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# FEDERAL RESERVE BANK OF ST. LOUIS

# Review



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FEDERAL RESERVE BANK  
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## *Business Expands and Bank Credit Rises* 2

THE ECONOMIC UPTURN regained vigor during the autumn and winter months, and bank credit and money expanded much more than seasonally.

## *Review of District Developments in 1961* 4

BUSINESS ACTIVITY in St. Louis, Louisville, Memphis, and Little Rock, as well as in other areas of the district, registered gains from 1960-61 recession lows. However, the degree of recovery varied from city to city.

## *Operations of the Federal Reserve Bank of St. Louis in 1961* —An Annual Report 9

THE VOLUME of most operations increased in 1961.

# *Business Expands and Bank Credit Rises*

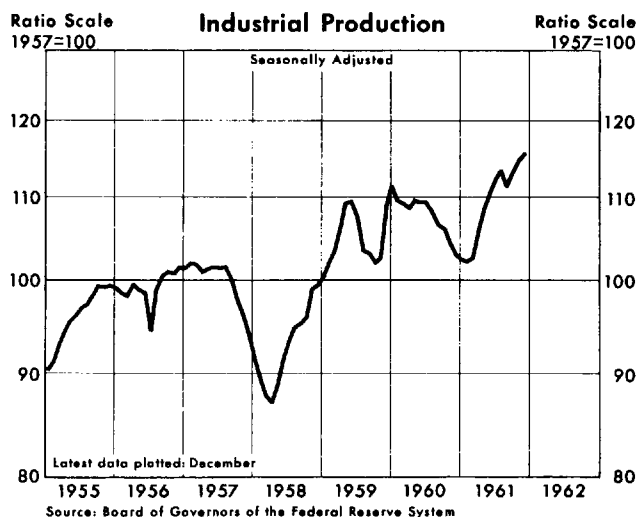
**B**USINESS ACTIVITY has risen markedly over the past five months, although the pace of the expansion may have moderated in recent weeks. The economic upturn which began about a year ago paused during the July-September period. After September, production and incomes again increased rapidly, and the proportion of the labor force unemployed declined. Prices have remained about unchanged over the same period.

Member bank reserves, seasonally adjusted, have been rising at a rapid rate since last August, or somewhat before the renewed upturn in business activity. Bank credit and the money supply have increased sharply, reflecting the greater volume of reserves. Interest rates on most marketable securities have risen in recent months, but over the first year of recovery the rise has been less rapid than in the corresponding periods of the two previous business upturns.

## *Production*

Industrial production, seasonally adjusted, rose from 111 per cent of the 1957 average in September to 115 per cent in December. A further increase took place in January, according to preliminary data. Both steel and automobile production were maintained at high levels in early 1962.

The increase in production during recent months of the current economic upturn has been about in line with experience during the two previous recoveries.



From September to December (the tenth month of this recovery) industrial output rose about 4 per cent. The 1958-59 expansion of production continued to be vigorous until the fifteenth month of recovery when the steel strike interrupted the upswing; the 1954-55 expansion was slower after the tenth month of recovery, but was maintained for a longer period of time.

## *Income and Sales*

Personal income rose at an annual rate of about 10 per cent from September to December. By comparison, personal income rose at rates of 5 per cent and 12 per cent in the comparable periods of the two previous recoveries. Based on continued improvements in production and employment, incomes probably rose again in January.

Retail sales, which had lagged in the earlier months of recovery, expanded 5 per cent more than seasonally from September to December. Fragmentary data indicate that retail sales, after adjustment for seasonal patterns, rose in January. Department store sales during the first three weeks of the month were at a relatively high level, and automobile sales in the first 20 days of January declined less than seasonally from December rates.

## *Employment*

The proportion of the civilian labor force unemployed averaged 6.1 per cent in November and December after having remained just under 7 per cent during the first eight months of recovery. In January the unemployment rate fell to 5.8 per cent, below 6.0 per cent for the first time in sixteen months.

## *Prices*

As in the early months of recovery, the most recent expansion in output has been accompanied by relatively little increase in the general price indices. From August to December both consumer and wholesale prices were about unchanged. Prices behaved about the same in earlier recoveries, showing little tendency to rise during the first year of business expansion.

## Bank Reserves

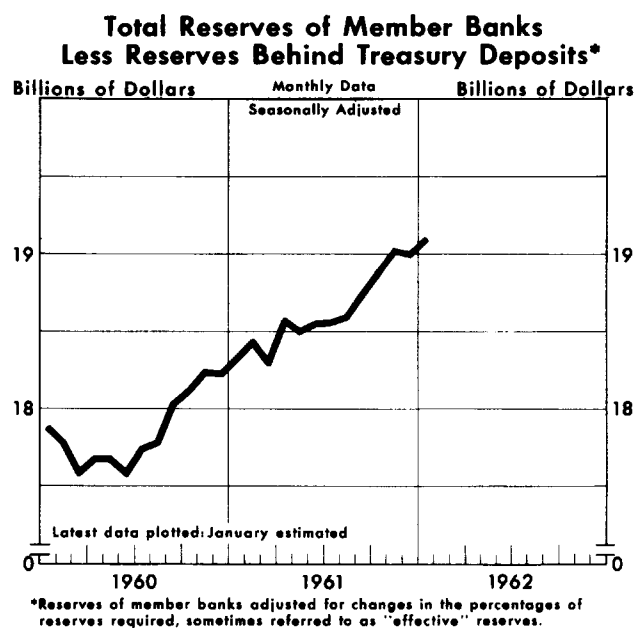
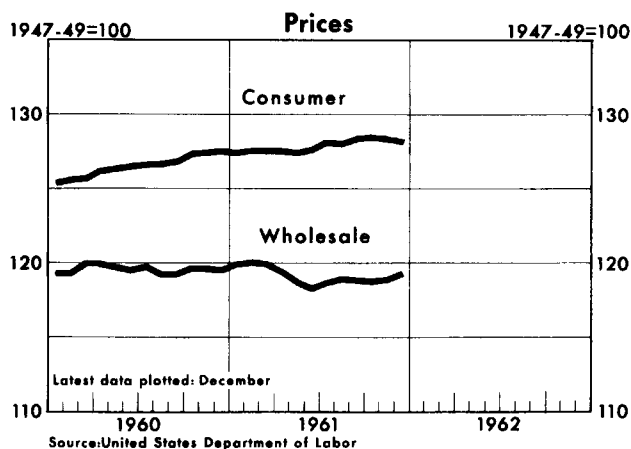
Member banks must hold a fraction of their deposits as reserves with the Federal Reserve Banks or as cash in vault. The volume of reserves available to the banking system usually determines within a narrow range the total volume of bank loans and investments, and, hence, the amount of bank deposits and the money supply.

Total member bank reserves began to expand rapidly in August and from July to January grew at an estimated 9 per cent annual rate. Most of the gain resulted from net Federal Reserve System purchases of Government securities at a rate exceeding the seasonal pattern. The recent rise in reserves was at a higher rate than during the corresponding periods of the two previous recoveries.

Since member banks must support Treasury deposits with reserves, and these deposits are not usually counted as part of the money supply, it is useful to analyze the reserves available after deducting those needed for Treasury deposits. Member bank reserves less reserves behind U. S. Government deposits increased at an estimated annual rate of 6 per cent from July to January, as against 1.9 per cent and 2.1 per cent in the comparable months of the 1958-59 and 1954-55 recoveries.

## Bank Credit

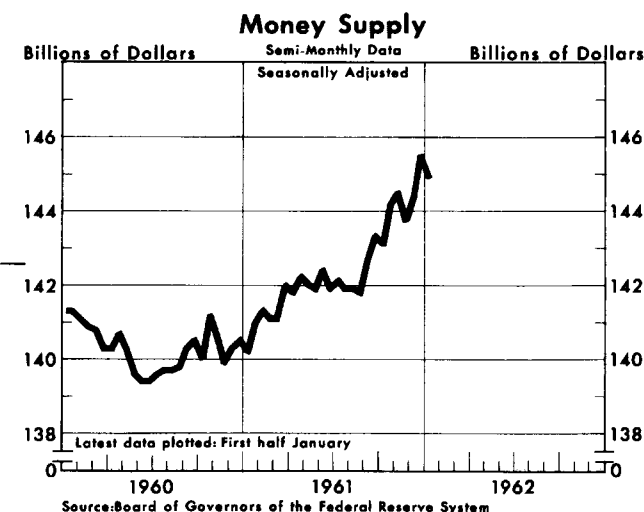
Reflecting the sharp rise in bank reserves which began in August, bank credit and the money supply began to increase rapidly in early September. Total commercial bank credit rose substantially more than seasonally in the August to December period. According to reports from weekly reporting banks, bank credit declined less than usual in January. Most major loan categories shared in the bank credit expansion during late 1961. Advances to commercial and indus-



trial concerns rose significantly, especially in the second half of December, and real estate loans expanded. Total bank investments also rose during the four months.

## Money Supply

The money supply (demand deposits adjusted plus currency outside banks) increased at an annual rate of about 5.8 per cent from the last half of August to



the first half of January. This was a markedly higher rate than that experienced during the two previous recovery periods. Annual rates of monetary expansion in the corresponding months of the 1958-59 and 1954-55 economic upturns were 3.8 per cent and 1.6 per cent, respectively. During the subsequent five months of the previous upturns monetary expansion continued, but at the more moderate rates of 1.9 per cent and 0.5 per cent.

(Continued on page 16)

# Review of District Developments in 1961

THE YEAR 1961 was one of economic recovery from the 1960 recession.<sup>1</sup> In general, the expansion in business activity within the Eighth Federal Reserve District, which includes Arkansas, most of Missouri, and parts of Indiana, Illinois, Kentucky, Tennessee, and Mississippi, was below the rate of increase for the nation. It is not unusual for one geographic region or one sector of the economy to diverge from the national pattern since broad economic changes seldom have a uniform impact. Moreover, because the economic base of the Eighth District is largely agricultural, business activity in the district as a whole is less sensitive to wide cyclical swings than are districts in which manufacturing predominates. This article reviews 1961 in terms of business and financial developments in the Eighth District with special attention to the major metropolitan areas.

## Memphis

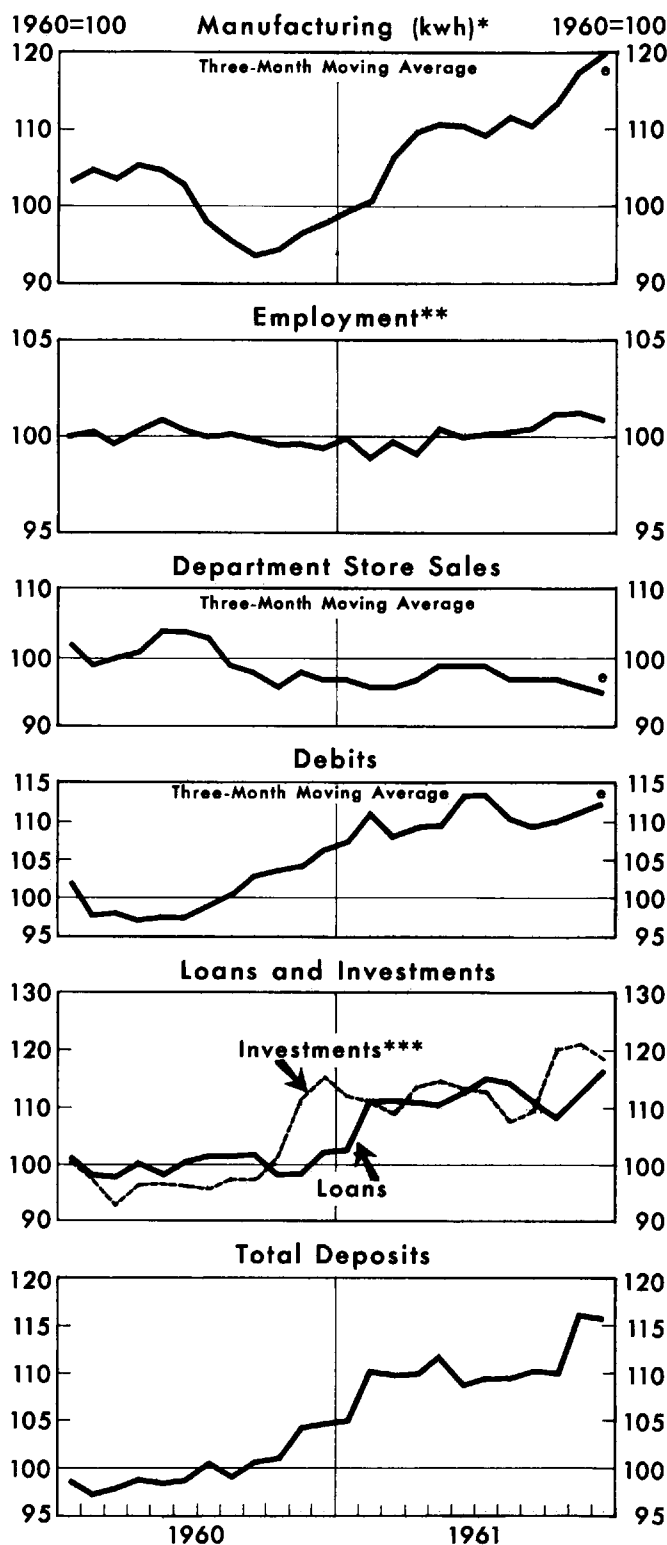
Business activity in the Memphis area rose almost steadily during 1961 and more than regained the moderate decline accompanying the 1960 recession in general business. Production rose markedly; employment increased and the unemployment rate declined; the volume of credit outstanding at Memphis banks rose.

Output of manufacturing firms in the Memphis metropolitan area, as indicated by electric power consumption, began rising prior to the upturn of production in the nation as a whole in February 1961. Electric power consumption of Memphis manufacturing firms, seasonally adjusted, began advancing shortly before the end of 1960 and continued to advance through May 1961. From early summer through about September there was some decline in the rate of advance in activity. There was a pickup from late summer through the end of the year. Power consumption of manufacturing firms in 1961 as a whole averaged about 10 per cent higher than in 1960. The amount of construction was also up somewhat from the previous year.

Total employment in the Memphis area rose fractionally during 1961, reflecting increases in employment at several large manufacturing firms. Along with the 1960 recession the proportion of unemployed in the work force, seasonally adjusted, had risen from 4.2 per cent in May 1960 to 5.7 per cent in February 1961 (the trough month of the recession). By the

## Memphis Economic Indicators

Seasonally Adjusted



\*Electric Power Consumption of Manufacturing Firms

\*\*Nonagricultural

\*\*\*Not seasonally adjusted

e-estimated

<sup>1</sup> For an economic review of the year nationally, see the January 1962 issue of this *Review*.

tenth month of recovery, December 1961, the Memphis unemployment rate had declined to 5.1 per cent.

Incomes in the Memphis region rose during 1961 along with the gains in production and employment, and, for the year as a whole, averaged somewhat higher than in 1960. However, sales volume at reporting department stores was down 4 per cent in 1961 from 1960.

The volume of checks and other debits to demand deposits is often regarded as a broad measure of local business activity. Debits to demand balances at Memphis banks rose irregularly from mid-1960 to mid-1961, declined rapidly through the end of the summer, and then rose moderately during the last quarter of the year.

Total deposits of Memphis banks increased 10 per cent during 1961. Demand deposits rose 7 per cent while time deposits increased 16 per cent. Reflecting the growth in deposits, total credit outstanding increased nearly 11 per cent. Investments, which remained about unchanged on balance throughout the first nine months of 1961, rose moderately during the last quarter. Loans, seasonally adjusted, expanded during the early months of the year, leveled off until November and then rose. The lateness of the cotton crop was a major factor in the lack of loan strength in the early fall. Real estate loans expanded 25 per cent.

## Little Rock

Business activity in the Little Rock metropolitan area rose during most of 1961. Economic developments in Little Rock, as in Memphis, are not as prone to cyclical swings in economic activity of the country as a whole as are those areas which rely heavily on manufacturing. Nonetheless, the 1960 recession and the 1961 recovery in general business do appear to have had some impact on economic activity in the Little Rock area. Along with the national recovery, economic activity in the Little Rock area began increasing in the February-April period and rose rapidly until midsummer. There was a pause in activity during the period from midyear through the fall months. Fragmentary data suggest that business improved during the last two months of 1961.

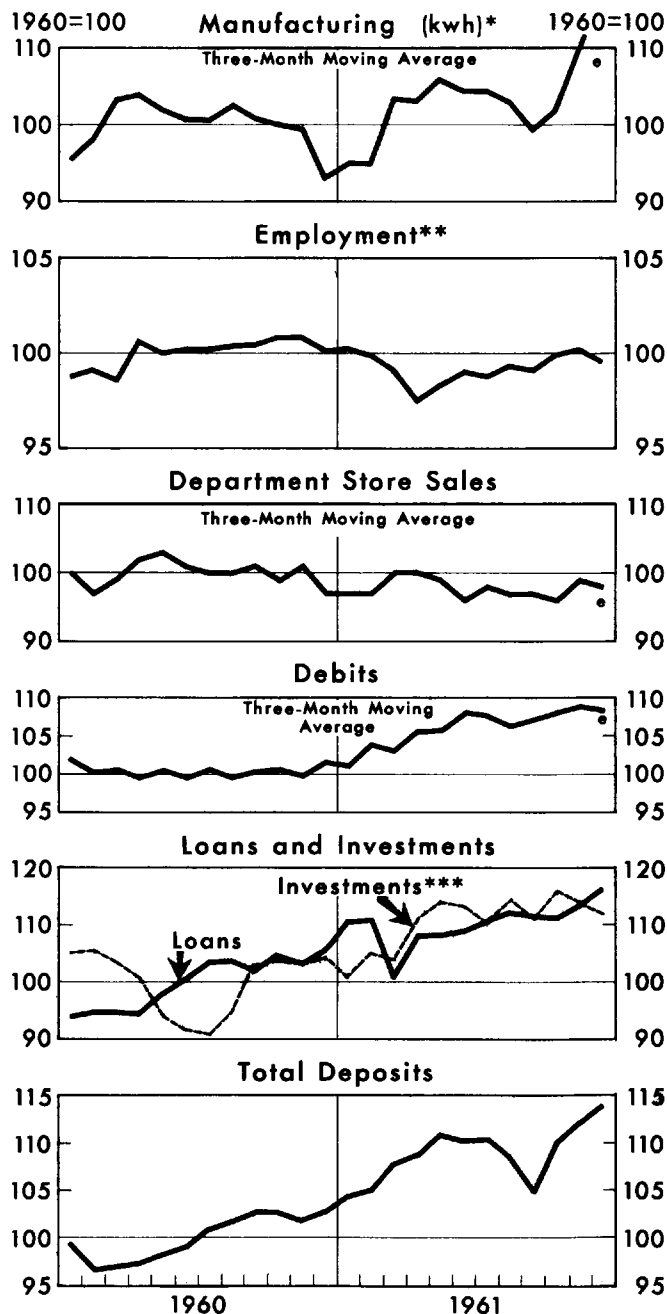
Manufacturing in Little Rock, according to electric power consumption of manufacturing firms, improved from the beginning of 1961 through early summer. There was a pronounced decline in output from about May through September. Indications are that output improved from September to December. Considering the year as a whole, output in 1961 was up about 3 per cent from 1960. Construction averaged somewhat lower during 1961 than during the previous year;

a rise in residential construction was more than offset by a decline in nonresidential construction.

Employment in Little Rock, seasonally adjusted, began declining in December 1960 and continued to decline through April 1961. Employment rose almost steadily from April through December, but failed to regain late 1960 levels. Sharp gains in manufacturing employment contributed significantly to the April-December rise.

## Little Rock Economic Indicators

Seasonally Adjusted



\*Electric Power Consumption of Manufacturing Firms  
 \*\*Nonagricultural  
 \*\*\*Not seasonally adjusted  
 e-estimated

Sales at reporting department stores, seasonally adjusted, turned down in mid-1960 along with the business recession, and, contrary to the rise in general business activity, continued to decline through 1961. Movements in debits at Little Rock banks were consistent with the pattern of activity discussed above; debits, seasonally adjusted, rose rapidly during the first half of 1961, but increased at a reduced rate during the remainder of the year.

Both demand and time deposits of Little Rock banks increased 10 per cent during 1961. As a result of the deposit expansion, total credit of these banks increased 9 per cent during 1961. Loans and investments expanded at about the same rate. Loans, which had been approximately unchanged during most of 1961, expanded sharply during November and December.

## Louisville

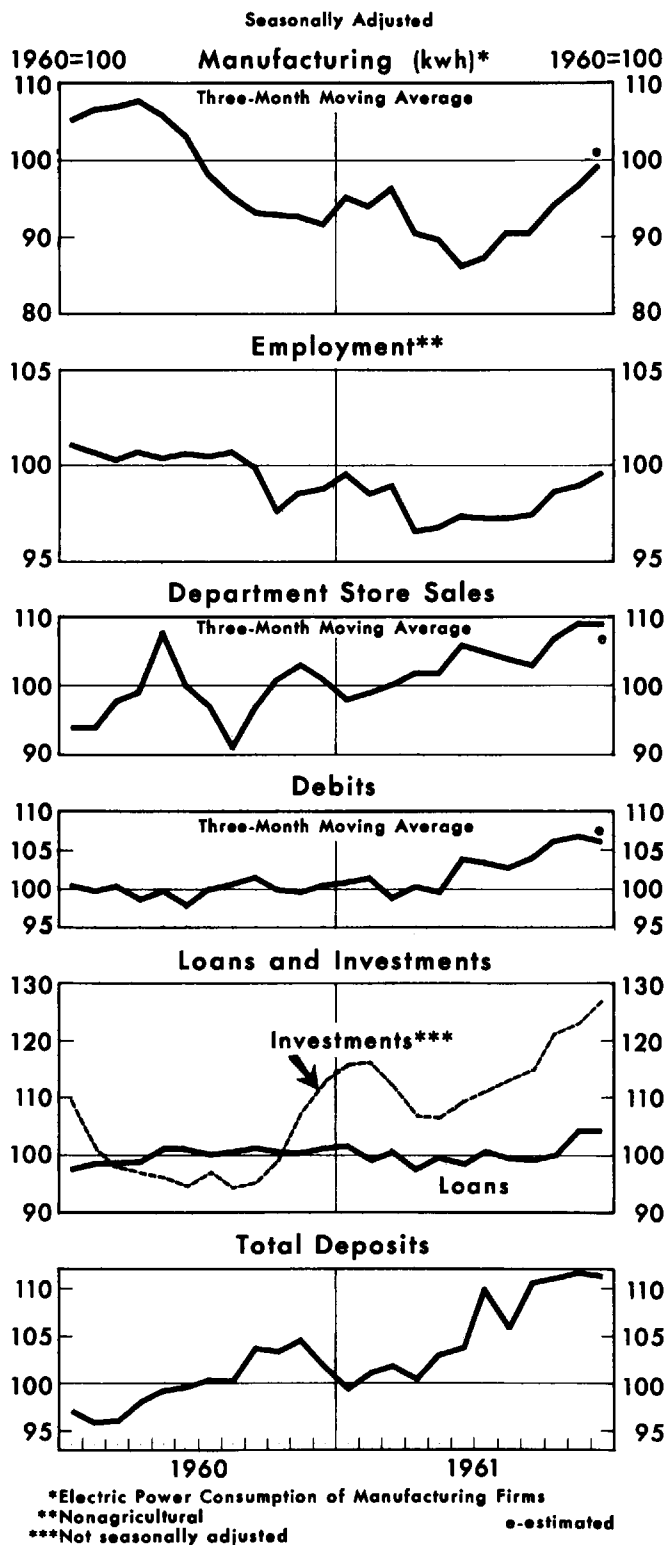
Business activity in Louisville during much of 1961 departed substantially from the national pattern. Production in the nation began expanding during the early months of 1961, and regained prerecession levels by July, the fifth month of recovery. In Louisville, on the other hand, following a moderate improvement during the first quarter, business activity appears to have deteriorated through late summer. While there was some improvement from late summer to the end of 1961, the level of activity did not regain prerecession levels.

Output of manufacturing firms in the Louisville metropolitan area was a major factor in the pattern of total economic activity. There was a larger than seasonal increase in electric power consumption of manufacturing firms from the end of 1960 to March, followed by a rapid decline until midsummer. Manufacturing appears to have expanded from midsummer through the end of 1961, but remained well below the level attained prior to May 1960 (the prerecession peak month in national business activity).

Reflecting the movements in production, employment in the Louisville labor market, seasonally adjusted, rose during the last two months of 1960, remained virtually unchanged on balance until March 1961, and then dropped abruptly. Employment increased fractionally from April 1961 to September, and then rose rapidly to the end of the year. Despite these improvements employment failed to regain its prerecession level.

Sales of reporting department stores increased almost steadily from the beginning of 1961 through mid-year; there was a slight decline from June to September followed by a sharp increase through the re-

## Louisville Economic Indicators



mainder of the year. Considering the period from January to December, there was a 13 per cent gain.

At Louisville banks total deposits expanded by nearly 10 per cent during 1961. Time deposits rose 11 per cent and demand deposits increased 7 per cent. Reflecting the expansion in deposits, total credit increased 7 per cent during the year. Most of the credit expansion was in investments. Loans, which were about unchanged during the first 10 months of the year increased sharply in November but leveled off again in December. Commercial and industrial loans rose 6.4 per cent, while most other categories of loans remained about unchanged.

## St. Louis

Business activity in the St. Louis metropolitan area improved on balance during 1961. Along with the upturn in the national economy, business in the St. Louis area increased from the early part of 1961 through midyear. As in the nation, there was some decrease in the rate of advance from midsummer through autumn. Activity appears to have picked up from fall to the end of the year.

Manufacturing in the St. Louis area, as indicated by electric power consumption of manufacturing firms, rose somewhat more than seasonally from February through May and then declined steadily through late summer. Manufacturing expanded again from August through the remainder of 1961.

The value of construction contracts awarded in the St. Louis metropolitan area during 1961 was down from the previous year. Nonresidential construction, which includes commercial, industrial, and educational structures, declined about 27 per cent. The dollar volume of contracts for residential buildings declined about 3 per cent.

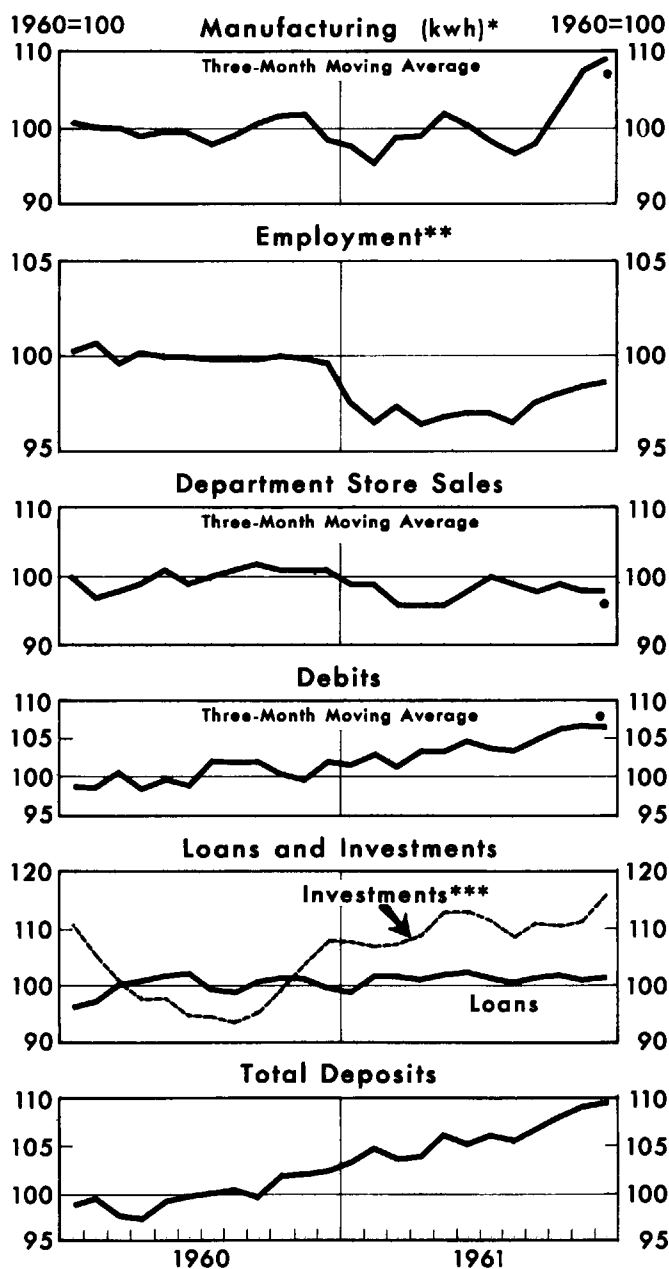
The proportion of unemployed in the St. Louis work force increased from 6.0 per cent (seasonally adjusted) in May 1960, the prerecession peak month in national business activity, to 9.5 per cent in February 1961, the trough month. In December, the tenth month of recovery, the unemployment rate was 5.6 per cent, having declined almost steadily since February. During the early months of recovery the declines in the unemployment rate resulted largely from decreases in the work force; employment, seasonally adjusted, remained stable while the number reported

as unemployed declined. From August to the end of the year, however, the improvement in the unemployment rate reflected an increase in the number employed as well as a decline in the number of unemployed.

Despite improvements in production, employment, and incomes, department store sales in the St. Louis area were virtually unchanged on balance during 1961. After declining from about September of 1960, sales

## St. Louis Economic Indicators

Seasonally Adjusted



\*Electric Power Consumption of Manufacturing Firms

\*\*Nonagricultural

\*\*\*Not seasonally adjusted

e-estimated

of reporting department stores in the St. Louis metropolitan area rose from March to midyear, and then edged down through December.

Debits rose rapidly during the first half of 1961, leveled off until late summer, and then rose until early winter. During the last two months of the year this indicator was virtually unchanged.

Total deposits of St. Louis weekly reporting banks increased 7 per cent during 1961. Time deposits rose 29 per cent but demand deposits expanded only 0.3 per cent. As a result of the expansion in deposits, total loans and investments of these banks increased. Investments rose 7 per cent and loans increased nearly 2 per cent. Much of the increase in loans resulted from a rise in real estate and "other" loans which include consumer loans. Commercial and industrial loans showed little net change during the year, rising, seasonally adjusted, during the first half of 1961 and subsequently declining.

## Other District Areas

Business activity during 1961, according to fragmentary data, appears to have risen at a rapid rate outside the four large metropolitan areas of the Eighth Federal Reserve District. Cash farm income rose substantially over year-earlier levels, business activity as indicated by bank debits was up, and department store sales increased. Also, bank deposits and loans rose markedly in these areas.

Cash farm income in the Eighth District states was estimated to be about 10 per cent higher in 1961 than in 1960. Farm income rose rapidly in late 1961 reflecting a later than usual harvesting of the cotton crop and somewhat higher prices than in 1960. Both the soybean and tobacco crops were relatively large, also tending to enhance cash farm income late in 1961.

The dollar volume of department store sales in the smaller district cities was larger on balance in 1961 than in the previous year. By contrast, in most of the large district metropolitan areas department store sales declined slightly from year-earlier levels. Stores in Fort Smith, Arkansas, and eleven other centers<sup>2</sup> combined reported gains from 1960 to 1961. On the other hand, there were moderate declines at Quincy, Illinois, Springfield, Missouri, and Paducah, Kentucky.

In Springfield, Missouri, construction activity expanded in 1961 over the previous year; residential

construction rose 14 per cent and nonresidential construction increased 1 per cent. During 1961 construction in Evansville, Indiana, declined from the level of the previous year.

Measured by data on bank debits, business activity rose somewhat more from 1960 to 1961 at the smaller cities in the district than in the four large metropolitan areas. In the 16 reporting district cities outside the four large metropolitan areas, debits rose 7 per cent from 1960 to 1961. This compared with an average increase of 5 per cent at the larger centers. Largest increases were at Jefferson City, Missouri, Fort Smith, Arkansas, and Quincy, Illinois. On the other hand, debits were lower in 1961 at banks in Cape Girardeau, Missouri, and debits rose less than the district average at banks in Helena, Arkansas, Evansville, Indiana, Paducah, Kentucky, and Jackson, Tennessee.

During 1961 both total deposits and credit rose substantially at banks located in the smaller cities and rural areas of the district. Demand deposits, seasonally adjusted, increased 5 per cent, with the bulk of the gain occurring in the last quarter of the year. Time deposits were up 9 per cent, rising in every month except November (when there were large withdrawals of Christmas Club funds). Loans worked up almost steadily during the year, rising 7 per cent. Advances to business and loans on real estate rose significantly. With the increased funds available, these banks increased their investment holdings 6 per cent during 1961.

### *A Perspective on Silver*

ON NOVEMBER 28, 1961, President Kennedy issued an executive order stopping Treasury sales of silver. In so doing he focused public attention on an aspect of this country's monetary system which over the past quarter-century has been of interest chiefly to monetary technicians and to a small number of silver producers.

The Federal Reserve Bank of Richmond discusses the historical evolution of the role of silver in this country's monetary structure and the implication of the recent action for our nation's monetary system in its January 1962 MONTHLY REVIEW. A copy of this REVIEW can be obtained by writing the Research Department, Federal Reserve Bank of Richmond, 9th and Franklin Streets, Richmond 13, Virginia.

<sup>2</sup> Cities in which samples are too small for separate publication.



# Operations of the Federal Reserve Bank of St. Louis in 1961—An Annual Report

**T**HE FEDERAL RESERVE BANK OF ST. LOUIS is a part of the Federal Reserve System, the primary function of which is to regulate bank credit and the nation's money supply with a view to contributing to economic growth, full employment, and reasonably stable prices. A summary of monetary developments in 1961 was presented in the January 1962 issue of this *Review*.

In addition to the monetary management activities of the Federal Reserve System, each Federal Reserve Bank performs a variety of operations which contribute to efficient operation of the economic system. The principal operating functions of a Federal Reserve Bank are handling member bank reserve accounts, distributing currency and coin, clearing checks, collecting other negotiable instruments, transferring funds, making advances to member banks, fiscal agency operations for the United States Government (such as issuing and redeeming Treasury securities), safekeeping of securities, research operations, and examination and supervision of banks. Most of the employees of the Bank are engaged in these activities. This article describes the principal operations of the Federal Reserve Bank of St. Louis and its branches during 1961.

The area which is served by the Federal Reserve Bank of St. Louis, the Eighth Federal Reserve District, includes most of Missouri, all of Arkansas, and parts of Illinois, Indiana, Kentucky, Tennessee, and Mississippi. The Bank has three branches, located in Little Rock, Louisville, and Memphis. Boundaries of the Eighth Federal Reserve District and its three branch zones, along with the location of the district in relation to the eleven other Federal Reserve Districts, are shown in the accompanying map. As of February 1, 1962 there were 478 member banks in the Eighth Dis-

trict, of which 320 were national banks and 158 were state member banks. A year earlier there were 319 national banks and 161 state member banks, a total of 480 member banks in the district.

## Member Bank Reserve Accounts

The Federal Reserve Bank of St. Louis and its branches hold the reserve deposit accounts of all member banks in the Eighth District. Member banks were required in 1961 to keep as reserves the following percentages of their deposit liabilities:<sup>1</sup>

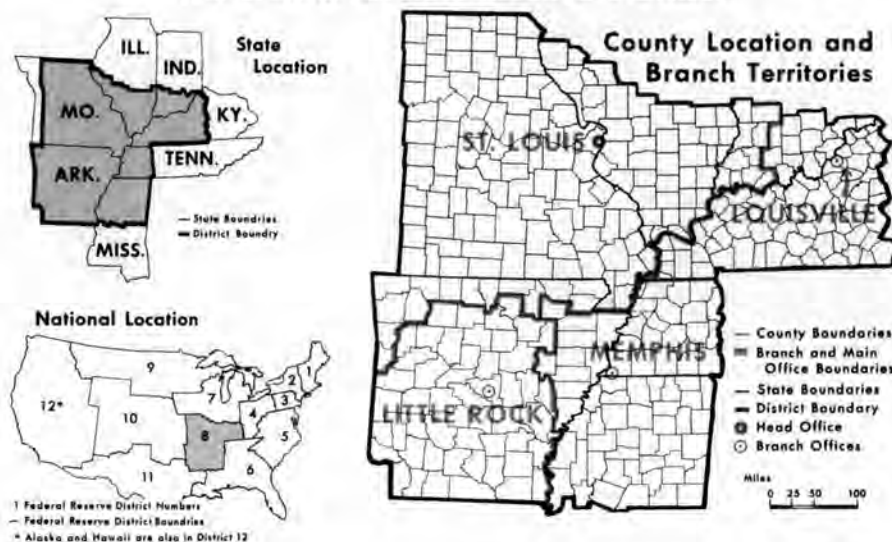
Net Demand deposits*	
Central reserve city banks	16½%
Reserve city banks	16½%
Other member banks	12%
Time deposits	
All banks	5%

\* Total demand deposits minus cash items in process of collection and demand balances due from domestic banks.

These reserves were required to be on deposit with the Federal Reserve Bank, except for amounts that the member bank chose to hold in actual cash. This vault cash was about one-eighth of the total.

<sup>1</sup> See footnote bottom of second column, page 10.

## THE EIGHTH FEDERAL RESERVE DISTRICT



Member banks may draw on and replenish their reserve deposit accounts much as individuals use their checking accounts in settling day-to-day transactions. Numerous entries are made in the reserve accounts of member banks. Entries are made for currency or coin withdrawn or deposited, for settlements of clearings and checks, for Treasury deposits transferred from member banks to the Reserve Bank, for transfers of funds, for redemptions of Government bonds and coupons, and for sums borrowed and repaid. The Reserve Bank or branch records all transactions and strikes a daily balance for the reserve account of each member bank. These transactions are described in subsequent paragraphs.

During 1961 the Federal Reserve Bank of St. Louis installed a 1401 IBM computer at the St. Louis office. The records relating directly both to actual member bank reserve balances and to required balances at that office have been placed on the machine, reducing substantially the volume of the manual labor. In addition, many of the other bookkeeping functions of the Bank have been transferred to the computer.

### *Collecting and Clearing Checks*

The use of demand deposits in commercial banks by individuals and businesses in making payments is facilitated by the Federal Reserve Banks in clearing checks and in providing a mechanism through which commercial banks settle for the checks collected.

By way of example, consider the case of a manufacturer in Pine Bluff, Arkansas, who sells goods to a firm in Madison, Wisconsin, and receives in payment a check drawn on a bank in Madison. The manufacturer deposits the check in his Pine Bluff bank, receiving a credit in his deposit balance. The Pine Bluff bank sends the check (with others) to the Little Rock Branch of the Federal Reserve Bank of St. Louis, which sends it to the Federal Reserve Bank of Chicago, which in turn sends it to the Madison bank. The Madison bank charges the account of the firm that wrote it, and has the amount charged to its reserve account at the Chicago Federal Reserve Bank. The Chicago Bank credits the Little Rock Branch. In the meantime, the Little Rock Branch credits the reserve account of the Pine Bluff bank in accordance with a time schedule worked out for the System. The Reserve Banks settle these accounts by wire

at the end of each day through the Interdistrict Settlement Fund located at the Board of Governors in Washington.

Since promptness is important in clearing checks, the Federal Reserve Banks permit member banks having a substantial volume of checks payable in other Federal Reserve districts to send such checks directly to the other Reserve offices for collection. St. Louis member banks, for example, frequently send checks to the Federal Reserve Bank of New York for collection, at the same time informing the Federal Reserve Bank of St. Louis. Reserve accounts of these member banks are credited just as if the items had been sent to the St. Louis Federal Reserve Bank.

Through these arrangements checks are collected throughout the nation quickly, with a minimum expense. Federal Reserve facilities for clearing checks are available to all member banks. However, many checks are cleared through local clearinghouses and correspondent banks, without using Federal Reserve facilities.

The number of checks handled by the Federal Reserve System has increased constantly since 1920 with the exception of the depression years, 1930 through 1933 (see Chart 1). Check clearings at the Federal Reserve Bank in St. Louis and its Louisville, Memphis, and Little Rock branches have generally increased at about the same rate as totals for the System. The number of checks cleared by the Federal Reserve Bank of St. Louis and its branches in 1961 totaled 216

<sup>1</sup> Reserve requirements apply to a member bank's "net demand" and "time" deposit liabilities. A member bank must be careful to see that the average amount of its reserves over a reserve period (one week for central reserve city and reserve city banks and two weeks for other member banks) equals or exceeds the average amount of reserves required during the period.

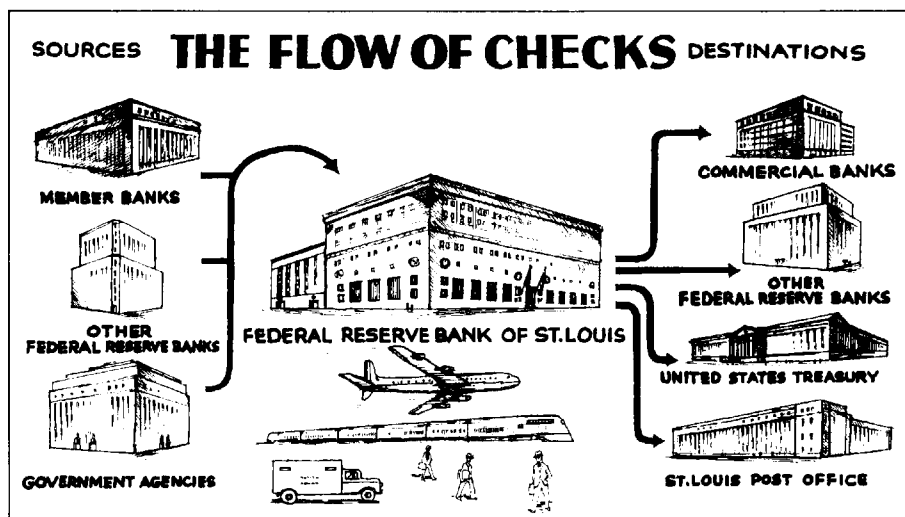
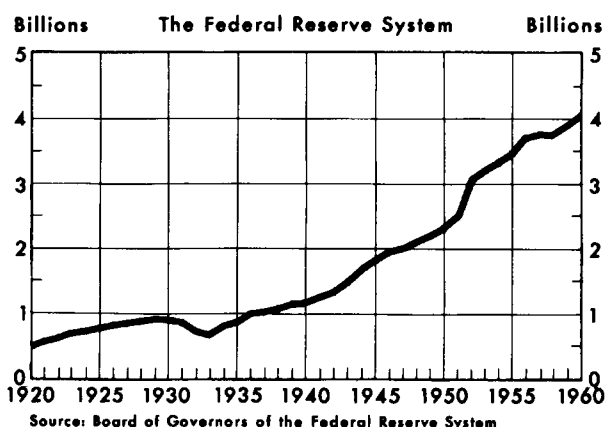


Chart 1

## Number of Checks Handled, 1920-60



million, up 6 per cent from the 1960 volume. The dollar value of these checks amounted to \$76 billion, or 4 per cent more than in 1960 (see Table I).

*Distributing Currency and Coin*

The money handling operations at the Federal Reserve Banks consist chiefly of the receipt of money from member banks and the delivery of money to member banks.

The public obtains virtually all its currency and coin from commercial banks or by receiving it from others who, directly or indirectly, obtained it from banks. Commercial banks, in turn, either directly or indirectly obtain currency and coin from the Federal Reserve Banks to meet this demand. When the public's demand for currency and coin increases, banks provide themselves with the amounts and kinds that the people in their community want. Most member banks depend upon the Federal Reserve Banks for replenishment of their supply, ordering what they require and having it charged to their reserve accounts.

**Free Reserves**

THE VOLUME OF FREE RESERVES has frequently been used as an indicator of monetary action. Free reserves are member bank excess reserves less borrowings from Reserve Banks. High levels of free reserves are said to indicate monetary ease; low levels (net borrowed reserves) are thought to indicate restraint.

In its November 1961 REVIEW, the Federal Reserve Bank of Kansas City examined the free reserve concept and concluded that this guide is not dependable. The article suggests that a better indication of monetary conditions is the rate of change of bank credit. A copy of this REVIEW can be obtained by writing the Research Department, Federal Reserve Bank of Kansas City, Federal Reserve Station, Kansas City 6, Missouri.

Table I

## COMBINED VOLUME OF OPERATIONS

AT THE ST. LOUIS BANK AND THE LOUISVILLE, MEMPHIS, AND LITTLE ROCK BRANCHES IN 1961 AND 1960

Number of Pieces Handled (in thousands)	1961	1960
Checks (Total) .....	215,590	203,864
City Checks .....	35,807	34,095
Country Checks .....	145,624	136,600
Government Checks .....	23,056	21,585
Postal Money Orders .....	11,103	11,584
Currency .....	190,515	201,375
Coin <sup>1</sup> .....	490,087	426,623
Transfer of Funds .....	159	152
Noncash Collections .....	593	560
U. S. Gov't Interest Coupons .....	857	872
Discounts and Advances <sup>2</sup> .....	283	945
Safekeeping of Securities:		
Securities Received and Released .....	164	165
Coupons Detached .....	363	361
Fiscal Agency Operations:		
U. S. Savings Bonds Issued, Exchanged and Redeemed .....	7,269	7,534
Other Government Issues <sup>3</sup> .....	444	457
Dollar Volume (in thousands of dollars)		
Checks Handled (Total) .....	\$75,969,147	\$73,183,258
City Checks .....	48,005,185	46,827,462
Country Checks .....	23,031,771	21,709,083
Government Checks .....	4,722,719	4,429,609
Postal Money Orders .....	209,472	217,104
Currency .....	1,143,163	1,185,970
Coin <sup>1</sup> .....	48,265	43,341
Transfer of Funds .....	69,379,098	61,433,926
Noncash Collections .....	373,627	391,087
U. S. Gov't Interest Coupons .....	129,886	123,070
Discounts and Advances .....	813,490	3,248,835
Safekeeping of Securities:		
Coupons Detached .....	48,263	44,993
Fiscal Agency Operations:		
U. S. Savings Bonds Issued, Exchanged and Redeemed .....	639,184	685,895
Other Government Issues <sup>3</sup> .....	12,033,395	10,933,294

<sup>1</sup> Does not include unverified coins proved in connection with wrapping.

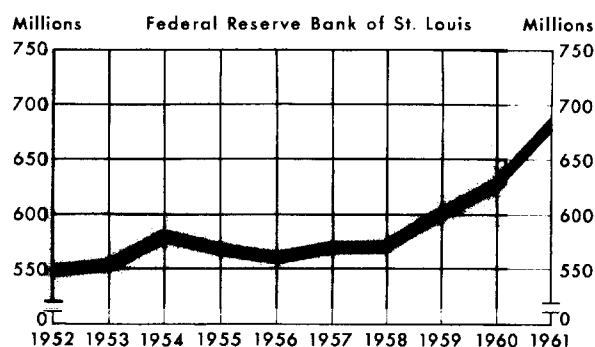
<sup>2</sup> Actual number, not rounded to nearest thousand.

<sup>3</sup> Includes securities of agencies.

Some member banks, however, get their supplies through larger, centrally located member banks. Non-member banks obtain part of their coin and currency from member banks; however, they may obtain their supply directly from the Federal Reserve Bank when such shipments are requested by a member bank.

When the public desires less cash, money is returned to the banking system, building up bank reserves. Member banks may return excess amounts to the Reserve Bank. No attempt is made by the Federal Reserve or other public authorities to control the amount of coin and currency in circulation, the objective being to satisfy the desires of the public, including commercial banks.

Chart 2

**Pieces of Currency and Coin Handled, 1952-61**

New coin is obtained by the Federal Reserve Banks directly from a United States mint. New silver certificates and United States notes are obtained directly from the Treasury Department. New Federal Reserve notes are obtained from the Comptroller of the Currency, by the Federal Reserve Agent through the Board of Governors. Unfit currency and mutilated coin received at Federal Reserve Banks in the course of day-to-day operations are removed from circulation.

There are large movements of currency and coin into and out of the Federal Reserve Bank each business day as some member banks find themselves with a surplus while others are replenishing supplies. Thus, money handling operations at the Reserve Banks are continuous, although the aggregate amount of coin and currency held by the public and commercial banks may be relatively stable except for the seasonal upswings near most of the major holidays, especially near Christmas.

Major activities in the Money Department of the Reserve Bank include paying out and receiving coin and currency, sorting, counting, and shipping currency and coin, and wrapping coin. The volume of currency handled by the Federal Reserve Bank of St. Louis and its branches in 1961 totaled 191 million pieces, down 5 per cent from the 1960 level. This decline was possibly due in part to a change in the regulations, effective primarily in late 1960, which permitted member banks to count vault cash as part of their reserves. Coin totaled 490 million pieces, about 15 per cent above that of 1960 (Table I).

### *Lending Operations*

Member banks may obtain credit on occasion by borrowing from the Reserve Bank. The discount rate charged on such loans throughout 1961 was 3 per cent per annum. A major objective of the provision for lending by the Federal Reserve Banks is to provide

member banks with a source of credit for short-term accommodation.

The principles under which Federal Reserve Banks lend to member banks are set forth in Regulation A of the Board of Governors of the Federal Reserve System as follows:

Access to the Federal Reserve discount facilities is granted as a privilege of membership in the Federal Reserve System in the light of the following general guiding principles.

Federal Reserve credit is generally extended on a short-term basis to a member bank in order to enable it to adjust its asset position when necessary because of developments such as a sudden withdrawal of deposits or seasonal requirements for credit beyond those which can reasonably be met by use of the bank's own resources. Federal Reserve credit is also available for longer periods when necessary in order to assist member banks in meeting unusual situations, such as may result from national, regional, or local difficulties or from exceptional circumstances involving only particular member banks. Under ordinary conditions, the continuous use of Federal Reserve credit by a member bank over a considerable period of time is not regarded as appropriate.

In considering a request for credit accommodation, each Federal Reserve Bank gives due regard to the purpose of the credit and to its probable effects upon the maintenance of sound credit conditions, both as to the individual institution and the economy generally. It keeps informed of and takes into account the general character and amount of the loans and investments of the member bank. It considers whether the bank is borrowing principally for the purpose of obtaining a tax advantage or profiting from rate differentials and whether the bank is extending an undue amount of credit for the speculative carrying of or trading in securities, real estate, or commodities, or otherwise.

Lending operations of the Reserve Banks were at a relatively low level during 1961. The cost of obtaining funds in other ways, such as security sales and inter-bank borrowing, was usually less expensive than borrowing from Reserve Banks. The average daily dollar volume of loans outstanding to members banks at the Federal Reserve Bank of St. Louis and its branches in 1961 was \$3,537,000, compared with \$17,445,000 in 1960. Advances by the Federal Reserve Bank of St. Louis and its branches, which numbered 283 in 1961, were down 70 per cent from the 1960 level. Such advances aggregated \$813 million during 1961, down 75 per cent from the 1960 amount.

## Fiscal Agency Operations

One of the major objectives of the Federal Reserve Act is to provide a financial agent for the United States Government. In this capacity, the Federal Reserve Banks act as the United States Government's principal banking agency. They hold the Government's demand deposit accounts, accept Government receipts, settle checks drawn on the Treasurer of the United States, and issue, redeem, and transfer title to Government securities. The securities operations have been a major activity since the early 1940's, when the debt grew substantially to finance World War II.

In connection with Government debt operations, the Reserve Banks engage in such activities as supervising the printing and mailing of circulars, handling applications and tenders for Treasury bills, receiving payments, issuing and redeeming other Government securities, and redeeming interest coupons.

Fiscal agency operations, by their very nature, are carried out in close cooperation with the United States Treasury Department. Regulations concerning the operations are issued by the Treasury Department so that uniform operating procedures are maintained throughout the Federal Reserve System. Reserve Banks are reimbursed by the Treasury for most expenses incurred in this work.

The total volume of fiscal agency operations at the Federal Reserve Bank of St. Louis and its branches did not change significantly in 1961 from the 1960 levels. The dollar volume of savings bonds issued, exchanged, and redeemed declined 7 per cent. The dollar volume of other Government issues handled rose 10 per cent. Total number of items handled was down about 3 per cent.

## Safekeeping

A Federal Reserve Bank holds securities in safekeeping, primarily for member banks. Some securities are placed with the Bank for the sole purpose of safekeeping; others are pledged to the Bank to secure loans to member banks; and still other securities are placed with the Federal Reserve Bank as security for deposits of state and local government funds and for the United States Government Treasury Tax and Loan Accounts.

Much of the time of employees engaged in safekeeping operations at the Federal Reserve Bank is directed to handling securities and maintaining records of securities and coupons. Records are maintained of all securities for reconciliation and balancing pur-

## STATEMENT OF CONDITION

### FEDERAL RESERVE BANK OF ST. LOUIS

<u>Assets</u>		
(in thousands of dollars)	December 31, 1961	December 31, 1960
Gold Certificate Reserves .....	\$ 679,572	\$ 721,711
Federal Reserve Notes of Other Banks ..	21,784	21,871
Other Cash .....	17,821	23,197
Discounts and Advances .....	2,210	7,764
U. S. Government Securities .....	1,165,881	1,090,824
Uncollected Items .....	306,100	329,743
Other Assets .....	16,232	14,981
<b>Total Assets .....</b>	<b>\$2,209,400</b>	<b>\$2,209,691</b>
<u>Liabilities and Capital Accounts</u>		
Federal Reserve Notes (Net) .....	\$1,269,413	\$1,232,140
Deposits:		
Member Banks—Reserve Accounts .....	628,096	650,878
U. S. Treasurer—General Account .....	17,587	26,542
Other .....	11,391	54,001
Deferred Availability Cash Items .....	234,940	203,701
Other Liabilities and Accrued Dividends ..	2,368	1,133
Total Capital Accounts .....	45,605	41,296
<b>Total Liabilities and Capital Accounts .....</b>	<b>\$2,209,400</b>	<b>\$2,209,691</b>

MEMORANDA: Contingent liabilities on acceptances purchased for foreign correspondents decreased from \$7,668,000 on December 31, 1960 to \$4,250,000 on December 31, 1961. The ratio of gold certificate reserves to deposits and F. R. note liabilities combined was 36.8% on December 31, 1960 and 35.3% on December 31, 1961.

## COMPARATIVE STATEMENT OF EARNINGS AND EXPENSES

### FEDERAL RESERVE BANK OF ST. LOUIS

(in thousands of dollars)	1961	1960
Earnings from:		
Discounted Bills .....	\$ 111	\$ 686
U. S. Government Securities .....	37,728	43,769
Industrial Advances .....	—	—
All Other .....	13	19
<b>Total Current Earnings .....</b>	<b>37,852</b>	<b>44,474</b>
Expenses:		
Operating Expenses .....	7,981	8,143
Assessment for Expenses of Board of Governors .....	211	218
Federal Reserve Currency:		
Original Cost .....	277	235
Cost of Redemption .....	44	39
<b>Net Expenses .....</b>	<b>8,513</b>	<b>8,635</b>
<b>Current Net Earnings .....</b>	<b>29,339</b>	<b>35,839</b>
Additions to Current Net Earnings:		
Profit on Sales of U. S. Govt. Sec. (net) ..	140	99
Transferred from Reserves for Contingencies (net) .....	—	470
All Other .....	1	1
<b>Total Additions .....</b>	<b>141</b>	<b>570</b>
Deductions from Current Net Earnings:		
All Other .....	3	3
<b>Total Deductions .....</b>	<b>3</b>	<b>3</b>
<b>Net Additions to Current Net Earnings .....</b>	<b>138</b>	<b>567</b>
<b>Net Earnings before payment to U. S. Treasury .....</b>	<b>\$29,477</b>	<b>\$36,406</b>
Distribution of Net Earnings:		
Paid to U. S. Treasury (Interest—F. R. Notes) .....	\$25,742	\$33,936
Dividends Paid .....	862	802
Transferred to Surplus .....	2,873	1,668
<b>Total .....</b>	<b>\$29,477</b>	<b>\$36,406</b>

# Directors of the Federal Reserve Bank of St. Louis

## February 1, 1962

### BOARD OF DIRECTORS

**PIERRE B. McBRIDE**  
*Chairman of the Board and Federal Reserve Agent*

**J. H. LONGWELL**  
*Deputy Chairman of the Board*

### Class A Directors

<i>Elected by Member Banks</i>	Term Expires Dec. 31
KENTON R. CRAVENS, President, Mercantile Trust Company, St. Louis, Missouri	1962
H. LEE COOPER, President, Ohio Valley National Bank of Henderson, Henderson, Kentucky	1963
ARTHUR WERRE, JR., Executive Vice President, First National Bank of Steeleville, Steeleville, Illinois	1964

### Class B Directors

<i>Elected by Member Banks</i>	
HAROLD O. McCUTCHAN, Executive Vice President, Mead Johnson & Company, Evansville, Indiana	1962
EDGAR M. QUEENY, Chairman of the Finance Committee and member of Board of Directors, Monsanto Chemical Com- pany, St. Louis, Missouri	1963
RAYMOND REBSAMEN, Chairman of the Board, Rebsamen & East, Inc., Little Rock, Arkansas	1964

### Class C Directors

<i>Appointed by the Board of Governors</i>	
PIERRE B. McBRIDE, President, Porcelain Metals Corpora- tion, Louisville, Kentucky	1962
JESSE D. WOOTEN, Executive Vice President, Mid-South Chemical Corporation, Memphis, Tennessee	1963
J. H. LONGWELL, Director, Special Studies and Programs, College of Agriculture, University of Missouri, Columbia, Missouri	1964

### Member, Federal Advisory Council

SIDNEY MAESTRE, Chairman of the Board, Mercantile Trust Com-  
pany, St. Louis, Missouri

### Little Rock Branch Directors

<i>Appointed by the Board of Governors</i>	Term Expires Dec. 31
T. WINFRED BELL, President, Bush-Caldwell Company and Arkansas Electric Company, Little Rock, Arkansas	1962
FREDERICK P. BLANKS, Planter, Parkdale, Arkansas	1963
WALDO E. TILLER, President, Tiller Tie and Lumber Com- pany, Inc., Little Rock, Arkansas	1964
<i>Appointed by the Directors of the Federal Reserve Bank</i>	
H. C. ADAMS, Executive Vice President, The First National Bank of De Witt, De Witt, Arkansas	1962
J. W. BELLAMY, President, National Bank of Commerce of Pine Bluff, Pine Bluff, Arkansas	1963
R. M. LAGRONE, JR., President, The Citizens National Bank of Hope, Hope, Arkansas	1963
ROSS E. ANDERSON, President, The Commercial National Bank of Little Rock, Little Rock, Arkansas	1964

### Louisville Branch Directors

<i>Appointed by the Board of Governors</i>	
WILLIAM H. HARRISON, President, Taylor Drug Stores, Inc., Louisville, Kentucky	1962
PHILIP DAVIDSON, President, University of Louisville, Louis- ville, Kentucky	1963
RICHARD T. SMITH, Farmer, Madisonville, Kentucky	1964
<i>Appointed by the Directors of the Federal Reserve Bank</i>	
MERLE E. ROBERTSON, Chairman of the Board and President, Liberty National Bank and Trust Company of Louisville, Louisville, Kentucky	1962
RAY A. BARRETT, President, The State Bank of Salem, Salem, Indiana	1963
JOHN G. RUSSELL, President, The Peoples First National Bank & Trust Company of Paducah, Paducah, Kentucky	1963
JOHN R. STROUD, Executive Vice President, The First Na- tional Bank of Mitchell, Mitchell, Indiana	1964

### Memphis Branch Directors

<i>Appointed by the Board of Governors</i>	
WILLIAM KING SELF, President, Riverside Industries, Marks, Mississippi	1962
EDWARD B. LEMASTER, President, Edward LeMaster Co., Inc., Memphis, Tennessee	1963
FRANK LEE WESSON, President, Wesson Farms, Inc., Victoria, Arkansas	1964
<i>Appointed by the Directors of the Federal Reserve Bank</i>	
CHARLES R. CAVINESS, President, National Bank of Commerce of Corinth, Corinth, Mississippi	1962
JOHN E. BROWN, President, Union Planters National Bank of Memphis, Memphis, Tennessee	1963
SIMPSON RUSSELL, Chairman of the Board, The National Bank of Commerce of Jackson, Jackson, Tennessee	1963
LEON C. CASTLING, President, First National Bank at Mari- anna, Marianna, Arkansas	1964

# **Officers of the Federal Reserve Bank of St. Louis**

## **February 1, 1962**

DELOS C. JOHNS, *President*

DARRYL R. FRANCIS, *First Vice President*

HOWARD H. WEIGEL, *Vice President and Secretary*

GEORGE E. KRONER, *Vice President*

JOSEPH C. WOTAWA, *Vice President*

HOMER JONES, *Vice President*

DALE M. LEWIS, *Vice President*

MARVIN L. BENNETT, *Vice President*

GEORGE W. HIRSHMAN, *General Auditor*

WILLIAM J. ABBOTT, *Adviser*

EARL R. BILLEN, *Assistant Vice President*

PAUL SALZMAN, *Assistant Vice President*

WILLIS L. JOHNS, *Assistant Vice President*

GERALD T. DUNNE, *Counsel and Asst. Sec'y.*

STEPHEN KOPTIS, *Assistant Vice President*

J. M. GEIGER, *Assistant Vice President*

ORVILLE O. WYRICK, *Chief Examiner*

WILBUR H. ISBELL, *Assistant Chief Examiner*

CARL T. ARLT, *Assistant Vice President*

RICHARD O. KALEY, *Assistant Vice President*

NORMAN N. BOWSHER, *Assistant Vice President*

GEORGE W. DENNISON, *Assistant Vice President*

WOODROW W. GILMORE, *Planning Officer*

EARL H. CHAPIN, *Assistant Chief Examiner*

JOHN J. HOFER, *Assistant Vice President*

W. E. WALKER, *Assistant Vice President*

### **LITTLE ROCK BRANCH**

FRED BURTON, *Vice President and Manager*

\_\_\_\_\_, *Cashier*

JOHN K. WARD, *Assistant Cashier*

HOWARD J. JENSEN, *Assistant Cashier*

### **LOUISVILLE BRANCH**

DONALD L. HENRY, *Vice President and Manager*

JOHN W. MENGES, *Cashier*

CLARENCE J. WOERTZ, *Assistant Cashier*

LOUIS A. NELSON, *Assistant Cashier*

### **MEMPHIS BRANCH**

E. FRANCIS DEVOS, *Vice President and Manager*

BENJAMIN B. MONAGHAN, *Cashier*

JOHN F. BREEN, JR., *Assistant Cashier*

PAUL I. BLACK, JR., *Assistant Cashier*

poses. In the case of Government securities, maturing coupons are clipped and maturing bonds withdrawn from safekeeping and redeemed. Other maturing coupons and bonds are collected for the owners. In 1961 securities received and released at the Federal Reserve Bank of St. Louis and its branches numbered 163,700 compared to 164,781 in 1960. The dollar volume of coupons detached in 1961 totaled \$48.3 million compared to \$45.0 million in 1960.

### **Research**

The Research staff of the Federal Reserve Bank of St. Louis is engaged in assembling and analyzing economic and financial information that serves as a guide to the Bank and to the System in the formulation and administration of monetary policy. By making much of this information available in their publications and public speeches, the department also helps to keep the public informed about the functioning of the economy with particular reference to monetary developments.

Within the general framework of providing "economic intelligence" necessary for central bank functions, the department has a number of outlets through which it reports the results of its research. They are as follows: (1) Briefing sessions with the president, who, with other presidents and the Board of Governors, participates in the Federal Open Market Committee meetings. (2) Reports submitted to the directors of the Federal Reserve Bank and to the Board of

Governors. (3) A monthly *Review* which is available to the public on request. (4) Public meetings of groups interested in economic policy.

Whatever the research emphasis may be at any given time, the work in the department is always geared to the objective of providing a more thorough understanding of the economic system and the role of central banking in the system.

### **Bank Examination**

Examiners of the Federal Reserve Bank of St. Louis have responsibility for examining all state banks in the Eighth District which are members of the Federal Reserve System. Each state member bank was examined during the year 1961. Major objectives of such examinations are to determine the quality of assets, the solvency of banks, and their compliance with federal and state laws and regulations; and to appraise the adequacy of managements, operations, safeguards, and policies. Examinations are not intended to be a substitute for audits.

TOTAL NUMBER EMPLOYED AT THE  
FEDERAL RESERVE BANK OF ST. LOUIS AND  
THE BRANCHES ON JANUARY 1 FOR SELECTED YEARS

11-16-1914 (beginning of bank) .....	23
1924 .....	586
1934 .....	717
1944 .....	1,551
1954 .....	1,292
1959 .....	1,139
1961 .....	1,114



### **Business Expands and Bank Credit Rises—continued from page 3**

While the stock of money was rising rapidly in late 1961 the rate of increase in the turnover of money was less than in the comparable periods of the two previous business upturns. The transactions velocity of money (i.e., the rate of turnover of demand deposits at banks outside of the seven largest financial centers) rose at an annual rate of about 3.2 per cent from the third quarter of 1961 to the fourth quarter. The increases in velocity in the corresponding periods (second to third quarters following the trough) of the 1958-59 and 1954-55 recoveries were greater, 8.4 and 12.0 per cent, respectively. Income velocity, the production of goods and services divided by the average money supply, shows a somewhat similar pattern.

Time deposits at commercial banks grew at an estimated annual rate of 11.6 per cent from the second half of August to the first half of January. During this period the money supply defined broadly to in-

clude time deposits expanded at about 7.9 per cent per annum. During the comparable four-and-one-half months of the two previous business expansions, the supply of money plus time deposits rose at 4.2 per cent and 1.6 per cent annual rates.

### **Interest Rates**

Interest rates on most marketable securities have risen in recent months. Yields on three-month Treasury bills averaged over 2.70 per cent in January, higher than in any month in 1961. During September yields on these bills averaged 2.28 per cent. The rise in bill rates during the past year of economic recovery, however, was substantially less rapid than in the first year of the previous expansions. Rates on long-term Government bonds averaged 4.06 per cent in January, up only slightly from the September average of 4.02 per cent.