

The Chronicle

Banking, Insurance and Finance

ESTABLISHED JANUARY, 1881

PUBLISHED EVERY FRIDAY

Vol. XXX. No. 8

MONTREAL, FEBRUARY 20, 1920

Single Copy 10c
Annual Subscription \$3.00

THE GENERAL FINANCIAL SITUATION

The continued depression on the New York Stock Exchange, a depression participated in by the local markets, has very naturally started discussion on the subject of a reversal of trade conditions and prices. The break in Stock Exchange prices of a few weeks ago was coincident with an unparalleled disorganization of exchange, and the concurrent bringing out on newspaper front pages of blue ruin stories regarding international trade as affecting this side of the Atlantic. Moreover, it is the tritest of monetary axioms that the Stock Exchange discount forthcoming financial developments, whether favourable or unfavourable, months in advance. Under such circumstances, it is not at all surprising that the idea of a reversal of present conditions should quickly permeate the public consciousness. The point that is, however, forgotten, or is in danger of being forgotten at present, is that whatever way the Stock Exchange look ahead, they always overdo it. When bullish sentiment is in the ascendant, there is through Stock Exchange eyes, never a cloud on the horizon. When reverses come, the Stock Exchanges can never see anything ahead, but sheer blue ruin, and universal financial cataclysm. The Stock Exchanges are in the latter mood now, and their vision is as far from the true perspective of things as their vision was six months ago in the opposite direction.

So far as Canada is concerned, it is obvious that any deflation of prices here depends upon happening in the United States. For some time past, long before the present breaks in the Stock Markets occurred, there has been a feeling among financial students, that possibly the end of next summer would see a decline, or the beginnings of a decline, in staple commodities. This opinion was based on the supposition that this year Europe generally would be in much better shape than formerly, to look after her own crops, and that given good crop weather, she would be considerably less dependent than during the last five years, upon outside sources for staple foodstuffs. The recent course of Exchange, and the consequent enormous rise in the cost of foodstuffs imported from this continent to the European consumer, will probably hasten this movement towards self-support in Europe. Already adverse exchange has had the

effect of placing Canadian wheat at a disadvantage in the British market in comparison with wheat from Argentine and Australia, on which countries London's exchange rate is favourable, although the wheat is of inferior quality in comparison with the Canadian product. It is to be remembered that European imports from North America under peace conditions consist almost wholly of staple commodities and necessities of life—luxuries play a very small part in such imports. The British Chancellor of the Exchequer mentioned the other day that only two per cent. of British imports from the United States came under the heading of luxuries. As a matter of fact, a very large proportion of British luxuries come from countries in Continental Europe and elsewhere with which London exchange is quite favourable.

With these facts in mind it seems not improbable that a marked falling off in British and European demand for Canadian and American foodstuffs would have an effect upon prices here, by say, the early fall. It is at least not improbable, but he would be a rash prophet who would state it as a certainty. But it is certain that prices cannot continue for ever in their present direction, and that there must be a break.

Assuming that the prices of staple commodities in Canada, particularly of foodstuffs, begin to show a decline next fall, following a similar course in the United States, what would be the effect of such a development in Canada? The change in conditions would probably be first felt by the farmer and dealers in foodstuffs,—some of whom, by the way, are already reported as having incurred heavy losses on export business as a consequence of the decline in exchange. Any pronounced falling off in purchasing power by the agricultural community would be gradually reflected in general business. Purchasers whether wholesale or retail, would hold off in the expectation of lower prices, thus slowing down general trade. The speed of these developments will, as we have said, depend very much on developments in the United States. If our excitable neighbours get into a panic—as is possible, although as yet there are no signs of such a development—the severe effects of such an occurrence are bound to be reflected here. If, on the other hand, the decline in prices is orderly and gradual, as will