

irregular recovery in the prices of these bonds, and by the end of April the yield was back down to 3.25 per cent. Since that time there has been a small decline in price, and yields during the first half of June have been in the neighbourhood of 3½ per cent. Canadian stock prices declined moderately in the weeks preceding the outbreak of war. After the war began industrial share prices rose sharply, particularly those of pulp and paper companies. Golds and utility stocks also began to rise before the end of September, and there was a general but mild upward movement till the end of the year. During the first four months of 1940 all groups except the paper stocks suffered a small and gradual decline. In May, however, there was general and severe liquidation which carried most groups to levels lower than any in recent years.

During the first five months of the fiscal year 1939-40 monetary and banking conditions remained stable. Cash reserves of the Chartered Banks increased slightly from \$257 millions in March to \$261 millions in August, while Canadian deposits of the banks increased in proportion. During the three months after the outbreak of war the Bank of Canada added substantially to its security holdings which increased from about \$163 millions in August to \$248 millions in November. This provided cash to meet the enlarged public demands for currency and to increase the cash reserves of the Chartered Banks from an average of \$261 millions in August to an average of \$294 millions in November. With this increase in their reserves the Chartered Banks were enabled to increase their Canadian deposits from \$2,565,000,000 at the end of August to an all time record figure of \$2,871,000,000 at the end of November. In these three months the security holdings of the Chartered Banks rose by \$158 millions, and their current loans to the public by \$147 millions. From November until April the Bank of Canada gradually reduced its security holdings from \$248 millions to \$206 millions. The

cash reserves of the Chartered Banks have fallen in the same period from \$294 millions to \$271 millions. Total Canadian deposits of the Chartered Banks have been reduced less than in proportion and at the end of April amounted to about \$2,753,000,000. This has involved a reduction of the security holdings of the Chartered Banks of about \$73 millions, which is a little less than half their increase last fall.

Total net Government and corporate bond issues in 1939, as reported by the Bank of Canada, amounted to about \$237 millions, exclusive of municipal issues. This compares with \$174 millions, \$56 millions and \$106 millions in the preceding three years. The \$237 millions included net Dominion direct and guaranteed and other C.N.R. issues amounting to \$177 millions, Provincial issues amounting to \$79 millions and net retirements of corporation issues of \$20 millions. In the first quarter of 1940 there have been net Dominion and C.N.R. issues of about \$168 millions and net Provincial issues of about \$40 millions.

On April 30, 1940, an order in council was passed requiring all Canadian residents to sell their holdings of foreign exchange (but not of foreign securities) to the Foreign Exchange Control Board before May 31. Some exemptions were made for those requiring a certain amount of foreign exchange to carry on their normal business. As part of this mobilization of foreign exchange resources the gold and most of the foreign exchange reserves of the Bank of Canada were transferred to the board. In order to provide the board with the funds to purchase this gold and foreign exchange, the Exchange Fund was increased by \$325,000,000, which was raised by the sale to the Bank of Canada of that amount of short-term Dominion securities. As a consequence of these operations the statements of the Bank of Canada since May 1 show no figures for gold coin and bullion, and much larger figures for investments. The value of gold held by the Bank on April 30 was \$225,772,887.41.

FINANCIAL FACTORS

	Fiscal Years ended March 31							Mar.-Apr. Av.	
	1927	1929	1933	1937	1938	1939	1940	1939	1940
<i>Security Prices and Yields</i>									
Indexes of Common Stock Prices (1926=100)									
General Index.....	101.8	173.3	52.1	125.5	117.6	103.8	99.4	99.9	98.0
Industrials.....	102.4	222.2	60.1	207.6	192.2	171.8	163.0	164.5	157.0
Gold Mines.....	—	94.1	59.0	132.0	112.7	118.8	107.9	114.1	96.1
Dominion Bonds—Average Yields (%).....	4.82	4.64	4.90	3.29	3.32	3.09	3.26	3.03	3.30
Dominion Treasury Bills—Average Yield (%).....	—	—	—	.778	.739	.601	.702	.650	.745