The Chronicle

Banking, Insurance & Finance.

ESTABLISHED JANUARY, 1881 PUBLISHED EVERY FRIDAY

Vol. XXXIV. No. 29 MONTREAL, JULY 17, 1914. Single Copy 10c Annual Subscription $3.00

THE BANKS' CANADIAN LOANS.

Those who have followed closely the development of events in Canada during the last year or eighteen months are well aware that the comparative stability which has prevailed here during a particularly trying and anxious period has been largely due to the long-sighted policy of the banks. Months before some of our outside critics had made the startling discovery that Canada was on the road to ruin, the bankers, studying the trend of world-wide developments, had foreseen the probability of the present stringency, had noted the development of weak spots in the fabric of Canadian credit and had begun to take measures accordingly. The speculator found his credit withdrawn; municipalities were urged to wipe out their special loans by the flotation of their bonds, all round there was a general tightening up. The task that was in fact undertaken was the gradual readjustment of affairs to a new set of conditions. The re-adjustment is still in progress, but so far it may be said that it has been performed in a way which is highly creditable to those concerned, and that by the manner in which it has been carried out, a distinct service to the Dominion has been rendered. Those foreign critics who were anticipating a year ago a panic on the grand scale in Canada, have been thus far disappointed and there is no present reason for thinking that their at one time confident expectations are likely to be realised in the near future.

Loans and Deposits

However, one effect of the banks' policy has been to widen somewhat the margin between the total of the banks' Canadian loans and that of their Canadian deposits. At May 31, 1913, the Canadian deposits of the banks were as follows:—Dominion government, $9,177,632; provincial governments, $30,582,146; demand deposits, $364,159,642; notice deposits, $630,755,603, a total of $1,034,675,023. At the same date the total of the banks' loans in Canada was $981,691,741, made up of the following items:—Loans to provincial governments, $3,739,690; call and short loans on stocks and bonds, $69,982,540; current loans, $898,959,650. Additionally, the banks at that date held Dominion and provincial securities totalling $9,009,861, and Canadian municipal and other securities—home and foreign—of above $90,000,000. A very moderate allowance for the purely Canadian securities comprised in the latter total would be $25,000,000—in all probability, they were much more. However, making this exceedingly modest estimate, there was left as a cash reserve a $19,000,000 balance of the banks' Canadian deposits over their Canadian loans and investments in Canadian securities.

Gain in Eleven Months

Eleven months later, at April 30 last the Canadian deposits of the banks showed a slight gain as follows:—Dominion government, $7,790,021; provincial governments, $31,016,118; demand deposits, $350,515,993; notice deposits, $653,679,223, a total of $1,043,001,385. Canadian loans at the same date were $938,607,777 as follows: Loans to provincial governments, $4,210,127; call and short loans on stocks and bonds, $68,523,774; current loans, $835,705,064; loans to municipalities, $30,168,812, a total of $938,607,777. The banks' holdings of Dominion and provincial governments' securities were $12,006,598, and of other securities $89,631,684. Taking again $25,000,000 as a moderate allowance for the purely Canadian securities comprised in the last total, the banks' cash reserve of their Canadian deposits over their Canadian loans and investments in Canadian securities at April 30 last was about $68,000,000, as against $19,000,000 at May 31, 1913.

Lessened Earning Power

In connection with this widening of the margin between the banks' Canadian deposits and Canadian loans, the point must be remembered that it is not to the advantage of the banks from the earnings point of view that this should take place. The policy is merely pursued in the interests of the country as a whole and of the solidity of the respective institutions. While the banks recently have been restricting their Canadian loans, they have at the same time been building up a strong position in cash and investments which are equivalent to cash, so that at the present time in fact their reserve position is much stronger than usual. But cash holdings and the reserve investments equivalent to cash have not a large earning power; it is merely the necessity of placing safety before large returns—the necessity of conducting their business on conservative lines—that impels the bankers to this course of action.

Of course, there will always be those who know better than the bankers themselves how to run the banks. But the sober common-sense of the country will be content to leave this matter of policy in the hands of men whose life has been devoted to the study of the problems with which they have to deal, and who have more to lose than anyone else by following a rash or indiscreet course of action. There is not the slightest doubt that the far-sighted and prudent course pursued recently by the Canadian banks, has done much to preserve the equilibrium of Canadian finances and to encourage the continued confidence of investors abroad, while at the same time it will expedite the time of recovery to activity.