Will Bank Assets this Fall Reach the $2,500,000,000 Mark?

By H. M. P. ECKARDT.

Bankers in Canada were doubtless relieved to find that the growth of their total assets proceeded at a slower pace during the first half of 1918. The experience of the banks during the later stages of the war has been that a very rapid rise in total resources is usually accompanied by a large increase of the bank holdings of Government securities. This did not apply, to the same extent, earlier in the war — for while we were able to place large blocks of Dominion bonds or other Canadian securities in the United States, our banks then were able on occasions to show heavy gains in resources without a corresponding increase in security holdings. Proceeds of the foreign loans were delivered to the Canadian bank agencies in New York; and the increase of assets temporarily took the form of bank balances and call loans carried at the big American centre. Growth of resources in these forms strengthens the banks more than increase of resources in the form of bonds which are not immediately realizable.

It will be interesting to review the annual increases of resources since 1914 and to discuss the connection thereof with the increase of security holdings. In 1915 the total assets of the banks rose from $1,555,000,000 to $1,738,000,000—a gain of $183,000,000. There was no large increase of the banks' security holdings in that city—the total of bonds, etc., on December 31, 1915, being $122,000,000, as against $105,000,000 at the end of the preceding year. This increase of $17,000,000 would not contribute importantly to swell the bank assets. However, there was a Dominion loan of $45,000,000 placed in New York on August 1, and this contributed towards the increase, as did also the increase of $16,000,000 in Canadian call loans. A very large share of the 1915 increase of resources is attributable to the great wheat crop of 340,000,000 bushels harvested in Western Canada. In financing that crop the banks were very actively engaged not only in the latter part of 1915, but also throughout the spring and summer of 1916. It certainly had a pronounced effect upon the deposits of the Western branches.

1916.

In 1916 the increase of resources was $210,000,000 —the total rising from $1,738,000,000 to $1,948,000,000 —and we find $140,000,000, or two-thirds of the whole, represented by increase of security holdings. Securities rose from $122,000,000 to $262,000,000, chiefly as a result of the large advances to the Imperial Munitions Board which commenced on April 1, 1916. Then, on April 1, the Bank of Montreal in New York received the proceeds of the Dominion loan of $75,000,000, in 5, 10, and 15 year bonds, placed in the United States at that time. There were also further large gains in deposits arising from the crop of 1915. The railways were busy, right up to the end of August, in hauling out the remainder of this great crop, and the farmers, merchants and other customers of the Western branches were continually depositing large sums. In 1915 and 1916, the savings deposits of the banks were largely increased by the accumulations of the men and women workers in munition and other factories, many of whom received high wages.

1917.

The 1917 expansion of the banks proved to be a record-breaker. Total assets rose from $1,948,000,000 to $2,323,000,000 — the increase being no less than $375,000,000, a sum nearly equal to the combined increase of the two preceding years. Again a large part of it is represented by increase of security holdings. These rose from $262,000,000 to $468,000,000 — an increase of $206,000,000. The banks last year made large advances to the Dominion Government throughout the summer and early fall, in anticipation of the flotation of the Victory Loan. They also advanced further bills. In this year the Dominion Government placed a loan of $100,000,000 in 2 year 5 per cents in the New York market — $20,000,000 of the proceeds being applied to redeem a maturing Dominion issue.

It should be mentioned that with the great revival of Canadian industry in 1916, the home mercantile loans and discounts of the banks began to expand. Up to the end of 1915 these had remained at a comparatively low level — the balance on December 31, 1915, being $775,000,000, as against $840,000,000 on July 31, 1914. In 1916 there was an increase of $45,000,000 and this was followed by a further increase of $38,000,000 in 1917, at the end of which year the total stood at $858,000,000. Bank assets were swollen, also, in 1917 by the rediscounting of Treasury bills resorted to by them in the last four months of the year. The banks pledged approved securities with the Dominion Treasury and received special loans in the form of newly issued Dominion notes based on the pledged securities. Thus, on December 31, 1916, the grand total of Dominion notes held directly by the banks and indirectly in the central gold reserves, was $156,000,000; and on December 31, 1917, this aggregate had risen to $245,000,000—an increase of $89,000,000.

1918.

Compared with the large increases shown in preceding years that for the first half of 1918 looks small. Total assets during the six months rose from $2,323,000,000 to $2,349,000,000—the increase being but $26,000,000. In this period the holdings of securities decreased from $468,000,000 to $424,000,000. This decrease was a result of the repayment of temporary loans by the Dominion Government in January, out of the proceeds of the Victory Loan. Then it is to be remembered that the total of deposits was substantially cut down in January by the $95,000,000 reduction of notice deposits in that month, supposedly caused by withdrawals for investment in the war bonds. Since January, however, there has been a steady increase of deposits and resources. Total assets on June 30, were $112,000,000 greater than at the end of January.

It is, perhaps, to be expected that the second half of 1918 will witness some further increases of the footings of the bank returns. In July the banks commenced to make fresh temporary loans to the Finance Minister, in anticipation of the flotation this fall of the second Victory Loan. It is believed that the monthly credit thus accorded will probably average something like $35,000,000, and that the credits will run from July to October, both inclusive. If that is the arrangement, on completion of the same the banks will have provided a further amount of $150,000,000 or thereabouts for the war purposes of the Government. Unless they effect in these months a reduction in their holdings of other securities, each new credit will swell the aggregate of their bonds, etc., and presumably the total resources will rise. The mercantile community was closely interested in the recent circular on conservation of banking credits, issued by the president of the Bankers' Association. In issuing that circular the bankers evidently had in view the impending loans to the Finance Minister, and it is expected that some reduction of mercantile loans and discounts may occur. That might be effected without causing damage to the country's business system. Among the new mercantile loans making up the loan increase of $42,000,000 between January 31, 1918, and June 30, there would probably be many of large amounts in case of which the money would be wanted for a short time only. By allowing these loans to run off in the ordinary course a reduction of the grand total might be effected. Any reduction of current loans and discounts would, of course, offset to that extent the increase of assets arising out of the new securities acquired. It is to be remembered also that the crop movement in the fall almost invariably produces a substantial expansion of bank figures. Considering all these points it is yet an open question whether the bank assets this fall will reach the $2,500,000,000 mark.

Operating Costs High

How Sir Henry Drayton justifies the increased freight rates

The order of the Dominion Railway Board, based upon the Order-in-Council authorizing the increase in railway freight rates to meet the increased costs of operations due to the adoption of the McAdoo award, was issued to-day. The order which was written by Sir Henry Drayton, Chairman of the Board, contains the following statements in justification for the increased rates.

"The estimates of the increased costs filed by the Canadian Railway War Board, show a total increased cost of $50,616,226, in addition to which there are further claims to be settled by the McAdoo award, which, if settled adversely to the companies, might call for an additional sum of $19,930,000, making a possible outlay of $70,546,260.

"The McAdoo award is popularly supposed to increase rates twenty-five per cent. In some instances, not amounting, however, to a great volume, the McAdoo award exceeds this percentage. In a larger number of instances, owing to maximum advance limitations and to a flat rate increase, which, while advancing in a higher percentage the rate for the shorter mileage, hold down all longer movements, the increase of twenty-five per cent is not obtained.

1917 FREIGHT EARNINGS.

"The railway statistics for 1917 show the total freight earnings of all systems in Canada as amounting to $215,245,256. This total amount includes railways which are now under the jurisdiction of Parliament and whose increases are not mirrored in the company's estimates. The difference, however, would not be very great.

"Assuming, however, that the whole amount represented earnings of companies under the jurisdiction of Parliament, and assuming further that the increases under the McAdoo scale would net on the gross, the whole twenty-five per cent, which they will not, the total amount of the resultant increases under the McAdoo award would be $53,811,314. These figures, however, cannot be accepted. On the one hand the freight earnings in 1917 were very large — the volume may not prove representative—but on the other hand as rates have already been increased, the resultant gross revenues may well be much larger. As the board has not had the time necessary to compile statistics based on the newer rates, the American increases which were arrived at as necessary in American territory after much investigation are treated as those necessary, subject to the recommendation hereinafter made for rate reduction.

WAR HITS CANADA'S ROADS HARDER.

"It is difficult accurately to forecast the increased gross earnings that the rate increases will give. It is much more difficult to arrive with any degree of accuracy at the result of the net. Traffic conditions and operating expenses constantly change. The authorities of the United States have gone into all the circumstances requiring, and the added expenses necessitating, a rate increase with much care. As a result of this study, in the opinion of those authorities, the so-called 25 per cent increase was necessary.

"Increased costs and war conditions bear even more hardly upon railway conditions in Canada than in the United States. The Canadian railways themselves are large contributors to increased United States freight charges. Railway coal for Quebec, Ontario, and a considerable portion of the Western prairies is imported from the coal mines of the United States and subject to long hauls by the American carrier.

"The Grand Trunk Railway Company estimates that the additional amount its coal for the year will cost, owing to the increase of freight rates alone in United States territory, is approximately $800,000; the Canadian Pacific $900,000, and the Canadian Northern $450,000.

"A large percentage of other raw materials required by the railways in their operation are also imported from the United States. The Canadian railways not only pay the ordinary duty, but also a special war tax on their coal.

NO PASSENGER INCREASES.

"It is also clear that the increases authorized by the McAdoo order to the extent adapted by Order-in-Council will not give the Canadian railways the increases the United States lines receive under it. No increases are allowed on Canadian lines on passenger, sleeping or parlor car tariffs.

"It is also true that the increases on a large volume of the traffic will fall a considerable degree short of the 25 per cent increase popularly connected with the McAdoo order, owing to the maximum limitation the order creates and the flat increases in other cases allowed.

"The Order-in-Council was not passed for the purpose of increasing company profits over those of previous years, but for the purpose of meeting the advanced costs of transportation, or preventing strikes, and the collapse of the country's transportation.

"The Railway Executives, while stating that the increases allowed will enable transportation to continue in efficiency, claim that such increases will not be sufficient to cover the whole increased cost of operation. Whether this will or will not be the case is largely a matter of speculation."