

# MONTHLY *Business Review*

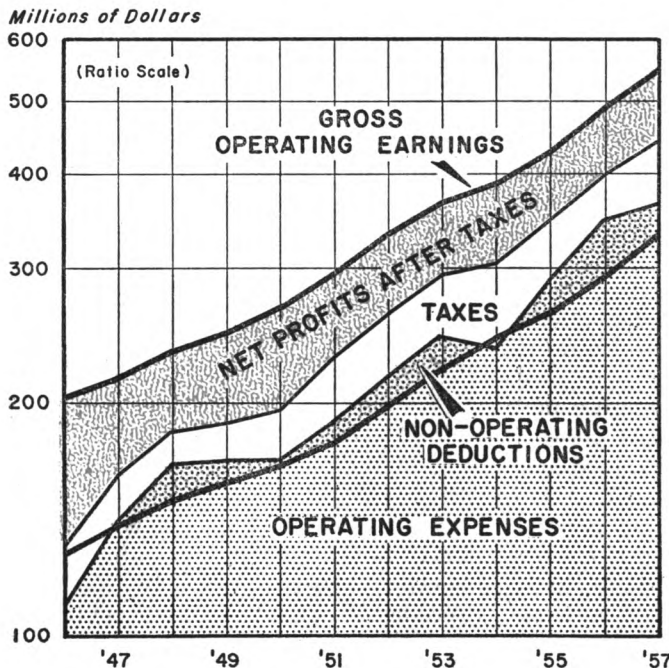
FEDERAL RESERVE BANK of CLEVELAND

*April, 1958*

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## DISTRIBUTION OF MEMBER BANK EARNINGS Fourth Federal Reserve District



**Gross operating earnings at Fourth District member banks continued to climb in 1957. Expenses and taxes moved up at a faster rate than earnings, but other deductions from profits declined in 1957.**

# Bank Earnings in 1957

## *Member Banks, Fourth Federal Reserve District*

**R**ECENTLY COMPLETED compilations of earnings and dividend reports of all member banks provide the first comprehensive record of bank earnings during 1957. The earnings performance of Fourth District member banks was, in some ways, the best for any year of the postwar period. Net profits after taxes rose 15 percent between 1956 and 1957, providing the largest return on capital in ten years.

Nevertheless, net operating earnings rose only 8 percent, as expenses rose faster than earnings and banks experienced a squeeze parallel to that of many other businesses. Reflecting a sustained demand for loans throughout most of the year and a general upward movement in interest rates, gross operating earnings increased 11 percent between 1956 and 1957. Gross operating expenses, however, were nearly 14 percent larger than the previous year.

Contrary to much of the postwar period, nonoperating factors (including changes in valuation reserves set aside for losses as well as actual losses and recoveries on both loans and securities) absorbed a smaller share of earnings. About 16 percent of net operating earnings were absorbed by nonoperating factors in sharp contrast to about 29 percent in 1956. On the other hand, taxes on net income increased by nearly one half. After expenses and other deductions, 19 percent of total operating earnings was carried over to net profits, a shade more than the percentage in 1956 but well below the postwar average. (See cover chart.)

### Expansion of Bank Credit

Despite the marked easing of member bank reserves over the past six months, the impact of monetary restraint in 1957 on bank credit expansion was broadly similar to that of the previous two years. Demand deposits at Fourth District member banks declined during the year about 1 percent, or \$95 million. (See the accompanying chart.) Time deposits, on the other hand, rose \$253 million, or nearly 6 percent, the sharpest gain in the postwar period. Much of the increase in time deposits can be attributed to widespread increases in interest rates paid on such deposits, following the January 1, 1957, amendment to Regulation Q. Some of the gain in time deposits represented shifts from demand deposits and from other savings institutions.

The net effect on the expansion of bank credit accruing from the gain in time deposits and the decline in demand deposits during the year was only moderate. Moreover, the net deposit gain of \$158 million was less than two fifths of the addition made during 1956. With bank reserve positions still relatively tight during most of the year, member banks continued to meet the demand for loans by selling securities and reducing their cash balances.

Loan assets increased \$339 million in contrast to a \$249-million addition to total assets. Toward the end of the year, additions were again made to security holdings as loan demand slowed. Additions to security hold-

ings for the entire year, however, were only \$69 million.

The effects of these changes upon earnings are illustrated by the accompanying charts. Loans, which are higher-yielding assets, continued to provide the lion's share of member bank earnings as well as the increase in earnings. The shift from securities to loans during much of the postwar period has resulted in a decline in the liquidity position of member banks to levels considered by many bankers as imposing limits to further expansion of loans. (At the end of World War II, cash assets plus U. S. Government securities comprised more than three quarters of Fourth District member bank assets. This abnormally high liquidity ratio had resulted from bank participation in financing the war. The subsequent demand for loans of all kinds led banks to sell securities to make loans.)

By 1957, the ratio of cash assets and Governments to total assets had fallen below 50 percent. Had the demand for loans continued into 1958, a somewhat common rule of thumb that loans should not exceed two thirds of assets might have restrained further loan expansion.

The relatively larger gain in time deposits than in demand deposits also had an effect on bank earnings in 1957. Banks are not permitted to pay interest on demand deposits, but they may and do pay interest on time deposits. The 2 percent to 3 percent interest paid on time deposits requires investment in higher-yielding assets. Furthermore, time deposits generally stay in a bank for a longer period than checking account balances and, therefore, longer-term investments may be increased with a greater degree of safety. Thus, if the trend toward larger time deposits continues, the distribution of earning assets, especially loans, may be expected to change in the direction of longer term and higher yield.

#### Factors Increasing Net Profits

As shown in the accompanying table, earnings on loans was a major factor in the increase in net profits during 1957. In-

#### COMPOSITION OF PROFIT GROWTH

Fourth District Member Banks, 1957

(Millions of Dollars)

<b>Increase in Net Profits</b> .....	<b>+14</b>
<b>Factors Increasing Net Profits</b> .....	<b>+80</b>
Increased Earnings on U. S. Government Securities.....	2
Increased Earnings on Other Securities....	2
Increased Earnings on Loans.....	43
Smaller Net Nonoperating Losses.....	21
Smaller Addition to Valuation Reserves...	2
Increased Earnings from Other Sources....	9
<b>Factors Decreasing Net Profits</b> .....	<b>-65</b>
Increased Expenses.....	40
Increased Taxes.....	25

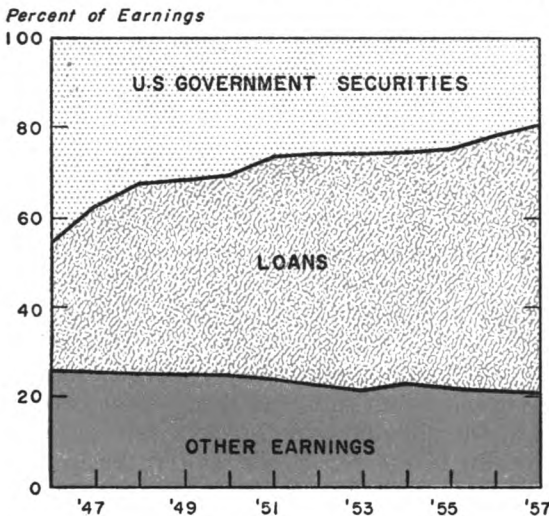
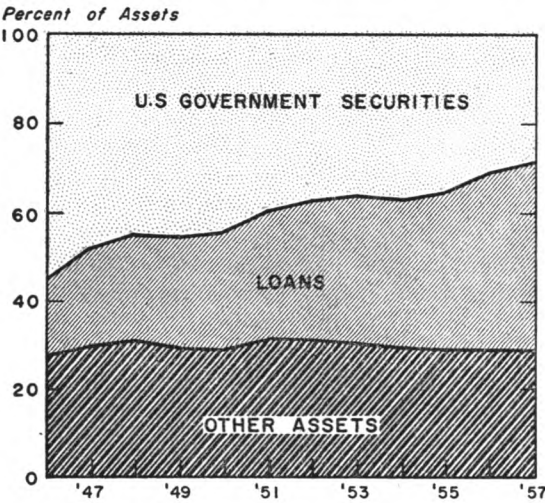
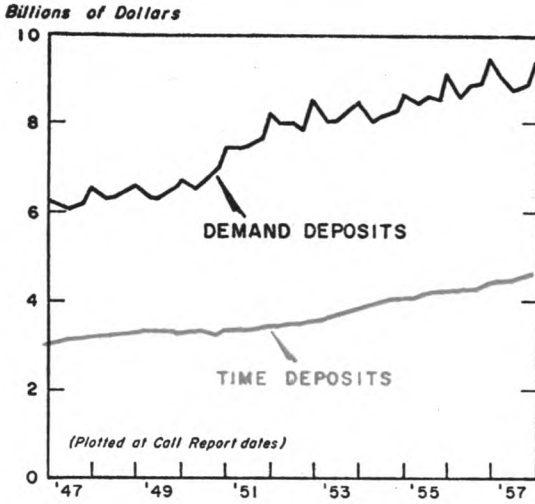
NOTE: Parts may not add to totals due to rounding.

creased earnings on loans resulted from a larger average volume of loans held and a general increase in interest rates.

Reflecting a tiring business boom that finally faltered, additions to all major loan categories fell behind the 1956 pace. Nevertheless, a larger average volume contributed an estimated three quarters of the increased earnings from loans. The average level of total loans outstanding increased \$546 million in 1957 in contrast to an \$883-million addition during the previous year. The net addition to the average volume of personal loans outstanding amounted to \$137 million in 1957 as compared with \$179 million in the previous year. Real estate loans rose by \$115 million in contrast to \$199 million in 1956. The average level of commercial and industrial loans outstanding rose \$280 million in 1957, or about one half of the 1956 increase.

Sample data from 14 large weekly reporting banks in the Fourth District indicate that manufacturers of *metals and metal products* and *public utilities* accounted for the bulk of the increase, in terms of dollars, in business borrowing during 1957. *Sales finance companies* and manufacturers of *petroleum, coal, chemical, and rubber products* were also an important source of demand for bank loans. On the other hand, nearly half of the slowdown in the *rate of increase* in business

# MEMBER BANK EARNINGS —



DEPOSITS

*Demand deposits at Fourth District member banks declined slightly during 1957, reflecting restraint on the expansion of bank credit through November. Time deposits, however, rose to record highs,*

ASSETS

*. . . and, with deposit growth limited, banks responded to the demand for loans by selling securities.*

EARNINGS

*The shift to higher yielding assets represented a further increase in the relative importance of loans as a source of bank earnings.*

# Fourth Federal Reserve District

**L I Q U I D I T Y**

The shift from securities to loans resulted in further attrition of the liquidity position of member banks.

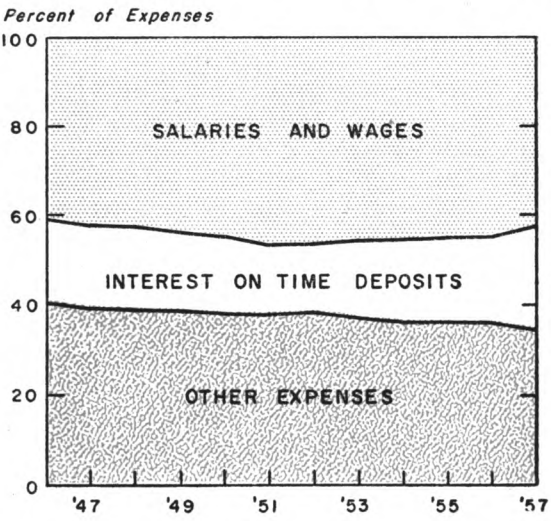
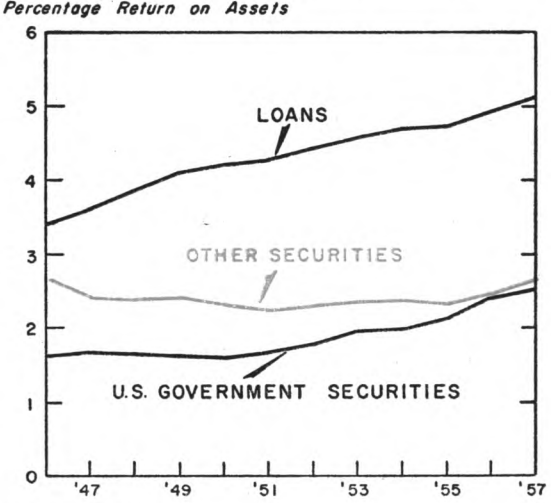
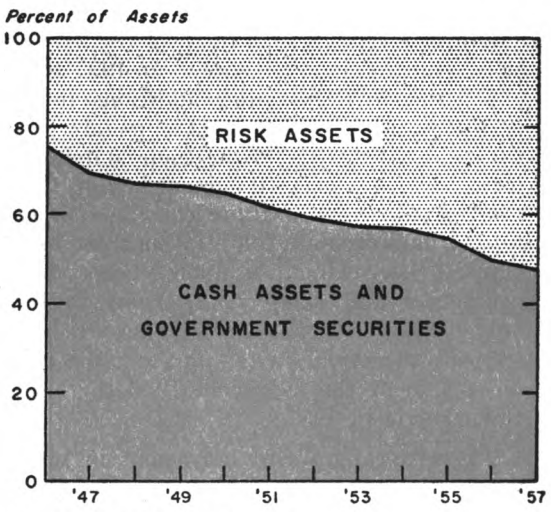
**R E T U R N S**

A general upward drift in interest rates during 1957 contributed to an improved rate of return on bank assets and, thereby, to growth of earnings,

**E X P E N S E S**

... but, higher interest rates on time deposits were a major factor in the growth of expenses.

(Also, see cover chart.)



borrowing during the course of 1957 can be attributed to the smaller additions to business loans outstanding by the metals group. *Public utilities* added to their outstanding bank loans at a pace 10 percent behind that of 1956. *Food processors* and *construction firms* repaid bank debt in 1957 in contrast to substantial borrowings in 1956. *Sales finance companies* and *retail trade firms* were the only types of business that moved in the opposite direction, switching from the repayment side of the ledger in 1956 to the borrowing side in 1957.

The general upward movement in interest rates affected bank charges for loans and, of course, earnings on loans. The prime rate, which was 4 percent during most of 1956, moved to 4.50 percent in early August and remained there until January 1958, when it dropped back to 4 percent. Rates generally charged on real estate loans increased from 5 percent to 6 percent. The average rate of return on all loans increased from 4.92 percent to 5.11 percent, the highest rate of return during the postwar period.

Two factors—both of them normal—reduced the impact of higher rates on earnings in 1957. In any given period, a major part of the loans on a bank's books carries rates in existence from three months to several years earlier, while increases in rates affect only the new loans being made. Furthermore, many types of bank loans respond very slowly, if at all, to changes in the cost of money.

The rise in interest rates in 1957 was the major factor underlying the slight increase in earnings on securities. Security holdings increased during the year, principally during the fourth quarter when loan demand was down and reserve positions were easing. Nevertheless, the average volume of securities held, both U. S. Government securities and other securities, declined slightly from the previous year. On balance, earnings from securities increased a moderate \$5 million. The average rate of return on securities rose more sharply than the return on loans. U. S. Government securities, on the average,

returned 2.50 percent in 1957 in contrast to 2.36 percent in 1956; other securities returned 2.61 percent in contrast to 2.39 percent.

While rates carried by securities rose during the first three quarters of the year, prices were falling. Thus, sales of securities to meet the demand for loans resulted in losses. The net loss from sales of securities, amounting to \$25 million, was well below the \$46-million loss of 1956. Net losses on loans and other assets were unchanged from 1956. The other main nonoperating source of additions or charges to profits—valuation reserves, or profits set aside for possible future losses—subtracted \$3 million from earnings, in contrast to \$5 million in 1956. The net effect of changes in nonoperating factors was to reduce the carry-over to earnings by \$34 million. The net reduction was, however, \$23 million less than in 1957, thereby effecting a contribution to the increase in net profits. (See accompanying table.)

Earnings from other sources (mainly service charges, commissions, fees, and trust department operations) were \$9 million larger in 1957 than in the previous year. Although miscellaneous operating earnings had been rising steadily during the postwar period, the 12 percent rate of increase in 1957 was exceeded only in 1954 and 1956. A major part of the improved performance of miscellaneous sources of earnings in 1957 resulted from an acceleration of banking activity. Velocity, or the turnover of checking account balances, for example, increased from 21.8 in 1956 to 23.0 in 1957. While demand deposits declined slightly, holders used their check-book money about 5 percent more often.<sup>(1)</sup> The increased use of checking accounts by individuals is reflected in the 15 percent increase in receipts from service charges on deposit accounts in 1957.

In addition to reflecting an increased volume of activity, larger earnings from miscel-

(1) Clerical costs are more directly related to the number of checks handled than to the dollar volume. The cost of check handling may have increased more than indicated by the rise in velocity, which measures turnover of dollar volume rather than the number of checks written.

(Continued on Page 12)

# Geography of Steel Consumption

**A** HEAVY CONCENTRATION of steel fabricating plants extends throughout the northeastern quarter of the country. The extent of the concentration of metal-using industries is shown by a special report on the consumption of steel mill shapes and forms, as of 1954. Recently published by the Bureau of the Census, the report lists steel consumption by manufacturing plants according to state economic areas.<sup>(1)</sup>

The geographical distribution of steel consumption by manufacturers closely follows the distribution of steelmaking facilities. Tonnages of steel shapes consumed by metal fabricating industries are largely concentrated in a belt about 350 miles wide running from the Mississippi River to the East Coast. The belt is sketched on the map on pages 8 and 9. The top of the belt runs just above Milwaukee and Buffalo while the bottom extends from St. Louis to Baltimore.

Located inside this 350-mile band are over two thirds of the nation's metal fabricating plants consuming more than three fourths of the steel shapes used by manufacturing industries during 1954, the year of the survey.

Within the heavily industrialized belt, metal fabricating plants are even further concentrated. Over one third of the steel mill shapes used in 1954 were consumed by plants in seven metropolitan areas—Detroit, Chicago, Pittsburgh, Cleveland, Philadelphia, Northeastern New Jersey, and Milwaukee. Manufacturing establishments in each of these areas used more than a million tons of steel shapes in 1954. Los Angeles was the only economic area outside of the 350-mile metal-consuming band where fabricators

(1) A state economic area is a single county or a relatively homogeneous group of counties in one state which has similar economic and social characteristics. For more details of the concept, see p. 11.

used more than a million tons of steel.

In addition to the top seven consuming areas, nearly another third of metal fabricators' steel takings in 1954 was consumed in 32 state economic areas inside the heavily industrialized belt. Manufacturers' use of steel mill shapes and forms in these 32 areas ranged from 200,000 to 999,999 tons. Only eight other state economic areas in the rest of the country had steel consumption falling in this range during 1954. Table 2, on page 10, lists all state economic areas where manufacturers used 200,000 tons or more of steel shapes in 1954.

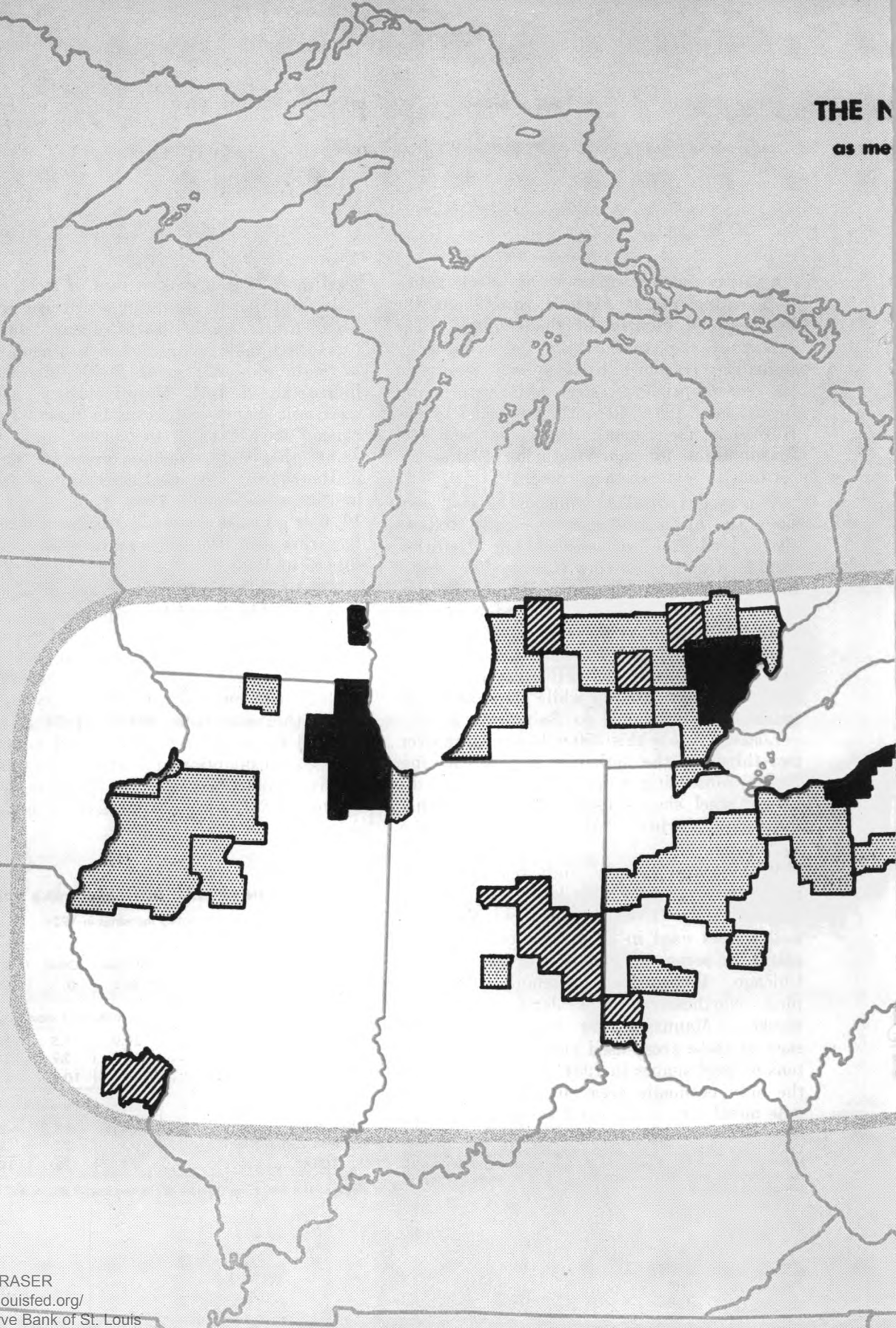
The state economic areas listed in black type in Table 2, which are part of the heavily concentrated belt of metal fabricating plants, are the areas shaded on the map. These 39 state economic areas contained slightly over one half of the country's metal fabricating establishments in 1954 and accounted for over 64 percent of all manufacturing's consumption of steel mill shapes. The relative importance of these 39 areas, which consumed 200,000 tons of steel or more, is shown by the following table.

Table 1  
**CONSUMPTION OF STEEL MILL SHAPES AND FORMS**  
by metal fabricating industries in 1954

STATE ECONOMIC AREAS CONSUMING:	350-Mile Belt	Other U. S.	Total U. S.
	Millions of short tons		
200,000 tons or more . . . . .	29.9	4.5	34.4
Less than 200,000 tons . . . . .	6.1	5.9	12.0
TOTAL . . . . .	36.0	10.4	46.4
Percentage distribution			
200,000 tons or more . . . . .	64	10	74
Less than 200,000 tons . . . . .	13	13	26
TOTAL . . . . .	77	23	100

Source: Derived from Bureau of the Census, *Bulletin MC-304*.

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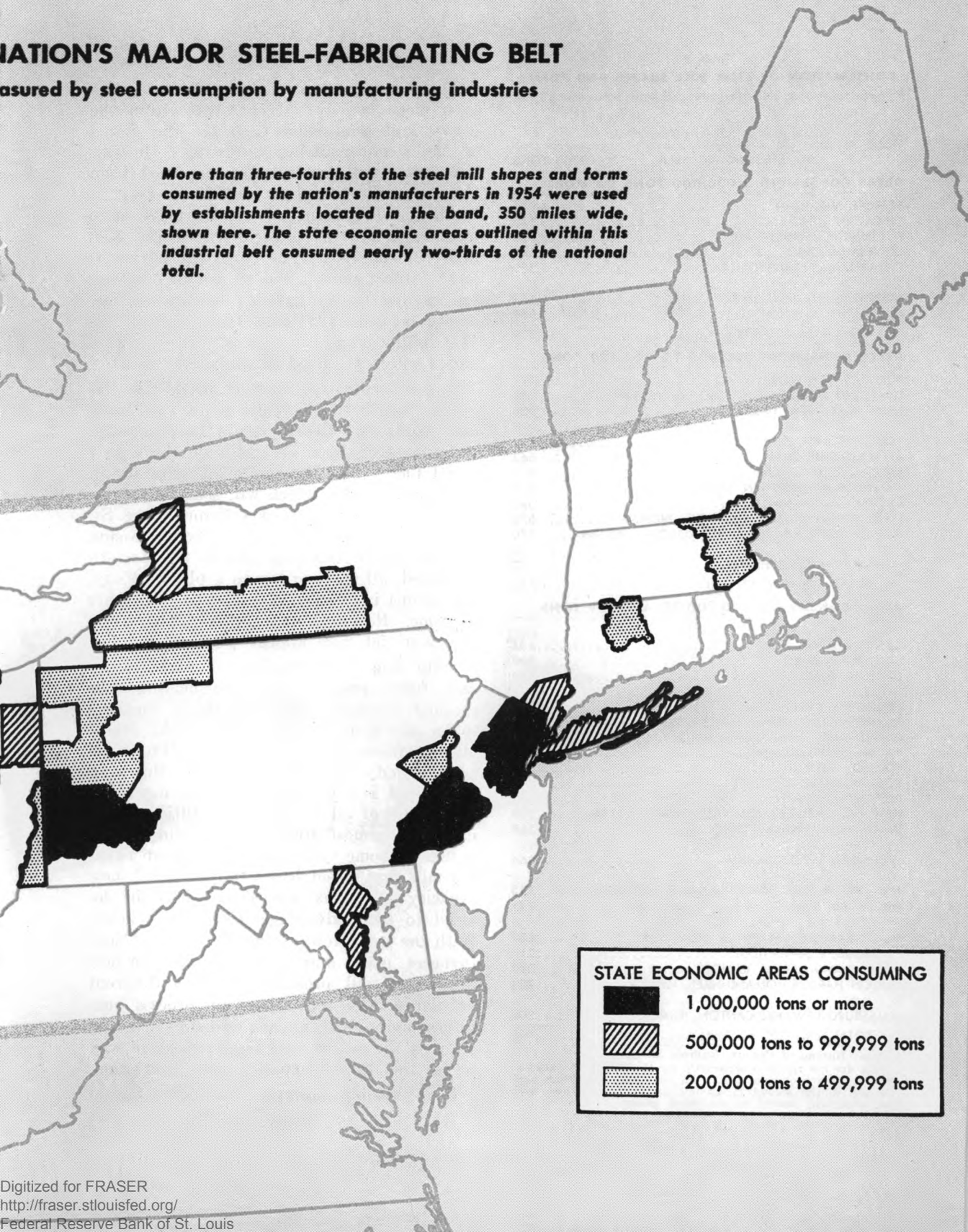







# NATION'S MAJOR STEEL-FABRICATING BELT

measured by steel consumption by manufacturing industries

*More than three-fourths of the steel mill shapes and forms consumed by the nation's manufacturers in 1954 were used by establishments located in the band, 350 miles wide, shown here. The state economic areas outlined within this industrial belt consumed nearly two-thirds of the national total.*



STATE ECONOMIC AREAS CONSUMING	
	1,000,000 tons or more
	500,000 tons to 999,999 tons
	200,000 tons to 499,999 tons

**Table 2**  
**CONSUMPTION OF STEEL MILL SHAPES AND FORMS**  
 by metal fabricating industries in state economic areas during 1954  
 (Areas listed in color are not in the 350-mile belt  
 of steel fabricating industries.)

STATE ECONOMIC AREA	000's TONS
<b>AREAS CONSUMING 1,000,000 TONS OR MORE</b>	
DETROIT, MICHIGAN.....	4,976
CHICAGO, ILLINOIS.....	3,788
PITTSBURGH, PENNSYLVANIA.....	2,000
CLEVELAND, OHIO.....	1,649
PHILADELPHIA, PENNSYLVANIA.....	1,580
LOS ANGELES, CALIFORNIA.....	1,330
NORTHEASTERN NEW JERSEY.....	1,162
MILWAUKEE, WISCONSIN.....	1,151
TOTAL in the 350-mile belt.....	16,305
<b>AREAS CONSUMING 500,000 TO 999,999 TONS</b>	
BUFFALO, NEW YORK.....	977
FLINT AND JACKSON-OWOSSO, MICHIGAN*.....	962
NEW YORK, NEW YORK.....	905
SAN FRANCISCO-OAKLAND, CALIFORNIA.....	749
YOUNGSTOWN, OHIO.....	719
ST. LOUIS, MISSOURI.....	663
BALTIMORE, MARYLAND.....	641
HAMILTON-MIDDLETOWN, OHIO.....	618
LANSING, MICHIGAN.....	596
GARY-HAMMOND-EAST CHICAGO, INDIANA.....	573
MUNCIE-ANDERSON-RICHMOND-KOKOMO, INDIANA.....	570
HOUSTON, TEXAS.....	556
GRAND RAPIDS, MICHIGAN.....	542
TOTAL in the 350-mile belt.....	7,766
<b>AREAS CONSUMING 200,000 TO 499,999 TONS</b>	
BIRMINGHAM, ALABAMA.....	473
CANTON, OHIO.....	454
CINCINNATI, OHIO.....	399
DAYTON, OHIO.....	379
MINNEAPOLIS-ST. PAUL, MINNESOTA.....	377
COLUMBUS, OHIO.....	364
ALLEN-TOWN-BETHLEHEM-EASTON, PENNSYLVANIA.....	351
LORAIN-ELYRIA-MANSFIELD-SANDUSKY, OHIO.....	350
INDIANAPOLIS, INDIANA.....	329
TOLEDO, OHIO.....	311
BOSTON, MASSACHUSETTS.....	309
PEORIA, ILLINOIS.....	279
NEW CASTLE-BUTLER-MEADVILLE, PENNSYLVANIA.....	269
LIMA-MARION-FINDLAY, OHIO.....	267
NEW ORLEANS, LOUISIANA.....	267
WHEELING, WEST VIRGINIA.....	264
KANSAS CITY, MISSOURI.....	256
ANN ARBOR-PORT HURON-MONROE, MICHIGAN.....	245
ROCKFORD, ILLINOIS.....	241
LOUISVILLE, KENTUCKY.....	239
ELMIRA-JAMESTOWN-ITHACA, NEW YORK.....	232
HARTFORD, CONNECTICUT.....	217
ROCK ISLAND-MOLINE, ILLINOIS.....	205
BENTON HARBOR-HOLLAND-NILES, MICHIGAN.....	204
SEATTLE, WASHINGTON.....	203
GALESBURG-KEWANEE-CANTON, ILLINOIS.....	201
TOTAL in the 350-mile belt.....	5,868

Source: Bureau of Census, *Bulletin MC-304*.

\* Data are not reported separately for the Flint and Jackson-Owosso state economic areas. On the map, the Flint area was left in the second group but the Jackson-Owosso area was arbitrarily moved to the third group.

## Consumers Located Near Supply

The country's steelmaking facilities are even more heavily concentrated within the heavy industrial band than are the plants of the steel-consuming industries. On balance, steel mill products are exported from the area delineated by the 350-mile band.

About 87 percent of the nation's basic steel capacity was located within the 350-mile belt in 1954. The same proportion is located there today. Out of the 16.4 million tons added to the nation's steelmaking capacity between 1954 and 1958, as much as 14.0 million tons, or over 85 percent, were added within the band of heavy industry.

The concentration of steel production facilities inside the 350-mile band will probably continue. Developments in processing taconite at the iron ore fields on the Upper Great Lakes, plus the new fields being developed in Labrador which will soon be able to ship into the Great Lakes through the St. Lawrence Seaway, as well as the increasing flow of South American ores to the Eastern Seaboard, all seem to insure a plentiful supply of one important raw material for years to come. Reserves of coal, the other major raw material, also appear plentiful.

With adequate supplies of mineral ores and fuels assured, new steelmaking and shaping capacity will most likely continue to be added at existing mills. Coke ovens, blast furnaces, open hearths and rolling mills add capacity in such big chunks that any given mill is not usually able to make the fullest use of all its related facilities. Some imbalance almost always exists. Since there is usually some type of capacity at an existing mill that is not being fully utilized, new capacity additions will most likely be located to take advantage of this imbalance. With the trend towards larger, more efficient furnaces, ovens and finishing mills, the new equipment will probably create a different imbalance. As the expansion process continues, more facilities are added to existing mills as the easiest and least expensive way to get the desired capacity into production.

It is possible, however, that technological

advances in steel making and processing would make it practicable to build small new steel mills with relatively low capital outlays by today's standards. Such advances could change the future geographical pattern of steel expansion.

If steel capacity continues to be concentrated geographically much as it is now—which seems not at all unlikely—new metal-fabricating facilities will likely continue to be located near the source of their major raw material—steel mill shapes and forms.

### Measuring the Consumption of Steel

The statistics on the consumption of steel mill shapes and forms by state economic areas were a special compilation of the 1954 Census of Manufactures data. The special report was published late in 1957.

Figures on the consumption of steel mill shapes and forms, as given geographically in the special Census report, include all consumption by manufacturing establishments other than primary metals industries. All plants reported their steel consumption if the value of the steel used in 1954 was \$5,000 or more. It is estimated that under-coverage due to the minimum cut-off does not exceed 2 percent. The amount of steel shapes consumed by the primary metals industries, which totaled 2.1 million short tons in 1954, was excluded from the geographical breakdown by state economic areas.

The data represent only steel shapes used by the manufacturing industries. Substantial tonnages of steel consumed by such non-manufacturing industries as mining and construction are excluded.

The Bureau of the Census collected the steel consumption data on an establishment basis. That is, a company operating plants at more than one location submitted one report for each plant. Separate reports were also submitted, whenever possible, where companies engaged in distinctly different types of manufacturing activity at one location. Thus, the numerous steel fabricating operations conducted by steel companies in

conjunction with their steelmaking and rolling operations were reported separately wherever possible. These operations—which range from making bolts and nuts to fabricating huge bridges—were included in the steel consumption totals for metal fabricating industries, which in turn were distributed geographically by state economic areas.

### State Economic Areas

A state economic area is a single county or a relatively homogeneous group of counties in one state which have similar economic and social characteristics. The areas are classified as metropolitan and nonmetropolitan on the basis of population and size of the central city or cities.

Steel consumption was not tabulated for "Standard Metropolitan Areas" in this special Census report. However, totals for most SMA's could be derived from the report by using state economic area totals.<sup>(2)</sup>

In Table 2, where the state economic areas are named, the names of the largest cities were arbitrarily assigned to the entire area. Where the state economic area was the same as a Standard Metropolitan Area, the official name for the SMA was given.

In some instances, a "promotion" of a county to separate classification as a metropolitan area has occurred since the special Census survey of steel consumption. The results of such changes are not incorporated in the map or the tabular data.

It should also be noted that steel consumption may be concentrated within one of the several counties making up a state economic area even though the entire area is shaded in on the map. The New York City area, for example, includes the residential sections on Long Island as well as the industrial sections. But, all sections are shaded on the

(2) Standard Metropolitan Areas, as defined by governmental usage, include one or more counties surrounding a central city, but they often overlap state lines. Except in New England, state economic area boundaries coincide with SMA's when the latter fall completely inside of state lines. Where the SMA cuts across state lines, two or more state economic areas make up the SMA.

map since they all make up the state economic area.

Despite some of the limitations of the data, the figures and the map do give a fairly good approximation of the concentration of the steel fabricating industries around the steel-making centers of the country. Most of the nation's machinery, metal-working, automotive and other transportation equipment in-

dustries are located in this 350-mile belt. This concentration of steelmaking and steel fabricating industries, being based upon the natural advantages of plentiful supplies of iron ore and coal tied together by the Great Lakes transportation system, may continue to attract a large part of the new steel-producing and steel-consuming plants to be built in years to come.

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### **Bank Earnings** *(Continued from Page 6)*

laneous sources also resulted from increased charges to customers. While the increase in miscellaneous earnings in 1957 was mainly due to a larger volume of business, the marked improvement in recent years over years prior to 1954 was greatly influenced by higher charges for services. Banks have been slow to pass on steadily increasing costs of performing services for customers. Therefore, an attempt to catch up resulted in relatively large increases.

### **Factors Decreasing Net Profits**

Salaries and wages continued to account for the major share, about 42 percent, of total operating expenses. Increases in both the wage level and the number of employees added \$11 million to bank expenses in 1957. Apparently, mechanization and other efficiencies have not offset the expansion of bank services at existing offices and at the growing number of branch offices.

Interest paid on time deposits, which amounted to \$76 million, was less than one quarter of total expenses in 1957. Nevertheless, the increased volume of interest payments was a major factor in the growth of expenses. (See accompanying chart and table.) Interest payments accounted for 47 percent of the increase in total expenses in contrast to 27 percent attributable to salaries and wages. As already indicated, time deposit growth in 1957 was pronounced and the rate of interest paid was increased at many banks.

Taxes on net income continued to be a

major consumer of bank earnings in 1957. Taxes, amounting to \$76 million, were about 50 percent larger than in 1956 and absorbed 14 percent of total operating earnings in contrast to a little more than 10 percent in 1956. Even if the 1956 tax refund from the State of Ohio, following a decision of the Ohio Supreme Court, were taken into account, taxes absorbed relatively more bank earnings in 1957 than in the previous year.

### **Cash Dividends and Retained Earnings**

Growth in bank capital during the postwar years has come primarily from retained earnings. Fourth District member banks declared cash dividends amounting to \$45 million in 1957. As a result, nearly 57 percent of net profits after taxes was added to bank capital.

Banks also added to their capital accounts through security issues in 1957. New capital raised plus retained earnings added a little more than 6 percent to the average of total capital accounts at Fourth District member banks during 1957. (A higher level of capital enables banks to accommodate the growing demand for larger loans as business units become larger, since lending to any one borrower is generally limited to 10 percent of a bank's unimpaired capital and surplus.)

### **Outlook**

In a number of ways, 1957 was a year with a split personality. Trends outlined for the year as a whole conceal the swiftly changing scene in the fourth quarter of the year. The current business decline and the accompanying change in monetary policy have already

# MEMBER BANK EARNINGS, 1957

## FOURTH DISTRICT

(Dollars in Millions)

EARNINGS, EXPENSES, AND PROFITS	Year 1957 <sup>p</sup>	Change from 1956	
		Amount	Percent
OPERATING EARNINGS.....	\$ 546	+\$ 56	+11%
U. S. Government Securities.....	108	+ 2	+ 2
Other Securities.....	31	+ 2	+ 7
Loans.....	324	+ 43	+15
Other Earnings.....	83	+ 9	+12
OPERATING EXPENSES.....	331	+ 40	+14
Salaries and Wages.....	140	+ 11	+ 9
Interest on Time Deposits.....	76	+ 19	+33
Other Expenses.....	115	+ 10	+10
NET OPERATING EARNINGS.....	215	+ 16	+ 8
NET LOSSES AND CHARGE-OFFS <sup>1</sup> .....	— 31	+ 21	+40
Securities.....	— 25	+ 21	+46
Loans.....	— 4	— 1	—33
Other.....	— 2	+ 1	+33
NET INCREASE IN VALUATION RESERVES.....	— 3	+ 2	+40
TAXES ON NET INCOME.....	76	+ 25	+49
NET PROFITS.....	105	+ 14	+15
CASH DIVIDENDS.....	45	+ 4	+10
SELECTED ASSETS AND LIABILITIES <sup>2</sup> .....			
Loans.....	\$ 6,345	+\$546	+ 9%
U. S. Government Securities.....	4,313	— 167	— 4
Other Securities.....	1,190	— 4	— (a)
Demand Deposits.....	9,149	+ 123	+ 1
Time Deposits.....	4,370	+ 210	+ 5
Total Capital Accounts.....	1,255	+ 76	+ 6
Total Assets.....	15,006	+ 440	+ 3
Total Assets Less U. S. Government Securities and Cash.....	7,740	+ 557	+ 8
MEMORANDA:	Year 1957 <sup>p</sup>	Year 1956	
Ratio of Net Profits to Average Total Capital Accounts.....	8.4%	7.8%	
Average Return on Securities:			
U. S. Government.....	2.50	2.36	
Other.....	2.61	2.39	
Average Return on Loans.....	5.11	4.92	
Number of Banks.....	606	599	

<sup>p</sup> Preliminary.

(a) Less than 0.5%.

<sup>1</sup>Includes recoveries credited and losses charged either to undivided profits or valuation reserves. Loss on securities is net of profits on sales of securities.

<sup>2</sup>Averages of figures reported on five call dates during year.

changed the direction of several forces that contributed to larger net profits for the year 1957.

Faced with a slowdown in the demand for loans, accompanied by easier money conditions, Fourth District member banks have stepped up additions to security holdings. For the first time in several years, additions to security holdings in the fourth quarter of 1957 exceeded additions to loans. The continuation of this trend so far into 1958 has, therefore, resulted in a movement toward lower-yielding assets.

The downward movement in interest rates since November will affect earnings on securi-

ties and loans in 1958. Banks may be able to recoup at least some of the losses in earnings, through profits on sales of securities.

At the same time, operating costs have not abated. There is no reason to anticipate any significant reductions in expenses this year.

Although the outlook for bank earnings in 1958 need not be pessimistic, it seems probable at this time that the earnings volume attained in 1957 will not be repeated. The current downward pressure on interest rates, accompanied by a declining demand for loans and relatively large increases in time deposits, poses a real challenge for bank management in 1958.

## NOTES

Among the articles recently published in monthly business reviews of other Federal Reserve banks:

“Development Credit Corporations”, Federal Reserve Bank of Boston, April 1958.

“The Current Reporting Series as a Guide to Business Activity”, Federal Reserve Bank of San Francisco, March 1958. (Refers to the Weekly Reporting Member Bank Series.)

Copies may be obtained by writing to the Federal Reserve Bank named in each case.

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Among recent articles in the *Federal Reserve Bulletin*:

“Preliminary Findings of the 1958 Survey of Consumer Finances”, March 1958 issue.

“International Gold and Dollar Flows”, March 1958 issue.

Reprints of these two *Bulletin* articles are available at the Board of Governors of the Federal Reserve System, Washington 25, D. C.



FOURTH FEDERAL RESERVE DISTRICT