

# Canada's Financial Situation

As disclosed by the Addresses of the President and General Manager of the Canadian Bank of Commerce at the Annual Meeting of that Bank.

Sir Edmund Walker, President of The Canadian Bank of Commerce, speaking at the annual meeting of his bank, thus reviews the changes brought about by the war in Canada's trade position.

## President's Address.

When in 1913 we came to the end of a period of expansion we found ourselves like a healthy but overgrown youth, still dependent upon the mother. We had to sell over 400 millions of securities in order to settle our foreign debit balance for the Dominion fiscal year ending March 31st, 1913. During the year ending March, 1914, the difference between our exports and imports decreased by 130 millions, but still left over 300 millions to be provided by the sale of securities in a market very much more difficult than that of the year before. More than one-half of the year ending March, 1915, was affected by the war, and the situation was still further improved to the extent of over 144 millions. For the six months ending September, 1915, there is a further improvement of 80 millions as compared with the previous year, but this same half year, when compared with the corresponding period in 1914, shows an improvement of 109 millions. For reasons explained a year ago, coin and bullion are left out of our totals.

## International Position.

The following figures will illustrate the astonishing change in our international position:—

|                | Imports       | Exports       | Excess Imports | Excess Exports |
|----------------|---------------|---------------|----------------|----------------|
| 1913 .....     | \$686,515,536 | \$377,068,355 | \$309,447,181  | .....          |
| 1914 .....     | 635,383,222   | 455,437,224   | 179,945,998    | .....          |
| 1915 .....     | 497,376,961   | 461,442,509   | 35,934,452     | .....          |
| 6 months ..... | 228,335,678   | 273,377,082   | .....          | \$45,041,404   |

In order to estimate our true position, we must add to the excess of imports the interest due upon Canadian securities held abroad, now estimated at about 140 to 150 millions, and we may count upon any excess of exports as available to pay this interest. During the last half of the present Dominion fiscal year the effect of the export of our great crops, of our manufactured munitions, prepared foodstuffs, cattle, horses, etc., will be felt, and the excess of exports by 31st March, 1916, should be about equal to our interest charges payable abroad.

In 1913 we knew that we had used our credit to the available limit, but we hoped gradually to move into safer conditions. If anyone had suggested that we could so adjust matters within three years as to have a credit balance in our foreign trade, instead of a debit, and that this credit balance would be large enough to offset our interest payable abroad, our answer would have been that it was folly to indulge such hopes.

This demonstration of what we can accomplish under pressure has, of course, greatly strengthened the credit of Canada, so that, while, for obvious reasons, we cannot at the moment sell securities in Great Britain or in Europe, we are building up a market for them in the United States which, when we consider the enormous increase in wealth taking place in that country at the moment, we may well hope is not of a temporary character.

In Canada the building of almost all private or public works, causing a lock-up of capital, has stopped for the moment; individuals are buying less extravagantly, even if there is not sufficient effort to economize; everybody who has not enlisted can find work to do; and for a very large part of our national production, from the farm to the machine-shop, there is a persistent demand by the Allies. All this tends to produce a condition of prosperity, with ease in the money market, and if, like the United States, we were a neutral country instead of one engaged in the war, our national wealth would be increasing at a pace undreamed of in our past history.

We are proud, however, that we are not among the neutrals, but among those who are fighting for the liberty of the world, and for this, in addition to the loss of life which our honor roll represents, we ourselves must bear now and must ask our children to bear, a great cost in money.

A year ago everybody in Canada was urged to put into his particular effort in life an energy and seriousness of purpose adequate to the needs of the great war. If we cannot fight we should help in the countless other ways that are open to us. Nature smiled on our efforts, and we have been blessed with the greatest crops ever known in any new country. This has silenced the pessimists, and our great West is more sure of its future than ever. Indeed, for loftier reasons all Canada feels much more sure of its future than it has ever done before. That overgrown youth, leaning upon his mother, has suddenly found himself, and to the call to play the man has responded so well that his place among the younger nations and his influence in the greatest empire in the world are assured. The war, however, is still at its height, and there is little sign of such an end as we must attain if we are to follow our natural course in peace. We cannot afford to relax our energies for a moment;

such efforts as we made in 1915 should be increased in 1916, and the need for personal and public economy is not lessened a particle by the prosperity incidental to the war. I notice that when some citizen takes the trouble to indicate particular forms of economy he is met with criticism. Of course, economy for one man would be a great indulgence for another, and each must settle for himself the scale on which he can lessen his expenditure. We are exceedingly fortunate that such an income tax as that in Great Britain does not settle the question most drastically for each of us. It must be clear that every time we buy something outside of Canada we weaken our national finances, unless our purchases consist of material which will in some form or other be exported again. This does not mean that we can avoid making large purchases abroad, but that we can avoid unnecessary purchases. It must also be clear that when any man avoids expenditure which it would be quite natural to make in times of peace, he can invest the amount saved in war loans, and every dollar saved and thus invested is a blow struck on behalf of the Allies. So well is this need for personal economy understood in England that some of the great banks who have not heretofore had savings departments like those in Canadian banks have now established them.

## Clearing House Returns.

The contraction in ordinary business, which began in 1913 and was greatly increased by the war, is most forcibly illustrated by the figures of the building permits in our four principal cities. For the last four years they are as follows:

|                 | 1912         | 1913         | 1914         | 1915        |
|-----------------|--------------|--------------|--------------|-------------|
| Montreal .....  | \$19,642,000 | \$27,032,000 | \$17,619,000 | \$7,495,000 |
| Toronto .....   | 27,401,000   | 27,038,000   | 20,672,000   | 6,651,000   |
| Vancouver ..... | 19,388,000   | 10,423,000   | 4,484,000    | 1,593,000   |
| Winnipeg .....  | 20,475,000   | 18,621,000   | 12,160,000   | 1,826,000   |

A drop from \$87,000,000 to \$17,500,000 in three years is so great as to affect severely almost every branch of trade, particularly those directly connected with building, but it is a matter for congratulation that we have been able to withstand this sharp re-adjustment and

still maintain our prosperity, the very thing we feared we might not be able to do with credit to ourselves.

## General Manager's Address.

The shareholders of the bank were also addressed by the new general manager, Mr. John Aird. His remarks dealt principally with the business of the bank during the year.

The statement presented to you to-day is a striking illustration of our policy during the year. The net profits amounted to \$2,352,035, or 8.25 per cent., upon the moneys which belong to the shareholders of the Bank, that is, upon the total of the paid-up Capital and Rest. We have, as usual, appropriated \$80,000 for the Officers' Pension Fund, and after paying the war tax of 1 per cent upon our note circulation, amounting to \$122,906, subscribing \$5,000 to the British Red Cross Fund and reserving as a special appropriation the sum of \$1,000,000 against possible further depreciation in the values of the stocks, bonds and similar securities owned by the Bank, we have been able to carry forward \$461,892 at the credit of Profit and Loss Account.

## An Additional Precaution.

It is the time-honored custom and wise precaution of every general manager of a Canadian bank upon first assuming the responsibilities of his position to assure himself that each individual asset of his bank represents the value assigned to it in its books and published statements. Upon undertaking this important duty, I found that the conditions brought into being by the war, and particularly the restrictions placed upon the leading security markets of the world, had made the task one of unusual difficulty. The hazards of war have not only seriously lowered the prices of all securities, but they have introduced an element of doubt into existing values which it is difficult to allow for in dollars and cents. As a matter of additional precaution, therefore, we have taken the step of reserving out of Profit and Loss Account, as a special provision against these contingencies, the sum of \$1,000,000. After the war has been successfully prosecuted to a close, it is probable that some, if not all, of this amount will come back sooner or later into profits.

## No Unnecessary Expenditures.

The note circulation stands in the balance sheet at \$16,397,907, an increase of \$1,455,350 as compared with the figures of a year ago, and only a few thousand dollars short of the record figures of 1912. This is due to the demands made upon us for moving the large grain crops of the country.

The deposits of the bank show a satisfactory increase, distributed under every heading, the total increase being slightly over \$13,000,000. Bills payable again show a considerable decrease, the figures being \$1,501,442 as against \$3,924,151 a year ago, or a decrease of \$2,422,708, due largely to the effect of the war upon our foreign exchange business and to the unsatisfactory conditions which have prevailed in the exchange markets during the year.

In view of the general situation we have thought it prudent to keep strong in cash reserves, particularly in gold, the medium for the settlement of international obligations, and that it might be the more readily available for such purposes we have carried an unusually large proportion of our holdings at points outside of Canada. Our total holdings of coin and legals are \$39,901,993. If to

this amount we add the balances due us by other banks and correspondents, our holdings of government and municipal bonds and stocks, and call and short loans, our liquid assets amount to \$101,173,357, or 47.62 per cent of our liabilities to the public.

## Current Loans Increase.

Total Current Loans show an increase of \$2,037,254, more than accounted for by an increase of \$3,704,464 in Call and Short Loans due to the policy of keeping our assets in the most liquid shape possible during the unstable conditions which are the outcome of the war. The fact that our loans show an increase despite the shrinkage which has taken place in general business, bears witness to our earnest efforts to assist the business community to the utmost of our ability consistent with prudence, and should be sufficient answer to those persons who assert in the press and on the public platform that the banks have failed to provide the necessary financial assistance for the commerce of the country. There are some who go further, and by quoting the figures of Canadian bank deposits without setting alongside these figures those of the loans, mislead the public and cause them to look upon the banks as enemies to the public welfare. To all such, I say, the figures of our balance sheet are sufficient answer. There has been a reduction of \$7,935,233, or over 37 per cent, in the total of securities held, occurring principally in those classed as railway and other bonds, debentures and stocks. In view of the extent to which we have been, and are still likely to be, called upon to assist in the various measures taken to finance the war, it seemed wise to take every reasonable opportunity of realizing upon our holdings of securities. Total assets show an increase of \$5,057,441, which may be considered very satisfactory growth under the conditions which have prevailed.

## Turnovers of \$15,000,000,000

Our records show that on the average we handle every dollar of our assets over 60 times a year, so that the figures at which they stand indicate a turnover of 15 billions of dollars during the year. In return for the immense labor and heavy responsibility involved in handling this huge sum, we have earned slightly more than one-and-a-half cents on every hundred dollars.

As indicated in our remarks on the figures of the balance sheet, we have joined with the other banks in subscribing for our proportion of the \$25,000,000 of the Canadian 5 per cent War Loan, taken by the banks in order to ensure the success of the issue. The exact amount of our subscription was \$3,426,000, and in this connection I am sure that the success of our able Finance Minister, Sir Thomas White, in obtaining through this domestic loan the sum of \$100,000,000, or twice the sum asked for, must be a source of pride to every Canadian. The loan marks a notable turning-point in the economic history of Canada.

In addition, this Bank has participated in the various British war loans and other measures adopted to finance the war, and has subscribed \$250,000 to the French 5 per cent War Loan just floated. We also placed at the disposal of our Italian Allies the facilities of this Bank and its branches for the purpose of accepting any subscriptions which Italian residents in Canada might desire to make to the 5 per cent War Loan of their native country. Nor do these various contributions constitute the whole of our share of the financial burden of the war. Of the special taxation imposed by the Dominion Government as a result of the war, our share has so far amounted to over \$160,000, apart altogether from additional real estate and other taxes imposed for the same purpose, the amount of which is not readily arrived at.

## The Bank's Taxation.

There is an impression abroad which appears to exist even among many who should be better informed, that the banks do not bear their just share of taxation. During the year we paid in taxes, Dominion, Provincial and Municipal, over 27 per cent of our net profits, or, to make the statement in more concrete form, inclusive of the special war taxes, we paid no less than six hundred and fifty thousand dollars in taxes. These figures surely show that this Bank bears at least its fair share of taxation; probably there are not many other businesses in which the proportion of taxes to net income is so high.