



## "Near-term outlook is promising"

"Economic conditions here and abroad suggest that we may be reasonably confident about the immediate outlook", said Neil J. McKinnon, President, addressing the 93rd Annual Meeting of The Canadian Bank of Commerce.

When we met a year ago we had passed through a mild recession and were on the verge of a forward movement in economic activity. Many lacked confidence in the outlook at that time but the advance during the year dispelled doubts and we may now anticipate that this year there will be a greater production of goods and services than we have experienced in any peace-time period.

The latest figures for Gross National Product, those for the second quarter, indicate a seasonally adjusted annual rate of \$34.7 billion, an increase of about seven per cent over last year, and of about 5½ per cent on a constant dollar basis. It seems likely that despite temporary hindrances to production the final half of this year will show a similar increase.

This is perhaps remarkable because this has been a year of some strain in certain respects. An unusually severe winter aggravated the employment situation, and was followed by some labour disputes, more particularly the lumbermen's strike in British Columbia. The effects of the steel strike in the United States, while less serious than might have been expected in view of its duration, were nevertheless unfavourable. Export demand for some of the larger contents of our foreign trade sagged, while a rise in imports created a heavy deficit balance on merchandise account. And a rapid increase in demand for borrowings of all types against a tightly-reined money supply imposed financial strains on the economy.

### Industrial Production

Industrial production throughout the year has reflected on the one hand the pressure of demand in various sectors, and on the other the effect of strike action, here and in the United States. The mining industry has been supported by iron ore producers, whose output, despite the steel strike, has been substantially ahead of last year's. Shipments of uranium were also ahead of those in 1958, and were an important factor in maintaining our export trade. Oil production has lagged but gas production and utilization continue to expand.

Manufacturing now appears to be resuming its upward trend, with durable goods indicating a more substantial gain than the non-durables. The industries based on forestry have improved their position, and most of the light industries are well employed. The difficulty of determining at this stage what the total effects of the steel strike will be, either on our economy or that of the United States, injects some measure of uncertainty into the immediate outlook for industry. However, a high level of potential domestic demand may well be made effective by a currently high level of personal disposable income. All told, available information suggests that industrial production should be maintained at a satisfactory rate in the immediate future.

### Agricultural Production

Agriculture has had on the whole a satisfactory year. The growth of population in our country during the past twenty years has helped greatly to solve many marketing problems but the problem of marketing our largest crop, wheat, continues. Farm incomes, however, have remained at levels which have encouraged a high rate of sales of farm machinery. Continued investment in modern machinery, the ever-widening application of technological advances and improvement in farm management to which our agricultural colleges have contributed so much combine to improve productivity and increase efficiency.

### Consumer Expenditures

The rapid recovery from last year's recessive phase has been generated largely by consumer expenditures. While expenditure on non-durable goods advanced in step with population growth, expenditure on durable goods showed marked gains. The greater expenditure on durable goods this year has also brought about an increase in consumer debt. There is no sign as yet that consumer demand for durable goods has been fully satisfied.

Consumer expenditures have been reflected in retail sales which have been at record levels in practically all lines. There seems reason to expect a continuance next year, though distribution of expenditure may be somewhat different than in the present year, with a larger proportion being directed to automobiles and non-durables and a somewhat lower proportion to household goods.

### Capital Investment

Resource developments are not normally affected by the short-term fluctuations of the economy. While present projects are not of the magnitude that gave such impetus to the 1955-56 boom, by any other criterion they are on a very large scale, and regionally well distributed.

Capital investment expenditure in 1959 has exceeded forecasts at the beginning of the year, a condition characteristic of rising confidence and rapid growth, although the total may not be much ahead of the average of the past three years. Expenditures on housing have fallen somewhat below the level expected early in the year, while industrial construction has risen slightly above. There are indications that capital investment in 1960

will rise perhaps more significantly in machinery and in industrial construction. The improvement in corporate profits this year will likely have an encouraging influence.

### Foreign Trade and Balance of Payments

Export trade was just holding its own as compared with last year until the end of the third quarter, when a substantial increase in shipments to practically all areas brought the nine-month total to a near-record level.

Imports have reflected both an increase in capital investment and enlarged consumption expenditure on durable goods. The larger increases have been in machinery, automobiles and parts, and rolling mill products. The source of the greater part of our imports is the United States but the proportion to the whole this year is somewhat lower than in 1958 and the other countries from which our imports are normally heaviest all show well-distributed increases.

The resurgence in business has been reflected in our balance of payments. The rise in corporate profits contributed to increased dividend payments to non-residents and this combined with heavier individual remittances to other countries all added to the nation's deficit on invisible international payments. Direct investment has been maintained fairly well, particularly in view of the increased interest of United States investors in Europe. Higher interest rates in this country have also encouraged some inflow of short-term investment funds. The total rate of United States investment in Canada, including borrowings by Canadian provinces, municipalities and corporations in the United States market, has more than covered our current deficit on trade in material things. We in this country must begin to be much more conscious that the foreign debts which are being incurred are creating a built-in servicing obligation which in less buoyant conditions may well be burdensome.

There is still no clear indication of the type or extent of change we may expect in the pattern of trade following the emergence of new market forces as the European Common Market begins to take shape. The producers in the Common Market of Europe will have the benefit of a domestic mass market; exports from Europe to Canada's market of 17 million people could indeed be at end-of-run prices after the producer has supplied a domestic market of 166 million people. With our heavy dependence on foreign trade as well as the development of our modestly growing internal trade, we must be alert not only to the changing pattern and conditions of world trade, but also to the nature of the internal economy and sources of materials of those countries which have provided markets for our exports.

### Employment and Income

Employment normally lags somewhat in a recovery period of a business cycle. However, with rising sales, an increase in employment eventually becomes necessary, and employment figures have responded throughout the year. There was an unusual influx into the labour force in the two previous years, both from immigration and from the addition of the first wave of the "war babies" to the labour force. It appears that we have now absorbed this increase.

Canada's population is now estimated to exceed 17½ million, and has been growing at about the same pace as last year. While the labour force now appears to be adequate for our present rate of production, the business expansion may, before long, create a fairly tight labour situation, despite an increasing rate of accession to the labour force because of the present age distribution of the population.

In September less than three per cent of the labour force was unemployed which, allowing for temporarily unemployed and the unemployable, is considered to be full employment. Trends in employment continue; the number engaged in agriculture declined while the number in trade and in the supply of services increased. Again the increase in numbers employed in manufacturing has been less than the increase in output.

### Price Movements

Both wholesale and retail prices have been relatively stable throughout the whole period of recovery. The general wholesale price index moved up fractionally during the summer but since has fallen again, while the consumer price index fell until mid-summer and then began its slight seasonal rise. The over-all increase has been of the order of 1½ per cent during the present year, a lessening in the rate of increase of previous years. Productive capacity and existing supplies of most raw materials have, however, been adequate, and in some cases in surplus on world markets, while the resurgence of the European and Japanese industrial economies has brought about increasingly competitive conditions for manufactured goods. These circumstances tend to have

an over-all stabilizing effect on prices. There seems little reason to think that the market for raw materials and manufactured goods will be any less competitive during the coming year. The domestic price level should therefore continue to show a fair degree of stability.

### Financial Developments

The strong consumer demand during the year had a direct effect on the credit situation. In October of last year, the Bank of Canada stabilized the money supply. However, increased consumer buying during late 1958 and early 1959 necessitated trading concerns carrying larger amounts of accounts receivable and inventories and generated increased demand for loans to individuals and increased use of consumer credit of all kinds. These conditions caused steadily increasing use of bank credit, particularly from small and intermediate sized borrowers. Within the banking system loans to larger borrowers in the aggregate remained at totals about the same as those of two years previously, while a very large increase took place in loans to smaller borrowers. The rapid increase in bank loans in the early part of the year finally caused the chartered banks, in the absence of leadership through a central bank interest rate or otherwise, to move to stabilize a situation which was then creating an impairment of confidence in the capital markets. In May, an announcement by The Canadian Bankers' Association warned of the tightening monetary situation but because of a lack of public endorsement in official quarters, it failed to have influence. The continuing sales of government bonds by the banks in order to release funds for loans caused increasing pressure on a bond market already greatly strained by the necessity of financing large new issues principally by governments and, as a result, both short-term and long-term interest rates continued to move up sharply. In August a point was reached where the banks, acting again through The Canadian Bankers' Association, had to exercise forceful leadership and control in order to avoid immobility in the banking system and to re-establish confidence in the market for public bond issues. The action then taken became effective with beneficial effects to the economy and to financial markets. The selling of government bonds by the banks was greatly diminished, banks then became able to renew and in some cases to add to their holdings of government treasury bills, interest rates on treasury bills and short-term bonds tended to decline and a vitally necessary condition of stability was restored.

There are now some indications that the federal government is moving towards a balanced budget which, if it is inclusive of capital as well as current expenditures, will take much weight off the new issues market.

The tight money situation of our environment must also be viewed in a global perspective. The expansion of business throughout the world is causing interest rates to rise in many countries. Large capital investment programs call for increased savings of all kinds, and it would appear that, taking a long view, we shall have to plan our expansions under somewhat taut conditions in money markets for some time to come, although economic conditions may induce some easing in the situation at times.

### Summary

Economic conditions here and abroad suggest that we may be reasonably confident about the immediate outlook. The industrial picture looks currently sound provided it is not marred by strikes of the seriousness of this past year. Consumer spending, which has been running at high levels throughout most of the year, promises to continue to do so next year. Capital investment, with the exception of housing, may be somewhat larger than this year. It is more difficult to discern a constructive pattern in our external trade. Much will depend on competitive conditions here and abroad, the level of our dollar in international markets and the level of prosperity in the nations which provide our foreign markets. Inflationary tendencies appear to have subsided and our growth is taking place against a background of reasonably level prices. Although the near-term outlook is promising, much of our national income is based on export markets for natural and semi-processed products and much of our industry depends on a still small, although growing, domestic market. We are greatly influenced by the international environment and we should seek to understand its movement and direction in advance of its impact on us. Equally important, we must seek to maintain a business climate which will give the necessary incentives to individuals and corporations to grow and expand.

**J. P. R. Wadsworth, Vice-President and General Manager, reviewed the balance sheet, highlights of which are summarized, and said in part:**

The 93rd annual statement records new peak figures in several areas and lower totals in others. Personal savings deposits in Canada at \$1,368,000,000 increased by \$57,700,000 during the year and loans at \$1,200,000,000 increased by \$188,671,000.

The unusually large increase in loans made it necessary to sell securities and the reduction in the investment portfolio amounted to \$189,400,000. Loans under the

National Housing Act at \$186,611,000 show an increase of \$46,396,000. Under existing monetary conditions our activities in this field are limited. Call loans amounted to \$199,756,000, an increase of \$25,104,000, principally in day-to-day loans to money market dealers.

The increase in volume of business in recent years brought with it a large increase in the total of cheques and other transit items in the course of clearing. This asset does not earn interest and during the past year intensive efforts have been made to accelerate the clearing of these items. The success of our improved system is shown in a reduction of \$78,524,000 in transit items. Because somewhat more than one-half of the total of transit items represents cheques drawn on accounts at various branches of the Bank, a reduction of approximately \$40,000,000 in general deposits resulted. This together with the withdrawal of certain large deposits which were held temporarily a year ago, to which reference was made in last year's report, brought about a reduction in other deposits from \$1,271,000,000 last year to \$1,165,000,000 this year. Deposits by the Government of Canada decreased temporarily by \$21,000,000. Total assets at the end of the year amounted to \$2,976,000,000 compared with a total of \$3,016,000,000 a year ago.

Notwithstanding the large expansion in loans during the year a strong liquid position was maintained with total quick assets amounting to \$1,497,000,000 representing 53.5 per cent of total liabilities to the public.

This year a number of necessary enlargement programs at existing branches were completed and new branches were established in new and growing areas. The total number of banking offices now stands at 851. During the year the Bank appointed a senior officer as European Representative with headquarters in Zurich, Switzerland.

The offering to shareholders of 900,000 shares on December 12, 1958 increased paid-up capital during the year by \$8,971,000 and rest account by \$19,736,000. The number of shareholders increased during the year by 2,075 and now stands at 20,371.

The statement of undivided profits shows an increase in profits after taxes of \$906,033. Income taxes increased by \$2,100,000. After providing for dividend payments of \$9,163,828 an amount of \$1,954,552 was carried forward increasing the balance of undivided profits to \$3,121,636.

Once again I want to take this opportunity to pay tribute to all members of the personnel for their loyal and devoted service. The past year has posed many problems, in particular in the field of credit administration, and the role played by the branch managers has been more than ever an extremely important one. They in turn have been backed up by a good team in the Regional Offices and in the Head Office Departments, and I know the shareholders will wish to join with the Chairman, the President and myself in this expression of appreciation.

### ANNUAL STATEMENT HIGHLIGHTS YEAR ENDED OCTOBER 31, 1959

#### ASSETS

Cash Resources (including items in transit)	\$ 410,020,511
Government and Other Securities	887,339,022
Call Loans	199,756,578
Total Quick Assets	\$ 1,497,116,111
Loans and Discounts	1,200,442,400
Mortgages and Hypothecs insured under the N.H.A., 1954	186,611,352
Customers' Liability under Acceptances, Guarantees and Letters of Credit, as per contra	32,552,422
Other Assets	59,497,653
Total Assets	\$ 2,976,219,938

#### LIABILITIES

Deposits	\$ 2,753,782,801
Acceptances, Guarantees and Letters of Credit	32,552,422
Other Liabilities	13,055,458
Shareholders' Equity	
Capital Paid Up	\$ 53,971,132
Rest Account	119,736,489
Undivided Profits	3,121,636
Total Liabilities	\$ 2,976,219,938

#### STATEMENT OF UNDIVIDED PROFITS

Profit before income taxes	\$ 23,168,380
Provision for income taxes	12,050,000
Balance available for distribution	\$ 11,118,380
Dividends	9,163,828
Amount carried forward	\$ 1,954,552
Balance of undivided profits October 31, 1958	1,167,084
Balance of undivided profits October 31, 1959	\$ 3,121,636

The full text of the President's and the General Manager's addresses



may be obtained by writing to the Secretary, Head Office, Toronto.

# THE CANADIAN BANK OF COMMERCE

MORE THAN 850 BRANCHES IN CANADA AND ABROAD