

QUARTERLY FINANCIAL REVIEW

THIRD QUARTER, 1914

Closed Exchanges Unique Conditions in Finance

WITH the world's most important stock markets and many commercial exchanges closed for two months, the third quarter of 1914 is so far unique in the world's financial history. During July the markets were actually preparing for war, although they did not know it. During August the markets were enduring the war and did not know themselves. In September the markets have been finding themselves, in fact, beating the war conditions, and resuming operations. Even if twenty million soldiers are engaged in war—their occasional business—there are many hundred millions going about their usual business. Even the consumptive demand of the soldiers still exists and has to be met. In fact, it has increased. The commercial and financial world is endeavouring to perform its functions, subject to the limitations imposed by the curtailment of credit, since "scraps of paper" have depreciated. But credit does still exist and its machinery is gradually being adjusted to the new conditions. The history of the financial world's preparation for the war cannot yet be written in correct perspective. Even though the markets during July were preparing for such a contingency as developed, the steady decline in security prices was attributed to various other causes, and it was not until the end of the month that the political conditions brought about by the Balkan war, and focussed by the murder, on June 28th, of the Austrian Arch-Duke, were seen to be having such an immense financial effect.

CANADA was far removed from the scene of the diplomatic struggle to avert a general war, and there has been always a general belief that, knowing its terrible consequences, diplomacy would certainly in the end avert it. Canadian financial operations, therefore, were not inclined to give much weight to the war prospect. The commercial depression through which the world had been passing was believed to be sufficient explanation for the declining prices. It was felt that we were practically at the end of that period; at least, that prices of securities had fully discounted the known commercial factors; that even if depression continued it would mean idle funds, cheap money and consequent appreciation in prices of securities of the higher grades, as more funds sought employment. That has been the usual course of prices in times of commercial depression. Earlier in the year there had been some improvement in the markets for high-class securities and this was thought to be the beginning of the development above indicated. The unusually large crops of the United States was another factor inspiring optimism. Although Canadian-Western crops were not realizing earlier prospects, the general results of Canada's harvest promised, at least, to stay the declining tendency of trade. In the Courier's financial review of the second quarter, Sir Edmund Walker expressed the opinion that "through the debt-paying and the purchasing power given by the crops of Canada and the United States there should be a general revival in business in North America." This was an excellent summary of the general view of Canadian conditions at the opening of the third quarter. But the war introduced new conditions.

WHAT of the future? The harvests are actually producing the "debt-paying and purchasing power" referred to by Sir Edmund Walker. One authority has estimated the value of North-West crops at \$236,000,000, compared with \$216,000,000 last year. In addition, the check to industries in other parts of the world is increasing the demand for other Canadian products. While the channels of some of our trade have been blocked, other new ones are opening up rapidly. We are, in fact, in a state of transition. There is no precedent to guide as to the probable results of such a stupendous war, but there are precedents for forecasting the general result of war. The American Civil War, in its effect on conditions in North America was highly beneficial to Canada. Government expenditures for war purposes and high prices for agricultural and other products were the outstanding features then as they are in the present. The benefit of these does not yet fully appear in their financial effect, but it will be certain, and an important factor in carrying Canada through

the transition stage. The export of grain is proceeding as usual. But even in a normal year the full effect of such export does not become apparent until later on. Nor can the effect of government purchases be fully felt until payments are made.

Commercial Outlook

New Trade Channels Opened

SIR GEORGE PAISH, former editor of the Statist, is one of the highest authorities on finance in Britain, so much so, that at the opening of the war the British Government created a special office so that he might advise the Chancellor of the Exchequer on financial matters. The success of the policy of the British Government on this point testifies to the capacity of this advisor. Less than a year ago he visited Canada to investigate conditions in this country. A summary of his opinion on Canada's future was, roughly, that Canada had been well justified in borrowing as she had; that these borrowings had, in effect, furnished us with the plant and commercial machinery necessary for the full development of our rich natural resources. The commercial equipment being furnished, he looked for a very rapid development of these natural resources and thought Canada would make great strides in the next ten years. If this is a correct summary of our condition, the principal effect of the war on Canadian development will be to expedite rather than retard the development which Sir George Paish forecasts. For the war is not only calling for increased production and development of these natural resources, but it is also checking the production of competitive resources in other spheres. The high prices for agricultural products and the large demand for other materials for war purposes already mentioned will carry us through the transition period on a prosperous basis. The future, therefore, depends on the rapidity with which we can adapt ourselves to the capture of the new trade openings for us. Here is work for the Dominion Department of Trade and Commerce. We have seen campaigns conducted in favour of "Made in Canada" products. What the present situation seems to demand is that we should have campaigns in favour of "Wanted in Australia," "Wanted in Brazil," and other places. For instance, a new opening has developed in Australia for musical instruments. That is a good illustration of what can be done by the Dominion Department. Such a campaign might well follow the practical method of having a train travel through the country showing samples, etc., of the quality of goods formerly sent to these new fields now open for Canadian trade. We could even have a campaign of "Wanted in Canada," showing the classes of products we had been importing, which might well be produced at home.

Effect of Economy Great Recuperative Forces at Work

CONSIDERING the supply of available funds for investment, it must be remembered that the autumn is a time when interest and principal on many mortgages in Canada are paid with the proceeds of the crops. There seems, therefore, good probability of funds being available for loaning purposes during the fourth quarter of this year. One needs only to look about to see to what a great extent the saving habit is being developed by present conditions. It is estimated that the surplus income of Britain is sufficient to pay the cost of the war. But it is in the neutral countries, and even in Canada, that we may expect somewhat remarkable developments from this tendency. It is a maxim that more is saved during times of stress than during periods of great prosperity. An upheaval such as the present is the signal for a return to a simpler scale of living and an increased proportion of saving. It will not take a very large increase of saving per capita to make a radical increase in the amount of capital available, and the world is now engaged in saving. The population of Canada is, roughly, 8,000,000. The saving of \$2 a month or \$10 a family would represent an accumulation of \$16,000,000 in a month, or more than ample to pay the interest on

our foreign indebtedness. An English authority says that normal savings in the United States leave \$3,000,000,000 per annum available for investment. With a population of 100,000,000, extra saving of \$3 a month per individual would mean \$300,000,000 a month, and if this calculation was carried into the other neutral countries, it would be seen that twelve months can make a tremendous difference in the financial conditions, capital would accumulate with surprising rapidity. One illustration of the saving likely to be made by Canadians is in foreign travel. Canadian visitors to Florida and California in the coming winter are likely to be much less numerous than formerly, and their expenditure will be saved for use in this country.

Exchanges' Plans Devices For Operating During War

MODIFICATIONS of the law of supply and demand have been invoked and will form part of any plan adopted for reopening stock exchanges. Concentration of demand by forming powerful syndicates to take all offerings at a price, has been suggested, also limitation of supply, for instance, in New York, that foreign offerings might be excluded. Such dealings as have so far been permitted in New York, as well as in London, have been on a basis of limiting the supply, no offerings being permitted below the closing prices on the last day of the Exchanges' regular business, July 30th. Proposals for extension of business in London follow the same idea. First an open market may be permitted in the higher class investments, such as government issues, a limited supply and a class for which the best demand would be expected. Suggested plans for a general market have all included the idea that open speculative accounts should first be taken care of by some combination of capital. The first suggestions along these lines included government aid, but this idea has been eliminated, and it now seems probable that the policy of opening one section after another will most likely be adopted. Early in August the New York Stock Exchange adopted a plan permitting dealings in stocks, under limitations. Proposals were to be submitted to a committee of five. No offerings were permitted below the closing prices of July 30th, but bids were not limited to those prices; they might be higher. The reason for the offering had also to be stated, which reason was generally the necessity of the holder. In the result a good many weak accounts have been cleared up. Under the method adopted some curious episodes occurred. One day a telegram from New York reported a sale of Mackay common stock at 62. Its closing price July 30th had been 61. A broker having an order in New York to sell at 61 was naturally surprised on hearing of a sale above the price at which he was offering the stock. The explanation given him was that the committee executed the orders in the sequence in which they were received, and that the order to sell at 62 was received before his order and therefore first to be filled when a buyer appeared.

Since this plan worked satisfactorily it has been extended to listed bonds and later to unlisted bonds and stocks, and in the case of bonds some concessions in prices have been permitted, but all dealings have to be conducted through the committee.

Effect of Peace Industrial Activity Now on the Way

WHILE the immediate future of the money markets depends on the length of the war, a most important influence is: what is to be the "quality of the peace." Britain's policy wants a permanent peace. That must include a large element of disarmament. Think what that means to industry. During the last fiscal year for which figures are available the estimated expenditures of the principal nations of Europe for military purposes amount to the huge total of \$2,000,000,000. The idea that all this could be diverted to more productive uses is, of course, Utopian, but even the saving of one-quarter of it would stimulate. Add to this the sums which for some years have been carefully held in fear of this very European war. A sound peace would liberate large amounts from this source. Then turn to productive employments, one-half the stand-