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THE GENERAL FINANCIAL SITUATION

That Canadian capitalists, large and small, are steadily increasing their capacity or ability to subscribe for the second Victory Loan is apparently indicated by the course of the "notice deposits" as shown in the monthly bank returns. Since the record-breaking drop of \$95,000,000 in January, 1918 caused by withdrawals for making payments on the subscriptions to the first Victory loan, there has been a steady recovery. Up to June 30th, the recovery had amounted to \$65,000,000, or an average of \$13,000,000 per month. Now comes the July bank statement with a further gain of \$26,000,000 for that month—bringing the grand total up to \$992,000,000 which is within \$4,000,000 of the aggregate shown for December 31, 1917, before the extraordinary Victory Loan withdrawals were made. An increase of notice deposits amounting to \$92,000,000 in six months gives a monthly average of over \$15,000,000. This eclipses the record for last year—notice deposits in the eleven months' January 31 to December 31, 1917, increased \$131,000,000, or about \$12,000,000 per month.

Much of this gain, of course, represents accumulations in the savings departments, and it is frequently referred to as entirely representing such accumulations; nevertheless a considerable part of the increase may each month consist of special time deposits made by corporations or capitalists.

That there was in July a further increase in the issues of Dominion notes against securities is indicated by the fact that Dominion notes held in bank vaults increased \$2,700,000, while the deposits carried by the banks in Central Gold Reserves increased \$4,400,000. The June 30th, statement of the Finance Department showed a total of \$281,000,000 Dominion notes outstanding; and of this total \$108,095,000 represented the issues of notes against deposits of approved securities, under the Finance Act, 1914. It is expected that these large issues of notes based on securities will be entirely redeemed after the war through liquidation of the British Treasury's bills, which are supposed to represent the greater part of the cover for the notes. Possibly we shall receive payment for the treasury bills in the form of New York funds. The final settlements between the United Kingdom and the United States may be arranged in that way. If so, our banks would become possessed of very large balances with

American correspondents. Then if it devolved that a considerable part of the extra or special issues of Dominion notes was required by the banks for reserve or other purposes, it would perhaps be possible for the banks to convert a portion of their New York balances into gold, which could be imported to Canada and tendered to the Dominion Government in settlement of the special loans negotiated at the Treasury. In that case the Dominion notes outstanding would not contract, but gold would be substituted for securities as cover for them, thus the currency situation would be corrected. On the other hand, if the New York funds acquired by the banks were much needed for exchange purposes—to settle our balances owing to the United States on trade account—and at the same time the banks find that the Dominion note circulation is larger than necessary, the debts due by the banks to the treasury could be paid through presentation of Dominion notes which would then be cancelled, while the balances in the United States could be utilized to pay the trade and other balances owing to Americans by Canadian corporations, individuals, municipalities, etc.

As expected, the gross earnings of Canadian railways took a sharp up-turn in the week ending August 21st. The 20 p.c. freight rate increase was effective August 12th, and the third week in August would be the first one to show the results of the change. Next month, when the Western wheat crop begins to move rapidly to market, the rate increase should have an even more important effect upon the weekly traffic reports. Interest in the stock markets continues lively, and while the inevitable reactions have been in evidence, the street appears to have confidence that times are improving. For this optimism, no doubt the continued good news from France is partly responsible. Never, since the beginning of the war, have the Germans suffered such a quick succession of stinging defeats; and apparently the victorious operations of Generalissimo Foch have not yet been sensibly checked or stopped. In view of the large captures of men and guns, some of our more optimistic observers are beginning to look for a break-down of the German army's nerves. It is quite conceivable, if the Allies continue at intervals of a few days or a week to capture prisoners in lots of 10,000 or 15,000, that the section or sections of the German host suffering such punishment might go to pieces. Should that

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