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THE BANKS' CIRCULATION.

The circulation of the Canadian banks has practically doubled in the last three years, as a result of the industrial activity, the rise in prices, and, as some observers think, a certain amount of inflation. At December 31st, 1914, the banks' circulation amounted to \$105,969,755, and three years later, at December 31st, 1917, to \$192,923,824. The last figures evidence a slight re-action from the maximum level of \$196,135,810 reached on November 30th last. The following table shows the circulation of the banks month by month during 1915, 1916 and 1917:—

	1915.	1916.	1917.
January	\$97,192,699	\$111,029,572	\$133,358,187
February	97,789,392	113,528,237	138,257,295
March	96,866,544	114,804,604	148,265,140
April	96,288,398	119,233,330	145,550,619
May	99,125,136	114,847,323	142,653,596
June	99,625,426	123,373,395	156,625,701
July	100,412,424	123,530,451	154,692,268
August	99,610,962	122,656,083	156,450,657
September	105,798,618	135,285,031	177,589,268
October	122,782,233	145,031,667	189,852,907
November	124,153,685	148,197,971	196,135,810
December	122,199,582	148,785,287	192,923,824
Monthly average	105,137,091	126,691,912	161,029,606

The fall increase of currency in 1917 was very much larger than in the two preceding years. The expansion between August and November, 1917, reached practically \$40,000,000—\$156,450,657 to \$196,135,810. In 1916, the August-December expansion was slightly more than \$26,000,000—\$122,656,083 to \$148,785,287, and in 1915 the August-November growth was \$24,500,000—\$99,610,962 to \$124,153,685. The table shows that the rate of expansion has been much accelerated during the last twelve months. The December, 1916, circulation was \$26,600,000 larger than that of 1915; the circulation of December, 1917, is \$44,200,000 larger than that of December, 1916. The 1915 monthly circulation average of \$105,137,091 increased in 1916 by \$21,500,000 to \$126,691,912; in 1917 the monthly average increased a further \$35,000,000 to \$161,029,606. High prices and general trade activity, the factors which mainly account for these large increases, remain in evidence, and with an enormous wheat crop next fall rewarding the greater production campaign, new high levels of circulation may be seen.

This war-time enlargement of circulation has mostly been made against deposits by the banks in the Central Gold Reserves, which have been increased from under

\$10,000,000 at December 31st, 1914, to over \$97,000,000 three years later. The following table shows the monthly movements in these deposits during 1915, 1916 and 1917:—

	1915.	1916.	1917.
January	\$ 6,950,000	\$ 11,860,000	\$ 32,050,000
February	5,250,000	10,460,000	30,050,000
March	5,550,000	12,010,000	35,200,000
April	5,800,000	14,410,000	41,150,000
May	5,900,000	14,810,000	39,500,000
June	5,500,000	17,710,000	43,450,000
July	6,350,000	19,010,000	50,220,000
August	6,550,000	20,860,000	53,320,000
September	7,850,000	24,010,000	64,870,000
October	11,750,000	35,660,000	80,770,000
November	15,100,000	43,300,000	91,120,000
December	17,360,000	43,700,000	97,270,000
Monthly average	8,325,833	22,316,666	54,914,166

It is understood that throughout this period the banks have not availed themselves extensively of the "emergency" currency provisions of the Bank Act (permitting the issue of notes above the amount of paid-up capital, without the deposit of specific security.) They prefer the Central Gold Reserve method as tending to keep down inflation of the currency.

With regard to Government notes in the hands of the public, these increased from \$19,139,000 at December 31st, 1914, to \$27,836,000, three years later. Their maximum of \$31,853,000 was reached at October 31st, 1917.

Regarding inflation, Mr. W. C. Clark, of Kingston, suggests in the current issue of the Journal of the Canadian Bankers' Association, that there is a direct connection between this expansion in circulation and the rise in prices, the latter following at an interval of some six months or so. It has been found in England, that the war rise of prices lagged some five months behind the increase in currency, and that in the United States there has been a similar lag of about two months, decreasing recently to a fortnight. Part of the rise in Canadian prices, although undoubtedly a smaller part than in any European country, Mr. Clark accordingly attributes to inflation, which has been inevitably brought about as a result of the enormous credits which have had to be created for the British and Canadian Governments. The repayment of short term credits out of the proceeds of the Victory Loan will correct the inflation to some extent, but a proportion of these temporary loans run yet for a considerable period. Further operations of the same kind are likely to continue a state of inflation until the end of the war, and it will then only be gradually corrected through production and saving.