Published Every Friday
by
The Monetary Times
Printing Company
of Canada, Limited

Publishers also of
"The Canadian Engineer"

Monetary Times
Trade Review and Insurance Chronicle
of Canada
Established 1867 —— Old as Confederation

JAS. J. SALMOND
President and General Manager

FRED. W. FIELD
Editor

A. E. JENNINGS
Assistant General Manager

Great Banking Expansion This Year

TOTALS *in 1917 Have Made New Records—Course of Banking Totals After Next Month Will Depend Largely on War Developments—Another Year of War Means Another Period of Canadian Production at High Pressure — Outlook For the Coming Year.*

THE three years of war have certainly seen a most remarkable growth of Canadian banking assets. At the end of 1914 the total assets of the banks stood at $1,555,000,000, practically the same level as at the end of 1913. The increase effected during 1915 was $182,000,000; and that increase was followed by another, of $210,000,000, in 1916. For the nine months of 1917, up to September 30th, the increase was $178,000,000; and, as the last quarter of the year saw large credit transactions in connection with the movement of the crops and the flotation of the fourth war loan, it is inevitable that when the December return is published, towards the end of this month, it will show another great gain as compared with the same date of the preceding year. The credits placed at disposal of the British government in connection with its purchases of Canadian grain and packing house products operated importantly to swell the bank figures; and the activity of the munition industry, though on a smaller scale than in the latter part of 1916, tended in the same direction.

In view of the phenomenal progress made in the three years under review, it is interesting to speculate on the conditions that will be reflected by the successive monthly bank returns in 1918. Will the totals continue to soar to new high records—new $100,000,000 mile-posts being passed in rapid succession—or is it the case that we have now reached the top and that 1918 will witness movement in the opposite direction?

These questions cannot be answered until the new year unfolds itself. In the opening month doubtless we shall see the contraction characteristic of January. Considering the great expansion of the bank note issues throughout 1917, it would seem that an unusually heavy contraction of circulation would be in order; and unless the normal January shrinkage of the current account or demand deposits is offset by some new special credit transaction, perhaps that department of the deposits will show a substantial decrease for the first month of 1918. These decreases would be normal—war or no war, it would be strange if they did not occur. No one should be surprised or dismayed if the contraction next month is greater than in preceding years. An unusually heavy contraction would be a healthy sign, since it would imply that the banks were in position to expand again if Canada's trade and industrial situation called for expansion. So far as the currency contraction is concerned, that, under existing circumstances, would have a tendency to ease the monetary situation. It should be remembered that when $60,000,000 or $70,000,000 of bank notes in circulation are covered, dollar for dollar, by gold or legals in the central reserves, the return of that gold-covered circulation to the banks, in the form of new deposits or payments on loans, etc., sets free a corresponding amount of the pledged gold or legals, which thereupon are added to the general cash reserves, and part of the released cash is available for new credit operations.

The course of the banking totals subsequent to January will depend to a large extent on the war developments. Should the war end early next year, there would presumably be a marked decrease in some lines of industrial and mercantile activity, and perhaps the government's pressing need or new credits would be diminished But, in view of the situation created by the Teutonic campaign against Italy, few persons among the Allies look for peace in 1918. The general belief is that unless the Anglo-French and American forces on the western front win early and decisive success, the war is likely to last throughout a great part of 1918. At any rate, bankers and financiers are obliged to proceed with their preparations and carry on their affairs on that assumption.

This implies more or less continual heavy borrowing by the governments of the United Kingdom, the United States and Canada. Our own government will be obliged to float further domestic war loans, and, if possible, further loans abroad, in order to provide for its own war outlay and for lending money to Great Britain to facilitate the British purchases of Canadian products. These government loans will have a tendency to keep the bank figures swollen far beyond the pre-war records—and swollen they will remain until the abnormal holdings of government securities are materially reduced. Owing to the vigor and aggressiveness of the campaign for the fourth domestic loan, the borrowing by subscribers to that loan is understood to be heavier than in case of the preceding domestic flotations. It is but reasonable to expect that when the fifth loan is launched next year, further strong efforts will be required to ensure successful flotation. Large borrowing by subscribers will doubtless again be in evidence.

Then another year of war implies another year of Canadian production at high pressure all round. Some part of the vast expenditures of the United States government must necessarily come to Canada, helping to keep Canadian industries busy. We may be sure that all departments of agricultural life in Eastern Canada will be working at pressure, and, with reasonably favorable climatic conditions, the output, at prevailing prices, will have a great value. Similarly, the high price of wheat and other grains will cause the farmers of the west to make another grand effort to smash all records in the matter of 1918 production. After the two comparatively short yields in 1916 and 1917, there may be a chance of a great harvest next fall. The extensive preparations in the way of breaking and fall ploughing will likely lead to the planting of an enlarged acreage at any rate—if the climate during the seeding season does not prove to be entirely unfavorable.

Considering the great expansion that resulted in the latter part of 1917 from a western wheat crop of, say, 225,000,000 bushels at $2.21 per bushel, it should be clear that a crop of 300,000,000 bushels or more next year, providing the West is fortunate enough to take off that much, sold at around $2 per bushel, as it probably will be, would be a potent factor in ensuring continued prosperity and in swelling the resources of the Canadian banks. These considerations show that if the war is prolonged there will be numerous factors working in 1918 with tendency to further expand the bank position. Whether these factors will be counteracted by others is another question.