The Chronicle

Banking, Insurance and Finance

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THE GENERAL FINANCIAL SITUATION

Surprise has been expressed in some quarters at the small increase in Canadian call loans reported by the banks for the month of September. While the turnover of shares on the local Stock Exchange during that month was nearly three times the turnover reported for the month of August, the banks' Canadian call loans expanded during September by only $1,012,873 to $96,912,709. The surprise suggests an unfamiliarity with the facts, and a want of consideration of the underlying influences which have made possible the boom on the local Stock Exchange during the last few months. The probabilities are that the present bull movement on the Stock Exchanges have depended to a less extent than any of its predecessors on loans from the banks. That movement has been made possible largely through the enhanced credit power which has came to the community at large as a result of the purchase of War Bonds, and of the realization of large profits accruing during the war years. It should be fairly obvious that the banks are not likely to be keen on encouraging the frantic speculation in non-dividend paying common stocks, which has been a feature of the Montreal market in recent weeks. People have been speculating in these stocks much in the same way as they have been buying gramophones and automobiles—with funds acquired during the war years, and doubtless among the smaller fry of speculations there has been considerable realization of Victory Bond holdings and other assets accumulated during the war years, for this purpose. On the other hand, the effect of the full subscription to war loans during the last three or four years, in its relation to the capacity to purchase stocks thereby given, has probably been under-estimated. This increased credit power is, however, likely to be an important influence in maintaining the price of stocks until the period is passed when trade is financed largely by means of Government credits, and normal commercial and industrial activities again freely absorb funds.

It appears likely that the Government credit system will have to be continued yet for some time, but it is much to be desired that the transition to the ordinary processes of industrial development and commercial exchange should be made as soon as possible. How soon the change will be possible depends mainly upon the recuperative abilities of the various countries, and the general disinclination on the part of a large proportion of their populations to work, a disinclination which threatens to attain the proportions of a world-wide epidemic does not suggest present hopefulness in this connection. The other day a partner in J. P. Morgan and Company told a trade conference that probably by next summer, the United States would have to extend about $2,000,000,000 in credits to Europe. Interest on these credits will, of course, mainly be paid by exports from the country receiving them, and increased imports on this side should mean a gradual reduction in cost to the consumer. This process, however, is bound to be a very slow and gradual one.

Meantime, the inflation of bank deposits, as a result of the general trade activity and prosperity resulting from immense Government expenditures, continues unabated, as is evidenced by the September bank return. The increase in notice deposits during the month by $30,804,784 to a new high record figure of $1,227,437,715, augurs well for the success of the present Victory Loan campaign, but when once that campaign is out of the way, and the country's duty in that respect completed, we should like to see changes in the bank return, indicating a turning of a greater proportion of these new accumulations into fields of permanent investment, resulting in the increased production of commodities, which is the one crying need of the present day. True, the Canadian current loans of the banks showed a large increase in September, amounting to $46,786,778, but this is merely the seasonal increase resulting from the moving of the grain crops. In the last twelve months, while notice deposits have increased by practically $190,000,000, current loans have increased by under $117,000,000. Increase in bank deposits, as has been pointed out in these columns before, is not of itself necessarily a healthy sign, and that is especially the case at the present time, when the need is not for more money, but for more commodities.

With regard to the heavy increase in September of demand deposits, amounting to $66,442,180, this is probably mainly accounted for by the increase in current loans, and possibly by special transactions resulting in liquidation of assets. Preparations for the new Loan would scarcely account for this increase, the close of September being too far in advance of the actual flotation.

We are in receipt of a letter from Sir John Willison, the Chairman of the Canadian Reconstruc-

(Continued on page 1115)