The Chronicle

Banking, Insurance and Finance

ESTABLISHED JANUARY, 1881 PUBLISHED EVERY FRIDAY

Vol. XXXX. No. 48 MONTREAL, DECEMBER 10th, 1920 Single Copy 20c Annual Subscription $3.00

THE GENERAL FINANCIAL SITUATION

Trade conditions generally show little change from those prevailing in recent weeks. Retailers are getting the advantage of holiday trade, which is now beginning in real earnest, and are doubtless doing their level best in this season to move stocks, which otherwise it may be exceedingly difficult to turn into cash, even at heavy sacrifices. Apart from the holiday trade, however, there are no indications of a change in the public's attitude, which continues to be one of waiting in the expectation of a generally lower level of prices. Trade reports indicate that dullness in business is general in both eastern and western Canada, and that collections require pressure, although by all accounts, conditions in this respect in the province of Quebec are better than elsewhere.

With the approach of the close of the year, many manufacturing and commercial concerns are faced with the problem of inventories. This matter of inventories is undoubtedly an extremely serious one at the present time. Not only are the inventories of many concerns anywhere from 50 to 100 per cent. larger that at this time last year, as a result of the falling off in trade during recent months, but the market value of those inventories is very considerably less in many instances than cost, owing to the decline in commodity prices, and exceedingly heavy inventory losses will have to be taken. Obviously, under present circumstances, where the practice in the past has been to take inventories at cost, to follow that practice this year, without regard to the decline in prices which has taken place, would give a totally false impression of the year's profits. At present, the correct course in the matter of inventories would appear to be cost or market, whichever is the lower, although we have heard the objection raised to this course that in the case of smaller firms who have been badly hit, the adoption of it might result in their being wiped out and that some temporising measure is necessary. Doubtless the banks will be giving very careful attention to this matter of inventories in the year end statements of their customers presented to them. Those are fortunate who were far seeing and wise enough to make some provision by way of reserves whether inventory reserves or otherwise, for such events as have now taken place. In the case of the large and well established corporations, this has no doubt been generally done, and their inventory losses, although possibly serious will not be fatal. But in the case of the smaller fry of business concerns, it appears quite possible that the early months of 1921 may see a very considerable mortality.

In view of the removal of the control of Victory Bonds, and their restoration to a condition where their price is subject to the normal operation of the law of supply and demand, it may be useful to summarize some of the factors governing their future. As regards the immediate future, there are the following considerations to be borne in mind. It will probably take some time for the market to "settle down," and there are some probabilities that selling by "distressed" holders, which appears to have been a considerable factor in the decision to decontrol, has not come to an end. While the attractive prices at which the bonds are now ruling will, no doubt, ensure a heavy investment demand, the purchasing power of wealthy individual investors, who otherwise might be expected to be free buyers, particularly of the longer tax free maturities, is likely to be considerably hampered in the next four months both by reason of losses lately sustained and commitments which it is necessary to nurse along, and also by reason of the necessity of meeting two Income Tax payments—no small burden—in the course of the next four months. There are also two unknown factors which have some bearing on the immediate future of the market for these bonds. The first is the effect which the cessation of the arrangement for prohibiting the import of overseas securities is likely to have. If, on the removal of these restrictions, a considerable volume of high class Canadian securities begins to return from overseas, quite an important effect upon the Victory Bond market may be shown. The second