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F. WILSON-SMITH, *Proprietor and Managing Editor.*

Office:

406-408 LAKE OF THE WOODS BUILDING,
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THE NEW BANK STATEMENT

As in the case of the statement for the month of April, the chief interest of the newly-issued bank return for May lies in the loan accounts. The outstanding feature is a substantial rise of $10,727,711 in Canadian current loans and discounts, bringing these up to $894,817,113, a new high record figure since the war began, and an increase over the corresponding aggregate at the close of May, 1917, of no less than $49,926,524. In May last year, these loans decreased by $35,633,308, and even under present conditions, some decrease in their total as goods were moved forward during the summer months might well have been anticipated. The considerable increase reported during the month of May, it may doubtless be surmised without indiscretion, is probably a reflection of immediate circumstances, which may be comparatively temporary in character, but are likely to last at least some months. With a relative, if slight, improvement in the English food position, the extraordinary shortage in shipping, and the pressing necessity of utilising every available ton of shipping for troop-movements, there has developed a considerable "backing-up" of goods, which under other circumstances would have gone forward freely. Recently-published figures of Canadian trade indicate this "backing-up" of which the increase in current loans and discounts is a reflection.

One effect of this jam in the forward movement of exports is to hamper the banks considerably in the matter of further urgent war financing. The necessary action consequent upon this state of affairs was strongly emphasised by Mr. Edson L. Pease, President of the Canadian Bankers' Association, in his circular to the general managers of the banks published at the end of last week. "It is clear," writes Mr. Pease, "that if the war requirements of the Government are to be financed without undue expansion of banking credits, not only must there be some reduction of existing credits, but there will have to be applied a rigid check upon the further expansion of credit in directions not clearly essential for the prosecution of the war, and for the health and necessary comfort of the people... Our problem is to convert less essential into more essential credit, and to convert less essential into more essential production and distribution of goods." The solution of that problem is not an easy one, as every banker knows. Its solution has not been found easy even in Europe, where the immediate pressure of the war is vastly greater than it is in Canada. Mr. Pease earnestly urges that loans for productive purposes, particularly loans to increase production on the farm, must have the right of way, that a line must be drawn between essential and non-essential industries and all manufacturers be urged to carry as small inventories as possible. What effects will follow the issue of this circular remain to be seen. But its publication would appear to foreshadow a considerable tightening-up by the banks of their credit facilities with the idea of diverting yet further the energies and resources of the nation towards essential lines of war-production.

That pressure upon the banks for further necessary credits other than those for war purposes continues strong is seen in the further rise during May of municipal loans, which are reported at the new high record figure of $57,728,226, a gain of $2,042,876 for the month, and of $12,711,390 for the year. That the municipalities are not securing funds for any other than absolutely essential expenditures goes without saying, but even with the utmost restriction in this connection, it is evident that the total of those loans will tend to show a steady rise during the coming months, since it is unlikely that there will be further large permanent or quasi-permanent borrowing operations by the municipalities this year beyond those recently completed.

With the demands of the commercial and industrial community upon the banks, call loans abroad were reduced during May by $7,558,652 to $172,259,879. Call loans in Canada were slightly increased during the month by $969,232 to $78,466,582, this growth probably being a consequence of financing in connection with the recent numerous issues of high-grade securities. The banks' security holdings were enlarged during the month by approximately $7,600,000 to $427,389,667, this increase being accounted for by a rise of $8,123,565 in the British etc. securities held.

In notice deposits, there was a further substantial growth during May, the increase during the month being $14,112,669 to $947,757,337. But the concomitant heavy loss in demand deposits of $22,853,490 to $535,655,731, and that in face of the increase in current loans and discounts, suggests that a considerable part of the month's increase in notice deposits may be due to transfers from demand deposits. At their end of May level, notice deposits are fully $55,000,000 higher than at the end of May last year, and about $61,000,000 below their record total of $1,008,657,874 reached in November last, immediately prior to the first payments in the Victory Loan. This low level, after feeling the full effects of that Loan, $900,978,013 in January, has been recovered from in four months to the extent of $47,000,000, and with a new Victory Loan coming out next fall about the same time as the last, it may fairly be anticipated that before the Loan's issue, notice deposits will equal, if not surpass their last year's record.

The end of May Dominion Government balances of $117,664,042, an increase of $22,892,823 during the month, show the accumulation of funds prior to the large disbursements in war-loan interest on June 1st. With the continued growth in deposits and current loans and discounts, the banks' reserve position took a decided dip during May. Cash deposits in the Central Gold Reserves and to secure note issues, foreign bank balances and foreign call loans were in a proportion of 24.6 to circulation and deposits of all kinds, compared with about 29 per cent at the end of April.