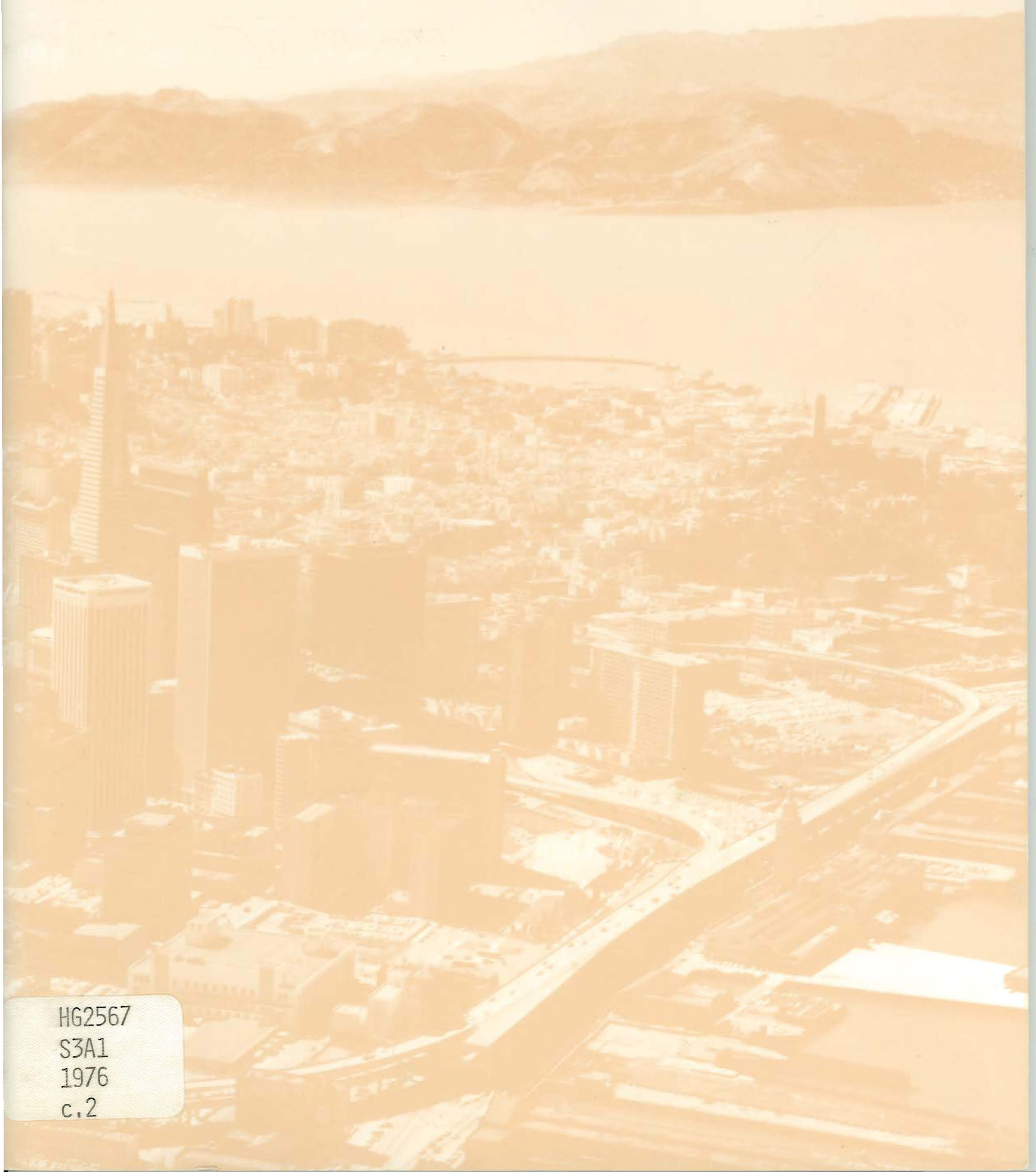
*Federal Reserve Bank of San Francisco* *Annual Report 1976*



# Federal Reserve Bank of San Francisco Annual Report 1976



## From the Boardroom

*Of all the traditional American virtues extolled during the just-completed bicentennial year, perhaps none better describes the nation's economic experience during 1976 than "resilience"—the ability to make necessary adjustments and bounce back from adversity. The first steps were taken even earlier, of course, when a stimulative fiscal policy helped to stop a severe recession, and an accommodative monetary policy helped support the upturn while limiting a virulent inflation. The results were seen in 1976, as the resilient American economy recovered its dynamism.*

*The past year admittedly had its problems, including the well-publicized "pause." But not enough publicity was given to the fact that total output, in real terms, increased faster in 1976 than at any other time of the past two decades. Again, this recovery year was marred by the continuation of a near-record level of unemployment—yet not enough attention has been given to the fact that no other period in recent decades, except the 1973 boom year, could match 1976 in terms of job expansion. Inflation was and is a difficult problem, but too many commentators last year remarked on the persistence of the problem, and too few on the fact that the inflation rate had been reduced more than half in a two-year time-span, and that the nation boasted one of the lowest inflation rates in the industrial world.*

*Resilience also characterized the performance of the vast regional economy served by the Federal Reserve Bank of San Francisco. The Western economy had less ground to make up, because it suffered less from the recession than the rest of the nation, yet it managed in most respects to match the rapid recovery pace of the national economy. In the process, Western commercial banks outpaced other banks with a 7-percent gain in loans and investments, to a year-end total of $112 billion. Bank lending for single-family mortgages and consumer goods and services was especially strong, helping to make up for continued sluggishness in business lending.*

*The monetary policy role in this context was designed to reconcile the sometimes conflicting goals of sustainable growth, stable prices, and high levels of employment. The results generally were favorable, as evidenced in financial markets by a strengthening of bank balance sheets and a declining trend in interest rates.*

*Operating efficiency was another goal of our planning efforts at this Bank, as a means of consolidating the gains achieved through a major staff reduction and reorganization in the 1974-75 period. Management in 1976 developed programs to improve the Bank's long-range planning process, primarily by adopting a revised five-year automation plan. While providing for the future in this way, the staff also met the day-in, day-out financial needs of the West through the continued provision of check, fiscal, coin, currency and other services.*

*Our appreciation goes to the financial, industrial, academic and agricultural leaders who served as directors in 1976, helping to guide the Bank through that complex recovery year. Special acknowledgment is due O. Meredith Wilson (Trustee and Retired President, Center for Advanced Study in the Behavioral Sciences, Stanford, California) who provided outstanding service to the Bank as Chairman of the Board of Directors since 1968. Additionally, we wish to thank others who completed terms as directors during 1976: A.W. Clausen (President and Chief Executive Officer, Bank of America) at our San Francisco office; Linus E. Southwick (President, Valley National Bank of Glendale) at Los Angeles; John R. Howard (President, Lewis and Clark College), Frank L. Servoss (President, Crater National Bank of Medford), and James H. Stanard (Executive Vice President, First National Bank of McMinnville) at Portland; and Roy W. Simmons (President, Zions First National Bank) at Salt Lake City. 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.*

| | |
|---|---|
| *Joseph F. Alibrandi* | *John J. Balles* |
| *Chairman of the Board* | *President* |

# *The Nation and the West*

*The text of this Annual Report was prepared by the Bank's research staff and does not necessarily represent the views of the Bank's directors on particular industries.*

## *National Business Developments*

*The national economy expanded at a generally strong but uneven pace last year, continuing the recovery that got underway in early 1975. Total output of goods and services, in real terms, increased 6.2 percent—the sharpest gain of the past two decades, despite a widely publicized pause that beset the economy in the latter part of the year. Employment surged to new peaks, although unemployment remained at near-recession levels. The inflation rate decelerated, but remained too high for the long-term health of the economy.*

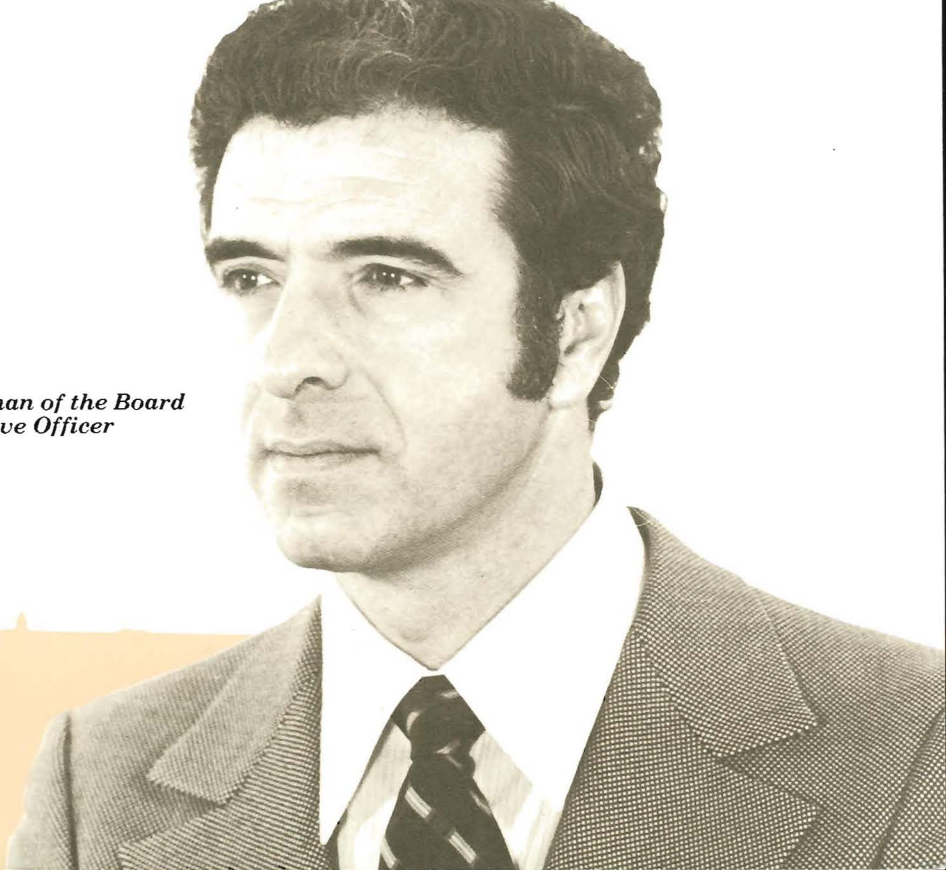
*Real GNP increased at a 9-percent annual rate in the first quarter, but then expanded at less than half that rate during the remainder of the year. This shift was due entirely to fluctuations in inventory investment, because the pace of final sales (GNP less inventory spending) actually accelerated in every single quarter. However, this pattern of gradually reduced stimulus from inventory spending is typical of almost all cyclical recoveries.*

*Much of 1976's strength came from a sharp 23-percent increase in real spending for new home construction—at least single-family housing. In contrast, business fixed-investment spending failed to live up to expectations, despite the increased availability of external and internal financing. The sluggish growth of business capital spending reflected continued excess capacity in many industries, and probably also a wary spending attitude on the part of business managers in the wake of the severe inflation and steep recession of the several preceding years. In addition, consumer spending slowed down in the middle two quarters of 1976, although households reduced their saving rate in order to maintain normal spending patterns.*

*The Federal government continued to stimulate the economy with a massive $58-billion deficit, but the deficit was about $13 billion less than in the preceding year as the cyclical recovery brought about a normal upturn in income-tax receipts and a reduction in certain counter-recessionary spending programs. State and local governments meanwhile posted an operating surplus for the first time in the past three years, as they held down their expenditures while benefitting from a recovery-based increase in tax revenues and higher Federal grants.*

*The number of persons with jobs increased in 1976 by 2.7 million—one of the strongest cyclical recoveries since World War II—but the number of unemployed dropped only modestly, so that the jobless rate averaged a very high 7.7 percent for the year as a whole. This high rate was attributable to the very sharp increase in the nation's labor force, partly due to the economic recovery which encouraged people—especially teenagers and women—to enter the labor force and look for jobs. Also, the continued inflation (even though at a reduced rate) apparently forced many family members to look for work outside the home or school in order to make ends meet.*

*The GNP price index rose 5.1 percent in 1976—only about half the pace of the two preceding years, but still a serious erosion of the incomes and savings of the nation's people. Most of the improvement in the consumer sector was due to a decline in certain food prices, such as meat and cereal products, because prices of other commodities and services continued to rise at a fairly rapid rate. Hourly pay per worker increased only slightly faster than productivity or output per manhour, suggesting an easing of cost-push pressures in the economy. More basically, the overall improvement in the price situation reflected the better performance of the Federal budget and continued moderation in the growth of the money supply.*



*Joseph F. Alibrandi, Chairman of the Board*
*President and Chief Executive Officer*
*Whittaker Corporation*
*Los Angeles, California*

## *Bank Credit and Monetary Policy*

*Commercial-bank credit expanded at a moderate 6.4-percent pace in 1976, the second year of the national business recovery. Loans contributed over one-half of the increase, although business-loan demand continued relatively weak for this stage of a cyclical recovery. Banks again increased their holdings of Treasury securities, moving into intermediate and long maturities to bolster earning assets and, late in the year, adding tax-exempts as the tone of the municipal market improved. Banks meanwhile intensified the shift in sources of funds which they had initiated in the preceding year. A record savings inflow nearly doubled 1975's large gain, while a reduction in large negotiable certificates of deposit far exceeded even the previous year's substantial run-off.*

*In 1976 as in 1975, a sluggish business-borrowing pace at the nation's banks contrasted with record or near-record borrowing in other financial markets. The Treasury concentrated its massive financing in coupon issues, thereby relieving pressure on short-term rates. New municipal-bond financing reached a record high as the market became more receptive after the default fears of 1975, and corporate-bond offerings fell only slightly below 1975's record volume. Continued corporate reliance on the capital market helped account for the weakness of long-term bank credit demand, while improved corporate liquidity, cash flows and profits tended to limit short-term bank loan demand.*

*The declining rate of inflation and the ample supply of investable funds placed downward pressure on long-term interest rates, and in December rates reached the lowest level of the past several years. Short-term rates remained relatively flat during the early part of 1976, rose steeply in May and June, and then also declined to a cyclical low at year-end. The prime business-loan rate lagged the decline in money rates, as banks attempted to maintain a favorable "spread" (net differential) between their return on earning assets and their cost of funds. Despite relatively weak loan demand, banks felt compelled to maintain profit margins large enough to cover continuing high loan-loss reserve requirements and to offset non-accrual loans (that is, loans on which interest is not currently being paid). As the year progressed, however, many banks became more aggressive and began making concessions on price and other terms of lending.*

*Monetary policy was designed during 1976 to encourage continued economic expansion while restraining inflationary pressures. The Federal Reserve achieved, within reasonable tolerances, its monetary growth targets, as the narrowly defined money supply ($M_1$) expanded at a 5.4-percent rate and the more broadly based aggregate ($M_2$) rose at a 10.9-percent rate. ($M_1$ equals currency plus demand deposits, and $M_2$ equals $M_1$ plus time deposits except large certificates of deposit). The Federal Reserve reduced its discount rate for member-bank borrowings twice during 1976, to 5¼ percent from 6 percent, in line with the downtrend in market rates. The System also made two reductions in reserve requirements—a ½-percent cut early in the year on certain time certificates, and a ¼-to-½ percent cut in late December on net demand deposits.*

*In this moderately accommodative policy environment, bank credit increased half again as fast as in the preceding year, with loans accounting for $25 billion of the total $46-billion increase. Business loans actually declined slightly over the course of the year (after adjustment for bankers acceptances). On the other hand, mortgage lending was very strong, accounting for the largest share of the overall increase, and consumer instalment loans accelerated in the latter part of the year. Foreign lending also contributed to the expansion of loan portfolios at some larger banks.*

*Bank earnings in 1976 improved considerably over 1975's poor performance. Banks achieved these higher earnings by maintaining a favorable spread between the rates they earned and the rates they paid for funds, by making somewhat lower provisions for loan-loss reserves, and by gradually reducing their portfolios of non-accrual loans. Regional retail banks tended to fare better than nationally-oriented wholesale banks, which are more dependent on business lending. In addition, banks achieved significant cost savings by posting a $19-billion decline in higher-cost CD funds while gaining a record $40-billion increase in lower-cost savings deposits.*

*John J. Balles, President*
*Federal Reserve Bank of San Francisco*

## *Key Western Developments*

*The Western economy expanded at a respectable pace in 1976, although not well enough to utilize all of the resources left unemployed during the preceding recession. Indeed, the regional jobless rate remained near the highest levels of the past generation during this start-and-stop recovery period. On the other hand, employment, income and sales all rose significantly—and with inflation subsiding, real household income scored its first notable gain of the past three years.*

*In this nine-state area served by the Federal Reserve Bank of San Francisco, civilian employment increased 3 percent during the year, to about 13.6 million. Job gains were modest in manufacturing and construction—both sectors employed fewer workers than at the pre-recession peak—but openings continued to increase in trade, services and government. In line with a long-standing trend, those three sectors accounted for 65 percent of all payroll employment, compared with less than 59 percent a decade ago. Despite the overall job expansion, unemployment averaged 9.2 percent of the civilian labor force—close to the recession peak and almost two percentage points above the average rate recorded elsewhere. This differential reflects certain structural problems affecting the West, such as heavy inmigration, a relatively youthful labor force, and a long-term downtrend in job opportunities in the key aerospace-manufacturing industry.*

*Western personal income increased almost 10 percent to about $230 billion in 1976. Much of the increase was eaten away by inflation as consumer prices rose about 6 percent during the year—but that figure compared with a 10-percent rate of inflation in each of the two preceding years. Consumers purchased almost 13 percent more goods at retail, despite a summer-fall slowdown, with business being somewhat stronger in durable than in nondurable stores. Auto sales increased substantially; in California, new auto registrations rose far above the 1974-75 level to about 900,000 units, although sales still lagged far behind the pace of the early 1970's.*

*Dorothy Wright Nelson, Director*
*Dean and Professor*
*University of Southern*
*California Law Center*
*Los Angeles, California*

## *Aerospace Trends*

*Western factory output, after declining only modestly during the 1975 recession year, reached new highs on the strength of an 11-percent gain during 1976. (Production increased at a comparable pace elsewhere, but from a much lower base because of the greater severity of the recession in other parts of the country.) Strong gains were recorded by regional manufacturers of machinery and transportation equipment, offsetting sluggishness in other industries such as primary metals.*

*The West's crucial aerospace-manufacturing industry ended the year on a bright note after a rather weak beginning. Aerospace jobs declined during the first half of the year, reflecting continued cutbacks in commercial-aircraft business, but then turned upward again as orders began to be received from a number of sources. Still, industry employment failed to recover to the 1974 pre-recession level and remained 26 percent below the Vietnam-war peak.*

*The second-half turnaround in orders partly reflected a revival of air passenger traffic, which triggered a rebirth of the airlines' interest in new transport planes. In addition, increased military and consumer purchases of new electronic products supported the recovery which had gotten underway the year before in that sector of the industry. But most importantly, government spending provided a strong stimulus to the market. Military prime-contract awards rose by over 6 percent during fiscal 1976, on the heels of a sharp upsurge the preceding year, as a number of ongoing missile and aircraft programs received increased funding. Space-agency awards rose even more strongly, primarily for the development of the space-shuttle program. Combined military and space awards have now increased almost by half in just over two years' time, providing a strong foundation for the 1977 regional economy.*

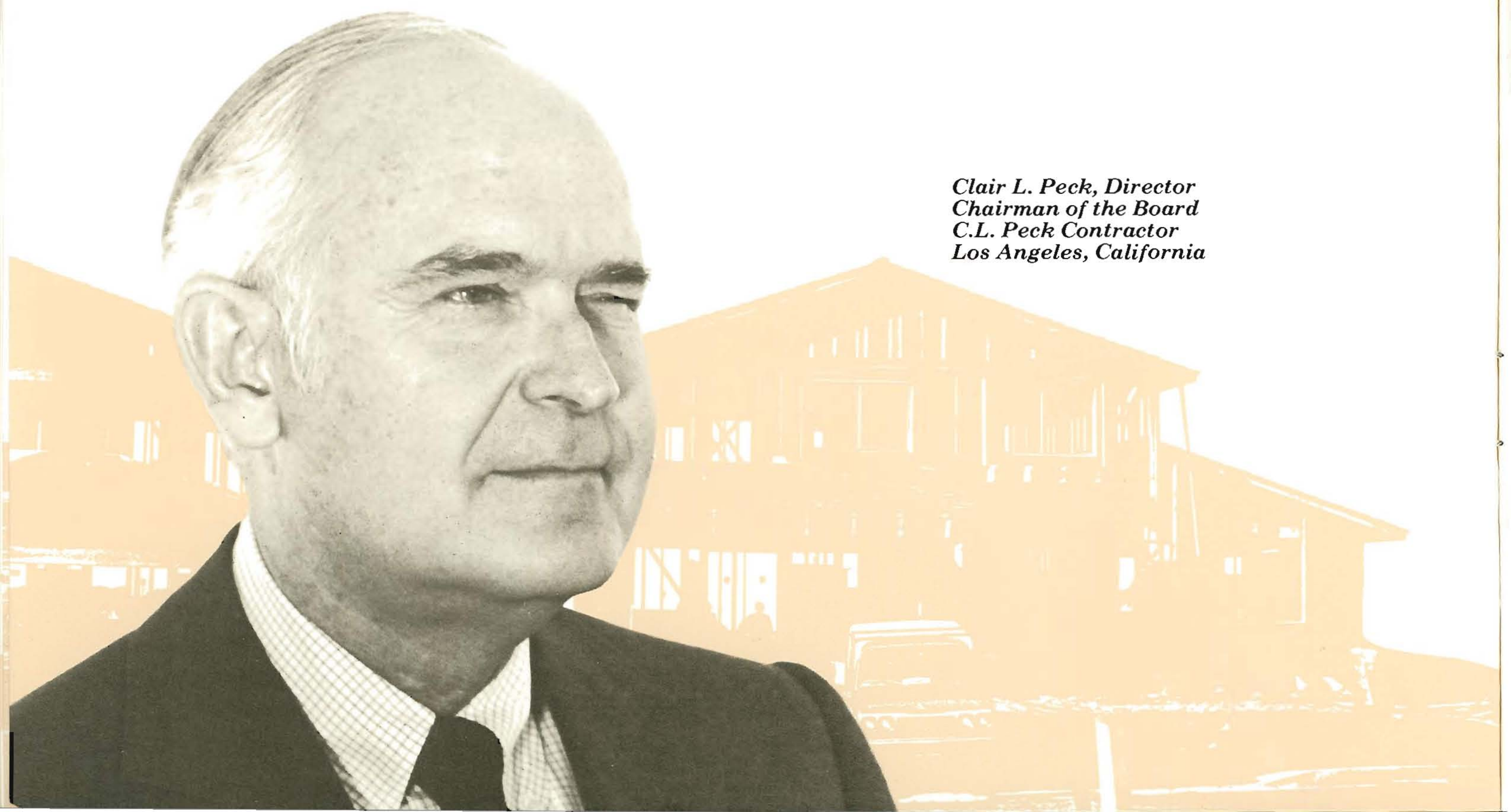
*Malcolm T. Stamper, Director*
*President, The Boeing Company*
*Seattle, Washington*

## *Western Construction*

*The Western construction industry reported very mixed results in 1976. Residential construction contracts increased about 60 percent, in dollar volume, but nonresidential construction declined slightly and public-works spending dropped about 19 percent during the year. Here as elsewhere, business plant-equipment spending lagged behind expectations. Businesses had considerable incentive to build, because of rising sales and profits and the need to offset higher labor and energy costs. On the other hand, overcapacity remained a threat for many commercial and industrial projects, while environmental demands caused the delay or even cancellation of some building plans. A drop in public-works spending for highways and other projects represented one facet of the drive by hard-pressed states and municipalities to bring their budgets under control.*

*In contrast, home-builders had trouble keeping up with demand in some Western areas—especially Southern California, scene of many a past land boom. In certain localities, housing prices were half again as high as they were two years ago. Yet in the face of soaring prices, the number of new homes sold rose to new peaks, about 33 percent above year-earlier levels. In this boom atmosphere, builders filed for 47 percent more housing permits than in the preceding year, and thus gave a running start to 1977 housing prospects.*

*Ample financing, evidenced by some easing of interest rates, provided strong support for the housing boom. Households, attracted by the relatively high rates available on savings accounts, poured record amounts of funds into banks and thrift institutions; such accounts at Western savings and loan institutions rose 21 percent ($12.9 billion) above the 1975 figure. Lenders committed most of those funds to single-family mortgages, and presaged a continuation of the boom by maintaining a very high level of mortgage commitments at year-end.*



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

## *Forest Products*

*The nation's incipient housing boom brought about a significant measure of recovery for the Western lumber industry. Nationally, housing starts increased 33 percent, to 1.54 million units, and the rise was even stronger in most Western communities. More importantly, the upturn was heavily concentrated in single-family housing—a heavy user of lumber—rather than in the still-depressed apartment market.*

*The result was a 13-percent production gain for the regional lumber industry, although output still remained well below earlier peak levels. Demand rose sharply in early 1976 as wholesalers increased purchases in expectation of a pickup in housing, and then after a pause, strengthened again in late 1976 as the single-family housing boom gained momentum. Softwood lumber prices rose sharply, reaching a point 51 percent above the late-1974 recession low, because of this strong housing demand as well as rising timber costs.*

*Pulp and paper prices rose an average 5 percent for the year. But given the high costs of energy, raw materials and pollution-abatement equipment, the industry was unable to earn a high enough return to justify significant additions to capacity. In fact, the present high level of demand and near-capacity level of operation suggest that the public may soon experience tight supplies of paper products.*

*Congress passed the National Forest Management Act in October, thereby easing widespread fears about future timber supplies. The legislation obviated several Federal court decisions which had severely limited the practice of clear-cutting by insisting on strict adherence to legislation passed in the 1890's. The new law, while calling for progressive management practices, alleviated the danger of restricted supplies and sharply higher costs for the industry.*

*Charles R. Dahl, Director*
*President and Chief Executive Officer*
*Crown Zellerbach Corporation*
*San Francisco, California*

## *Metals and Petroleum*

*Nonferrous-metal producers recorded mixed results. In the aluminum industry, demand picked up sufficiently by midyear to permit the restoration of full-capacity operations, although order inflows became rather sluggish later in the year. In the copper industry, in contrast, operations remained at a relatively low level of capacity due to the enormous stocks on hand at refineries throughout the world. All metals producers posted significant increases in list prices during 1976, but in many cases the markets were not strong enough to support such increases, and consequently, widespread discounting ensued.*

*Western steel production increased a disappointing 3 percent in 1976 following two years of steep decline. Orders from consumer-goods manufacturers turned sluggish in the second half, while demand from other steel users, such as the capital-goods and heavy-construction industries, remained in the doldrums throughout the year.*

*Western consumption of petroleum products increased during the year, partly because of the growing industrial demands created by the continuing business recovery, but also because of the regional utilities' increased reliance on fuel oil as a result of the natural-gas shortage. Refinery output rose more than 4 percent, with an increase in imports more than offsetting the continued decline in domestic crude production. Indeed, foreign oil supplied a record 48 percent of the regional market—a share which will probably decline when Alaskan oil begins to reach West Coast markets in late 1977. Planning continued for the West Coast refineries, marine terminals and other facilities that will be required to distribute Alaskan oil to the nation's markets, and meanwhile, drilling activity picked up in Federal waters off the Southern California coast.*

*Cornell C. Maier, Deputy Chairman*
*President and Chief Executive Officer*
*Kaiser Aluminum and Chemical Corporation*
*Oakland, California*

## *Western Farm Developments*

*Western farmers and ranchers, like their counterparts elsewhere, had trouble making ends meet in 1976 as rising production expenses ate up most of their gains in cash farm marketings. Yet despite weakening farm incomes, the agricultural community remained in much stronger shape than in the days before devaluation expanded farm sales potential by reducing the prices of American products on world markets. Western farm marketings, at $15.3 billion in 1976, thus reached roughly double the level of 1970.*

*The farm situation in 1975 was marked by very heavy supplies, and hence downward price pressures. Favorable ratios of livestock to feed prices in the preceding year resulted in large increases in meat production in 1976. Beef output was high, partly because of increased marketing of grain-fed cattle, but also because of cutbacks in breeding herds, which cattlemen had overbuilt in the early 1970's. The resulting addition to last year's meat supplies helped cause a 10-percent decline in beef cattle prices over the course of the year.*

*Farm crop prices fell nationally by 4 percent during 1976, but some Western farmers faced even steeper price declines. A record fall-potato crop, about 10 percent larger than last year's, sent prices stumbling 21 percent over the course of the year. Heavy wheat supplies brought about a 27-percent decline in wheat prices—but in contrast, the combination of a small cotton crop and rising worldwide demand led to a 38-percent price hike for that key fiber.*

*Natural disasters also influenced the Western scene. In Idaho, the Teton Dam break had serious consequences, both in loss of life and loss of valuable housing, livestock and cropland. California's production was cut severely by a prolonged drought, which damaged dry-land crops and dried out pastures, and also by a peak-season cannery strike and unseasonable late-summer rains.*

***Ronald S. Hanson, Director***
***President and Chief Executive Officer***
***First National Bank of Logan, Utah***

## *Western Lending*

***Western banks, amidst a stop-and-go business recovery, ran slightly ahead of other banks in extending credit last year. After a slow first quarter, total credit expanded steadily for a 6.8-percent ($7.0 billion) yearly gain. This increase reflected the growing strength of the regional economy as well as the traditional emphasis of the region's extensive branch-banking system on such fast-growing fields as mortgage and consumer lending.***

***Loans played the dominant role in this credit expansion, contributing 80 percent of the overall gain with a 7.6-percent ($5.9 billion) expansion. In contrast, securities investment was relatively unimportant last year. Western banks had already re-built their liquidity in 1975 through massive investment in short-term Treasury obligations, so in 1976 they concentrated more on building their portfolios of municipals and intermediate and longer-term Treasury issues.***

***In the West as elsewhere, business loans lagged, rising by only 1 percent. Western firms began the year with excess plant capacity, liquid cash positions and a cautious attitude toward capital outlays, and this tempered their bank credit demands. In the fourth quarter, however, commercial lending advanced strongly with a broad-based expansion. Still, domestic lending was somewhat overshadowed by the large increase in business loans made to overseas borrowers.***

***Western banks played a large role in meeting the strong demand for real-estate loans, particularly on single-family homes. Indeed, mortgages accounted for nearly one-third of the total loan increase last year, following an unusual net decline in 1975. Consumer loans also increased, especially for auto and credit-card purchases, as households became more willing to take on instalment debt and as banks offered new inducements to attract this profitable type of business.***

*Frederick G. Larkin, Jr., Director*
*Chairman of the Board and*
*Chief Executive Officer*
*Security Pacific National Bank*
*Los Angeles, California*

## *Deposit Trends*

*Western banks encountered little difficulty in attracting funds in 1976. Total deposits increased at member banks by $3.3 billion (4 percent) as savings inflows sharply expanded, but the increase was only half as large as the 1975 gain due to a $5.0-billion run-off of large certificates of deposit. For the second successive year, private demand deposits rose at twice the national rate.*

*The massive $8.5-billion inflow of savings exceeded even 1975's Western bank expansion. Interest-rate differentials were a major consideration: investors channeled interest-sensitive funds from money-market instruments into savings deposits, capitalizing on the favorable 5-percent ceiling rate and the greater flexibility of savings deposits compared with fixed-maturity instruments. State and local government units alone added over $1 billion to their savings accounts late in the year. Corporations took advantage of their recently authorized authority to hold funds in savings accounts, and at year-end held over $1.4 billion in that form.*

*Member banks' required reserves declined approximately $120 million in 1976, reflecting predominantly the growing proportion of savings deposits, which carry a relatively low reserve requirement. Banks had little need to borrow reserves at the Federal Reserve Bank of San Francisco's discount window, and average daily borrowings fell to the lowest point of the past 14 years, at $5 million. For one reason, banks were able to borrow more cheaply in the market at the Federal-funds rate than at the discount window. In addition, an expanding economy and a generally accommodative monetary policy permitted a build-up of banks' reserve and liquidity positions to the point where relatively little borrowing of any kind was necessary.*

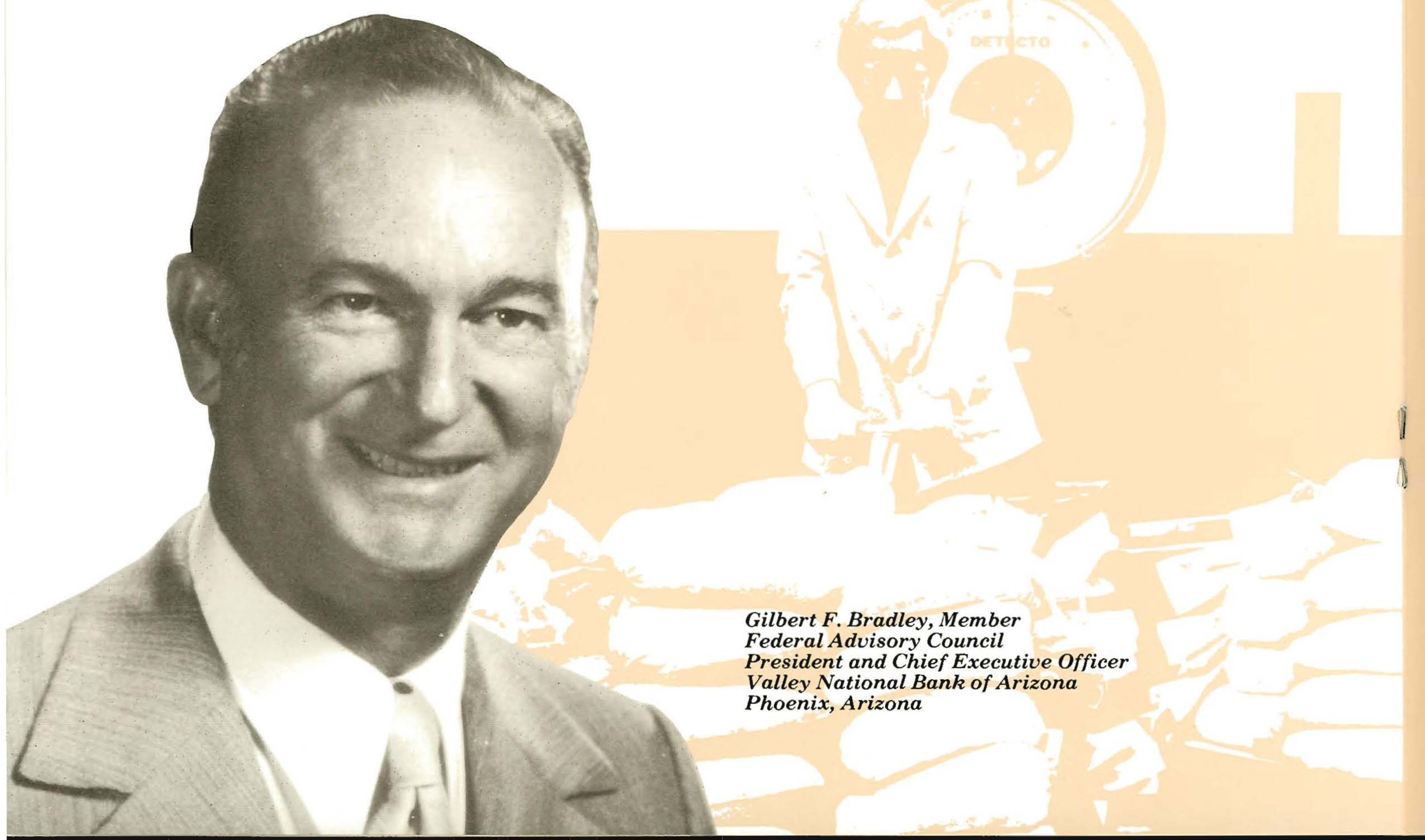
*Carl E. Schroeder, Director*
*Chairman of the Board*
*First National Bank of Orange County*
*Orange, California*

## *Bank Earnings and Outlook*

***In 1976 as in 1975, Western banks generally achieved income results above the national average, especially from retail-oriented lending operations which provided advantages not shared by large national wholesale banks. Along with their counterparts elsewhere, Western banks benefited from the favorable spread between what they earned on assets and what they spent for funds, reflecting the lagged reductions in the prime business-loan rate and limited reductions in mortgage rates. Tighter control over expenses also contributed to improved profit margins.***

***The profit picture was not completely pleasant, however. Many banks felt forced to add almost as much to loan-loss reserves as they did in record-breaking 1975. Again, many suffered earnings declines because of actual loan losses and increases in non-accrual loans. While substantial cutbacks in CD issuance reduced interest costs on those deposit liabilities, payment of the 5-percent ceiling rate on the record flow of savings deposits became very expensive at those times when market interest rates fell below 5 percent.***

***As they entered 1977, Western banks appeared primed to benefit from the generally promising economic outlook. Demand for mortgage financing is expected to remain strong for single-family units, and a modest turnaround is projected for apartment mortgages as well. The improving employment picture and the expected tax cut should encourage consumers to increase their spending and their willingness to add to debt. This in turn should generate business-loan demand for inventory financing, and could also trigger the long-awaited increase in term-loan demand to finance business plant-equipment expenditures. Overall, Western banks are looking for an acceleration in the rate of loan expansion, which should offset a possible narrowing in the "spread" as interest rates on funds and other costs increase.***




***Gilbert F. Bradley, Member***
***Federal Advisory Council***
***President and Chief Executive Officer***
***Valley National Bank of Arizona***
***Phoenix, Arizona***

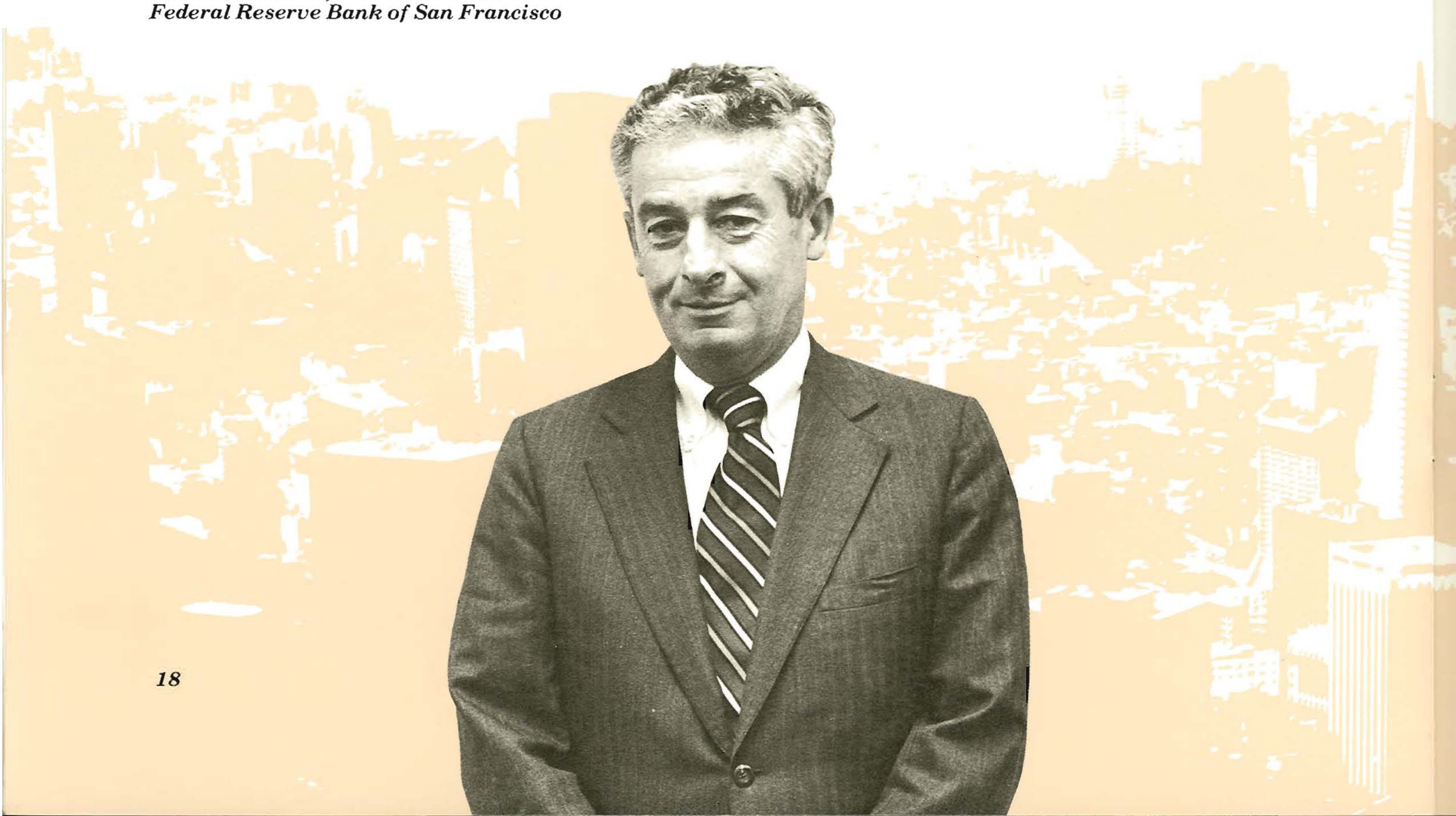
## *Federal Reserve Operations*

***The Federal Reserve Bank of San Francisco completed its 62nd year of operations in 1976, as it continued to provide central-banking services—such as checks, coin, currency, fiscal, and electronic funds transfers—for an expanding regional economy. The Twelfth District, with its five locations in San Francisco, Los Angeles, Portland, Salt Lake City and Seattle, is the largest Federal Reserve District in terms of both population and geographic size. It includes the states of Alaska, Arizona, California, Hawaii (with Guam and Samoa), Idaho, Nevada, Oregon, Utah and Washington, with 33 million people as well as 486 banks and 6,753 banking offices.***

***The District expanded in 1976 to take in the five southeastern counties of Arizona, which were formerly served by the El Paso Branch of the Dallas Federal Reserve Bank and are now served by the Los Angeles Branch of this Bank. The shift took account of the growing western orientation of Tucson and its surrounding area—practically all banking offices in that area are headquartered in Phoenix, which is in the Twelfth District. The change in boundaries will substantially improve services to Arizona member banks and reduce the float created by present delays in check collection.***

***The scope of operations in 1976 reflected the vast size of the Bank's serving area. For example, Bank staff handled over 1.2 billion paper checks, not to mention 1.4 billion coins and almost 700 million pieces of currency. At the same time, the Bank continued to extend its electronic payments capability, through such means as automated clearing houses, Government direct-deposit programs, and the Federal Reserve wire-transfer network.***

*John B. Williams, First Vice President*
*Federal Reserve Bank of San Francisco*



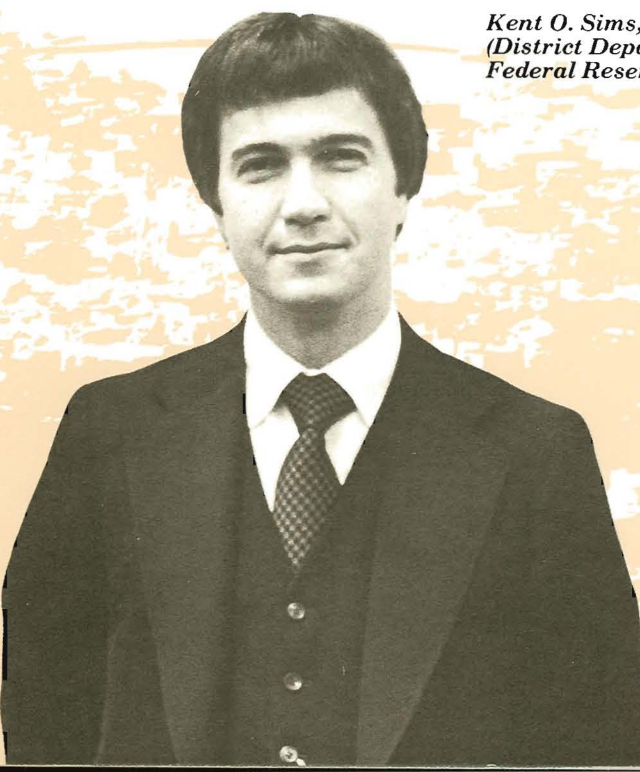
## District Departments

*During the year, 3 national banks, 19 state nonmember banks and 2 trust companies were organized in the District. The number of Federal Reserve member banks and the number of member bank offices each increased, to 144 banks and 4,884 offices. Meanwhile, bank holding companies supervised by the San Francisco Reserve Bank declined slightly, from 73 to 71, over the course of the year. Regulatory personnel sharply expanded the scope and coverage of bank holding company supervision, and implemented a comprehensive system for monitoring current developments at District financial institutions. This move strengthened the early-warning capability of the Bank's member-bank surveillance system.*

*The Bank's management and staff made a strong effort to halt or reverse the decline in Federal Reserve membership. Bank-relations personnel completed a number of cost-of-membership analyses in an effort to show potential members the benefits of System membership. Through these and other efforts, the Bank gained six new members during the year.*

*In the international field, Bank staff supervised 22 Edge Act corporations—bank or holding company subsidiaries which are engaged in international banking activities. Our examiners visited three foreign countries to conduct examinations of branches and subsidiaries of member banks and Edge corporations. Meanwhile, President Balles made a month-long trip to six Pacific Basin countries to discuss regulatory problems with foreign central bankers as well as U.S. commercial bankers.*

*The Bank's consumer affairs unit, organized during 1975, enlarged its scope of operations during the year. In effect, the unit has become the Western information center for Federal consumer-banking regulations. During 1976, the unit responded to over 3,500 inquiries, handled approximately 300 consumer complaints, and made numerous educational presentations to creditor and consumer groups. In addition, four Westerners now serve on the Federal Reserve's Consumer Advisory Council, established by Congress to advise the Board of Governors regarding the implementation of legislation passed under the Consumer Credit Protection Act.*



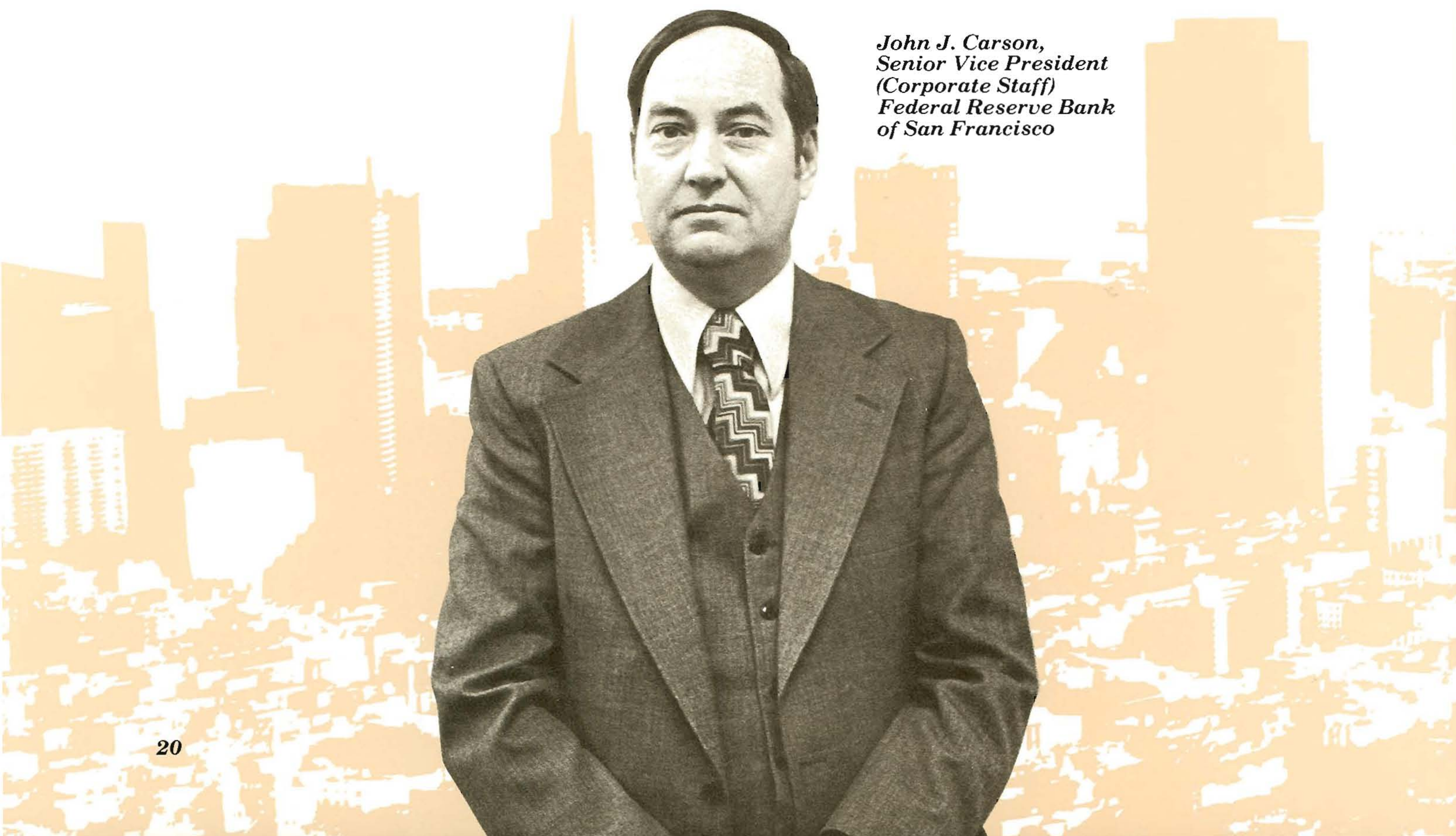
*Kent O. Sims, Senior Vice President*
*(District Departments)*
*Federal Reserve Bank of San Francisco*

## *Corporate Staff*

*To provide more effective management, the Bank further strengthened its system of controlling expenses and staff levels. As a follow-up, in 1977 the Bank will implement an automated, internal responsibility system and a Planning Control Accounting System (PACS) for reporting its expense and budget data to the Board of Governors. Management also emphasized programs to improve the Bank's long-range planning process, partly through the adoption of a revised five-year automation plan. This program calls for a District-wide approach to providing all automated services, commonality of computer hardware and operations, centralization of major District computer-systems development, and promotion of District-wide and System-wide resource sharing.*

*The Bank's computer specialists helped make a success of a new Federal program of direct deposit of social-security checks, which involves 2,000 financial institutions and one million recipients in this District. The Bank is now able to transfer social-security payments directly from the Treasury to each recipient's checking or savings account in a financial institution of the latter's choice, thereby saving time and expense and eliminating the danger of loss or theft for those on social security. This program builds on the experience that the Bank's staff has already obtained with other recurring payment programs, such as Federal civil service, railroad retirement, Federal revenue sharing, and Air Force payroll and retirement programs.*

*In automated clearing house (ACH) activities, the District cleared an average of 85,000 commercial items each month and 1 million government items per month during the latter part of the year. This work should grow considerably as the system expands to five clearing houses for commercial use, one for each of the Bank's five offices.*



*John J. Carson,*
*Senior Vice President*
*(Corporate Staff)*
*Federal Reserve Bank*
*of San Francisco*

## *Branch Operations*

*Branch operating personnel expanded on the gains they achieved in the productivity drive initiated during the 1974-75 period. According to the broadest measure of bank operating efficiency, aggregate output per manhour, the San Francisco Reserve Bank ranked first in the Federal Reserve System in 1976, with cash and check operations especially efficient. Operational efficiency was helped by the adoption of new currency-counting equipment and high-speed check-processing machines.*

*In check processing, Bank staff handled over 1.2 billion paper checks, and dollar volume jumped 28 percent to $417 billion. Almost all of the 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. During the year, the San Francisco RCPC expanded its immediate-payments boundaries to include banks located in Hawaii and Guam.*

*In other payments activities, District member banks settled over $5.4* trillion *through the Federal Reserve wire-transfer system—a 20-percent increase over 1975. Yet, despite this increase in use of checks and electronic transfers, the Bank continued to handle substantial amounts of coin and currency, receiving and counting 1,389 million coins and 698 million pieces of currency.*

*In its role as fiscal agent for the U.S. government, the Reserve Bank handled a greater dollar volume but fewer pieces of paper than in the previous year. This included a 28-percent drop in the number of marketable Treasury securities handled, reflecting savers' decreased interest in such issues because of declining interest rates. The number of coupons processed under the food-stamp program dropped 18 percent, partly because of the growing use of larger-denomination coupons by food-stamp recipients.*

*Gerald R. Kelly,*
*Senior Vice President*
*(Branch Operations)*
*Federal Reserve Bank*
*of San Francisco*

## *Summary of Operations*

| | Value (millions) 1976 | Value (millions) 1975 | Number (thousands) 1976 | Number (thousands) 1975 |
|---|---|---|---|---|
| ***Coin and Currency*** | | | | |
| Coin received and counted | $ 206 | $ 221 | 1,388,624 | 1,471,181 |
| Currency received and counted | 9,976 | 10,075 | 697,780 | 731,860 |
| ***Collections*** | | | | |
| *Check Collections* | | | | |
| Commercial bank checks | 342,811 | 259,104 | 1,062,030 | 981,827 |
| Government checks † | 69,077 | 63,277 | 147,220 | 151,736 |
| Return Items | 4,588 | 3,258 | 13,243 | 12,436 |
| *Noncash Collections* | 5,149 | 4,886 | 173 | 236 |
| ***Discounts and Advances*** | | | | |
| Total discounts and advances | 1,323 | 4,293 | 101 † | 229 †† |
| Daily average borrowings | 5 | 19 | N/A | N/A |
| Number banks accommodated | N/A | N/A | 27 † | 38 †† |
| ***Fiscal Agency*** | | | | |
| *Savings Bonds & Savings Notes* | | | | |
| Issuance | 725 | 666 | 13,192 | 12,629 |
| Servicing | 105 | 100 | 554 | 528 |
| Retirements | 945 | 785 | 15,586 | 13,871 |
| *Other Treasury Issues* | | | | |
| Issuance | 21,386 | 24,972 | 100 | 148 |
| Servicing | 649,076 | 346,839 | 268 | 290 |
| Redemptions | 24,999 | 16,948 | 133 | 267 |
| *Other Fiscal* | | | | |
| Currency verified and destroyed | 2,252 | 2,291 | 431,180 | 385,931 |
| Federal tax deposits processed | 34,730 | 33,510 | 6,861 | 6,887 |
| Food stamps received and processed | 1,110 | 1,051 | 286,246 | 350,518 |
| ***Transfer of Funds*** | | | | |
| Wire transfers | 5,440,009 | 4,556,656 | 2,062 | 1,695 |

† Including postal money orders

†† Actual number

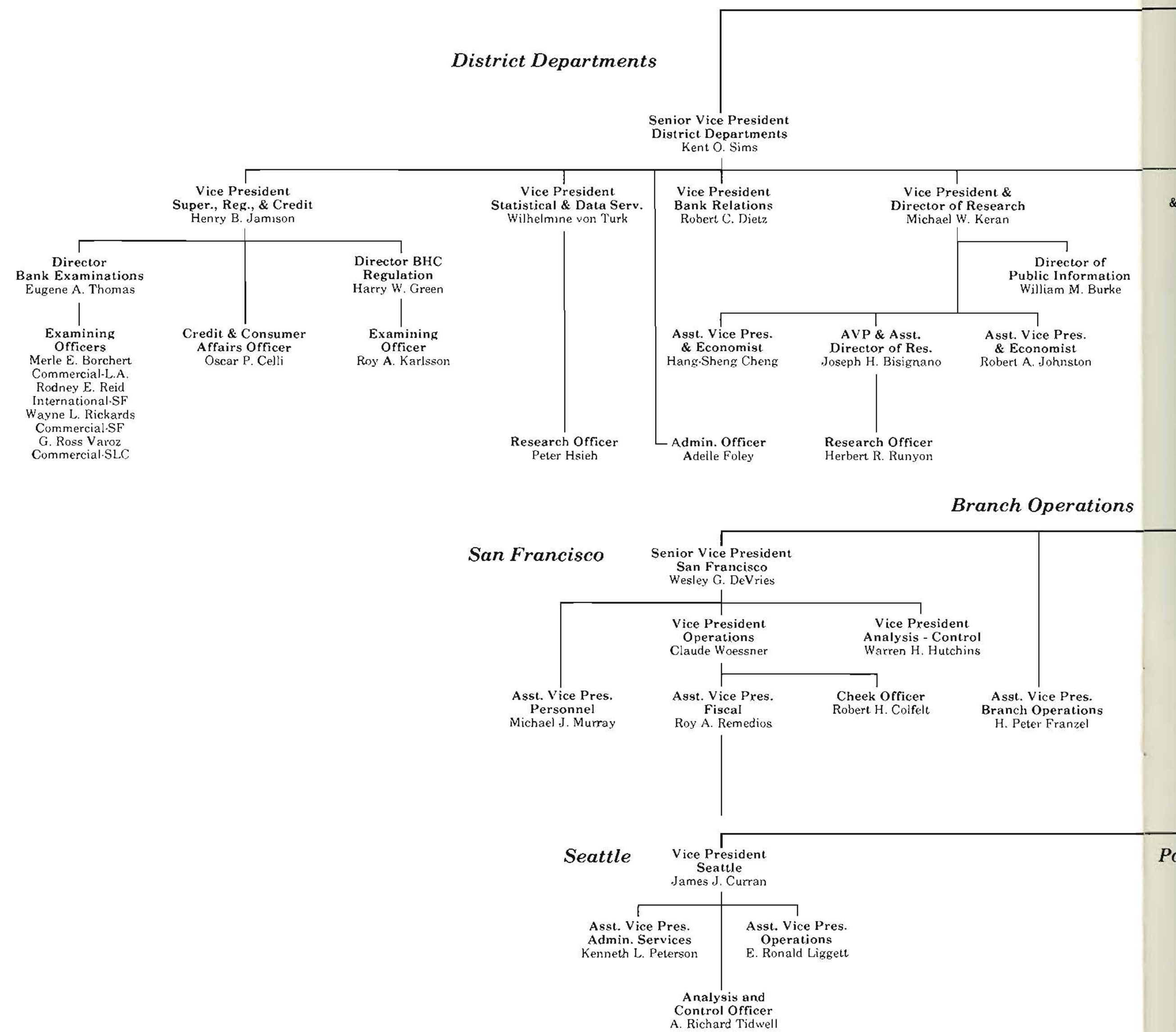
# *Directors and Officers*

*The Federal Reserve carries out its central-banking functions through a nationwide network of 12 Federal Reserve Banks and their 25 branches, under the policy guidance, coordination and general supervision of the Board of Governors in Washington, D.C. At the Head Office of the Federal Reserve Bank of San Francisco, 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 and approval by the Board of Governors.*

*Each of the Reserve Bank's branches outside San Francisco also has a Board of Directors, which reports to the Head Office Board. The Branch Boards have oversight responsibility and provide Bank management with advice on policy, business and financial conditions, and operational matters.*

## *Organization Chart*

*January 1, 1977*



# San Francisco Head Office Board of Directors

*Chairman of the Board and Federal Reserve Agent*
**Joseph F. Alibrandi, President and Chief Executive Officer, Whittaker Corporation, Los Angeles, California.**

*Deputy Chairman*
**Cornell C. Maier, President and Chief Executive Officer, Kaiser Aluminum and Chemical Corporation, Oakland, California.**

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

**Ronald S. Hanson, President and Chief Executive Officer, First National Bank of Logan, Logan, Utah.**

**Frederick G. Larkin, Jr., Chairman of the Board and Chief Executive Officer, Security Pacific National Bank, Los Angeles, California.**

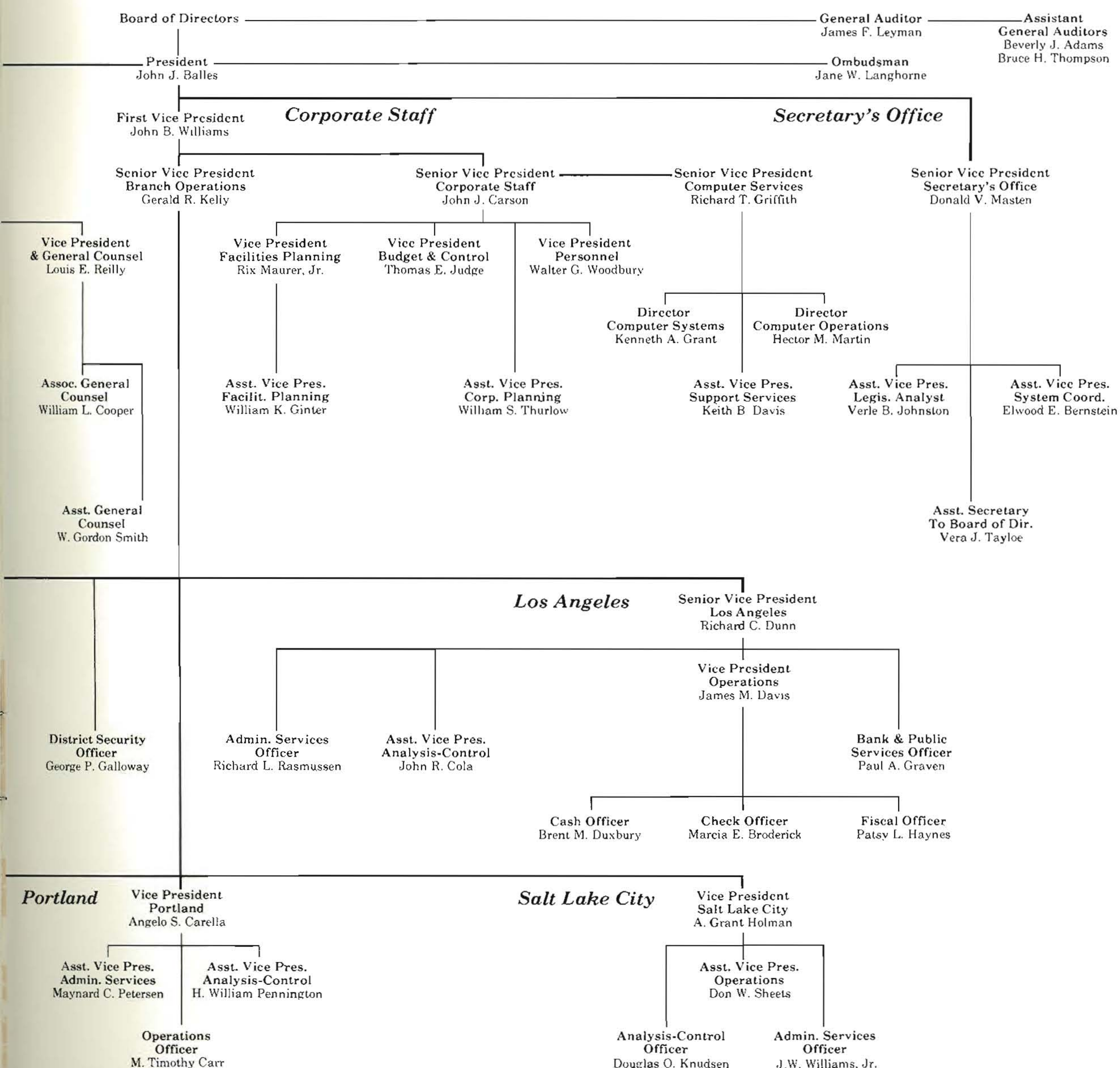
**Dorothy Wright Nelson, Dean and Professor of Law, University of Southern California Law Center, Los Angeles, California.**

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

**Carl E. Schroeder, Chairman of the Board, The First National Bank of Orange County, Orange, California.**

**Malcolm T. Stamper, President, The Boeing Company, Seattle, Washington.**

*Member of Federal Advisory Council*
**Gilbert F. Bradley, Chairman of the Board and Chief Executive Officer, Valley National Bank of Arizona, Phoenix, Arizona.**



## *Los Angeles Board of Directors*

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

Caroline Leonetti Ahmanson, President, Caroline Leonetti Ltd., Los Angeles.

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

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

Joseph J. Pinola, President and Chief Operating Officer, United California Bank, Los Angeles.

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

Armando M. Rodriguez, President, East Los Angeles College, Los Angeles.

*Seated: Rodriguez, Ahmanson, Dezember*
*Standing: Pinola, Vaughan, Ferguson, Proctor*

## *Salt Lake City Board of Directors*

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

Robert E. Bryans, Chairman of the Board and Chief Executive Officer, Walker Bank and Trust Company, Salt Lake City.

David P. Gardner, President, University of Utah, Salt Lake City.

Theodore C. Jacobsen, Partner, Jacobsen Construction Company, Salt Lake City.

Mary S. Jensen, Chairman of the Board, Idaho State Bank, Glenns Ferry, Idaho.

*Seated: Bennion, Jensen*
*Standing: Gardner, Bryans, Jacobsen*

## *Seattle Board of Directors*

*Chairman of the Board*
**Lloyd E. Cooney, President and General Manager, KIRO-Radio & Television, Seattle.**

**Douglas S. Gamble, President and Chief Executive Officer, Pacific Gamble Robinson Co., Seattle.**

**Harry S. Goodfellow, Chairman of the Board and Chief Executive Officer, Old National Bank of Washington, Spokane, Washington.**

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

**Rufus C. Smith, Chairman of the Board, The First National Bank of Enumclaw, Enumclaw, Washington.**

***Seated:** Cooney, Goodfellow*
***Standing:** Smith, Gamble, Hirai*

## *Portland Board of Directors*

*Chairman of the Board*
Loran L. Stewart, Director, Bohemia Inc., Eugene, Oregon.

Dr. Jean Mater, Partner, Mater Engineering, Corvallis, Oregon.

Kenneth Smith, General Manager, The Confederated Tribes of Warm Springs, Warm Springs, Oregon.

Robert F. Wallace, Chairman of the Board, First National Bank of Oregon, Portland.

Robert A. Young, President, Northwest National Bank, Vancouver, Washington.

*Seated: Stewart, Mater*
*Standing: Smith, Wallace, Young*

# *Comparative Statement of Condition*

*(thousands of dollars)*

| | December 31, 1976 | 1975 |
|---|---|---|
| ***Assets*** | | |
| Gold certificate account | $1,325,273 | 1,327,316 |
| Special Drawing Rights certificate account | 143,000 | 59,000 |
| Federal Reserve notes of other Federal Reserve banks | 77,701 | 81,138 |
| Other cash | 12,312 | 14,202 |
| Loans to Member Banks: | | |
| Secured by United States Government and Agency obligations | 0 | 0 |
| Other eligible paper | 0 | 600 |
| Other paper | 0 | 0 |
| Federal Agency obligations | 923,728 | 851,421 |
| United States Government securities: | | |
| Bills | 5,244,459 | 5,217,160 |
| Notes | 6,522,586 | 6,168,029 |
| Bonds | 914,399 | 774,234 |
| *Total United States Government securities* | $12,681,444 | 12,159,423 |
| *Total loans and securities* | $13,605,172 | 13,011,444 |
| Cash items in process of collection | 521,809 | 293,237 |
| Bank premises | 1,516 | 1,127 |
| Operating equipment | 3,677 | 2,047 |
| Other assets: | | |
| Denominated in foreign currencies | 21,590 | 9,975 |
| All other | $480,003 | 243,071 |
| *Total Assets* | $16,192,053 | 15,042,557 |
| ***Liabilities*** | | |
| Federal Reserve notes | $10,374,935 | 9,815,820 |
| Deposits: | | |
| Member bank—reserve accounts | 3,423,367 | 4,097,205 |
| United States Treasurer—general account | 1,615,379 | 474,832 |
| Foreign | 29,934 | 32,825 |
| Other deposits | 87,748 | 46,995 |
| *Total deposits* | $5,156,428 | 4,651,857 |
| Deferred availability cash items | 261,310 | 187,853 |
| Other liabilitities | 128,652 | 151,621 |
| *Total liabilities* | $15,921,325 | 14,807,151 |
| ***Capital Accounts*** | | |
| Capital paid in | $135,364 | 117,703 |
| Surplus | 135,364 | 117,703 |
| *Total liabilities and capital accounts* | 16,192,053 | 15,042,557 |
| Contingent liability on acceptances purchased for foreign correspondents | 0 | 0 |

# *Earnings and Expenses*

| *(thousands of dollars)* | December 31, 1976 | 1975 |
| --- | --- | --- |
| ***Current earnings*** | | |
| Discounts and advances | $ 267 | 1,233 |
| United States Government securities | 879,619 | 845,393 |
| Foreign currencies | 3,586 | 683 |
| All other | 34 | 82 |
| *Total current earnings* | $883,506 | 847,391 |
| ***Current expenses*** | | |
| Total current expenses | $ 63,151 | 56,175 |
| Less reimbursement for certain fiscal agency and other expenses | 4,924 | 4,690 |
| *Net expenses* | $ 58,227 | 51,485 |
| ***Profit and loss*** | | |
| Current net earnings | $825,279 | $795,906 |
| Additions to current net earnings: | | |
| Profit on sales of United States Government securities (net) | 4,605 | 5,167 |
| Profits on foreign exchange transactions | 0 | 0 |
| All other | 274 | 1,418 |
| *Total additions* | $ 4,879 | 6,585 |
| Deductions from current net earnings: | | |
| Loss on foreign exchange transactions (net) | $ 3,184 | 30,225 |
| Loss on sales of United States Government securities (net) | 0 | 0 |
| All other | 32 | 286 |
| *Total deductions* | $ 3,216 | 30,511 |
| Net additions (+)/deductions(-) | $ 1,663 | 23,925 |
| Net earnings before payments to United States Treasury | 826,942 | 771,981 |
| Dividends paid | 7,519 | 6,934 |
| Payments to United States Treasury (interest on Federal Reserve notes) | $801,762 | 759,268 |
| Transferred to surplus | $ 17,661 | 5,779 |
| Surplus December 31 | 117,703 | 111,924 |
| Surplus January 1 | $135,364 | 117,703 |

*Federal Reserve Bank of San Francisco*
*P.O. Box 7702 San Francisco, California 94120*


*Alaska-Arizona-California-Hawaii-Idaho-Nevada-Oregon-Utah-Washington*

*Brown lines indicate branch boundaries*

*Produced by Uniplan*
*One Embarcadero Center, San Francisco*
*Design by The GNU Group*
*Edited by William Burke, Karen Rusk*