



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 24, 1938.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SUBJECT: Monthly Report of Bank and
Public Relations Activities.

Dear Sir:

There is inclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of April in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

TO The Board of Governors SUBJECT: Summary of Bank Relations Reports.

FROM Mr. Hammond, Division of Bank Operations.

The reports contain the following mention of the attitude of bankers toward the reduction in reserve requirements, as of April 16:

New York: "...little or no comment was made on the recent change in reserve requirements."

Philadelphia: "Since the reduction, several bankers stated that it was well timed and in their particular cases relieved the bank of the necessity of borrowing to meet demands. One banker, however, stated that the reduction was too small to bother with and that he was not considering it."

Cleveland: "There have been few comments with respect to the recent reduction in reserve requirements. In some cases it has released funds for employment, but in the majority of cases it is merely regarded as a favorable gesture."

Chicago: "...one banker stated that he hoped reserve requirements would be further reduced so that his bank would not have to borrow."

St. Louis: "The recent reduction in reserve requirements was mentioned by several member banks, the large banks being at somewhat of a loss to know what to do with the released reserves and others voicing the opinion that reserve requirements should be returned to the percentages in effect before any increases were made. A few non-member bankers commented on the release of excess reserves which they felt would lead to inflation."

Minneapolis: "Several (member bankers) expressed themselves as pleased with the recent reduction in reserve requirements."

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Kansas City: "Country bankers seem not greatly impressed with the reduction in reserve requirements. The opinion is expressed that such action is erratic and there is no way of telling when the requirement may again be raised."

Dallas: "A few (bankers) expressed curiosity as to the cause of the recent reduction in reserve requirements, stating that their own cash positions were such that they had ample funds for lending but that their customers who are entitled to credit are not in need of loans."

Excerpts from the reports follow: (The reports themselves are attached to the original hereof.)

Boston

During April 39 member banks and 21 nonmember banks were visited. With few exceptions these banks are located in some of the smaller industrial cities and towns of Connecticut and Massachusetts.

The employment of factory labor in sections of the district covered by this report is at the rate of from two to four days a week per employee, and instances were reported of individual plants contemplating further curtailing employment, and of others with a surplus of help to which employment is being given in order to hold organizations intact. In normal times many of the larger concerns located in the sections visited will give employment to a number of residents of nearby towns within a radius of twenty miles or more, and often as much as 40% of the total weekly payroll of a factory town will be spent or banked in adjacent communities.

The note cases at most of the banks are full of small notes payable in weekly or monthly installments and evidencing loans to shopkeepers, professional men, municipal employees and general workers. Bankers say that there is no lag in the collection of this paper, also that periodic payments into Christmas Savings Accounts and Tax Club Accounts are being kept up and at the same time savings deposits are on the increase at a few of the banks. Officers of savings banks advise that there is little or no increase in the number of mortgage accounts that show a tendency toward delinquency in amortization, interest and tax payments.

Many bankers stated that practically the only demand for bank credit in their communities is coming from the small borrower of the type mentioned and that this demand is gradually lessening. Some of these bankers profess to see in their dealings with these small borrowers a reflection of a general healthy attitude prevailing in their

Boston (continued)

communities under present economic conditions - with lessened incomes their people have curtailed their wants, are borrowing less, are paying off their obligations and are setting aside a little upon which they can draw should conditions affecting them directly improve less rapidly than they hope for. In towns of the type visited the retail merchant is said to complain the loudest.

At most of the banks bond lists are off from five to twenty per cent according to the volume of Government securities held. A number of the banks have traded maturities in Governments in recent markets and taken some profit; others have sold their short-term Governments and declare themselves to be out of the investment market until such time as the general list shows substantial improvement. At practically every bank visited someone raised the question as to how long the market for Governments will hold at present levels.

The recent action of the Board of Governors in reducing reserve requirements did not come in for comment at any of the banks, although one or two of the banks are among those which complained when reserves were increased. While the policies and activities of the various governmental agencies came in for some complaint, no criticism was made of the administration and policies of the Federal Reserve System nor was any dissatisfaction expressed with the manner in which the relations of the Federal Reserve Bank of Boston with its member banks are conducted.

Reception at the nonmember banks was cordial in every instance. There is no interest in Federal Reserve membership on the part of these banks, although the subject was referred to occasionally by some officers who had in mind the requirement which will affect some member banks desiring to continue as insured banks after 1941.

New YorkBroome, Chenango, Cortland, Delaware, and Otsego Counties, New York

Only nine of the fifty commercial banks in these counties show an appreciation in their bond accounts, the amounts in most instances being small, ranging from a fraction of 1 per cent to 4 per cent of the total book value. Forty-one show depreciation varying from 1 per cent to as high as 17 per cent in the case of one of the smaller banks, the average for the group being 4 to 5 percent. The percentages of United States Government obligations - direct or fully guaranteed - vary from 18 to 85 per cent of the total lists, with a group average of 45 per cent. The large investments in United States Government issues have

New York (continued)

helped to minimize net depreciation in the bond accounts of these banks because of the continued high market values of such securities. Some bankers, however, complain that the low yields have adversely affected income.

Loans and discounts of all commercial banks (totaling approximately \$36,600,000) are about \$600,000 higher than a year ago, twenty-nine of the fifty banks in this group showing slight to moderate increases. Banks in the larger centers have been able to add to their loan portfolios by increased business in personal and automobile loans and by making modernization and mortgage loans under the National Housing Act. One bank in Delaware County, where there has been little demand for loans of the latter type, recently purchased \$150,000 Title II Federal Housing mortgages on a 5 per cent basis from a bank in Westchester County. There is, however, little inclination to grant Title II loans up to 90 per cent of the value of the property. Since the reenactment of Title I few applications for modernization loans have been received by banks in this area.

Binghamton has not felt the depression as severely as other places, largely because of its diversified industries and the fairly steady employment afforded. Recently, however, merchants in the shopping district have noticed a slight lull in their business which they attribute to decreased employment in the shoe factories. The same condition is reported by the merchants in Endicott. The Binghamton Chamber of Commerce reports that retail sales from January to March this year were about 5 per cent below the same period a year ago but this is thought to be due in part to the fact that Easter came nearly three weeks later than in 1937. The volume of wholesale trade is reported to be about 5 per cent less and collections 11 per cent less than during the same period in 1937. The latest figures available show a 1 per cent increase in employment but a 19 per cent decrease in payrolls in January 1938 as compared with January 1937, largely as a result of payroll reductions and part time employment in the shoe factories.

Second in industrial importance in these counties is the city of Cortland which has a diversity of industrial concerns manufacturing wire screen, nails, wall paper, corsets, hardware specialties, metal products, fishline and cord, typewriters, and other products. The latest available figures on employment as of April 12, furnished by the Chamber of Commerce, show approximately 3,700 people employed in local industrial plants. The secretary of the Chamber of Commerce estimates that business in the plants is off about 10 per cent now as compared with the same date in 1937.

In the rural sections the production of milk is the principal

New York (continued)

farming activity although the farmers in Cortland County also grow potatoes and cabbage, and those in the western part of Delaware County raise some cauliflower. The hay crop in this area was poor in 1937 but the farmers were able to purchase feed during the past winter at fairly low prices which have continued up to this time. Milk prices were reasonably good during this period but have recently dropped to lower levels; however, the consensus of opinion among bankers in the farming area is that the farmers are making a little money, although some fear is expressed that prices for milk may go down as low as \$1.25 per hundred this summer as compared to the winter prices ranging from \$2.50 to \$3.00.

Monmouth County, New Jersey

The statement was made that some farmers are reducing their acreage under cultivation by 10 per cent as compared with last year, and that those making such reduction will receive payment from the Government under the crop control program. One banker pointed out that some of the more progressive farmers, especially around Freehold, have realized the danger of concentrating their activities entirely in growing potatoes as the principal money crop, and have branched out in recent years to include other lines such as growing wheat and corn, raising poultry, operating small dairies, etc.

Reference was made to the difficult real estate situation in Asbury Park and vicinity, and to the fact that it is practically impossible at the present time to move properties that are held for sale by institutions. Two local building and loan associations were unable to meet applications for withdrawals and have been taken over by a new association with shareholders' funds insured up to \$5,000. It is said that there have been several instances of individuals and corporations buying up shares of stock of their building and loan associations from investors at 40 to 50 cents on the dollar, and then turning in the shares in payment on their mortgages.

PhiladelphiaNorth Central Pennsylvania and Southern New Jersey

Conditions in the area visited reflect a decline in business activity from the levels prevailing a year ago. While there is a substantial increase in the number of unemployed, the concerns appear to have endeavored to spread the work as much as possible by reducing the length of the work week rather than the number of employees. Returns for agricultural products during the past twelve months were said to have been

Philadelphia (continued)

poor because of low prices and crop failures. Dairying continues to produce a satisfactory year-round income.

Banking conditions have changed considerably since these counties were last visited. Whereas previously the investment accounts of most of the banks reflected appreciation, depreciation now exists, and in many cases causes serious capital impairments. All bankers are concerned about security prices but many of them are concerned as well with the attitude of the supervisory authorities toward capital impairments. In many cases the directors have previously supported these institutions to the limit of their ability and will be unable to do more, and it is doubtful if additional capital can be raised to strengthen many of the institutions affected.

Deposits are reflecting a downward trend, partly because of farm demand and partly because of poor business conditions. Considerable attention is being paid to granting personal loans and many banks are actively supporting the F. H. A. program.

The trend of deposit interest rates is downward. In New Jersey the maximum allowable is 2 per cent but many banks pay but $1\frac{1}{2}$ per cent, while others pay the rate only on the first \$1,000. and 1 per cent on amounts beyond that. Other institutions both in Pennsylvania and New Jersey are considering reducing the rates paid. The prevailing rates on loans are 5 per cent on secured and 6 per cent on unsecured loans. Larger commercial lines are able to obtain better rates on a competitive basis, however, as are municipalities and counties.

Prior to the reduction in reserve requirements, comments were received that requirements were too high. Since the reduction, several bankers stated that it was well timed and in their particular cases relieved the bank of the necessity of borrowing to meet demands. One banker, however, stated that the reduction was too small to bother with and that he was not considering it.

The cashier of a National bank, the condition of which has been subject to considerable public comment, stated that funds were being withdrawn and deposited in safe deposit boxes. When this officer attempted to explain about deposit insurance to one such customer, he received a reply that many people had been of the opinion that banks, members of the Federal Reserve System, could not close and that depositors could not lose money but, having seen this happen many times prior to March, 1933, they now have their doubts regarding the F. D. I. C.

Several bankers commented upon what they termed the severity of the National bank examiners in classifying loans. This applies particularly to classifying as slow, loans current as to interest, on which regular reductions are being made, as a large total of loans so classified brings criticism from the Comptroller's office. Many of these

Philadelphia (continued)

bankers are officers of banks in farming sections where longer maturities are the rule, rather than the exception, because of the character of business financed. Some of these officers also commented on the fact that the last four examinations had been conducted by different examiners, which precluded any opportunity for familiarity with the worth of borrowers by the examiner.

The officers of two State banks in New Jersey stated that the supervisor of banks had objected to their banks having a concentration of investments in United States Government obligations.

The industrial outlook for the near future is very uncertain. There is a dearth of the customary long-term commitments for goods and virtually no buying of equipment or planning of plant expansion. Purchases of raw materials and semi-finished goods by producers are restricted only to current requirements which are much smaller than they were at this time last year. While not widely prevalent, there are numerous cases which evidence an existence of friction between labor and management.

Output of farm products in 1937 was substantially greater than in the previous year. Receipts from the sale of agricultural commodities this year, however, have declined somewhat, owing chiefly to a sharp drop in prices of grains, potatoes and certain other produce including fruits. Quotations for dairy products, which constitute one of the major sources of farm income, have been fairly well maintained.

The burden of public relief in one form or another has increased, largely through reduced employment in industries. Figures covering the four Pennsylvania counties indicate that the number of persons on direct relief about the middle of April was two-thirds greater than at the same time last year. Expenditures in this period rose about 60 per cent. Increased activity on WPA projects and payment of unemployment compensation has lightened the direct relief load somewhat during the past two months.

Cleveland

The primary interest of bankers in all sections visited continues to lie in the depreciation in bond accounts and the attitude of supervising authorities in respect to handling of such depreciation. It appears that the practices of various supervisors are far from uniform and there has been criticism of the fact that the policy of national bank examiners in the Third and Fourth Federal Reserve Districts is not substantially the same. In the Fourth District, the policy of national examiners appears to require a write-off of 50 per cent of current depreciation, except in Group One; in the Third District, it is understood that national bank examiners are making no such requirement. We understand that the Pennsylvania State Department has followed a practice essentially the same.

Cleveland (continued)

In the State of Ohio, it is the present practice of State examiners to require the write-off of all depreciation on stocks and defaulted bonds, and to set up a reserve out of profits to cover depreciation in other issues than those in Group One, where the undivided profits account will stand the charge. In other instances, the payment of dividends is discouraged until the required reserve is built up.

One western Pennsylvania banker has offered the suggestion that values of investments be determined by a method similar to that used by a number of insurance companies in 1932.

There have been few comments with respect to the recent reduction in reserve requirements. In some cases it has released funds for employment, but in the majority of cases it is merely regarded as a favorable gesture.

What demand for credit exists appears to be primarily in the agricultural districts and is somewhat seasonal in nature. In a few scattered instances, banks are selling investments in order to meet loan demand. There are continued complaints of competition of Government loan agencies in the agricultural sections, as well as the competition of private capital seeking agricultural loans.

In the smaller centers, retail business is discouraging and merchants are reported afraid to replenish stocks under present conditions. Savings deposits continue to be drawn upon to meet current expenses.

Richmond

During the month of April visits were made to 65 member banks and 49 non-member banks, and in addition one or more representatives attended 11 meetings of State bank association groups, county clearing house associations, and other bankers' meetings.

Bankers in all sections continue to report light demands for loans and complain of the difficulty of investing funds on a profitable basis.

While there have been few changes in the par list in the Fifth District for several years, some member banks in the Carolinas which are adjacent to non-par institutions remark on the unfairness of the present situation whenever they are visited.

In the cattle section of Virginia and West Virginia cattle are out on the grass two or three weeks earlier than average. In the fruit district of the Shenandoah Valley section of Virginia and West Virginia there has been much apprehension as to the condition of the new peach and apple crops resulting from the severe cold weather during the latter

Richmond (continued)

part of April. In the lower valleys fruit was reported as badly damaged, but in the higher orchards the damage was less severe, while east of the mountains most of the fruit, both apples and peaches, was sufficiently advanced to withstand the cold, which was not so severe. Over many of the agricultural sections of this district there is a very noticeable shortage of rain.

While there is a general belief that some form of control over the tobacco crop is desirable, there is in some sections dissatisfaction with acreage allotments.

There has been a further slowing down of activity at cotton mills as the result of the accumulation of inventories. It appears, however, that inventories of wholesale dry-goods concerns, which were high last spring, have been reduced to normal proportions.

Bankers in Charleston, West Virginia, report that there is now more unemployment in Charleston and the surrounding territory than at any time during the past several years, that the coal mines are operating only about two days a week on an average, that the pay roll of one of the largest chemical manufacturers is about 80% of last October, that a company normally employing several hundred men and making thirteen products for automobile manufacturers has shut down, and that a large glass plant is operating only two out of fifteen furnaces.

At Huntington, West Virginia, the railroad shops, which normally have a force of 2,500, are now employing between five and six hundred, as compared with 1,500 a year ago. Two other companies which manufacture railroad cars and steel rails and normally employ around 1,200 have no orders on hand and are employing only skeleton forces. A large glass company employing 900 is operating 80%. However, two other industrial companies employing about 430 are both operating full time.

Atlanta

Conventions of Florida Bankers Association and Georgia Bankers Association

The forty-fifth annual convention of the Florida Bankers Association was held at Hollywood, Florida, on April 3, 4, and 5, with an estimated attendance of 350. The Association went on record as being in favor of discontinuing Postal Savings at all points where adequate banking facilities are available.

The convention adopted a resolution which set forth and emphasized the definite contrast in the quality of insurance afforded by the Federal Deposit Insurance Corporation and the insurance afforded by the Federal

Atlanta (continued)

Savings and Loan Insurance Corporation. The resolution urged members of the Association to give the widest possible circulation to the differences between the two forms of insurance.

Birmingham, Alabama

It was reported that business activities in Birmingham had been fairly well maintained during the past several months. The bankers interviewed stated that the operations of the Tennessee Coal, Iron & Railroad Company (a United States Steel Corporation subsidiary) were currently at a rate substantially higher than the average rate for the industry in the country as a whole. The sustained activity in the iron and steel industry has had a favorable effect on other allied industries, such as coal and iron ore mining. Industrial employment has been fairly well maintained, with a beneficial effect on business conditions generally. Demand for loans is regarded as unsatisfactory.

Chicago

Calls were made during the month of April on 124 member and 10 non-member banks. The majority of the banks in the smaller communities report some increased demand for local loans, due to borrowings by farmers for their seasonal needs, for holding corn, or for purchasing farm implements. In practically all of the agricultural communities farmers are reported holding corn and in some cases their cattle for better prices; in the Upper Thumb district of Michigan a considerable portion of last year's bean crop is being held. A few banks have installed industrial loan departments and report a satisfactory experience. One bank states its local loans are twice that of a year ago; another reports loans at a new high for six years.

Deposits in many cases show reductions since the March 7 call. A number of banks have recently reduced the amount of interest paid on time deposits, while one has discontinued the use of certificates of deposit.

In a few cases bond portfolios still show an appreciation. Generally, however, there is a depreciation and in some instances the bond account is giving considerable concern.

Some evidences of hoarding are indicated. Bankers who mentioned this stated that while some money was going into safety deposit boxes, they did not believe this was being done to a great extent and did not attach a lot of significance to it, simply reporting it as a fact. One bank said that some of its customers are looking over the bond portfolios of insurance companies, in some cases taking the cash surrender values of their policies. Another banker reported that he had seen no evidence of money being taken to safety deposit boxes, but felt that were it not for

Chicago (continued)

the insurance of deposits a great deal of this would be done.

No unfavorable comment with respect to the services of the Federal Reserve bank was heard. However, one banker stated that he hoped reserve requirements would be further reduced so that his bank would not have to borrow. One bank advertises that it is the only member bank in the county.

Bankers interviewed who are not now using our Transit Department stated that their reason for this is the fact that the correspondent banks do not require segregation of items and give them immediate credit. Nearly all of these volunteered the information that they realize when their balances with their correspondents are reduced a service charge will be made, and at that time they will send their items to us. One banker reported that his city correspondent had called on him recently and made the suggestion that he send more of his items to the Federal Reserve bank, as his balance was not profitable. Some criticism was made of competition from the Production Credit Corporation. Reference was made to criticism of examiners on used-car loans and so-called "capital loans."

In general, bankers appear to be concerned about -

1. Low return on earning assets.
2. Bond depreciation.
3. Requirements of supervisory authorities regarding chargeoffs.
4. Competition of Government agencies.

In the manufacturing towns very little change is reported in industrial activity from a month ago. In Rockford, Illinois, the furniture plants are doing practically nothing, while some of the machine tool factories have been kept going by export orders. In Bay City, Michigan, about fifty per cent of the labor last year was employed in the automotive industry, and while there is very little activity reported in such plants at present, some of the other plants in the city have been operating on a more satisfactory basis and Bay City apparently has not been affected as much by the recession as some other Michigan points. At Saginaw, Michigan, also about half of the labor last year was employed by suppliers of automotive parts; other industrial plants in some instances are more active, but business is reported very quiet with retail sales materially lower.

There is a better feeling generally in agricultural communities despite the lower prices for farm products. However, in practically every point heard from the farmers are very much opposed to the new AAA program.

St. Louis

During the month our officers and field representatives visited 184 banks, of which 47 were in Arkansas, 30 in Illinois, 24 in Indiana, 4 in

St. Louis (continued)

Kentucky, 21 in Missouri, 2 in Mississippi and 56 in Tennessee.

The volume of mercantile business in the northern portion of the Eighth District shows no perceptible change from that of the past few months. Here and there some acceleration is noted, but this is invariably due to purely local causes, such as oil discoveries in Southern Illinois which result in considerable business activity. After the close of the Easter Holiday trade, buying generally has been based solely upon actual present needs, with no tendency to anticipate possible future requirements.

As mentioned last month, merchants are endeavoring to reduce inventories, but largely in a systematic manner. Such price concessions as are made to induce buying have not been sufficiently drastic to create any disturbing effect.

It is noted that throughout the district the purchasing power of those engaged in agricultural work is now in the ascendancy, though this spending is somewhat restricted owing to decline in prices paid for farm commodities.

Industrial employment continues at the low levels reached in the latter part of 1937.

In the agricultural sections, some expansion has taken place in local loans made largely to meet seasonal needs. Most banks are restricting such advances to nominal sums, in view of prices paid for farm commodities. Present indications give promise of large harvests of the principal grain crops this season. In certain larger country communities there is evidence of renewed interest in FHA loans, but for the most part local needs of that kind have already been cared for.

Regarding investments in securities for earning purposes, the tendency on the part of country banks is to dispose of present holdings that command a high premium, and to re-invest at least a portion of the proceeds in similar securities that can be purchased at or near par. Little interest is manifested by country banks in securities other than those of the Government or such as are government guaranteed.

One Illinois national bank member recently discontinued the use of our par check collection service for the reason that the business had been solicited by another member bank in the State which only required one letter for all classes of items whereas three were required by us. This banker did not seem to be wholly satisfied with the program and when asked if he would again make use of the F. R. B. for check collections in the event the rules as to sorting and credit were modified, he replied that he would very seriously consider the matter as he liked the prompt and efficient manner in which cash items were handled by this bank. Some other

St. Louis (continued)

member banks also feel that it is easier to comply with the requirements of commercial correspondents than with those of the reserve bank, but on the whole such banks are in the minority.

Two special visits were made to nonmember Missouri banks which had requested that they be removed from the par list. After advantages of remaining on the par list were fully explained, one bank agreed to remain and the officer interviewed in the other bank agreed to bring the matter before his board of directors for further consideration.

The recent reduction in reserve requirements was mentioned by several member bankers, the larger banks being at somewhat of a loss to know what to do with the released reserves and others voicing the opinion that reserve requirements should be returned to the percentages in effect before any increases were made. A few nonmember bankers commented on the release of excess reserves which they felt would lead to inflation.

In discussing membership with nonmember bankers generally, it seems that the loss of exchange revenue, the giving up of branches which are profitable, and the fact that they are now operating without membership, are the main drawbacks to applying for membership in the System. One of our officers, however, feels that many of these bankers in speaking of exchange include not only revenue from exchange on cash letters, but fees on non-cash items and a service charge for cashing out of town checks over the counter. If they would go to the trouble of really analyzing the exchange account they would doubtless find that the amount actually received from exchange on cash letters would be comparatively small. Some nonmembers may consider membership when their earnings, exclusive of exchange revenue, justify it. In discussing membership with nonmember banks, it was found that many of them lean toward nationalizing rather than possible membership as a State bank.

MinneapolisNorth Dakota Group Meetings

Mr. Adam Lefor, State Examiner of North Dakota, spoke at the Valley City meeting. He told of the banking conditions as they prevailed at the present time and told the State bankers that they could not look to the Reconstruction Finance Corporation for assistance in taking care of their bond depreciations. He told of being in Washington for the purpose of attempting to keep a number of banks open which the Federal Deposit Insurance Corporation contemplated closing. He stated he was successful in obtaining a deferment until after the 1938 crop season for thirteen of the sixteen banks in question.

The bankers were very enthusiastic over crop conditions this year for it is the first time in many years that the farmers have had subsoil

Minneapolis (continued)

moisture sufficient to germinate the seed. Conditions in North Dakota, particularly the western section, have been deplorable for the last seven or eight years. Nevertheless, despite this fact, the farmers have started out this year with renewed hope and determination. The spirit shown by the farmers and the bankers is almost beyond comprehension. They do feel, however, that if a good crop is harvested, wheat prices will drop to between 50¢ and 60¢, but even if the price does fall below 50¢, the morale of the farmer as a whole will be greatly improved if a crop is had.

North Dakota possibly is the most exchange-minded state in the Union and for that reason, we have no North Dakota state member banks. Conditions, as I have heretofore stated, have been particularly deplorable in North Dakota, and the many small banks in that State could not exist if they did not charge exchange.

Northeastern South Dakota

There are no prospects for new buildings nor much in the way of repairs or remodeling of homes or farm buildings throughout the district visited; quite a few farms have been abandoned, and a return of normal rainfall and good growing conditions must come soon or the farmers will be forced to move away in increasing numbers in the poorer parts of the territory visited.

Northwestern Wisconsin

A matter of much concern to many of the bankers visited was the depreciation of railroad securities. Several of the bankers frankly stated that this depreciation, on the present basis, would more than wipe out their earnings for this year. Other bankers expressed keen regret that they had not reduced their holdings of railroad issues before prices declined.

Much of the territory visited is still undeveloped, and some of the banks here have a good local demand for money. One banker stated that he would be glad to receive funds from outside his trade territory temporarily so he could meet the local demand. In other sections, bankers are looking for a good outlet for their funds. In many instances, bank deposits are about the same as a year ago, although there are some variations.

An interesting feature of this trip was visitation of the so-called offices or stations which banks in Wisconsin are permitted to operate. In one case, a bank station was operated in the rear of a grocery store, the station consisting only of a teller's window and a small bank safe. In another town, the station occupied a part of the space in a meat market and it was somewhat of a shock to see the butcher wrap up a package of meat for a customer and then step across the lobby to a teller's window and receipt for a bank deposit. In still another town, the banker also acted as postmaster, both the bank and the post office being housed in one small room.

Minneapolis (continued)

In this instance, the banker explained that this was a very convenient arrangement for him because if a customer failed to meet his obligations, it was easy to contact him when he called for mail. These offices or stations apparently are satisfactory to the communities they serve and in some instances at least are being operated at a substantial profit.

Interest rates on chattel mortgage loans range from 6% to 8%, averaging about 7%. Very few banks are making real estate loans in this section at present.

Many of the banks feel that they are making satisfactory progress at this time. A national bank in Hayward reported that they had paid dividends of 122% in the thirteen years they have been in existence. Insurance commissions are a source of considerable revenue for some banks.

Potatoes are being raised in quantity in some sections, and it is interesting to note that some potato raisers, after their season is over in Wisconsin, go to Florida where they raise another crop during the winter. In this way they are busy during the entire year.

Northwestern Minnesota

With but a few exceptions the banks visited did not show any considerable bond depreciation. The majority of the banks have invested their funds in United States Government obligations and high grade municipalities. They are highly elated over the increased price of United States Government bonds. Some of the bankers, however, are fearful that in the not too distant future United States Government bonds will be considerably lower.

Kansas City

The favorable agricultural outlook continues to be the chief topic of interest in this District. Rainfall has been uniformly satisfactory, precipitation for the first three months of the year averaging approximately 35 per cent above normal. The mountains of Colorado are full of snow and plenty of water for irrigation purposes is in prospect. In a physical way this District is in better condition than it has been for years.

Bankers in Nebraska report that many farmers apparently are not going to take advantage of the new agricultural bill and that many who wish to co-operate are experiencing difficulty in adapting it to their farm program. Some Oklahoma bankers report that farmers in their communities are producing more hogs and cattle than in recent years.

This bank recently computed operating ratios for member banks in this District. Copies of this report, with the ratios for the particular bank appearing on it, were sent to each member bank. The response was more than

Kansas City (continued)

expected and the many letters received bring to light many highly significant matters. These letters show there is widespread interest in this sort of thing and that many banks have done a good deal in the past in the way of computing their own ratios. Naturally a diversity of accounting practice in handling certain matters has caused some confusion. The cardinal weakness of these sporadic individual computations has been that there was little in the way of outside experience or achievement to serve as a basis of comparison. Studies such as this bank made fill this need.

One thing of special interest these letters show is that many bankers seem to assume their achievement is satisfactory when their own ratios conform closely to the averages given in the report. After all, any average is a mediocre standard of performance and is a low mark at which to shoot. It might be helpful in the future to compute another set of ratios based on the achievement of banks that are above the average.

There appears to be a tendency on the part of some banks to take profits on their government securities. In fact, some bankers say they have sold all of their holdings. In most cases the intention is to repurchase at lower prices. Country bankers seem not greatly impressed with the reduction in reserve requirements. The opinion is expressed that such action is erratic and there is no way of telling when the requirement may again be raised.

No change in general business conditions in this District is apparent. Bankers and men of affairs have little faith in the lasting benefits of the proposed spending program. Construction work is confined mostly to public projects and F. H. A. activities. It is reported that more than a half of the applications for low-priced homes come from speculative builders. Competent opinion is that much depends on how these speculative structures sell. Real estate men tend to the opinion they will not sell satisfactorily until employment conditions improve.

Dallas

Five member banks and three nonmembers were visited in the extreme western zone of Texas served by our El Paso Branch. Cotton, cattle and oil are the chief economic supports of this part of the district.

Most of the cotton farmers in this semi-arid area signed the government's acreage reduction agreement, and those in the irrigated section (El Paso County) believe they will benefit from it through heavy per-acre production resulting from irrigation, heavy fertilization and intensive cultivation. On the other hand, the producers in the unirrigated Pecos Valley region view with considerable pessimism their prospects for breaking even on this year's operations. They were expecting a required acreage reduction of approximately 40 per cent, but when the allotments were announced

Salinas (continued)

they called for a much heavier reduction, according to information given our representative.

The physical condition of cattle and ranges in this section of Texas was reported to be better than at any time since 1920.

Oil production is being held at a steady level, although drilling operations have been almost entirely suspended, due to the uncertainties of the present oil situation.

None of the visited banks complained of Federal reserve policies or services. A few expressed curiosity as to the cause of the recent reduction in reserve requirements, stating that their own cash positions were such that they had ample funds for lending but that their customers who are entitled to credit are not in need of loans.

All member banks in the district's reserve cities were interviewed during the month in regard to the contemplated discontinuance of our reserve city clearing house plan of collecting checks and remittance drafts. An alternative plan offering a simpler method of effecting such collections was explained to these banks and received their unanimous approval. As these interviews were confined to technical discussions of transit operations they developed no information of general interest regarding other aspects of Federal Reserve relations or developments in local economic conditions.

San FranciscoLompoc Valley, Santa Barbara County, California

This is a prosperous valley about 50 miles north of Santa Barbara, the principal industries of which are livestock, dairying, beans, grains, vegetables, mustard, and flower seeds. All lines are reported as being fairly prosperous, with the exception of the bean growers, who have been adversely affected by the low price of beans. This last season the lettuce growers have been particularly prosperous, owing to the effects of the March storm on growers in other parts of the state. Lettuce has recently been selling as high as \$11 a crate. In prior years it is estimated that up to 80% of the world's mustard seed crop was grown in this valley, but of late considerable acreage formerly devoted to the growing of mustard has been diverted to other purposes.

Ventura County, California

Conditions in Ventura County are fairly prosperous. Citrus growers face lower prices, and the bean growers, owing to the price of beans, are not making any profit. It is problematical just how they will fare, as the last payment for last fall's crop has not yet been made by the association, and the amount of it is yet unknown.

San Francisco (continued)

There is very little building activity, and no interest is displayed in the F. H. A. program, the reason assigned being that "there is too much red tape and that building costs are too high."

Imperial Valley, California

Conditions in the Imperial Valley were considered to be fair. There is more fattening of cattle and sheep than formerly, and operators will make some money.

Low prices are being received for butter fat, and only the better operators will show profits. However, dairying in the Valley is fundamentally in a sounder condition through the elimination of several hundred marginal producers.

Although there was a fair crop, the winter lettuce deal was a failure on account of the very low prices received, with no growers showing profits.

Prices for grapefruit were very low, and the outlook is not promising.

The cantaloupe deal is just starting, and while a few shipments have been made and high prices received, future prices are problematical when the deal gets into full swing. Prospects are for a fair crop only.

Alfalfa prices have been low, but have recently stiffened.

Growers of green peas, of which there are two crops, were fortunate in having large crops and high prices.

Housing activities are on a very limited scale.

Mid-Columbia District, Oregon

Prospects for a good crop of wheat in the Mid-Columbia area were excellent. The livestock situation is reported to be favorable, cattle and sheep having come through the winter in good condition, with ample feed and with a minimum amount of loss. A little better than normal spring lamb crop is estimated, and, notwithstanding the heavy carryover of wool for the country as a whole, growers are anticipating a price of around 18 cents per pound.

Southwestern Washington - Cowlitz and Clark Counties

The lumber industry in the lower Columbia River area for several months past has been hampered by internal labor disputes, and running on a very low production schedule owing to the lack of demand and market conditions. The large mills in Longview for the past several months have been operating on a three to four day week schedule with an average return to the

San Francisco (continued)

common mill labor of \$75 to \$80 per month. This reduction in pay roll has naturally reflected in the volume of commercial business, but we are informed that merchants are not overstocked and have thus far been able to carry on with very few liquidations.

Dairymen have done fairly well, although there are complaints that the price of feed is still high in proportion to the returns. Recent reductions in the price of milk in the Portland milk shed will add some difficulties to the milk producers unless the costs can be further reduced.

Poultry business has been a problem for some time. Cost of feed has not been reduced in relation to the reduction in the egg prices and most producers are having difficulty getting by.

Prune growers have had several bad years in succession, of which 1937 was no exception. It was reported that a number of growers are pulling out prune trees and putting in filberts.

Business conditions in the towns visited were reported very slow with the outlook not very encouraging.

Wenatchee and Yakima Valleys, Washington

These valleys are large apple-producing districts. Information disclosed was to the effect that the present price of apples was too low to pay the cost of production, but that apples were being sold quite freely in order to move them and get anything back. The general attitude was that the less said about apples at this time, the better.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

APRIL, 1938

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Non-member	Total	Number	Attendance	Number	Attendance
Boston	41	23	64	None	None	None	None
New York	135	38	173	9	1,638	3	170
Philadelphia	92	30	122	16	1,357	3	407
Cleveland	153	29	182	4	505	2	70
Richmond	65	49	114	11	1,520	1	160
Atlanta	9	2	11	2	846	None	None
Chicago	124	10	134	2	**419	None	None
St. Louis	62	122	184	None	None	2	350
Minneapolis	64	104	168	11	975	4	146
Kansas City	37	13	50	11	1,298	2	300
Dallas	37	4	41	2	110	None	None
San Francisco	61	10	*71	21	1,949	3	552

*Includes visits to branches of banks, member 33

**Attendance at one not reported.