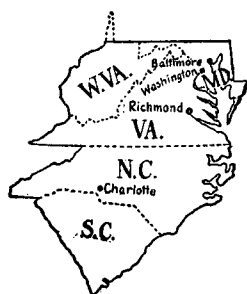


MONTHLY REVIEW

of Financial and Business Conditions

FIFTH
FEDERAL



RESERVE
DISTRICT

Federal Reserve Bank of Richmond, Richmond 13, Va.

May 31, 1947

Business Conditions

There is a substantial element of strength in the current business situation despite the fact that the persistent expansion registered in consumer purchases throughout the war and postwar periods appears to have leveled off. Strength is still evident in the trade situation, because selected stores report as late as the middle of May that no material resistance is found in consumers' reactions to prevailing prices when the desired quality of goods is on hand. There is very great resistance, however, to the poor quality of wartime merchandise. The current characteristics of the retail trade situation are important considerations in the business outlook for the remainder of the year, for they indicate that by and large price rise has not materially deteriorated the aggregate flow of goods into consumption channels.

Current trade statistics give evidence to the foregoing conclusion. The weekly reporting department stores of this District show figures reported in the weeks ended May 10 and May 17 again running ahead of a year ago, after showing slight losses in the three weeks following Easter. The seasonally adjusted index of department store sales for a broader group of stores, show April sales 7 per cent ahead of a year ago, but 3 per cent less than in March. Year to year gains in this District are continuing to run below the national average, largely because of the importance of Baltimore, Washington, Norfolk, and Charleston, South Carolina in these figures, and because of the effect of the removal of the war-boom condition from these cities.

Furniture store sales, though erratic in their movement, have continued to hold at high levels. Other durable goods stores, notably building-supply houses and automotive concerns, have continued to show sales well in excess of corresponding periods a year ago. Durable goods sales also have been an important consideration in the rise of department store sales, but non-durables also show an increase in the first quarter of the year compared with the same quarter a year ago. In these three months comparisons home furnishings accounted for 45 per cent of the total store sales increase. Women's and misses' wear sales in the first quarter of 1947 show the only decrease of a major department from the same quarter of last year. Stores attribute this decline in part to lack of desired quality merchandise.

Other factors of strength in the short-run business outlook are a high level of construction put in place; and a higher level of farm income for the great majority of farmers of the District. Although new starts in construction activity have slowed down very materially, the amount of materials and labor required to complete projects already started will stay at a high level through the summer. If building costs are not adjusted downward sufficiently to meet the ideas of would be builders, this industry will be a weakening factor in the business outlook in the fall of the year. There is, however, a considerable amount of public and commercial construction evolving despite high costs, and this has raised both contract and permit levels for April as compared with March. Thus despite the slowing in residential and heavy industrial construction starts, total construction contract awards in April were high by past comparisons except during the war years.

Cash farm income for the District in the first three months of 1947 rose 62 per cent over the same months of 1946. These changes find reflection in the maintenance of peak levels in the sales of wholesalers who deal primarily with rural retailers. Most farm prices affecting Fifth District products are strong, and no material weakness need be expected at least until the new harvest. Tobacco is an exception, in that British purchases are expected to be well below a normal level.

On the unfavorable side of the business situation are the excessive department store and selected wholesalers' inventories and the repercussions these are likely to have on the volume of production and employment. Department store and presumably many general store inventories, primarily in non-durable goods, are too high in relation to a more or less stabilized level of sales. Since April stores have been attempting to correct this position by reducing their new orders below the sales level. A number of store executives have expressed the opinion that the adjustment would be made by July 1, others think it may take a shorter or a longer time.

Reduction in orders from both wholesalers and retailers causes reductions in manufacturers' order banks, or causes their inventories to rise, or forces a reduction in plant operations. As of the middle of May, plant shut-downs or reductions in operations in the Fifth District had been

of little consequence. A few specialty textile mills had shut down, and some yarn mills had moderately curtailed. Specialty furniture plants and small upholsterers have curtailed or quit, but on the whole there has been very little adverse effect on employment. Local labor markets report data that indicate a stable employment level in manufacturing industries up to July. Although cotton yarns seem to be slackening somewhat, the cloth producers are still able to sell all their available output at premiums over contract prices.

Liquid savings as represented by time deposits in the weekly reporting banks continue to move slowly upward.

Some banks, however, indicate that there has been an increase in the rate of turnover of these deposits, which indicates some usage of them for current transactions. Series E savings bonds sales for the District in the first quarter of 1947 totaled \$93,971,000 which is \$11,431,000 higher than redemptions of A—E savings bonds in the same period. Maryland, however, shows redemptions \$3,660,000 higher than sales in the three months, while Virginia, West Virginia, North Carolina, and South Carolina show redemptions greater than sales in March. The evidence is not clear whether these funds were used to pay taxes, or used for purchases.

BUSINESS INDEXES—FIFTH FEDERAL RESERVE DISTRICT

Average Daily 1935-39=100—Seasonally Adjusted

	Apr. 1947	Mar. 1947	Feb. 1947	Apr. 1946	% Change Apr. 1947 from Mar. 47 Apr. 46	
Bank Debits	270	293	291	244	— 8	+ 11
Bituminous Coal Production*	132	150	159	4	— 12	.....
Building Contracts Awarded	296	272	240	365	+ 9	— 19
Building Permits Issued	198	144	246	170	+ 38	+ 16
Cigarette Production	254	242	262	244	+ 5	+ 4
Cotton Consumption	159	152	157	143	+ 5	+ 11
Department Store Sales	299	307	281	279	— 3	+ 7
Department Store Stocks	302r	300r	307	217	+ 1	+ 39
Electric Power Production .....	.....	238	234	207	.....	.....
Employment—Mfg. Industries* .....	.....	134	134	126	.....	.....
Employment—Nonmfg. Industries* .....	.....	.....	123	119	.....	.....
Furniture Sales—Retail	240	279r	236r	237	— 14	+ 1
Gasoline Consumption .....	.....	.....	157	160	.....	.....
Life Insurance Sales	246	239	247	283	+ 3	— 13
Wholesale Trade:						
Automotive Supplies**	308	345	345	263	— 11	+ 17
Drugs	268	260	236	269	+ 3	0
Dry Goods	167	163	153	157	+ 2	+ 6
Electrical Goods**	69	65	80	34	+ 6	+103
Groceries	278	277	271	235	0	+ 18
Hardware	114	114	113	98	0	+ 16
Industrial Supplies**	317	271	242	191	+ 17	+ 66
Paper and Its Products**	200	164	150	142	+ 22	+ 41
Tobacco and Its Products**	121	108	123	115	+ 12	+ 5
Business Failures	17	19	14	2	— 11	+750
Lumber Production .....	.....	126	155	159	.....	.....
Wheat Flour Production .....	.....	145	142	98	.....	.....

*Not seasonally adjusted

**1938-41=100

Regulation V Loans in the Fifth District

Conversion of this country's industry to the manufacture of the materials of war gave rise to new financial requirements for the firms holding contracts to supply the armed forces. Conversion and expansion of productive equipment necessitated new financing and the new terms of sale increased working capital requirements for the acquisition of inventory and the payment of production costs. Efforts were made to assure a supply of funds to contractors through advance and progress payments and the facilitation of bank loans through legislative authority for the assignment of claims against the Government (Assignment of Claims Act of 1940).

These steps were partially successful but had several disadvantages. Only prime contractors were eligible for advance payments, and while they in turn might make advance payments to their subcontractors, this was not done in all cases, resulting in shortages of working capital for the latter. Advance payments to contractors who were also subcontractors or who had purchase contracts from more than one service involved considerable administrative difficulties that served to delay their receipt of payments. The advance of funds by the contracting agencies without interest charges led to overstocking of inventory and a consequent tying up of needed raw materials. Finally, even the facility of the assignment of claims against bank loans did not in all cases reduce risks to the extent that lenders were willing to advance funds. The rapid growth of many firms' scale of operations and the shift to new fields of production led to serious doubts as to the ability to complete contracts in a manner satisfactory to the contracting services. Growth in scale of operations was not matched in all cases by increases in capital funds; many contractors had financial needs far out of proportion to their net worth, indeed, so far out of proportion as to render them poor credit risks by normal standards.

On March 26, 1942, the President signed Executive Order No. 9112 authorizing the War and Navy Departments and the Maritime Commission to enter into contracts with the Federal Reserve Banks, the Reconstruction Finance Corporation, and any other financing institutions for the purpose of guaranteeing these institutions against loss in financing contractors and subcontractors engaged in operations deemed necessary, appropriate, or convenient for the prosecution of the war; authority was granted to make or to participate in loans for this purpose. The Federal Reserve Banks were authorized to serve as agents for the War and Navy Departments and the Maritime Commission in carrying out the provisions of the order, subject to the supervisions and regulations of the Board of Governors of the Federal Reserve System. This power of supervision and regulation included authority to determine rates of interest, guarantee fees, and other charges in connection with guarantees of loans.

The program contemplated by the executive order was not intended to supplant the existing sources of funds for war contractors and subcontractors. Rather it supplemented them as necessary to insure the maximum supply of goods for the prosecution of the war, and employed existing organizations and trainer personnel for that purpose. Advance and progress payments were still made to

contractors; some requests for guarantee agreements initiated advance payments so that loans were not necessary. Private financing arrangements were still made where proposed loans lay within the limits of risk that the lending banks were willing and able to assume and the amounts were within the legal limits of the lending banks. The vast majority of requests for guarantees originated with banks that had been approached by would-be borrowers whose requirements were beyond their capacity to handle.

Acting under the authority granted by the executive order, the Board of Governors issued Regulation V, effective April 6, 1942. The regulation stated: "The objective of the Federal Reserve System in carrying out the provisions of the executive order is to facilitate and expedite war production . . . by arranging for the financing of contractors, subcontractors, and others . . ." It further announced that the Federal Reserve Banks had been designated as fiscal agents of the United States by the Secretary of the Treasury and would arrange guarantees and loans under the supervision and direction of the Board of Governors and in accordance with the instructions of the War and Navy Departments and the Maritime Commission. Interest rates, fees, and other charges on loans would be determined by the Board of Governors after consultation with the other agencies, and maturities would be consistent with the needs of the borrower.

The approaching end of hostilities brought the question of contract termination to the fore, and legislative action was taken to simplify and to expedite procedures when orders were cancelled by the armed forces. The Contract Settlement Act of 1944 made necessary a change in the form of guarantee, and accordingly Regulation V was revised effective September 11, 1944 so as to take account of the need for loans against claims arising from contract terminations.

Under Regulation V, four types of loan guarantees were issued. These took the form of an agreement on the part of the guarantor to purchase a stipulated percentage of the outstanding amount of a loan from the financing institution upon 10 days notice, regardless of any default that might have occurred. In some cases the guarantee covered a specific advance to the borrower; in other cases advances were guaranteed in a revolving credit with the maximum amount determined by payments due or to become due or by a formula based upon the outlays made against the completion of contracted work less any payments received. The four types of loans were designated as V, VT, 1944V, and T loans.

The V loans were essentially production loans although in some cases they contained certain provisions for termination financing as well. VT loans were similar, except that they were intended to free working capital upon termination of contracts as well as to provide working capital to finance the contracts. These VT loans were made between September 1943 and September 1944. With the revision of Regulation V in September 1944, the form of guarantee agreement was simplified and shortened, and the new loans to provide working capital for war production purposes or to provide funds for both production and contract termination financing were designated as 1944V

loans. Contract termination loans, or T loans, were for the purpose of enabling war contractors to obtain the use of funds tied up in war production pending final settlement of claims arising from terminated contracts. These loans were made after the revision of Regulation V on September 11, 1944.

From the beginning of the V loan program in April 1942 through February 1946 (the date of the last application), the Federal Reserve Bank of Richmond received 347 applications for guaranteed loans aggregating \$104,004,827. Of these applications, 26 were withdrawn before final action, and 45 aggregating \$6,126,500 were rejected. The principal reasons for these rejections were that the guarantor could not certify that the production of the applicant was necessary, appropriate, or convenient for the prosecution of the war, or that it was believed preferable to provide the necessary financing by advance payments. Of the 276 guarantees authorized, aggregating \$85,297,056, loans were actually made on 231 authorizations. The type of authorization, the amounts authorized and the amounts actually borrowed (principally on revolving credit lines) are given in table I. It will be noted from this tabulation that comparatively few T loans were made. This may be accounted for by the fact that the services made such prompt settlements or partial payments on terminated contracts that only a few companies found it necessary to borrow under the contract termination plan.

Table 1

REGULATION V LOANS AUTHORIZED AND MADE
(Amounts in thousands of dollars)

Type of Loan	No. of Loans	Amount Authorized	Amount Borrowed*
V	180	\$45,366.6	\$87,674.5
VT	14	6,450.0	5,716.5
1944V	32	16,101.5	16,111.2
T	5	685.0	567.6
Total	231	\$68,603.1	\$110,069.8

*The amount borrowed frequently exceeded the amount authorized in the case of revolving credits due to loans being paid off and new loans being made under the same authorization.

The total amount of credit available to borrowers including amounts outstanding are shown in table 2. These amounts are given for semiannual periods from June 30, 1942 through December 31, 1946, and for March 31, 1947. The two loans aggregating \$25,300 shown as outstanding on March 31, 1947 were in process of collection in bankruptcy proceedings.

Table 2

AMOUNT OF CREDIT AVAILABLE TO BORROWERS
INCLUDING AMOUNT OUTSTANDING
REGULATION V LOANS

June 30, 1942—March 31, 1947

(In thousands of dollars)

Date	V Loans	VT Loans	1944V Loans	T Loans	Total
June 30, 1942	\$ 4,922.7				\$ 4,922.7
Dec. 31, 1942	17,667.3				17,667.3
June 30, 1943	25,227.6				25,227.6
Dec. 31, 1943	18,448.8	\$2,075.0			20,523.8
June 30, 1944	19,867.3	4,900.0			24,767.3
Dec. 31, 1944	13,108.5	4,350.0	\$ 2,487.8	\$1,535.0	21,481.3
June 30, 1945	4,977.0	2,000.0	12,640.0	4,045.0	23,662.0
Dec. 31, 1945	1,726.7		8,356.1	2,010.0	12,092.8
June 30, 1946	168.6		1,515.0	25.0	1,708.6
Dec. 31, 1946	13.2		15.0		28.2
Mar. 31, 1947	10.3		15.0		25.3

Of the 231 authorized borrowings, the smallest credit guaranteed was for \$500 and the largest for \$4,000,000. While loans from \$10,000 to \$250,000 accounted for al-

most 60 per cent of the total number of loans, they represented less than 20 per cent of the total amount authorized. Loans of over \$1,000,000, however, though less than 7 per cent of the total number, accounted for almost half of the total amount. The distribution of the number and the amount of authorizations by size of loan is presented in table 3.

Table 3

PERCENTAGE DISTRIBUTION OF REGULATION V LOANS
AUTHORIZED AND MADE BY SIZE OF LOAN

Size of loan	Percentage of total number of loans	Percentage of total amount of loans
\$5,000 or less	10.0	.1
5,001 - 10,000	6.5	.2
10,001 - 50,000	25.1	2.6
50,001 - 100,000	13.8	4.0
100,001 - 250,000	20.8	12.7
250,001 - 500,000	10.4	13.8
500,001 - 1,000,000	6.5	16.9
Over 1,000,000	6.9	49.7
	100.0	100.0

About 51 per cent of the total number of Regulation V loans carried the maximum interest rate of 5 per cent, but this rate was being charged on but 12.6 per cent of the total amount of loans. Around 10 per cent of the total number of loans were made at an interest rate of 3 per cent, representing 54 per cent of the amount borrowed under the program. Small loans were generally made at the maximum rate, although some were made at rates of 4 or 4½ per cent.

Table 4

PERCENTAGE DISTRIBUTION OF AMOUNT OF REGULATION V
LOANS MADE BY RATE OF INTEREST AND BY SIZE
OF BORROWER

Rate of interest (per cent)	Total	Loans to borrowers with total assets of				
		Less than \$50,000	\$50,000-250,000	\$250,000-750,000	\$750,000-5,000,000	\$5,000,000 and over
2	0.1				0.2	
2-3	4.5				6.8	
3	54.2		6.9	1.8	69.4	100.0
3-4	1.6			4.5	1.2	
4	23.2	14.9	17.0	50.0	19.9	
4-5	3.8		6.4	10.8	2.2	
5	12.6	85.1	69.7	32.9	.3	
Total	100.0	100.0	100.0	100.0	100.0	100.0

Producers of trucks, vans, trailers, spare automobile parts, etc., for combat transportation accounted for more than one-fourth of the money borrowed. This does not mean that there were many of such companies borrowing since only 10 out of a total of 137 borrowers were involved. These 10 borrowers included several large companies with revolving lines of credit which accounted for the bulk of the money borrowed in this category. This applied to a less extent to construction contractors, who accounted for more than 20 per cent of the money borrowed. One construction company out of the 15 borrowers in this category was a particularly heavy borrower on a revolving line of credit. Ship construction and repair, and aircraft, aircraft engines, parts and accessories accounted for 13 and 8 per cent respectively of the total amount borrowed. There were 19 concerns represented under the first category and 10 under the latter. Most of the authorizations were for single loans rather than revolving credits, with applications for additional authorizations being made for a few borrowers. Of the concerns borrowing under the Regulation V plan, several were new concerns and quite a number converted from the manufacture of nonessential products to war materials, while others expanded their

business in order to handle a greater volume of production. Table 5 shows the amount of Regulation V borrowings classified by type of product covered in contracts held by the borrowers.

Table 5

**REGULATION V LOANS BY TYPE OF PRODUCT COVERED
IN CONTRACT**

(Amounts in thousands of dollars)

Type of Product	Amount Borrowed	Per Cent
1. Metal and metal products		
Aircraft, aircraft engines, parts and accessories	\$ 8,680.8	8.0
Ship construction and repair; accessories	14,269.1	13.0
Combat transportation and other motor vehicles; accessories	28,890.1	26.2
Guns, ammunition, bombs, shells, etc.; explosives and ammunition loading and assembling	8,292.7	7.5
Machinery, electrical equipment & appliances	2,414.6	2.2
Other metal products; iron & steel; nonferrous metals and their products; machine tools and other metal working equipment; etc.	6,355.7	5.8
2. Chemicals, drugs, rubber	638.9	0.6
3. Textile products, leather	5,301.1	4.8
4. Foods and related products	3,965.7	3.6
5. Other manufactured products, including contracts unallocable because of diverse products covered	8,648.3	7.8
6. Construction	22,437.1	20.4
7. Other nonmanufacturing and nonindustrial	175.7	0.1
Total	\$110,069.8	100.0

The Regulation V program was a means of assuring the financing of war production contracts through the utilization of the existing banking structure. The guaranteeing of large percentages of the loans by the Federal Reserve Banks as agents for the contracting services made it possible for local banks to finance local industries. Had this method of financing not been available, it is probable that the production of war materials would have been more centralized, since it would have been difficult for the smaller concerns in out of the way places to obtain adequate credit. Not only did the V loan program prove helpful to the business concerns participating, but it was a good investment for the contracting services involved. Although losses on loans have been written off by the services, the receipts far outweighed the losses. Far more important, the Regulation V program made an important contribution to the achievement of maximum production by American industry and thus to the successful prosecution of the war.

Banking

The four-week period ended May 14 saw a \$20 million decrease in the loans and investments of weekly reporting member banks of the Fifth Federal Reserve District. As has been the case during the past 14 months, a substantial decrease occurred in investments while loans increased slightly. Total loans and investments amounted to \$1,840 million on May 14 as compared with \$1,860 million on April 16.

Commercial, industrial, and agricultural loans increased by \$1 million during the four weeks to \$257 million. Loans to brokers and dealers for purchasing and carrying securities remained constant at \$5 million, while loans to others than brokers and dealers for this purpose fell by \$2 million to \$38 million. Real estate loans increased another million dollars to a new high of \$85 million, while other loans showed a \$1 million increase to \$109 million.

Decreases were shown in holdings of all types of securities except certificates of indebtedness, which gained substantially from the April 16 level. Recent redemptions of Treasury bills had no apparent effect upon holdings of these obligations as the fluctuations were without discernible pattern. The drop of holdings of United States Government bonds is the largest for comparable periods in recent years and occurred in the last two weeks of April. The table below gives the weekly holdings of Government obligations.

HOLDINGS OF U. S. GOVERNMENT OBLIGATIONS WEEKLY REPORTING MEMBER BANKS

Fifth District (Millions of Dollars)					
Date	Bills	C. of I.	Notes	Bonds*	Total
April 16	22	166	74	1,014	1,276
23	13	170	71	1,006	1,260
30	17	173	69	998	1,257
May 7	24	174	69	998	1,265
14	16	173	69	998	1,256

*Includes guaranteed obligations.

Two of the four weeks ended May 14 were periods of moderate pressure upon the reserve balances of Fifth District member banks. Substantial Treasury withdrawals from the reserve funds of the District during the weeks ended April 23 and May 14, supplemented by drains through commercial and financial transactions, led in the first case to a decline in reserves of \$29 million and in the closing week to an increase in Reserve Bank credit of similar amount. Currency transactions made a net contribution to reserves for the four weeks, although losses to increased circulation were experienced in the

FACTORS AFFECTING MEMBER BANK RESERVES

Fifth District	
Factors increasing (+) or decreasing (—) reserves:	Change for 4 weeks ended May 14, 1947 (Millions of dollars)
Reserve bank credit extended locally	+19
Commercial and financial transactions	—9
Treasury transactions	—37
Currency transactions	+11
Other factors	+4
Net change in reserve balances	—12

second and third weeks. As may be seen from the preceding table, reserves showed a net decline of \$12 million for the period, occasioned by losses of funds through commercial and financial transactions and Treasury transactions, these losses being partially offset through gains from the other factors.

The last half of April saw a substantial decline in the average total deposits held by Fifth District member banks relative to those of all member banks in the country. Deposits declined in dollar amounts in all states except West Virginia which held its own from the March level.

AVERAGE DAILY TOTAL DEPOSITS* OF MEMBER BANKS

	Last half of March		Last half of April	
	\$ millions	% of U. S.	\$ millions	% of U. S.
Maryland	982	.95	977	.95
Reserve city banks	619	.60	619	.60
Country banks	363	.35	359	.35
District of Columbia	942	.91	928	.90
Reserve city banks	921	.89	907	.88
Country banks	21	.02	21	.02
Virginia	1,286	1.24	1,270	1.23
Reserve city banks	291	.28	291	.28
Country banks	995	.96	980	.95
West Virginia	540	.52	540	.52
North Carolina	832	.81	815	.79
Reserve city banks	377	.37	370	.36
Country banks	455	.44	445	.43
South Carolina	422	.41	416	.40
Fifth District	5,004	4.85	4,947	4.79

*Excluding interbank demand deposits.

ASSETS AND LIABILITIES OF MEMBER BANKS Fifth Federal Reserve District

April 30, 1947

Preliminary

(Million of Dollars)

ITEMS	Reserve city member banks	Other member banks	All member banks	Chg. from Mar. 26, '47 all member banks
Assets				
1. Loans and investments	1,962	2,349	4,311	—31
a. Loans and discounts	524	697	1,221	+18
b. U. S. Gov't obligations	1,343	1,493	2,836	—66
c. Other securities	95	159	254	+17
2. Reserves, cash, and bank balances	671	688	1,359	—26
a. Reserve with F. R. bank	390	316	706	+15
b. Cash in vault*	41	66	107	—18
c. Demand balances with banks in U. S.	96	240	336	—19
d. Other bank balances*	2	1	3	..
e. Cash items in process of collection	142	65	207	—4
3. Other assets*	40	35	75	+3
4. Total assets	2,673	3,072	5,745	—54
Liabilities and Capital				
5. Gross demand deposits	2,045	1,996	4,041	—59
a. Deposits of banks	294	92	386	—41
b. War loan accounts	46	54	100	—37
c. Other demand deposits	1,705	1,850	3,555	+19
6. Time deposits	449	861	1,310	+4
7. TOTAL DEPOSITS	2,494	2,857	5,351	—56
8. Borrowings from F. R. bank	8	6	14	—4
9. Other liabilities*	12	14	26	+2
10. Total capital accounts*	159	195	354	+3
11. Total liabilities and capital accounts*	2,673	3,072	5,745	—54

EARNINGS AND PROFITS OF FIFTH DISTRICT MEMBER BANKS

Despite increases in nearly all expense items and decreased income from profits and recoveries on securities, net current earnings and profits of Fifth District member banks climbed to new highs in 1946, continuing the upward trend of the past several years. Increased earnings on loans more than offset the increases in expenses while other earnings rose sufficiently to make up the lost income from security transactions and to provide yet additional profits.

TABLE I
MEMBER BANK EARNINGS
FIFTH FEDERAL RESERVE DISTRICT
(Amounts in thousands of dollars)

ITEM	1946	Chg. from 1945
Earnings	110,277	+ 16,634
Interest and dividends on securities:		
U. S. Government	49,527	+ 4,959
Other	4,865	+ 330
Interest and discount on loans	36,953	+ 9,740
Service charges and fees on loans	259	+ 10
Service charges on deposit accounts	5,666	+ 515
Other charges, commissions, fees, etc.	4,100	+ 304
Trust department	4,657	+ 751
Other current earnings	4,250	+ 45
Expenses	67,732	+ 8,065
Salaries—officers	12,434	+ 1,619
Salaries and wages—employees	18,954	+ 2,975
Directors' and committee members' fees	800	+ 116
Interest on time deposits	10,647	+ 1,287
Interest on borrowed money	110	+ 16
Taxes other than on net income	4,288	+ 117
Recurring depreciation on banking house, furniture and fixtures	1,878	+ 51
Other current expenses	18,621	+ 1,916
Net current earnings before income taxes	42,545	+ 8,569
Recoveries and profits	11,860	— 2,581
Recoveries on securities	1,158	— 347
Profits on securities	6,822	— 1,986
Recoveries on loans	2,355	+ 411
All other	1,545	— 659
Losses and charge-offs	6,352	— 521
On securities	3,053	— 103
On loans	1,295	+ 241
All other	2,004	— 659
Profits before income taxes	48,053	+ 6,509
Taxes on net income	13,123	+ 1,687
Federal	13,018	+ 1,677
State	105	+ 10
Net profits	34,930	+ 4,822
Cash dividends declared	11,137	+ 1,217

Holdings of United States Government obligations declined during 1946 from the all-time high of the early months of the year, but in spite of this fact, interest received on Governments increased from the 1945 figure. Larger portfolios of other securities provided increased returns in the form of interest and dividends, although the percentage increase was less than in the case of Governments. As was noted, the greatest increase in earnings came from the loan portfolio; the 29 per cent increase in loans outstanding that occurred during 1946 brought with it an increase of 36 per cent in interest and discount received. All other forms of earnings showed increases with the exception of service charges and commissions on loans, which declined somewhat from the 1945 level.

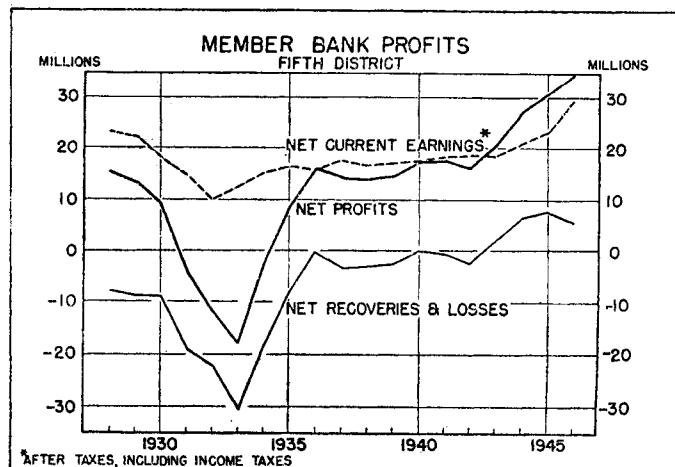
Expenses showed a 13.5 per cent increase over those for 1945, which in turn had risen 12.2 per cent from the 1944 figure. More than one-half of the increase was attributed to salaries and wages. Bank employment increased by 9 per cent and aggregate salaries and wages showed a 17 per cent gain. Payments of interest on time deposits rose by 14 per cent and the catch-all expense classification, "all other expenses," accounted for nearly one-fifth of the total increase.

Because of the greater increase in earnings than in expenses, net current operating earnings were up one-fourth from the net earnings of 1945. Decreased profits and recoveries on securities brought about a decrease in the contribution of so-called non-operating factors to profits, yet profits before income taxes were 15.7 per cent above the 1945 figure and net profits showed an almost identical increase.

Cash dividends declared increased 12.3 per cent over those for 1945, but since this rate of increase was less than that of profits, the proportion of profits paid out in dividends declined from 1945's percentage, being 31.9 per cent as compared with 32.9 per cent in the preceding year.

TRENDS IN EARNINGS

The chart below presents a graphic picture of the relationship of net current earnings, net recoveries and losses, and net profits for the past 19 years and from it conclusions may be reached as to the significance of the past year's record. Net current earnings surpassed those of 1928 for the first time in 1946 and the gain shown for 1946 over 1945 was the greatest of the 19-year period. In spite of the record tax payments of 1946, the year's gain in net current earnings after all taxes was slightly greater than the increase that occurred from 1939 through 1945. This sharp upturn is doubly important because of its effect upon the nature of bank profits and because of its origin, an increase in commercial lending operations.



Profits on securities and recoveries on assets exceeded losses and charge-offs in 1946 for the fourth consecutive year and the sixth year of the 19 shown. Banks are risk-taking institutions and it has generally been considered normal that since some portion of operating earnings were in payment of the assumption of risk, losses and charge-offs would exceed recoveries and profits on the sale of assets. The contribution of net profits and re-

coveries on assets to profits has been looked upon as being of a temporary nature and predictions have been made that with a decline of profits on securities traded and increased charge-offs as the volume of loans increases, charge-offs and losses will exceed profits and recoveries with the result that net profits will be decreased by these factors. Profits and recoveries on securities did fall off in 1946 as compared with 1945, and while losses were slightly lower than in the preceding year, net capital gains on securities declined. Loan recoveries, however, increased more than did losses, and the net capital gain on loans was larger than in 1945. The net effect of these changes, together with a small increase in other net charge-offs, was to reduce the net contribution of profits and recoveries on assets to a figure below that for 1944 or 1945. It is not clear whether this portends a future return of these factors to their pre-war influence upon profits. Much will of course depend upon general business conditions and the proportion of risks assumed that will subsequently develop into losses.

Net profits for 1946 were at a high for the 19 years shown as the result of the combined force of these two sets of factors. Representing a 10.7 per cent return upon total capital funds, they showed a slight increase as a percentage of capital funds over profits of 1945. Table II presents the record for the past 16 years as compared with returns in other lines of endeavor.

TABLE II
ANNUAL RATE OF RETURN ON CAPITAL FUNDS

	5th District Member Banks†	Mfg. Corps.*	Trade Corps.*	Public Utility Corps.*	Service Corps.*	Mining Quarrying Corp.*
1931	— 2.0	— 0.9	— 3.9	2.1	— 1.8	— 2.7
1932	— 6.6	— 3.3	— 6.4	0.7	— 10.9	— 2.6
1933	— 10.5	— 0.7	— 0.2	0.4	— 7.0	— 2.3
1934	— 1.3	2.7	3.3	1.5	— 5.4	0.7
1935	4.9	5.6	4.3	1.5	— 4.1	0.7
1936	8.4	8.2	7.3	2.5	— 0.7	2.0
1937	7.1	7.9	6.5	3.0	0.1	3.7
1938	6.7	3.0	2.9	1.6	1.0	0.4
1939	6.8	7.1	5.9	3.2	3.0	1.9
1940	7.8	8.9	6.8	3.2	3.9	2.8
1941	7.4	12.3	10.4	4.4	5.6	4.4
1942	6.5	10.1	9.9	7.3	10.7	7.4
1943	7.8	9.9	10.1	7.2	12.7	7.2
1944	9.7	8.9	10.2	6.1	12.3	7.6
1945	10.4	9.3	10.9	6.7	11.8	7.1
1946	10.7	12.1	22.3	8.2	19.4	9.5
Average 1931-46	4.6	6.4	6.3	3.7	3.2	3.0

†Member banks 1931-41—Banking and Monetary Statistics
1941-46—Member Bank Call Reports

*1931-41—Statistics of Income
1941-46—National City Bank Sample

OPERATIONS BY SIZE OF BANK

In order to provide the basis for a comparison of earnings and profits for 1946 with those of the preceding year, 465 identical banks for the two years have been obtained by making the necessary adjustments for banks eliminated from or added to the Federal Reserve System during 1946 and for consolidations effected during the past year. Similarly, adjustments have been made for those banks which moved into a different size group during 1946. The resultant grouping by deposit size discloses the detailed changes in the sources and disposition of earnings during 1946 and permits an analysis of the changes experienced in the reader's bank against the average changes of the pertinent size-group.

Earnings

Interest and discount on loans

Probably the most significant development in banking operations throughout the country during 1946 was the rapid expansion of commercial lending. That this observation is applicable also to the Fifth Federal Reserve District has already been indicated in a preceding paragraph where it was pointed out that the greatest increase in Fifth District member-bank earnings derived from the loan portfolio.

Whereas in 1945, 29.5 per cent of total earnings of the 465 member banks was accounted for by earnings on loans, in 1946 the proportion climbed to 33.6 per cent. In all size groups of banks the loan contribution to total earnings was a larger percentage in the past year than it was in 1945, ranging from 28 per cent to 44 per cent. The largest gains in this direction were realized by the three largest size-groups in which earnings on loans taken as a percentage of total earnings increased more from 1945 to 1946 than they did in the four smaller groups shown. As usual, this source of income comprised a substantially larger proportion of total earnings in the case of the smaller banks than it did in the larger banks. As can be noted in Table III, the pattern of distribution is closely comparable in the two years.

The percentage increase from 1945 to 1946 in interest and discount on loans for the 465 member banks was 34.7, ranging from 28.7 per cent for the largest size group of banks with deposits of \$50 million and over to 42.7 per cent in the \$10-25 million group. It will be seen in the accompanying table that the pattern of gains is a mixed one with no particular concentration of the largest increases among either the large or small banks. This reflects the magnitude and extent of the base of credit demand that has been created by the deferred demands for goods, the high level of business activity, and the inflationary pressures that have characterized the postwar economy.

TABLE III

Deposit size (\$ Million)	Earnings on loans			Earnings on loans as a percentage of total earnings	
	1945	1946	% Inc.	1945	1946
Under 1	162	219	35.0	37.7	40.8
1 - 1.9	1,001	1,379	37.8	40.3	43.8
2 - 4.9	3,779	5,046	33.5	38.6	41.1
5 - 9.9	3,374	4,574	35.6	37.0	40.2
10 - 24.9	5,697	8,128	42.7	32.5	37.2
25 - 49.9	2,987	4,153	39.1	27.1	32.3
50 and over	10,041	12,923	28.7	24.2	28.0
465 banks	27,041	36,422	34.7	29.5	33.6

Interest and dividends from securities.

Although the amount of interest and dividends earned by the 465 banks in the compilation increased from \$48,185,000 in 1945 to \$53,388,000 in 1946, the 10.8 per cent growth was the smallest gain realized in this category since the inception of the war financing program. It should be pointed out that although Fifth District member bank holdings of short-term, low-yield Treasury obligations declined 47 per cent during 1946, holdings of U. S. Government bonds increased by about 5 per cent. The net result was a reduction from December 31, 1945 to December 31, 1946 of 16 per cent in total portfolio of U. S. Government obligations. Notwithstanding this reduction,

a number of factors combined to produce the increase noted in interest and dividends from securities.

In the first place, substantially more than half of the reduction in holdings of Treasury obligations occurred during the last six months of the year. In fact, a greater reduction was experienced during the last quarter than for the first six months. Secondly, the average yield on member bank holdings of Government securities was higher during 1946 than it was for 1945 (1.48 per cent as compared with 1.39 per cent for member banks throughout the country). This reflected the decline in holdings of lower-yield securities. Finally, there was a large increase, from \$178 million at the end of 1945 to \$230 million on December 31, 1946, in holdings of relatively high-yield securities such as state and municipal bonds and corporate stocks.

Contrary to the nature of the distribution of the increases noted in the preceding section, the pattern of gains in interest and dividends from security holdings shows a concentration of the largest percentage increases among the four smallest size-groups. This is a consequence, for the most part, of the greater effect of the Treasury's debt retirement program on the earning assets of large banks than of small banks. Another factor here is the larger proportion of total deposits constituted by the time deposits of smaller banks. As a consequence, security maturities were longer and a higher rate of interest was earned by the smaller banks.

As can be seen in Table IV, the range of gains is a wide one, extending from only 3 per cent for banks with deposits of \$50 million and over to 24 per cent for banks in the \$2-5 million group.

Despite the increase from 1945 to 1946 in interest and dividends, this source of income provided a smaller percentage of total earnings in the latter year. Table IV shows that for the 465 banks, interest and dividends as a percentage of total earnings dropped from 53 per cent to 49 per cent with decreases registered for each size group of banks. As a consequence of the factors already cited, the pattern of declines follows that of the increases in earnings on loans. That is, the greatest changes from 1945 to 1946 were experienced by the three largest size-groups of banks. Although interest and dividends contributed more, of course, to total earnings in 1946 than they did prior to the war, the slight declines in the contributions to total earnings by this source during the year did not establish a pattern of relative importance among the various size groups materially different from that which characterized the results of member-bank operations in 1939.

TABLE IV

Deposit size (\$ Million)	Interest & dividends on securities (\$ Thousand)			Interest & dividends on securities as a percentage of total earnings	
	1945	1946	% Inc.	1945	1946
Under 1	212	255	20.1	49.4	47.5
1 - 1.9	1,168	1,439	23.2	47.0	45.7
2 - 4.9	4,738	5,892	24.4	48.3	48.0
5 - 9.9	4,355	5,324	22.3	47.8	46.8
10 - 24.9	8,797	10,816	17.3	50.2	47.2
25 - 49.9	5,683	6,212	9.3	51.6	48.4
50 and over	23,233	23,950	3.1	56.0	51.8
465 banks	48,185	53,388	10.8	52.5	49.3

Service charges.

Table V shows that earnings in the form of service charges on deposit accounts increased 10 per cent in 1946 over the preceding year. Aside from the 30 per cent in-

crease in the group of banks with deposits under \$1 million (here the large percentage increase was due to the small size of the absolute figures involved), the most significant increase in earnings from service charges was realized by the largest banks, those with deposits over \$50 million. It is likely that the service charges of this group of banks were influenced more than were those of smaller banks by the extent to which the decline in U. S. Government demand deposits was offset by an increase in demand deposits of individuals, partnerships, and corporations.

Inasmuch as the percentage increase in total earnings was somewhat greater than the gain in service charges, the latter earnings as a percentage of total earnings of the 465 banks declined slightly from 5.5 in 1945 to 5.1 in 1946. All of the groups shown in the following table realized a drop in the extent to which service charges contributed to total earnings with the exception of the two groups of largest and smallest banks in which slight gains were recorded.

TABLE V

Deposit size (\$ Million)	Service charges on deposit accounts (\$ Thousand)			As a percentage of total earnings	
	1945	1946	% Inc.	1945	1946
Under 1	22	28	29.6	5.0	5.2
1 - 1.9	133	148	11.5	5.3	4.7
2 - 4.9	486	526	8.3	5.0	4.3
5 - 9.9	576	604	4.8	5.3	5.3
10 - 24.9	1,180	1,276	8.1	6.7	5.8
25 - 49.9	757	812	7.3	6.9	6.3
50 and over	1,914	2,182	14.0	4.6	4.7
465 banks	5,067	5,576	10.4	5.5	5.1

Trust Department earnings.

Of the 465 member banks included in the compilation, 168 maintained trust departments, an increase of 3 over 1945. Earnings from this source increased from \$3,750,000 in 1945 to \$4,639,000 in 1946, a gain of 24 per cent. This was sufficient to increase slightly the contribution made by these earnings to total earnings. The latter computation is shown for each size group of banks in Table VI and reflects the increasing number of banks with trust departments as the size of the bank increases.

TABLE VI

Deposit size (\$ Million)	Trust department earnings (\$ Thousand)			As a percentage of total earnings	
	1945	1946	% Inc.	1945	1946
Under 1	...	...	...	...	...
1 - 1.9	4	7	75.0	.2	.2
2 - 4.9	127	133	4.7	1.3	1.1
5 - 9.9	151	207	37.1	1.7	1.8
10 - 24.9	446	603	35.2	2.5	2.8
25 - 49.9	671	694	3.4	6.1	5.4
50 and over	2,351	2,995	27.4	5.7	6.5
465 banks	3,750	4,639	23.7	4.1	4.3

Total earnings.

The gross effect of the changes in the items considered and in all other current earnings was an increase in total earnings from \$91,815,000 in 1945 to \$108,275,000 in 1946, a gain of 18 per cent. It will be seen from Table X that the banks in five of the size groups, those with deposits from under \$1 million to \$25 million, achieved increases that approximated 25 per cent. The average gain for all banks was drawn down by the 17 per cent and 12 per cent increases realized by the \$25-50 million banks and those with deposits of over \$50 million respectively.

As we have noted, the effects of shifts from 1945 to 1946 in holdings of loans and investments were most pro-

nounced in the cases of the largest banks. On the average, the contributions to total earnings by earnings on loans and trust department gross earnings increased from 1945 to 1946 while interest and dividends on securities, service charges, and other current earnings, as a percentage of total earnings, decreased.

Expenses

Salaries and wages.

Of the \$7,968,000 increase during 1946 in total expenses of the 465 banks, \$4,549,000 or 57 per cent of it was in salaries and wages. While total expenses increased 14 per cent over costs in 1945, the salary and wages bill was stepped up 17 per cent thus increasing slightly the proportion (46 per cent in 1946) of total expenses accounted for by this item. Table VII shows that the range of percentage increases in salaries and wages among the seven size groups of banks was a fairly narrow one, with the group of largest banks experiencing the smallest, 15 per cent, increase.

The overall increases in total earnings and in salaries and wages were almost identical—17.9 per cent for the former and 17.3 per cent for the latter. As a consequence, salaries and wages absorbed an almost identical percentage, 28.5 per cent, of total earnings in 1946 to that of 1945. In only two size groups of banks, the two largest, were the percentage increases in salaries and wages larger than the growth in total earnings.

TABLE VII

Deposit size (\$ Million)	Salaries and wages (\$ Thousand)			As a percentage of total earnings	
	1945	1946	% Inc.	1945	1946
Under 1	129	150	16.6	30.0	27.9
1 - 1.9	695	806	15.9	28.0	25.6
2 - 4.9	2,598	3,091	19.0	26.5	25.2
5 - 9.9	2,536	3,044	20.0	27.8	26.8
10 - 24.9	4,829	5,792	19.9	27.6	26.5
25 - 49.9	3,485	4,128	18.5	31.7	32.1
50 and over	12,012	13,821	15.1	29.0	29.9
465 banks	26,284	30,832	17.3	28.6	28.5

Interest paid on time and savings deposits.

An 18 per cent increase amounting to \$189,983,000 in average time deposits from 1945 to 1946 resulted in a growth of interest charges on deposits of 13 per cent or \$1,220,000. There is thus indicated a slightly lower average rate of interest paid in 1946 than in 1945.

It will be seen in Table VIII that the percentage increases in interest paid on deposits were quite uniform among the five size groups with deposits over \$2 million. In the two smallest size-groups, however, are found the two extremes in the entire range of increases. In the smallest size-group of 29 banks with deposits under \$1 million the increase in interest charges amounted to only 9 per cent while in the next group of 90 banks with de-

TABLE VIII

Deposit size (\$ Million)	Interest paid on time and savings deposits (\$ Thousand)		
	1945	1946	% Inc.
Under 1	69	75	9.2
1 - 1.9	412	486	18.0
2 - 4.9	1,633	1,871	14.6
5 - 9.9	1,382	1,571	13.7
10 - 24.9	2,088	2,354	12.7
25 - 49.9	946	1,064	12.4
50 and over	2,608	2,937	12.6
465 banks	9,138	10,358	13.4

posits from \$1-2 million the percentage growth was 18 per cent.

Other current expenses.

Thirty-eight per cent of the total expenses of the 465 banks was accounted for in 1946, as compared with 39 per cent in 1945, by the category "All other expenses." Although this item increased by 9.5 per cent in 1946, the total increase of 18 per cent in current earnings resulted in a lower percentage of the latter required by other expenses, 23 per cent as compared with 25 per cent in 1945. Table IX shows that the percentage increases in this account were quite uniform with the exceptions of a 15 per cent growth in the \$1-2 million group of banks and a 7 per cent increase for the 22 banks comprising the largest size-group.

TABLE IX

Deposit size (\$ Million)	Other expenses (\$ Thousand)		% Inc.
	1945	1946	
Under 1	112	125	11.6
1 - 1.9	620	710	14.5
2 - 4.9	2,336	2,656	13.7
5 - 9.9	2,186	2,442	11.7
10 - 24.9	4,236	4,714	11.3
25 - 49.9	2,843	3,131	10.1
50 and over	10,705	11,459	7.0
465 banks	23,038	25,237	9.5

Total expenses and net current earnings.

The 14 per cent increase from 1945 to 1946 in total expenses is shown in the following composite table to be fairly evenly distributed among the seven size groups. The smallest percentage increase was achieved by the largest banks, those with deposits of \$50 million and over, as a consequence of relatively small increases in their salary and wages account and "Other expenses." The favorable effect on net current earnings of this group was offset, however, by an equally small percentage gain in total earnings, and the result was a 12 per cent increase in net current earnings that fell substantially below the gain of 26 per cent for all banks.

Turning to the other end of the range of size groups it is found that the smallest banks achieved the largest percentage gain in net current earnings. As a consequence of a 25 per cent increase in earnings against an expansion of only 13 per cent in expenses, net earnings were 56 per cent higher in 1946 than in 1945.

Between these two extremes, there was a progressive decline in the per cent of gain in net current earnings as the size of the banks increased. This was due for the most part to a similar pattern in the distribution of percentage gains in total earnings.

It has been pointed out that the gain in net current earnings from 1945 to 1946 of all member banks in the Fifth District was the greatest in the past 19 years. It

TABLE X

Deposit size (\$ Million)	Total earnings (\$ Thousand)			Total expenses (\$ Thousand)			Net current earnings (\$ Thousand)		
	1945	1946	% Inc.	1945	1946	% Inc.	1945	1946	% Inc.
Under 1	430	537	25.0	310	350	13.0	120	187	56.0
1 - 1.9	2,485	3,150	26.8	1,728	2,002	15.9	758	1,148	51.6
2 - 4.9	9,802	12,277	25.3	6,566	7,618	16.0	3,235	4,659	44.0
5 - 9.9	9,113	11,373	24.8	6,103	7,057	15.6	3,009	4,316	43.4
10 - 24.9	17,521	21,870	24.8	11,153	12,860	15.3	6,368	9,010	41.5
25 - 49.9	11,010	12,843	16.7	7,274	8,323	14.4	3,736	4,520	21.0
50 and over	41,455	46,225	11.5	25,325	28,217	11.4	16,130	18,008	11.6
465 banks	91,815	108,275	17.9	58,459	66,427	13.6	33,356	41,848	25.5

should be noted that this increase of 25 per cent is double that of member banks throughout the country. Whereas net current earnings as a percentage of total earnings of all member banks in the country declined slightly from 39.7 per cent in 1945 to 38.9 per cent in 1946, the 465 banks in the compilation for the Fifth District experienced an increase in this ratio from 35.9 per cent to 38.9 per cent.

Profits and recoveries; losses and chargeoffs

It has been pointed out previously that in recent years the excess of profits on securities sold and recoveries on loans and securities over losses and charge-offs, largely due to profits from operations in Government securities, has contributed materially to the net profits of member banks. The maximum excess occurred in 1945 when the 465 banks considered in this analysis realized over \$7 million in this respect, an amount that was 24 per cent of total net profits. In 1946, as exhibited in Table XI, the net from this source aggregated \$5,475,000, a decline of 23 per cent due to the net effect of a decrease in net capital gains on securities of \$2,331,000, an increase of \$188,000 in net capital gain on loans, and a decrease of \$535,000 in net loss on all other accounts.

The last column of the following table shows the percentage declines resulting from the net effects of the changes from 1945 to 1946 in recoveries, charge-offs, etc. The heaviest declines were suffered by the two smallest size-groups, while the 65 banks in the \$10-25 million deposit group practically equalled their 1945 record by maintaining their net capital gain in 1946 within 1 per cent of the 1945 figure.

The decline in the excess of profits and recoveries over losses and charge-offs in every size group but one was due mainly to reductions in the net gain from securities. For the group of 90 banks with deposits from \$1-2 million, the net decline was due principally to an increase in the net loss on accounts other than securities and loans.

TABLE XI

Net Recoveries, Profits, Charge-Offs, and Losses
(\$ Thousand)

Deposit size (\$ Million)	On securities		On loans		Other		Total		% Chg.
	1945	1946	1945	1946	1945	1946	1945	1946	
Under 1	+ 11	—	1	+ 13	+ 5	+ 1	+ 9	+ 24	+ 13 —46
1 - 1.9	+ 89	+ 86	+ 35	+ 16	—	4	+ 37	+ 121	+ 65 —46
2 - 4.9	+ 481	+ 204	+ 148	+ 125	+ 26	+ 81	+ 656	+ 410	—38
5 - 9.9	+ 432	+ 244	+ 103	+ 125	+ 37	+ 68	+ 571	+ 437	—24
10 - 24.9	+ 1208	+ 1140	+ 214	+ 313	—130	—177	+ 1291	+ 1276	—1
25 - 49.9	+ 1029	+ 536	—2	+ 125	+ 64	+ 21	+ 963	+ 682	—29
50 and over	+ 3995	+ 2705	+ 330	+ 320	—869	—433	+ 3455	+ 2592	—25
465 banks	+ 7245	+ 4914	+ 841	+ 1029	—1003	—468	+ 7081	+ 5475	—23

Taxes and net profits

Income taxes and net profits by size groups of banks are summarized in Table XII. Income taxes for 1946 amounted to almost \$13 million, an increase of 19 per cent over the 1945 payment. With profits before income taxes rising 17 per cent, the increase of 19 per cent in taxes resulted in a gain of 16 per cent in net profits after taxes.

Despite the repeal of the excess profits tax, the increase in net income of the 465 banks was sufficient to boost income taxes to the \$13 million mark. The range of change in taxes within the seven size groups was very wide, extending from an increase of 77 per cent for the smallest banks to a reduction of 2 per cent for the 22 largest banks. As a consequence of these increases, the percentage of profits before taxes absorbed by income taxes rose in every group with the exception of that of the largest banks where the proportion declined from 29

per cent in 1945 to 27 per cent in 1946.

It will be noted from Table XII that income taxes as a percentage of net profits before taxes were lowest for the group of smallest banks, amounting to 13 per cent as compared with 34 per cent for banks with deposits of \$25-50 million. Between these two extremes of the range, the proportion increased as the size of the banks became larger.

The percentage increase in net profits ranged from 6 per cent for the 17 banks in the \$25-50 million class to 37 per cent for the 90 banks in the \$1-2 million group. There was a uniformity in the pattern of distribution of gains in that the highest percentage increases in net profits were realized by the two groups of smallest banks and the lowest increases were experienced by the two groups of largest banks. The middle three groups of banks netted gains of approximately equal size.

Despite the fact that the net gain from recoveries and profits on loans and securities failed to continue the rise of the war period but rather fell off from 1945 to 1946, net profits reached record levels in the past year. The increase of \$8.5 million in net earnings from current operations was offset by a decrease of \$1.6 million in net capital gains from recoveries and profits and an increase in income taxes of \$2.1 million. The result was a rise in net profits of \$4.8 million.

TABLE XII
(\$ Thousand)

Deposit size (\$ Million)	Income taxes			Income taxes as a % of net profits before taxes		Net profits		
	1945	1946	% Inc.	1945	1946	1945	1946	% Inc.
Under 1	15	26	76.9	10.3	13.0	129	174	35.2
1 - 1.9	148	210	42.4	16.8	17.3	731	1,003	37.3
2 - 4.9	695	1,029	48.1	17.9	20.3	3,197	4,040	26.4
5 - 9.9	799	1,142	42.9	22.3	24.0	2,782	3,611	29.8
10 - 24.9	1,994	3,143	57.6	26.0	30.6	5,665	7,143	26.1
25 - 49.9	1,485	1,787	20.3	31.6	34.4	3,214	3,415	6.3
50 and over	5,720	5,603	—2.1	29.2	27.2	13,864	14,997	8.2
465 banks	10,856	12,940	19.2	26.8	27.3	29,582	34,383	16.2

Cash dividends declared

Although the total amount of dividends declared by the 465 banks increased by 8 per cent to \$10.9 million, the greater percentage increase in net profits of 16 per cent resulted in a reduction in the percentage which cash dividends declared were of net profits from 34 per cent in 1945 to 32 per cent in 1946. It will be seen in Table XIII that each of the five groups in the range of deposits from under \$1 million to \$25 million declared an amount of dividends that was a smaller percentage of net profits in 1946 than in 1945. Of these five groups, however, only the \$2-5 million group failed to increase the actual amount of dividends declared, and here the dividends had amounted to 46 per cent of net profits in 1945. The two groups comprising the largest banks also declared larger amounts of dividends, but here the much smaller percentage increase in net profits resulted in a rise in the percentage of the latter distributed as dividends.

TABLE XIII
Cash Dividends Declared

Deposit size (\$ Million)	1945		1946	
	\$000	% of net profits	\$000	% of net profits
Under 1	34	26.4	42	24.1
1 - 1.9	231	31.6	244	24.3
2 - 4.9	1,461	45.7	1,174	29.1
5 - 9.9	810	29.1	933	25.8
10 - 24.9	1,864	32.9	2,107	29.5
25 - 49.9	1,018	31.7	1,118	32.7
50 and over	4,694	33.9	5,336	35.6
465 banks	10,112	34.2	10,954	31.9

FEDERAL RESERVE BANK OF RICHMOND

(All Figures in Thousands)

ITEMS	May 14 1947	Chg. in Amt. from 4-16-47	5-15-46
Total Gold Reserves.....	\$1,005,099	— 3,348	+ 95,801
Other Reserves	15,596	+ 13	+ 4,269
Total Reserves	1,020,695	— 3,335	+ 91,032
Bills Discounted	16,619	+ 11,371	+ 12,704
Industrial Advances	0	0	33
Gov. Securities, Total.....	1,399,720	— 34,859	— 38,474
Bonds	45,503	— 874	— 11,158
Notes	21,650	— 6	— 87,424
Certificates	351,506	— 3,053	— 45,523
Bills	981,061	— 30,926	+ 105,631
Total Bills & Securities.....	1,416,339	— 23,488	— 25,803
Uncollected Items	238,041	— 16,290	+ 53,082
Other Assets	14,957	— 2,927	— 26,607
Total Assets	2,690,032	— 46,040	+ 91,704
Fed. Res. Notes in Cir.....	\$1,663,650	— 19,409	+ 13,638
Deposits, Total	783,212	— 14,059	+ 21,462
Members' Reserves	718,498	— 12,218	+ 24,196
U. S. Treas. Gen. Acct.....	34,949	— 7,679	+ 1,949
Foreign	27,473	+ 8,518	+ 2,926
Other Deposits	2,292	— 2,680	—
Def. Availability Items.....	207,717	— 12,087	+ 52,442
Other Liabilities	730	+ 111	+ 133
Capital Accounts	34,723	— 596	+ 4,029
Total Liabilities	2,690,032	— 46,040	+ 91,704

41 REPORTING MEMBER BANKS—5th DISTRICT

(All Figures in Thousands)

ITEMS	May 14 1947	Chg. in Amt. from 4-16-47	5-16-46
Total Loans	\$ 495,741	+ 3,020	+ 91,317
Bus. & Agri.....	257,223	+ 1,298	+ 74,052
Real Estate Loans	85,237	+ 1,652	+ 29,939
All Other Loans	153,281	+ 70	— 12,674
Total Security Holdings.....	1,345,451	— 20,974	— 430,766
U. S. Treasury Bills	15,996	— 6,297	— 37,046
U. S. Treasury Certificates	173,084	+ 6,942	— 250,803
U. S. Treasury Notes	69,328	— 4,835	— 117,856
U. S. Gov. Bonds	997,786	— 15,758	— 30,839
Other Bonds, Stocks & Sec....	89,257	— 1,026	+ 5,778
Cash Items in Process of Col....	171,189	+ 1,291	+ 39,524
Due from Banks.....	124,801*	+ 6,538	+ 16,349
Currency & Coin.....	40,813	+ 1,394	+ 3,585
Reserve with F. R. Bank.....	341,955	— 2,276	+ 3,076
Other Assets	73,624	+ 1,764	— 3,954
Total Assets	\$2,593,574	— 9,243	— 319,719
Total Demand Deposits.....	\$1,924,755	— 28,589	— 367,689
Deposits of Individuals	1,397,840	+ 5,321	+ 10,900
Deposits of U. S. Gov.....	51,801	— 16,106	— 336,574
Deposits of State & Local Gov....	110,716	+ 9,134	+ 13,760
Deposits of Banks	334,660*	— 18,607	— 50,420
Certified & Officers' Checks....	29,738	— 8,331	— 5,355
Total Time Deposits.....	399,431	+ 225	+ 21,276
Deposits of Individuals	382,703	+ 224	+ 19,327
Other Time Deposits.....	16,728	+ 1	+ 1,949
Liabilities for Borrowed Money..	10,510	+ 10,250	+ 8,510
All Other Liabilities.....	107,653	+ 8,239	+ 8,906
Capital Accounts	151,225	+ 632	+ 9,278
Total Liabilities	\$2,593,574	— 9,243	— 319,719

*Net figures, reciprocal balances being eliminated.

DEPOSITS IN MUTUAL SAVINGS BANKS

8 Baltimore Banks

	Apr. 30, 1947	Mar. 31, 1947	Apr. 30, 1946
Total Deposits	\$386,575,159	\$385,209,962	\$361,125,325

COMMERCIAL FAILURES

MONTHS	Number Failures District U. S.	Total Liabilities District U. S.
April 1947	7 277	\$ 358,000 \$16,080,000
March 1947	9 254	697,000 15,251,000
April 1946	1 81	7,000 3,785,000
4 Months 1947.....	28 971	\$1,606,000 \$59,500,000
4 Months 1946.....	8 339	85,000 15,561,000

Source: Dun & Bradstreet

DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	April 1947	% Chg. from April 1946	4 Mos. 1947	% Chg. from 4 Mos. '46
District of Columbia				
Washington	\$ 615,619	+ 1	\$ 2,500,904	+ 4
Maryland				
Baltimore	840,919	+ 4	3,454,505	+ 4
Cumberland	20,858	+ 14	79,905	+ 13
Frederick	17,988	+ 25	69,095	+ 24
Hagerstown	24,434	+ 16	95,918	+ 18
North Carolina				
Asheville	41,567	+ 18	175,653	+ 23
Charlotte	189,339	+ 15	796,828	+ 30
Durham	84,554	+ 8	358,548	+ 14
Greensboro	57,083	+ 12	242,043	+ 20
Kinston	9,805	— 10	49,941	+ 23
Raleigh	86,362	+ 11	380,271	+ 37
Wilmington	32,547	+ 3	130,716	+ 2
Wilson	12,775	+ 18	57,110	+ 34
Winston-Salem	105,769	+ 28	456,101	+ 35
South Carolina				
Charleston	47,186	— 5	194,761	+ 1
Columbia	79,145	+ 15	328,534	+ 25
Greenville	62,788	+ 20	267,915	+ 30
Spartanburg	38,025	+ 31	158,647	+ 32
Virginia				
Charlottesville	20,312	— 7	81,559	— 9
Danville	22,129	+ 11	106,813	+ 33
Lynchburg	32,583	+ 12	133,221	+ 19
Newport News	27,157	+ 29	111,948	+ 23
Norfolk	154,842	+ 21	610,124	+ 16
Portsmouth	18,118	+ 10	72,425	+ 8
Richmond	385,612	+ 13	1,564,421	+ 15
Roanoke	71,135	+ 16	283,391	+ 23
West Virginia				
Bluefield	31,302	+ 17	131,504	+ 21
Charleston	106,725	+ 11	461,063	+ 16
Clarksburg	26,269	+ 20	103,395	+ 18
Huntington	47,630	+ 18	185,593	+ 16
Parkersburg	23,897	+ 24	94,781	+ 26
District Totals	\$3,334,469	+ 9	\$13,727,638	+ 14

COTTON CONSUMPTION AND ON HAND—BALES

	April 1947	April 1946	Aug. 1 to 1947	Apr. 30 1946
Fifth District States:				
Cotton consumed	433,419	388,760	3,759,839	3,286,518
Cotton Growing States:				
Cotton consumed	772,411	710,872	6,838,429	5,972,921
Cotton on hand April 30 in consuming establishments	1,789,037	2,027,781		
storage and compresses	2,441,030	7,461,739		
United States:				
Cotton consumed	882,880	812,749	7,802,330	6,769,817
Cotton on hand April 30 in consuming establishments	2,112,346	2,387,846		
storage and compresses	2,506,678	7,605,700		
Spindles active, U. S.....	21,804,590	21,470,671		

COTTON CONSUMPTION—FIFTH DISTRICT

(In Bales)

MONTHS	N. Carolina	S. Carolina	Va.	Md.	Dist.
April 1947	228,521	181,716	19,819	3,363	433,419
March 1947	228,162	175,925	18,967	3,179	426,233
April 1946	211,872	156,892	16,637	3,359	388,760
4 Months 1947.....	920,948	713,689	77,427	13,494	1,725,558
4 Months 1946.....	827,657	623,736	66,381	12,743	1,530,517

PRICES OF UNFINISHED COTTON TEXTILES

Apr. 1947 Mar. 1947 Apr. 1946

	Apr. 1947	Mar. 1947	Apr. 1946
Average, 17 constructions.....	86.15	88.19	50.72
Printcloths, average (6).....	110.41	114.40	54.90
Sheetings, average (3).....	79.81	79.45	45.67
Twill (1)	79.86	79.86	51.94
Drills, average (4).....	65.03	67.97	46.85
Sateen (1)	97.61	97.61	66.58
Ducks, average (2).....	62.54	62.54	44.92

Note: The above prices are those for the approximate quantities of cloth obtainable from a pound of cotton with adjustments for salable waste.

BUILDING PERMIT FIGURES

Fifth Federal Reserve District

	Total Valuation	
	April 1947	April 1946
Maryland		
Baltimore	\$ 3,331,275	\$ 4,429,760
Cumberland	59,075	65,975
Frederick	53,915	30,382
Hagerstown	91,025	99,925
Salisbury	129,247	104,943
Virginia		
Danville	522,330	336,070
Lynchburg	409,225	350,558
Norfolk	597,295	373,115
Petersburg	598,070	79,150
Portsmouth	65,702	44,345
Richmond	795,187	1,404,439
Roanoke	389,521	499,066
West Virginia		
Charleston	1,091,882	193,713
Clarksburg	177,255	104,865
Huntington	523,710	235,935
North Carolina		
Asheville	166,271	58,964
Charlotte	557,424	540,998
Durham	401,650	234,875
Greensboro	1,591,603	214,794
High Point	193,381	138,490
Raleigh	236,525	267,310
Rocky Mount	177,100	143,850
Salisbury	54,285	60,765
Winston-Salem	297,804	176,424
South Carolina		
Charleston	101,065	51,409
Columbia	348,090	104,067
Greenville	158,560	148,310
Spartanburg	165,207	52,591
Dist. of Columbia		
Washington	4,563,590	4,731,207
District Totals	\$17,847,269	\$15,276,295
4 Months	\$59,295,203	\$66,737,308

CONSTRUCTION CONTRACTS AWARDED

STATES	March 1947	% Chg. from Mar. 1946	3 Mos. '47	% Chg. from 3 Mos. '46
Maryland	\$29,706,000	+ 1	\$ 59,536,000	+15
Dist. of Columbia	5,410,000	-17	19,399,000	+38
Virginia	19,435,000	+ 9	50,418,000	+26
West Virginia	6,215,000	+ 1	15,128,000	- 2
North Carolina	8,502,000	-49	31,500,000	- 9
South Carolina	4,525,000	-64	12,522,000	- 4
Fifth District	\$73,793,000	-17	\$188,503,000	+ 5

Source: F. W. Dodge Corp.

RETAIL FURNITURE SALES

Percentage Changes in April and 4 Mos. 1947 Compared with Compared with April 1946 4 Mos. 1946

STATES	April 1946	4 Mos. 1946
Maryland (5)*	+ 4	+12
Dist. of Columbia (6)*	-13	- 4
Virginia (19)*	+ 4	+13
West Virginia (10)*	+ 8	+ 8
North Carolina (15)*	+20	+24
South Carolina (10)*	+ 8	+ 9
Fifth District (65)*	+ 3	+ 9
Individual Cities		
Baltimore, Md., (5)*	+ 4	+12
Washington, D. C., (6)*	-13	- 4
Lynchburg, Va., (3)*	+ 3	+ 7
Richmond, Va., (6)*	+ 8	+20
Charleston, W. Va., (3)*	-17	-15
Charlotte, N. C., (4)*	+31	+31
Columbia, S. C., (3)*	- 9	-14

*Number of reporting stores.

RAYON YARN DATA

	Apr. 1947	Mar. 1947	Apr. 1946
Rayon Yarn Shipments, Lbs.	58,700,000	60,000,000	57,500,000
Staple Fiber Shipments, Lbs.	17,900,000	16,200,000	14,800,000
Rayon Yarn Stocks, Lbs.	7,400,000	7,000,000	9,200,000
Staple Fiber Stocks, Lbs.	2,900,000	3,100,000	2,200,000

Source: Rayon Organon

TOBACCO MANUFACTURING

	April 1947	% Chg. from Apr. 1946	4 Mos. 1947	% Chg. from 4 Mos. '46
Smoking & Chewing tobacco (Thousands of lbs.)	16,257	- 2	63,080	0
Cigarettes (Thousands)	27,493,068	+ 8	108,617,899	+8
Cigars (Thousands)	416,270	-14	1,799,361	-5
Snuff (Thousands of lbs.)	3,459	0	12,892	-7

AUCTION TOBACCO MARKETING

STATES	Season's Producers' Sales, Lbs.		Price per hundred	
	1946-47	1945-46	1946-47	1945-46
So. Carolina (Flue-cured)	150,954,510	124,191,116	\$48.75	\$43.94
No. Carolina (Flue-cured)	894,228,339	773,606,716	49.83	44.11
(Burley)	11,902,988	14,010,639	41.26	38.49
(Total)	906,131,327	787,617,355	49.73	44.01
Virginia (Flue-cured)	160,422,969	137,649,532	44.97	44.71
(Fire-cured)	16,391,113	11,149,629	29.46	32.35
(Burley)	14,729,284	17,968,252	38.89	40.13
(Sun-cured)	3,915,868	2,231,652	24.17	33.77
(Total)	195,459,234	168,999,065	42.79	43.26
Dist. Total, All Types	1,252,545,071	1,080,807,536	48.53	43.89
Total Flue-cured	1,205,605,818	1,035,447,364	47.08	44.17
Total Fire-cured	16,391,113	11,149,629	29.46	32.35
Total Burley	26,632,272	31,978,891	40.06	39.41
Total Sun-cured	3,915,868	2,231,652	24.17	33.77

WHOLESALE TRADE, 203 FIRMS

LINES	Net Sales April 1947 compared with		Stock April 30, 1947 compared with		Ratio Apr. collections to acc'ts outstanding April 1
	Apr. 1946	Mar. 1947	Apr. 30 1946	Mar. 31 1947	
Auto Supplies (6)*	+21	+ 9	+154	0	84
Drugs & Sundries (9)*	+12	+ 1	...	...	136
Dry Goods (7)*	+15	+ 1	+106	+17	78
Electrical Goods (5)*	+99	+11	+130	+10	93
Groceries (70)*	+21	0	+ 37	- 1	167
Hardware (17)*	+34	+ 1	+114	+13	101
Industrial Supplies (7)*	+74	+11	+ 68	+ 1	92
Paper & Products (5)*	+51	+17	...	...	98
Tobacco & Products (10)*	+ 4	+ 6	+ 36	- 4	142
Miscellaneous (67)*	+15	0	+ 41	+ 4	90
Dist. Avg. (203)*	+22	+ 2	+ 69	+ 7	7

Source: Department of Commerce

*Number of reporting firms.

DEPARTMENT STORE TRADE

Richmond	Baltimore	Washington	Other Cities	District
Percentage chg. in April 1947 sales, compared with sales in Apr. 1946: +11	- 2	- 3	+10	+ 1
Percentage chg. in 4 months sales 1947, compared with 4 months in '46: +15	+ 5	+ 2	+ 7	+ 5
Percentage chg. in stocks on Apr. 30, 1947, compared with Apr. 30, '46: +57	+23	+33	+39	+34
Percentage chg. in outstanding orders Apr. 30, '47 from Apr. 30, '46: -61	-57	-59	-56	-58
Percentage chg. in receivables Apr. 30, '47 from those on Apr. 30, '46: +56	+31	+35	+30	+36
Percentage of current receivables as of Apr. 1, '47 collected in Apr.: 40	48	42	53	45
Percentage of instalment receivables as of Apr. 1, '47, collected in Apr.: 25	27	23	32	25

Maryland	Dist. of Col.	Virginia	W. Virginia	No. Carolina	So. Carolina
Percentage chg. in Apr. 1947 sales from Apr. 1946 sales, by states: -1	-3	+ 7	+8	+10	+6
Percentage chg. in 4 months 1947 sales from 4 months 1946 sales: +5	+2	+11	+6	+10	+2

SOFT COAL PRODUCTION IN THOUSANDS OF TONS

REGIONS	April 1947	April 1946	% Chg.	4 Mos. 1947	4 Mos. 1946	% Chg.
West Virginia	11,771	400	+2,843	54,384	41,712	+ 30
Virginia	1,227	32	+3,734	6,277	5,115	+ 23
Maryland	148	8	+1,750	747	634	+ 18
Fifth District	13,146	440	+2,888	61,408	47,461	+ 29
United States	41,120	3,506	+1,073	205,725	164,096	+ 25
% in District	32.0	12.5	...	29.8	28.9	...

SUMMARY OF NATIONAL BUSINESS CONDITIONS

(Compiled by the Board of Governors of the Federal Reserve System)

Industrial output and employment declined slightly in April. Value of department store sales continued to show usual seasonal changes in April, but increased somewhat in May. The general level of wholesale commodity prices declined somewhat in April and showed little change in the first three weeks of May.

INDUSTRIAL PRODUCTION

Industrial production declined slightly in April according to the Board's seasonally adjusted index, which was at a level of 187 per cent of the 1935-39 average for April as compared with 190 in March. Output of both durable and nondurable manufactures and of minerals was below the March rate.

A slight decrease in activity in the durable goods industries in April reflected mainly work stoppages at plants producing communication equipment and small declines in output of building materials after allowance for usual seasonal changes. Output of non-ferrous metals and products declined slightly in April as decreases in some fabricating industries offset further gains in activity at smelters and refineries. Steel production was at 94 per cent of capacity in April, as in March, and scheduled operations at steel mills during May have been maintained at this rate. Automobile output in April continued at an annual rate of about five million cars and trucks; and activity in other transportation equipment industries increased somewhat. A decline in automobile production is indicated for May, largely as a result of shortages of steel sheets.

Production of nondurable manufactures was in somewhat smaller volume in April owing mainly to a decrease in output of textiles. Activity in the rubber products industry was slightly below the exceptionally high first quarter levels when tires for passenger cars, trucks, and busses were being produced at an annual rate of 100 million as compared with about 60 million in 1940. Production of most other nondurable goods in April showed little change from the March rate.

Output of coal declined 20 per cent from March to April, reflecting work stoppages at bituminous coal mines in the early part of the month. Production of crude petroleum and of metals continued to advance. Crude petroleum output rose further in the early part of May to a new record rate.

EMPLOYMENT

Nonagricultural employment decreased by about 450,000 workers in April, according to Bureau of Labor Statistics figures as adjusted for seasonal variation by Federal Reserve. This decline was due chiefly to work stoppages in the telephone, bituminous coal, and electrical machinery industries. Employment in industries manufacturing nondurable goods, chiefly textiles and apparel, also declined. The number of persons unemployed increased slightly in April.

CONSTRUCTION

Total value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed little change from March to April and was about one-fifth smaller than in April 1946. Private residential and nonresidential awards declined, although awards usually show a seasonal increase in April. Awards for publicly-financed construction expanded further, reflecting chiefly a large increase in the volume of contracts for streets and highways.

DISTRIBUTION

Department store sales continued to show little change in April, after allowance for usual seasonal changes. The Board's adjusted index was 275 per cent of the 1935-39 average in April, compared with 277 in March and an average of 271 in the first four months of this year. In May dollar volume of sales showed less than the usual seasonal decline and in the first half of the month was 12 per cent larger than in the corresponding period of 1946.

Freight carloadings declined in April largely because of a sharp drop in coal shipments early in the month. Loadings of coal increased and shipments of most other classes of freight were maintained in large volume in the early part of May.

COMMODITY PRICES

Prices of most basic commodities showed little change in the early part of May, following declines in April. Prices of feed grains and copper advanced, while prices of rubber, wool tops, paint materials, and lumber declined. The general level of wholesale prices, according to the Bureau of Labor Statistics weekly index, has been at 147 per cent of the 1926 average since the middle of April as compared to an average level of 149 per cent in March.

TREASURY FINANCE AND BANK CREDIT

Treasury redemption for cash of part of the weekly maturing bill issues continued into May. Between April 17, when the program began, and May 22 one billion dollars of Treasury bills were retired. Largely as a result of these retirements Treasury war loan deposits at commercial banks were reduced by about 800 million dollars in the five weeks ending May 21.

Although Federal Reserve Banks held most of the retired securities, their holdings of Treasury bills declined by considerably less than the amount retired, as some commercial banks sold bills to maintain their reserve positions. A further increase in monetary gold stock of 300 million dollars during the five weeks and a small inflow of currency from circulation supplied member banks with reserve funds and thereby reduced the need for additional sales of securities to the Reserve System.

Commercial and industrial loans, which had expanded rapidly from the middle of 1946 until March 1947, declined somewhat during April and the first half of May at banks in leading cities. Real estate and consumer loans continued to increase. Government security holdings declined between the middle of April and the middle of May.