

Increasing competition provides many challenges for the coming year

Extracts of addresses delivered at the 88th Annual Meeting of The Canadian Bank of Commerce



"If it were possible to draw up a balance sheet of Canadian conditions it would show a substantial surplus on the favourable side," said James Stewart, C.B.E., President, addressing the 88th Annual Meeting of The Canadian Bank of Commerce.

In dealing with the general economic picture, Mr. Stewart observed, in part, that "evidence is mounting to indicate slowing down, for the time being, in the rate of our over-all economic growth. The commercial and industrial situation this past year is by no means depressed—in fact, if it were possible to draw up a balance sheet of Canadian conditions it would show a substantial surplus on the favourable side. However, careful examination of the record reveals a somewhat spotty pattern of activity with both gains and losses showing up in a number of areas and in a number of industries."

"It is generally agreed," said the President, "that government policies of the past few years designed to maintain some measure of stability in a growing economy have been successful. We now are entering a period when business must, on its own initiative, test the strengths and weaknesses in the market-place. During the past few years there has developed a feeling in some circles that business fluctuations can be smoothed out, even corrected, by various monetary and fiscal measures. On the other hand, a skepticism continues to be felt as to whether government intervention can cope with all unfavourable developments. In a large measure solutions will depend on the kind and degree of problem to be solved. On us as citizens—corporate and individual—much will depend on the position we take on domestic and international issues. For example, are we prepared to pay the price for "full employment"—assuming the price can be estimated; do we favour price-supports to maintain floors under prices that otherwise would be brought into line with demand; do we approve of special protection for special industries in the light of our position as a trading nation? These and other vexatious issues, concerning which the people as a whole are vitally interested, call for early and objective thinking in the light of the re-emergence of a buyers' market."

In a reference to national production, Mr. Stewart said: "But what possibly has not commanded the attention it deserves is that, with an expanding population and a growing labour force, it is necessary—assuming economic stability—that productivity move forward in relation to this growth. If our standards of living are to improve, the rate of increase in productivity should be somewhat greater than the rate of population growth. When, in fact, production remains constant or declines then this is a warning that changes are called for in both business and government policies."

"The agricultural situation this year has changed relative to last year. The picture has been affected in no small way by the capriciousness of the weather. An unofficial estimate of a 250 million bushel wheat crop for the prairies this year follows three consecutive years of crops over twice that size. Even the diminished yield does not tell the full story. The composition of the crop is even more revealing, as witness the estimate that a substantial percentage of this year's crop will be rated as feed. Manifestly, the difficulties of marketing a mounting grain surplus in competitive foreign markets is somewhat alleviated as a result of this year's output. However, any adverse effect on the income and purchasing power of the prairie farmers soon becomes evident and in turn affects, to some degree, the over-all consumption pattern for the months ahead. Production of most of our principal grain crops, with the exception of flax, is down this year. However," Mr. Stewart concluded, "the level of domestic food consumption remains high and should remain relatively stable."

"It is evident that we are in a period of competition, which in course of time may become more intensified, yet it would appear that the influences of a sellers' market during the past decade continue to prevail and consequently have made adjustments to competitive conditions somewhat more difficult to achieve. We are, in fact, witnessing the emergence of at least three kinds of competition: in foreign markets, where it involves

some of our exports; and in the domestic field, where, first of all, there are felt the effects of imports from foreign countries, and second as between our own firms and industries.

"We hear on many sides of relatively high costs being detrimental to sales in the present competitive market. If this be the case then every effort to reduce costs must be made. Where productivity or other conditions can be improved to reduce costs it is imperative that plans be made to achieve this as soon as possible. In many cases, an increase in output could reduce the per unit cost of the product and thereby improve its competitive position. In other cases, it may be that technological improvements are necessary to restore the industry to a better relative cost relationship to competitors. In yet other cases it may require management to re-examine and where necessary revise production and marketing policies in line with the changes that now are taking place in the market.

"Since, as I have noted, competition arises in several forms, and since we cannot usefully separate our domestic from our foreign activities, except in certain specific instances, the question of protection looms increasingly important. One of the questions in the field of foreign trade that cannot be ignored centres on the extent to which we consider tariffs as a device to support the economy. I have recorded on other occasions my belief that with regard to "protection" the long run rather than the short run position is to be preferred because of the dynamic growth character of our economy. If we pursue the objective of diversification of industry, both primary and manufacturing, there is bound to be conflict with imports, particularly in manufactured goods. Nor is there much to be said for the view that we can concentrate our attention on exports while ignoring the import problem. Nations who buy, or who might be prepared to buy from us, in the final analysis expect to pay in their goods. Trade has to be viewed in the form of input as well as outflow. Or to illustrate in a more homely fashion, any industrial organization has a purchasing as well as a sales department. Except in special circumstances, protection invites retaliation and for us this form of activity would be inimical to our desire for improved standards of living."

"Canadians generally have given, I believe, serious attention to the position taken by the government in 1945 to the effect that it would be the duty of the government to maintain a climate within which business could develop and expand. It now appears that the definition of climate invites examination and clarification. There seems to be a belief that business—small or big—can, should and does operate in an atmosphere of perfect competition. Because of existing conditions of mass production, indigenous geographic characteristics, and growing elasticity of substitution and the like, we are in process of change. For example, substitutes are now available for nearly every product which once offered an opportunity for monopoly: new synthetic fibres for cotton, wool, linen, jute and silk; other fuels for coal; and a whole range of new ferro-alloys or alternate base metals for the relatively few original grades of iron and steel. The Canadian consumer now has a diverse variety of choice for goods and services which gives to competition a universality that it never before possessed. We must therefore turn our attention to the realities of present-day production and distribution as they apply to the Canadian economy. This suggests that while restrictive trade practices should continue to come within the purview of government supervision, the yardsticks that are used require careful re-examination. Consideration such as 'to the detriment of the public' and 'undue lessening of competition' are tenuous and difficult of reasonable interpretation. Bearing in mind our geographic position, the pattern of present population concentrations, and the increasing competition from abroad, it is possible that certain forms of integration for greater productive efficiency, lower costs, and improved competitive position, can exist in the public interest. In the light of advances in mechanization and

mass production some form of industrial planning must be acceptable; otherwise unremunerative prices may follow which would not be in the public interest. Unprofitable business operations result in lowered wages and reduced employment—neither of which are desirable ends of policy.

"The question of monopolistic practice surely centres on the relative profits obtained on effective investment. If this yardstick were more frequently applied it would make for happier relations between industry and government without interfering with the right of action. The present approach, of proving collusion, seems somewhat unrealistic and unnecessary in the light of other and more useful tests of 'detriment to the public.' Surely with the re-emergence of a buyers' market, the sellers' market philosophy will be replaced with a realistic approach to competitive business as it is actually conducted."

"We have witnessed these past few months a revival of the purchasing power doctrine—a very pervasive approach to remedying any signs of unemployment. The idea that collectively we can buy our way out of any downward trend in economic activity sounds fine except for one factor—the resulting effect on prices. It cannot be said too often that we function in a world economy, not an isolated economy, and hence price is a key to, not incidental to, our prosperity. Let us keep clearly in our minds that, in the main, the product pays the wages—the manufacturer acting as a middle man in the transaction. What can be paid out in costs of production is determined by what the consumer will pay for the finished product. Manifestly, it is uneconomic in the face of a falling demand to do anything to increase prices in the hope of reviving that demand. Surely this is the time for realism in our market appraisals."

Turning now to the immediate prospects Mr. Stewart concluded: "Over-all I would suggest that the next twelve months will record a continuation of the spotty pattern that has been evident this year. How well or how poorly we react to the growing competition both at home and from abroad will of course have an important bearing on the relative success of our operations next year. However, disposable income continues to be high and there is every expectation that consumer purchasing will remain at a reasonably high level. Meanwhile, technology combined with the continuing development of resources suggests a steadiness in the rate of expansion of primary goods and ancillary industries. Investment opportunities should continue to be favourable and particularly in the construction industry it would appear that capital investment should remain strong.

"In the longer view, I look for continued growth and development throughout the country. Blessed as we are with an abundance and a variety of resources, one can only conclude that we can, with care and conservation, market many of our products with considerable advantage to ourselves. A growing population, which means a growing labour force, demands a continual revision of our objectives. This, amongst other things, means new markets and requires new or advanced methods of distribution. The challenges indeed are great; that we have successfully met problems in the past with foresight augurs well for the road ahead."



NEIL J. McKINNON, VICE-PRESIDENT and GENERAL MANAGER, after reviewing the balance sheet, highlights of which are summarized below, said in part:

"The 88th Annual Statement records a year of major growth during which new records were established in many important aspects of the Bank's business. Deposits increased by more than \$156,000,000 and total assets increased by approximately \$160,000,000 bringing the total assets of the Bank to an all-time high of \$2,058,000,000.

"The past year has been on the whole one of active business, although at a somewhat lower level than last year, and it has been marked by a widening in the area of competitive trading conditions which were becoming evident more than a year ago. This has not only been true of production competing in the export field, but also of business serving principally the domestic market which, to an increasing extent, has competed with imports encouraged by the prevailing discounts on other currencies. The sharply competitive conditions have made exacting demands on management, and have focused attention on cost control and increased efficiency. Much attention has also been given to control and balance of inventories and this, together with a leveling-off in the expansion of retail consumer credit, has brought about, in many fields, a lessening in requirements for additional bank loans.

"This year The Bank Act was re-enacted by Parliament following the usual decennial revision. Several useful changes have been made, one of which enables security to be provided over petroleum in the course of production, a field of finance in which the Bank has played a leading part. Another change was the authorization of banks to engage in mortgage lending under the National Housing Act under which, subject to certain conditions, mortgages are insured up to 98% of the principal amount. The Bank has also been actively engaged in this field.

"A new item appears for the first time in our balance sheet in the form of mortgages insured under the National Housing Act. At 31st October this amounted to \$5,800,000 and commitments presently outstanding will increase this amount measurably during the coming year.

"The balance at credit of undivided profits was increased to \$3,647,000 of which \$3,000,000 has been transferred to rest account in addition to a transfer of \$10,000,000 from tax paid reserves to which reference has been made in the directors' report. The additional capital for which subscription rights have been offered to shareholders will augment the total of capital and rest account to \$101,250,000. The enlarged capital resources will be an important aid in enabling the Bank to enlarge its participation in constructive developments and in furthering the continued growth of the Bank.

"Once again it is a privilege to acknowledge here, and pay tribute to, the loyal and enthusiastic work of all members of personnel within the Bank. The past year has been a very busy one and the whole-hearted co-operation of everyone is reflected in the progress shown in the Balance Sheet. With growing business and expanding activity, officers and employees have maintained a high level of service to the public which is traditional with the Bank."

ANNUAL STATEMENT HIGHLIGHTS — YEAR ENDED OCTOBER 31, 1954

ASSETS		LIABILITIES	
Cash Resources (including items in transit)	\$ 318,359,590	Deposits	\$1,938,666,112
Securities	793,918,331	Acceptances and Letters of Credit	29,813,441
Total Loans	874,881,279	Other Liabilities	8,589,769
Mortgages and Hypothecs insured under the N.H.A. 1954	5,815,496	Capital, Rest Account and Undivided Profits	81,647,648
Acceptances and Letters of Credit	29,813,441		
Other Assets	35,928,833		
Total Assets	\$2,058,716,970	Total Liabilities	\$2,058,716,970

STATEMENT OF UNDIVIDED PROFITS

Profits before Government of Canada taxes	\$14,896,379
Less: Provision for depreciation on Bank Premises	\$1,685,029
Provision for Government of Canada taxes	6,807,000
Balance available for distribution	\$ 6,404,350
Dividends	3,600,000
Balance carried forward	\$ 2,804,350
Balance of undivided profits October 31, 1953	843,298
	\$ 3,647,648
Transferred to Rest Account	3,000,000
Balance of undivided profits October 31, 1954	\$ 647,648

The full text of the President's and the General Manager's addresses may be obtained by writing to the Secretary, Head Office, Toronto.

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