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REDUCING INFLATION.

The bank statement for January shows the reduction of inflation in process following the successful flotation of the Victory Loan, as well as the marked seasonal contraction customary in the first month of the year. A certain amount of inflation inevitably arises from the granting of credits and temporary loans by the banks to the Canadian and British Governments for war purposes, and is corrected when part of these loans are repaid to the banks in the "real money" subscribed by *bona fide* investors to War Loans. The banks' holdings of Dominion and provincial securities were reduced during January by \$61,400,000, at which figure they are, however, \$63,600,000 higher than at the close of January, 1917. Allowing something for re-arrangement of provincial financing, probably at least \$50,000,000 temporary loans were repaid by the Government to the banks during January. The funds for these repayments came principally from notice deposits, which were heavily drawn on by subscribers to the War Loan who paid up in full on January 2nd, and were accordingly reduced by \$95,663,000 to \$900,314,256. To some extent, also, the funds were derived from demand deposits, which, after having been increased by over \$30,000,000 during December, probably in preparation for Victory Loan payments, declined in January by \$9,664,000 to \$559,777,237. That the proportion of the Victory Loan paid for in full at the beginning of January was a very large one, is evident from the fact that after the temporary loans from the banks had been charged off, and the month's expenditures met, the Dominion Government's month-end balance was increased by \$40,500,000 to \$106,497,043. Further temporary credits by the banks to the Government were repaid in February, and more are repayable during March, the whole, with the January repayments, aggregating \$100,000,000. So that the next two bank statements will probably show further substantial declines in the amount of Dominion securities held by the banks.

With regard to the January reduction of \$95,663,000 in notice deposits, it should be noted that at their reduced level of \$900,314,256, these deposits are over \$36,000,000 higher than at the end of January, 1916. It was only in June last that notice deposits first crossed the \$900,000,000 level, and with the large proportion of the Victory Loan, which was paid up in January, the greatest inroads

upon notice deposits are probably past. While instalment payments upon the Victory Loan go on until May, these instalment payments will be mostly made out of current savings, and it is reasonable to expect that the growth of notice deposits, with that of demand deposits, in the coming months will be at least sufficient to provide for these payments. The development of demand deposits during the last twelve months has been very marked, amounting to \$132,460,000 for the year ended last January 31st and their decline of less than \$10,000,000 in January, 1918, in spite of the Victory Loan payments, as compared with a decline of nearly \$31,000,000 in January, 1917, suggests possibilities of their further important development as a result of present active trade.

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The January decline in the banks' circulation of \$21,249,360 is a seasonal movement. There is a corresponding decline of \$21,700,000 in the banks' Central Gold Reserve deposits, a large proportion of the Dominion notes thus released being retained in the banks' own vaults. The banks' Dominion note holdings show a growth for the month of \$17,440,837, to \$184,949,958. Call loans in Canada increased during the month by \$4,460,181 to \$76,239,201, as a result, doubtless, of advances in connection with the Victory Loan, and Canadian current loans, which show only a slight decrease of just over \$3,000,000 from their December level, to \$855,500,506, doubtless include a number of loans made by various banks to members of the general public, whereby Victory Loan bonds could be paid for over a long term of months. Foreign current loans proportionately continue to make great strides, gaining \$4,639,245 during January to \$116,220,343, at which figure they are over \$30,000,000 higher than a year ago. Municipal loans are \$3,662,427 higher for the month at \$40,015,466 and over \$15,500,000 higher for the year, as a result of the municipalities' inability to borrow freely in the investment market, and the necessity imposed upon the banks of helping some of them out.

With reference to the banks' reserve position, against circulation and deposits of all kinds, immediately available reserves of specie and Dominion note holdings, deposits in the Central Gold Reserve and to secure the note issues, bank balances abroad and foreign call loans were in a proportion at the end of January of 28.0 per cent. The end of December proportion was 27.4 per cent.