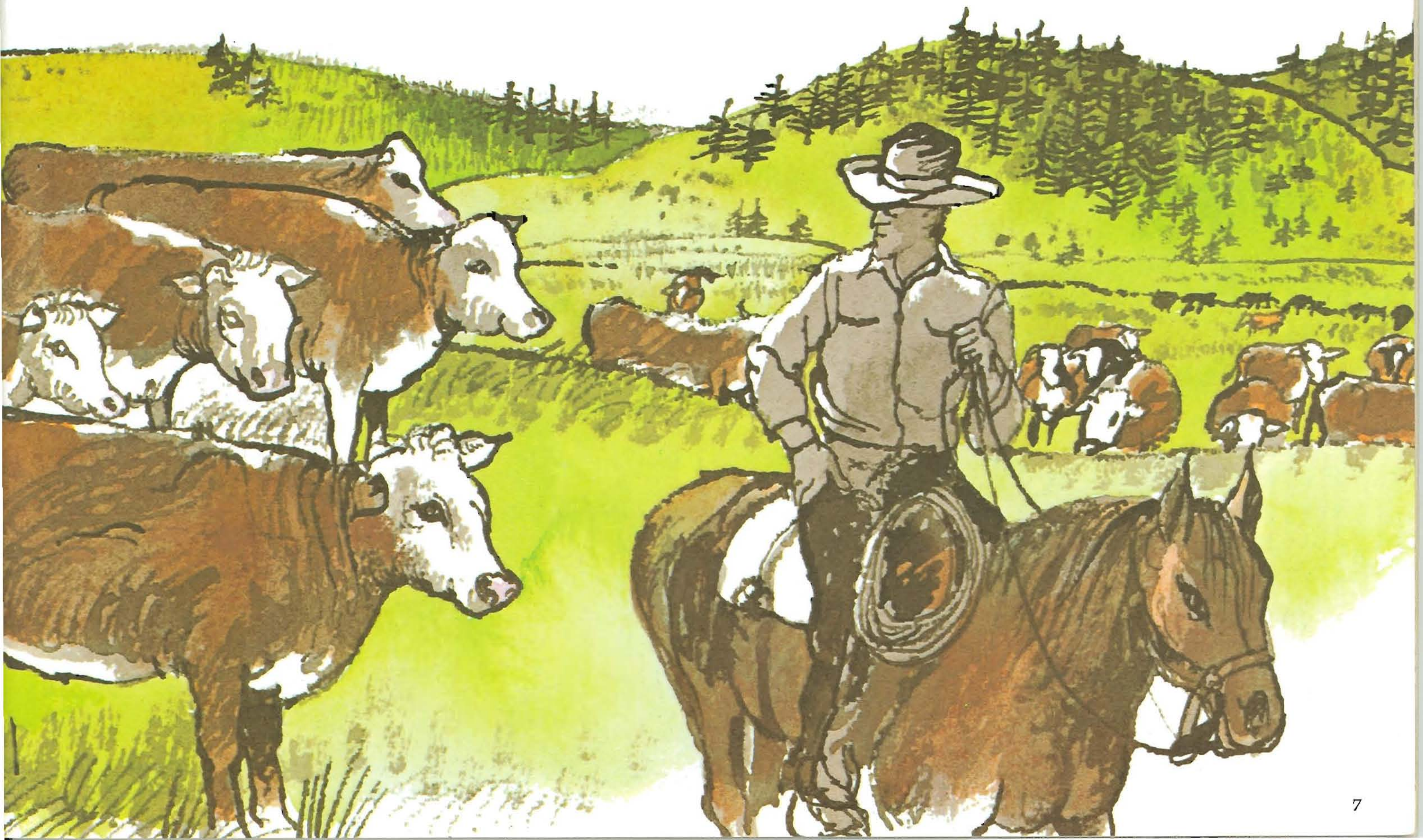
The consumer buying surge was partly financed by a 16-percent rise in commercial-bank instalment loans. The increase was smaller than 1972's, however, partly because of a late-year slowdown in auto financing. Consumer buying was supported by large Federal income-tax refunds early in the year, due to tax over-withholding during the previous year. These windfall refunds often were used as down-payments on autos and appliances, with the remaining balances financed by instalment-credit loans.

The strong pace of business sales went hand-in-hand with a regionwide demand for increased investment, and related heavy borrowing for new plant, equipment and inventories. Despite record loan rates, business firms relied heavily on commercial-bank credit, especially long-term loans, for financing their purchases. Moreover, during much of the year, many firms found borrowing at the bank prime rate to be more profitable than borrowing at higher commercial-paper rates.

Durable-goods manufacturers in general, and machinery producers in particular, were among the heaviest bank borrowers, as Western industries geared up to increase their productive capacity. Food manufacturers also relied heavily on bank credit to finance sharply higher inventory costs. However, the largest increase in bank loans occurred in the service sector, reflecting the strong growth of tourism and other services.

Strong fiscal position

Western governmental units maintained a strong financial position during 1973. Revenues expanded on the basis of a booming economy, past tax increases, and the inflow of Federal revenue-sharing funds. However, government spending grew at a slower pace—especially for public education, as the post-World War II baby crop continued to wend its way out of school and into the labor force. Many states were in such good fiscal shape that they actually reduced their tax rates, instead of boosting them, as they had done in earlier years.



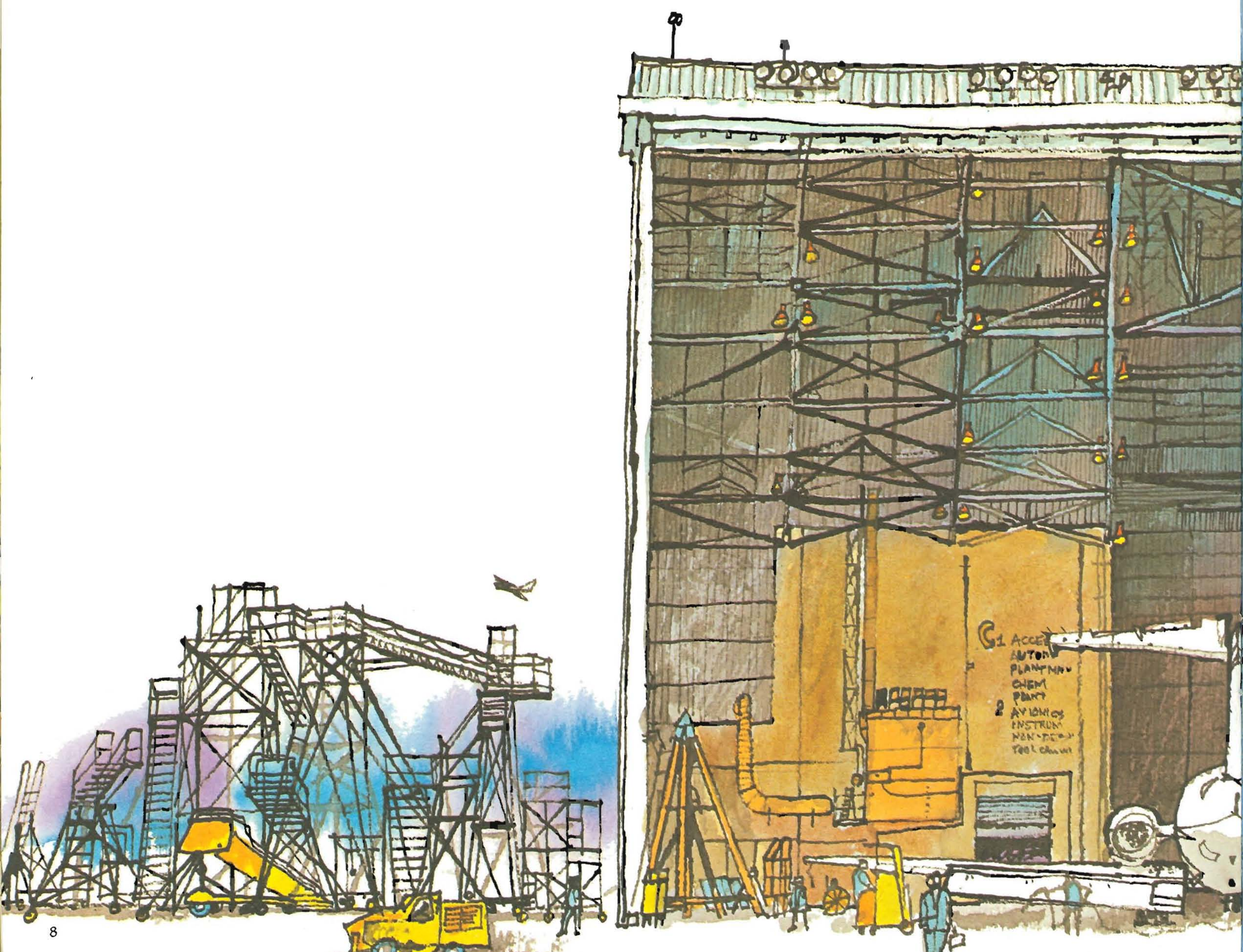
California built up a large budget surplus, partly because of the factors noted above, but also because of the initiation of tax withholding in 1972. Consequently, the legislature voted to allow a tax credit on 1973 income taxes, and also suspended a scheduled increase in the sales-tax rate for a six-month period. The Governor proposed a plan to limit state spending to a declining percentage of California personal income, with the limit dropping from 8¾ percent in fiscal 1974 to 7 percent in 1990. However, this proposal was rejected by the electorate, partly because of fears that it would lead to spending reductions as large as $630 million in the first year of the plan (fiscal 1975).

Oregon's legislature attempted to combine a tax-reform plan with a shift in the school-financing burden. The Oregon plan called for property-tax relief for low- and middle-income taxpayers, increased state financing of public school costs, and an acceleration in corporate-income taxes. A related proposal for an increase in personal taxes will go before the voters this spring. But Washington voters overwhelmingly rejected a legislative proposal for the initiation of a graduated income tax, in a reform package which also called for state assumption of the full cost of public education, the phasing out of the business-inventory tax and a limit on sales-tax rates.

Municipal-bond financing grew sharply despite the easier fiscal position of states and municipalities. Western governmental units borrowed roughly $3.3 billion during the year—more than 15 percent above the 1972 figure and about equal to the 1971 record. Despite this increased financing, borrowing costs were roughly in line with earlier levels of rates, with a 5.15-percent average yield on rated general obligations. State governments, primarily Washington, Oregon, California and Alaska, borrowed about $1.2 billion. Local governments, led by California, Arizona and Washington units, went into the market for about $2.1 billion.

Spectacular farm boom

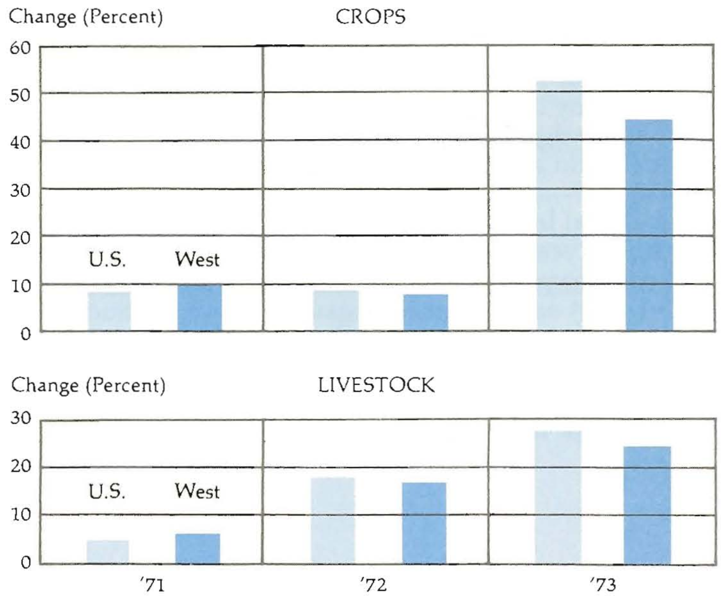
The farm boom provided bedrock support for the regional prosperity, as every single Western state reported sizable gains in farm income during the year. In total, cash receipts soared 34 percent to a record $12 billion—almost entirely because of higher prices, since the physical volume of marketings failed to increase significantly over the year. The surge in farm sales stimulated a strong gain in net income, to $4 billion, far offsetting the impact of a record rise in production costs and a sharp decline in government payments to farmers.

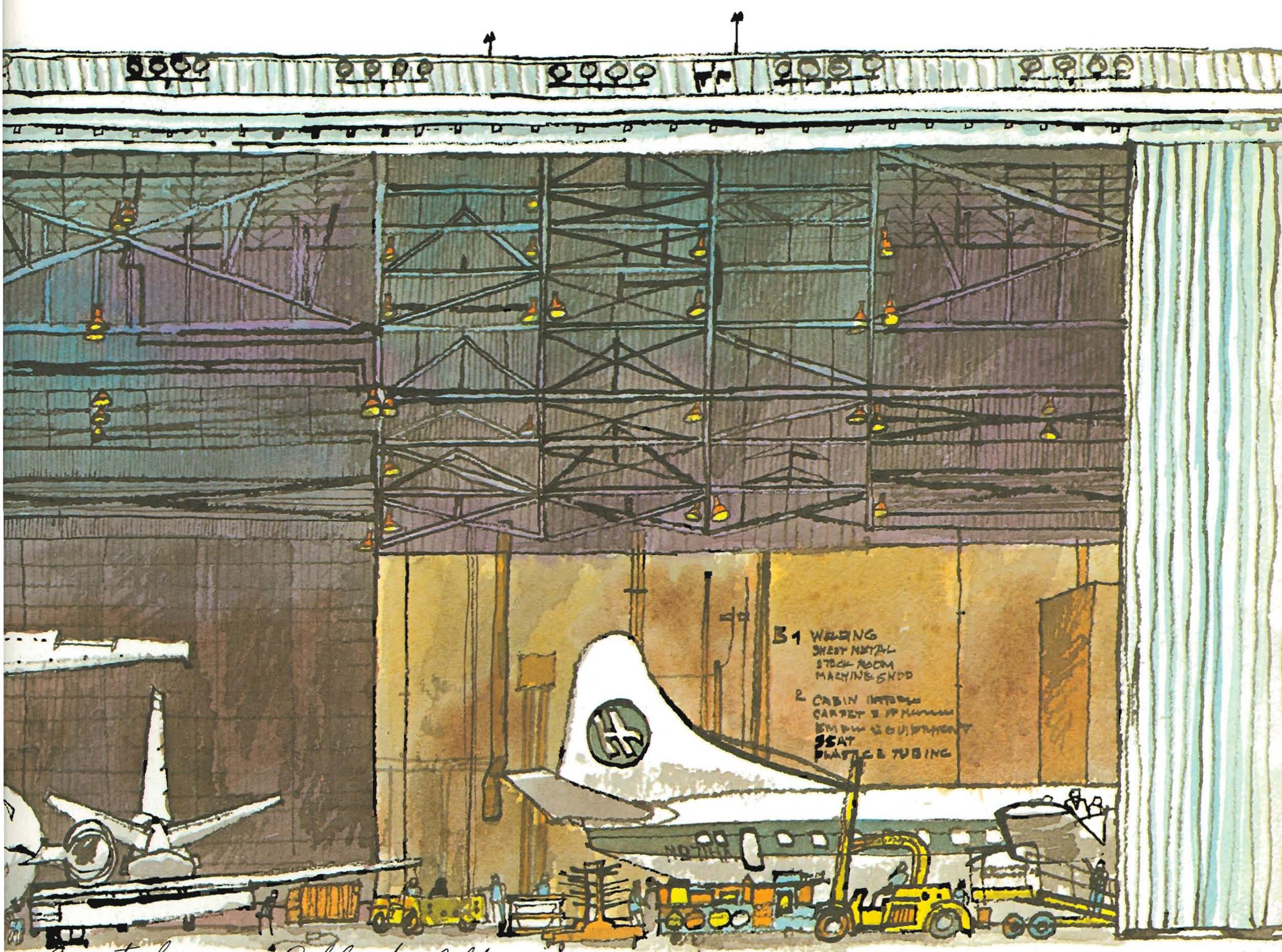


A spectacular 43-percent gain in crop receipts reflected a very strong market demand for Western crops against a tight supply situation worldwide. During the summer period, crop prices skyrocketed in the wake of soaring exports, dwindling stocks and fears of worldwide shortages. Prices then began to drift lower in the fall, when bumper crops were harvested and worldwide production prospects improved. Even so, average crop prices at year-end remained sharply higher than a year earlier, especially for wheat (up 90 percent) and cotton (up 58 percent).

The expansion of export sales provided a strong impetus to the pace of farm activities, with Western farm exports rising 50 percent in fiscal 1973 to a record $1.5 billion. Wheat, cotton and rice exports in particular posted very sharp gains. On the production side, fruit and vegetable output benefited from an expansion of acreage and good yields. Wheat was another story, however; output actually declined in the Pacific Northwest because of a prolonged drought which offset a 20-percent rise in planted acreage.

Soaring crop and livestock sales reflect strong U.S. and foreign demand for food and fiber





Airport hangar, Oakland, California

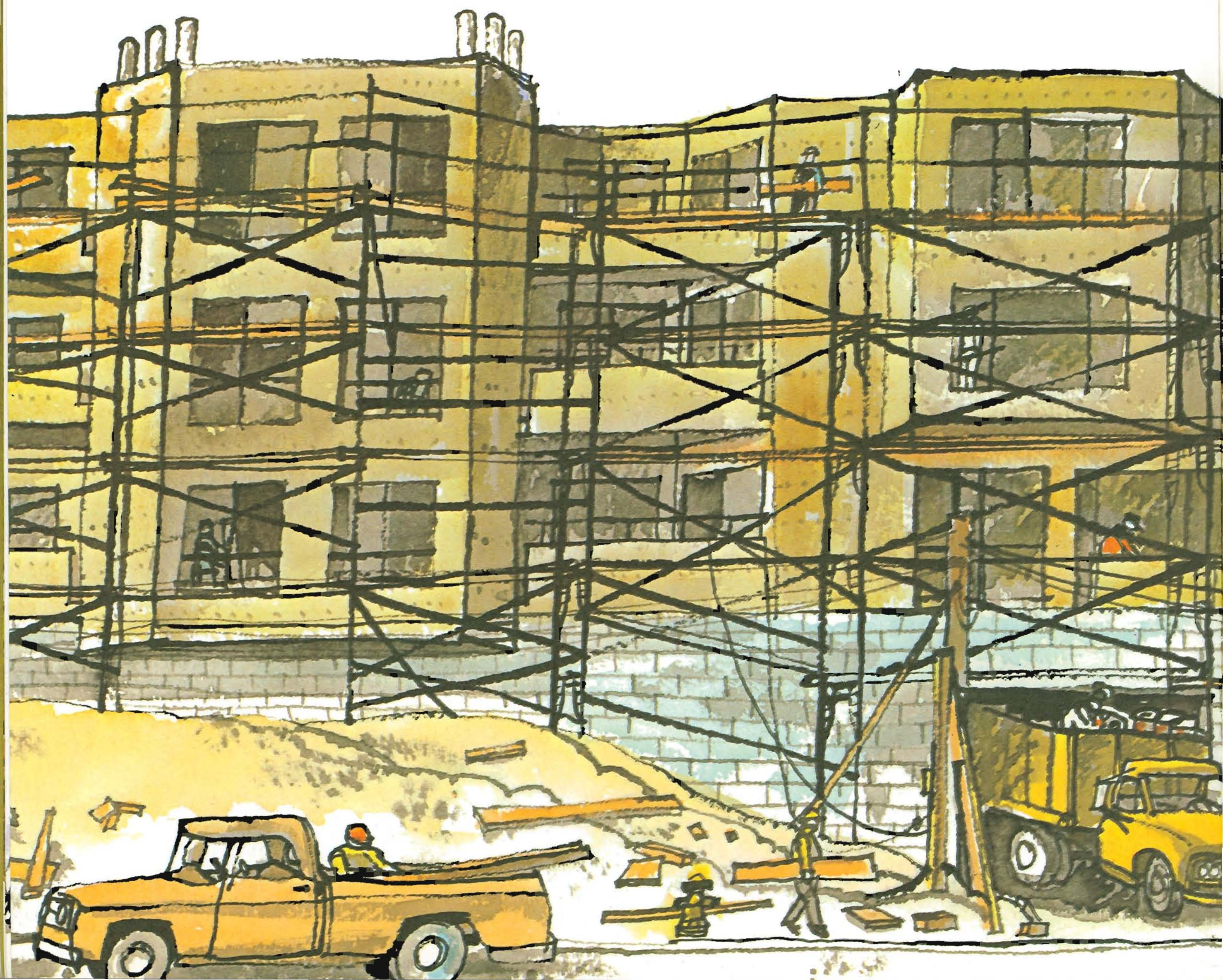
Livestock producers reported a 25-percent gain in cash receipts in the face of falling output, soaring feed costs and market uncertainties. Livestock production fell substantially, under the impact of the consumer boycott and severe weather conditions in the spring period, followed by the price freeze and related cost squeeze during the summer. But production prospects later improved—measured by the rising number of cattle and calves on feed—after the lifting of price ceilings and the expansion of feed-grain and soybean supplies.

Agricultural lending increased sharply in the West during the year. Production Credit Associations reported a 21-percent year-to-year gain in outstanding loans (end of October) on the basis of expanded farm production at higher costs, and commercial-bank farm lending grew apace. Federal Land Banks posted a comparable gain, reflecting the impact of sharp increases in land values on mortgage-debt demand.

Aerospace on recovery path

The Western aerospace industry continued on a recovery path as activity picked up in all major production lines—aircraft, electronic equipment, instruments and ordnance. Employment increased 8 percent—twice the previous year's gain—to 587,000 at year-end. But this represented only a partial recovery from the prolonged slump of the 1968-71 period, since industry employment still remained about 22 percent below its earlier peak.

Military prime contract awards to Western firms rose 4 percent during fiscal 1973 to $8.2 billion, increasing the region's share to 27 percent of total Pentagon spending. Few new military projects were started during the year, but ongoing aircraft and missile projects received additional funding. Space spending rose sharply to $0.7 billion, but this still equaled only about one-third of the earlier (1965) peak. Developmental work on the space-shuttle project provided the major upward thrust, and the Skylab project also remained important.

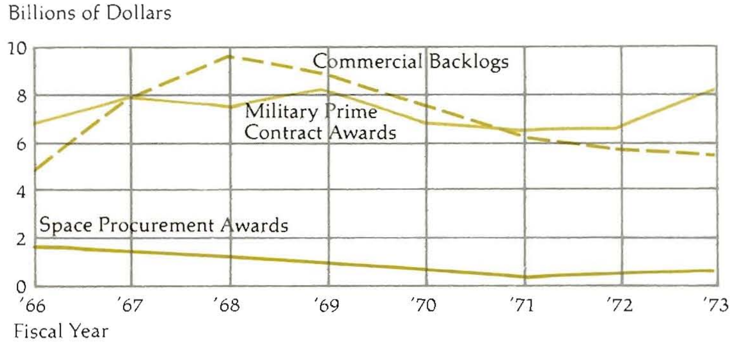


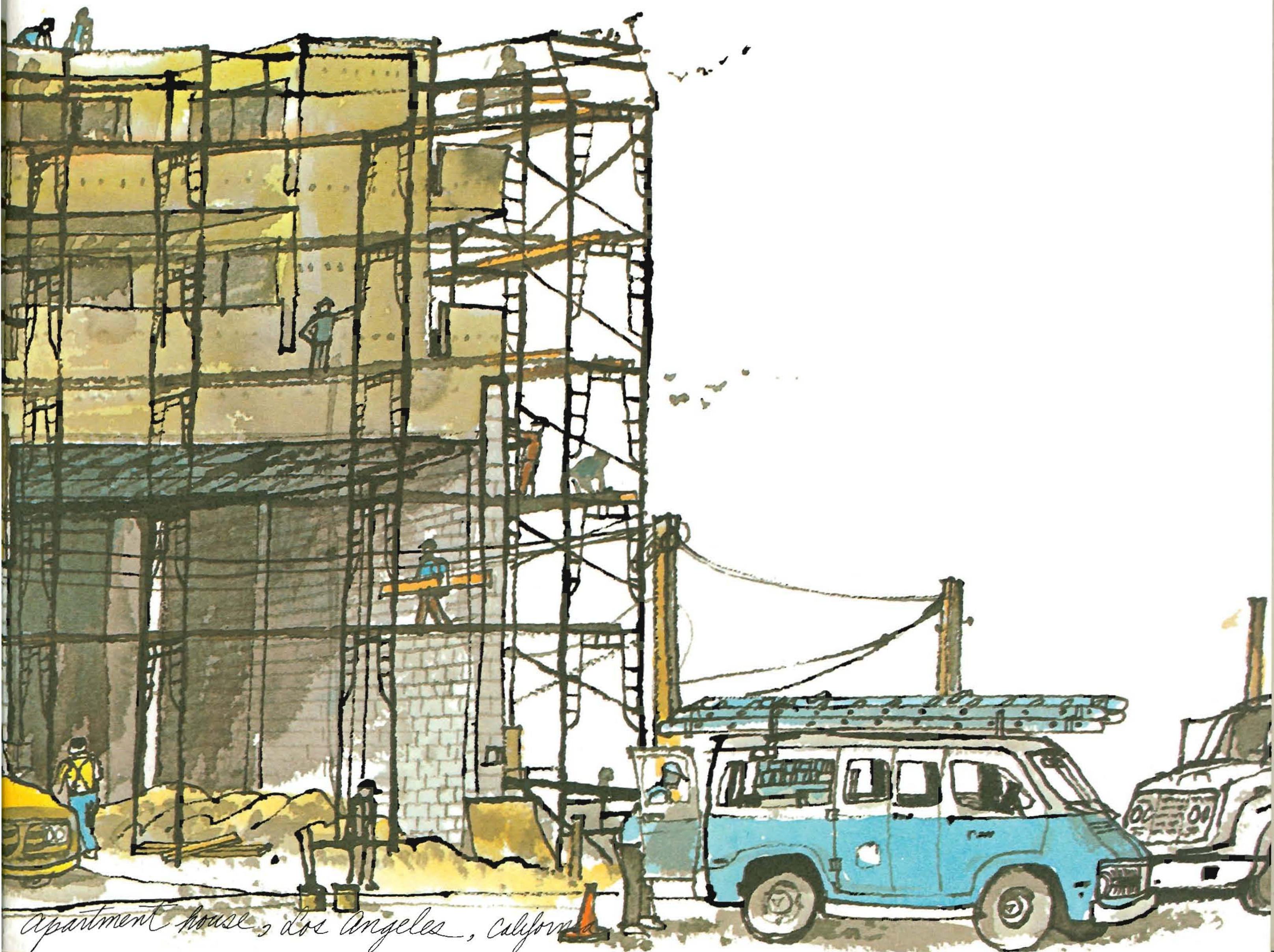
Despite the improved outlook in these two sectors, the commercial market for aircraft and electronic equipment provided the industry's main support during the year. Even in the face of the disappointing growth of airline passenger travel, domestic and foreign carriers substantially increased their orders, especially for Boeing's wide-bodied 747 model and medium-range 737 model. The picture darkened toward year-end, however, as airlines continued to post poor earnings reports and as fuel shortages necessitated cutbacks in scheduled flights. Deficit-plagued Lockheed began to lay off workers late in the year, in response to a decision by a major customer to postpone delivery on nine L-1011's.

Mixed construction results

Last year turned out to be another strong year for the Western construction industry despite a significant decline in residential activity. Total construction awards rose 6 percent to a record $16.6 billion, with almost every state sharing in the gain. Heavy construction awards rose 8 percent, thanks largely to an increase in awards

Aerospace sector benefits from military contracts... commercial backlog lags despite rise in new orders

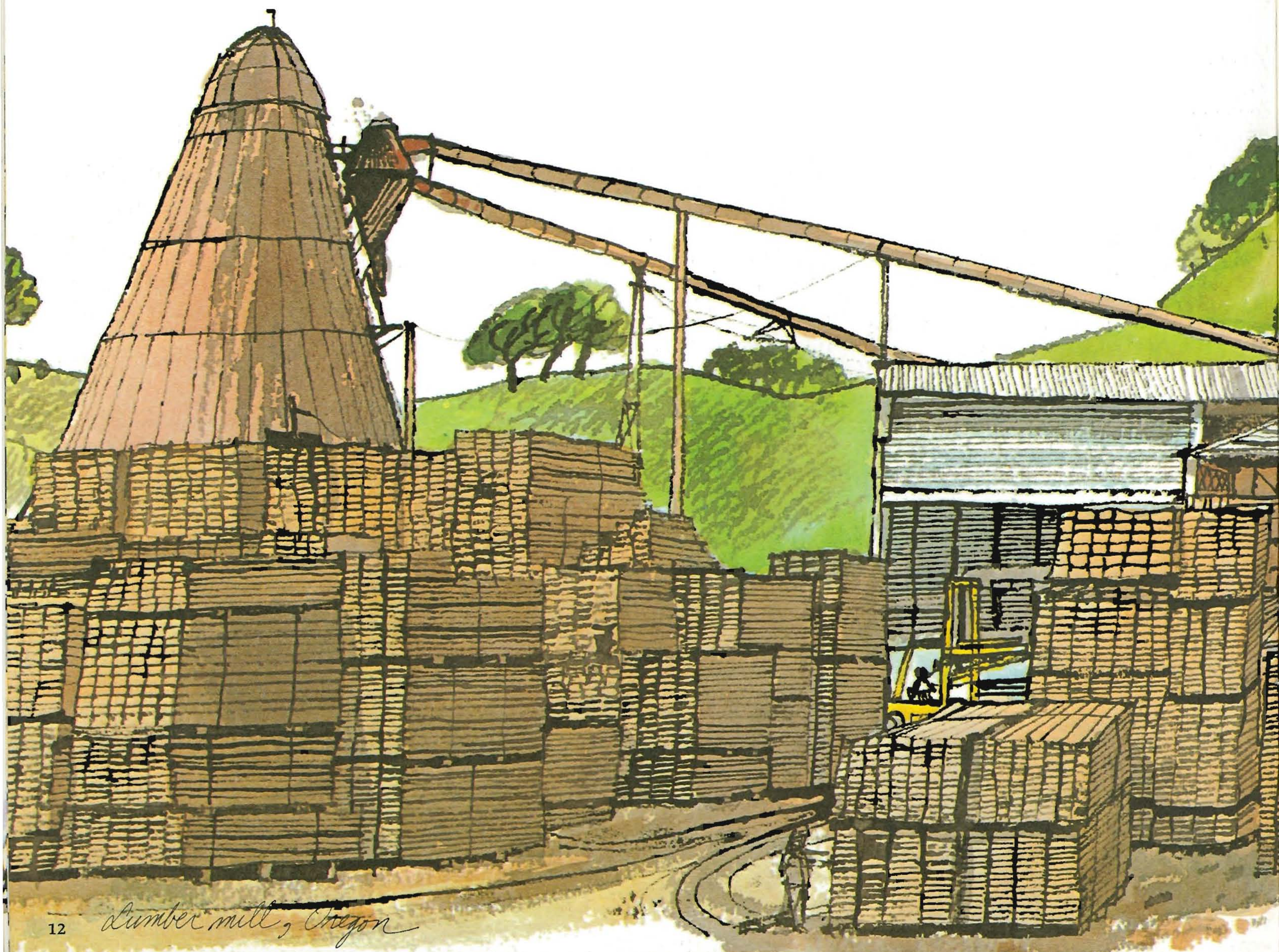




for water-supply and electric-power projects. Nonresidential activity, on the heels of a major boom in 1972, surged 20 percent more last year in response to rising demand for new factories, stores, schools and public buildings. Awards in both these categories continued high at year-end, presaging continued strength in 1974.

For the residential sector, it was a somewhat different story. Following seven years of almost uninterrupted expansion, housing starts dropped during 1973 to 370,000 units, and the decline apparently gained momentum as the year went on. This 18-percent (greater-than-national) decline reflected a fall-off of activity in 15 of the region's 16 major metropolitan markets. However, the number of completed units (390,000) and the number of mobile-home sales (90,000) roughly approximated 1972's record totals. In view of the modest growth of population in the region, the continued strong expansion of the region's housing stock appears inordinately large, and provides ground for worry about 1974 demand.

The sharp drop in new housing activity reflected not just the growing imbalance of housing supply, but also a sharp rise in home prices and (especially) a surge in mortgage borrowing costs after midyear. The median price of new single-family homes rose 18 percent to $34,000, in response to soaring land and material costs. The rise in home prices was accompanied by a continued increase in homeownership costs, as regional increases in property taxes, insurance, maintenance and utility costs generally exceeded those recorded nationally. Mortgage-borrowing costs rose apace with the soaring cost of funds to lenders; the average rate on conventional new-home loans went from 7.75 percent early in the year to 8.95 percent at year-end, with a peak of 9.40 percent in October.



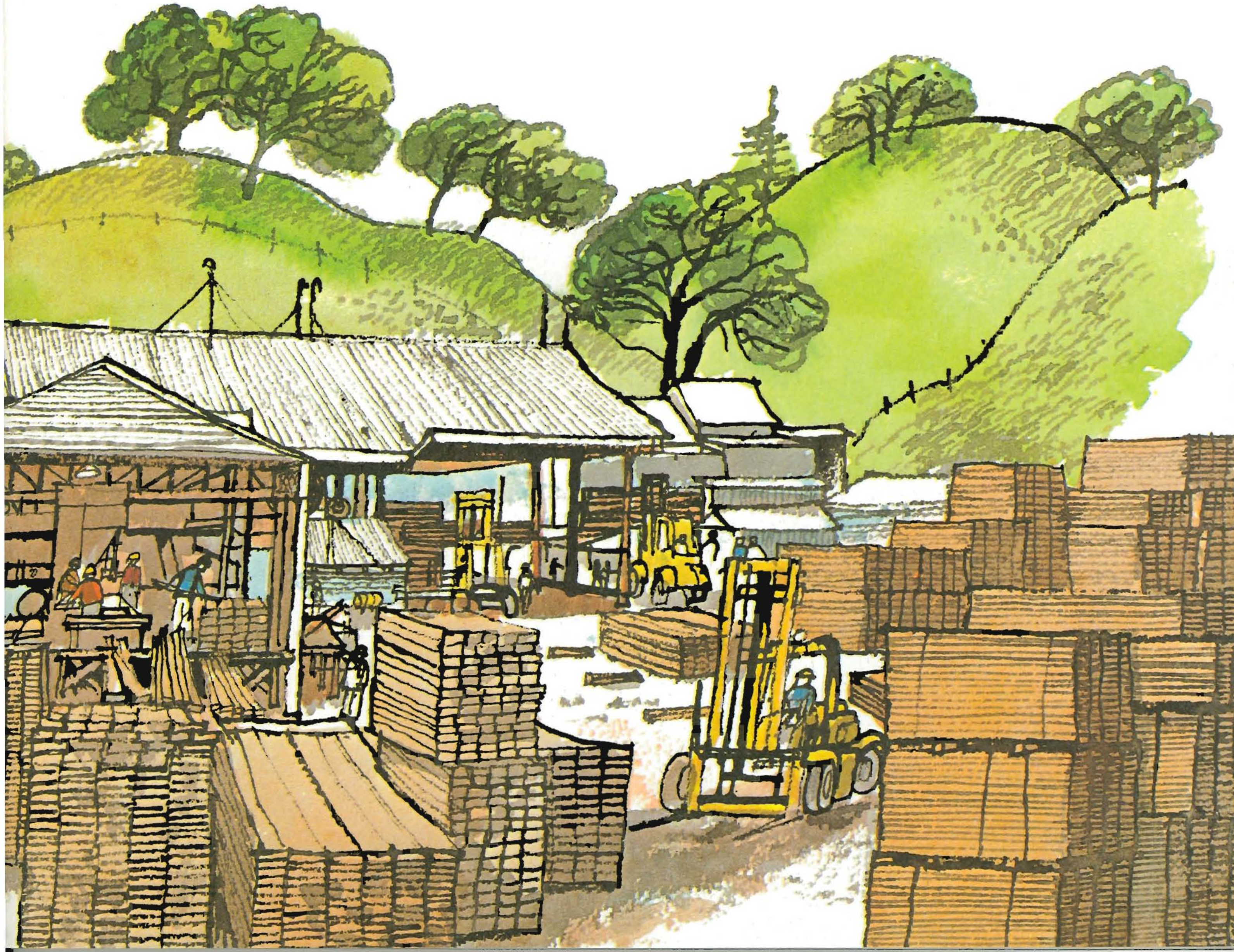
Lumber mill, Oregon

Indeed, much of 1973's housing story was written in the credit markets, where the cost of mortgage funds was materially affected by the sharp rise in yields on money-market instruments and an attendant reduction in savings inflows into deposit institutions. Savings-and-loan associations recorded a $3.6-billion savings inflow—less than one-half the 1972 record pace—while commercial banks made a somewhat better relative showing with a $2.2-billion inflow. As a reflection of this difference in savings inflows, banks reported a 26-percent increase in net mortgage loans to $3.7 billion, while S&L's reported a 23-percent decline to $5.3 billion. The latter figure still represented the second largest gain in S&L history, but it was achieved only through substantial borrowing from Home Loan Banks and liquidation of investments, plus a high volume of loan repayments.

The housing outlook at year-end remained clouded, not simply because of demand problems and the continued high cost of mortgage money, but also because of the extended rise in construction costs and growing materials shortages, including those of certain petroleum derivatives. In addition, the industry was troubled by a number of energy-crisis problems—concerning, for example, the impact of energy-related production cutbacks and job layoffs on overall housing demand, and the impact of possible gasoline rationing on the demand for suburban housing in particular.

Boom in lumber and steel

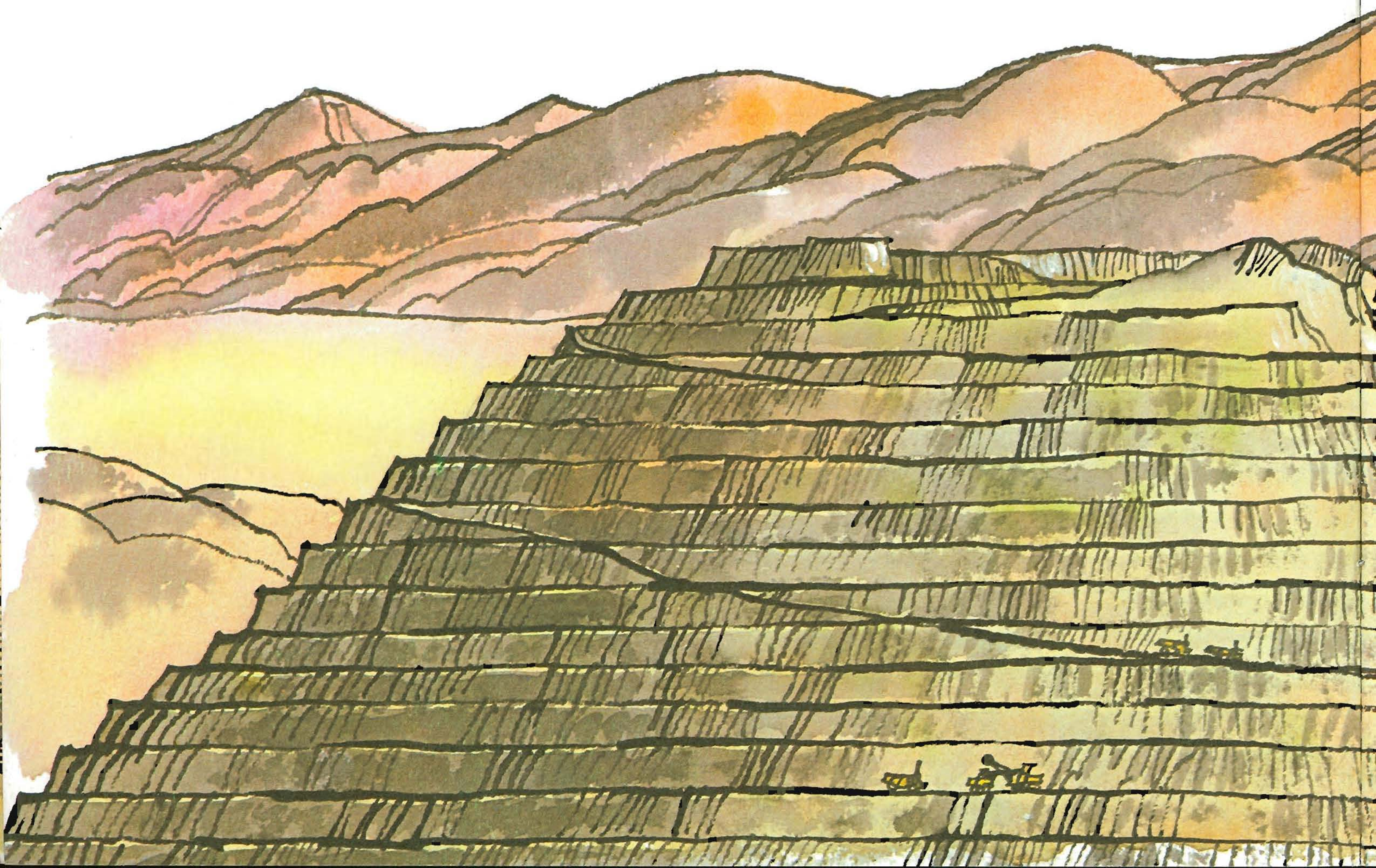
The nationwide construction boom enabled the Western lumber industry to experience its third consecutive year of production and employment gains. Lumber mills boosted production only slightly, but still approached 1959's record level. Prices meanwhile rose sharply—28 percent for lumber and 25 percent for plywood—reflecting significant crosscurrents in market conditions.



Strong demand from the nation's homebuilders, together with the Phase III removal of mandatory controls, sent lumber prices soaring during the January–May period, extending an uptrend which began in early 1971. Prices then trended downward throughout most of the remainder of the year, as housing demand slowed and the Federal government took various steps to increase timber supplies. Lumber and plywood prices already were dropping from their peaks when the 60-day freeze was imposed in mid-June, and the Cost of Living Council consequently exempted the industry from Phase IV price controls. The second-half decline in lumber prices was relatively mild, however. Plywood prices, which had dropped more severely, spurted upward again late in the year, because of a wave of scare buying which developed when a shortage of fuels and glues forced the closure of six Oregon mills. As a means of overcoming the industry's evident shortages, several major forest-products firms announced major capacity-expansion plans during the year.

The regional steel industry set a new production record, with output soaring 18 percent above 1972's pace to 7.4 million tons. The industry benefited not only from a strong demand for structural steel for construction, but also from a slowdown in the flow of foreign imports. The import decline was steeper in the region than nationally, since the devaluation of the dollar raised the price of Japanese steel relative to domestically-produced metal, causing customers on the West Coast to turn increasingly to regional suppliers.

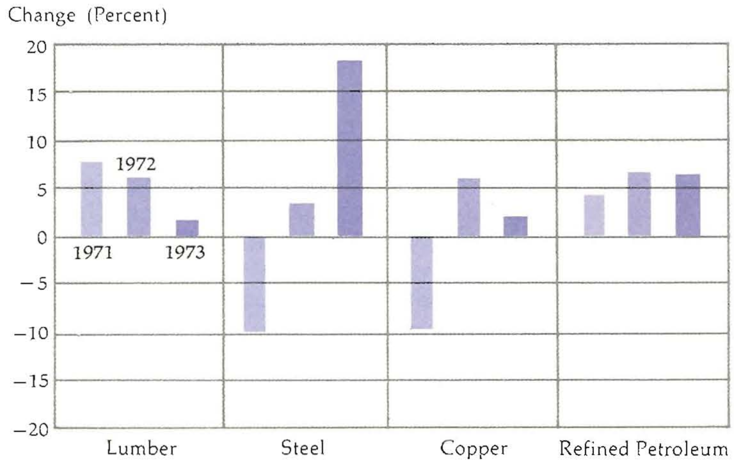
Domestic steel producers raised their prices by less than 3 percent for the year, posting increases on a wide range of structural and tubular products in early January and on flat-rolled sheet products in early October. Further increases were recorded in early 1974, in response to the industry's plea for higher prices to finance the huge capacity expansion that would be required to meet projected demands for structural steel.

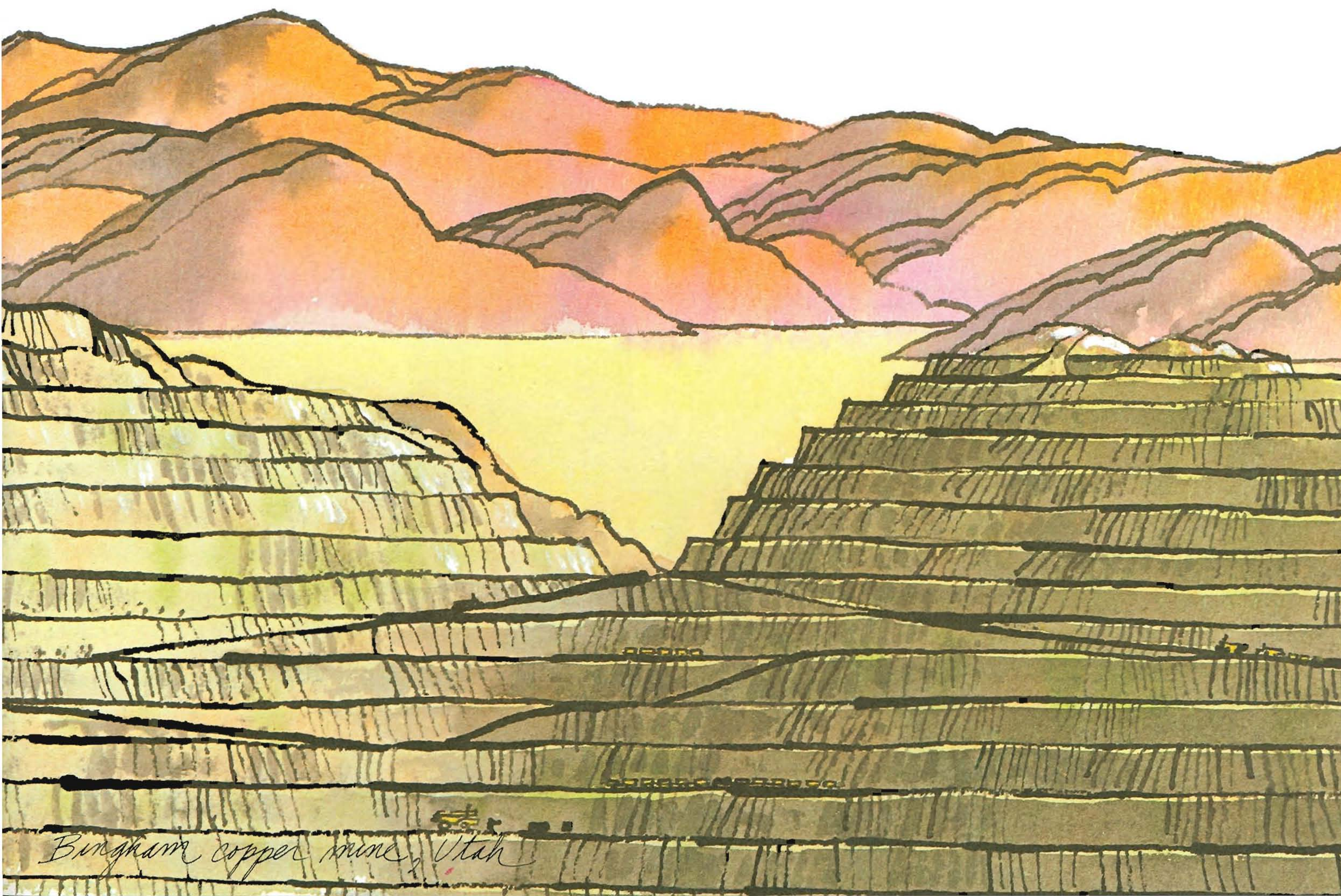


Boom in nonferrous metals

Demand for aluminum was exceptionally strong, but Northwest producers were hard-pressed to satisfy customers' requirements because of a shortage of hydroelectric power. Producers were forced to shut down a portion of their capacity in mid-April, when the Bonneville Power Administration reduced its interruptible power supply in response to a low stream runoff. Drought conditions subsequently necessitated a further cutback in power, idling one-quarter of the regional industry's total capacity by mid-July. Heavy rainfall late in the year prevented further disruptions, however, and by early 1974 most producers were able to reactivate idle capacity because of the improved power situation. Meanwhile, with demand soaring, the selling price for primary ingot jumped sharply during the first quarter to the published level of 25 cents a pound, ending more than three years of price discounting. The price remained stable until late December, when the Cost of Living Council granted the industry permission for another boost to 29 cents per pound.

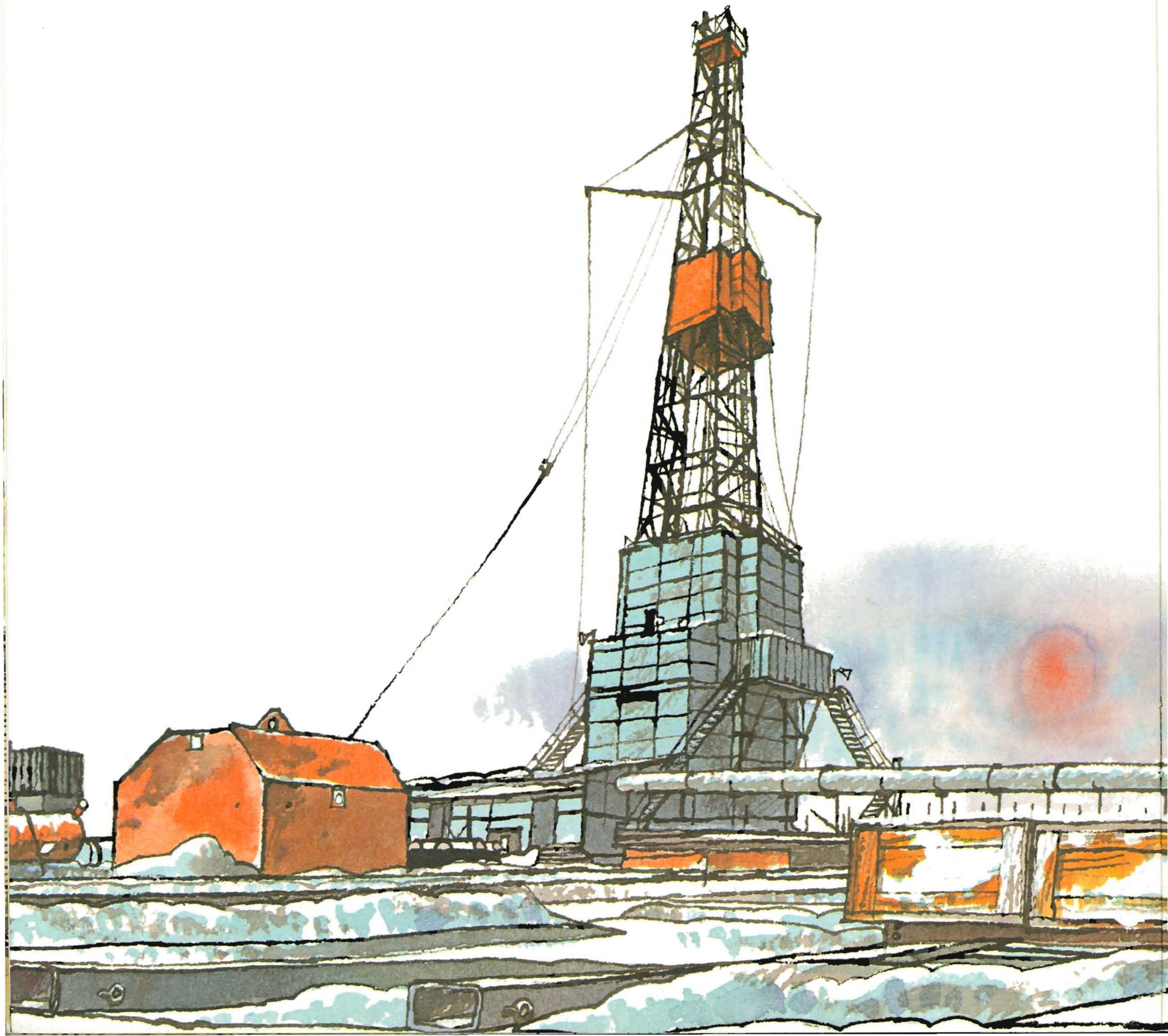
Output rises in major extractive industries, with very strong gains in steel and petroleum





Copper and other nonferrous metals also were in extremely short supply, as equipment breakdowns, pollution-control requirements, and other problems restricted the growth of production in the face of record demand. A devalued dollar and strong market conditions abroad contributed to the squeeze, leading to an upsurge in nonferrous-metal prices during the first four months of the year. Serious shortages developed as the year progressed, since price controls held domestic prices stable in the face of soaring world prices, contributing to an outflow of metal to overseas markets. Finally, in December, the Cost of Living Council decontrolled the prices of lead and zinc, as a means of discouraging exports and encouraging expansion of domestic capacity, and granted copper producers permission to raise prices from 60 to 68 cents a pound.

Silver prices trended upward in 1973, extending the spectacular advance that began in late 1971. Over the course of the year, the New York dealer price jumped from \$2.03 to a record high of \$3.27 an ounce. Supply problems and strong industrial demand contributed to the advance, as a four-month strike at Idaho's Sunshine mine depressed production in the face of a further increase in industrial consumption. But the strongest stimulus came from the worldwide commodity inflation and uncertain international-currency situation, which increased the speculative demand for silver by those who viewed the metal as a safe store of value.

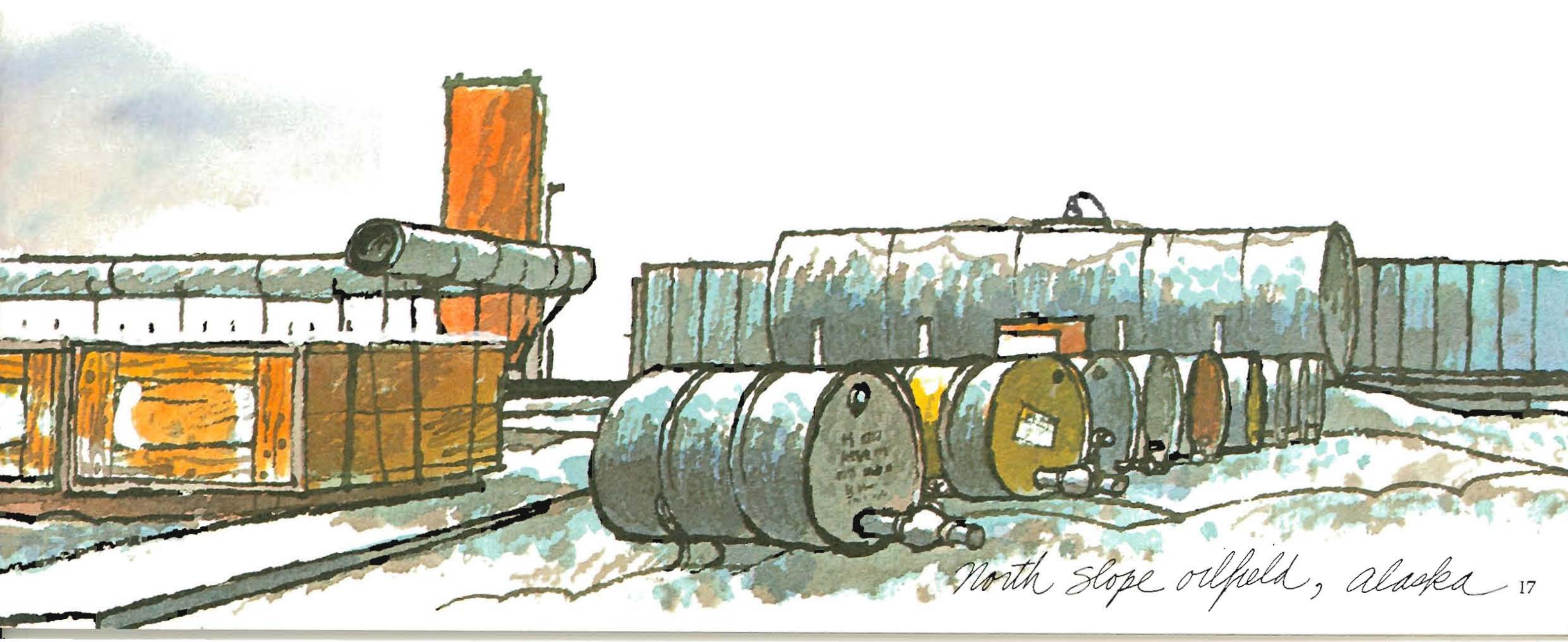


Energy pinch

Western oil refineries achieved a 7-percent increase in output in 1973, despite the impact of the late-year Arab oil embargo. But domestic sources supplied a declining portion of the regional industry's total crude requirements—55 percent, compared with 63 percent in 1972—as crude production continued to decline in both California and Alaska. Foreign imports flowed in at an increased rate, especially after mid-April, when the Administration suspended oil-import quotas and removed existing tariffs on crude and products. The Arab nations were responsible for most of this increase and, indeed, had become the largest foreign source of supply prior to the embargo, accounting for over one-third of the total crude oil imported into the Pacific region. Thereafter, the embargo and related cutbacks in Canadian and other supplies significantly affected Western refinery operations, reducing output about 7 percent between early November and late December.

A recent decision of the California State Lands Commission, permitting the resumption of drilling on existing offshore drilling platforms on state lands, promises to reverse the prolonged decline in California crude-oil production. That decline began in 1969, when the disastrous blow-out in the Santa Barbara Channel led to a moratorium on offshore drilling. Development also is likely on 7.7 million acres of Federal lands extending as far as 110 miles offshore, in view of the Interior Department's request to oil companies to propose tracts for possible leasing early in 1975.

The West will play a major role in the longer-term solution to the energy crisis. A highlight of 1973 was President Nixon's signing of the Trans-Alaska Pipeline Bill, authorizing construction of a 789-mile pipeline between the Prudhoe Bay field and the port of Valdez. The first shipments of oil from Alaska's North Slope should reach West Coast markets by 1977, with the pipeline reaching its full capacity of 2 million barrels per day by 1980. The recent and prospective rise in fuel prices has also stimulated interest in the exploitation of Rocky Mountain coal and shale-oil resources—witness the spectacular bids received by the Federal government recently for a western Colorado shale-oil tract.



Rapid Lending Pace

Last year was an active year for bankers—a year of strain under the pressure of seemingly insatiable financing demands. Banks paid higher and higher rates for the deposits needed to satisfy the demands for loans from all sectors of the economy. Yet many banks reported record or near-record net income, as operating earnings were swelled, first, by record loan rates collected on very large increases in loan assets, and secondly, by burgeoning income from foreign-exchange transactions and overseas operations.

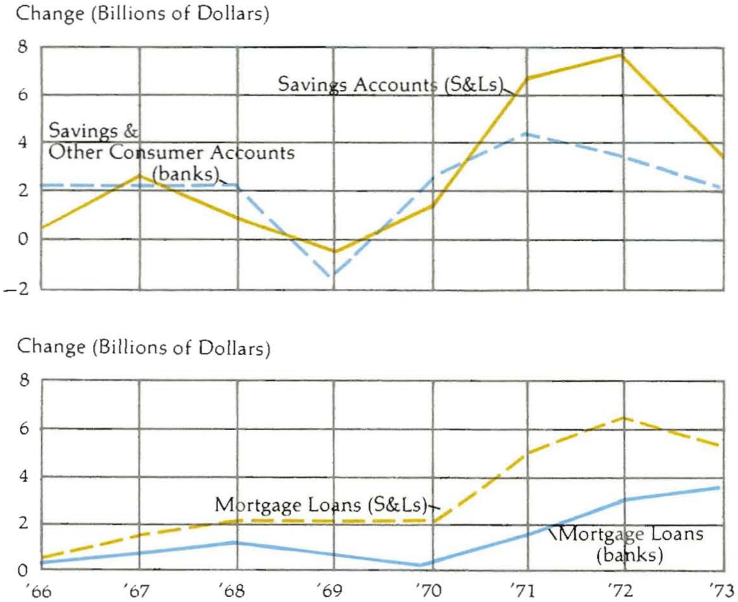
Financial activity, nationally and regionally, moved at a frenzied pace in the first half of 1973, and then slowed to a more sustainable pace during the second half as monetary policy became less expansive. The narrowly defined money supply (currency plus demand deposits) fluctuated erratically from quarter to quarter, but expanded 5½ percent for the year as a whole, somewhat below the 8½ percent growth rate of 1972.

In an attempt to combat severe inflationary pressures, the Federal Reserve made a number of restrictive moves during 1973. The discount rate was raised seven times, from 4½ percent at the beginning of the year to 7½ percent in August. At midyear, reserves on demand deposits (over $2 million) were increased ½ percentage point, and marginal reserve requirements were placed on large-denomination CD's and certain other liabilities. (A further increase in these marginal requirements was applied in September, but rescinded toward the end of the year.) In May, however, all interest-rate ceilings on large CD's were suspended, so that banks thereafter could bid competitively for such funds.

In the face of restrictive policy moves and record-high levels of loan rates, commercial-bank credit expanded $71 billion (12½ percent) to a year-end total of $630 billion for the nation as a whole. Unlike the previous year, the increase was concentrated almost entirely in loans; total investments remained almost stable, with a sharp reduction in U.S. Treasury security portfolios offsetting a substantial gain in Federal agency and other securities.


SAFE DEPOSIT

Mortgage-lending institutions still lend heavily despite sharp reductions in savings inflows



Soaring rates

Short-term interest rates rose spectacularly, reflecting the strength of short-term demands for credit. For example, the three-month Treasury bill rate increased over 3½ percentage points to a peak of over 8½ percent in August, but then fluctuated considerably for the rest of the year. Long-term rates were somewhat more stable because of the moderation of capital-market demands, especially on the part of corporations, who were both flush with cash and heavily dependent on short-term bank loans. Treasury-borrowing needs were moderate because of the relatively small Federal deficit, but in contrast, Federal-agency financing boomed as mortgage-related agencies turned to the capital market for supplementary funds to sustain a record volume of mortgage financing.

Sorting coin

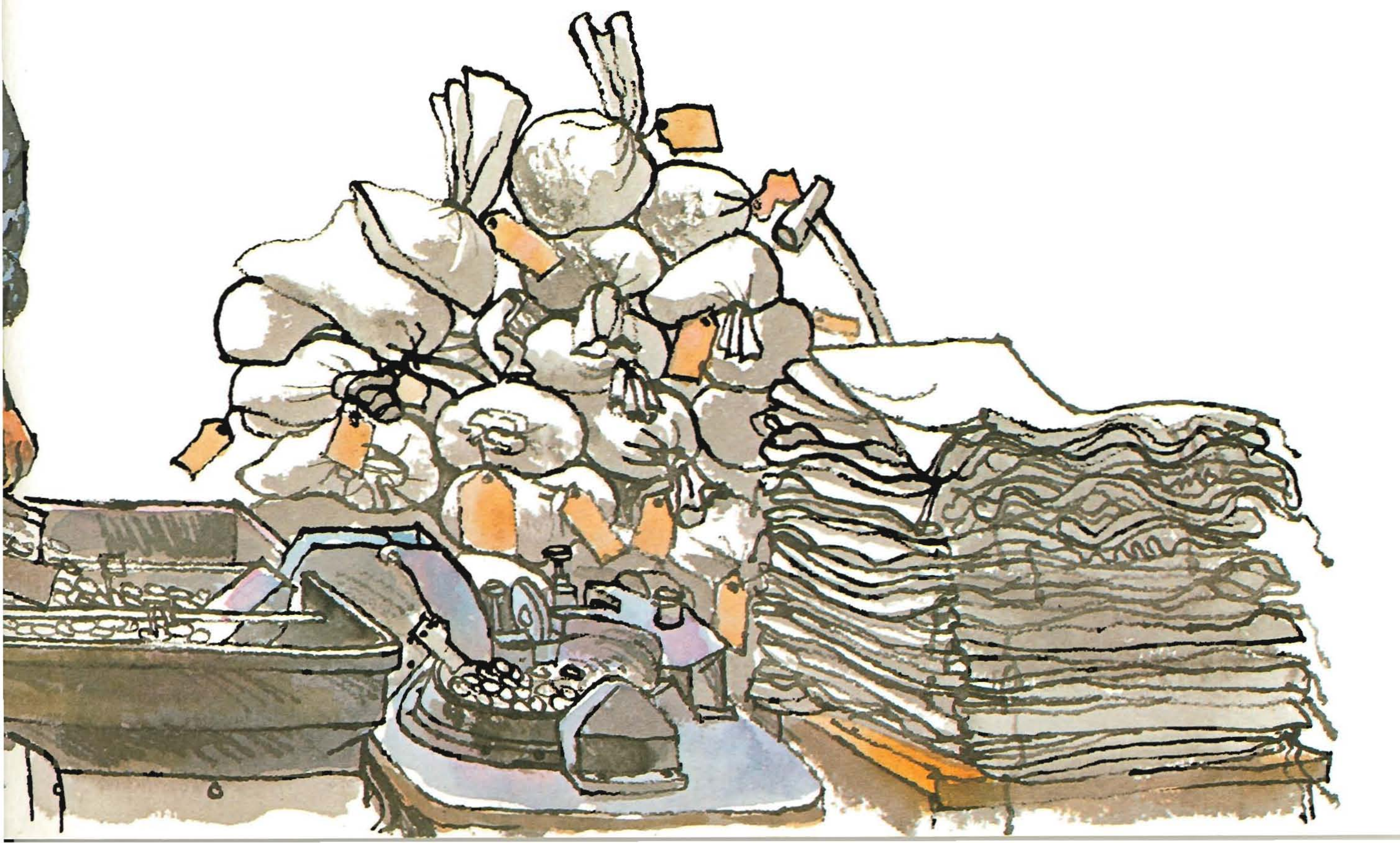
The upsurge in interest rates could be traced also to the virulence of the inflation disease, which impelled borrowers, savers and investors to add an inflation premium to the interest rates at which they were willing to do business. In addition, the upsurge reflected the assumption by monetary policy of the major share of the burden of curbing inflation, after fiscal policy had produced inflation-fueling deficits during the formative stages of the boom. Also, a growing share of credit restraint was achieved through the price mechanism, rather than through nonprice restraints on credit availability, such as the Federal Reserve formerly had imposed through Regulation Q rate ceilings on large negotiable CD's.

Soaring Western demand

Western banks successfully negotiated the year's hazardous course to record a $10-billion (13 percent) increase in bank credit—far above even the strong 1972 increase—to a year-end total of $92 billion. The boom in bank lending to business dominated the credit scene; this loan category rose 17 percent over the year, with about half of the total increase concentrated in the frenzied first quarter. During that period, burgeoning credit demands reflected both the booming domestic economy and the international monetary crisis, as well as a shift of borrowers to banks from the commercial-paper market. Business-loan growth later slackened as these factors weakened over the course of the year; for example, some loan demand shifted back to the commercial-paper market when bank business-loan rates regained their traditional differential over paper rates.

Mortgage-loan demand at Western banks continued very strong throughout the year, in an expansion which exceeded even the accelerated pace of 1972. Indeed, for the third consecutive year, the dollar increase in mortgages was greater than that of any other loan category. Consumers, too, added to the loan expansion by sharply increasing their credit demands for autos and other consumer items.

Western banks obtained some funds for financing the loan build-up by reducing their portfolios of U.S. Treasury securities, especially Treasury bills. These reductions, concentrated in the first quarter, created collateral-shortage problems for some banks. But that difficulty was alleviated in the final quarter, when banks began to replenish their depleted stocks of short-term Treasuries. Throughout the year, banks added to their holdings of Federal agency issues in order to profit from the advantageous rates of return on such securities.



Bank loans rise rapidly in West as in rest of nation, with special strength in business and mortgage loans

Reliance on CD's

One of the year's major developments, however, was the banks' heavy reliance on large negotiable CD's as a source of funds to support the massive loan expansion. Total deposits of District banks grew by 9 percent in 1973, but over half of the $7-billion increase was attributable to CD's, which jumped 54 percent over the year. In other time-deposit categories, passbook savings dropped 5 percent while other consumer-type deposits rose 15 percent, reflecting differences in rates payable on these two deposit categories.

CD's increased very sharply in early spring, and again in midsummer after the removal of CD rate ceilings, when aggressive bidding for such funds pushed rates to a record 11 percent. The role of CD's in this expansion differed from the situation in the similar 1969 boom, when Reg Q ceilings held CD rates below competitive money-market rates, forcing banks to turn to alternative sources of funds such as Eurodollars and bank holding-company paper. In the severely restrictive atmosphere of 1969, CD's actually declined, in contrast to the sharp increase of 1973.

Large District banks suffered outflows of passbook savings, at least partly because many of them paid below-ceiling rates on such deposits. In July, for example, when the Reg Q ceiling on such deposits was raised to 5 percent, many banks held their own rates at 4½ percent, and subsequently encountered some disintermediation of funds as money-market rates moved toward their highs for the year. In contrast, banks recorded substantial inflows in the form of consumer-type time deposits, especially after raising the rates on those instruments to the new Reg Q ceilings at midyear. (About one-fourth of the total gain came in four-year time certificates, which were not subject to rate ceilings during the July-October period.) Still, part of these funds probably represented transfers from passbook savings rather than new deposits.

Rising costs

The cost of bank funds (except household savings) rose last year in tandem with the soaring rise of money-market rates. As a reflection of the removal of rate ceilings, rates on large CD's ranged from a low of 5½ percent to a peak of 11 percent, with the year-end rate hovering around 9⅛ percent. The effective rate on Federal funds (interbank loans of unused balances with the Federal Reserve) followed essentially the same path, although ending the year just below 10 percent. Also, member-bank borrowings from the Fed became more expensive as the discount rate rose from 4½ percent in January to a final level of 7½ percent in August.

Bank-loan rate increases were limited to some extent by the guidelines of the Committee on Interest and Dividends. In the first quarter, the prevailing prime business-loan rate rose only from 6 to 6½ percent, while market rates generally rose a full percentage point or more. This situation helped trigger heavy drawdowns against loan commitments, as borrowers shifted from the commercial-paper market to take advantage of the more favorable bank-loan rates. However, the situation changed considerably following the CID's development of a two-tier rate system in April. Thereafter, the banks had more flexibility for adjusting the rates charged large borrowers, in exchange for continuation of relatively stable rates on loans to small businesses and households. The prime rate thus rose rapidly in 16 separate upward adjustments, to a 10-percent peak in late September, before edging down to 9¾ percent in the last quarter.

Required reserves of District member banks increased $381 million, as a consequence of both strong gains in deposits and several changes in reserve requirements. Higher requirements, as noted earlier, affected not only demand deposits but also large CD's and certain other liabilities. Increased reserve pressure became evident from the sizable increase in member banks' total borrowings. Borrowing from the Federal Reserve Bank of San Francisco jumped from a daily average of $20 million in 1972 to $158 million in 1973, and large banks purchased (borrowed) $646 million in Fed funds from other banks on a daily average basis, in contrast to their net sales (lending) position the previous year.

Past and future

Higher loan rates, when applied to the huge increase in loan assets, produced a strong level of earnings for most (but not all) Western banks last year. Some large banks with international operations benefited from boom conditions overseas, augmented by the favorable earnings impact of the revaluation of major foreign currencies. However, those banks that relied heavily on large CD's and borrowings to finance their expanded assets did not fare as well because of the record high cost of such funds.

Western bankers, like everybody else, are starting the New Year with many unanswered questions about the course of the economy in 1974. With the continuation of inflation, inventories may be more costly to finance, creating increased loan demand. Also, with the shortage-imposed need for new business investment, financing requirements may expand for both short-term and long-term funds, although some of this demand probably can be met by increased reliance on the capital markets.

Mortgage lending likely will suffer substantially from demand weaknesses and energy shortages, while the pace of consumer lending may lag in response to rising unemployment, rising prices of necessities, and the very heavy debt obligations of many households. As overall loan demand decelerates, however, banks should be able to rebuild their depleted security portfolios.

In view of the expectation of more moderate loan demand, loan rates may move down from their record highs of 1973. The cost of funds for banks also should fall if consumers expand their savings flows in anticipation of a softening economic situation. On the other hand, corporate treasurers may be less able to put money into CD's, partly because of their need for funds for capital-goods purchases, but mostly because of the impact of a sluggish economy on corporate profits.

The slowdown in the economy ironically could benefit Western banks during 1974, according to most market observers. The slowdown should ease loan demand enough to permit banks to bid less aggressively for deposits and other funds, and in particular, to place less reliance on volatile CD's as a source of funds. This could mean improved profit margins, because of a wider spread between what banks will pay for money and what they will charge for their funds.

Active Central Banking

The Federal Reserve Bank of San Francisco, through its many operating functions, played an important supporting role in 1973's regional expansion. (The bank's service area includes the five states on the Pacific Rim, plus Idaho, Utah, Nevada and all but the southeastern corner of Arizona.) The Bank also continued to develop procedures for more efficient check-handling—and continued to prepare for that coming day when checks lose their function as the principal means of money payments.

The Federal Reserve adopted a more restrictive anti-inflationary policy stance during much of the year, as was described earlier. In implementation of this policy, System open-market operations tightened, reserve requirements increased, and the San Francisco Reserve Bank's discount rate rose from 4½ to 7½ percent. The Reserve Bank accommodated 21 member banks at the discount window during the year, the same as in 1972, but those banks accounted for 1,435 separate borrowings, far more than in the previous year. As another indication of strained financial markets, daily average borrowing jumped from $20 million in 1972 to $158 million in 1973.

As part of its long-range effort to improve the operation of the discount window, the Board of Governors revised its Regulation A in April, authorizing a seasonal-borrowing privilege for member banks experiencing significant seasonal needs for funds, and providing a number of technical changes which broadened the types of collateral acceptable to secure advances. The Reserve Bank accommodated five member banks under this seasonal-borrowing privilege during the year.

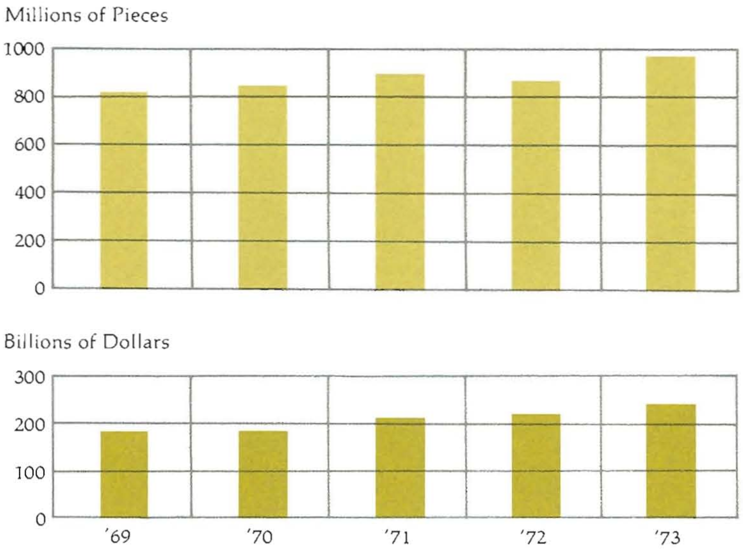
RCPC achievement

The Bank's major operational achievement in 1973 was the opening of its first regional check-processing centers (RCPC's). The RCPC's in Los Angeles, Portland, Salt Lake City and Seattle all began operations, and the San Francisco office planned for the opening of facilities early in 1974. (These highly computerized operations achieve overnight processing and settlement for checks payable in specific geographic areas.) Altogether, more than 50 banks have already changed their deposit patterns to utilize RCPC's, and this has led to a significant growth of deposits, up to 20 percent in Portland.

The emphasis on increasing the efficiency of check-handling through RCPC's stems from a real fear that increasing check usage will overwhelm the payments system. With check volume rising 7 percent annually, the total could rise in a decade to 50 billion checks nationwide. Incidentally, this Reserve Bank alone handled an 11-percent increase in commercial-bank checks last year.

Check volume is likely to increase because of both the growth of the national economy and the growth in the number of check users. At the same time, the difficulties of such a system could increase because of the labor-intensive nature of check handling, involving substantial amounts of manual paperwork and physical transfers of paper. This paper glut could result in higher user and purveyor costs, reductions in the productivity of financial transactions, and numerous other problems associated with an overloaded system of paper-conveyed payments.

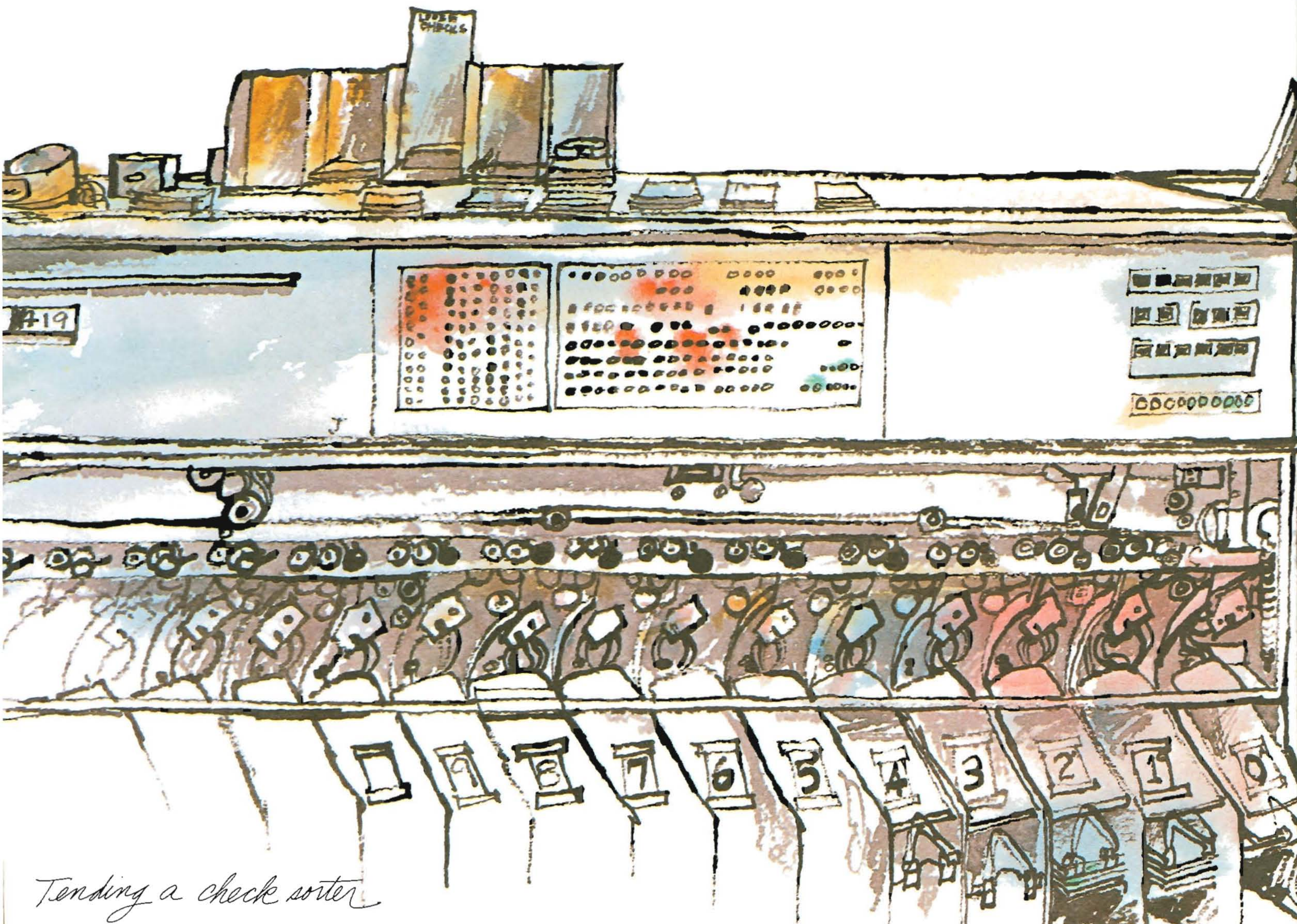
Paper flood of checks continues rising at San Francisco Federal Reserve Bank



RCPC procedures for improving check-handling represent a significant improvement in the nation's payments system, but they should be viewed primarily as a transitional step along the road towards the adoption of an electronic-payments system. In late 1973, the Board of Governors proposed revisions to its Regulation J which are designed to reduce reliance on checks for effecting money payments. Among other things, this proposal codifies the rights and responsibilities of the parties to electronic debit-and-credit transfers when Federal Reserve facilities are involved, and thus it represents an important phase in the evolution of the nation's payments system. Only a large-scale conversion to electronic payments can forestall the growth in check usage that threatens to impede the flow of funds in the economy, and the proposed revision outlines a framework for an orderly transition.

Electronic transfers

During 1973 also, the Reserve Bank continued to support an electronic-transfer system called the California Automated Clearing House Association (CACHA). This system, designed to offer an alternative to the rising tide of paper checks, provides a computerized clearing system for payrolls, dividend payments and preauthorized charges. The employees of participating firms (including the Reserve Bank's California employees) can have their



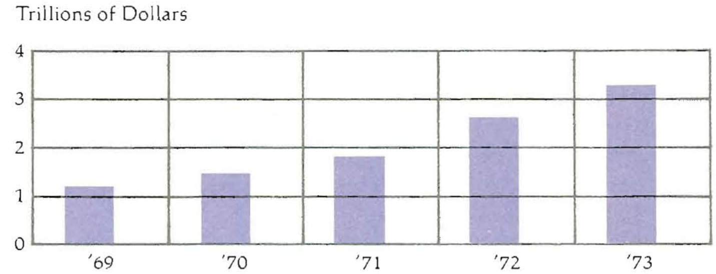
Tending a check sorter

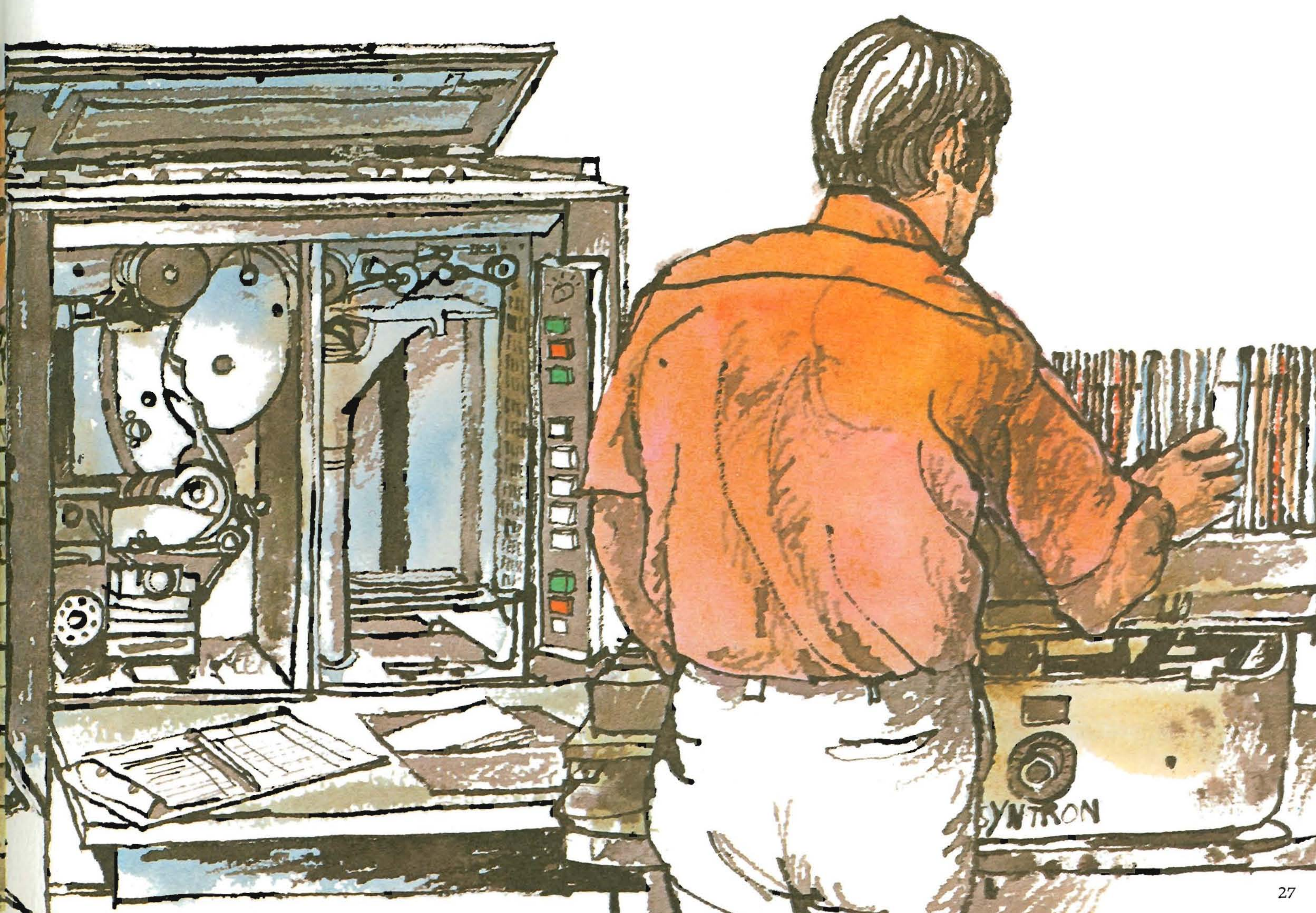
pay deposited automatically in banks of their choice without checks being prepared or processed. The program is also designed to permit individuals to pay mortgages, insurance premiums and other recurring bills in the same way.

The automation of government transfer payments, being developed initially for Air Force payrolls, represents another significant advance in the check-processing field. If this project is successful and is extended to other government agencies, the Bank should experience a significant decline in the number of government checks and a corresponding increase in the efficiency of processing government payments.

The Reserve Bank completed the Western link in a nationwide funds-transfer switch by expanding its system from San Francisco to include all of the branch cities. The change to machine-processing of wire transfers permitted sharp increases in productivity last year; for example, the Los Angeles office reduced its staff in this activity by 50 percent, while expanding volume by more than 40 percent. The nationwide system, when completed, will utilize a switch at Culpeper, Virginia to transfer funds almost instantaneously from one commercial bank to another anywhere in the country.

Reserve Bank's wire-transfer volume soars to over $3 trillion—double the level of two years ago





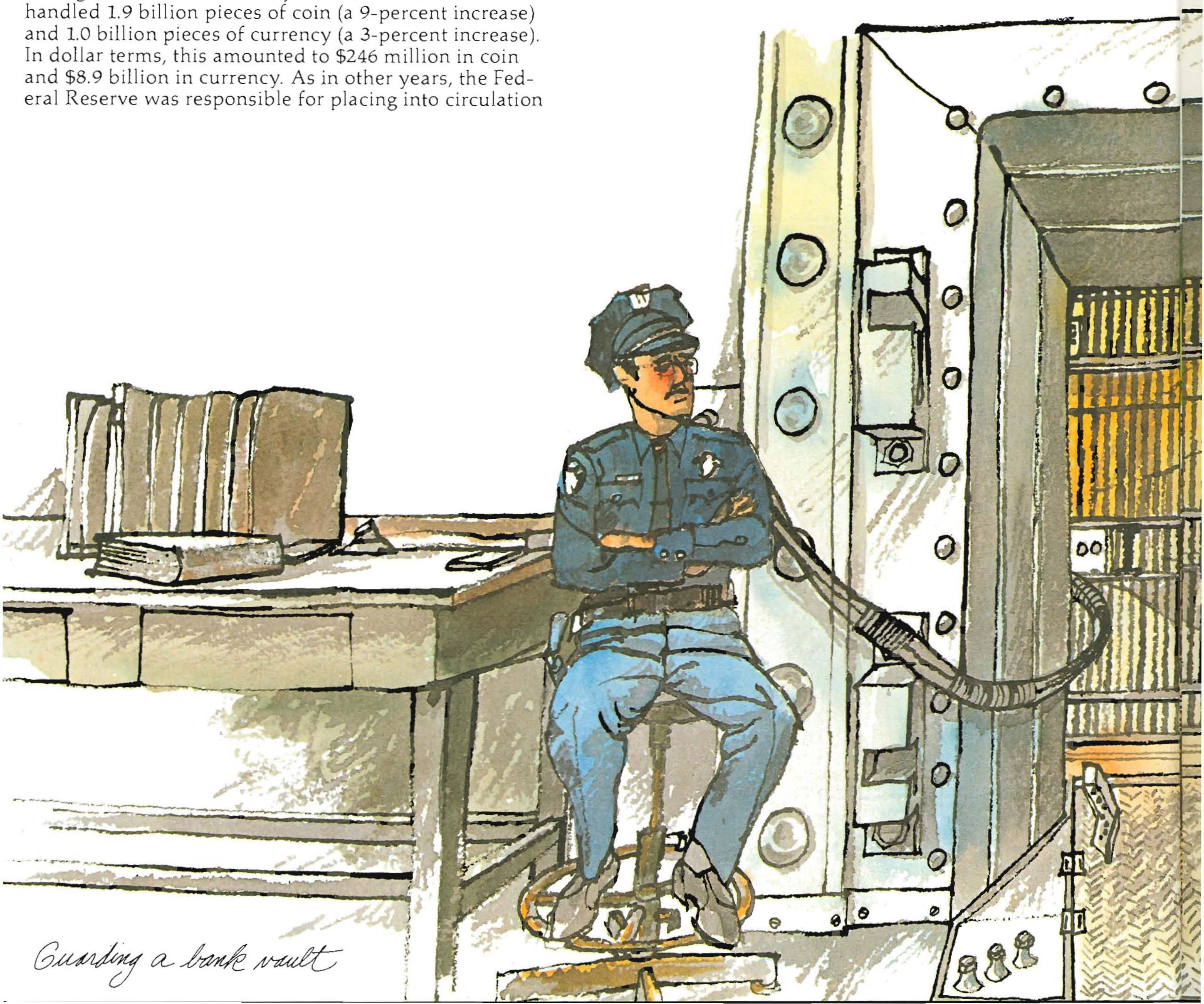
By means of the Reserve Bank computer, commercial banks located throughout the San Francisco District are able to make funds transfers on behalf of their customers, using computer terminals located in their own offices. The convenience, efficiency and security of this message system led to a significant increase in wire transfers in 1973. District banks bought and sold over $3.4 *trillion* during the year, a 28-percent increase. To transfer such astounding sums, member banks sent and received over 1.1 million telegraphic messages, up 37 percent for 1973.

Also in the computer field, the Salt Lake City branch converted from a special-purpose check-processing machine to a full-scale computer, increasing the branch's check-processing capacity by almost two-thirds. This step was a prerequisite for establishing the Salt Lake City RCPC, and in time it will also permit automation of the branch's accounting and other operations.

Cash and securities

Despite the emphasis on checks and electronic funds transfers, coin and currency remained in heavy demand throughout the District last year. The Reserve Bank handled 1.9 billion pieces of coin (a 9-percent increase) and 1.0 billion pieces of currency (a 3-percent increase). In dollar terms, this amounted to $246 million in coin and $8.9 billion in currency. As in other years, the Federal Reserve was responsible for placing into circulation all of the nation's coin and currency. The System, incidentally, absorbs all handling and transportation costs for shipments to and from offices of member banks, and assumes the risk of loss on such shipments.

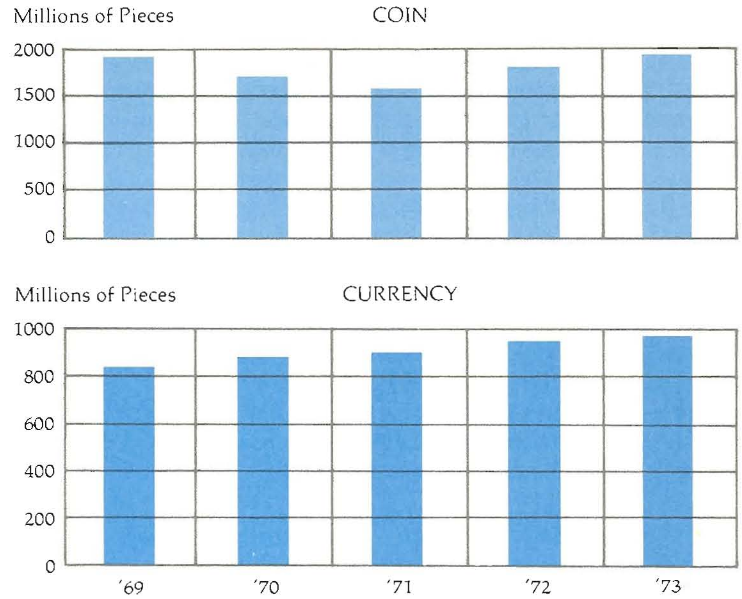
As fiscal agent for the U.S. Government, the Bank was busy last year issuing and redeeming U.S. Treasury securities, including savings bonds. Marketable securities issued, exchanged and redeemed at the Bank's five offices almost doubled in dollar volume to $220 billion. The number of pieces handled increased substantially, although the Bank continued to extend to member banks a book-entry safe-keeping service for the deposit of Treasury and Federal agency securities. Participation by individual investors in the Treasury-bill market increased several-fold, reflecting a sharp rise in bill rates during the year; the low for the three-month bill, 5.16 percent, almost equalled the 1971-72 highs for the rate.



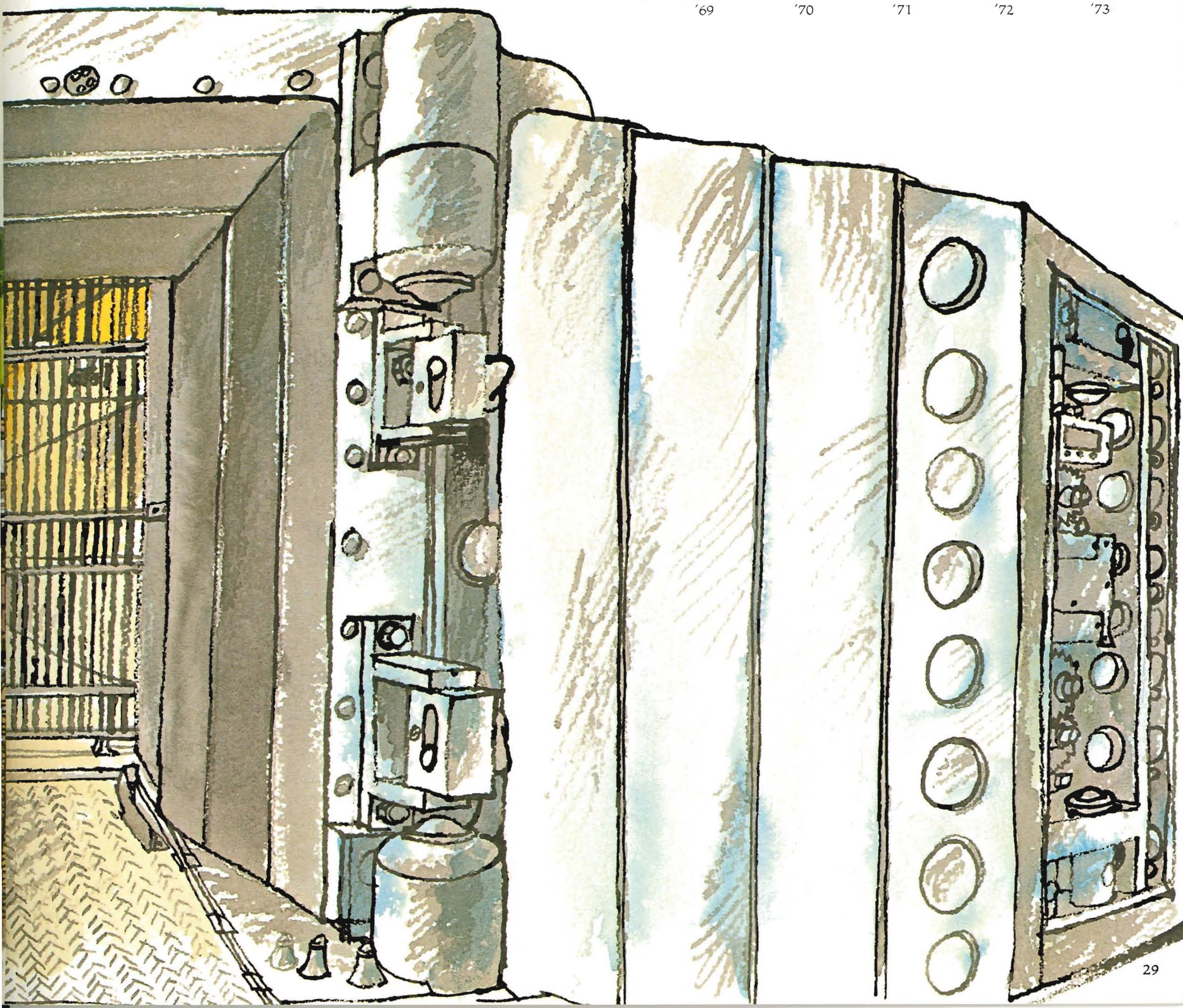
Guarding a bank vault

U.S. savings-bond redemptions continued to exceed sales in the District—with the margin widening from $114 million in 1972 to $158 million in 1973—partly because of the attractiveness of Treasury-bill and other market rates. However, savings-bond sales again increased at a good clip, especially after the Treasury's December announcement that it would raise the yield on E and H bonds to 6 percent when held to maturity.

With respect to the processing and destruction of food coupons, volume increased only moderately at Bank offices last year—and 1974 volume is not expected to increase dramatically unless there is a major program change broadening eligibility requirements. This reflects the fact that eligible recipients have for some time taken full advantage of the program, especially in California.



Reserve Bank handles almost one billion pieces of currency and twice that number of coins



Supervisory role

During the year, 35 new banks and 2 trust companies were organized in the San Francisco District—the highest figure in the past decade. As a result of bank sales and mergers, the number of member banks remained stable at 143, but member-bank offices rose by 3 percent to 4,547. The number of nonmember banks meanwhile increased by 16 to 287, and the number of nonmember bank offices rose by 10 percent to 1,387.

The Bank became involved in emergency lending to the former U.S. National Bank of San Diego. Working closely with the Comptroller of the Currency and the Federal Deposit Insurance Corporation, the Federal Reserve staff spent several months investigating U.S. National's condition and helping to devise a solution to the problem. That solution involved the FDIC's assumption of the bank's bad loans as receiver for the bank, and the sale of the rest of its assets (including 65 Southern California branches) to Crocker National Bank.

The Reserve Bank continued to expand its supervisory role in international banking during the year, partly through routine control of member-bank applications for overseas activity, but also through its supervision of 20 Edge Act corporations and subsidiaries. (These corporations are bank-owned subsidiaries which engage in foreign banking and/or overseas financing through equity interests in foreign entities.) Last year the Bank processed 67 applications involving new or expanded overseas activity by Edge Act corporations and District member banks.

Internal changes

In its internal operations, the Reserve Bank adopted a major change in its budgeting system, shifting from a semi-annual functional format to an annual budget with a "services structure" format. The new budget breakdown permits the outlining of Bank plans and objectives at each level of service performed by the Bank. The Bank also retained a management-consulting firm to conduct a salary study, to ensure that the Bank's salary scale continues to be competitive with progressive firms elsewhere. As part of this project, the consultant firm introduced a new job-evaluation program which was implemented for official and mid-level staff positions.

To carry on its expanded activities, the Bank implemented a new management supervisory program, and accomplished its objectives with a modest increase in staff. This staff included a wide range of job categories: accountants, programmers, guards and economists; planners, clerks, typists and personnel experts; auditors, secretaries, building staff and messengers. All contributed notably to meeting the Bank's goals in this difficult yet rewarding period.

Federal Reserve Bank of San Francisco
Summary of Operations

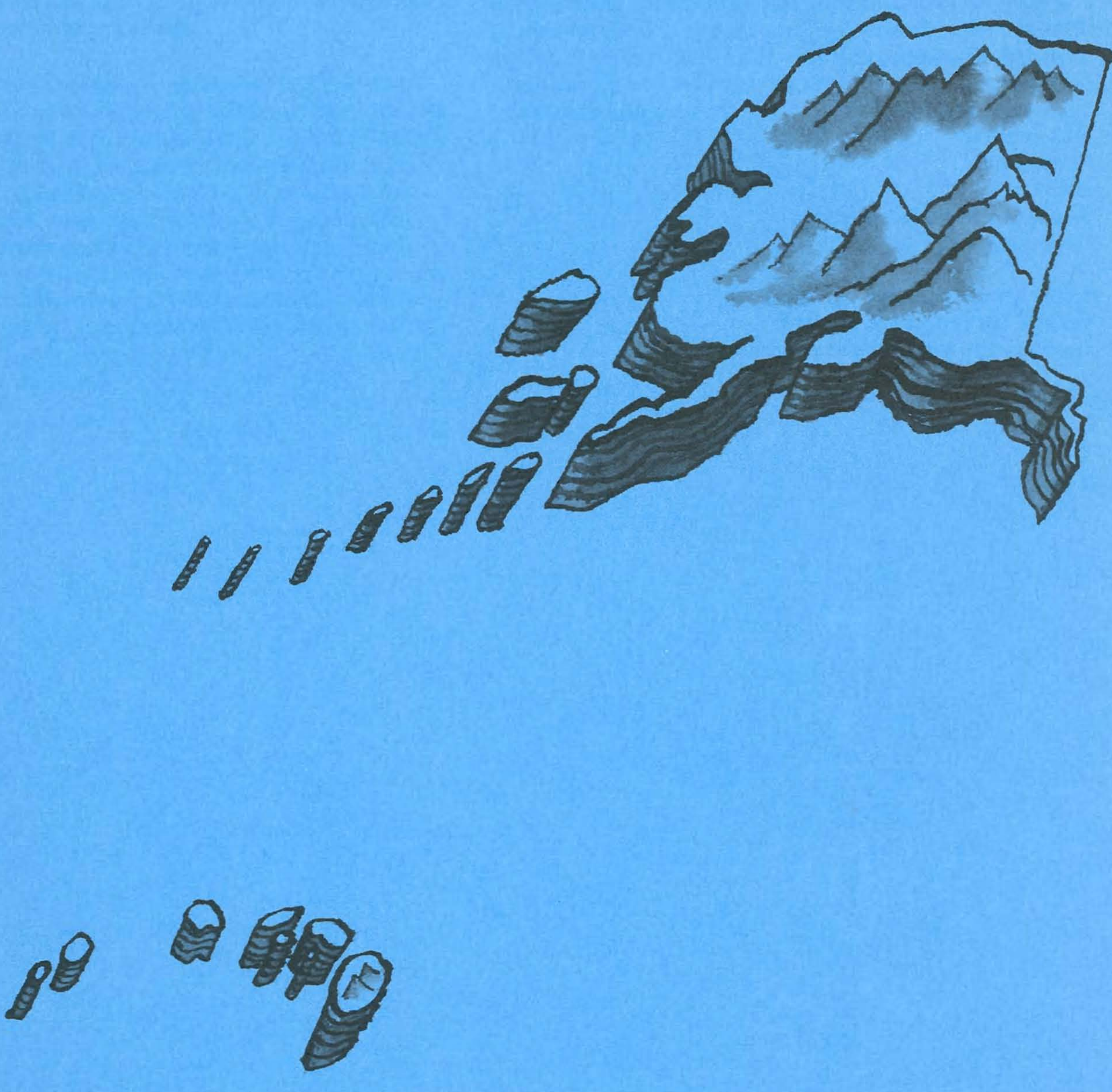
	Value ($ millions)		Number (thousands)	
	1973	1972	1973	1972
Coin and currency				
Coin verified by piece count	$ 246	$ 216	1,937,330	1,761,161
Currency verified by piece count	8,921	7,927	986,335	961,557
Collections				
Check collections				
Commercial bank checks	192,035	177,811	833,642	749,120
Govt. checks (incl. postal orders)	48,095	42,812	127,736	121,538
Return items	1,883	1,578	8,422	7,425
Noncash collections	4,476	6,365	727	780
Discounts and advances				
Total discounts and advances	28,802	4,401	1,435*	240*
Daily average borrowings	158	20	NA	NA
Number banks accommodated	NA	NA	21*	22*
Fiscal agency				
Marketable securities				
Issuance	8,841	8,272	116	51
Exchanges and transfers	203,552	108,707	314	256
Redemptions	8,087	7,166	161	162
Savings bonds				
Issuance	640	556	13,527	12,224
Reissues and replacements	82	63	461	347
Retirements	798	670	14,545	13,660
Currency verified and destroyed	2,175	1,829	356,178	292,880
Federal tax deposits processed	39,105	22,188	6,436	5,495
Food stamps received and processed	622	570	326,175	317,455
Transfer of funds				
Wire transfers	3,381,379	2,685,683	1,116	827

*actual number

Twelfth Federal Reserve District

The Federal Reserve System came into being 60 years ago with the signing of the Federal Reserve Act by President Woodrow Wilson on December 23, 1913. The System was given broad powers to "furnish an elastic currency, to provide facilities for discounting commercial paper, and to improve the supervision of banking."

Federal Reserve functions are carried out through 12 Federal Reserve Banks and their 24 branches, under the coordination of the Board of Governors in Washington, D.C.



Decentralization is one of the important characteristics of the System's operation. Each of the 12 Federal Reserve Banks is a corporation organized and operated for public service, with its shareholders being its member banks.

On November 16, 1914 the doors of the Federal Reserve Bank of San Francisco opened to serve the banking community of the West. Originally the Twelfth District included the states of California, Oregon, Washington, Idaho, Nevada, Utah, and all but the southeastern portion of Arizona. Alaska and Hawaii were included in the District as they became states, and the service area has since been expanded to include certain territories such as Guam and American Samoa.

In 1917 the Twelfth District's first branch was opened at Spokane, Washington. Within a few months other branches were established in Seattle and Portland. Salt Lake City opened for business in 1918, and Los Angeles in 1920. Each of these branches was established to perform for the member banks in its territory the same services and functions as the San Francisco headquarters conducts for member banks in its immediate territory. (In October 1938, the Spokane Branch was dissolved and its functions were taken over by the other Pacific Northwest branches.)

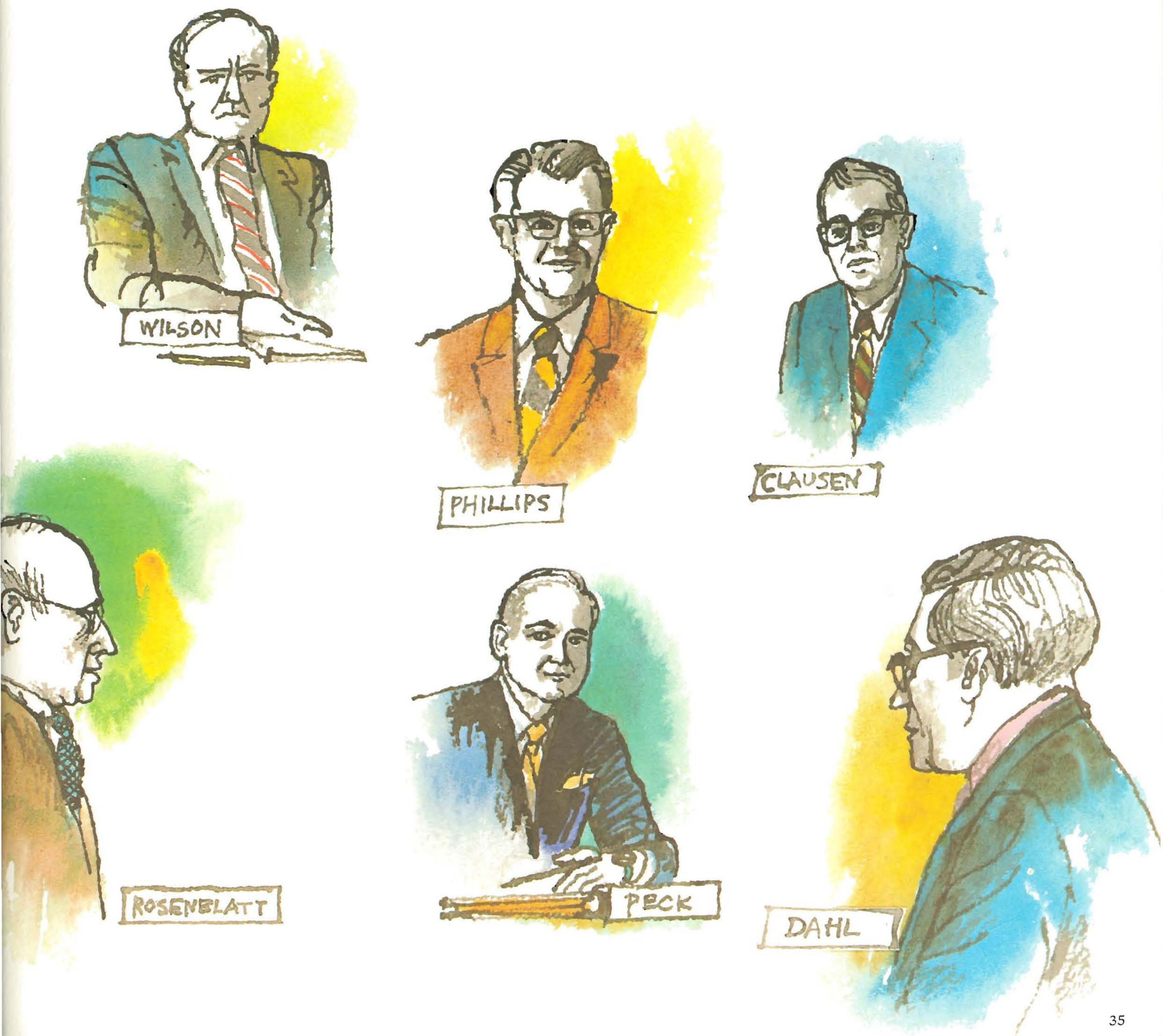
Twelfth District People

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.

The present members of the Board of Directors are Chairman O. Meredith Wilson, Deputy Chairman Joseph F. Alibrandi, Carl E. Schroeder, James E. Phillips, A. W. Clausen, Charles Raymond Dahl, Joseph Rosenblatt, Clair L. Peck, and Mas Oji. These directors are shown here along with President John J. Balles and First Vice-President John B. Williams.



Changes in Boards of Directors

Because of the public nature of the directorships of the Bank and the demands upon the time of those who serve, changes occur each year in the composition of the various boards. During 1973 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 Director—
A. W. Clausen, President and Chief Executive Officer, Bank of America, N.T.&S.A., reelected to a three-year term ending December 31, 1976.
Class B Director—
Clair L. Peck, Chairman of the Board, C. L. Peck Contractor, Los Angeles, California, newly elected to a three-year term.

Appointments by the Board of Governors, Federal Reserve System:
Class C Directors—
O. Meredith Wilson, President and Director, Center for Advanced Study in the Behavioral Sciences, Stanford, California. (Reappointed Class C Director for three-year term ending December 31, 1976 and reappointed Chairman of the Board for 1974.)
Joseph F. Alibrandi, President of Whittaker Corporation, Los Angeles, redesignated Deputy Chairman for 1974.

Boards Of Directors, Branch Offices

Los Angeles Branch:
Appointment by the Board of Governors—
Joseph R. Vaughan, President of Knudsen Corporation, Los Angeles, to fill unexpired term ending December 31, 1974. (Designated Chairman of the Board for 1974 by San Francisco Reserve Bank's Board.)
Appointments by San Francisco Reserve Bank's Board—
Linus E. Southwick, President, Valley National Bank, Glendale, California, reappointed to a three-year term.
Robert A. Barley, President, United California Bank, Los Angeles, newly appointed to a three-year term.

Portland Branch:
Appointment by the Board of Governors—
Loran L. Stewart, President of Bohemia Inc., Eugene, Oregon, newly appointed to a two-year term.
Appointments by San Francisco Reserve Bank's Board—
John R. Howard, President, Lewis and Clark College, Portland, named Chairman of the Board for 1974.
LeRoy B. Staver, Chairman of the Board and Chief Executive Officer, United States National Bank of Oregon, Portland, reappointed to a two-year term.

Salt Lake City Branch:
Appointment by the Board of Governors—
Theodore C. Jacobsen, Chairman of the Board, Jacobsen Construction Company, Inc., Salt Lake City, reappointed to a two-year term.
Appointments by San Francisco Reserve Bank's Board—
Sam H. Bennion, Secretary-Treasurer of V-1 Oil Company, Inc., Idaho Falls, Idaho, named Chairman of the Board for 1974.
Joseph Bianco, Chairman and President, Bank of Idaho, N.A., Boise, reappointed to a two-year term.

Seattle Branch:
Appointment by the Board of Governors—
Thomas Hirai, President and Director, Quality Growers Company, Inc., and Director and Executive Officer, Panorama Seed Farms, Quincy, Washington, reappointed to a two-year term.
Appointments by the San Francisco Reserve Bank's Board—
C. Henry Bacon, Jr., Vice Chairman, Simpson Timber Company, Seattle, named Chairman of the Board for 1974.
Joseph Cebert Baillargeon, Chairman and Chief Executive Officer, Seattle Trust & Savings Bank, Seattle, reappointed to a two-year term.

Changes in Official Staff

Promotions

Donald V. Masten, Vice President to Senior Vice President, January 1.

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

John B. Williams, Senior Vice President to First Vice President, June 1.

Wesley G. DeVries, Vice President (Los Angeles) to Senior Vice President (San Francisco), June 1.

James J. Curran, Assistant Vice President (San Francisco) to Vice President (Seattle) June 1.

James M. Davis, Assistant Vice President and Assistant Manager (Seattle) to Vice President (Los Angeles), June 1.

Richard C. Dunn, Assistant Vice President and Assistant Manager (Portland) to Vice President (San Francisco), June 1.

William K. Ginter, Assistant Vice President to Assistant Vice President and Assistant Manager (Portland), June 1.

A. Grant Holman, Assistant Vice President and Assistant Manager to Vice President and Manager (Salt Lake City), October 1.

H. Peter Franzel, Assistant Vice President to Assistant Vice President and Assistant Manager (Salt Lake City), October 1.

William M. Burke, Assistant Vice President to Director of Economic Publications, January 1, 1974.

Wilhelmine Stefansky, Senior Statistician to Director of Research Statistics, January 1, 1974.

Kent O. Sims, Vice President to Senior Vice President, February 1974.

Martin S. Depper, Examining Officer to Assistant Vice President and Chief Examiner, Trusts, February 1, 1974.

Appointments

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

William J. Sumner, Vice President, March 15.

Robert H. Colfelt, Check Officer, June 1.

H. William Pennington, Accounting and Fiscal Officer, Portland, June 1.

Vera J. Tayloe, Assistant Secretary Board of Directors, June 1.

Michael W. Keran, Director of Research, July 1.

Thomas E. Judge, Vice President-Controller, July 1.

Robert C. Johnston, Senior Economist, August 1.

Vern R. Lester, Check Officer (Salt Lake City), August 1.

Robert C. Dietz, Vice President-Bank Relations, August 23.

Kenneth L. Peterson, Check Officer (Los Angeles), September 1.

Judith A. Sahagen, Management Sciences Officer, February 1, 1974.

Richard L. Rasmussen, Planning Officer (Los Angeles), February 1, 1974.

Retirements

William R. Sandstrom, Vice President and Manager (Seattle), April 1.

Gault W. Lynn, Director of Research, April 1.

Donald M. Davenport, Vice President, May 1.

A. B. Merritt, First Vice President, June 1.

Richard G. Retallick, Vice President, August 1.

Arthur LeRoy Price, Vice President and Manager (Salt Lake City), October 1.

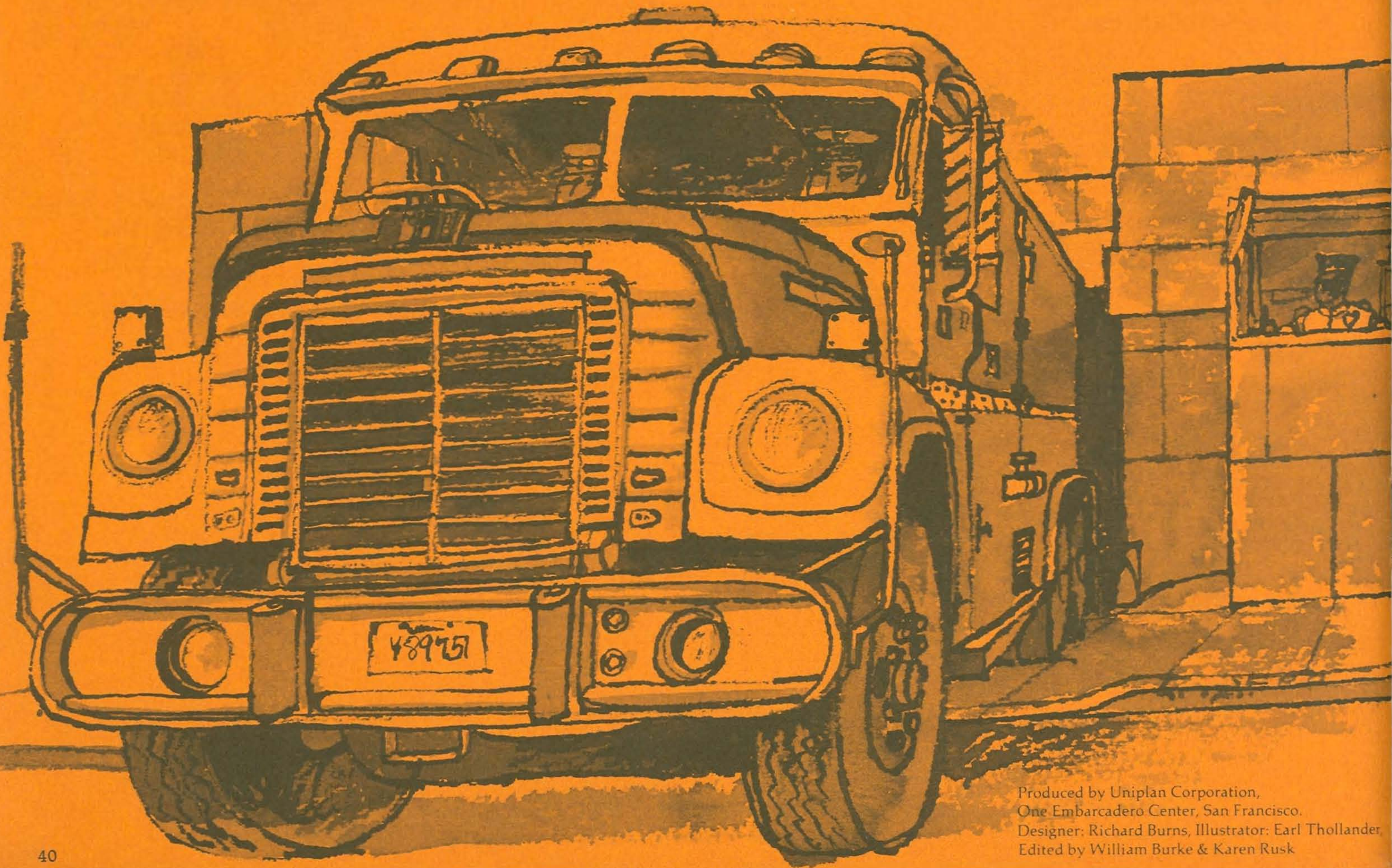
E. Allen Wells, Assistant Vice President, deceased March 24.

Comparative Statement of Condition *(thousands of dollars)*

	December 31, 1973	December 31, 1972
Assets		
Gold certificate account	$ 1,327,367	$ 1,288,518
Special Drawing Rights certificate account	49,000	49,000
Federal Reserve notes of other Federal Reserve banks	170,935	118,748
Other cash	28,039	35,104
Loans to Member Banks:		
Secured by United States Government and Agency obligations	53,000	112,105
Other eligible paper	72,500	41,895
Other paper	67,700	45,000
Federal Agency obligations	263,139	184,193
United States Government securities:		
Bills	5,011,138	4,166,671
Notes	5,216,920	5,152,238
Bonds	427,667	486,321
Total United States Government securities	$10,655,725	$ 9,805,230
Total loans and securities	11,112,064	10,188,423
Cash items in process of collection	1,212,689	1,180,521
Bank premises	7,685	7,890
Other assets:		
Denominated in foreign currencies	556	24,768
All other	155,814	151,175
Total assets	$14,064,149	$13,044,148
Liabilities		
Federal Reserve notes	$ 7,659,768	$ 7,046,268
Deposits:		
Member bank-reserve accounts	4,840,137	4,747,686
United States Treasurer-general account	349,692	174,428
Foreign	32,500	37,410
Other deposits	69,450	65,713
Total deposits	$ 5,291,779	$ 5,025,237
Deferred availability cash items	751,491	698,206
Other liabilities	144,497	75,697
Total liabilities	$13,847,535	$12,845,409
Capital Accounts		
Capital paid in	108,307	99,370
Surplus	108,307	99,370
Total Liabilities and Capital Accounts	14,064,149	13,044,148
Contingent liability on acceptances purchased for foreign correspondents	$ 72,638	$ 23,091

Earnings and Expenses *(thousands of dollars)*

	1973	1972
Current earnings		
Discounts and advances	$ 10,304	$ 888
United States Government securities	666,062	516,382
Foreign currencies	57	143
All other	113	80
Total current earnings	$676,536	$517,492
Current expenses		
Total current expenses	$ 46,820	$ 40,560
Less Reimbursement for certain fiscal agency and other expenses	3,210	2,724
Net expenses	$ 43,610	$ 37,836
Profit and loss		
Current net earnings	$632,926	$479,656
Additions to current net earnings:		
Profits on sales of United States Government Securities (net)	0	$ 401
Profits on foreign exchange transactions	0	0
All other	123	124
Total additions	$ 123	$ 525
Deductions from current net earnings:		
Loss on foreign exchange transactions (net)	$ 5,927	$ 6,687
Loss on sales of United States Government Securities (net)	4,825	0
All other	7	10
Total deductions	$ 10,759	$ 6,697
Net additions (+)/deductions (−)	$-10,636	$ -6,172
Net earnings before payments to United States Treasury	622,290	473,484
Dividends paid	6,221	5,899
Payments to United States Treasury (interest on Federal Reserve notes)	607,131	463,677
Transferred to Surplus	$ 8,938	$ 3,908
Surplus January 1	99,370	95,462
Surplus December 31	$108,308	$ 99,370



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Designer: Richard Burns, Illustrator: Earl Thollander,
Edited by William Burke & Karen Rusk

Federal Reserve Bank of San Francisco

Organization Chart

January 1974


Rayburn S. Dezember
Chairman and President
American National Bank
Bakersfield, California


Robert A. Barley
President
United California Bank
Los Angeles, California


W. Gordon Ferguson
President
National Bank of Whittier
Whittier, California


J. R. Vaughan
Chairman of the Board
President, Knudsen Corporation
Los Angeles, California

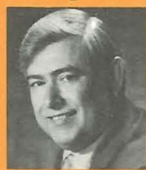

Linus E. Southwick
President
Valley National Bank
Glendale, California


Leland D. Pratt
President, Kelco Company
San Diego, California

Directors

One Board of Directors' seat is presently vacant.


Gerald R. Kelly
Senior Vice President and Manager


James M. Davis
Vice President


Adrian A. Horvay
Assistant Vice President


Harold A. Erne
Assistant Vice President


John F. Lucey, Jr.
Assistant Vice President


Eugene A. Thomas
Assistant Vice President


Kenneth L. Peterson
Check Officer

Los Angeles Branch


Roderick H. Browning
President
Bank of Utah
Ogden, Utah


Roy W. Simmons
President
Zions First National Bank
Salt Lake City, Utah


Sam H. Bennion
Chairman of the Board
Secretary-Treasurer
V-1 Oil Company, Inc.
Idaho Falls, Idaho


Joseph Bianco
Chairman and President
Bank of Idaho
Boise, Idaho

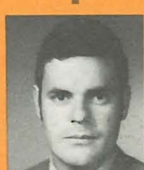

Theodore C. Jacobsen
Chairman of the Board
Jacobsen Construction Company, Inc.
Salt Lake City, Utah

Directors


A. Grant Holman
Vice President and Manager


H. Peter Franzel
Assistant Vice President and Assistant Manager


Don W. Sheets
Assistant Vice President

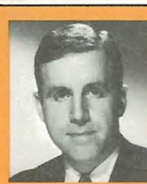

Vern R. Lester, Jr.
Check Officer

Salt Lake City Branch

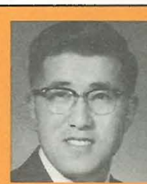
Harry S. Goodfellow
Chairman of the Board & President
Old National Bank
of Washington
Spokane, Washington

Robert C. Whitwam
President
American National Bank of Edmonds
Edmonds, Washington

C. Henry Bacon, Jr.
Chairman of the Board
Vice Chairman
Simpson Timber Company
Seattle, Washington



Joseph Cebert Baillargeon
Chairman & Chief Executive Officer
Seattle Trust & Savings Bank
Seattle, Washington



Thomas Hirai
Grower, Packer,
Shipper of Potatoes
Quincy, Washington

Directors

Paul W. Cavan
Senior Vice President
and Manager

James J. Curran
Vice President

Parker R. Smith
Assistant Vice President

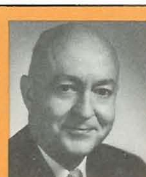
E. Ronald Liggett
Assistant Vice President

Seattle Branch

Frank L. Servoss
President, Crater National Bank
Medford, Oregon

James H. Stanard
Executive Vice President
First National Bank of McMinnville
McMinnville, Oregon

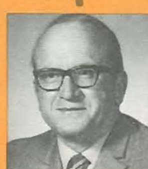
John R. Howard
Chairman of the Board
President,
Lewis and Clark College
Portland, Oregon



LeRoy B. Staver
Chairman of the Board &
Chief Executive Officer
United States National Bank of Oregon
Portland, Oregon

Loran L. Stewart
President, Bohemia, Inc.
Eugene, Oregon

Directors



William M. Brown
Vice President and Manager

William K. Ginter
Assistant Vice President
and Assistant Manager

Maynard C. Petersen
Assistant Vice President

H. William Pennington
Accounting and Fiscal Officer

Portland Branch

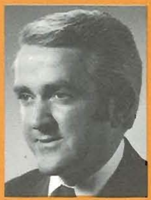
Directors

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

Wesley G. DeVries
Senior Vice President

John J. Carson
General Auditor



William J. Sumner
Vice President
Personnel, EEO Officer

Angelo S. Carella
Vice President
Cash, Fiscal

Richard C. Dunn
Vice President
Checks, Payments Mechanism

Amedeo G. Conte
Assistant General Auditor

Jane W. Langhorne
Assistant Vice President

William E. O'Donnell
Assistant Vice President

Claude Woessner
Assistant Vice President

Martin S. Depper
Examining Officer

Roy A. Karls
Chief Examin

Robert H. Colfelt
Check Officer

der
Bank
y
ia

James E. Phillips
President
First National Bank in Port Angeles
Port Angeles, Washington

A. W. Clausen
President and Chief Executive Officer
Bank of America National Trust
and Savings Association
San Francisco, California

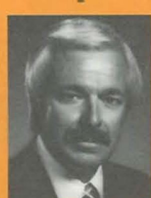
Charles Raymond Dahl
President and Chief Executive Officer
Crown Zellerbach Corporation
San Francisco, California

O. Meredith Wilson
Chairman of the Board & Federal Reserve Agent
President & Director
Center for Advanced Study in the
Behavioral Sciences, Stanford, California

John J. Balles
President

John B. Williams
First Vice President

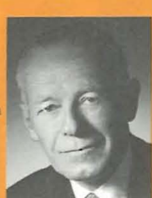
rd C. Dunn
e President
ments Mechanism



Robert C. Dietz
Vice President
Bank Relations

Henry B. Jamison
Vice President
Examinations, Credits

Martin S. Depper
Examining Officer



Roy A. Karlsson
Chief Examiner

J. Norman Aamodt
Chief Examiner

Robert C. Johnsen
Assistant Vice President

Roy A. Remedios
Assistant Vice President

Richard G. Lambert
Assistant Vice President

t H. Colfelt
eck Officer

on

in the
California

Joseph Rosenblatt
Honorary Chairman of the Board
The Eimco Corporation
Salt Lake City, Utah

Clair L. Peck
Chairman of the Board
C. L. Peck Contractor
Los Angeles, California

Joseph F. Alibrandi
Deputy Chairman
President
Whittaker Corporation
Los Angeles, California

Mas Oji
President, Oji Bros. Farm, Inc.
Yuba City, California

Donald V. Masten
Senior Vice President

James M. Brundy
Vice President
Data Processing, Planning, Programming

Thomas E. Judge
Vice President—Controller

Rix Maurer, Jr.
Vice President
Bank Services & Buildings, Protection

Louis E. Reilly
Vice President and
General Counsel

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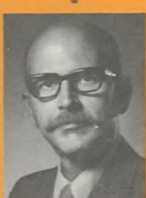
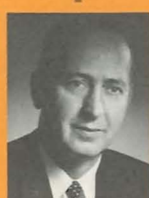
esident



Donald R. Halsted
Assistant Vice President

Kenneth A. Grant
Assistant Vice President



Elwood E. Bernstein
Assistant Vice President

Ernest E. Livingston
Assistant Vice President

George P. Galloway
Assistant Vice President

William L. Cooper
Associate General Counsel

Robe
Se

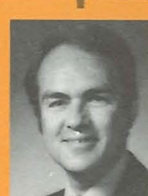
Vera J. Tayloe
Assistant Secretary

Harold A. Rogers
FEDERAL ADVISORY COUNCIL
President, Peoples National Bank of Washington
Seattle, Washington

Kent O. Sims
Senior Vice President

uis E. Reilly
e President and
eneral Counsel

Wilhelmine Stefansky
Director of
Research Statistics



Michael W. Keran
Director of
Research

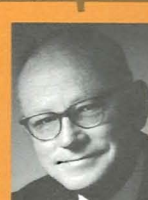
William M. Burke
Director of
Economic Publications

Warren H. Hutchins
Vice President
Ombudsman

iam L. Cooper
ate General Counsel

Robert A. Johnston
Senior Economist

Verle B. Johnston
Senior Economist



Ernest C. Olson
Senior Economist

Herbert R. Runyon
Senior Economist

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