Monthly Review

FEDERAL RESERVE BANK OF ATLANTA

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Operating Ratios of Sixth District Member Banks for 1940

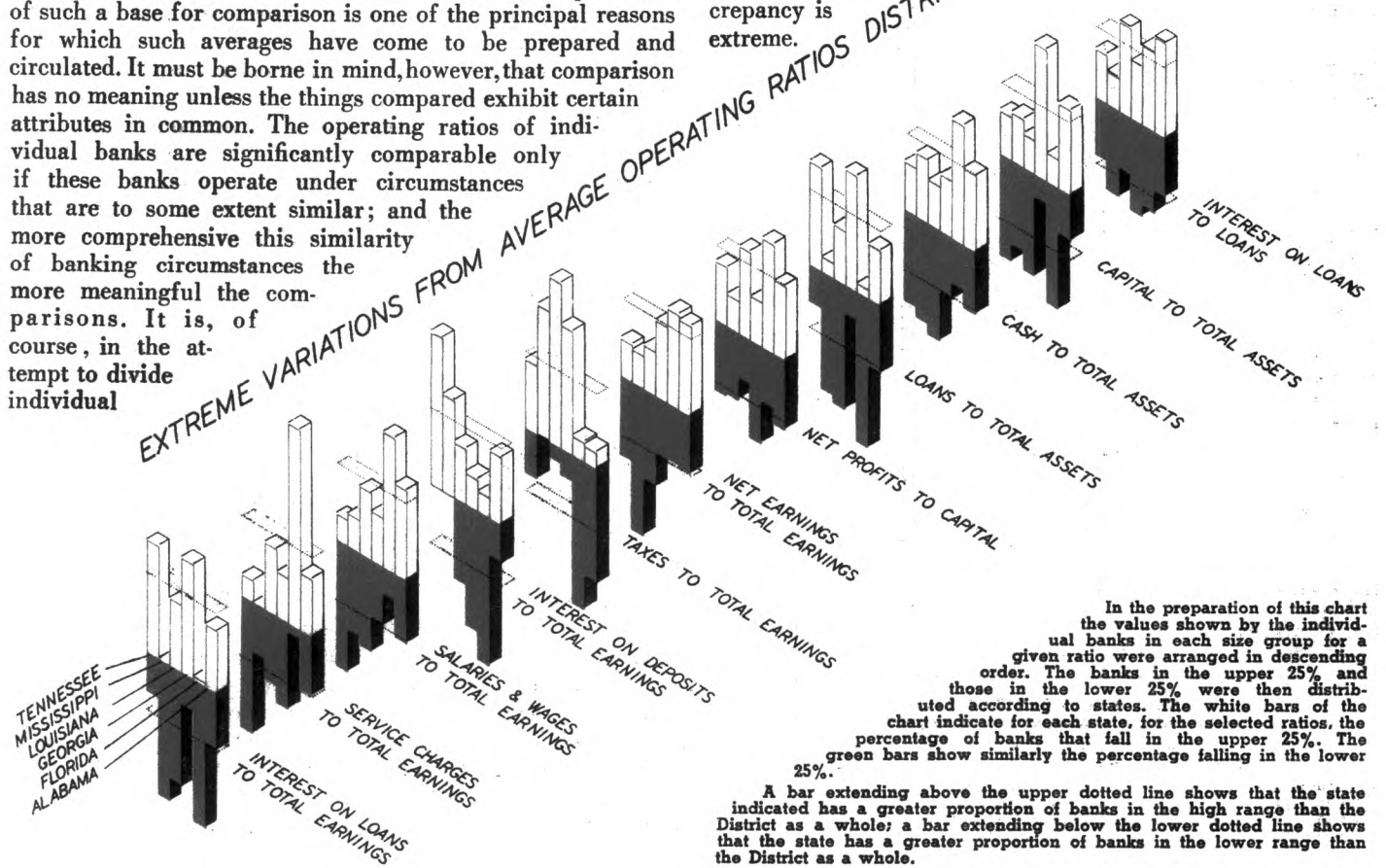
On the center page of this *Review* there is presented a tabular statement of the operating ratios of member banks of the Sixth District for 1940, generally similar in form and content to those prepared for the past few years by this and other Federal Reserve Banks. The method by which the averages are calculated and grouped is identical with that of last year and the year before, but for those unfamiliar with this method a brief description is provided in the last section of this article.

The principal innovation made in this year's presentation for the Sixth District is in an attempt to inform the member banks of the extent of variation in the ratios of individual banks included within a given group. For this purpose there is shown with each group average for a number of selected ratios a range of values within which falls the middle 50 per cent of the ratios of the individual banks in the group. These two figures, the highest and the lowest ratios within this central group, are printed in contrasting type beside the average ratios to which they refer. The manner of calculation and the significance of these additional figures will be commented upon below, and particular reference will be made to the fact that—as may be noticed from the chart—for certain ratios the extremely high values tend to be bunched in one or two states and the extremely low values in other states.

The publication of average operating ratios invites comparison with the ratios of individual banks, and the provision of such a base for comparison is one of the principal reasons for which such averages have come to be prepared and circulated. It must be borne in mind, however, that comparison has no meaning unless the things compared exhibit certain attributes in common. The operating ratios of individual banks are significantly comparable only if these banks operate under circumstances that are to some extent similar; and the more comprehensive this similarity of banking circumstances the more meaningful the comparisons. It is, of course, in the attempt to divide individual banks into groups operating under similar circumstances that size classifications are made, but the ranges exhibited in the table give evidence of the incomplete success with which this classification differentiates banks into substantially similar groups.

The lack of exact similarity in the banking circumstances surrounding banks in a given size group would seem to account for much of the individual variation in the operating ratios between individual banks. For such a size group of banks there undoubtedly will be general influences affecting equally the policy decisions in all the individual banks. To the extent of the relative importance of these general influences common to all the banks the individual bank ratios will tend to be concentrated about an average. But in the light of the multitude of special causes it is not surprising that a bank would rarely find its ratios coinciding exactly with the averages of its size group.

A discrepancy between an individual bank's ratio and the average ratio for the group of which the bank is a member raises the question of the unusualness of the discrepancy from the average or the degree to which the discrepancy is extreme.



In the preparation of this chart the values shown by the individual banks in each size group for a given ratio were arranged in descending order. The banks in the upper 25% and those in the lower 25% were then distributed according to states. The white bars of the chart indicate for each state, for the selected ratios, the percentage of banks that fall in the upper 25%. The green bars show similarly the percentage falling in the lower 25%.

A bar extending above the upper dotted line shows that the state indicated has a greater proportion of banks in the high range than the District as a whole; a bar extending below the lower dotted line shows that the state has a greater proportion of banks in the lower range than the District as a whole.

CONDITION OF FEDERAL RESERVE BANK OF ATLANTA
(In Millions of Dollars)

	Mar. 12 1941	Feb. 12 1941	Mar. 13 1940	Per Cent Change Mar.12,1941,from Feb. 12 1941	Per Cent Change Mar.12,1941,from Mar. 13 1940
Bills discounted	$ .01	$ .01	$ 1.0	...	— 99
Industrial advances	.3	.3	.8	...	— 72
U. S. securities	91.1	91.1	100.4	...	— 9
Total bills and securities	91.5	91.5	101.4	...	— 10
F. R. note circulation	200.8	197.2	158.7	+ 2	+ 27
Member bank reserve deposits	277.3	257.9	224.5	+ 8	+ 24
U. S. Gov't general deposits	11.5	26.3	26.2	— 56	— 56
Foreign bank deposits	26.9	27.5	12.9	— 2	+109
Other deposits	5.9	17.4	7.2	— 66	— 18
Total deposits	321.5	329.0	270.8	— 2	+ 19
Total reserves	436.2	435.4	333.7	+ 0	+ 31
Industrial advance commitments	....	....	.02	...	...

CONDITION OF 22 MEMBER BANKS IN SELECTED CITIES
(In Millions of Dollars)

	Mar. 12 1941	Feb. 12 1941	Mar. 13 1940	Per Cent Change Mar.12,1941,from Feb. 12 1941	Per Cent Change Mar.12,1941,from Mar. 13 1940
Loans and Investments—Total	$702.8	$700.3	$633.4	+ 0	+ 11
Loans—Total	376.6	372.4	307.6	+ 1	+ 22
Commercial, industrial and agricultural loans	198.1	196.5	163.8	+ 1	+ 21
Open market paper	5.2	4.4	3.6	+ 18	+ 44
Loans to brokers and dealers in securities	7.1	7.3	6.4	— 3	+ 11
Other loans for purchasing and carrying securities	11.4	11.2	11.0	+ 2	+ 4
Real estate loans	35.5	34.7	31.5	+ 2	+ 13
Loans to banks	1.2	2.0	.7	— 40	+ 71
Other loans	118.0	117.1	90.6	+ 1	+ 30
Investments—Total	326.2	327.9	325.8	— 1	+ 0
U. S. direct obligations	153.4	155.9	151.2	— 2	+ 1
Obligations guaranteed by U. S.	56.8	58.8	70.6	— 3	— 20
Other securities	116.1	113.2	104.0	+ 3	+ 12
Reserve with F. R. bank	173.8	159.6	130.8	+ 9	+ 33
Cash in vault	16.3	16.1	14.1	+ 1	+ 16
Balances with domestic banks	250.9	227.9	229.5	+ 10	+ 9
Demand deposits-adjusted	479.7	468.7	407.1	+ 2	+ 18
Time deposits	189.6	189.2	189.2	+ 0	+ 0
U. S. Government deposits	28.7	28.9	44.5	— 1	— 36
Deposits of domestic banks	384.8	358.4	309.3	+ 7	+ 24
Borrowings	....	....	....	...	...

DEBITS TO INDIVIDUAL ACCOUNTS
(In Thousands of Dollars)

	Feb. 1941	Jan. 1941	Feb. 1940	Per Cent Change Feb. 1941 from Jan.1941	Per Cent Change Feb. 1941 from Feb.1940
ALABAMA					
Birmingham	$ 101,951	$ 124,426	$ 93,950	— 18	+ 9
Dothan	3,297	3,629	2,582	— 9	+ 28
Mobile	45,741	56,135	39,258	— 19	+ 17
Montgomery	24,688	28,080	26,505	— 12	— 7
FLORIDA					
Jacksonville	102,718	120,506	84,505	— 15	+ 22
Miami	77,259	84,296	70,494	— 8	+ 10
Pensacola	10,400	11,136	8,719	— 7	+ 19
Tampa	36,504	40,990	33,239	— 11	+ 10
GEORGIA					
Albany	5,697	7,486	4,325	— 24	+ 32
Atlanta	246,941	233,798	209,360	+ 6	+ 18
Augusta	21,637	22,422	16,733	— 4	+ 29
Brunswick	2,893	3,231	2,627	— 10	+ 10
Columbus	22,337	25,323	15,070	— 12	+ 48
Elberton	1,233	1,314	963	— 6	+ 28
Macon	25,478	23,046	15,269	+ 11	+ 67
Newnan	1,974	2,483	1,816	— 20	+ 9
Savannah	30,364	34,728	25,896	— 13	+ 17
Valdosta	4,020	4,720	3,661	— 15	+ 10
LOUISIANA					
New Orleans	219,188	256,057	218,887	— 14	+ 0
MISSISSIPPI					
Hattiesburg	10,499	12,558	4,618	— 16	+127
Jackson	30,765	34,887	29,153	— 12	+ 6
Meridian	13,596	14,611	11,248	— 7	+ 21
Vicksburg	7,293	8,402	7,539	— 13	— 3
TENNESSEE					
Chattanooga	46,964	58,976	39,019	— 20	+ 20
Knoxville	33,581	43,472	32,908	— 23	+ 2
Nashville	87,917	99,808	78,303	— 12	+ 12
SIXTH DISTRICT					
26 Cities	1,214,935	1,356,520	1,076,667	— 10	+ 13
UNITED STATES					
274 Cities	35,783,000	41,133,000	32,197,000	— 13	+ 11

RETAIL TRADE — FEBRUARY 1941
(Cities for which no indexes are compiled)

Sales for February compared with

	Jan. 1941	Feb. 1940		Jan. 1941	Feb. 1940
Baton Rouge	+ 0	+ 10	Knoxville	+ 10	+ 11
Chattanooga	— 7	+ 13	Macon	+ 8	+ 17
Jackson	+ 14	+ 11	Montgomery	+ 7	+ 5
Jacksonville	+ 4	+ 22	Tampa	— 0	+ 14

Perhaps the most important deficiency of average operating ratio figures by themselves is that they provide no indication of the unusualness or seriousness of a particular deviation from the average. A banker, for instance, whose ratio of loans to assets is 30 per cent while that for his size group is 40 per cent has no means of knowing whether he is singularly different from his group or whether the general run of banks of his size has ratios widely varying, say from 20 to 60 per cent, so that a deviation as great as his is not particularly noteworthy.

It is to provide a rough answer to this question, which arises in the mind of the reader when the averages are considered, that there is shown on the table the highest and lowest ratios of the middle 50 per cent of the banks in each group. These two figures, the ranges, are determined by arranging the individual bank ratios for each size group in descending order and striking off the upper and lower 25 per cent. If a ratio of a particular bank lies below the lower range figure, the banker concerned will know that at least 75 per cent of the banks of his size group have ratios that are larger than the ratio of his bank; and conversely if his ratio lies above the upper range figure. Some estimate of the unusualness of his ratio in terms of the ratios of other banks of his group is thereby possible.

Glancing down these range columns the reader will see that for many of the ratios the dispersion of individual banks on either side of the group averages is wide, indicating that even the central 50 per cent of the banks that are by selection most nearly alike, differ substantially.

▶ In the chart on page 11 a second variable—the state in which each bank is located—is introduced in addition to the size classification to show the source of some part of this wide variation. The chart shows for several of the ratios the percentage of the number of banks in each state that fell above or below the central range of their respective size groups.

If there were no differences between states in the conditions of bank operation it would tend to be true that 25 per cent of the banks of each state would lie above and 25 per cent below the central 50 per cent range in each ratio, since by construction 50 per cent of the banks of the entire District have been placed in the central range and 25 per cent above and below the central range in each size group. The upper and lower 25 per cent marks are shown on the chart by dotted lines, and it is apparent that in many cases considerably more than 25 per cent of the banks of a state tend to lie in either the upper or the lower 25 per cent range. From this evidence it may be concluded that there are significant differences between the District's states in the conditions of bank operations.

The bar for Florida service charges, for instance, shows that 72 per cent of all Florida banks had ratios of service charges to total earnings above the central range for their respective size groups, and practically none had ratios that were below. Thus, size group for size group, Florida banks generally receive a larger portion of their income from service charges than do banks in other states of the District.

The bars show also that Florida banks typically receive a smaller portion of their income from interest and discount on loans than do the average banks of the District. They pay out more of their gross earnings in salaries and wages than other banks of the District, but considerably less in interest on time and savings deposits. Consistent with their earnings from loans, a much smaller proportion of their assets are in loans, and a somewhat higher proportion is kept in cash.

Similar differences exist in all of the states except Alabama, whose banks, except for their unusually low ratios of taxes to total earnings, tend to be most nearly comparable to the average ratios. Only Alabama has in the majority of the ratios the same percentage of its banks in each range as the District as a whole.

Interestingly, Tennessee appears to be the obverse of Florida in this distribution of extreme values, most of the ratios that are consistently high in Florida, being unusually low in Tennessee. With striking exceptions that may be noted on the chart, Georgia appears to be generally similar to Tennessee and different from Florida with respect to the distribution of extreme ratio values.

The ranges of the ratios of interest and discount on loans as a proportion of total loans and net profits as a proportion of capital accounts seem to distribute themselves more equally amongst the states. Only Florida has more than 25 per cent of its banks in the upper range of the ratio of net profits to total capital—25 per cent being the percentage that would be expected if there were no differences between banks caused by the states in which they are situated. Since for this particular ratio the states tend to have approximately 25 per cent of their banks in both the upper and lower ranges, it may therefore be concluded that the state in which a bank is located has had little influence upon the percentage of profits on capital. Florida's percentage probably results from the lower ratio of capital to assets of Florida banks. Understandably, the state distribution of extreme values for net current earnings to total earnings also shows a smaller discrepancy from the expected distribution than do any of the other earnings ratios. Although marked concentrations are observed for the ratios that show breakdowns of the earnings and epxense items, these concentrations tend to be offsetting in the aggregation of these earnings and expenses into the net figure. No state has more than its expected percentage of banks with high net earnings, and only Mississippi has more than its expected percentage of banks with low earnings.

This chart should serve as a reminder that in interpreting the highness or lowness of a given ratio of an individual bank immediate reference should be made to the particular banking circumstances experienced by that bank; for the highness or lowness of the ratio of the bank could hardly be considered unusual if all the banks of the same state were similarly high or low.

▶ Comparable data on some of the operating ratios having now been computed for three years, the possibility of year to year comparisons would seem to exist, but considerations of space prohibit the publishing at this time of the complete series of three years data. For the most part the ratios both for the District as a whole and for the size groups separately show only minor differences over the period and few if any movements that could be called trends. In the table below some of the more interesting developments are shown.

One must be warned, however, of the danger of drawing strong conclusions from the information in the table, for in many of the cases where the ratios of a particular size group appear to have increased or decreased over the period, it can be shown that these movements reflect changes in the composition of the groups rather than in the ratios of identical banks.

During the years 1938 to 1940 the total deposits of banks in the United States and in the Sixth District as well were

Continued on page 17

SIXTH DISTRICT BUSINESS INDICATORS
Indexes
(1923-1925 average = 100, except as noted)

	Adjusted			Unadjusted		
	Feb. 1941	Jan. 1941	Feb. 1940	Feb. 1941	Jan. 1941	Feb. 1940
RETAIL SALES* (1935-1939 Av. = 100)						
DISTRICT (47 Firms)	127	122	115	110	93	83
Atlanta				120	95	111
Birmingham				104	90	94
Nashville				101	88	91
New Orleans				100	88	89
RETAIL STOCKS						
DISTRICT (21 Firms)	83	81	79	81	74	77
Atlanta	160	155	146	154	142	140
Birmingham	76	75	78	73	67	74
Nashville	60	59	59	57	51	56
New Orleans	67	67	64	67	61	64
WHOLESALE SALES						
TOTAL				66	68	66
Groceries				56	60	54
Dry Goods				49	49	52
Hardware				121	127	90
Drugs				118	142	139
CONTRACTS AWARDED						
DISTRICT				99	83r	66
Residential				88	63	53
Others				107	96r	74
Alabama				62	141	56
Florida				78	48	50
Georgia				75	85	93
Louisiana				271	51	66
Mississippi				104	184	104
Tennessee				84	111	80
BUILDING PERMITS						
20 CITIES				57	50	47
Atlanta				24	22	44
Birmingham				24	39	16
Jacksonville				112	86	60
Nashville				109	12	17
New Orleans				27	44	52
PIG IRON PRODUCTION*						
Alabama				143	135	118
COAL PRODUCTION* (1935-1939 Av. = 100)						
TWO STATES	134	135r	124	156	148	144
Alabama				158	152	144
Tennessee				146	139	143
COTTON CONSUMPTION*						
THREE STATES				238	232	188
Alabama				300	280	218
Georgia				215	214	178
Tennessee				205	205	168
EMPLOYMENT (1932 Av. = 100)						
SIX STATES				146	142	135
Alabama				157	155	139
Florida				128	120	121
Georgia				160	157	149
Louisiana				130	129	118
Mississippi				116	114	111
Tennessee				137	134	131
PAYROLLS (1932 Av. = 100)						
SIX STATES				217	207	186
Alabama				307	292	241
Florida				125	119	110
Georgia				240	229	210
Louisiana				164	159	141
Mississippi				156	149	148
Tennessee				214	204	171
				Jan. 1941	Dec. 1940	Jan. 1940
ELECTRIC POWER PRODUCTION*						
SIX STATES				468	442r	399
Alabama				626	507	512
Florida				642	620r	631
Georgia				273	285	219
Louisiana				650	659r	670
Mississippi				73	93r	81
Tennessee				359	396	269

	Statistics (000 Omitted)			Year to Date	
	Feb. 1941	Jan. 1941	Feb. 1940	1941	1940
COMMERCIAL FAILURES					
Number (Actual—not 1000's)	40	40	55	80	122
Liabilities	$ 331	$ 303	$ 622	$ 634	$ 1,106
	Jan. 1941	Dec. 1940	Jan. 1940		
FARM INCOME**					
SIX STATES	64,700	83,955	51,175		
Alabama	5,918	10,866	5,681		
Florida	13,996	14,129	11,022		
Georgia	8,590	11,951	5,856		
Louisiana	9,201	10,092	6,635		
Mississippi	9,398	17,960	9,849		
Tennessee	17,597	18,957	12,132		

*Indexes of retail sales, electric power, coal, and pig iron production, and of cotton consumption are on a daily average basis.

**Includes Government benefit payments.

r = Revised.

AVERAGE OPERATING RATIOS OF MEMBER BANKS

Grouped according

Groups with average deposits of.....	Up to $250,000		$250,000 to $500,000		$500,000 to $1,000,000	
Number of banks in each group.....	13		54		69	
	Average of Group	Range within which fell middle 50% of the banks	Average of Group	Range within which fell middle 50% of the banks	Average of Group	Range within which fell middle 50% of the banks
RATIOS TO TOTAL EARNINGS:	%	%	%	%	%	%
Interest and discount on loans.....	73.4	65.2—83.8	72.2	67.8—80.9	68.0	62.8—78.2
Interest and dividends on securities....	14.6	4.8—21.1	15.2	5.1—19.4	18.7	9.9—26.0
Trust department earnings.....	(1)		(1)		(1)	
Service charges.....	3.7	2.6— 5.6	3.4	.9— 4.1	4.1	1.7— 4.7
All other earnings.....	8.3	2.3—11.6	9.2	5.4—12.3	9.2	4.7—11.7
Total earnings.....	100.0		100.0		100.0	
Salaries and wages.....	33.1	25.3—37.7	32.5	28.0—36.6	27.8	23.9—31.6
Interest on time and savings deposits..	12.1	7.3—18.6	14.9	9.9—18.2	15.5	10.7—19.5
Real estate taxes[2].....	3.0	.5— 5.4	3.2	.5— 5.8	3.3	.7— 5.4
Other taxes[2].....	5.6	1.1— 7.6	5.1	2.2— 7.2	4.7	1.6— 7.3
All other expenses.....	19.1	14.9—19.4	17.9	14.7—21.1	18.0	14.2—21.4
Total expenses.....	72.9	62.6—80.9	73.6	68.6—78.7	69.3	64.4—73.5
Net current earnings.....	27.1	19.1—37.4	26.4	21.3—31.4	30.7	26.5—35.6
Net charge-offs, etc.....	12.9[3]	+ 6.6—15.1	3.5	+ 1.1— 6.5	6.4	+ .4—10.6
Net profits.....	14.2[3]	20.4—44.4	22.9	17.2—27.3	24.3	17.6—34.5
RATIOS TO TOTAL CAPITAL ACCOUNTS:						
Net current earnings.....	6.3	3.7— 8.7	7.3	5.1— 9.5	10.0	7.8—12.2
Net charge-offs, etc.....	2.7[3]		1.1		2.5	
Net profits.....	3.6[3]	3.1— 8.5	6.2	4.2— 8.3	7.5	5.3—10.2
Cash dividends declared.....	2.5	1.2— 3.5	3.0	1.6— 4.1	4.2	2.6— 5.1
Real estate assets.....	18.6		22.8		22.8	
RATIOS TO TOTAL ASSETS:						
Total earnings.....	4.7		4.3		4.3	
Total expenses.....	3.4		3.2		3.0	
Net current earnings.....	1.3		1.1		1.3	
Net charge-offs, etc.....	.7[3]		.1		.3	
Net profits.....	.6[3]		1.0		1.0	
Loans	43.6	32.0—50.5	41.8	33.3—51.3	41.3	33.2—49.2
Securities	16.7	7.4—21.2	17.7	9.2—22.0	21.5	13.5—27.5
Real estate assets.....	4.8		3.4		3.0	
Cash assets.....	34.8	25.2—43.6	36.9	31.7—42.4	33.9	28.1—40.4
All other assets.....	.1		.2		.3	
Total assets.....	100.0		100.0		100.0	
Total capital accounts.....	23.9	16.8—24.9	16.9	12.5—19.3	14.4	11.1—16.3
RATIO TO EARNING ASSETS:[4]						
Total capital accounts.....	37.0	29.7—40.4	27.5	19.8—35.2	22.3	16.8—25.8
RATIOS TO TOTAL DEPOSITS:						
Total capital accounts.....	34.2[5]	21.8—33.3	21.1	14.3—24.0	17.2	12.6—19.5
Time deposits.....	38.2	21.4—47.2	36.0	27.5—46.9	39.0	29.2—48.1
RATIO TO TIME DEPOSITS:						
Interest on time and savings deposits..	1.9	1.8— 2.2	1.9	1.8— 2.2	1.9	1.8— 2.0
RATIOS TO LOANS:						
Interest and discount on loans.....	8.1	7.4— 8.7	7.7	6.8— 8.4	7.2	6.5— 7.9
Recoveries on loans.....	.2		.2		.2	
Losses on loans.....	1.7[5]	.1— 1.3	.4	.1— .5	.8	.1— .9
Net return on loans.....	6.1	5.8— 8.6	7.5	6.8— 8.4	6.6	5.9— 7.4
RATIOS TO SECURITIES:						
Interest and dividends on securities....	4.4	3.4— 5.6	3.5	2.9— 3.6	3.5	2.9— 4.1
Recoveries on securities.....	.3		.5		.1	
Profits on securities sold.....	1.2[5]	0— 1.0	.5	0— .7	1.0	0— 1.0
Losses on securities.....	.1		.2		.4	
Net return on securities.....	5.8	3.4— 6.8	4.3	2.7— 4.4	4.2	3.2— 5.0
RATIO TO TOTAL DECEMBER LOANS:						
December installment loans (schedule A-1)	8.7		6.4		9.6	

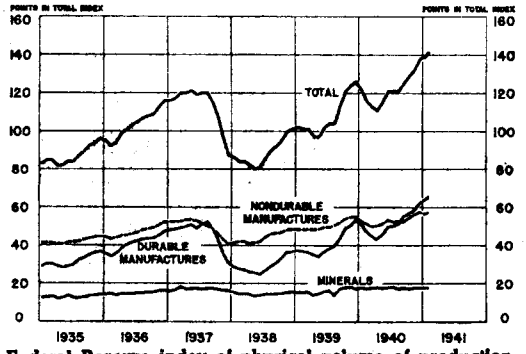
For footnotes see page 17.

IN THE SIXTH FEDERAL RESERVE DISTRICT IN 1940

to size of Deposits

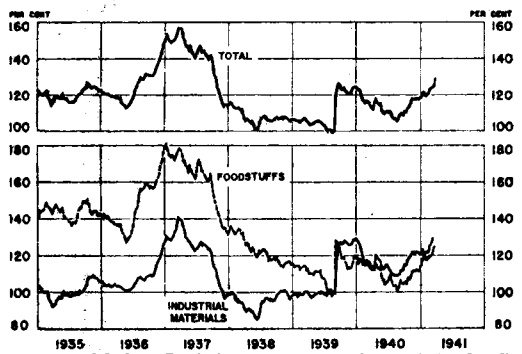
$1,000,000 to $2,000,000		$2,000,000 to $5,000,000		$5,000,000 to $10,000,000		Over $10,000,000		All District Member Banks
66		54		23		35		314
Average of Group	Range within which fell middle 50% of the banks	Average of Group	Range within which fell middle 50% of the banks	Average of Group	Range within which fell middle 50% of the banks	Average of Group	Range within which fell middle 50% of the banks	Average of Group
%	%	%	%	%	%	%	%	%
60.6	45.1—77.4	58.2	51.1—67.8	54.8	48.7—61.0	45.9	37.9—51.5	62.3
24.1	9.7—33.1	24.2	14.6—31.8	21.7	12.6—32.8	30.8	21.4—39.6	21.6
(1)		(1)		2.7[1]	0— 4.2	5.0[1]	2.8— 5.3	(1)
5.8	2.6— 7.7	6.2	3.6— 8.0	7.6	4.6— 7.7	5.1	4.2— 5.2	5.1
9.5	4.4—12.1	11.4	6.3—11.6	13.2	8.6—16.9	13.2	7.4—17.7	11.0
100.0		100.0		100.0		100.0		100.0
30.4	25.2—34.0	30.4	28.1—34.0	30.6	27.1—31.9	28.7	25.4—30.8	30.1
16.3	10.8—21.4	14.6	10.2—18.4	12.2	6.3—17.4	9.6	6.0—12.8	14.4
3.7	.9— 4.9	3.6	1.3— 4.3	3.1	1.3— 4.6	3.0	.9— 4.2	3.4
4.7	1.7— 6.2	3.8	1.7— 2.5	4.1	1.8— 4.9	6.0	2.1— 9.4	4.7
17.4	13.6—20.3	19.8	15.9—23.5	21.8	18.0—24.8	22.7	19.1—24.9	19.0
72.5	65.4—78.5	72.2	67.2—77.2	71.8	66.0—77.1	70.0	63.4—73.7	71.6
27.5	21.4—35.6	27.8	22.8—32.9	28.2	22.9—34.0	30.0	26.3—36.6	28.4
2.8	+ 2.6— 6.6	3.4	+ 1.4— 5.5	2.7	+ 3.7— 6.4	+ 1.6	+ 6.8— 8.9	3.7
24.7	19.5—33.2	24.4	19.5—31.6	25.5	22.4—31.5	31.6	25.4—35.3	24.7
8.5	6.1—11.4	8.9	6.6—10.8	9.2	7.4—11.1	9.4	6.9—11.3	8.7
1.0		1.2		.9		— .0		1.3
7.5	5.3— 9.8	7.7	6.0—10.4	8.3	7.0—11.8	9.4	7.5—12.1	7.4
3.7	2.4— 4.6	3.3	2.6— 3.8	2.7	2.0— 3.1	3.4	2.2— 3.7	3.4
24.4		30.4		31.2		33.9		26.1
3.7		3.5		3.2		2.6		3.8
2.6		2.5		2.3		1.8		2.7
1.1		1.0		.9		.8		1.1
.1		.2		.1		+ .0		.2
1.0		.8		.8		.8		.9
34.9	20.1—49.0	33.5	24.7—41.2	32.0	24.8—40.9	26.8	21.4—32.1	36.5
25.0	11.8—35.9	24.6	14.9—32.2	23.1	16.5—30.6	29.6	23.2—36.6	23.0
2.9		3.2		3.3		3.0		3.2
36.8	28.3—44.8	38.4	32.9—43.7	41.3	36.3—45.2	40.0	35.9—43.0	37.0
.4		.3		.3		.6		.3
100.0		100.0		100.0		100.0		100.0
12.8	10.2—15.2	11.4	9.1—12.8	10.1	8.2—11.1	8.7	7.3— 9.9	13.4
20.7	16.2—23.5	18.7	15.9—21.7	17.5	15.2—19.1	14.7	12.3—16.0	21.6
15.0	11.3—17.9	13.0	10.1—14.7	11.4	8.9—12.5	9.6	8.0—11.0	16.1
37.6	29.8—46.6	34.1	28.0—40.6	29.2	19.6—38.2	20.9	13.2—26.2	34.6
1.7	1.4— 2.0	1.6	1.4— 1.9	1.3	1.2— 1.7	1.2	1.0— 1.5	1.7
6.5	5.9— 7.1	6.2	5.8— 6.6	5.6	5.1— 5.9	4.4	4.0— 4.8	6.6
.2		.3		.2		.3		.2
.5	.1— .6	.4	.1— .5	.4	.1— .3[5]	.5	.1— .6	.6
6.2	5.4— 6.9	6.1	5.6— 6.5	5.4	4.8— 5.8	4.2	3.9— 4.5	6.2
3.5	2.9— 3.9	3.3	2.9— 3.6	2.8	2.4— 3.2	2.6	2.3— 3.0	3.3
.2		.2		.2		.5		.3
1.0	.1— 1.2	.9	.3— 1.2	1.0	.5— 1.3	1.1	.6— 1.4	.9
.5		.7		.8		.8		.5
4.2	3.1— 4.8	3.7	2.9— 4.5	3.2	2.7— 3.8	3.4	2.6— 3.9	4.0
8.5		9.0		7.7		6.5		8.2

INDUSTRIAL PRODUCTION



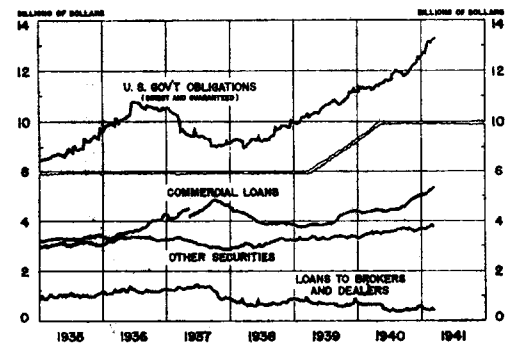
Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-1939 average = 100. Subgroups shown are expressed in terms of points in the total index. By months, January 1935 to February 1941.

WHOLESALE PRICES OF BASIC COMMODITIES



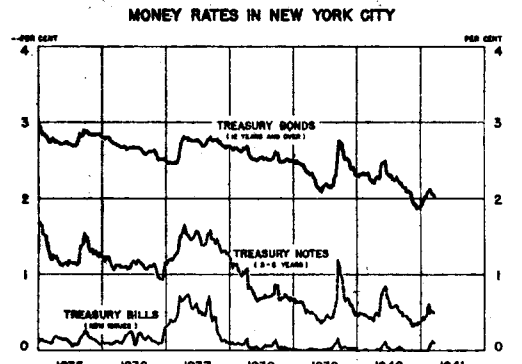
Bureau of Labor Statistics' index based on 12 foodstuffs and 16 industrial materials, August 1939 = 100. Thursday figures, January 3, 1935 to March 13, 1941.

MEMBER BANKS IN 101 LEADING CITIES



Wednesday figures, January 3, 1935 to March 12, 1941. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937 so-called "Other Loans" as then reported.

MONEY RATES IN NEW YORK CITY



Weekly averages of daily yields of 3- to 5-year tax-exempt Treasury notes, Treasury bonds, and average discount on new issues of Treasury bills offered within the week. For weeks ending January 5, 1935 to March 15, 1941.

National Summary of Business

Prepared by the Board of Governors of the Federal Reserve System

Industrial activity and employment increased further in February and the first half of March. Buying by producers and consumers continued in large volume and wholesale commodity prices, particularly of imports, advanced.

Production

In February volume of industrial output, on a daily average basis, rose more than seasonally, and the Board's adjusted index advanced from 139 to 141 per cent of the 1935-39 average.

Increases in February, as in other recent months, were largest in the durable goods industries where a large proportion of defense program orders have been placed. Activity continued to rise sharply at machinery plants, aircraft factories, shipyards, and in the railroad equipment industries. Steel production fluctuated around 96 per cent of capacity in January and February and rose to 99 per cent in the first half of March. New orders for steel continued large and, despite the high rate of output, unfilled orders increased further. Many orders have been placed for delivery in the second half of this year, reflecting the prospect of heavy consumption and some uncertainty on the part of steel users regarding future availability of supplies. Output of pig iron, coke, and nonferrous metals was likewise at near capacity rates in February and unfilled orders for these products, too, were at exceptionally high levels. Demand for lumber continued large owing to a high rate of construction activity and output was sustained in large volume for this time of year. Automobile production increased in February and the first half of March to about the peak rate attained last November. Retail sales of new and used cars advanced to unusually high levels.

In industries manufacturing nondurable goods, activity continued at the record levels reached in the latter part of 1940. There were further increases in the cotton textile, rubber, and chemical industries and activity at woolen mills also increased, following a temporary reduction in January. In most other lines activity was maintained at the high levels of other recent months.

Coal production rose less than seasonally in February but increased considerably in the first half of March when, according to trade reports, there was some inventory accumulation in anticipation of a possible shutdown on April 1 at the expiration of the present contract between the mine operators and the miners' union. Copper and zinc production increased in February and recently domestic supplies of copper have begun to be supplemented by imports from South America. Output of crude petroleum continued at about the rate that had prevailed during the three preceding months.

Value of construction contract awards in February declined somewhat more than seasonally, reflecting decreases in both public and private work, according to reports of the F. W. Dodge Corporation. Awards for public construction, although sharply reduced from the high levels reached in the latter half of 1940, were somewhat above those of a year ago, and awards for private construction were nearly half again as large as in February of last year.

Distribution

Distribution of commodities to consumers increased more than seasonally from January to February. Sales at variety stores and by mail-order houses were the largest on record, making allowance for usual seasonal changes, and department store sales were also at a high level.

Freight-car loadings increased by about the usual seasonal amount. Shipments of miscellaneous freight, consisting mostly of manufactured products, showed an increase while loadings of forest products rose less than seasonally and grain shipments declined.

Wholesale Commodity Prices

Prices of a number of basic imports rose sharply from the early part of February to the middle of March. Cotton yarns and gray goods and nonferrous metal scrap showed further increases in this period and there were also advances in prices of some other domestic commodities, including lead, wheat, cotton, and oils and fats.

Bank Credit

Commercial loans continued to increase at member banks in 101 leading cities in February and the first half of March and these banks also purchased additional Treasury notes and bills issued in connection with the defense program. As a result of the increase in loans and investments, bank deposits showed a further marked advance.

United States Government Security Prices

Prices of Government securities increased after February 15, following a sharp decline in the preceding ten weeks. The 1960-65 bonds on March 15 were about 3⅛ points above their price on February 15 and about 1¼ points below the all-time peak of December 10. The yield on this issue, which increased from 2.03 per cent at the peak in prices on December 10 to 2.30 per cent on February 15, had declined to 2.14 per cent on March 15.

LOAN RATIOS 1938-1940

Size group		Under $250,000		$250,000 to $500,000		$500,000 to $1,000,000		$1,000,000 to $2,000,000		$2,000,000 to $5,000,000		$5,000,000 to $10,000,000		Over $10,000,000		All District Banks
		Average as published	Average of largest sample common to three years	Average as published	Average of largest sample common to three years	Average as published	Average of largest sample common to three years	Average as published	Average of largest sample common to three years	Average as published	Average of largest sample common to three years	Average as published	Average of largest sample common to three years	Average as published	Average of largest sample common to three years	Average as published
Number of banks in group:	1938	23	13	63	42	70	50	71	51	46	36	17	12	28	28	318
	1939	17	13	57	42	64	50	74	51	52	36	19	12	30	28	313
	1940	13	13	54	42	69	50	66	51	54	36	23	12	35	28	314
Interest and discount on loans to total earnings:	1938	69.7	68.8	68.6	71.9	62.2	63.4	57.1	57.0	53.9	54.8	47.1	52.3	42.1	42.1	59.1
	1939	71.3	71.6	70.8	73.3	65.4	64.3	58.3	57.9	54.9	55.0	50.8	52.1	43.2	43.4	60.3
	1940	73.4	73.4	72.2	73.9	68.0	66.6	60.6	60.2	58.2	57.0	54.8	53.3	45.9	45.8	62.3
Interest and discount on loans to total loans:	1938	8.3	8.1	7.3	7.5	6.8	7.1	6.2	6.3	6.0	6.0	5.4	5.5	4.3	4.3	6.5
	1939	8.1	8.1	7.4	7.5	7.2	7.2	6.3	6.3	6.0	6.1	5.3	5.4	4.4	4.3	6.5
	1940	8.1	8.1	7.7	7.7	7.2	6.9	6.5	6.4	6.2	6.2	5.6	5.4	4.4	4.3	6.6

Operating Ratios of Sixth District Member Banks for 1940

Continued from page 13

continuously increasing, and this increase was very generally spread throughout the banking system. Most banks, that is, have been tending to grow larger, and have been tending, therefore, to leave their original size group, and to move into the next larger group. The effect of this growth is clearly apparent in the tabulation of the numbers of banks in each size group during the three years, the numbers in the small groups consistently declining and the numbers in the large groups consistently increasing. If the complete series were here reprinted it would be noticed in the tabulation that those ratios that tend to increase from the small to the large size groups in any one year appear also to be declining in each size group during the past three years. Conversely, those ratios that tend to decrease from the small to the large size groups appear also to be increasing during the past three years. But a substantial part of these apparent trends is the direct result of the movement into the larger groups of banks with lower ratios in the first case and with higher ratios in the second. That there has been less change in the conditions of individual banks than one would be apt to conclude from the table is indicated first by the smaller trends shown for the entire District, and by the smaller trends shown in the averages computed for banks common to the particular size groups for all three years.

▶ In computing the average operating ratios, the individual ratios for each bank are first separately calculated. For each bank the items of income and expense are determined by adding together those items as reported to this Bank in the two half-yearly statements of earnings made by each member bank, and the asset and liability items prevailing during the year are estimated by averaging the values of these items as reported in the three condition statements called for during the year. From these two sets of data the operating ratios of each bank are computed. The individual banks are then divided into seven size groups, total deposits being used as the measure of size, and the published ratios for each size group are computed by averaging the ratios for the banks in the size group. This process has now been followed in this and most of the other Federal Reserve Districts for three years.

The fact that the average volume of a bank's assets and liabilities throughout the year must of necessity be estimated from the amounts of those items reported as of three or four dates during the year, introduces the possibility of some unreliability into the data. The volume of outstanding loans possessed by banks in so heavily agricultural a region as the Sixth District varies considerably throughout the year, and a system of quarterly reports, particularly when either the spring or fall report is frequently omitted, is not capable of yielding sufficiently accurate ratios of "loans to total assets" or of "interest and discount on loans to loans" to make significant the small differences that appear from year to year.

Asset and liability figures are also subject to difficulties of interpretation for the reason that they involve arbitrary and sometimes partially dissimilar methods of valuation. Accounting practice consists in a series of working rules with which securities, banking house, and some other assets are valued. Even if the concept of sound banking did not encourage the writing down of assets, there would be little reason to believe that the figures are reported on a basis so nearly identical as to give significance to very small differences between Districts, between size groups, or from year to year, in ratios containing securities or real estate.

E. H.—R. V.

Footnotes to Table of Operating Ratios

1. Trust department earnings for those few banks in the smaller groups having trust departments were included with "all other earnings," since an average ratio of trust department earnings to total earnings would mean little when derived by dividing the trust earnings of a few banks by all the banks in the group. The difference between the ratios shown for the two largest groups is not itself significant since a far larger proportion of the banks in the largest group had trust departments than those in the next smaller group. The ratios of trust department earnings to total earnings for those banks having trust departments were, by groups, as follows:

	%	Number of Banks
$1,000,000 to $ 2,000,000	3.4	14
$2,000,000 to $ 5,000,000	1.6	29
$5,000,000 to $10,000,000	3.9	15
Over $10,000,000	5.1	34

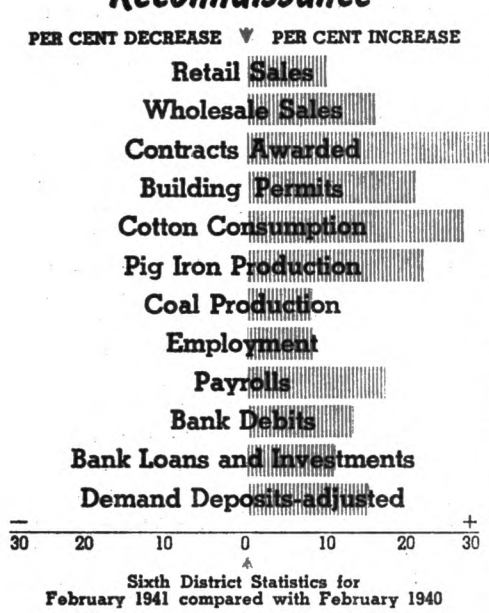
2. The significance of the distinction between real estate and other taxes must be carefully interpreted since state laws of real estate taxation are particularly varied.
3. All the ratios of group 1 banks containing net charge-offs or net profits are unreliable. One of the banks of this group charged off over 200 per cent of its earnings during the year, which, with only 13 banks in the group, is responsible for making the ratios of net charge-offs some 15 per cent higher and of net profits some 15 per cent lower than would otherwise have been the case.
4. Earning assets are defined here as the total of loans, securities, and real estate assets.
5. In these cases a few ratios unusually high or unusually low have caused the average to lie outside of the middle 50 per cent group. The fact that this can occur is strong evidence of the usefulness of the ranges, for in any such case an arithmetic average is not representative of the typical banks in the group. It will be noticed that the average ratio of losses on loans to loans lies consistently beyond or near the upper limit of the range, indicating that for all groups the arithmetic average of this ratio is raised by the non-typical losses of a few banks.

District Summary of Business Conditions

In February there were further gains in trade and industrial activity in the Sixth District. Department store sales increased more than they usually do in February, wholesale sales declined slightly less than usual, and life insurance sales increased. Advances in industrial activity are indicated by increases in cotton consumption, production of pig iron and coal, in construction contracts awarded, and in building permits. Business failures, in point of liabilities, were somewhat larger in February than in January, but were 47 per cent less than they were a year ago.

In February, which was shorter than January by two business days and shorter than February last year by one, department store sales increased substantially over January and were 10 per cent greater than a year ago. The advance over January was 4 per cent larger than might have been expected on the basis of past seasonal performance, and the index for February, both unadjusted and adjusted, was at the highest level ever recorded for February. The adjusted index, at 127 per cent of the 1935-1939 average, was only two points below the 129 reached in November and December, which was the highest for any month in more than twenty years. The Board's preliminary adjusted index for the country as a whole advanced 1 per cent in February, and was 13 per cent above that for February last year. Wholesale trade in the District declined 3 per cent in February, a drop slightly less than usually occurs, and was 16 per cent greater than a year ago, and life insurance sales increased 4 per cent over January and were up 11 per cent from February last year.

Because of large increases in Florida and Louisiana, the District total of construction contracts awarded in February increased 20 per cent over January, and residential contracts were 39 per cent larger. Both the total and residential figures include a number of projects connected with the national defense program. The District total for February was 51 per cent greater than in February last year, and residential awards were up 66 per cent. The month's gain of 20 per cent in total awards over January compares with a drop of 11 per cent for the 37 Eastern States, and the gain of 39 per cent in residential awards in the District compares with an increase of 5 per cent for the 37 Eastern States. Building permits issued at twenty reporting cities increased 13 per cent in February and were 21 per cent greater than a year ago.



Although there was a decline of 5 per cent in the actual number of bales of cotton consumed by mills in Alabama, Georgia, and Tennessee in the 24 business days of February as compared with the longer month of January, the daily rate increased further by 3 per cent to a new high level for the District, and was 27 per cent greater than in February last year. In the current season, August through February, consumption has been 11 per cent greater than in that part of the previous season. February consumption in the country gained 6 per cent over January and was up 24 per cent from Februruary last year.

The rate of pig iron production in Alabama increased 6 per cent in February to a new high level that was 22 per cent above that of February last year. For the country, February output declined by a fraction of 1 per cent from January but was 31 per cent greater than a year ago. Steel mill activity in the Birmingham-Gadsden area has recently been at 95 per cent of capacity, as against an average of 80.8 per cent for March last year, while for the country as a whole the rate has recently risen to a record 99.5 per cent, compared with 63.1 for March 1940.

February output of coal in Alabama and Tennessee increased further by 5 per cent, against a gain of 2 per cent for the country, and District output was 8 per cent greater than a year ago.

Electric power production in the six states of the District increased 6 per cent in January (latest available figures) to a new high level.

Cash farm income was seasonally lower in January, but was 26 per cent larger than in January 1940. Income from marketings of crops and livestock were up 31 per cent, but Government benefit payments were 6 per cent less. The increase of 26 per cent for the six states of this District over January 1940 compares with a rise of only 2 per cent for the country as a whole. The District total for January is somewhat less than it was for that month of 1937 and 1938, but larger than for January of other recent years.

The annual survey conducted by the United States Department of Agriculture of farmers' "planting intentions" on March 1 indicates that the farmers in the six states of this District intend to plant larger areas this year than last in oats, hay, white potatoes, sweet potatoes, barley (Tennessee), and rice (Louisiana), but somewhat smaller acreages in corn, tobacco, and peanuts. No "intentions to plant" report is issued on cotton because of prohibitory legislation. According to March 1 reports to the Department Sixth District farmers intended to increase the acreage in oats by 17 per cent, that in sweet potatoes by 12 per cent, the areas in white potatoes and hay by 4 per cent, barley in Tennessee by 5 per cent, and rice in Louisiana by 2 per cent. Decreases are indicated of 2 per cent in corn and peanuts, and 4 per cent in tobacco. The tobacco acreage in Tennessee is indicated at 9 per cent less than that of last year while in Georgia and Florida small increases are expected.

After declining somewhat in January, total loans and investments of weekly reporting member banks in this District have increased in February and the first half of March. Total loans, and loans for commercial, industrial, and agricultural purposes have continued to increase and are at the highest levels in many years. Demand deposits-adjusted have also continued to rise and have recently been at a new high level.