

farmers on their wheat crop are said to be benefiting the merchants of the large centres to an unusual extent. Payments of debts due by country retailers and new cash orders received from the country districts are helping very much to reduce the bank lines of the city wholesalers, or to keep them within reasonable limits.

CANADIAN BANKING FUNDS AND STOCK MARKET PRICES.

It is not generally realized how near a parallelism may be traced between Canadian stock market trends during a series of years, and the changes in the "reserve ratio" of the chartered banks of the Dominion. It is not to be concluded that this evidences any absolute or direct relation of cause to effect. Rather, both trends are phases of general business and financial developments.

During the nine years since the close of September, 1900, there have been three decisive upgrade movements to stock prices in Canada. The first culminated late in 1902, the second during 1906, and the third will end—when? To those who are inclined to think that advancing prices will proceed indefinitely, a study of the figures given herewith may suggest that caution is never amiss—even in the most "piping times" of prosperity.

The upper line of the table appearing below gives the month-end proportions which reserves (specie, legals, net foreign bank balances and call loans abroad) bear to liabilities to the public—September and March month-end Government bank statements being taken in computing the ratios. The lower line gives (at nearly corresponding dates) the price-averages of ten active stocks listed on the Montreal Stock Exchange.

The diagram at the right makes clear the correspondence that exists between the trend of reserve ratios and larger movements of stock prices.

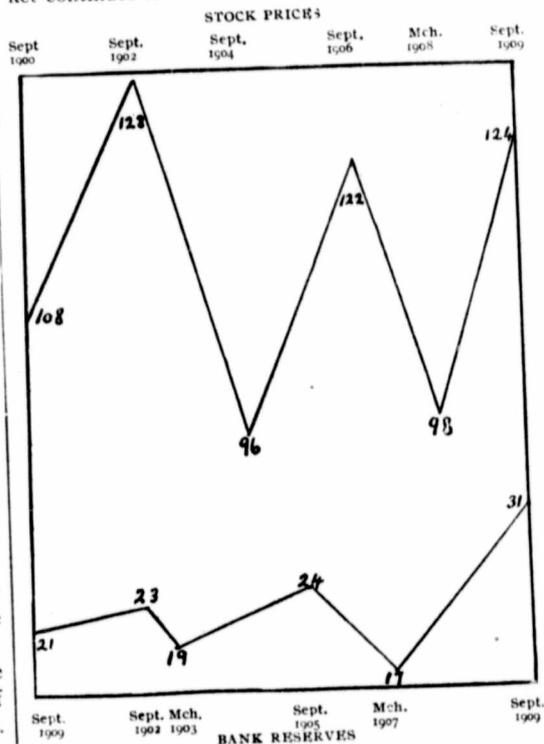
From September, 1900, to September, 1902, there was gradual increase in reserve ratios, from about 21 p.c. to nearly 23 p.c. During these two years, the stock-price average increased from 108 to 128.

Between September, 1902, and March, 1903, the banks' reserve ratio fell from 23 p.c. to about 19 p.c. Beginning with this decline, but continuing beyond it in time, stocks dropped from 128 at September, 1902, to 96 in September, 1904.

Between March, 1903, and the close of September, 1905, reserves increased from about 19 p.c. to 24 p.c. The rise in stocks began later and continued longer; between September, 1904, and September, 1906, the advance was from 96 to 122.

Another decline in reserves brought the ratio down from 24 p.c. at September, 1905, to less than 17 p.c. at the close of March, 1907. Following this—again at somewhat of a distance—came the stock market decline from 122 at September, 1906, to 97 at the close of 1907, there being slight recovery to 98 at the end of March, 1908.

Between March, 1907, and the end of September, this year, the reserve ratio has grown from 17 p.c. to 31 p.c. And, beginning a year or so later, stock market prices have advanced from 98 to 124 at the close of September—about which level the market continues to fluctuate.



It will be of interest to look more particularly at the market decline of 1906-7, and the subsequent advance of 1908-9. A full year before the decline had actually set in, bank reserves had begun to decrease. The general trade and manufacturing activity that was giving buoyancy to the stock market was entailing rapid expansion of bank loans and consequent reduction in reserves. Toward the close of 1906—though general trade seemed still on the upgrade—the stock market gave some barometric signs of later business recession. "Tight money" was becoming a worldwide complaint, and not merely New York's usual autumn stringency.

TREND OF CANADIAN BANK RESERVES AND STOCK MARKET PRICES.

| | 1900 | | 1901 | | 1902 | | 1903 | | 1904 | | 1905 | | 1906 | | 1907 | | 1908 | | 1909 | |
|---|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|--|
| | Sept. | Mch. | Sept. | |
| Month-end Bank Reserve... | 20.7 | 20.4 | 22.6 | 20.6 | 22.8 | 18.9 | 20.9 | 19.9 | 23.2 | 23.5 | 24.1 | 20.8 | 21.2 | 16.9 | 19.8 | 20.4 | 28.1 | 30.9 | 31.0 | |
| Month-end Average } price of 10 Stocks. } | 108 | 110 | 114 | 126 | 128 | 121 | 98 | 97 | 96 | 110 | 116 | 122 | 122 | 105 | 100 | 98 | 102 | 116 | 124 | |