

The High-Record Dominion Note Circulation

It is Reasonable to Expect That in June the Note Issues of the Government will Show a Contraction, and That the Shortage of Reserves, Will Again Assume Smaller Dimensions

By H. M. P. ECKARDT.

In the April statement of circulation and specie, issued by the Department of Finance, it is possible to trace some reflection of the tightening of the Canadian money markets to which reference has lately been made in the daily press. The total of Dominion notes outstanding rose to \$187,872,336, a high record—the increase for April being \$4,600,000. As the gold reserve held against the notes remained practically unchanged, the natural presumption is that the new issues of Dominion notes were made in the form of loans to the banks, against deposits of British treasury bills as collateral under the arrangement provided a short time ago. The treasury bills or such other securities as may have been lodged do not appear as reserves against the Dominion note issues; and consequently the deficit of reserve is sensibly enlarged. In fact, the deficiency as at April 30th, 1917, was greater than at any previous month end since the war originated. The following table shows how the deficit has moved since July, 1914.

DOMINION NOTES.

	Outstanding.	Specie Reserve.	Deficiency of Reserve.
1914.			
August 31	\$114,866,864	\$89,133,510	\$11,766,646
October 31	148,792,222	89,354,392	21,937,830
December 31	162,395,231	89,317,019	35,578,212
1915.			
March 31	157,056,118	89,400,705	30,155,413
June 30	152,120,734	89,573,041	25,047,693
September 30	153,039,153	90,803,650	24,735,503
December 31	178,780,682	115,118,861	26,161,821
1916.			
March 31	177,943,131	115,743,094	24,700,037
June 30	175,497,175	114,071,032	23,926,143
September 30	174,302,958	113,690,728	23,112,230
December 31	181,047,531	114,131,731	29,415,800
1917.			
March 31	183,248,986	113,110,154	32,638,832
April 30	187,872,336	113,139,691	37,232,645

Proceeding on the assumption that the issues of uncovered Dominion notes were for the purpose of assisting the banks to carry their holdings of British treasury bills, it would appear that the Dominion Government has advanced them over \$13,000,000 since last September for this purpose. And as the banks in January and February loaned the Finance Minister \$50,000,000 in anticipation of payment of subscriptions to the third war loan, we have the curious spectacle of the Dominion Government lending the banks a considerable sum while at the same time the banks were providing the Government with a much larger sum in the form of a short loan. Of course, it should be remembered that only a certain number of the banks would borrow from the Government on their treasury bills—whereas it is understood that practically all of them joined in making the \$50,000,000 loan to the Minister.

With the repayment of the last mentioned loan in May and June, and with the liquidation of the large special loans on grain which the banks had outstanding in February, March and April, the position of the banking institutions would be considerably strengthened and perhaps those which had pledged treasury bills to the Finance Department would take steps to regain the collateral through paying off the relative loans. Doubtless, the loan arrangements provide that repayment of the collateral loans should be in the form of Dominion notes, so that on liquidation of the loans a corresponding amount of Dominion notes would be automatically cancelled. Therefore, it is reasonable to expect that in June the note issues of the Government will show a contraction, and that the shortage of reserves will again assume smaller dimensions. If, on the other hand, the borrowing banks do not return the borrowed funds to the Government, and take up their collateral after the spring liquidation is completed, these banks, and perhaps others also, will probably hesitate to participate further in the munition loans until some of the British bills now held mature and are paid off. Now that the British Government is receiving large credits in New York each month for settlement of its purchases in America, it may be possible a little later when our treasury bills mature to convert them in part into sterling exchange available for negotiation at the American centre—thus making it practicable for our bankers to make further large ad-

vances to the Imperial Munitions Board. As at April 30th, 1917, the Canadian banks are understood to have held \$150,000,000 in British treasury bills. This represents 133 per cent of their paid up capital and more than 7 per cent of their total assets. It is expected that in a month or two the banks will be required to repeat their \$50,000,000 short loan to the Finance Minister. According to the estimate in the budget speech, the proceeds of the war loan will be virtually exhausted by midsummer, and to meet his current outlay until such time as the fourth domestic war loan is issued, the Minister will be obliged to negotiate a temporary credit with the banks.

With reference to the Dominion note circulation, it is worth while to draw attention to the increasing percentage thereof held or carried by the banks. The following table shows the amount of Dominion notes held respectively by the public and by the banks at different dates since the outbreak of war. For purposes of this table the amounts of Dominion notes pledged by the banks in Central Gold Reserves have been added to the Dominion notes shown in the Government returns as held in the bank vaults.

DOMINION NOTES. (Thousands Omitted).

	Held by Banks.	Held by the Public.	Percentage Held by Banks.
1914.			
July 31	\$92,966	\$19,827	82
October 31	127,773	21,019	86
1915.			
January 31	141,735	17,812	88
April 30	139,017	18,101	88
July 31	132,643	19,473	87
October 31	143,973	20,741	87
1916.			
January 31	153,166	20,201	88
April 30	155,179	20,501	88
July 31	152,874	21,933	87
October 31	151,117	23,517	87
1917.			
January 31	163,039	21,993	88
April 30	161,644	26,228	86

Between July 31st, 1914, and April 30th, 1917, the Dominion note circulation expanded \$75,079,000; and of these new issues \$68,678,000 were taken by the banks, and \$6,401,000 circulated among the general public. Against a part of its new issues the treasury held a corresponding amount of new gold and therefore derived no benefit. Such benefit as it derived from note expansion came from the uncovered issues. On July 31st, 1914, the uncovered portion of the Dominion note circulation amounted to \$25,733,000; and on April 30th, 1917, it amounted to \$74,732,000. The increase therefore was roundly \$49,000,000. Through practically the whole period the Dominion notes in the hands of the general public show but a trifling increase. During nearly the whole period the treasury has thus had a loan of say \$45,000,000 from the banks free of interest. Its saving of interest in this respect would approximate \$6,700,000. This point should be kept in mind when the war services of the banks are considered.

In connection with their own note circulations the banks find that old notes, issued many years ago, are from time to time presented for redemption. Apparently the experience of the Government is the same. The issues of the Province of Canada furnish an illustration. Although these were superseded on July 1st, 1867, by the Dominion issues, now, fifty years later, there are still outstanding \$27,769 of the old Province of Canada notes. These comprise five notes of \$500 each; thirteen notes of \$50 each; forty-three notes of \$20 each; and a considerable number of "tens," "fives," "twos," and "ones." Doubtless many of them have been destroyed and will never be presented for payment, but even now odd notes keep straggling in. In August, 1912, forty-five years after Confederation, a \$1 note was redeemed; in February, 1913, a \$5 note came in, and in March of the same year a \$2 bill followed. Then, after a lapse of a year and three-quarters, another "one" made its appearance in December, 1914, followed by a "two" in January, 1915. Another "five" came forward in March, a "one" in October; and in 1916 there was a \$1 bill redeemed in September, and another of the same denomination in November. In March, 1917, a "one" and a "two" were paid. It would be interesting to know the history of these old bills, which have been out of sight for nearly 50 years.

The Peninsular & Oriental line is rumored to have taken over the Union Steamship Co., of New Zealand. The latter had a working arrangement with the New Zealand Shipping Co., recently absorbed by the Peninsular & Oriental line, says a London special to the New York Journal of Commerce.

Second Western Crop Report for 1917

Rain and Heat the Imperative Needs at Present—Considerable Damage From Frost, But Recoverable if Rain Comes at Once—Increase of Over a Million Acres in Oats, Being a Total of 8,060,112—Very Considerable Wheat Still in Farmers' Hands in Alberta and Saskatchewan.

The second crop report of the Manitoba Free Press for season of 1917 is not quite so satisfactory as the first, which was issued on May 15. Since that date the weather has been almost continuously dry and cold with exceptionally heavy frosts at night, and owing to this condition the crop has not made the progress that it should have done. Warm, moist weather from now on would largely make up for the damage done, though there will have to be reseeded of barley and flax at a good many points.

Speaking generally of the three provinces, what is needed is moisture and heat and it cannot be denied that the reports received indicate that rain and heat must come immediately if the damage is not to be serious.

Two hundred and thirty-two points were queried, and the correspondents given two days to collect their data before wiring it in. The questions asked were: What is the average height of wheat? Is it well stooled? What is percentage of increase in acreage of oats, barley and flax? Any damage from frost? Is rain needed? How much wheat still in farmers' hands?

MANITOBA.

Tabulating the returns by provinces they run about as follows: Manitoba 96 points queried, 74 heard from. Average height of wheat 3 to 4 inches before struck by frosts, number of reports state a considerable percentage of fields frozen to the ground and just coming again. Stooling seems to have been generally pretty good and this will help recovery, though a number of points report that crop is not yet stooled.

Oats—38 points report increased acreages from 5 to 25 per cent, while 26 points report acreage same as last year. It is fair to assume an increase of 12% in oat acreage and this on the figures given in census returns would be an increase of 167,641 acres, or a total oat acreage of 1,564,654.

Barley—25 points report increased acreages running from 5 to 30%; 23 points same acreage as last year, while a few points give rather heavy decreases. On the whole the barley acreage must be increased by about 10% and possibly more. A 10% increase would mean 65,539 acres or a total of 720,811. Reports on flax indicate that while there have been some exceptional increases at a few points the acreage on the whole has not changed much and at a few points there are decreases. Last year the census acreage was 22,344, which was less considerably than the acreage in rye. While not asked for it, quite a number of correspondents stated that rye acreages were greatly increased. The acreage in rye in 1916 was 23,295, and is probably at least 5% greater this year.

Frost—Only nine points state no damage from frost. Other points report slight to considerable damage and a few heavy damage. Nearly all the reports qualify this by the statement that much of the loss would be recovered by immediate rain, but there will be some reseeded of oats and barley.

Rain—The feature of the reports is the well high universal demand for rain. 44 points want it "very badly," at one point it is "imperative" at 16 points it is wanted "badly," at 10 it is "wanted"; 3 points

(Continued on page 21).