

# The Loans of the Banks---Why they have not Risen

(By H. M. P. ECKARDT.)

Premier Sifton of Alberta, in recent utterances has criticized the banks severely because their large gains in deposits throughout 1915 did not induce them to expand their loans and discounts to commercial and industrial customs. This criticism has been put forward by various other parties in both sections of the Dominion. The parties laying the charge often go further and intimate that the bankers are perversely withholding loans from legitimate borrowers and strangling or handicapping industries and trades which contribute towards the development of the country. A little careful and intelligent consideration of the question should suffice to make it clear that the above-mentioned imputations are not founded upon fact or reason. In the first place it is almost invariably the case that when the commercial loans and discounts show a steadily declining tendency, the earnings or profits of the banks shrink, and perhaps there is a decrease in the dividends, etc., distributed to the stockholders. This shrinkage of earnings has been notably in evidence in 1914 and 1915; and it is well known that one of the chief causes has been the transfer of considerable blocks of bank funds from commercial loans yielding 6 or 7 per cent to quick assets represented mostly by cash and bank balances yielding nothing and New York call loans yielding around 2 per cent. The sacrifice of earning power here involved is apparent to all. Thus to say that the bankers curtailed their loans unnecessarily or perversely, is tantamount to saying that they have been engaged in deliberately destroying their earning capacity.

It will, therefore, be well to indicate some of the reasons why the loans and discounts have not expanded with the growth of deposits. Let us first note the movement during the past two or three years. The commercial loans reached their highest point in September, 1913—\$866,000,000. This might be taken as the culmination of Canada's recent boom. It is well known that the speculation in western real estate then collapsed and Canadian business generally began to adjust itself to a new set of conditions as represented by cessation of the extraordinary expenditures on new railways and other enterprises and drastic reduction in amount of Canadian borrowings in London. During such a readjustment bank loans always fall. Much of the liquidation is altogether voluntary on the part of the borrowing classes. Thus the commercial loans dropped throughout 1914 and in the early part of 1915, the low point being reached in August, 1915—\$758,000,000. It is safe to say that quite a large proportion of the \$108,000,000 decrease here shown consisted of liquidation of special loans to railways, contractors, and others directly and indirectly involved in the constructional activity.

Another point is that in September, 1913, the immediately available reserves of the banks—cash, foreign bank balances and foreign call loans—were very low. They stood at 21.37 per cent of net liability, which was the lowest point since 1907, the panic year, and the opening months of 1908. It was

a matter of stern necessity to augment these reserves as speedily as possible; and fortunate indeed it was for us that they had been increased by some \$60,000,000—the ratio rising to 25.57 per cent—by June, 1914, just before the war broke out. After the outbreak of war during the six or eight months in which the world's financial machinery was more or less completely deranged, nobody, but a lunatic would have seriously proposed that the banks lend their money freely for new ventures, and deals of problematical outcome.

During this long period—from September, 1913, to August, 1915—the two main divisions of the deposits (those on which the home loans and discounts of the banks are based), showed a net gain only of \$24,000,000. Deposits of the public in Canada, demand and notice, amounted to \$1,002,000,000 on September 30th, 1913, and \$1,026,000,000 on August 31st, 1915. When it is considered that there would be among the deposits as at the latter date some large amounts composed of balances at credit of purchasing agents and representatives of the Allied Governments in this country, and other deposits of a transient nature, it will be understood that the banks could not with safety employ such funds in the ordinary loans and discounts.

Since August, 1915, there has been a phenomenal rise of the deposits. The demand and notice deposits of the public in Canada amounted to \$1,153,000,000 on December 31st. This represents a gain of no less than \$127,000,000 in four months. In the same four months the loans show a net expansion of \$17,000,000—so a very large proportion of the newly acquired monies went into the reserves. In connection with this great rise, the outstanding point is that more than three quarters of it was in the demand deposits. These stand at a high record level; and all who know anything of banking are aware that the current accounts are subject to wide and rapid fluctuations. The banker, to be worthy of the confidence of his depositors, requires to carry reserves of nearly 100 per cent against much of the funds that have been pressed into his hands during the last four months of 1915. Large special balances were created out of proceeds of crop sales in preparation for payments due in January. January always sees great contraction; and in view of the extended liabilities on December 31st, 1915, it would be a safe guess that when the January, 1916, figures are available the demand deposits as well as the note circulations of the banks will show an abnormal fall.

Yet another point is that the banks have been expected to assist the Dominion Government and the provinces in their financing. They have done this and have helped the cities also through buying bonds and debentures as issued in the home market. It should not be forgotten that they subscribed for one-quarter of our Domestic War Loan of \$100,000,000; and in the course of 1916 they will be called upon to make heavy advances on behalf of the Canadian or British Governments and in connection with the manufacture and shipment of munitions, etc.

## ST. MAURICE PAPER.

Aldred and Co. have marketed \$1,250,000 First Mortgage 6 per cent bonds of the St. Maurice Paper Co., Limited, which was incorporated during December with an authorized capital of \$10,000,000, and took over certain unproductive properties of the Union Bag and Paper Co. A majority of the stock of which \$5,000,000 is outstanding, is held by the Union Bag and Paper Co., but there is no operating contract in force, nor are the bonds guaranteed, the issue having been sold on its merits.

## TWIN CITY RAPID TRANSIT CO.

The Twin City Rapid Transit Company for the year ending December 31 shows an increase in gross earnings of \$169,744 and a decrease in surplus of \$175,366. The surplus after charges was \$1,712,275, or equal to 6.83 per cent on the common stock, against 7.62 per cent in the previous year.

For the second week of January the earnings of the company were \$178,324, an increase of \$5,003, or 2.89 per cent over the corresponding period last year.

## BRITISH-CANADIAN TRADE.

The following figures give the trade between Canada and Great Britain in the articles mentioned during December with comparisons for 1914:—

Imports—	Dec., 1915.	Dec., 1914.
Wheat .....	£1,625,746	£1,440,358
Wheatmeal and flour .....	203,925	155,576
Barley .....	77,784	16,276
Oats .....	24,012	13,235
Bacon .....	261,135	162,298
Hams .....	5,533	21,464
Butter .....	4,194	14
Cheese .....	518,456	372,376
Canned Salmon .....	251,114	1,393
Canned Lobsters .....	4,857	7,294
Exports—	Dec., 1915.	Dec., 1914.
Spirits .....	32,985	24,091
Wool .....	53,049	10,939
Pig iron .....	36,865	520
Wire .....	1,545	5,791
Galvanized sheets .....	963	8,137
Tinned Plates .....	2,152	5,468
Steel bars .....	10,642	4,638
Pig lead .....	2,540	1,145
Cutlery .....	6,119	4,490
Hardware .....	1,874	2,966

## Foreign Exchange Rates in New York

The range of quotations covering sterling exchange on January 28 follows:

	Demand bills.	Cable transfers.
Opening .....	4.76 3-16	4.76 15-16
Highest .....	4.76 3/4	4.77
Lowest .....	4.76 3-16	4.76 15-16
Closing .....	4.76 3/4	4.77
Closing Thursday .....	4.73 3-16	4.76 15-16
Closing prices on Friday, January 28, for large amounts, were as follows:		
London—Bankers' 60 days .....	4.73	
Bankers' 90 days .....	4.71	
Demand sterling .....	4.76 1/4	
Cable transfers .....	4.77	
Grain bills, 7 days .....	4.75 1/4	
Commercial bills, sight .....	4.75 3/4	
Documents for payment, 60 days, against grain .....	4.71 1/4	
*Commercial, 60 days .....	4.71 1/4	
Commercial, 90 days .....	4.69 1/4	
Paris—Bankers' 60 days .....	No quotations	
Bankers' 90 days .....	No quotations	
Bankers' checks .....	5.87 1/2	
Bankers' cables .....	5.86 3/4	
*Commercial, 90 days .....	Nominal	
*Commercial, 60 days .....	Nominal	
†Commercial, sight .....	5.88 1/4	
Berlin—Bankers' 90 days .....	No quotations	
Commercial, 90 days .....	No quotations	
Bankers' 60 days .....	No quotations	
Bankers' sight .....	74 1/8	
Bankers' cables .....	74 1/4	
Commercial, 60 days .....	No quotations	
Commercial, sight .....	No quotations	
Antwerp—Bankers' sight .....	No quotations	
Bankers' cables .....	No quotations	
Commercial, 60 days .....	No quotations	
Swiss—Bankers' 60 days .....	No quotations	
Bankers' sight .....	5.18	
Bankers' cables .....	5.17	
Amsterdam—Bankers' sight .....	42 1/2	
Bankers' cables .....	42 1/4	
Commercial sight .....	42 1/2	
Commercial, 60 days .....	No quotations	
Lire—Bankers' sight .....	6.73	
Bankers' cables .....	6.72	
Greek exchange—		
Bankers' checks .....	5 15 1/4	
Copenhagen—Checks .....	27.15	
Sweden—Bankers' checks .....	27.45	
Norway—Bankers' sight .....	27.45	
Kronen—Bankers' sight .....	12.55	
Roubles—Bankers' sight .....	29 7/8	
Pesetas—Checks .....	19.00	
Shanghai on London—		
Four months' bank credits .....	2s 8 5/8 d	
Hong Kong on London—		
Four months' bank credits .....	2s 0 d	
Japan on London—		
Four months' bank credits .....	2s 2 1-16 d	
Far Eastern check rates:		
Hong Kong .....	46.80	
Shanghai .....	63 3/4	
Yokohama .....	50 3/8	
Manila .....	49 3/4	
Singapore .....	57	
Bombay and Calcutta .....	33	

In a general way sterling quotations involve transactions approximating £10,000 or more. In the case of Continentals rates cover amounts approximating 100,000 or over.

\* Documents for acceptances. † And three days' sight.

## HOLLINGER MINES.

Hollinger Mines showed net profits of \$2,058,466 in 1915, or 68.61 per cent on the capital of \$3,000,000. The Hollinger Mine record for 1915 and four previous years follows:—

Year.	Tons Milled.	Values Recovered.	Div. Paid.
1911 .....	1,000	\$46,082	.....
1912 .....	45,195	933,682	270,000
1913 .....	138,291	2,466,220	1,170,000
1914 .....	208,936	2,688,354	1,170,000
1915 .....	334,749	x3,250,000	1,560,000
Totals .....	728,171	\$9,384,339	\$4,170,000

x1915 gold recovered is approximated. Another dividend has just been paid; so the grand total of such is 143 per cent, or \$4,290,000.