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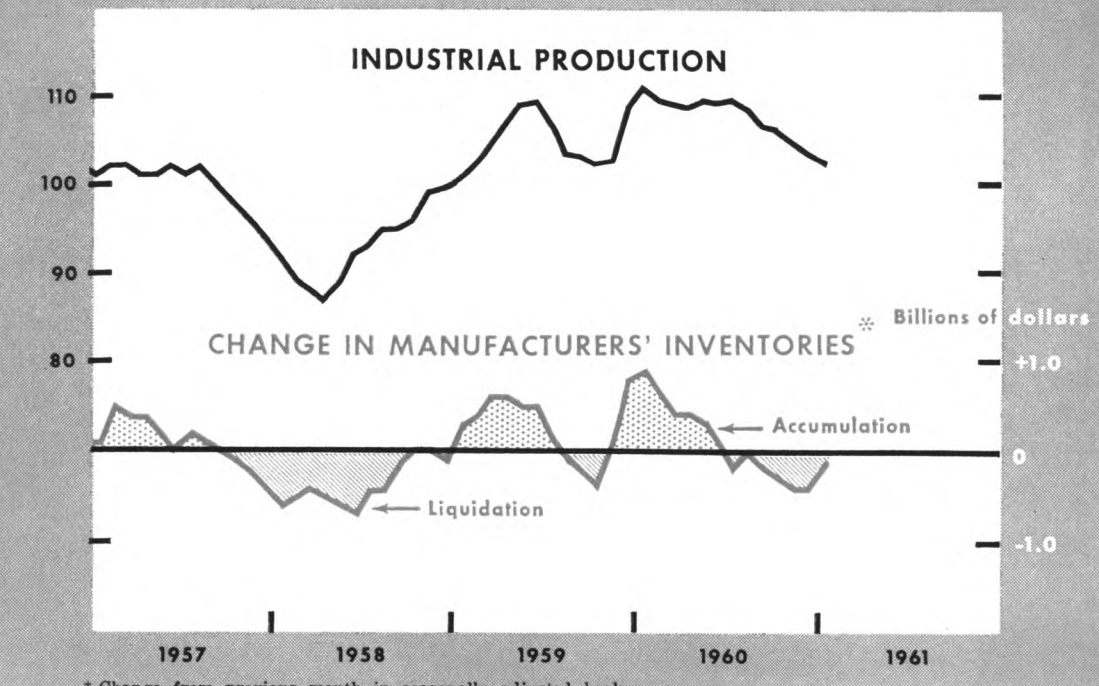
IN THIS ISSUE

The path of the industrial production index during recent years has paralleled, and been influenced by, the month-to-month changes in the volume of manufacturers' inventories.



* Change from previous month in seasonally adjusted book values, Department of Commerce end-of-month series.

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Inventories and the Business Recession

SOME recent encouraging signs indicate that the recession may be approaching its end, or may have already halted. Despite the possibility that a discussion of inventory change in relation to the recession may turn out to be primarily a post-mortem, it is still desirable to point out how important inventory reduction was in causing the recession. A retrospective outline of the chronology of inventory changes during 1959 and 1960 may suggest reasons for these developments.

Businessmen as a group — manufacturers, wholesalers, and retailers — have been "living off the shelf" since June 1960. Even before inventories began to be generally liquidated, however, a change in inventory policy was exerting a depressing effect on the economy. In the first half of 1960, although inventories were still being built up, the rate of addition was declining steadily. (A decline in the rate at which inventories are being built reduces production because less of current output is going into stocks.)

An over-all effect of inventory changes on the total economy is visible in a comparison of changes in the inventory component of the Gross National Product with the changes in the total GNP. When this is done, it is quickly apparent that the inventory "impact"[1] virtually has matched changes in the GNP during the past three years, particularly since early 1959. Inventory developments in 1959 and 1960, in turn, resulted mainly from the steel strike.

The events induced, first, by the expectation, and second, by the experience of the marathon steel strike — the buildup in inventories preceding the well-advertised strike, the liquidation during the shutdown, the rush to rebuild afterward, and the subsequent rapid decline in the rate of inventory accumulation —were reflected in the pattern of change in the GNP inventory component. At the same time, the changes in the inventory portion of the GNP were largely responsible for the changes in the total GNP.

However, the total GNP includes so many activities which are not directly related to the production of commodities, that the total GNP is relatively much less affected by such factors as inventory change than is industrial output. Consequently, it is in the industrial sector of the economy that inventory reduction has registered its largest and most tangible effects. Thus, while GNP showed only a modest decline from the second quarter to the third quarter of 1960, and was unchanged in the fourth quarter, industrial production, as measured by the Federal Reserve Board index, was 7 percent lower in January 1961 than in July 1960, after six months of continuous decline. As the cover chart shows, industrial production and the pattern of change in business inventories have shown an observably close correspondence during recent years.

Although manufacturers' inventories represent only a little more than half of total business inventories, most of the change in business inventories, from one stage of the business cycle to another, occurs in factory stocks. (Inventories of wholesalers and retailers make up the balance of business inventories.) Developments in the industrial sector of the economy have therefore been the primary influence on changes in total invento-

(1) Since the inventory component of the GNP in any period is itself a change from the previous period — quarter or year — what is being compared here in the case of inventories is the change in the rate of change, which can be labelled, for convenience, the inventory "impact."

ries. In 1959 and in a large part of 1960, the steel strike was, as mentioned earlier, the predominant influence on inventories.

It is possible, furthermore, that the steel strike had a lasting and indirect effect on the inventory policy of manufacturers, in addition to its direct effect on inventory developments at the time. At this point of the discussion, it may be useful to recapitulate in more detail the inventory developments which occurred during 1959 and 1960, with occasional reference to possible permanent changes in policy.

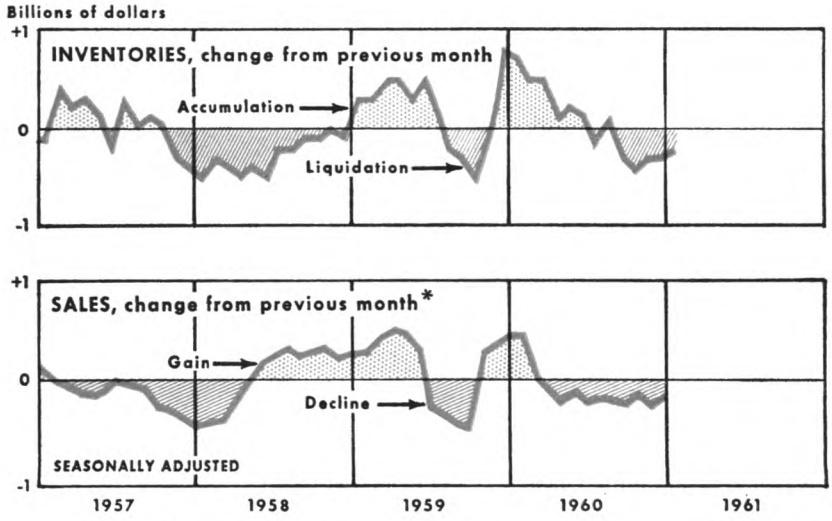
1959—Buildup, Depletion, and Return to Buildup

The steel strike of 1959 was one of the most "prepared for" in the history of labor disputes in this country. The contract expiration date was fixed and well-known. Predictions that the strike would be of record length were freely made. With the deadline of July 1, 1959, firmly fixed in their minds, steel consumers stockpiled as much steel as they could get. Manufacturers added $3 billion, after seasonal adjustment, to their inventories in the first six months of 1959. Almost all of this buildup was in the durable goods group of industries, and a considerable part represented larger stocks of steel and products made from steel.

Once the strike began, manufacturers had no alternative but to move rapidly from inventory accumulation to liquidation. In August, September, and October, about three-quarters of a billion dollars was lopped off the book value of factory stocks. From the limited information available, it appears that few users of steel, with the conspicuous exception of the automobile industry, suffered serious shortages of steel during the strike.

However, with the end of the strike in early November 1959, steel consumers turned to replenishing their stocks. Nearly $2 billion was added to manufacturers' inventories in the three months following the end of the strike, and much of that addition consisted of steel. The peak of stock-building was reached in January when manufacturers added $900,000,000 to inventories.

MANUFACTURERS' DURABLE GOODS



* 4-month moving average.

During the past several years the pattern of month-to-month changes in durable manufacturers' stocks has corresponded quite closely with increases and decreases in sales.

1960—Turnaround in Inventories

The renewed burst of inventory building set off by the end of the steel strike lost its forward motion by February, in the sense that the *rate of addition* to inventories dropped off in that month; the rate of addition continued to decline through June, after which actual liquidation began. At some time during the first quarter steel consumers apparently decided that there was no need to build steel stocks any higher and, furthermore, that they might safely be reduced. The same reasoning was applied to materials other than steel, particularly other metals. In this connection, it may be surmised that the very speed with which steel inventories were rebuilt encouraged steel consumers to revise their inventory policies.

Several factors were apparently responsible for the change in inventory policy. New orders to manufacturers averaged lower after December 1959, and unfilled orders, which are held mainly by durable goods manufacturers, declined steadily thereafter. Another reason for the decline in inventories was that the increase in sales which had been so confidently predicted early in 1960 was not realized. Thus, inventories which had been built up in the expectation that sales would increase sharply proved excessive when sales forecasts turned out to be too optimistic.

In addition to these relatively short-term developments, other influences of a longer-term nature were operating to reinforce the disposition of manufacturers and other businessmen to cut down on their stocks. One such longer-term factor was the increasing tendency of businessmen to force their suppliers to carry their inventories for them, either directly, in the form of finished goods ready for shipment, or indirectly, in the form of larger producing capacity. Reinforcing this tendency was the more rapid delivery made possible by the greater use of truck transportation, as well as better methods of inventory control; the latter, in turn has sometimes been ascribed in part to the increased use of electronic computers.

A second major longer-term factor influencing inventory policy was the growing feeling among businessmen that the long-sought goal of price stability might have been substantially attained. The index of average wholesale prices, which is the best available measure of price developments in the economy as a whole, had been essentially unchanged since early in 1958. (It is now going into the third year of relative stability.) Moreover, other developments, such as the stepped-up pressure of foreign competition and the increased margins of unused productive capacity, helped to convince businessmen that price stability was not the mirage it had previously appeared to be.

A consequence of the change in price expectations was that inventory holdings larger than current needs no longer appeared as desirable as in previous periods, when rising prices made it profitable to carry large stocks. Previously, it had often been the case that, even if inventories were excessive in relation to current needs, they could be held for future use, in confidence that they would appreciate in value. In a period when prices generally are stable, and prices of some commodities are declining, the carrying of excess inventories could mean sustaining a loss. Furthermore, interest rates were higher early in 1960 than they had been in most of the postwar period, adding a further incentive to pare inventories so as to avoid the higher cost of carrying stocks.

Reduction Mainly in Factory Working Stocks

Because they are the easiest for manufacturers to control, working stocks, i.e., purchased materials and goods in process, were the first to feel the impact of inventory paring measures in 1960. Stocks of finished goods, meanwhile, continued to increase, to some extent frustrating the efforts of manufacturers to reduce total inventories. Such an "involuntary" buildup of finished goods is a phenomenon typical of the early stages of a business recession, when sales decline faster than production can be reduced and stocks of finished goods pile up as a result.

Continued on Page 11

The Income Tax in Local Government Finance

WITHIN the Fourth Federal Reserve District there are nearly 700 local governmental units which levy a tax on income—the "municipal income tax." The local taxing units range from very large cities to small school districts; they represent about 12 percent of all local governmental units in Ohio and in the portions of Pennsylvania and Kentucky which fall within the Fourth District.[1] In fiscal year 1958, the latest year for which complete data are available, more than $70 million in local earnings taxes, or about 6 percent of total local tax revenues, was collected by local governmental units in Ohio and in those portions of Pennsylvania and Kentucky within the Fourth District.[2]

It is noteworthy that outside of the states which lie wholly or partially within the Fourth District (excluding West Virginia) there are only two other states where municipal income taxes are levied. (These states are Alabama and Missouri.)[3] Thus, such a form of taxation happens to be, in large part, a Fourth District phenomenon.

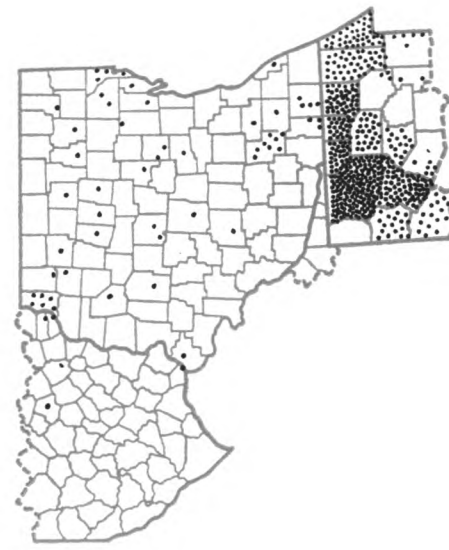
Development of Municipal Income Taxation

The property tax has been historically the major source of revenue for local governmental units. Thus, increased reliance on the municipal income tax as a source of local revenue represents one of the more significant developments in local government financial operations in the postwar period. The emergence of a serious movement to grant to local governmental units the authority to levy nonproperty taxes received its major impetus from a need to help such units meet steadily increasing financial requirements. The beginning of this movement can be found in Pennsylvania, where Philadelphia, with special authority from the state, became in 1939 the first municipality to levy an income tax. This tax served as a model for many of the local income taxes subsequently introduced in Pennsylvania and Ohio.

Pennsylvania

In 1947, the Pennsylvania State Legislature granted to all local governmental units taxing powers similar to those allowed Philadelphia. Accordingly, Pennsylvania Statute No. 481 (the "tax anything law") provided that local governments could tax any subject not already covered by state taxation. The act represented a significant departure from traditional state attitudes toward local taxing authority, since states usually prefer to retain control of taxing powers, relying on grants-in-aid or shared taxes to relieve local financial pressures.

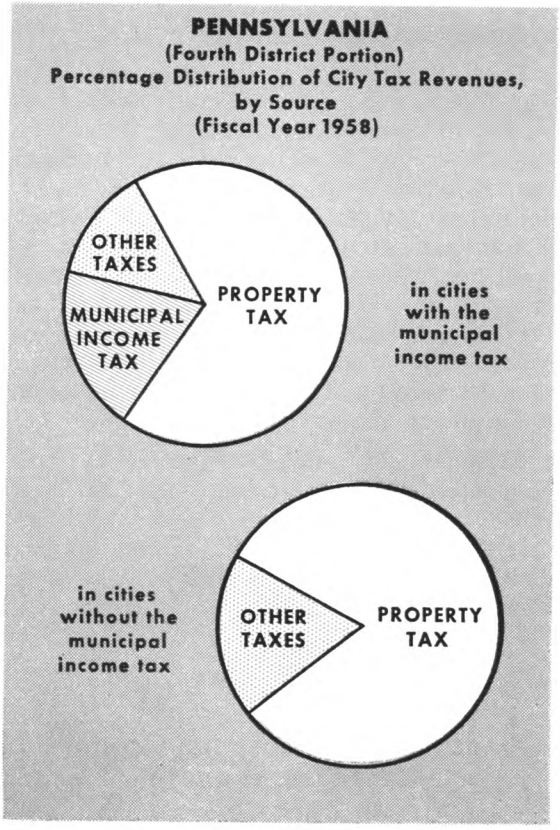
LOCATION OF LOCAL GOVERNMENTAL UNITS LEVYING A MUNICIPAL INCOME TAX AS OF DECEMBER 31, 1960 (Fourth District)



(1) Local income taxes are not levied in West Virginia.

(2) In both Ohio and Kentucky, the fiscal year ends on June 30, while in Pennsylvania it ends on May 31.

(3) Each of the states has only one city where income is taxed (Gadsden, Alabama and St. Louis, Missouri). The District of Columbia also levies a tax on income.



After 1947, the localities moved, at first slowly, to tax the personal income of their residents. Since the state already taxed corporate income, such income was not taxable by local governments. Subsequently, the cities, boroughs, and townships of Pennsylvania established a network of new non-property taxes, the most important of which is the municipal income tax. Although the law at first was regarded only as a temporary solution to the financial problems of the local units, it soon became a permanent facet of the tax structure of local governments in Pennsylvania.

In the part of Pennsylvania which lies in the Fourth Federal Reserve District, in fiscal year 1958 local governmental units derived more than 50 percent of the revenues obtained under Statute No. 481 from the earned income tax. At least 630 local governmental units currently levy the municipal income tax, including Pittsburgh, the largest Pennsylvania city in the Fourth District, as well as smaller cities, boroughs, and school districts. The group represents nearly 37 percent of all the local governmental units in the part of Pennsylvania located in the Fourth District.

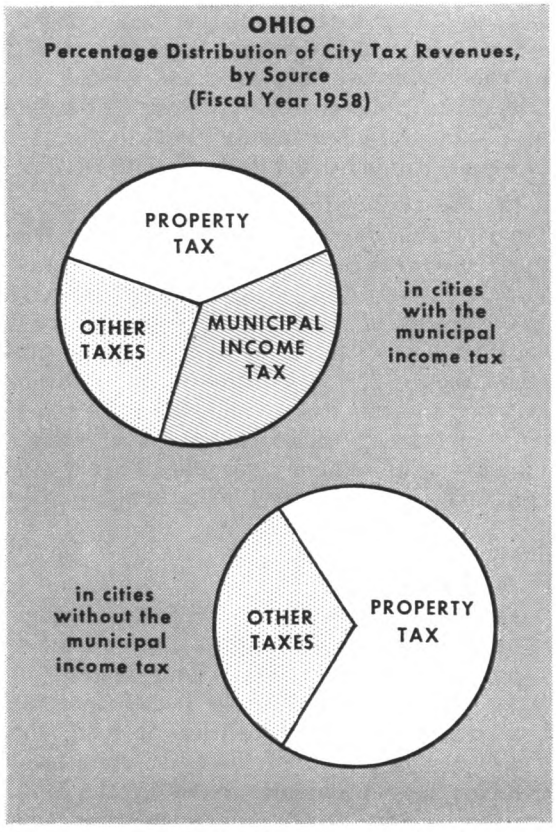
Of the twenty-four cities in the part of Pennsylvania lying within the Fourth District, seventeen have an earned income tax. For the seventeen cities, taken together, nearly 19.0 percent of total tax revenues in fiscal year 1958 was derived from the income tax, while about 68 percent came from the property tax. In comparison, the seven cities which do not have an income tax derived more than 81 percent of total tax revenues from property taxes in fiscal year 1958.

Ohio

The circumstances under which the municipal income tax has developed in Ohio differ somewhat from those in Pennsylvania. In Ohio, no special legislative permission has been granted to the localities; instead, the home rule provisions of the Ohio State Constitution have been interpreted by the Ohio Supreme Court to allow taxation of income by local units. Under the doctrine of preemption, all that is necessary is for the state government to refrain from levying such a tax, thereby leaving the tax field open to the localities. Although the Ohio Supreme Court reached this decision in 1919 (99 Ohio State 220 (1919)), local governments did not make use of it until after World War II, when a number of cities and a few villages began to tax both personal and corporate income.

The local income tax is currently levied by 54 municipalities in Ohio — 41 cities and 13 villages. The 41 cities represent more than 35 percent of all cities in Ohio; the 13 villages represent a negligible percentage of all Ohio villages. The concentration of municipal income taxation in the cities of Ohio is in contrast to the more extensive use in Pennsylvania.

When confronted with the problem of not being able to refund its "inside debt", Toledo

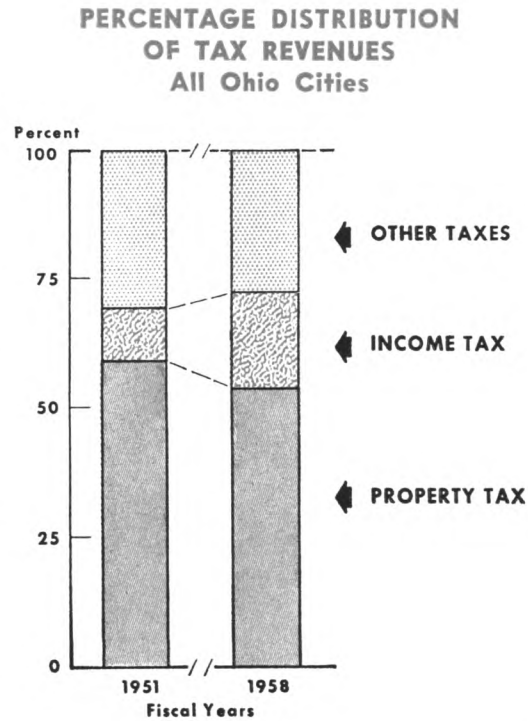


became, in 1946, the first city in Ohio to introduce the municipal income tax. (Inside debt is debt which can be incurred without voter approval; such debt had been refundable until the State Enabling Act expired in 1945.) Since there was a statutory limitation on the property tax revenue available to the city, Toledo was faced with a large financial problem and turned to the income tax as a new source of revenue.

Within five years of Toledo's adoption of the tax, a number of other cities in Ohio—Columbus, Youngstown, Dayton, Springfield, Warren, and Defiance — also turned to the municipal income tax to help finance local needs in general and specific projects in particular. For example, Springfield turned to the municipal income tax so as to help relieve its debt burden. Subsequently, the city not only eliminated the debt, but built a new central firehouse and added new street lights and a new garbage collection system from the additional tax revenues.

The data show that in the cities in Ohio in which the municipal income tax is used, it has tended to displace the property tax as the major source of local tax revenues. In fiscal year 1958, the 33 cities which had the municipal income tax derived more than 38 percent of total tax revenues from the municipal income tax, while obtaining nearly 36 percent from the property tax. On the other hand, the 116 cities of Ohio which did not have an income tax in fiscal year 1958 obtained more than 68 percent of total tax revenues from the property tax.

Although the municipal income tax has been repealed in some instances, and has been rejected in other instances, the data indicate that the use of the municipal income tax has increased steadily, especially in the cases where it represents an alternative to increasing the property tax.



Kentucky

Circumstances surrounding the development of local income taxes in Kentucky have been different from those in either Pennsylvania or Ohio. First, according to the Kentucky State Constitution, local governments are prohibited from taxing income; second, the state levies a tax on both personal and corporate income. However, nine Kentucky cities have, in effect, levied taxes on earned income under the extensive licensing powers granted Kentucky cities.

Such taxes, legally identified as occupational license taxes, are regarded as different from the constitutionally prohibited income taxes. The occupational license tax is considered to be a tax on the privilege of working and conducting a business, with the amount of tax paid constituting merely a monetary measure of the privilege (308 Kentucky 420 (1948)). Thus, although providing for the payment of a percentage of any type of earned income, an occupational license tax is not legally an income tax. This development has opened new sources of revenue for local governmental units in Kentucky.

Of the 136 cities located in the portion of Kentucky which lies in the Fourth District, only four — Ashland, Covington, Lexington, and Newport — levy the occupational license tax. Louisville, which lies outside the Fourth District, was the first city in Kentucky to use the tax as a source of revenue (1948). Lexington and Newport enacted similar ordinances in 1952, Covington in 1956, and Ashland in 1959.

The rates of taxation in all of the cities except Ashland are higher than the rates elsewhere in the Fourth District. Ashland levies a rate of 1 percent, while Lexington and Covington each has a tax rate of 1½ percent. Newport currently has the highest rate in the entire District, having recently raised it to 2 percent.[4]

(4) The rates apply to the income of employees; rates on business and professional income vary.

Cross Currents in the District

Flat-rate taxation. The municipal income tax is usually a relatively low flat-rate tax on the earned income of individuals and the net profits of business and the professions. (In Pennsylvania, as mentioned previously, corporate income is exempt from municipal income taxes.) In all instances, earned income does not include investment income, pensions, royalties, or annuities. All local units, except those in Kentucky, tax the total earned income of all residents regardless of where the income is earned. Kentucky cities tax only the income earned within the particular jurisdiction. All units except the school districts of Pennsylvania tax both residents and non-residents. This exception is made because it is felt that non-residents do not benefit from the taxes paid to school districts.

Under a flat-rate tax, the taxpayer usually pays a fixed percentage of his gross earned income, with no exemptions or deductions being allowed. The only exceptions in the District are Springfield and Warren in Ohio. In Springfield, the municipal income tax is applicable only when annual income is in excess of $1,040, in which case the tax rate applies to total income; in Warren, the first $1,200 of income is exempted completely from taxation. Such substantive differences are permissible in Ohio. On the other hand, they are not allowed to the local governments in Pennsylvania, which are bound by the uniformity clause in the State Constitution. Cities in Ohio also exempt the income of certain classes of individuals, such as ministers, student nurses, interns, university students, and members of the armed services.

The rates currently imposed by the various local governments in the Fourth District range from one-quarter of one percent to two percent. One percent is the statutory limitation imposed in both Pennsylvania and Ohio, although in Ohio the limitation can be removed with local voter approval. In Kentucky, only the "first class" cities, i.e., cities with populations in excess of 100,000 are limited to one percent. However, there is no limit on income tax rates in the Kentucky cities

located in the Fourth District, since none is classified as a first class city.

Double Taxation. Since both the community of residence and the community of employment may be levying an income tax, such a tax presents a possibility of double taxation in some cases. As a result, a number of tax crediting and reciprocity arrangements have been developed in Ohio and Pennsylvania to cope with such situations. In Ohio, the community of employment of the taxpayer has been given priority. The taxpayer, however, may credit taxes paid in the community of employment against taxes levied in the city of residence. A way of handling a double taxation situation has been found in Toledo, which is willing to share the taxes of non-residents with the communities of residence if the particular city will reciprocate.

The method of dealing with double taxation in Pennsylvania is the reverse of that in Ohio in that the community of residence has been given priority over the community of employment. This has resulted in a "cluster pattern" of municipal income taxation. Cluster pattern refers to the large number of small suburban communities situated around a large city that enact an income tax which tends to counteract a similar tax levied by the city. This has happened in Allegheny County, Pennsylvania, where nearly every small community "clustered" around Pittsburgh levies an income tax.

The "cluster pattern" has thus tended to nullify some of the revenue advantages to large cities which were assumed to be gained from the municipal income tax. It has been suggested by observers that the cluster pattern has reduced the per capita yield of the income tax in many central cities, in that they have been deprived of a substantial amount of the tax revenues from persons who commute to employment. This is one reason why the per capita yields of the income taxes in many cities in Pennsylvania are substantially lower than the yields obtained by Ohio cities.

Since in Pennsylvania the community of residence has the prior right of taxation, the place of employment must allow full credit for taxes paid to the place of residence. However, if the tax levied by the community of residence is less than the maximum of one percent, the community of employment may collect the difference between the tax rate levied by the community of residence and its own tax rate, as long as the total of the two rates is not in excess of one percent. Because cities in Pennsylvania tend to impose tax rates of less than one percent in order that the income can be shared, the arrangement causes the average tax rate levied in Pennsylvania to be lower than that in either Ohio or Kentucky.

The situation becomes even more complex if an individual's residence falls within a school district that levies an income tax as well as within a community that levies such a tax. In such a case, the two jurisdictions usually work out a mutually satisfactory arrangement, but the combined rate still cannot exceed one percent. Consequently, local governmental units in Pennsylvania can be found to levy taxes with rates which may be one-quarter, one-half or three-quarters of one percent.

Yields. The per capita yields of local earned income taxes vary significantly among various local governments. Among the factors which affect per capita yields are: (1) rate differentials, (2) whether non-residents are taxed, and (3) whether corporate income is taxed. In addition, a city that has a high per capita income can obtain a higher income tax yield than a city with a lower income.

Still another factor reflected in the relative amount of municipal income tax yields is the presence in some instances of large federal and state government installations. Under existing legal interpretations, it is permissible for a city to tax federal and state employees, although the federal and state governments are not required to withhold the tax from the salary of the employees. (An "inferior" jurisdiction cannot command a "superior" jurisdiction to withhold taxes.) It has been suggested by a number of observers that such a situation contributes to the possibility of

evasion of tax payments by federal and state employees. The situation thus poses the problem of whether the enforced collection of unpaid taxes would bring in enough cash to offset the relatively high cost of individual collection. Many cities seem to feel that the costs of such collection would be prohibitive.

As shown in the accompanying table, of the larger cities in the Fourth District which use the municipal income tax, Pittsburgh had the lowest per capita yield in fiscal year 1958. The lower yield was due in part to the fact that in Pennsylvania corporate income is not taxed; it was also due in part to the existence of the "cluster pattern," as discussed above. In the case of the larger cities in Ohio, Cincinnati, Columbus, and Toledo had relatively similar per capita tax yields. As shown in the table, the per capita tax yields of the cities in the Fourth District failed to approach the amount of per capita collections in Philadelphia.

MUNICIPAL INCOME TAX DATA FOR SELECTED CITIES
1958

CITY	RATE	PER CAPITA YIELD
Cincinnati	1%	$23.79
Columbus	1%	24.22
Toledo	1%	22.98
Pittsburgh*	1%	7.91
Philadelphia*	1½%	30.68

* Pittsburgh and Philadelphia tax only personal income while the other cities tax both personal and corporate income.
Source: Citizen's Research Council of Michigan

INVENTORIES

Continued from Page 5

Stocks held by distributors — wholesalers and retailers — increased, on balance, during 1960, largely as a result of the buildup in inventories of automobile retailers. At least a considerable part of the increase was intentional; automobile inventories had been sharply reduced by the effect of the steel strike on car production in late 1959.

As of this writing, information on inventory developments is available only through January 1961, on a preliminary basis. In that month total business inventories were reduced by $400,000,000, after seasonal adjustment, but three-fourths of the drop was accounted for by cutbacks in retail inventories, largely in the automotive group. This pattern of change represented a considerable contrast to that in most months of 1959 and 1960, when changes in factory stocks dominated the picture.

Some favorable news in January and February has caused a number of observers to suggest that a turning point in inventories is imminent. The much reduced decline in factory stocks in January, which, incidentally, took place entirely in stocks of finished goods, was succeeded, in February, by small gains in new orders and sales of durable goods manufacturers. It is still too early to say whether the developments in February mark a definite turn. Previously, several months of increasing orders and sales have been needed to produce an upturn in inventories.

Bank Earnings in 1960

(Fourth District Member Banks)

EARNINGS of member banks in the Fourth District reached new highs during 1960, according to the preliminary report on earnings and expenses of such banks. The 11-percent increase in 1960 in net current earnings of member banks in the District compares with an increase of nearly 13 percent in 1959 and a decline of nearly 6 percent in 1958. The major factor contributing to the rise in earnings was the expansion in loans during early 1960.

Despite a smaller percentage rise in net operating earnings in 1960 than in the preceding year, net profits before taxes advanced 41 percent from the 1959 level. The increase in net profits resulted from the fact that nonoperating factors (including changes in valuation reserves set aside for losses as well as actual losses and recoveries on both loans and securities) absorbed only 11 percent of net current earnings in 1960; in 1959, such factors absorbed nearly 30 percent of current earnings. Although taxes on net income nearly doubled in 1960, after-tax profits were one-fifth larger than in 1959, providing the highest rate of return on capital since 1954.

COMPOSITION OF PROFIT GROWTH

Fourth District Member Banks, 1960

(In Millions of Dollars)

Increase in Net Profits	+ 22
Factors Increasing Net Profits	+ 107
Increased Earnings on U. S. Government Securities	7
Increased Earnings on Other Securities	4
Increased Earnings on Loans	50
Smaller Net Nonoperating Losses	40
Increased Earnings from Other Sources	7
Factors Decreasing Net Profits	— 85
Increased Expenses	41
Increased Taxes	44

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

Nonoperating transactions played an important part in the bank earnings picture in 1960. The rising prices of securities, which accompanied the decline in interest rates from the peaks reached early in the year, enabled banks to realize profits on securities sold or redeemed during the year. Such profits amounted to $29 million in 1960 as against less than $2 million earned in 1959. Within the same general framework, banks reduced losses and charge-offs on securities to $35 million in 1960 from $37 million in 1959.

Operating Earnings

Gross operating earnings of Fourth District member banks in 1960 amounted to $708 million, an 11-percent increase from the 1959 level. In comparison, such earnings amounted to $640 million in 1959,which, in turn, represented a 13-percent increase from 1958. About seven-eighths of gross earnings in 1960 was accounted for by returns on earning assets; the remaining one-eighth represented income from other sources.

Earnings on loans amounted to $430 million, an increase of $50 million, or 13 percent, from 1959. The increase contributed nearly three-fourths of the total gain in bank earnings in 1960. About two-thirds of the gain on loans was realized during the first half of the year when loan demand was strong.

Earnings on U. S. Government securities were up $7 million in 1960, as a higher average rate of return on such securities more than compensated for a decline in the average amount of holdings. Earnings on other securities held in the banks' portfolios, chiefly securities of State and local governments, rose $4 million, reflecting higher yields as well as an increase in the average amount of holdings during 1960. The increase in 1960 in earnings on securities other than U. S. Government

MEMBER BANK EARNINGS, 1960

FOURTH DISTRICT

(Dollars in Millions)

EARNINGS, EXPENSES, AND PROFITS	Year 1960 (preliminary)	Change from 1959	
		Amount	Percent
OPERATING EARNINGS	$707.5	+$67.7	+10.6%
U. S. Government Securities	134.4	+ 6.6	+ 5.1
Other Securities	42.3	+ 3.8	+10.0
Loans	429.8	+ 49.8	+13.1
Other Earnings	101.0	+ 7.5	+ 8.0
OPERATING EXPENSES	451.5	+ 41.2	+10.0
Salaries and Wages	168.2	+ 9.5	+ 6.4
Interest on Time Deposits	135.7	+ 21.8	+19.2
Other Expenses	147.6	+ 9.9	+ 6.7
NET OPERATING EARNINGS	256.0	+ 26.5	+11.5
NET LOSSES AND CHARGE-OFFS	28.5	— 39.9	—58.3
NET PROFITS BEFORE TAXES	227.5	+ 66.4	+41.2
TAXES ON NET INCOME	91.9	+ 43.9	+91.5
NET PROFITS AFTER TAXES	135.6	+ 22.5	+19.9
CASH DIVIDENDS	52.8	+ 2.8	+ 5.6

securities was the largest in the entire postwar period, with the exception of 1958.

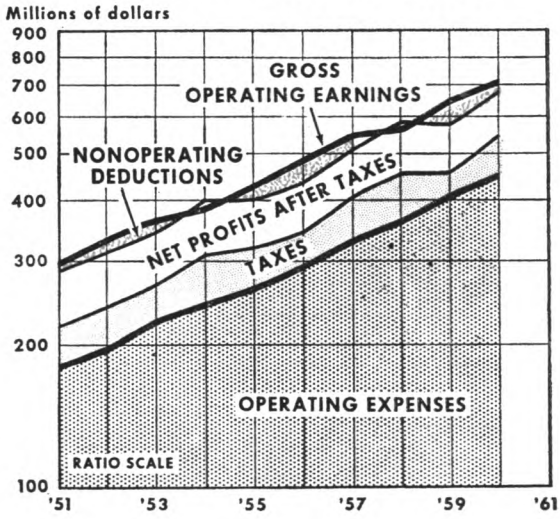
Operating earnings from other sources, which include commissions, fees, income from trust departments, and service charges, increased $7 million in 1960. Although these sources of earnings continue to increase from year to year, their declining relative importance is shown by the fact that such earnings accounted for 14 percent of gross earnings in 1960, as compared with 17 percent in 1950.

Operating Expenses

Operating expenses moved up in 1960, and at about the same pace as the increase in operating earnings. Total expenses, up $41 million, amounted to nearly 64 percent of current operating earnings, which was about in line with the corresponding percentages of the two previous years. Wages and salaries, the major expense item, increased about 6 percent during 1960, a rise which was less than in any other recent year except 1958.

Interest paid on time deposits in 1960 advanced 19 percent from 1959, accounting for more than half of the $41-million increase in current operating expenses. In the past decade, particularly since 1956, interest payments on time deposits have risen sharply. The development has resulted in part from the recent steady growth in time deposits; it probably also has reflected higher rates of interest paid on such deposits. By way of illustration, interest payments on time deposits increased to $136 million in 1960 (representing 30 percent of current operating expenses) from $57 million in 1956 (representing less than 20 percent of current operating expenses).

DISTRIBUTION OF MEMBER BANK EARNINGS
Fourth Federal Reserve District



Taxes on net income in 1960 were nearly twice as much as in 1959, thus cutting sharply into net income. The increase in taxes absorbed two-thirds of the $66-million gain in net profits. However, the $22-million rise in net profits after taxes represented an increase of 20 percent, the largest percentage gain since 1950.

Cash Dividends and Retained Earnings

Cash dividends declared by all member banks in the District totaled $53 million in 1960, $3 million more than in 1959. However, the distribution in 1960 amounted to only 39 percent of net profits, as compared with 44 percent in 1959. The remaining $83 million, or 61 percent of net profits, was retained to build up capital accounts.

Around the Fourth District—

BANK DEBITS IN FEBRUARY

(10 Largest Cities, Fourth District)

		February 1961 % change from year ago	3 months ended Feb. '61 % change from year ago
Columbus	Ohio	+ 9%	+ 5%
Dayton	Ohio	− 4	− 2
Toledo	Ohio	− 8	− 1
Cincinnati	Ohio	− 8	− 2
Akron	Ohio	− 9	− 4
Erie	Pa.	− 11	− 7
Cleveland	Ohio	− 12	− 8
Pittsburgh	Pa.	− 15	− 6
Canton	Ohio	− 17	− 10
Youngstown	Ohio	− 21	− 10

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Reports by Fourth District department stores relative to credit sales during February show that, although *instalment sales* were 8 percent smaller than in the same month a year earlier, the level of total instalment accounts receivable was 10 percent above the year-ago position. February *charge-account sales* showed a 5 percent year-to-year decline but the level of outstandings was unchanged from a year ago.

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At the end of the first quarter of 1961, *total assets* at 26 weekly reporting member banks in the Fourth District were nearly 4 percent below the year-end level. During the same period, *total loans* and *total investments* each fell 3 percent.

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The March *automotive sales* totals for Greater Cleveland show that 6,951 new cars were delivered to retail customers during the month, the fewest for any March in nine years except for 1958, and about 1,300 units below the strong year-ago month.

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According to processors' reports, *tomato plantings* in Ohio should total 20.5 thousand acres this year, down 5 percent from last year but slightly above the average for the past ten years. In Pennsylvania, prospective tomato acreage is set at 12 thousand acres, up 14 percent from a year ago, but far below average.

(The above items are based on various series of District or local data, which are assembled by this bank and distributed upon request in the form of mimeographed releases.)

FOURTH FEDERAL RESERVE DISTRICT