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THE GENERAL FINANCIAL SITUATION.

Something more than mere generalisation regarding thrift is necessary to account for the recent marked rise in the notice deposits of the banks. An advance in these deposits in May of practically $28,000,000 has been followed by a further rise in the month of June, to the new record level of $1,139,569,570, a growth during the month of no less than $31,586,498, and for the year of $182,-635,014. While doubtless considerable saving is going on among the mass of the population in spite of the high cost of living, it is abundantly clear that real saving plays only a comparatively minor part in these spectacular movements. The fact that coincidently with these rises in notice deposits, the banks' current loans in Canada have decreased heavily should not be overlooked. The May decrease in these loans amount to $36,538,837; in June there was a further decrease of $27,734,-754. The link between notice deposits and current loans is to be found primarily in our export trade. Since the opening of St. Lawrence navigation at the end of April, exports of all kinds, particularly foodstuffs have been moving forward very freely. These goods and commodities, carried on bank loans during the winter months have been turned into cash. The bank loans have been cleared off, and pending their employment in new commercial or industrial ventures, the funds received in payment for them, are being allowed to accumulate in the banks.

A subsidiary link between this decrease in loans and increase in notice deposits, and an important explanation of the rise in notice deposits, is to be found in the fact, that while trade generally in Canada is very good, in certain lines, notably the metal trades, there is practically nothing doing. Resources, very large resources, which were most actively employed in these trades during the war, are now idle, with the consequent result again of a decrease in bank loans, and an accumulatiton of idle Funds in the banks. In our opinion, these two facts, the liquidation of exports and the accumulation of idle resources due to the falling away of certain lines of trade, account largely for the recent pronounced rise in notice deposits. A minor but considerable influence upon these deposits is also apt to be overlooked—demobilisation of the Canadian army. With the home coming of the troops, sums which in the aggregate must reach a very large amount have been distributed to them in deferred pay and gratuities, and the deposit of these Funds in the banks by individual soldiers has been undoubtedly a factor in swelling notice deposits.

It needs to be borne in mind that rapidly increasing bank deposits are not, per se, necessarily an indication of prosperity. The essence of prosperity is that all available resources should be actively and profitably employed, and bank deposits may, and frequently do, increase rapidly in a period when this is not the case,—in a period of steadily declining trade and activity. There are some reasons to believe, as has been show above that the present rapid increase in the notice deposits of the Canadian banks, is in part at least due, to trade inactivity. So far as the general structure of Canadian trade and industry is concerned, there is, of course, not the least doubt of its continued activity for some time to come. But the liability of the uninitiated in economic affairs, including many business men, to draw wrong conclusions from given premises, justifies at the present time, a warning on this point.

The greedy fashion in which advancing expenses eat up increases in gross earnings is strikingly shown in the half-yearly earnings statement of C. P. R. While the premier Canadian Railway organization shows record gross earnings for the half-year ended with June, it also shows a record expense ratio of approximatively 85.4 per cent compared with under 65 per cent in the corresponding half-year of 1915. To put the case even more strikingly, gross earnings in the first half of 1919, were $76,722,-266; in the first half 1910, they were $45,063,976. But to such an extent have expenses increased that net earnings in 1919 were actually lower than in 1910—$12,186,478 against $13,770,080, and of course, much lower than in any intervening year. The prospects of relief of railways shareholders from this state of affairs do not appear to be rosy. There

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