

Monetary Times

Trade Review and Insurance Chronicle
of Canada

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BANK PROFITS IN 1918

Thus far in 1918 half a dozen banking institutions have issued their reports. These reports exhibit the same general tendencies—deposits and holdings of securities tending rather sharply upwards, with net profits showing a relatively smaller increase. Some of the banks also show substantial appropriations from current profits, subsequent to their declaration, to cover depreciation of bonds and debentures. It is well known that since the commencement of the war, and especially since April, 1917, when the United States entered the struggle, rates of interest on high-class securities have been rising more or less steadily. This is reflected in the yields obtained by investors in the successive issues of provincial and municipal bonds. Every rise of $\frac{1}{4}$ or $\frac{1}{2}$ per cent. in the interest yield offered to investors has meant a corresponding decline in the actual market value of the investment securities held by the banks; and the bankers have been obliged to recognize and provide for the resultant depreciation. The amounts written off need not be considered as irretrievably lost. If the bank sells the securities while prices are depressed the paper losses become actual losses; but if, in the course of a few years, the general interest rate should fall, it is probable that a part, perhaps a substantial part, of the amounts now being appropriated would be recovered.

One reason why the increase of profits has not kept pace with the growth of resources is seen in the rising costs of operation. In this respect the banks have been subject to the same influences as have affected other corporations and businesses. It has been necessary to recognize the increased cost of living and to grant larger salaries and bonuses to bank employees. There is, of course, at all times a more or less steady succession of increases given to the individual employee

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as the employee adds to his or her experience and rises to more responsible positions; but on the present occasion it has been necessary to generally raise the scale of pay applying to the several posts or positions. Then, in connection with the salary list, the great increase in number of inexperienced and untrained clerks has been another source of extra expense. Also, additional expenses have been met in various other directions. Municipal and provincial taxes have been increased the cost of the stationery supply and of fuel for heating the hundreds of bank buildings has risen sharply; the increase of the postage rate and the stamp tax on bills and cheques have also been factors.

As regards the growth of banking resources, it is a satisfactory circumstance that a large part is represented by increase of the notice deposits. In the two years ending March, 1918, the notice deposits increased \$183,000,000. There is good reason for presuming that this reflects a very extensive accumulation of savings by farmers and working people, and that it will constitute a permanent addition to Canada's store of liquid capital. The increase of resources represented by the rise in demand deposits is not so permanent—this has amounted to \$171,000,000 in the last two years. Apparently it is the wise desire of the government to avoid unnecessarily loading the banks with war securities. Holdings of these have risen \$268,000,000 since March, 1916; but this accounts for less than half the increase of total assets. As the government will require to borrow rather extensively from the banks in July, August and September, in anticipation of the flotation of the fifth domestic war loan, it would not be surprising if the bank's security holdings increase further in those months, with consequent further expansion of their total assets; but in view of the large amounts now carried, it is scarcely to be expected that the increase will be as large as in the two preceding years.