Banking and Business Affairs in the U. S.

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Perhaps the marked fall in stocks which was noted last week may feroshadow the near approach of a period of liquidation and falling prices which all realize as bound to come in the not distant future. Prices do not forever continue rising, as some may have inferred from the long-continued upward trend which has been going on for some years. Buying actively on general account has been sensibly diminished, and but for the insistent demands of the Government we should have witnessed before this a marked reaction all along the line. Even with the prominence of this factor, it is coming to be realized that a reaction in prices cannot be much longer delayed.

A sharp fall of temperature in various parts of the country has been the subject of some concern, and damage of no inconsiderable proportions has been done to the maturing crop in certain sections, though the injury is hardly wide enough to have any material effect upon the crop output of the country as a whole.

The continued talk about scarcity of wheat has caused many farmers to hold their grain for a price higher than that already fixed by the Government, and this has given rise to fears of a shortage in the flour supply. This has caused the Food Administrator to put a restriction on the shipment of a large amount of grain destined for Norwegian ports. Further hindrances to the shipment of wheat and flour to neutral countries may be looked for in the near future, and it is not improbable that a qualified form of restrictions may be imposed upon the shipment of food products to the Allies, Canada included.

Russian developments have taken first place in public interest for some days past, and the still unsettled state of affairs in that country constitutes an element of grave concern.

Counterbalancing the uncertainty of the Russian situation, the apparent success of the operations of the Italian armies gives renewed ground for confidence in the ultimate triumph of the Allied Powers.

In local financial circles the situation is decidedly dull, and a feeling of apathy predominates. Revelations of a loss of some $300,000 through the speculations of a high official of a prominent bank official have disturbed the otherwise serene situation in New York financial circles.

BANKERS MEETING NEXT WEEK.

During the week beginning September 24th, the American Bankers' Association, a large and representative organization of the bankers of the United States, will meet in annual convention at Atlantic City, New Jersey. While usually the meetings of this association are of a routine character, it is expected that this year's convention will be largely attended and of exceptional interest. Naturally, war financing will occupy a prominent place in the subjects under discussion, and the presence of the Secretary of the Treasury and of other men prominent in the financial world will lend unusual interest to the proceedings.

Close co-operation between the bankers and the Government in carrying on future financial plans may be expected as a result of this meeting. It goes without saying that the banks do not feel altogether comfortable in view of the vast demands of the Government for funds, and not a few bankers fear that the higher rate of interest which the next Liberty Loan will bear may serve as a magnet to attract deposits from the banks for investment in Government bonds.

The enthusiasm which the bankers undoubtedly displayed in placing the last Liberty Loan may be expected to cool considerably if they feel that by encouraging subscription to the new loan they are acting in a way tending to cause the withdrawal of deposits from their own banks.

It is not unlikely that the whole matter of the relation of the bankers to Government financing will be traversed at the Atlantic City convention and an understanding reached which will remove any possible cause of friction.

Of the patriotism of the bankers there is no doubt, but as practical business men they wish to see such measures adopted as will not result in wholesale withdrawals from their institutions. Should such withdrawals occur, the loss would not be confined to the banks themselves. Payment of deposits on a large scale means the selling of investment securities held by the banks or the demand for repayment of loans, the result being in either case that funds are withdrawn from the use of the productive industries of the country.

The situation is one of great difficulty, and bankers are frank in realizing that it is practically a case of trying to keep your cake and eating it at the same time. But the exchange of opinion between bankers and the Treasury ought to do much in making clear the respective viewpoints of the banks and the Government.

CANADIAN BANKS IN THE UNITED STATES.

Several of the great chartered banks of Canada have branches in the United States, and the fact that new branches have been established here from time to time would seem to warrant the inference that the Canadian banks find in this country a profitable field for their operations.

It has been pointed out in previous letters that the banking laws of the respective states quite generally restrict the operations of branches of foreign banks to an exchange business, and to receiving funds for remittance abroad. They are, as a rule, denied the privilege of conducting a general deposit and discount business. It has been pointed out as well that when American banks, acting under authority recently given them, establish branches in foreign countries, they expect to encounter no such restrictions upon their transactions, but hope to do a general banking business, including the receipts of deposits and the granting of discounts. Whether they may be granted these broad privileges in all cases, is another question.

It is at least an interesting subject of speculation to consider what will be the attitude of the Canadian banks and the Canadian Government should American banks seek to establish branches in Canada. The possibility of our banks wishing to gain a foothold in Canada is by no means a remote one, if an opinion may be ventured based upon the very close banking and business relations existing between the two countries.

The Federal Reserve Act limits the right to establish branches to National banks having $1,000,000 capital and over. This minimum is so small compared with the average banking capital in Canada that both the Dominion Government and the Dominion banks might consider it best to exclude such banks on the grounds of insufficient capital. But quite likely, if American banks should seek hereafter to locate branches in Canada, the movement will originate with some of the very large banks in New York, Boston and Chicago to whom the objection of insufficient capital would not apply.

So far as at present known, a movement of this character is not contemplated, but in view of recent banking developments a discussion of its probability is not untimely.

The doctrine of trade reciprocity between the United States and Canada has been repudiated by the latter country. What will be the attitude of Canada should the question of banking reciprocity, as above outlined, become a practical matter?

It would seem desirable, in view of the growing financial importance of New York, that the present restrictions against foreign banks having branches here should be modified. This movement might be hastened by the display of a liberty policy toward outside banks on the part of other countries.

INVESTMENTS OF NATIONAL BANKS.

Some compilations recently made by the Comptroller of the Currency contain an interesting summary of the growth of investment holdings by the National banks of the United States.

On June 20, 1917, these banks held stocks, bonds and securities of the total value of $2,787,000,000, an increase of $489,000,000, or twenty-one per cent, in the past year. United States bonds and certificates held increased by $174,000,000 over June 30, 1916, and amounted on June 20 of this year to $905,000,000. Foreign Government bonds held June 20, 1917, amounted to $284,000,000 an increase of $167,000,000 during the year. Railroad bonds held by the National banks remained practically stationary during the year at $476,000,000. Bonds of other public service corporations increased from $274,000,000 June 30, 1916, to $295,000,000 June 20, 1917. State, county and other municipal bonds held June 20, 1917, were $315,000,000, an increase during the year of $37,000,000. The holdings of other bonds were $362,000,000, June 20, 1917, an increase during the year of $60,000,000.

The increase in Government and foreign bonds and the stationary character of railway bond investments are striking features of this compilation. While home and foreign bonds bulk large in the investment holdings of the National banks, they yet form an insignificant percentage of the total resources of these banks, indicating that the absorptive power of these institutions for future loans of this character still remains very large. Of course, these figures do not include the much more numerous State banks and trust companies.

The fact that railway bond holdings have remained practically at a standstill for the year merely confirms the unsatisfactory nature of the investment market for railway securities. Although railway earnings of late have shown a marked increase in the gross returns, the net income is not yet large enough to satisfy conservative investors. Undoubtedly the public attitude toward the railways tends to render these securities unpopular with the banks. There seems to be considerable uncertainty as to the future policy toward the railroads of the country. Unless a more liberal view is taken by the public of the entire railway problem, some observers believe that a permanent state of depression in that industry must be expected, with the possibility of ultimate Government ownership lurking in the back ground. At present the railway operations of the country are necessarily and properly direct Governmental control to a large extent. When the situation changes, and normal conditions are restored, it may become more difficult than before for the roads to maintain a proper relation between income and outgo.

Very many troublesome economic problems may be discerned on the horizon, not the least of which is the railway problem.

VARIOUS FACTORS IN THE BUSINESS SITUATION.

Shipments of anthracite coal for August amounted to 7,013,906 tons, the second time in the history of the industry when the shipments in any one month exceeded 7,000,000 tons, and within 35,041 tons of the record shipments made in June of this year. Compared with July the shipments last month show a gain of 289,744 tons and exceed the shipments of August, 1916, by 1,482,199 tons.

In August, 1917, the Comptroller of the Currency granted twenty-four National bank charters, representing an aggregate capitalization of $1,255,000, compared with sixteen charters granted in August, 1916, with aggregate capital of $995,000.

The War Revenue Bill, estimated to produce annually $2,400,000,000 of revenues, passed the Senate on September 10, and is now being considered by a committee representing the upper and lower branches of Congress. It is practically certain that the measure, substantially in its present form, will become a law within a few days.

Business failures, as reported by "Bradstreet's," were 244 for the week ended September 13, comparing with 176 the preceding week and 298 in the like week of 1916.

At the end of August unfilled orders on the books of the United States Steel Corporation were 10,407,049 tons, against 10,844,164 tons at the end of July.

In the past four months the railways of the United States have handled the greatest amount of freight in their history and in the same time have cut down the excess of unfilled car orders from 148,627 on May 1, to 31,591 on September 1, thus achieving in four months an improvement of seventy-eight per cent.

Dividend and interest payments this month will reach an estimated total of $157,165,449, which represents a new high record for September and compares with $139,976,407 for September, 1916.

Silver advanced in the New York market on September 14, to $1.00½ an once, which compares with 68¼ cents o nthe same date in 1916, and 48¾ cents two years ago.

In the week just closed a number of seasoned dividend-paying railway and industrial stocks have sold at prices in some cases below any figures reached since the panic of 1893, and in other cases below the 1907 figures.

Compared with last week the excess reserve of the New York banks has increased by $25,719,410, and loans have decreased $42,376,000. Excess reserves are $75,765,440 higher than a year ago.

Bank clearings in the United States for the current week were $5,735,009,421 compared with $5,178,513,352 the preceding week, and $5,242,866,879 the corresponding week of 1916.