MUNICIPAL BOND MARKET WORSE IN CANADA THAN IT HAS EVER BEEN SINCE THE BAD YEAR OF 1894

Bond Houses Have Been Caught on "Losing Bids" Which They Put in Without Any Expectation of Getting the Award, and Being Unable to Get the Banks to Carry the Issue for Them Have Been Compelled to Sell at Cost or Lower—Huge Blocks of Unsold Issues are Now in the Banks and Bond Houses, and Any Sign of Strength in the Municipal Market Would Bring Heavy Realizing.

(By Our Bond Expert.)

Seldom if ever has the market for Canadian municipal debentures presented an outlook at once more interesting and more perplexing than it presents just now.

Roughly speaking, present prices of Canadian municipal bonds are the lowest of the past 20 years. Back in the early days, there was no competition in the Canadian municipal bond business. For years one firm in Toronto—the pioneer in the municipal field—enjoyed an absolute monopoly. But the general factor of supply and demand, and the competition of other forms of investment were ever present. Hence early prices bear comparison with present prices.

In the early nineties there was a succession of bad crops both in Canada and the United States, and general trade conditions were far from good. In 1892-4 municipal bond prices fluctuated around the price level which prevails to-day, notwithstanding that there were large accumulations of money in the banks, awaiting satisfactory investment. The trade improvement of the late nineties witnessed a gradual rise in prices, although the scarcity of call money resultant upon the South African war exercised more or less of a restraining tendency. The conditions which brought about the great shrinkage of stock market values in 1902 and 1903 did not stimulate the demand for Canadian municipals—and these were numbered among the lean years in the municipal business. The reaction following the decline brought about the inevitable demand for municipals, and continued buying strengthened prices in 1905 and 1906.

The 1907 panic, of course, resulted in a very sharp drop in Canadian municipal prices. Generally speaking, the prices following the panic were practically on a level with the prices which prevail in the Canadian municipal market today. But the volume of turnover at these low prices was then very small, for the simple reason that the bond houses could not borrow money from the banks to purchase new issues, and the market itself was very short of funds. Late in 1908 there came a very sharp rebound, and the demand was sustained in ever-increasing volume during 1909—one of the best years which the municipal houses in Canada had ever had.

Recession Grows Quicker.

In 1910 there was a reaction from the high-water mark of 1909, and prices receded considerably. During the first part of 1911 prices held their ground fairly well, but a clearly defined sagging tendency developed before the end of the year.

The recession in prices has continued during the whole of the present year. The prediction in these columns last summer, that the downward movement would gain in momentum the further it went, has been abundantly fulfilled. The drop in prices during the past four or five months has been greater than the drop of the preceding twelve months. Late last winter it became evident to all careful observers that the year 1912 was to be a year of falling prices. Some very low prices were being quoted—particularly in the London and New York markets, where Canadian municipals are bought in very large blocks. In some cases bonds were sold at cost in blocks of hundreds of thousands of dollars. It was clear, therefore, that the leading Canadian municipal houses, whose experienced fingers were upon the pulse of the market, were throwing overboard great parts of their holdings—clearing the decks for unfavorable market weather which was to come later.

And come it did. With a continuance of falling prices there was more unloading of bonds by the municipal houses in big blocks. They realized that the carrying down of bonds in a declining market was hazardous business. The volume of profit on municipals is narrow at best, and a loss of three or four points on $100,000 bonds often suffices to wipe out the profit on $500,000.

New Issues Heavy.

To complicate further this unfavorable situation, all manner of new issues were advertised for sale by municipalities from coast to coast. The bids of the bond houses were very low. They realized that London was insisting upon a higher yield—and London fixed the price of Canadian municipals. The low bids of the bond houses had a two-fold effect. Several of the largest cities dilly-dallied about accepting the low prices offered, until it was too late to market their bonds at any price. The result was that they were compelled to market short-term treasury notes in London, at high rates of discount. Smaller municipalities borrowed from their banks on the security of their unsold bonds, pending the "improvement in the market" which was destined to fade farther and farther away as the months sped by.

All the while the prices continued to drop more sharply than ever. Some five or six weeks ago the smaller houses suddenly awoke to the fact that most of the older and larger municipal houses had practically ceased bidding for new issues. In the first place, they had completed their sail-trimming as far as the reduction of their holdings was concerned. In the second place, their intimate connection with the banks coupled with their own study of the situation, enabled them to foresee that the monetary stringency of the late autumn would be much more acute than usual, especially if European diplomatic relations were strained severely as a result of the Balkan situation. In the light of this outlook and the general uncertainties of the situation, the larger houses were content to sit calmly by for a brief season, and await developments.

"Losing Bids" Didn't Lose.

All unconscious of this, several of the younger houses continued to make "losing bids" for new issues. That is, they made their bids so low that they assumed there was no possibility of these bids being the highest. This is often done in municipal bidding for the sake of a certain measure of free advertising which results. In not a few cases they learned, to their amazement, that their "losing bids" were the highest, and had been accepted by the municipalities issuing the bonds.

Closely on the heels of this came what the older and more experienced dealers had feared—a period of the tightest money that has overtaken the Canadian securities markets in years. Municipal bonds are the very highest class of collateral, but even on municipals there has been no new money loaned by the banks during the past few weeks. The result was that the houses whose "losing bids" had been accepted encountered great difficulty in financing their new purchases. The logical course was to effect a quick sale of the bonds by offering them in the market at very low prices. This was done.

Then it was found that the tight-money shoe pinched at both ends of the foot. If it is hard to finance purchases of municipal bonds in a tight money market, it is likewise hard to effect sales of bonds in a tight money market. Much Canadian money which would otherwise go into municipal debentures, is now out on call at 6 and 6½ per cent.—and will remain there until the call loan rate comes down, however attractive prices of municipals may be made in the interim.

Confronted by this situation, then, what were the houses, whose "losing bids" had been accepted, to do? Clearly, there was but one course before them—to sell their newly purchased bonds "regardless of cost" as the department store advertisements say. And this is precisely what they have been doing. In some cases there has been a narrow margin of profit, but in other cases the bonds were marketed at actual cost—and the cost of a bond issue purchased on a "losing bid" was a very low figure. Thus we have the unprecedented spectacle of debentures of first-class Ontario counties being offered to yield five per cent. There are other prices being quoted in the Canadian municipal market today which would have caused buyers' mouths to water six months ago.

Banks Should Force Sales.

The acute monetary situation has affected not only the bond houses, but the municipalities whose unsold bonds have been carried for months by the banks. Of course, the banks themselves are not immune from blame for the anomalous position in which they now find themselves. It would probably have been better for them had they enforced sales of bonds deposited as collateral at their branches, long ago. As it is, they are demanding that the municipalities sell their bonds immediately. The municipalities lose no time in communicating with the bond houses—and the bond houses approach the banks to learn whether or not there is any possibility of securing call money wherewith to finance the purchase of the bonds which, the banks have ordained, are to be sold. "No," reply the banks, "we can't let you have any money." The bankers are the people who have the money. If they will not transfer a loan from pigeon-hole A to pigeon-hole B—very well, it must stay in pigeon-hole A! The monetary deadlock accounts for the fact that little progress has been made recently in the marketing of unsold issues which are lying in the vaults of branch banks as collateral security for loans advanced to municipalities months ago. In the interest of the market it is well that the volume of new issues marketed has been small. Anything even faintly resembling strength in the municipal market just now would undoubtedly encourage the offering of a multitude of unsold issues which would overwhelm the market in its present condition.

This brings us down to the technical situation of the present moment in the field of Canadian municipal debentures. A most interesting situation it is, to be true—and one which can be appreciated in all its phases only after the observer has followed its every stage of development to its present form.

Next week we shall analyze the situation more in relation to the future, in an effort to determine, with at least some measure of intelligence, whether or not the present is an opportune time for the purchase of Canadian municipal debentures.

NEW OTTAWA CHARTERS.

The following new companues are gazzetted by the Dominion Government:

Kraemer Manufacturing Company of Canada Limited, Montreal, $10,000.

St. Jacques Tobacco Packing Company Limited, St. Jacques, $150,000.

Western Canadian Advisory Board Limited, Saskatoon, $15,000.

Lubricants, Limited, Montreal, $200,000.

Brodie & Harvie Limited, Montreal, $100,000.

Newfoundland Slate Quarries Limited, Montreal, $500,000.

Canadian Incinerating Company Limited, Montreal, $100,000.

Canadian Filter Faucet Company Limited, Montreal, $250,000.

Pointe aux Trembles Extension Limited, Montreal, $216,000.

Records Company of Canada Limited, Montreal, $25,000.

E. F. Giberson & Company Limited, Montreal, $10,000.

La Compagnie du Parc Napoleon Limited, Montreal, $50,000.

The name of the Hamelin & Ayers Company Limited is changed to Ayers Limited. J. C. Wilson & Company Limited are granted power to dispose of the undertaking or any part thereof.

QUEBEC CHARTERS.

The following new charters have been gazetted at Quebec:

La Compagnie Immobiliere des Trois Rivieres, Three Rivers, $49,000.

The Mathewson Automobile Company of Canada Limited, Montreal, $50,000 (W. L. Bond, K.C., J. B. Johnson, H. A. Dorsey, I. R. Cooper and J. E. Coulin).

La Compagnie de Placements de Sherbrooke, $199,000.

La Compagnie Gaudreau Gagnon, Chicoutimi, $20,000.

La Compagnie Chimique Anglo-Canadienne Limitee, Thetford Mines, $20,000.

Ehrlich Medical Institute Incorporated, Montreal, $140,000.

Hadrian Flooring Company of Canada Limited, Montreal, $20,000.

Lay Whip Company Limited, Rock Island, $100,000.

Crown Investment Company Limited, Montreal, $1,000,000 (J. E. Billette and others.

WHY THE ENGLISH WILL NOT TAKE UP OUR MUNICIPALS

London Paper Discusses "The Jam in the Waters of Canadian Municipal Finance," and Thinks it is Time the Government Stopped Cities From Borrowing From the Banks—The Evil Day Coming.

The Financier & Bullionist, the well-known London financial newspaper, has a very interesting suggestive article on what it terms "the jamb," by which it probably means the "jam" (in the logging-camp sense) in the waters of Canadian municipal finance. "A point has been reached," says this paper, "when Canadian City securities are unsaleable, partly because they were issued at absurdly high prices during the boom, and are still too high, in spite of the fall; partly because the number of cities who are would-be borrowers has completely confused London's financial thinking powers and partly because the offering of these securities enormously exceeds the demand for them, since the English investor, better informed as to Canadian possibilities than he was a year or two ago, no longer sees the point of making investments which develop other people's property without giving him any share in the profits.

Vain Search for Buyers.

"During the summer the pavements of the city have been dark with the shadows of innumerable Canadian mayors, reeves and commissioners, who have been darting out of one bank and into another in search of buyers for their securities. They have met with scant encouragement. Only Winnipeg, Saskatoon, Calgary, Edmonton, Vancouver, North Vancouver and New Westminster were successful. Vancouver and Winnipeg have issued 4 per cent. bonds, the others 4½ per cent., all at between 97½ and 99, and in almost every case the underwriters have had to take up a very large proportion of the issue, and have been vainly trying to unload ever since. Canadian first and second class cities will in future have to issue on a 5½ per cent. to 6 per cent. basis. At least a score of city representatives have now returned to Canada empty-handed, but in many cases temporary methods have been resorted to, and the street is full of Canadian city acceptances, payable in from three to twelve months.

Postponing the Evil Day.

"Amongst these cities thus postponing the evil day when they must fund their debts or raise the money by direct taxation are Toronto, which has discounted one-year bills at 4½ per cent., and Montreal, Port Arthur, Saskatoon, Moose Jaw, Calgary, Edmonton, South Vancouver and Victoria, which have discounted three to nine month's bills at from 5 per cent. to 6½ per cent. Some of these bills fall due next month. Where is the money to meet them coming from? Is it not time that the Dominion or Provincial Governments prohibited municipal bodies from spending money before they have got it to spend and prohibited the banks from granting overdrafts to municipal bodies?"

APPLICATIONS TO PARLIAMENT

Notices of applications to Parliament in the Canada Gazette include the following;

The Toronto Terminals Railway Company, to amend charter by substituting for the names of Charles M. Hays, E. H. Fitzhugh and F. H. McGuigan the names of E. J. Chamberlin, H. G. Kelley and William Wainwright, and to raise the bond issue power from $3,000,000 to $10,000,000.

Montgomery, Fleury & Co. as solicitors for an act to incorporate the the Globe Casualty Company for accident insurance (Toronto).

Leech, Leech & Sutton, Winnipeg, as solicitors, for an act to incorporate the Metropolitan Mortgage & Trust Corporation, for loan company business.

The Brantford & Hamilton Electric Railway Company, to extend its lines from Langford to Galt, and to be declared a work for the general advantage of Canada.

The North Empire Fire Insurance Company, Winnipeg, for power to increase capital stock from $1,000,000 to $2,000,000, and to amalgamate with, sell to or purchase other insurance companies.

The Hull Electric Railway, for power to extend into the city of Ottawa, to lease to either the C.P.R. or the Ottawa, Northern & Western, to increase its bonding powers, and to be declared a work for the general advantage of Canada.

The Huron & Erie Loan & Savings Company, for an amendment to increase its borrowing powers so that its liabilities to the public shall not exceed five times the amount paid-up on stock, in lieu of 4¾ times.

ONTARIO CHARTERS.

New companies are gazetted in Ontario as follows:

In Toronto:—

The Foreman Motor and Machine Co. Ltd., $40,000.

The Cedar Valley Brick Co. Limited, $150,000.

The Excelsior Brick Co. Ltd., $150,000.

Noble Scott Limited, $40,000.

Elsewhere:—

Fibre Products Limited, Thorold, $250,000.

T. B. Escott & Company Limited, manufacturers and wholesale and retail grocers, London, $140,000.

The Gilbert Motor Boat Company Limited, Brockville, $100,000.

The Standard Tube and Fence Company Limited, Woodstock, $200,000.

The Acme Furniture Company Limited, Berlin, $40,000.

The Hamilton Labor Temple Association, $100,000.

Economy Fuse Manufacturing Company of Canada Limited, $10,000.

Wino Manufacturing Company Limited of Berlin, $40,000.

Russell Timber Company Limited, Port Arthur, $50,000.

The Forest Products Company Limited, Peterboro, $40,000.

The Chippawa Oil & Gas Company Limited, Peterboro, $40,000.

The Echo Park Company Limited, Hamilton, $40,000.

Capital increased:—

The London Concrete Machinery Co. Limited has increased its capital stock from $100,000 to $1,000,000, of which 2,000 shares shall be 7 per cent. preferred accumulative stock.

The Northern Pipe Line Co. Limited has increased its capital from $100,000 to $300,000.

DOMINION BOND DEAL.

A Winnipeg despatch reports the purchase of the entire business of the A. MacDonald Company, wholesale grocers, with head offices in Winnipeg, and branches in the larger towns and cities through to the Coast, by the Dominion Bond Company Limited, for a consideration in the neighborhood of $2,500,000. Mr. B. G. Winans, vice-president of the Dominion Bond Co., and Mr. F. R. MacKelcan, solicitor, negotiated the purchase.

NOR. EMPIRE LIFE ASSURANCE CO.

Application will be made at the next session of the Dominion Parliament for the incorporation of the Northern Empire Life Assurance Company of Moose Jaw.

SHERWIN-WILLIAMS CO.

McCuaig Bros. & Co., in an analytical report of the Sherwin-Williams Company of Canada, show a comparative statement of earnings of the combined companies the year preceding the amalgamation, and of the earnings of the Sherwin-Williams of Canada in its first fiscal year ending August 31st last:

	Yr. end. Dec. 31, 1910	Yr. end. Aug. 31, 1912	Incr. or Decr.
Net Earnings	$537,807	$576,942	$39,135
Bond Interest	147,000	140,169	x6,831
	$390,807	$436,773	$45,966
Pref. Dididend	210,000	210,000	......
	$180,807	$226,773	$45,966

x Decrease.