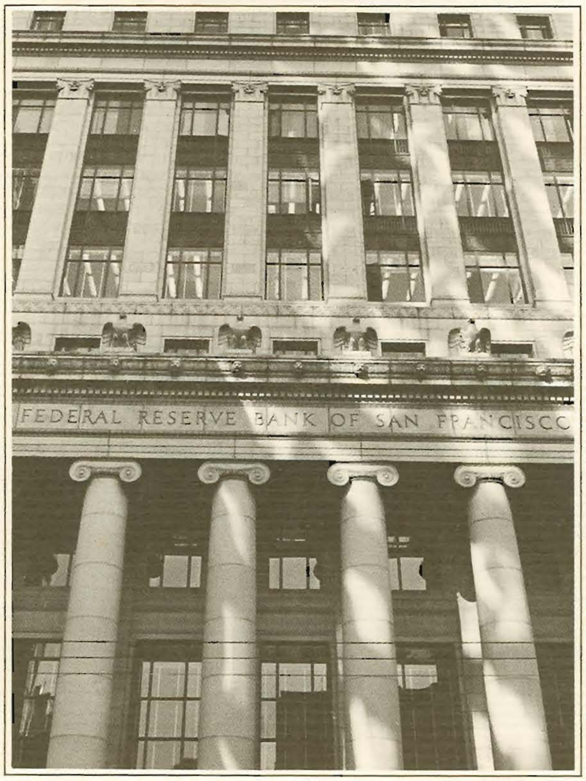
Federal Reserve Bank of San Francisco



Annual Report 1975

Contents

From the Boardroom

Over the long sweep of economic history, 1975 probably will be remembered more for what did not happen than for the events that actually occurred. The Great Postwar Depression—anticipated by some observers for the last 30 years—failed again to make an appearance. Instead, the American economy shook off the effects of recession and slowly righted itself, and thereby imparted a welcome tone of stability to the larger international economy. Again, no collapse occurred in the nation's financial markets, despite what many had predicted during the chaotic days of 1973-74. The markets performed just as they are supposed to perform, and they carried out their resource-allocation function at a declining trend of interest rates.

Last year was not without problems, of course. Too many people waited in jobless lines or failed to find jobs which could utilize all their talents. Households and businesses alike continued to suffer from inflation, which not only undermined current budgets but also, by distorting traditional financial relationships, increased the difficulties of future planning. However, progress was made even on these problems as the recovery got under way in the latter part of the year, and we witnessed a dissipation of the feeling—so widespread in 1973 and 1974—that events would somehow get out of control.

A significant recovery developed in the vast region served by the Federal Reserve Bank of San Francisco. The recession was shallower here than elsewhere, and the recovery equally strong, so that businesses recorded a better-than-national set of statistics in 1975. For example, District banks reported a 6-percent increase in loans and investments, to a year-end total of $111 billion. Yet, while continuing to meet essential borrowing demands, banks shifted their focus away from loan growth and toward safety and liquidity needs during the year.

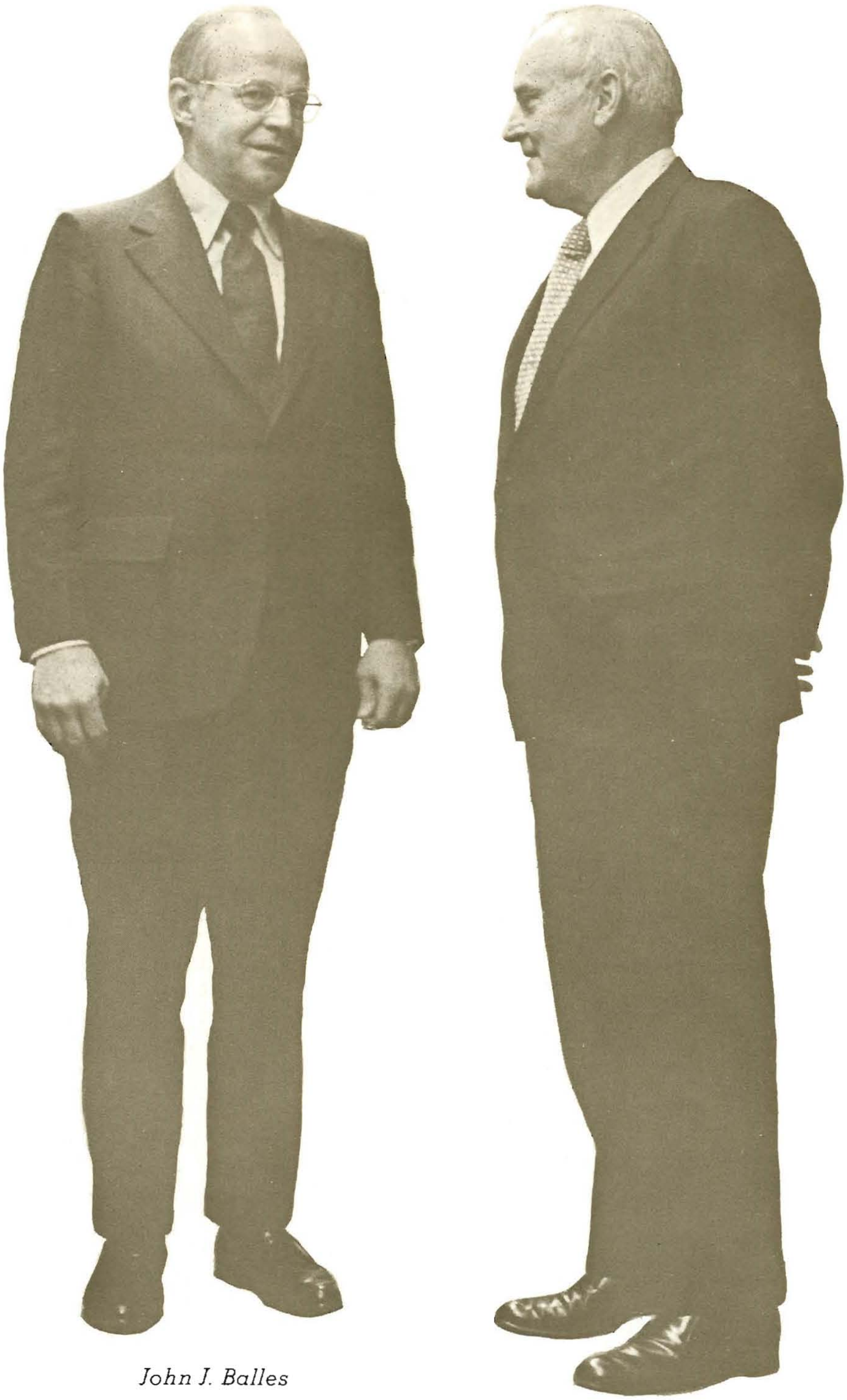
Policymakers have the responsibility of seeing that the worst does not happen, and thus they deserve a considerable degree of credit for the results of 1975. Fiscal policy, with its tax reduction, contributed to the consumer-spending upsurge that dominated the economic recovery. Monetary policy, with its aim of moderate growth in the monetary aggregates, contributed to a significant recovery in the economy and a diminished rate of inflation. These developments were accompanied by a cautious yet certain recovery in bank financing, by healthier conditions in credit markets, and by declining interest rates. In our participation in this policy-making process, we remained keenly aware of the central bank's need to reconcile the sometimes conflicting objectives of sustainable growth, stable prices, and high levels of employment.

Throughout 1975, policymakers came face to face with technological and other developments that are rapidly transforming the nation's financial system. Our Bank made a strong effort to deal with these problems by restructuring its entire management organization and by implementing a major productivity-improvement program. We believe that with the leaner and more efficient organization thus obtained, and with the ongoing results of our management-by-objectives program, we now have an organization that can move fast to meet the future needs of the Western banking system and the general public. Our Bank in 1975, for the second consecutive year, handled over one billion paper checks, and we urged the staff to battle this paper flood through greater emphasis on electronic payments systems—for example, through operation of automated clearing houses and participation in electronic processing of Government checks. At the same time, our staff met the day-in, day-out financial needs of the West through the continued provision of fiscal, coin, currency and other services.

Our appreciation goes to the financial, industrial, academic, and agricultural leaders who served as directors in 1975, helping to guide the Bank through that complex and difficult year. In particular, we wish to thank those who completed terms as directors during the period: Joseph Rosenblatt (Honorary Chairman of the Board, Eimco Corporation) and James E. Phillips (President, First National Bank of Port Angeles) at our San Francisco office; Robert A. Barley (President, United California Bank) at Los Angeles; Leroy B. Staver (Chairman of the Board, U.S. National Bank of Oregon) at Portland; Joseph Bianco (Chairman and President, Bank of Idaho) at Salt Lake City; and Joseph Cebert Baillargeon (Chairman of the Board, Seattle Trust and Savings Bank) at Seattle. We note with deep sorrow the death of Harold A. Rogers (President, Peoples National Bank of Washington), who had been our District's representative on the Federal Advisory Council. James B. Mayer (Chairman of the Board, Valley National Bank of Arizona) ably served as Mr. Rogers' replacement on the Council for the remainder of the year. Finally, we wish to express our appreciation to our officers and staff, whose dedication to the efficiency of Bank operations has enabled us to improve our services to the financial community and to the general public.

O. Meredith Wilson
O. Meredith Wilson
Chairman

John J. Balles
John J. Balles
President



John J. Balles

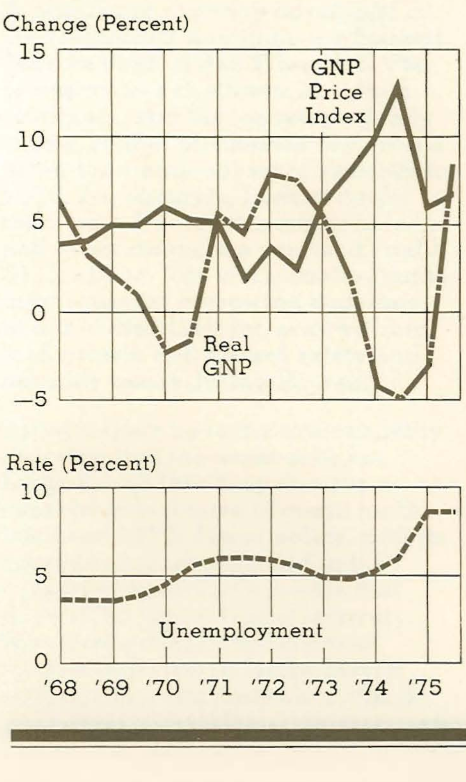
O. Meredith Wilson

Recession — and Rebound

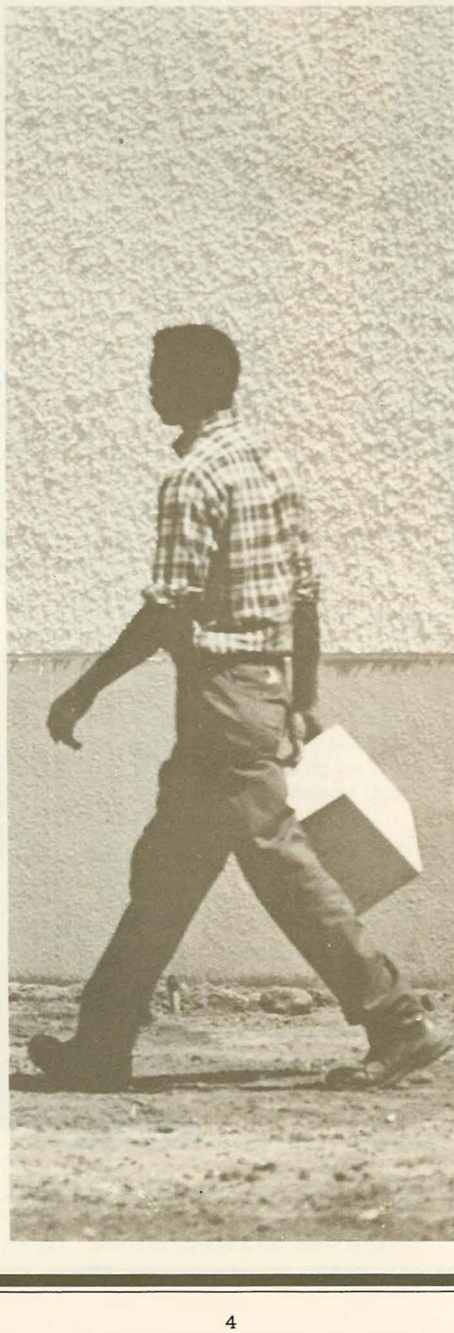
After slogging through the longest and most severe recession of the past generation, the massive $1.5-trillion U.S. economy regained the recovery road in the last half of 1975. The statistics for the year as a whole masked the strength of the recovery. Real GNP fell 2 percent in 1975, matching the 1974 decline—but it rose at a 7-percent annual rate between the early-1975 trough and the end of the year. The jobless rate averaged 8.5 percent during 1975, and industrial production declined 9 percent, yet both measures improved significantly as the year wore on. The year-end upsurge in the stock market underlined this mood of increasing confidence.

The consumer was the motive force behind the 1975 recovery. Consumer buying increased, even in real terms, as the recession reached its first-quarter low, and it later rose sharply as tax-cut legislation and other factors bolstered household incomes. In the second quarter alone, real after-tax income soared at an 18-percent annual rate, reflecting not only the tax cut but also a rise in employment and a significant deceleration in the rate of inflation. Even such long-depressed industries as autos and housing began to show signs of life, and at year-end, an outsized Christmas buying spree boosted the spending totals further. At the same time, households saved 8.3 percent of their after-tax income, the highest figure since World War II.

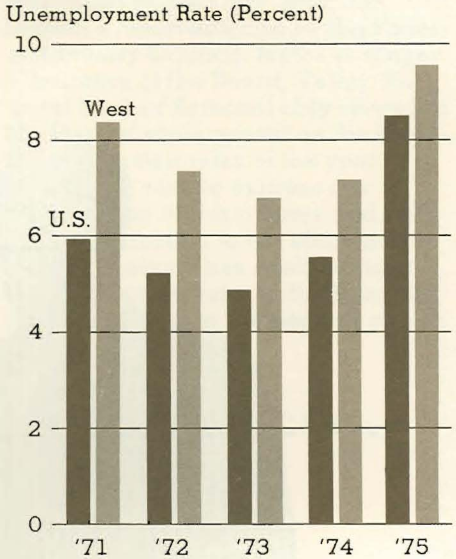
Output rises and prices decelerate during '75, but jobless problem remains



As consumers purchased more, businesses ran down their inventories and began to order once again, bringing to an end the steepest inventory liquidation since the 1930's. On the other hand, business capital investment weakened throughout the year, because of corporations' money worries and overcapacity problems, and many municipalities—New York in the lead—cut back on their services because of severe budget constraints.



West suffers more unemployment than nation, although gap narrows



Despite the solid pace of the recovery, the growth was from such a low base that much of the nation's labor force and productive capacity remained idle throughout the year. Employment increased by 1.3 million between the first and final quarters of the year, and those employed became increasingly productive. But the labor force also rose at a rapid pace, reflecting among other things the still-rising tide of jobseekers resulting from the postwar baby boom, and thus the jobless problem worsened. From a 1974 level of 5.6 percent, the unemployment rate jumped to 8.5 percent for 1975 as a whole. Still, as the recovery gathered strength, the rate fell from 8.9 percent at the second-quarter peak to less than 8 percent in early 1976.

Inflation remained a severe problem in 1975, with the GNP price index rising almost 9 percent for the year as a whole. Nonetheless, the trend generally decelerated during the year. In the final quarter, prices rose at a 6.5-percent annual rate—only about half as fast as they did at the 1974 peak. The price trend benefited from widespread improvements in labor costs and corporate profits, along with the price weakness of many basic commodities caused by the worldwide recession.

Western jobs – and the jobless

A similar recession-recovery sequence prevailed (although with one significant difference) in the region covered by the San Francisco Federal Reserve District. The recession itself was somewhat shallower in this region than elsewhere; thus, Western statistics for 1975 generally were stronger than the nation's. (The Reserve District, which encompasses the one-sixth of the national economy west of the Continental Divide, includes Alaska, Arizona except for the Tucson area, California, Hawaii, Idaho, Nevada, Oregon, Utah and Washington.) Just as elsewhere, the consumer led the recovery parade, spurred by a strong increase in household income. The manufacturing and construction industries, although declining, held up better than their national counterparts, and the farm sector remained on a high and prosperous plateau. The farm performance contributed to a further gain for the export trade, where the level of activity was already double that of any pre-1973 year.

Total Western employment inched ahead of the previous year's level to 13.3 million, compared to a slight decline nationally. The number of jobs fell by 6 percent for the year in both manufacturing and construction, but recovered significantly as the economy turned around. Moreover, the year-to-year decline in those industries was more than offset by strong gains in those sectors where the work force is concentrated—trade, services and (especially) government. But just as elsewhere, the number of jobseekers grew at a rapid pace, so that unemployment jumped from 7.2 to 9.6 percent of the civilian labor force—a full percentage point higher than the national rate. Even so, that differential narrowed considerably during the recession period, reflecting the relatively greater severity of the slump elsewhere in the country.

The regional unemployment rate actually has exceeded the national rate for an entire decade, and during the 1970-73 period the gap widened to two full percentage points. Several structural factors have helped account for this problem—the relatively large number of persons who migrate westward in search of work, the relatively young age composition of the labor force, and an industrial composition based on activities that are either highly seasonal (food processing and forest products) or highly cyclical (aerospace and lumber). Throughout the 1970's, the problem has been accentuated by the persistent weakness of the key aerospace-manufacturing industry.

Households and governments

Personal income increased 10 percent to about $208 billion in 1975, and some individual states did considerably better—most notably Alaska, where the pipeline boom brought about a one-fourth increase in income in just one year's time. (Factory workers in Alaska earned $8.13 an hour—almost double the national average.) Inflation continued to eat into paychecks, as Western consumer prices increased 10 percent for the second straight year. Still, consumer buying accelerated in the wake of the tax cut and a modest revival of household borrowing; for the year, retail sales increased 12 percent—far more than nationally—as both durable and non-durable sales revived.

In contrast, Westerners began to limit the amount of spending accomplished through their elected representatives. Government remained the fastest growing employer in the regional economy, but agencies at all levels made strenuous efforts as the year progressed to reduce payrolls and services, in view of the inflationary surge in government costs and the recessionary lag in tax receipts. Contrary to their actions in the last recession, most Western governments avoided boosting tax rates, and instead imposed tight limits on spending. California, for example, increased its fiscal 1976 budget only 4 percent—just a fraction of the increases of the several preceding years.

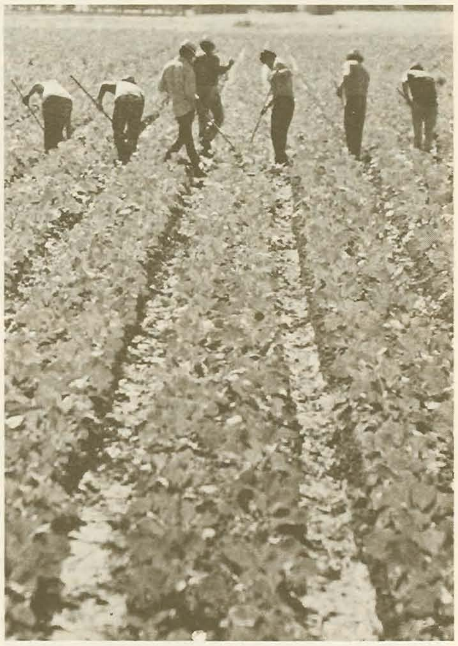
Still, spending exceeded tax receipts, and government agencies flocked to the capital market to finance their substantial deficits. New bond issues of Western state and local governments jumped 37 percent during the year to a record $4.5 billion. State agencies recorded a 76-percent increase in new debt issues, while the gain by local governments—counties, municipalities, school and special districts—was modest only by comparison. The average cost of borrowing on rated general obligations rose from 5.99 percent in 1974 to 6.30 percent in 1975. (In both years, rates on revenue bonds were about one percentage point higher than rates on general-obligation issues.) The surprise is that rates did not rise considerably higher, as they did on municipal issues elsewhere in the country. Indeed, there was little evidence of the ripple effect—the average investor's growing suspicion of municipal issues in the wake of the New York crisis. Despite the huge demand for funds by Western state and local treasurers, the rise in rates was indeed quite modest, reflecting the market's confidence in the fiscal prudence of regional governments.

Farming – prosperous plateau

Western farmers and ranchers reported a mixed year, with cash receipts rising modestly to about $15.5 billion, but with net farm income declining because of continued increases in production expenses. But overall, the farm sector remained relatively prosperous, since cash receipts in 1975 were twice as high as in the early 1970's. Much of this activity could be traced to the export trade; farm exports from West Coast ports were about three times higher than in the pre-devaluation days of 1970-71.

Bumper crop production was offset by a declining price trend, leading to an actual decline in the dollar volume of crop marketings. Some major crops whose prices had soared in 1974—such as wheat, cotton and potatoes—all lost a significant part of their price gains in 1975. Had it not been for export demand, the turnaround in prices could have been more precipitous; for example, wheat prices rose in the wake of heavy Russian purchases, but still remained sharply below the $4.52-a-bushel average price of the previous year. Yet by the same token, bumper crops at declining prices took some pressure off domestic food and apparel markets.

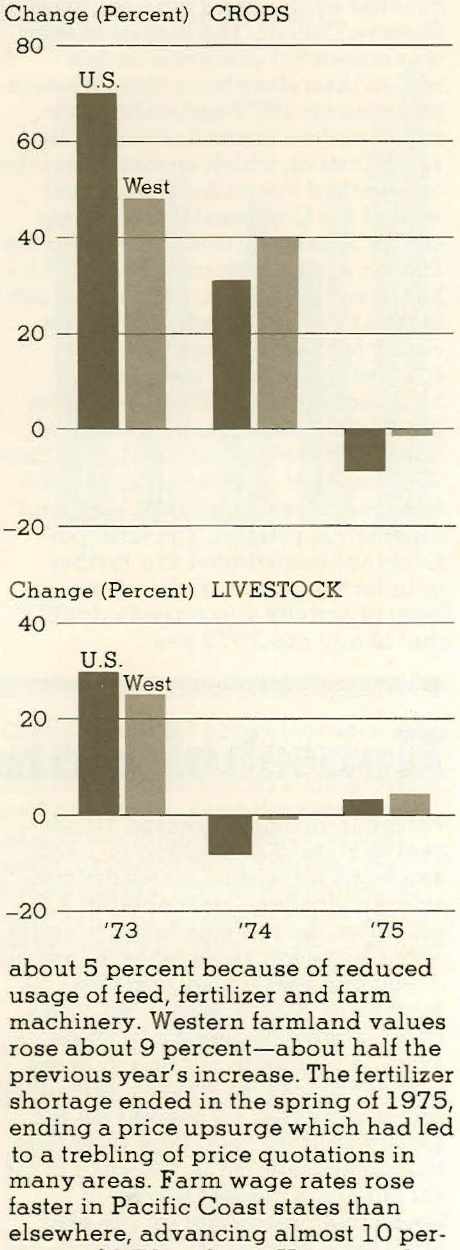
Better times came for livestock producers, as cash receipts recovered from their 1974 decline. The cyclical expansion phase in beef cattle numbers apparently peaked in 1975, after a prolonged eight-year buildup, while larger supplies of feed grain



became available at lower prices. At the same time, consumers appeared willing to pay higher retail prices for beef and other meat products; there was no repetition of the consumer revolt that climaxed in the 1973 price freeze. In this new atmosphere, the market strengthened, and beef-cattle prices rose 19 percent between the first and fourth quarters of the year.

Production expenses continued their inexorable upward trend. For the nation, input prices rose about 10 percent for the year, but the overall rise in production costs was held to

Crop receipts hurt by falling prices, but livestock receipts begin to recover



about 5 percent because of reduced usage of feed, fertilizer and farm machinery. Western farmland values rose about 9 percent—about half the previous year's increase. The fertilizer shortage ended in the spring of 1975, ending a price upsurge which had led to a trebling of price quotations in many areas. Farm wage rates rose faster in Pacific Coast states than elsewhere, advancing almost 10 percent to $2.72 an hour. However, the major labor development of the year was California's passage of legislation to govern union elections in California's "factories in the fields." The new law reflects agriculture's increasing tendency to exhibit, in labor relations as in many other respects, the characteristics of a large-scale, mechanized manufacturing industry.

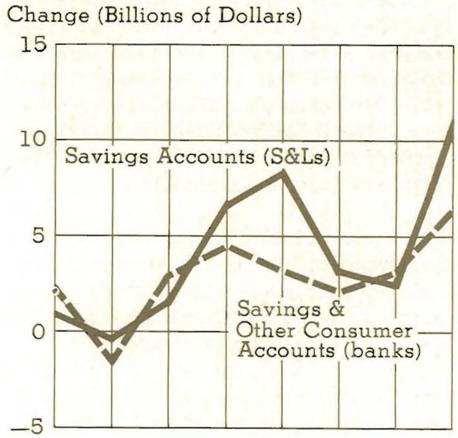
Construction – end of the tunnel?

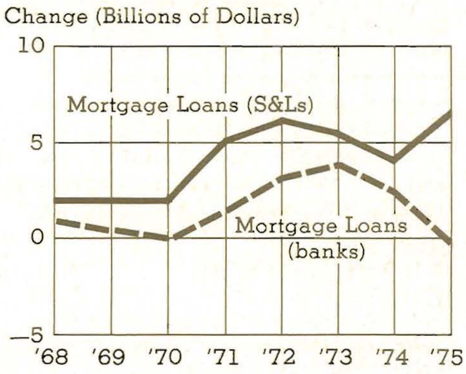
Western construction activity, although declining in real terms, just about matched the previous year's dollar spending with some $18 billion recorded in new contract awards. (Nationally, activity fell about 4 percent in dollar terms.) The poorest Western performance was in "nonbuilding" projects—such as highways, dams and utility plants—despite Alaska's huge increase in spending for the oil pipeline. In housing, new starts failed to exceed the very low (279,000 unit) total of 1974; still, that figure masked a rising production trend, since starts almost doubled between the first and fourth quarters. The improvement in starts was accompanied by a pickup in home sales and by a small reduction in the inventory of unsold single-family units, although vacancy rates generally remained high. With consumer budgets still under strain, interest increased in low-priced "no frill" housing, but in the lowest end of the market—mobile homes—sales decreased almost 20 percent to 47,000 units for the year.

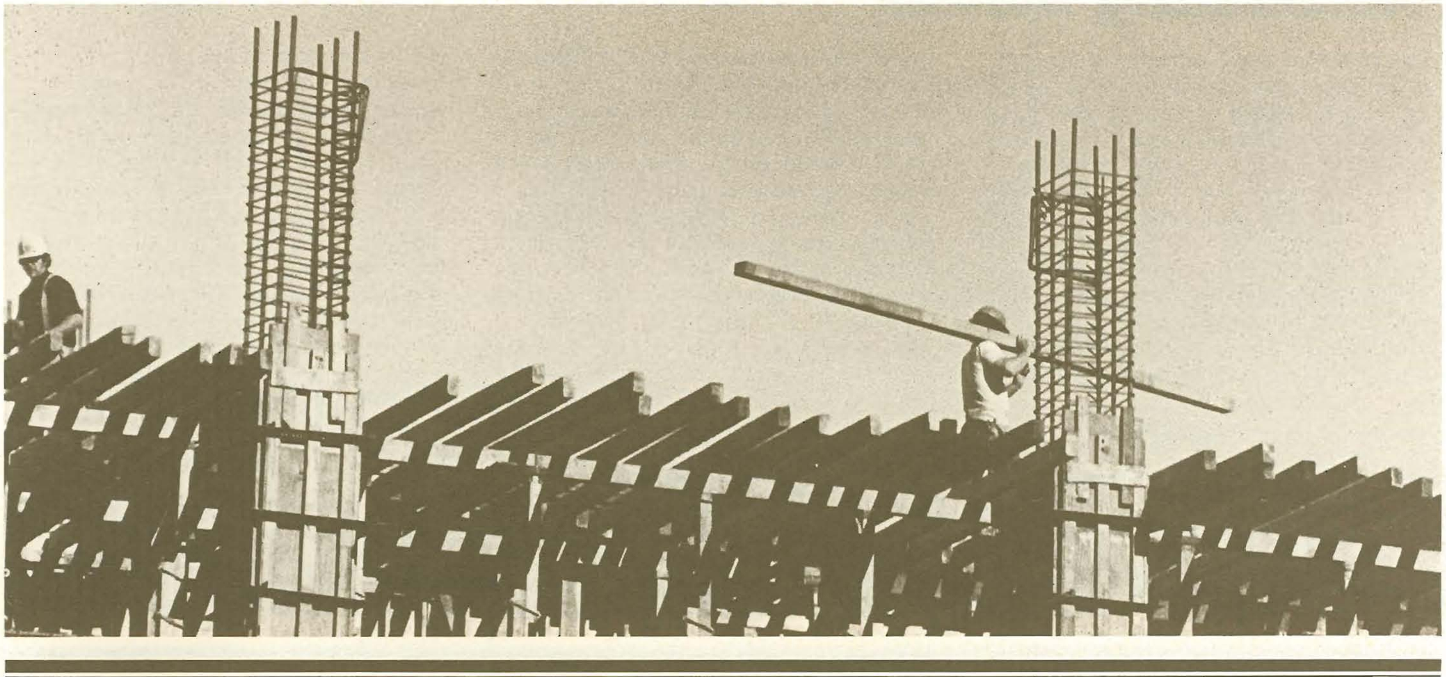
Mortgage demand was restrained by a number of factors. Housing prices continued to rise, and home-ownership costs rose sharply; in contrast to a 5-percent rise in rents, home-ownership costs increased several times that fast in major California cities. Mortgage rates remained relatively high, although easing during the year; conventional new-home loan rates in the West dropped from a peak of 10.40 percent to 9.35 percent between late 1974 and late 1975. The surprise is that the market did not ease even more, since the Western savings-and-loan industry benefited from a massive $10.5 billion in net savings inflows, in response to steeply falling rates on competitive instruments and the consumer's high propensity to save. While the S&L's substantially rebuilt their liquidity positions, in order to hedge against any possible resurgence of disintermediation, they were still able to add about $7.3 billion to their mortgage portfolios. With home construction lagging, institutions used these funds to finance increased activity in the market for existing housing.

The generally low level of new home building meant a continuation of the lumber industry's slump, with production falling 7 percent for the year to the lowest level of the past three decades. Demand picked up significantly in late 1975, however, as the housing upturn gained momentum and as wholesalers sought to replenish their depleted lumber inventories. Consequently, softwood-lumber prices by December reached a level 18 percent above the late 1974 low. In the pulp and paper segment of the industry, where demand closely parallels national economic trends, the early part of the year was very weak but the second half told a different story with rising production and prices.

Massive savings inflow permits recovery of mortgage financing







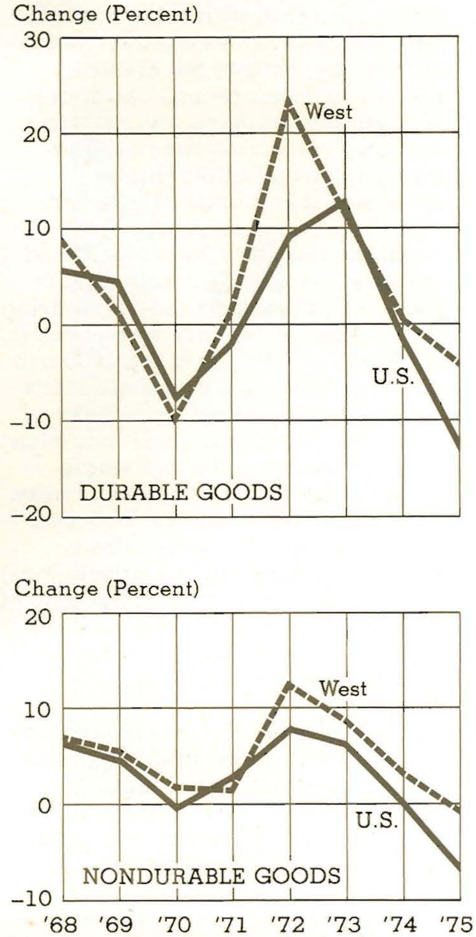
Manufacturing problems

Western factory output declined in 1975, although the region's 3-percent drop was considerably better than the nation's 10-percent decline. Nondurable-goods production eased only slightly, as apparel and food processing showed significant second-half strength. In contrast, durable-goods production dropped about 4 percent during the year, with aerospace and primary metals especially weak.

For the crucial aerospace-manufacturing industry, a three-year-long recovery from the post-Vietnam recession suddenly came to a halt. Employment in this industry dropped 6 percent in 1975, and stood 23 percent below the Vietnam peak, reflecting a slowdown of orders for both civilian aircraft and electronic products. Domestic and foreign orders for commercial aircraft dropped off substantially, as sharply rising fuel costs and declining passenger traffic caused the world's airlines to delay purchases of wide-bodied and other transports. The industrial and consumer markets for civilian electronic products also lagged badly during early 1975, but business improved in those categories later in the year.

The aerospace decline was cushioned, however, by an upsurge of orders for military and space products. Military prime-contract awards rose almost 24 percent during fiscal 1975, providing increased funding for a number of ongoing missile and aircraft programs. In the process, the regional industry boosted its share of the Pentagon's procurement budget from 27 to 29 percent. Space-agency awards also rose sharply, primarily for the development of the space-shuttle program, so that the West accounted for half of NASA's total procurement awards.

Western factory output declines, but at slower pace than nation



Weakening metals

The regional steel industry cut back production drastically in 1975, reflecting a decline in nonresidential-construction demand and a liquidation of distributors' excess inventories. Output fell about 17 percent to just under 6 million tons, the lowest level in more than a decade. The decline would have been even worse had not steel-users reduced their purchases of foreign steel. In this atmosphere, price discounting proliferated and profits declined, leading hard-pressed producers to curtail capital-spending programs.

For the aluminum industry, the year was characterized by sluggish production, excess capacity and excess inventories. Despite the late-year improvement in business, producers had trouble maintaining a 3-percent price increase announced in August, and at year-end, all of the potlines shut down during the earlier slump remained out of production. Other nonferrous-metals industries suffered even more serious price erosion, as worldwide production cutbacks failed to bring markets into balance. Copper producers scaled back their mine and smelter production to about 75 percent of capacity by midyear, but the depressed level of demand in final markets—especially autos, housing and appliances—led to a steady buildup of excess inventory.

Silver, the historic Western metal, provided little excitement last year, and thus in its bellwether role indicated the relative lack of worldwide speculative pressures. Silver's price had soared to $6.70 an ounce in early 1974 because of speculators' attempts to find protection against worldwide inflation and weakened currencies in the wake of the Arab oil embargo. The bubble burst after the embargo ended and the world economy weakened, and also as speculators dumped silver in anticipation of legalization of gold ownership by U.S. citizens. In 1975, with these speculative pressures missing and with industrial demand sluggish, silver's price fluctuated very little, ending the year almost where it started at $4.17 an ounce.

Search for energy

Consumption of petroleum products declined during 1975, as high prices, conservation efforts and the economic recession acted to reduce business and household demand. Refinery output meanwhile rose about 4 percent above 1974's reduced level, with an increase in imports more than offsetting the continued decline in domestic crude production. In the process, the proportion of the regional market supplied by foreign oil rose to a record 42 percent. Refined-product prices at year-end were 15 percent higher than a year earlier, mostly because of the rising cost of imported oil.

Two major Western projects—the Prudhoe Bay bonanza on Alaska's North Slope and the Pacific Outer Continental Slope—promised to stem the downward trend in U.S. crude production and thereby to reduce the nation's dependency on foreign petroleum. North Slope production moved much closer to reality as the \$7-billion Trans-Alaska pipeline project reached 40-percent completion by late 1975. (Oil is now scheduled to flow through the pipeline by mid-1977.) At the midsummer height of construction activity, about 20,000 people were employed on the project, touching off a boom that permeated nearly every sector of the Alaskan economy as well as such supply centers as the Puget Sound area. Meanwhile, oilmen looked to Alaska's and California's offshore waters for further supplies; a Federal sale of oil and gas leases covering 1.3 million acres off the Southern California coast brought in only \$417 million, but interest may quicken if exploratory drilling this year shows promise of large reserves. Exploitation of Rocky Mountain coal and shale-oil resources continued high on the nation's energy agenda, but full-scale development must await the solution of disputes over water availability and surface reclamation practices.

Altogether, 1975 ended on a much stronger note than it began, despite the continued weakness of some key regional industries, and despite the prevalence of jobless rates that are even higher than the national figure.

As 1976 begins, one strong indicator of future prosperity is the heavy domestic and foreign demand for Western food products and energy resources. Another hopeful sign is the completion of the nationwide inventory adjustment, since Western crude-material producers would be among the initial beneficiaries of any inventory-restocking process.

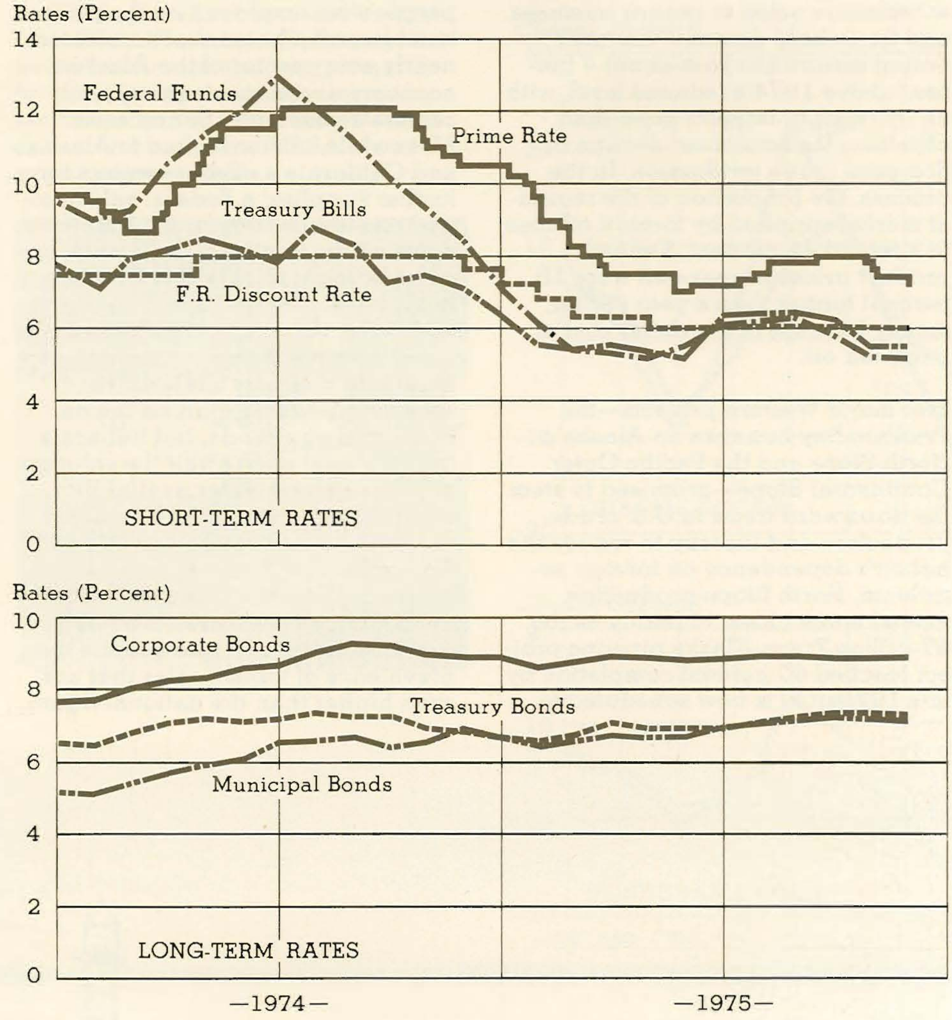
Caution at the Banks

Bank credit expanded at a modest pace at the nation's commercial banks in 1975, even in the face of the strong turnaround in business activity in the second half of the year. Increased investment in securities (mainly short-term Treasuries) accounted for the year's entire 4-percent rise in bank credit. Total loans actually declined over the year, although rising 2 percent in the second half as the economy picked up steam. On the liabilities side, major structural changes occurred, particularly in the first half, as a massive inflow of savings deposits went hand-in-hand with a large reduction in large-denomination certificates of deposit.

While bank lending declined in 1975, corporations, municipalities, and the Federal Government all borrowed record amounts in the financial markets. Corporations used a large proportion of the funds obtained from capital-market financing to repay short-term bank credits that had accumulated during the 1973-74 period of inflation and inventory build-up, and this shift accentuated the recession-related weakness in business-loan demand. Moreover, in the second half of 1975, the strong recovery was financed by internal cash flows which became available from improved corporate profits and continued inventory liquidation.

Short-term interest rates generally declined over the course of the year, except for the third quarter, but the prime business-loan rate followed this downward trend with a lag. This came about because banks attempted to attain a wider spread between the rate of return on loans and the cost of their funds, in order to generate the income needed to improve liquidity and capital ratios and to increase loan-loss reserves. A reorientation toward asset quality and sustainable growth (rather than growth per se), which had begun in the latter half of 1974, was reinforced in 1975 by the mounting severity of loan problems with REITs, W.T. Grant and a myriad of other borrowers, and by the specter of possible insolvency in the New York City situation.

Short-term interest rates decline during most of 1975 while long-term rates remain near earlier peak levels



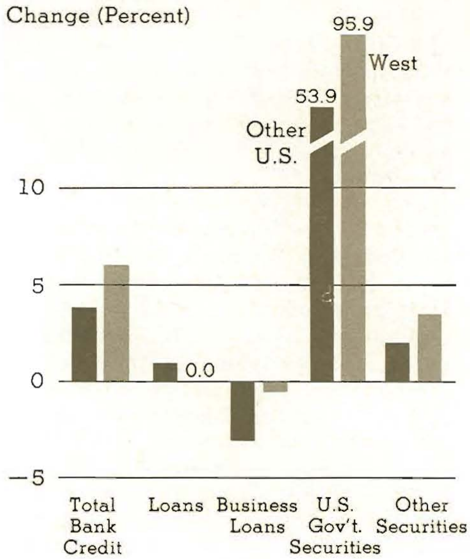
Supportive monetary policy

The Federal Reserve aimed at supporting the recovery in 1975 as inflation moderated and as economic activity turned around. The Federal Open Market Committee's long-range targets for the monetary aggregates, first publicly announced in late spring, called for an annual rate of growth in the narrowly defined money supply (M_1—currency plus bank demand deposits) within a range of 5.0 to 7.5 percent. For the first few months, the money supply responded well, mostly because of the spurt induced by last spring's tax cut. By September, however, growth in M_1 slowed to a rate well below the target range. As a result, M_1 grew only 4.4 percent over the course of the year. One possible explanation was an apparent downward shift in the demand for money in relation to GNP and interest rates. Also, when business firms gained permission last fall to open corporate savings accounts, a major shift occurred from demand to time balances, and this too had some effect in reducing M_1. The more broadly based money supply (M_2) expanded at a faster pace of 8.2 percent over the course of the year, within the announced target range of 7.5 to 10.5 percent. (M_2 equals M_1 plus bank time-and-savings deposits, except large CD's.) The higher expansion rate of this monetary aggregate reflected 1975's large increase in commercial-bank savings deposits.

The Federal Reserve made several overt moves to ease pressure on bank reserves. Reserve Banks lowered the discount rate for member-bank borrowing from 7¾ percent at the beginning of 1975 to 6 percent in May—and lowered it further to 5½ percent in mid-January 1976. Early in the year, the Board of Governors reduced required reserves on demand deposits by ½ percent—for example, to 16½ percent for large banks—and in the final quarter it reduced requirements on longer-maturity time deposits on two different occasions.

Despite these policy moves, total bank credit nationwide increased only \$29 billion—a 4-percent gain, or less than half the growth experienced in 1974. Business loans accounted for almost all of the net reduction in total loans. (Even so, business credit remained high by historical standards, since the pay-down for the year was less than 10 percent of the \$54-billion expansion in this category in the 1973-74 period.) Mortgage lending and consumer borrowing, for the second year in a row, both contributed little to the expansion of bank loan portfolios.

Bank credit grows faster in West than in nation—but similar pattern



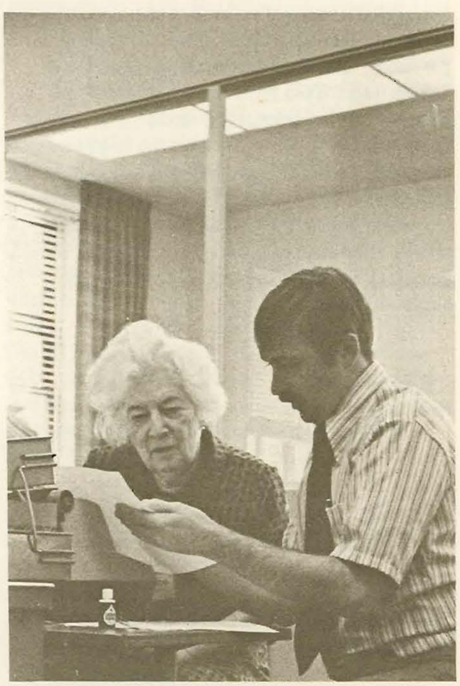
For sources of funds, the nation's banks relied upon a 2-percent growth of demand deposits and a strong 6-percent gain in time deposits. The latter was due to a large inflow of individuals' savings, mostly during the first half, and to a huge increase in corporate savings deposits (nearly \$1 billion at large banks alone) in the closing months of the year. On the other hand, a \$10-billion runoff in CD funds partially offset the large savings inflow.

Financing the West

Western banks outperformed other banks last year, on the basis of a substantially higher growth rate in total credit after midyear. This stronger second-half performance reflected the relatively greater strength of the underlying regional economy. In banking as in business, Western statistics generally were better than the nation's.

Total credit at District banks expanded $6½ billion (6 percent) to reach $111 billion at year-end. Just as elsewhere, increased bank investment in securities accounted for the entire 1975 expansion, although a second-half upturn in loans also supported this credit growth. Because of weak first-half loan demand and an urgent desire to increase liquidity, Western banks nearly doubled their portfolios of U.S. Government securities, with most of this increase occurring in Treasury bills and intermediate-term issues. Again, just as elsewhere, Western banks limited their investment in other securities, and cut back their holdings of all except short-term tax-exempts because of the uncertainties surrounding the municipal market.

Total loans fell $65 million by the end of 1975, despite the second-half upturn. The reduction was concentrated in the two major loan categories—business and real estate. Increased borrowing from other sectors—consumers, foreign banks and governments, and brokers and dealers—offset some of this weakness.

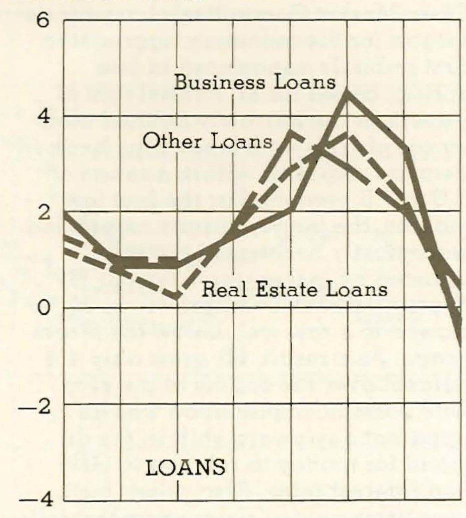


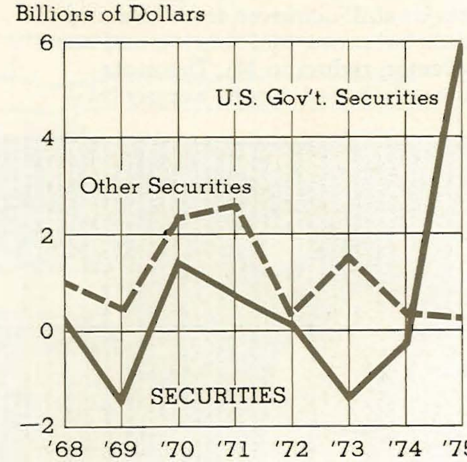
Business loans, after two years of very rapid growth, declined over $200 million in 1975. In the first half, large firms in particular repaid a substantial share of the large amounts they had borrowed from Western banks under back-up credit lines in the tight-credit situation of early 1974, and instead obtained a more normal share of their borrowing from capital-market sources. Even regional borrowers, with their limited access to alternate sources of funds, reduced their bank-credit demands in the first half—partly because the sharp inventory liquidation lowered their need for inventory financing, and also because the slower rate of inflation tempered their need for operating funds.

In the second half of the year, credit demand grew as the regional economy strengthened. Large loan increases were recorded by the food-processing industry; mining, including petroleum and natural gas; and public utilities, particularly transportation. Foreign business loans continued to rise—as, for that matter, they had all year long. But the major boost came from a nearly $500-million increase in bankers acceptances late in the fourth quarter. Just as elsewhere, banks decided to hold in their own portfolios the acceptances which they had created, rather than selling them to others as is their customary practice. Because of this second-half improvement, commercial and industrial loans at year-end still accounted for over 35 percent of Western banks' total loans—the same record-high proportion reached in 1974.

Mortgage loans just barely missed holding their own, despite declines in the first three quarters of the year. The major strength in mortgage demand showed up in the single-family market, mainly for existing housing. Other mortgage demand remained weak because of factors already mentioned—large unsold inventories of housing (particularly multi-family), high land and construction costs, and relatively high interest rates. Consumer instalment credit meanwhile became a major source of strength in lending activity in the latter half of the year. This second-half turnaround went hand-in-hand with the consumer spending upturn initiated by the tax-reduction bill.

Banks suffer loan decline in '75, despite second-half upturn

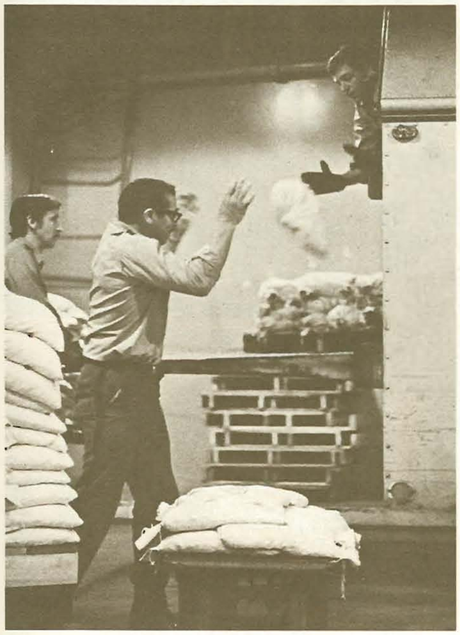




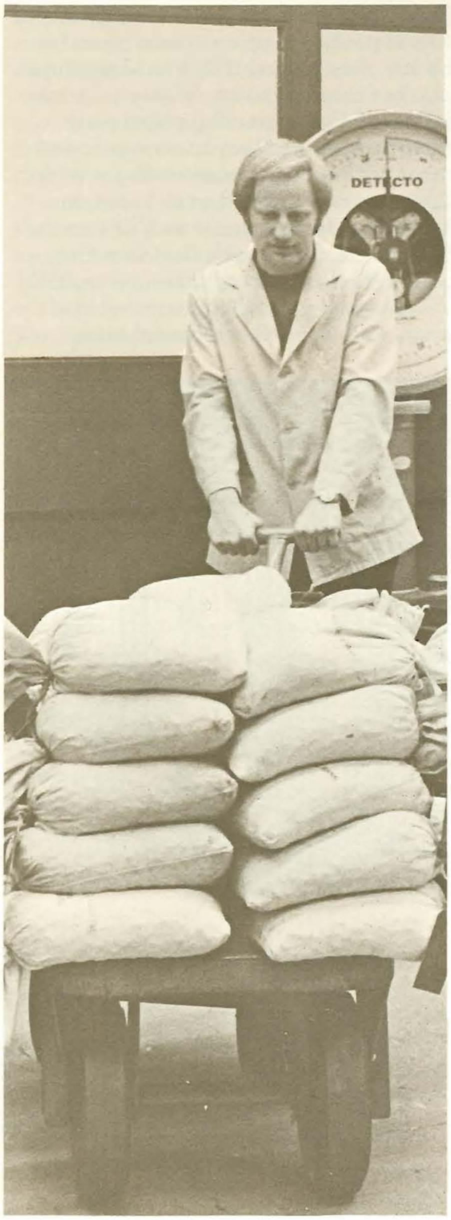
Ample funds

In sharp contrast to the several preceding years, Western banks had few worries about the availability of funds in 1975. Total member-bank deposits rose $7 billion (9 percent), as both private demand deposits and time deposits rose at double the national rate. The time-deposit gain reflected a massive first-half inflow of passbook savings deposits, along with another upsurge in the fourth quarter, when the newly-authorized corporate savings deposits swelled the total.

Reduced loan demand and the inflow of relatively inexpensive savings deposits permitted banks to run-off over $800 million in large-denomination negotiable CD's. The reduction in these costly and highly interest-sensitive funds substantially improved the structure of banks' deposit liabilities and lowered the average cost of their interest-earning deposits. On the other hand, the potential for higher costs arose when business firms gained permission in October to open corporate savings accounts. To the extent that these new accounts represented shifts from demand balances, banks incurred an interest cost for funds which previously had been non-interest bearing.



Total required reserves of District member banks declined about $160 million (daily average basis) despite the 9-percent increase in deposits. This decrease largely reflected February's reduction in reserve requirements on demand deposits, as well as the growing proportion of new deposits held in the form of savings deposits, which carry only a 3-percent reserve requirement. Also, in late 1975, Western banks lengthened the maturity structure of their time certificates to take advantage of the lower reserve requirements on time deposits with maturities of 180-days and over. This easier reserve position, along with the generally wide positive spread between the discount rate and the Federal-funds rate, led banks to reduce drastically their use of the discount window. District banks' daily average borrowings were only $19 million in 1975—the lowest level in over a decade—compared with the record $206-million average of 1974. However, banks' net purchases of Federal funds—that is, short-term borrowings of unused member-bank reserves—averaged nearly $1.8 billion, only slightly less than the 1974 record.



Improved margins

Banks everywhere benefited from the wider profit margins made possible by the downward trend in short-term market interest rates. Western banks followed the general pattern and reduced their prime business-loan rates with a lag, maintaining a wider-than-normal spread over rates on borrowed funds, such as CD's and Fed funds. Even with that lag, the prime declined from $10\frac{1}{2}$ percent to $7\frac{1}{4}$ percent over the course of the year, and the general trend was downward except for the third-quarter bulge. In the real-estate field, a second-quarter increase in appraisal requests produced a rise in mortgage rates to over 9 percent at West Coast banks, and high rates generally prevailed for the rest of the year.

Western banks put every effort into maintaining favorable operating margins, because of their need to rebuild liquidity, improve capital ratios, and increase loan-loss reserves against actual and potential loan losses. Most Western banks were more fortunate than their counterparts elsewhere in having fewer loan problems with REIT's and less loan exposure in major problem situations, but many still suffered substantial loan losses. All of them, moreover, had to deal with record numbers of loans which required work-out solutions or careful monitoring. Not surprisingly, then, some Western banks reported lower profits in 1975 despite their wider operating margins. However, many other banks reported improved earnings in the face of all these problems, not to mention such other factors as declines in loan assets and deliberately less aggressive growth policies.

Challenges for 1976

As Western banks moved into 1976, they carried over some of last year's unresolved problems. Foremost on the list were problem loans, many of which will require extended work-out periods. Banks again will have to set aside, out of earnings, sufficient funds to cover actual loan losses and reserves for possible loan losses.

At the same time, District banks must face various institutional changes which have already increased—and will continue to increase—competition from aggressive nonbank financial institutions. There is, for example, the widening range of interest-bearing accounts, which is now blurring the distinction between demand and time deposits. Deposit costs, such as those associated with new corporate savings deposits, may continue to escalate if more extensive use of telephone and third-party transfers leads to further shifts from demand balances to savings or time deposits, and if activity thereby increases in these time balances. Banks must also deal with all of the cost ramifications implicit in the initiation of electronic-transfer systems. During 1976 banks will have to carefully review and adjust their pricing of services. In addition, they will have to reorganize and train staff to meet the new technological changes which promise to alter banking operations materially.

These adverse cost factors are coming at a time when many analysts are forecasting only a modest gain in bank loan demand. Business-sector borrowing may remain low in 1976 because of caution in rebuilding inventories and in spending for new plant and equipment—and also because of improved business profits and internal cash flows. (Still, a further decline in interest rates, with a low prime, could trigger some business borrowing for purposes which had been relegated to the "optional" category.) Mortgage demand for single-family housing should continue to expand, but demand for commercial and industrial mortgages may well remain near its present depressed level. The consumer, now strengthened by a rising trend of income and by last year's debt repayment, may continue the more active credit-market role evident in the closing months of 1975. Altogether, the consensus view would indicate a moderate level of loan demand in 1976, regionally and nationally, but with increasing momentum as the year progresses.

The Western banking system is basically healthy, having come out of a difficult period with renewed strength. Where weaknesses had developed, the regulatory authorities urged appropriate remedies and the banks responded. Today, Western banks have rebuilt their liquidity, have instituted more cautious credit policies, and have corrected imbalances in their loan portfolios. Consequently, they are now in a position to finance a steadier and sounder growth in the regional economy.

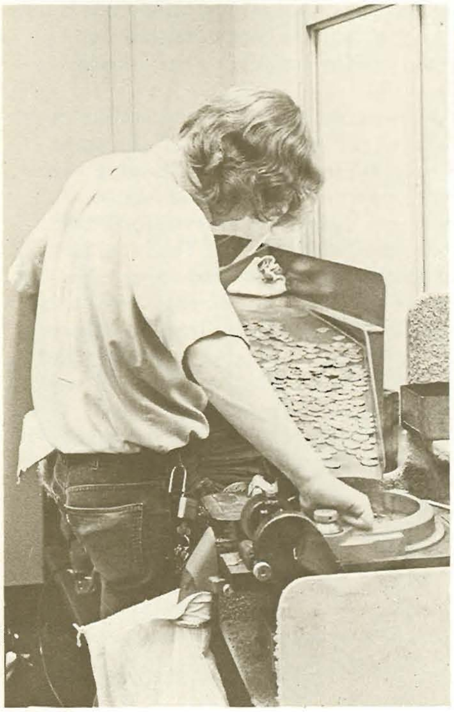
Western Central Banking

The Federal Reserve Bank of San Francisco opened its seventh decade of operations in 1975, and from its five locations—San Francisco, Los Angeles, Portland, Salt Lake City and Seattle—continued to serve the financial needs of the expanding regional economy. But in recognition of the ever-growing size and complexity of the environment in which it operates, the Bank made a special effort during 1975 to attune itself to the future needs of the banking system. This was accomplished through a major reorganization of management.

A thorough review undertaken last year revealed several drawbacks in the Bank's former management structure. The old organization chart showed five headquarters officers reporting directly to the President, and nine other officers (including four at branch offices) reporting directly to the First Vice President. This unwieldy structure created the potential for slip-ups in communications and delays in decision-making. Now, with the restructuring, all Bank operations report upward through three major administrative groups. Top-management decisions thus can be implemented smoothly through a five-man Managing Committee, which consists of the President, the First Vice President, and the Senior Vice Presidents in charge of those administrative groups.

Another review instituted in the previous year—a diagnostic study of all internal Bank operations—led to the implementation of a major productivity-improvement program in 1975. This program resulted in a basic overhaul of operations, aimed at improving cost effectiveness and developing more clearly defined jobs and improved working conditions. The result was a significant streamlining of staff, even after additions to some departments that needed strengthening in order to perform effectively. By year-end 1975, the total staff was 16.3 percent below the August 1974 authorized staff level.

The program was designed so that the Bank could handle sharp increases in workload without unacceptable cost increases. But management also saw the need to reward adequately those staff members who were contributing to these productivity improvements. Hence it implemented a new job-evaluation program for all positions in the Bank, and meanwhile conducted new salary studies to ensure that its salary structure would remain competitive with that of progressive firms elsewhere.



Expanding community

The community served in 1975 by the San Francisco Reserve Bank numbered 481 banks with almost 6,500 banking offices. During the year, 4 new national banks, 23 state nonmember banks and 5 trust companies were organized in the District. The number of Federal Reserve member banks and the number of member-bank offices each increased about 2 percent, to 145 banks and 4,732 offices. Nonmember banks increased to 336 banks and 1,674 banking offices. The Reserve Bank staff completed a number of cost-of-membership analyses in 1975, in an effort to show potential members the benefits of System membership. In addition, the Board of Governors liberalized its reserve-requirement policy for new members, so that the additional costs associated with maintaining larger reserves would be assumed gradually over two years.

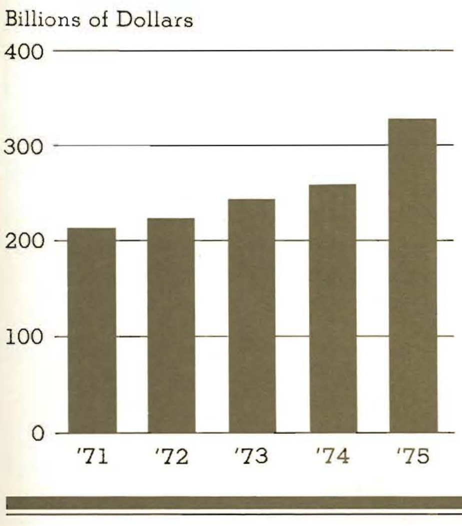
In a related area, the number of bank holding companies supervised by the San Francisco Reserve Bank increased only slightly to 73 in 1975. Also, the Bank's staff investigated 96 applications to initiate or expand holding company activities—down from 128 the previous year. This decline was helped along by the slowdown in business activity, but the major factor was the Fed's position that holding companies should redirect their resources toward strengthening existing operations as opposed to further expansion into new areas of activity.

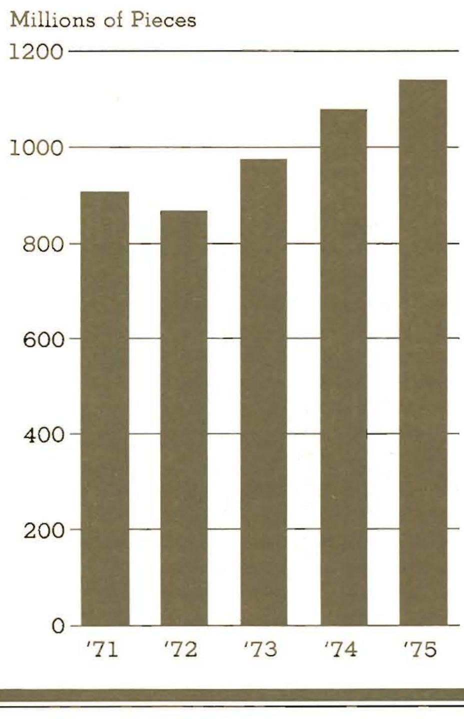
In the international field, the Reserve Bank supervised 23 Edge Act corporations last year. (These corporations are bank or holding-company subsidiaries which engage in international banking activities.) The Bank's staff processed 36 applications involving new or expanded overseas operations by Edge Act corporations and District member banks. The Seattle office sponsored a seminar for the benefit of international bankers in the Pacific Northwest. In San Francisco, two major seminars were held—a conference of foreign-exchange specialists, with a keynote address by Professor Robert Aliber of the University of Chicago, and a conference of economic forecasters from 14 Pacific Basin countries, keynoted by the University of Pennsylvania's Lawrence R. Klein.

Serving consumers and banks

The Bank organized a consumer-affairs unit during 1975 to assist consumers and businesses in understanding their rights and responsibilities under Federal Reserve Regulations B (Equal Credit Opportunity) and Z (Truth in Lending). The unit has supervisory and enforcement responsibilities in consumer credit matters relating to state-chartered banks which are members of the Federal Reserve System. However, the unit also acts as a clearing house for consumer inquiries, referring individuals to the proper government agency authorized to investigate their complaints.

Paper flood of checks continues to rise at San Francisco Reserve Bank





A steep decline in Reserve Bank credit activity reflected the improved condition of regional financial markets. Member-bank borrowing fell to a $19-million daily average, just a fraction of the 1974 level, and only 38 member banks—down from 61 in 1974—obtained accommodation at the discount window. The same situation prevailed in use of the seasonal-credit accommodation, as only 3 member banks utilized this type of credit in 1975 as compared with 11 during the previous year.

In check processing, the Bank's staff handled over one billion paper checks for the second straight year. Dollar volume of these 1,150 million checks expanded 25 percent to $326 billion. (The workload was very heavy at the time of the tax rebate, which by itself generated about one-sixth as much volume as the Government's entire annual check volume.) Almost all of these checks flowed through the Bank's network of check-processing centers, which make possible one-day check clearing as well as lower check-handling costs for commercial banks.

Shifting towards electronics

The vast check-processing task was eased, at least to some extent, by the growing acceptance of electronic transfers of Federal Government payments. Throughout the year, many Air Force personnel had their paychecks handled electronically through the Bank's San Francisco and Los Angeles offices. This system—offered on a voluntary basis to all personnel—automatically deposits Air Force paychecks at the California Reserve Bank offices by the use of magnetic tapes. Then each payee's checking or savings account at a designated depository institution is simply increased by the amount of the paycheck. Among the benefits of the system are speed, safety and lower costs, through the elimination of check clearing and processing for individual checks. Late in the year, the Bank made plans to inaugurate a similar payments system, which will handle social-security payments for beneficiaries who elect to have their benefits deposited directly in financial institutions.

The Bank meanwhile increased its participation in automated-clearinghouse activities. The Fed first entered this field several years ago by inaugurating facilities for ACH processing centers in Los Angeles and San Francisco, which now process more than 50,000 items electronically each month. The Bank later instituted a daily exchange of items between those two centers, enabling payroll and bill payments originating in one area to be processed and settled in the other, and it is continuing efforts to increase processing capabilities at each branch within the District.

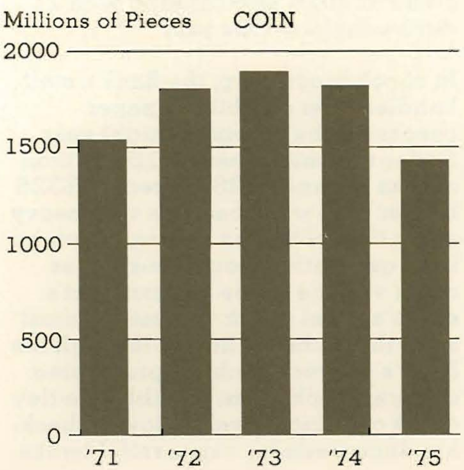
The Reserve Bank also continued to participate in a computerized communications switch, which makes it possible to transfer funds almost instantaneously from one commercial bank to another anywhere in the country. This Federal Reserve service allows member banks to earn interest on otherwise idle excess reserves, and it is especially useful to bank customers who find it necessary to transfer funds immediately. District member banks bought and sold almost $4.6 *trillion* using this network in 1975, a 5-percent increase over 1974.

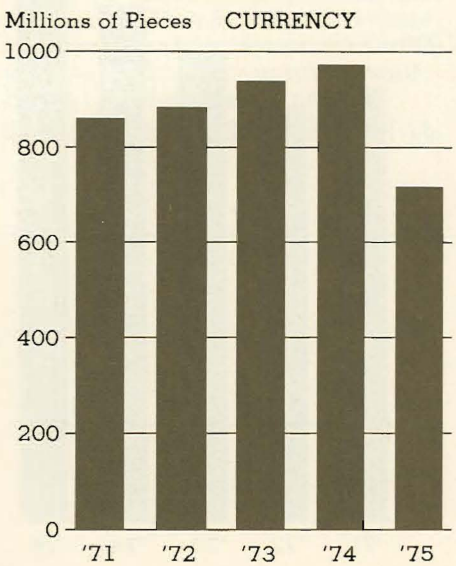
Handling coin and currency

Even with the increased usage of checks and electronic transfers, the provision of coin and currency for the regional economy remained a major responsibility of the San Francisco Reserve Bank. Actually, the amount of coin received and counted by the Bank's five offices declined about 17 percent to 1.47 billion pieces, while the amount of currency received and counted dropped about 24 percent to 732 million pieces—at least in part because of the productivity improvements instituted during the year. For example, direct exchange of bagged coin between central cash vaults of member banks caused a one-third reduction in the amount of coin handled by the Los Angeles office.

The cash operation made news with the distribution of several new bicentennial coins—quarters, half-dollars and dollars—in honor of the nation's 200th birthday. Also noted was the end of the famous penny shortage. That lowly coin had all but disappeared from circulation during a speculative run-up in copper prices in 1974, and it did not come out of hiding until the recession brought on an oversupply situation and a sharp price decline in the copper market. As the crisis eased, the Bank held an awards ceremony honoring those bankers, educators and school children who had helped alleviate the shortage by bringing coins back into circulation. Mrs. Mary Brooks, Director of the U.S. Mint, made the presentations at this special ceremony.

Productivity improvements, plus recession, lead to reduced volume





Changing fiscal picture

In its role as fiscal agent for the U.S. Government, the Fed had a somewhat easier time than it did in the 1974 period of record-high interest rates. As rates on Treasury bills trended downward, small savers shifted out of the bill market and put more of their funds into savings accounts and savings bonds. (At the Bank's San Francisco office, participation by individual investors in the Treasury-bill market dropped by half, to about 21,000 in 1975.) Altogether, the number of marketable securities issued, exchanged and redeemed dropped 20 percent at the Bank's five offices, although the dollar volume continued to expand to $394 billion as a reflection of the Treasury's heavy demands on the credit markets. Again, as market rates declined, the 6-percent rate on U.S. savings bonds became increasingly attractive to investors, and sales made through the Reserve Bank rose 8 percent to $666 million.

The food-stamp program, which covers about 2 million people in this District alone, continued to make heavy demands on Reserve Bank processing facilities. The number of coupons processed declined 7 percent to 351 million, as the Agriculture Department substituted larger denominations for the old 50-cent and $2 coupons, but for a time, a heavy workload resulted when both the old and new-style coupons circulated side by side. The dollar volume of coupons handled meanwhile jumped 30 percent to $1.1 billion, largely reflecting the impact of inflation on average benefit costs and the impact of recession on program eligibility.

Altogether, the Bank met its 1975 objective of handling sharp increases in workloads without unacceptable cost increases. On a System-wide level, new efficiencies were achieved in several different ways, such as a centralized procurement program covering all of the Reserve Banks throughout the nation. In this District, a number of advances were made—in coin, currency, check processing and other areas—through an intense effort to increase productivity. This effort was accomplished through the constant search for efficiencies by accountants, programmers, guards and economists; planners, clerks, typists and personnel experts; auditors, secretaries, building staff and many other types of workers.

Summary of operations

	Value (millions)		Number (thousands)	
	1975	1974	1975	1974
COIN AND CURRENCY				
Coin received and counted	221	243	1,471,181	1,807,485
Currency received and counted	10,075	10,145	731,860	963,243
COLLECTIONS				
Check Collections				
Commercial bank checks	259,104	201,829	981,827	933,170
Government checks*	63,277	55,317	151,736	139,442
Return items	3,258	2,286	12,436	10,055
Noncash Collections	4,886	6,352	236	649
DISCOUNTS AND ADVANCES				
Total discounts and advances	4,293	42,482	229†	1,720†
Daily average borrowings	19	204	NA	NA
Number banks accommodated	NA	NA	38†	61†
FISCAL AGENCY				
Savings Bonds & Savings Notes				
Issuance	666	615	12,629	12,197
Servicing	100	94	528	511
Retirements	785	772	13,871	14,326
Other Treasury Issues				
Issuance	24,972	13,765	148	237
Servicing	346,839	320,983	290	331
Redemptions	16,948	11,096	267	316
Other Fiscal				
Currency verified and destroyed	2,291	2,148	385,931	383,261
Federal tax deposits processed	33,510	30,932	6,887	6,754
Food stamps received and processed	1,051	808	350,518	375,472
TRANSFER OF FUNDS				
Wire transfers	4,556,656	4,351,729	1,695	1,409

* including postal money orders
† actual number

Directors and Officers

The Federal Reserve carries out its central-banking functions through a nationwide network of 12 Federal Reserve Banks and their 25 branches, under the coordination of the Board of Governors in Washington, D.C. The Twelfth District, with San Francisco as its headquarters, serves the banking communities of California, Oregon, Washington, Idaho, Nevada, Utah, Alaska, Hawaii and most of Arizona.

Each of the 12 Federal Reserve Banks is a corporation organized and operated for public service. Its shareholders are the member banks located within the Reserve Bank district, 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 are actively engaged in this District in commerce, agriculture, or some other industrial pursuit. They 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. 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 brings management expertise to the task of overseeing Reserve Bank operations, and it also provides first-hand information on key developments in various geographic regions and industrial sectors, complementing the Bank's internal research efforts. In addition, it gives advice on the general thrust of monetary policy, especially with regard to the Bank's discount rate. The Board specifically has responsibility for initiating changes in the discount rate, subject to review by the Board of Governors.

Each of the Reserve Bank's branches outside San Francisco also has a Board of Directors. 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 Federal Reserve Board of Governors. Each of the other Branch offices—Portland, Salt Lake City, and Seattle—has a five-member board, three appointed by the San Francisco Bank's board and two by the Board of Governors.

Changes in Boards of Directors

Changes occur each year in the composition of the various boards because of the public nature of the directorships and the demands upon the time of those who serve. The following changes were announced as of March 1, 1976:

Board of Directors, Federal Reserve Bank of San Francisco

Elected by Member Banks in the Twelfth District:

Class A Director—
Ronald S. Hanson, President and Chief Executive Officer, First National Bank of Logan, Logan, Utah, elected to a three-year term that will expire at year-end 1978.

Class B Director—
Malcolm T. Stamper, President, The Boeing Company, Seattle, Washington, elected to a three-year term that will expire at year-end 1978.

Appointed by the Board of Governors, Federal Reserve System:

Class C Directors—
Cornell C. Maier, President and Chief Executive Officer, Kaiser Aluminum and Chemical Corporation, Oakland, California, appointed to a term expiring at year-end 1977.

O. Meredith Wilson, Trustee, Center for Advanced Study in the Behavioral Sciences, Stanford, California, reappointed Chairman of the Board for 1976.

Joseph F. Alibrandi, President and Chief Executive Officer, Whittaker Corporation, Los Angeles, California, reappointed to a three-year term expiring at year-end 1978 and redesignated Deputy Chairman for 1976.

Member of Federal Advisory Council-1976
Gilbert F. Bradley, President and Chief Executive Officer, Valley National Bank of Arizona, Phoenix, Arizona, appointed by the San Francisco Board of Directors.

Boards of Directors, Branch Offices

Los Angeles Branch:

Appointed by San Francisco Board of Directors:
W. Gordon Ferguson, President, National Bank of Whittier, Whittier, California, reappointed to a three-year term expiring year-end 1978.

Appointed by Board of Governors, Federal Reserve System:

Harvey A. Proctor, Chairman of the Board, Southern California Gas

Company, Los Angeles, California, reappointed to a three-year term expiring year-end 1978.

Portland Branch:

Appointed by San Francisco Board of Directors:

Kenneth Smith, General Manager, The Confederated Tribes of Warm Springs, Warm Springs, Oregon, appointed to a two-year term expiring at year-end 1978.

Appointed by Board of Governors, Federal Reserve System:

Loran L. Stewart, President, Bohemia Inc., Eugene, Oregon, reappointed to a two-year term expiring year-end 1977.

Salt Lake City Branch:

Appointed by San Francisco Board of Directors:

Mary S. Jensen, Chairman of the Board, Idaho State Bank, Glenns Ferry, Idaho, appointed to fill an unexpired term ending year-end 1975, then reappointed to a two-year term expiring at year-end 1977.

Appointed by Board of Governors, Federal Reserve System:

Theodore C. Jacobsen, Partner, Jacobsen Construction Company, Salt Lake City, Utah, reappointed to a two-year term expiring at year-end 1977.

Seattle Branch:

Appointed by San Francisco Board of Directors:

Rufus C. Smith, Chairman of the Board, The First National Bank of Enumclaw, Enumclaw, Washington, appointed to a two-year term expiring year-end 1977.

Appointed by Board of Governors, Federal Reserve System:

Thomas Hirai, Grower, Packer, Shipper of Potatoes, Quincy, Washington, reappointed to a two-year term expiring year-end 1977.

Lloyd E. Cooney, President and General Manager, KIRO—Radio and Television, Seattle, Washington, appointed to fill an unexpired term ending year-end 1976.

Douglas S. Gamble, President and Chief Executive Officer, Pacific Gamble Robinson Co., Seattle, Washington, appointed to unexpired term ending year-end 1976.

Changes in Official Staff

Managing Committee
John J. Carson, Senior Vice President-Corporate Staff

Gerald R. Kelly, Senior Vice President-Branch Operations

Kent O. Sims, Senior Vice President-District Departments

Branch Officers in Charge
Angelo S. Carella, Vice President-Portland

James J. Curran, Vice President-Seattle

Wesley G. DeVries, Senior Vice President-San Francisco

Richard C. Dunn, Senior Vice President-Los Angeles

Other Senior Officers
Harry W. Green, Director of Bank Holding Companies

Richard T. Griffith, Vice President-Computer Info. Systems

Henry B. Jamison, Vice President-Supervision, Regulation & Credit

Warren H. Hutchins, Vice President-Analysis & Control-San Francisco

Michael W. Keran, Vice President-Research & Public Information

Hector M. Martin, Director of Computer Operations

Donald V. Masten, Senior Vice President-Secretary's Office

Eugene A. Thomas, Director of Bank Examinations

Wilhelmine von Turk, Vice President-Statistical & Data Services

Claude Woessner, Vice President-Operations-San Francisco

Walter G. Woodbury, Vice President-Personnel

Junior Officers
Elwood E. Bernstein, Assistant Vice President-System Coordination

Merle E. Borchert, Examining Officer-Los Angeles

Marcia E. Broderick, Check Officer-Los Angeles

M. Timothy Carr, Operations Officer-Portland

Oscar P. Celli, Credit & Consumer Affairs Officer

Hang-Sheng Cheng, Assistant Vice President & Economist

John R. Cola, Assistant Vice President-Analysis & Control-Los Angeles

Brent M. Duxbury, Cash Officer-Los Angeles

George P. Galloway, Assistant Vice President-Administrative Services-San Francisco

William K. Ginter, Assistant Vice President-Facilities Planning

Paul A. Graven, Personnel Officer-Los Angeles

Patsy Haynes, Fiscal Officer-Los Angeles

Verle B. Johnston, Research Officer-Secretary's Office

Douglas O. Knudsen, Cash Officer-San Francisco

Michael J. Murray, Personnel Officer-San Francisco

H. W. Pennington, Assistant Vice President-Portland

Kenneth L. Peterson, Assistant Vice President-Los Angeles

Richard L. Rasmussen, Administrative Services Officer-Los Angeles

Rodney E. Reid, Examining Officer

Roy A. Remedios, Assistant Vice President-Fiscal-San Francisco

Wayne L. Rickards, Examining Officer

W. Gordon Smith, Assistant General Counsel

A. Richard Tidwell, Analysis & Control Officer-Seattle

William S. Thurlow, Assistant Vice President-Corporate Planning

G. Ross Varoz, Examining Officer-Salt Lake City

J. W. Williams, Jr., Operations Officer-Salt Lake City

Other Officers
James Leyman, General Auditor

Beverly J. Adams, Assistant General Auditor

Jane W. Langhorne, Ombudsman

Retirements
William Brown, Vice President-Portland

Paul Cavan, Senior Vice President-Seattle

Martin S. Depper, Assistant Vice President & Chief Examiner of Trusts

Hal Erne, Assistant Vice President-Bank & Public Services-Los Angeles

Robert C. Johnsen, Assistant Vice President

Richard G. Lambert, Assistant Vice President-Data Processing & Computer Operations

Comparative Statement of Condition

(thousands of dollars)	December 31, 1975	December 31, 1974
Assets		
Gold certificate account	$1,327,316	1,500,750
Special Drawing Rights certificate account	59,000	49,000
Federal Reserve notes of other Federal Reserve banks	81,138	279,344
Other cash	14,202	35,556
Loans to Member Banks:		
Secured by United States Government and Agency obligations	0	0
Other eligible paper	600	21,950
Other paper	0	29,595
Federal Agency obligations	851,421	684,392
United States Government securities:		
Bills	5,217,160	5,351,037
Notes	6,168,029	5,823,307
Bonds	774,234	477,894
Total United States Government securities	$12,159,423	$11,652,238
Total loans and securities	$13,011,444	$12,388,175
Cash items in process of collection	293,237	987,173
Bank premises	1,127	7,540
Operating equipment	2,047	0
Other assets:		
Denominated in foreign currencies	9,975	220
All other	213,708	232,930
Total assets	$15,042,557	$15,480,687
Liabilities		
Federal Reserve notes	$9,815,820	8,562,318
Deposits:		
Member bank—reserve accounts	4,097,205	5,330,167
United States Treasurer—general account	474,832	357,810
Foreign	32,825	37,120
Other deposits	46,995	94,237
Total deposits	$4,651,857	$ 5,819,334
Deferred availability cash items	187,853	694,680
Other liabilities	151,621	180,507
Total liabilities	$14,807,151	$15,256,839
Capital Accounts		
Capital paid in	$117,703	$111,924
Surplus	117,703	111,924
Total liabilities and capital accounts	15,042,557	15,480,687
Contingent liability on acceptances purchased for foreign correspondents	0	$125,798

Earnings and Expenses

(thousands of dollars)	1975	1974
Current earnings		
Discounts and advances	$ 1,233	$ 16,107
United States Government securities	845,393	837,274
Foreign currencies	683	873
All other	82	1
Total current earnings	$847,391	$854,255
Current expenses		
Total current expenses	$ 56,175	52,418
Less reimbursement for certain fiscal agency and other expenses	4,690	4,788
Net expenses	$ 51,485	$ 47,630
Profit and loss		
Current net earnings	$795,906	$806,625
Additions to current net earnings:		
Profit on sales of United States Government securities (net)	5,167	0
Profits on foreign exchange transactions	0	0
All other	1,418	152
Total additions	$ 6,585	152
Deductions from current net earnings:		
Loss on foreign exchange transactions (net)	$ 30,225	$ 4,347
Loss on sales of United States Government securities (net)	0	5,794
All other	286	574
Total deductions	$ 30,511	$ 10,715
Net additions (+)/deductions(-)	$ 23,925	$ 10,562
Net earnings before payments to United States Treasury	771,981	796,063
Dividends paid	6,934	6,645
Payments to United States Treasury (interest on Federal Reserve notes)	$759,268	$785,801
Transferred to surplus	$ 5,779	$ 3,616
Surplus December 31	111,924	108,307
Surplus January 1	$117,703	$111,924

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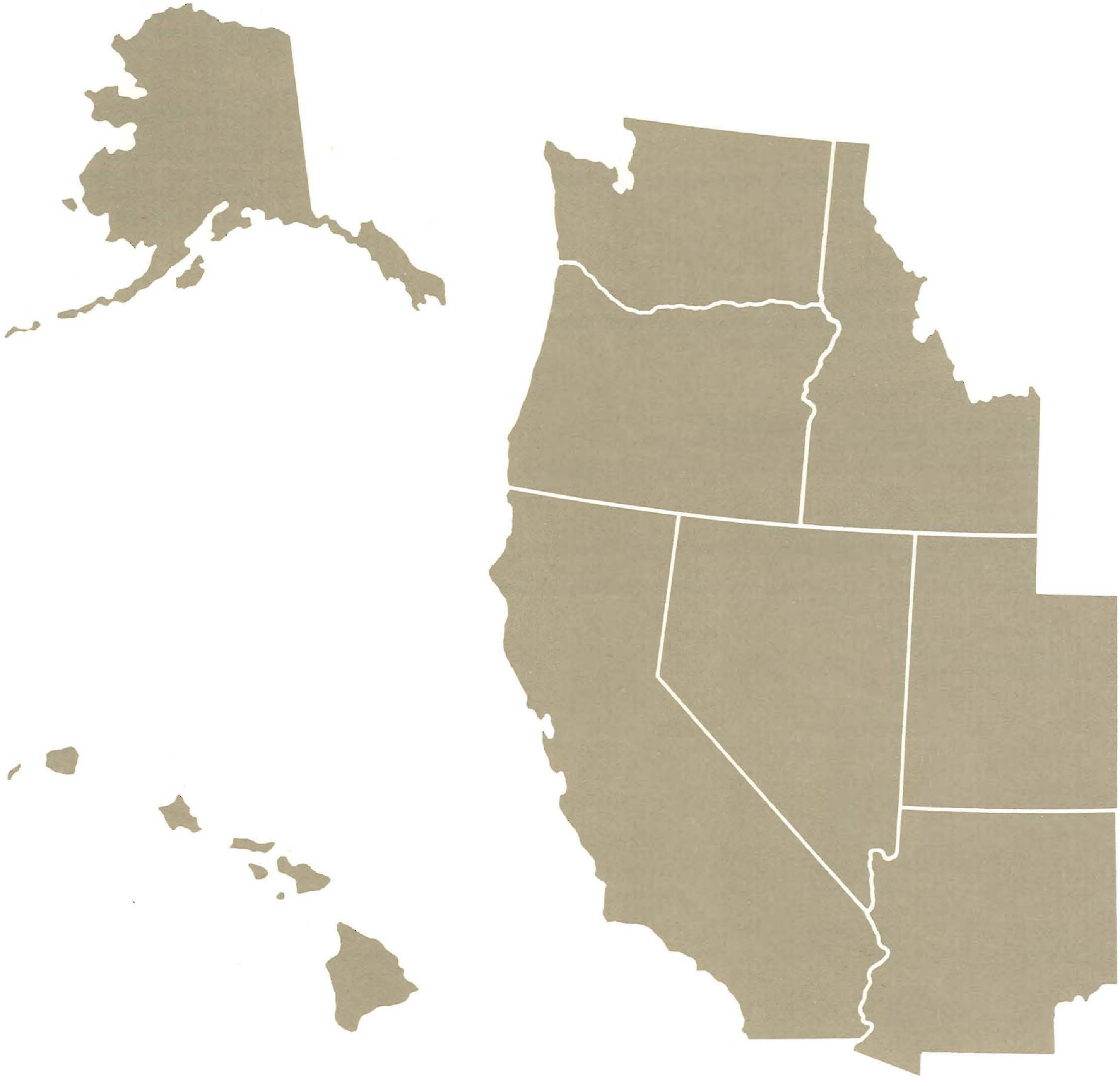

Federal Reserve Bank of San Francisco P.O. Box 7702 San Francisco, California 94102
Alaska - Arizona - California - Hawaii - Idaho - Nevada - Oregon - Utah - Washington

Federal Reserve Bank of San Francisco

Organization Chart

March 1, 1976

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