BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 17, 1939.

Dear Sir:

There is enclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of December, 1938, in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

January 13, 1939

To The Board of Governors

From Mr. Hammond, Division of Bank Operations

Subject: Summary of Bank Relations Reports.

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of December and excerpts therefrom will be found on the following pages. A table showing for all twelve banks the number of visits made, meetings attended, and addresses delivered has also been prepared and follows the quotations.

The reports continue to reflect the concern of member banks with the problem of profitable operations. There is considerable comment upon the activities of banks in the field of mortgage loans, personal loans, etc. Several of the reserve banks speak of the tendency of member banks to reduce the interest rates charged customers, but Philadelphia speaks of two banks that have found that lowering their rate to 5% did not produce enough business to warrant the reduction and contemplate returning to 6%. In general member banks express dissatisfaction with other than government and municipal bonds, but New York reports that one member bank visited holds no government obligations at all and that several other banks which are also clients of the same investment counsel hold a very small volume of governments.

New York and Chicago report numerous complaints from small banks against the allotment to them of smaller amounts of the recent issue of governments than they subscribed to.

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

BOSTON

Boston made only two bank visits in December and submitted no detailed report thereon.

NEW YORK

Albany, Fulton, Hamilton, Montgomery, Rensselaer, Schenectady, and Schoharie Counties

Loans and discounts aggregating $88,200,000 show a net decrease of $5,600,000 since last June, due largely to the maturing of purchased commercial paper. Many of the bankers are trying to stimulate a loan demand by advertising in the newspapers, or by reducing the rate of interest charged. One Albany bank with collateral loans totaling about $6,000,000 recently reduced its rates from 4 and 4½ per cent to 3 per cent, and this action was subsequently followed by similar rate reductions on the part of other banking institutions in the cities of Albany, Schenectady, and Troy. Eighteen banks now have an aggregate of $1,900,000 in personal loans. Fourteen institutions have placed a total of $500,000 in home repair loans under the new provisions of Title I of the National Housing Act. Seventeen banks now hold about $4,300,000 in Federal Housing Title II mortgages, and one institution has granted $1,880,000 Title II mortgages and has sold $1,400,000 to other commercial banks in this area.

Since early last fall, business conditions in this section have shown a general improvement, attributable in some degree to the settlement of various strikes which permitted the reopening of a large carpet mill and several glove manufacturing plants and tanneries. Bankers report that unit sales of department and other retail stores have been heavier this Christmas season than last year, but that the dollar volume appears to be smaller due to the lower prices received per unit.

Broome, Chemung, Chenango, Cortland, Schuyler,
Steuben, Tioga, and Tompkins Counties

Security portfolios of the commercial banks aggregate $73,100,000 and continue to show an increase in the proportion of United States government bonds (direct or fully guaranteed) which now total approximately $46,650,000, or about 64 per cent, with individual bank holdings ranging as high as 95 per cent. Most of the bankers are following a fixed policy of selling substandard corporate issues as rapidly as is feasible and some are planning to dispose eventually of all corporate bonds and retain only United States government, State, and municipal securities. One bank, however, does not hold any United States government issues in keeping with a policy suggested by its investment counsel, and it is also noticeable that security portfolios of several other banks in this area which use this same investment service contain a relatively small proportion of United States government issues.

No criticisms were made by member bankers regarding their relations with the Federal Reserve Bank or the policies of the Federal Reserve System. Officers of one of the larger institutions expressed dissatisfaction with the national bank examiner's criticisms concerning the bank's management and policies. In several of the smaller member banks the officers were dissatisfied because of the small allotments received on their subscriptions for the December offerings of United States government issues and one who expressed the view that "small institutions are being squeezed out of existence" has addressed a letter to the Secretary of the Treasury suggesting that all applications be accompanied by an affidavit to the effect that the subscription is not "padded". He believes that the large city banks subscribe for their legal limit as a matter of course, which action operates to the disadvantage of the country bank that puts in a subscription for its actual requirements.

Business conditions in this area have shown considerable improvement in recent months, largely because of an expansion in industrial activity and consequent increases in employment and payrolls. This is especially true in the cities of Binghamton, Johnson City, and Endicott, and to a lesser extent in Corning, Cortland, and Hornell. Elmira, however, has lagged somewhat behind and is said to be in need of additional manufacturing enterprises to provide employment for the available surplus labor.

Middlesex County, N. J.

Officers of banks in the larger centers report that there is very little demand for credit and, in several cases, that loan accounts including mortgages are only about one-quarter of total assets. Most of these bankers express doubt that there will be any great increase in the demand for business loans for some time to come. A number of banks, however, in the smaller communities have experienced some recent improvement in demand for credit, mostly from municipalities seeking funds for relief purposes, and from building and loan associations. Ten commercial banks and one savings bank hold an aggregate of $2,591,000 Federal Housing Administration insured mortgages, two institutions having purchased $950,000 of this amount from outside sources. Three banks which continue to grant Title II mortgages have sold an aggregate of $260,000 in order to reduce their portfolios, receiving a premium of 2 to 3 points and continuing to obtain a fee for servicing the loans.

In the sixteen counties visited, there are 123 commercial banks, 79 of which have issued preferred stock, capital notes or debentures aggregating $18,087,573 par value. Up to the present time twenty-six have paid off their entire issues amounting to $4,810,000, forty have made partial redemptions aggregating $3,411,050 and thirteen have not retired any - leaving fifty-three banks with a total still outstanding of $9,866,523 par value, retirable at $12,071,770, reflecting a redemption premium of $2,205,247.

PHILADELPHIA

The area covered by this report comprises nearly all of the Pennsylvania soft coal fields lying within the Third Federal

Reserve District. Conditions in these fields show improvement over those prevailing at the time of the visits in March of this year. However, this improvement is not general, as in some communities the mines are working but one day a week as against five days at other mines. It was said that only the larger and stronger companies are able to meet present market prices and are doing so only because present conditions are believed to be temporary.

The large shops and yards of the Pennsylvania Railroad at Altoona, after a period of inactivity early this year, have increased operations and the pay rolls now are exceeding $1,000,000 a month, a figure which assures good times for the section depending upon these yards for support. Other railroad activities have also increased and many of the small coal roads have recalled nearly all furloughed trainmen, firemen, and engineers.

Productive activity has increased sharply since early summer, in contrast with the downward trend prevailing at the same time last year. Factory employment, payrolls and working time have registered substantial gains. Output of bituminous coal likewise has shown a rising tendency, reflecting a more active demand from industrial consumers. The value of building permits issued, however, has declined considerably since midsummer, although some increase in the volume of residential construction was reported in November. Business at retail stores and sales of new passenger automobiles have shown a marked improvement in recent months. Farm cash income has increased seasonally owing to larger receipts from the sale of crops.

Total resources of all banks in this area are $1,700,000 less than in March, and this decline is attributed to a drop in deposits resulting from poor industrial conditions earlier in the year, and from low prices for farm products.

The two major problems of the banks are lessened earnings resulting from smaller loan portfolios, and security depreciation. While credit demand for real estate purposes was said to be good there is little increase in the number or size of requests for business credit. An increasing number of banks are trying to bolster income by creating or purchasing F.H.A. mortgages and find them a satisfactory investment. Other institutions are granting the various types of consumer credit, while two bankers report having built up a satisfactory volume of loans based on the cash surrender value of life insurance policies. The 6 per cent rate prevails, although there are numerous deviations from it depending upon the type and security of the loan. Two of the three banks which made a general reduction of the loaning rate to 5 per cent are now considering returning to the 6 per cent rate, as the lower rate has seriously curtailed income without causing a compensating increase in loans.

Several comments were heard on Chairman Eccles' statement that excess reserves of member banks should be kept with the reserve banks. The tenor of the comments was that such a policy would cause radical changes in banking methods and would weaken or destroy the strong bond now existing between country banks and their city correspondents. One banker stated that, while he could see no need for a bank clearing checks other than through the reserve banks, there were many ways in which the city correspondents were helpful to country banks. One other banker said that he thought some banks had too many correspondent accounts. A third banker, however, took exception to the Chairman's remarks, stating that any attempt to disrupt relations between country banks and city correspondents would be to the detriment of banking, as country banks frequently call upon their correspondents for service or information, which could not be done if there were no compensating balances with the city banks. This banker characterized this idea as another means of increasing the amount that would be available for participation in the System's open market operations, which would further narrow the investment market and increase premiums on bonds beyond their present high figures.

The subject of membership was discussed with officers of those banks believed to be in acceptable condition but the officers' replies usually were to the effect that, while they appreciate what the reserve system has done for banking and would not want to see it eliminated, they have no present desire to become affiliated with it, as they fail to see where any material benefit would accrue to their institutions to offset the advantages of having a banking system independent of control by the Federal government.

CLEVELAND

The increase in industrial activity has engendered a somewhat better feeling among bankers although it is still recognized that many problems remain to be solved. Some banks report increased activity in the commercial loan field but on the whole a greater volume of credit seems to have been retired during the past six months than has been newly granted.

There continue to be complaints concerning the unfair competition afforded by Federal savings and loan associations, particularly in that their advertising is said to be of a type which is distinctly misleading. Despite the fact that the Federal law prohibits advertising falsely that accounts of Federal savings and loan associations are insured by the Federal government, or by any instrumentality thereof; and despite the fact that the regulations of the Federal savings and loan associations provide that associations shall not accept "deposits" from the public, and shall not represent themselves as "deposit" institutions, many of them are advertising Federal insurance, and referring in advertising matter to "money deposited", or "deposits made", or "deposits insured". A few specimen advertisements of a type which seem to us to be improper if not actually in violation of law or regulation, are enclosed with this letter. As the Board is aware, savings and loan associations are regarded by a substantial part of the public as banks, such impression being the result of advertising, over a period of years, of a nature which is ethically doubtful, and of a physical set-up which closely resembles that of the ordinary commercial or savings bank.

Movement toward shorter banking hours continues, to conform to provisions of Federal law, and in the State of Ohio, to conform to State law in so far as it relates to employment of female labor. The net result of legislation in the State of Ohio, limiting work hours per week and per day of female labor appears to be resulting in a displacement of such female labor by the employment of male help. Banks which long have persisted in the practice of offering extremely long hours of service have been reducing them, sometimes through earlier afternoon closing, and in other cases by later opening hours. Many banks in small centers have been remaining open on Saturday nights, but are discontinuing the practice and there appears to be a strong trend toward Saturday noon closing in many communities. Bank officers operating under such revised schedules report no ill effects, and a distinct improvement in efficiency.

RICHMOND

West Virginia

In Raleigh, Summers, and Fayette Counties banks adhere to a rate of 6 per cent on loans, pay $2\frac{1}{2}$ per cent on time deposits, and have nominal service charges. They are thus confronted with a tendency for time deposits to expand and an accumulation of idle funds. Banks have found it impossible to agree upon a uniform schedule of service charges, but some have turned to personal income and installment loans, while others ignore these and make FHA loans. In spite of complaints about scarcity of loans, banks in this region made net additions to profits somewhat better than the average for banks of their class in 1937 and indications are that they will not fall far short of this achievement in 1938.

The banks of Wayne and Mason Counties, on the western border of the State, show little change in deposits and loans. However, it is said that the character of the latter has changed, old and prime loans being paid off and their place taken by consumer credit loans. The latter have proved to be highly profitable. Banks are also looking with increasing approval upon FHA loans and there is a tendency in some instances for banks to expand real estate loans beyond the limits permitted by law. The loan rate generally adhered to is 6 per cent, but concessions are made if necessary to get the business. While 2 per cent is paid on time deposits, service charges are not uniformly developed.

Maryland

Banks in Annapolis are paying 2 per cent on time deposits and are also giving careful attention to the cost of carrying deposit accounts and the maintenance of adequate service charges. One bank has financed more than 900 FHA loans for an aggregate in excess of $3,000,000. It reports that such loans, when consummated, are readily saleable to other banks and financial institutions, particularly in New England. The rates on these loans range from 4½ per cent to 6 per cent. Installment and personal loan departments have not yet been promoted actively.

Baltimore banks show steady or slightly increasing deposits, and while some are paying not to exceed 2 per cent on time deposits, others are paying only 1 per cent. The loan rate ranges from 4 to 6 per cent but there is general complaint because of the scarcity of good loans. A few banks report a growing volume of small loans, amortized quarterly, while others have found outlet for funds in FHA loans. For investments, Federal securities are preferred, although there is an active interest in real estate loans. Large excess reserves are carried and there is some anxiety about the future of earnings in view of present slack demand for loans.

Western Virginia

Banks in this region (Alleghany, Bath, Rockbridge, Rockingham, Augusta, and Shenandoah Counties) confront the general problem of a growth of deposits in excess of the growth of loans and investments. Consequently there is some concern about ways and means of putting accumulating idle funds to work. In general, 2 per cent is paid on time deposits and the proportion of time deposits to total deposits is larger than most bankers desire. For the major portion of all loans the rate is 6 per cent, but there is a tendency to a lower rate on collateral loans and a growing disposition to make FHA loans at 5 per cent. Recently a regional clearing house association has been organized and includes banks in five of these counties. Its primary purpose was the inauguration of a system of uniform service charges.

Western South Carolina

The banks in these counties - Lexington, Newberry, Oconee, Pickens, Greenville, and Anderson - have experienced an expansion of demand deposits chiefly because of the distribution of cotton subsidy payments. Generally speaking, banks do not encourage the expansion of time deposits and few banks pay more than 2 per cent on the first $1,000 of such deposits and 1 per cent on the excess. Loans have shown little or no tendency to expand.

Some bankers are pessimistic about the future earning power of banks in view of the small demand for local loans, the low rates of interest on these, and the low yields on securities. Some banks are confronted with an investment problem and consultation with New York correspondents has frequently indicated wide differences of opinion among them as to the essentials of sound policy. In general, banks are confining investments to Federal, state, and municipal bonds, seeking a satisfactory combination of liquidity and earnings but with the feeling that one of these must be sacrificed.

As for industrial and agricultural conditions, it appears that the statistical position of some of the mills has become impaired in recent months as a result of the accumulation of heavy inventories and unsatisfactory prices. Nevertheless, production has been carried on a full-time basis, i.e., two eight-hour shifts, five days per week, in nearly all mills. Thus pay rolls have been sustained at the price of inventory accumulation. The position of planters is far from satisfactory. The cotton crop for 1938 came to about 60 per cent of the 1937 crop. Cotton subsidy payments helped the planters in that many of them were enabled to meet maturing bank obligations, but these payments have not been sufficient to make up for the short crop. Some bankers maintain that conditions among the farm population generally are the worst they have experienced since 1933. In a few sections farmers have developed other cash crops, but their volume does not yet make up for the decline in cotton acreage and prices.

ATLANTA

East Tennessee

Our representative visited twenty-one member and seventeen nonmember banks located in twenty counties in the eastern part of Tennessee. Almost without exception the banks visited reported deposits as being equal to or more than a year ago. As compared with the same date in 1937, the volume of loans generally showed little, if any, reduction. A few banks, however, reported increased loans and a fair demand for credit. No increased demand for credit is anticipated before next spring, when crop loans and cattle feeding loans will be made. The rate charged on most loans is 6%, with some choice commercial lines being handled at 4%. A majority of the banks visited reported good earnings for the year.

The burley tobacco crop, with sales beginning at most points December 7 is expected to bring an average of 20¢ per pound and a total return of close to $12,000,000. At Greeneville and other points having sales floors the tobacco crop is reported to be of much better quality than in 1937, but because the tobacco this year is lighter in weight the poundage per acre is less than in 1937. This condition may be offset by higher price, due to quality. Several of the banks visited will experience during the next sixty days increased demand for loans from tobacco warehouses. However, the sale of the crop will enable many growers to pay or curtail their bank loans.

Farmers have had a good year in the production of corn, cotton, live stock and beef cattle. An unusually large crop of hay was raised this year. In several communities visited employees of industrial plants are drawn from the surrounding farming section and their wages, supplementing the family's farm income, has helped keep the farmers out of debt.

The main complaint encountered is the difficulty of employing excess funds at profitable yields on favorable risks. It was found that most of the banks visited have installed service charges and about half have reduced the rate of interest paid on time deposits to 2%. Time deposits in banks visited range from 25% to 75% of total deposits. One member reported that it had recently refused a $5,000 time deposit on which interest at the rate of 2% would have been paid. Another member, with a large number of customers employed by railroad shops, reported that service charges this year totaled 13% of its $25,000 common capital stock.

Most of the nonmember banks visited, while apparently friendly toward the Federal Reserve System have given no serious consideration to membership, this being particularly true of banks with deposits of less than $1,000,000. But two nonmember banks with deposits of less than $1,000,000 stated that they intended making application for membership as soon as minimum capital requirements could be met. Loss of exchange income was, with few exceptions, given as the main reason for not desiring membership. The fear of excessive "red tape" also seems to exist. Every effort was, of course, made to correct this impression.

CHICAGO

Many banks in this district are showing better earnings from operations; an increased number will pay dividends, though these are being restricted to modest figures; and quite a few are increasing their capital. Several consolidations are pending throughout the district.

Loans show a seasonal decline, notwithstanding extra efforts on the part of banks to find new loans. Apparently there is no need for any additional loaning agencies as there is no indication of any demand for commercial or industrial credit which is not being adequately taken care of by existing institutions. Very few inquiries are received at this bank for so-called "industrial loans". A recent survey shows that government lending on farm lands has probably passed its peak.

Reports for the states of Illinois, Indiana, and Wisconsin indicate a further expansion in manufacturing and non-manufacturing employment and pay rolls during the period from November 15 to December 15. Durable goods were mainly responsible for the rise in manufacturing employment and pay rolls. Chicago district steel mills were operating at 52-1/2 per cent of capacity at the beginning of 1939 as compared with 24-1/2 per cent a year ago at the same time. Automobile production was much heavier than a year ago during December, and seems to have been equal to or slightly above November, despite year-end curtailment. Automobile production in the week ended December 31 was 19 per cent under a week earlier but 52 per cent ahead of last year (this figure includes trucks). Seventh district building in the first three weeks of December continued more than double that of a year ago.

December production of American cheese by Wisconsin factories declined 7 per cent from November but totaled slightly over the 1937 amount; sales of this commodity during December declined much less than is seasonally expected, and were 23 per cent heavier than in the 1937 month. Brewery interests in the Milwaukee area report business satisfactory and the outlook excellent.

Letters received from a number of small banks following the receipt of allotment notices on the December 15 Treasury offering indicated disappointment at the small allotments received arising out of the fact that the allotment formula for the December issues was applied to subscriptions of $1,000 and less. Some of these banks seemed to be under the impression that the larger banks received preferential allotment. We endeavored to point out to them the fact that all banks regardless of size, were limited in their subscriptions to amounts not exceeding one-half of the capital and surplus of the subscribing bank and also that the $1,000 subscription was being so universally abused that the offenders far outnumbered the legitimate subscribers who actually wanted to purchase and retain small amounts of Government securities. Many small banks and small subscribers are undoubtedly disappointed and somewhat resentful at the above procedure although from our observation more harm would be done by continuing the policy of alloting the small subscriptions in full.

Orders for United States Savings Bonds filed through this bank in December, 1938 showed an approximate increase over December, 1937 as follows:

50 per cent in maturity values
60 per cent in number of orders
70 per cent in number of pieces

A substantial portion of the above increase results from banks who ordered their quota of 1938 Savings Bonds before the end of the year; the heavy orders being received in January indicate that banks very generally are ordering their 1939 series at this time.

ST. LOUIS

Most country bankers visited, particularly those in southeastern Missouri, feel that conditions throughout the year 1938 showed considerable improvement over 1937. Those sections which produce cotton reported the best yield in recent years. The crop was of excellent quality and commanded a fair price.

The lead mines in Iron and St. Francois Counties, Missouri, have increased operations and a slight increase in employment was reported in other industrial communities. However, it is the general opinion that there is little prospect for any great expansion until present inventories are absorbed.

Business at Owensboro, Ky., is on the boom. Oil drilling, the building of a bridge across the Ohio River, water and light project, and the rebuilding of the Glenmore Distillery which was destroyed by fire, all contribute to this lively business situation. In some cases, bank deposits have nearly doubled during the past year.

There is evidence of further liquidation of agricultural loans because of wide distribution of farm income among the farmers. This is augmented by payments to those cooperating under crop control program. Loans decreased in larger city banks, but some rural bankers reported a brisk demand. Four to eight per cent is the prevailing rate.

The margin of profit was foremost in the minds of most bankers as the calendar year came to a close. The majority of banks visited reported earnings much the same as in 1937 and in a few instances profits were higher. Excessive cash reserves and lack of suitable investments were reflected in the earnings.

The cashier of a Kentucky State member with deposits of $282,000 is surprised that more of the smaller banks do not grasp the advantages of membership in the System. He expressed the opinion that the purchase and sale of securities with the resultant savings, should alone induce serious consideration of membership by a country bank.

The cashier of a Kentucky national bank indicated that it was having a greater demand for good loans than it could meet without selling Governments or borrowing. He feels that the bank should sell Governments and take care of the interests of the community, but members of his board do not concur in this view. The predecessor bank was liquidated, which undoubtedly accounts for the directors' ultra-conservatism with regard to local loans.

Officers of the larger St. Louis member banks feel that our requesting them to minimize the deposit of fit currency with this bank is entirely reasonable and have promised their cooperation.

The president of a Missouri nonmember, which is not on the par list, readily admitted that the practice of charging exchange on customers' checks received through the mail was contrary to sound banking practice, and might even be termed "unchristian", realizing that it was purely taking advantage of the method of presentation of the checks. The cashier of another Missouri nonmember, which is on the par list, is definitely opposed to the practice of charging exchange on checks and feels that those banks which are not on the par list should be compelled to accept items at par.

The cashier of a Kentucky nonmember still feels our par collection system is wrong but has reconciled himself to it. This is the only objection he ever had to the Federal Reserve System. The chairman of the board of a Missouri nonmember is also unfriendly toward the System, largely because of the par situation.

MINNEAPOLIS

Meeting of the Central Minnesota Clearing House Association, Melrose, Minnesota, November 29, 1938

The bankers were in a very cheerful frame of mind. Crops have been good in this area, and there will be a large movement of hogs to market. In fact, the movement has already begun. A number of the independent bankers stated that their institutions were rather fully loaned up at the present time, due to the heavy hog feeding program and the unwillingness of farmers to sell feed grain at existing prices. However, within the last four or five days, liquidation of hog loans has begun and within the next sixty days both feeder loans and barnyard loans should be materially reduced. The bankers seemed well pleased with the prices of hogs, cattle, and butterfat; but they expressed some concern over the possible adverse effects of the labor trouble at the Chicago stockyards and the heavy carry-over of butter in the hands of government agencies.

Bank visitations of Twenty-six Banks - 12 National Banks, 14 Nonmember State Banks

The area covered by this report comprises southern and central Minnesota.

Twenty-six banks were visited in this area. Deposits have shown a seasonal downward trend, which is accounted for by farmers withholding the sale of their cash crops and using their funds in paying operating expense until the sale of hogs and cattle which will begin in volume the latter part of this month and the first of January. Most of the banks have not complained about this downward trend of deposits for the reason that the majority of them have excess funds and have not been obliged to borrow.

A substantial portion of new deposits will be derived from 1938-1939 corn loans. A number of bankers indicated that they felt the Commodity Credit Corporation program was weak economically and unsound in principle. They stated that many farmers were sealing their 1938 corn crops and receiving an advance which would net them about 54¢ a bushel; that they were purchasing corn on the market from farmers who were not qualified for corn loans, or were taking over their own 1937 crops on which they had received government advances on a basis of about 30¢ a bushel. It would appear that this practice itself assures a profit of about 25¢ a bushel.

The volume of local loans of country banks in the territory visited has shown a noticeable increase. Several bankers vehemently declared that their banks would never again purchase corporate securities and that their outside investments would be comprised almost entirely of municipal and government securities.

The Federal Wage and Hour Law was discussed in considerable detail at several group meetings. It appears that this law will not result in increasing employment in country banks, or create overtime for present employees, but it will shorten the official business hours of country banks.

A number of State bankers who have been members of the Minnesota Independent Bankers Association indicated that they expected to drop membership in that association.

KANSAS CITY

There is great concern about the winter wheat situation. Late last summer subsoil moisture was generally considerably improved over recent years but a dry fall eliminated surface moisture and much wheat did not germinate. In some fields wheat came up well; in others in the same community it did not come up at all; while in other places the plant is very weak. Much wheat was resown and some of it as late as in December.

It appears that nearly 14 million acres were seeded in Kansas as against almost 17 million last year and about 11 million desired by the farm program. But if present unfavorable conditions continue, abandonment may easily reduce acreage to the latter figure.

To a lesser extent livestock, and especially cattle, is a matter of much interest. In many localities there appears to be considerable demand for money to buy cattle. But bankers complain that the financial condition of many prospective borrowers is poor and that loans too often entail the advancement of nearly the whole of the purchase price. With present cattle prices such lending is felt to be hazardous. In particular there is complaint of the high price of milk cows as it is said cows of not highest quality sell from $60 to $85.

More instances were found of profitable service charges. One bank with deposits of $100,000 has only one service charge--that being two cents a check irrespective of the number of checks drawn or the size of the deposit account. This charge nets this bank $500 a year. All this bank did was to continue the tax of two cents a check which the Government abandoned some years ago.

Banks appear to be paying from 1 to 1½ per cent for time deposits. While admitting that this is unprofitable, various reasons are given for paying such rates for funds that have little earning power. The most important factor is the competition of the Post Office. Bankers seem quite anxious that savings depositors do not break the habit of coming into the bank.

Banks that have large amounts of time money find themselves in a real dilemma. Where rates have been cut there is a feeling that, should the demand for funds increase and money rates advance, it may be necessary to restore the higher rates in order to hold a considerable part of this money. If this money can not be held serious losses might be sustained in liquidating investments purchased at present inflated prices. Just how to invest in long-term securities where only can be secured a return adequte to meet the present and prospective cost of time money and at the same time hedge the chance of serious loss in such securities is a matter of much concern. Bankers with large amounts of time money express a fear of getting caught in this trap.

Much complaint is heard that under present oil proration quotas there is no money in oil. Oil production is so restricted that it produces little in the way of bank deposits or opportunity for bank loans. At present rates of production it is said it takes from ten to fifteen years in some places to pay for new wells. On the other hand, there is a good deal of new leasing taking place in certain parts of the District. This lease money is widely distributed among farmers and is a real boon to those communities.

In Colorado both lamb and cattle feeding is appreciably under last season. Last year lamb feeding was not, as a rule, profitable and that experience is having a restraining influence on present operations. The present high price of feeder cattle and the possibility of lower prices in the spring and early summer for finished animals is the principal factor in the cattle-feeding situation. In the irrigated regions there is much complaint of beet-sugar results. The crop is good but financial returns to the grower highly unsatisfactory. This is due, it is said, to low prices, acreage restrictions, and labor matters. One banker told a representative of this bank that if present conditions continue he would finance in the future only those growers who do not have to hire labor.

DALLAS

Dallas made no bank visits during the month of December.

SAN FRANCISCO

Los Angeles County

The year may be characterized generally as one of large crops in relation to demand, with unsatisfactory returns to farmers. This was particularly true in connection with citrus fruits, where the supply reached surplus levels and returns were below cost of production in most instances. Agricultural income this year averaged considerably less than for 1937, although relatively satisfactory returns were received by truck farmers and somewhat higher prices were obtained for walnuts. Based on the reduced supply of walnuts in packers' hands at present, a complete clean-up without a carry-over is anticipated for this year's crop.

Over-production is the bane of the local milk industry, and this condition is expected to continue as long as the Los Angeles area is without adequate facilities for the disposal of surplus or the formation of a definite and enforceable marketing agreement. In connection with the latter, current reports are that the major producers have recently agreed, voluntarily, on higher prices to producers after January 1.

Building and construction activities, in the aggregate, have shown increases over 1937.

Activities in the fishing and fish canning industries during the year continued at very satisfactory levels, although aggregate output was somewhat less than for 1937. The pack-out was reduced chiefly because of comparatively heavy carry-over stocks from the previous year and minor labor disputes. Prices, however, have been satisfactory, and those engaged in the fishing industry are reported to have experienced a good year.

Conditions in the petroleum industry were particularly unfavorable the past year. Oil inventories continued to increase, and the problem of overproduction became more acute as the year progressed. The already heavy inventory position was augmented during the year by relatively large supplies being made available from new exploitations, especially in the Wilmington and Long Beach districts. Because of the excessive supply of oil, producers generally curtailed new developments wherever possible, and a concerted effort was recently made to reduce production more in line with consumption.

Orange County

The citrus industry is the backbone of Orange County; consequently, the success or failure of the growers reflects in large part the prosperity of the county. During 1937 the growers were very adversely affected by the freeze in the spring of the year, and this year had to market the largest crop at the lowest prices on record. The result is that this year the better growers will about break even, while the poorer ones will show a loss. The growers are next season faced with another bumper crop, which will break all records, and the outlook is not promising.

Owing to the magnitude of the citrus crop and the large amount of money expended in its harvesting, bank deposits have held up remarkably well, and in a few localities retail business this year is estimated to be about 10% in excess of last year.

Riverside County

The same conditions generally were experienced in this county the past year in connection with the production and sale of citrus fruits and walnuts as in other similar producing areas served by this branch.

Satisfactory alfalfa hay, tame hay and grain crops were harvested, although returns were relatively low and below last year's averages. Truck farmers, as a whole, received fairly satisfactory prices for their produce, but those producing potatoes and melons are understood to have received lower returns. Cherry growers, likewise, had a relatively unsatisfactory year, due to the reduced prices.

San Bernardino County

Citrus conditions in the county during the year followed the general trend for the industry as a whole, with supplies exceeding the demand and returns received by growers disappointingly low and below cost of production in most instances. Walnut prices, however, were somewhat higher than last year, although the production was below that for the year 1937, due in part to losses resulting from pest infestation.

While satisfactory peach, pear and apple crops were produced during the year, returns in the aggregate were low and a portion of the crops in some instances were not harvested. Due to heavy competition from citrus fruits at low prices, the demand for apples was considerably less than normal. Also, in view of relatively heavy carry-overs in packers' supplies of canned peaches and pears, the usual demand for these fruits was lacking, with a resultant reduction in price.

With a bumper grape crop for the second successive year, the growers experienced a severe reduction in income, despite institution of a prorated program, which established base prices and prevented what almost certainly would otherwise have resulted in a complete collapse of the market. Those growers who converted their grapes into wine are understood to have shown a small profit from operations, while those who did not operated at a loss.

38

R-387-a

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

December - 1938

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	2	--	2	--	--	--	--
New York	113	40	153	5	2,755	8	295
Philadelphia	66	21	87	2	500	1	75
Cleveland	146	31	177	5	1,294	4	150
Richmond	80	22	102	2	250	--	--
Atlanta	23	17	40	--	--	--	--
Chicago	8	5	13	2	3,000	1	60
St. Louis	74	263	337	5	422	1	70
Minneapolis	31	33	64	7	557	6	317
Kansas City	37	63	100	6	755	3	355
Dallas	--	--	--	--	--	2	83
San Francisco	49	20	69	8	701	1	75