THE ROYAL BANK OF CANADA

HEAD OFFICE, MONTREAL

February, 1944

"No matter where you are going, you have to start from where you are now" is a law of life too often ignored. Some individuals and businesses are given to projecting their plans on an ideal plane they think will exist months or years ahead. For 1944, the start was made with things as they were at the end of 1943, and this Letter is an attempt to present a factual appraisal of that situation.

The past year saw substantial completion of Canada's climb to full-out war activity. It seems reasonable to expect that requirements should be modified by the shifting scene, tempo and mode of warfare, by defeat of the U-boats, and by the reaching of peak personnel in the armed forces. There was, in fact, a change in the nature and quantity of war manufactures in the latter part of the year. Pressure production had built so great reserves of some goods that their manufacture could be discontinued or greatly reduced.

Many of the stringencies that had been feared and predicted failed to develop. Clothing and footwear were not rationed, while the rations of tea, coffee and preserves were made more generous. Retailers' shelves were not stripped bare, though stocks of many ordinary items gave out. At the same time it cannot be taken for granted that ordinary wants will be met immediately, or to any great extent until war ends in at least one theatre. At present, the reduction in war effort of one kind is expected to increase production in another field, with the possibility of transfer of manpower from one activity to another.

As will be seen by a study of the individual figures, many production records set in the previous year were shattered, and at year's end the trend was still upward, but at a reduced rate in many instances. This tendency to taper off in the second half of 1943 followed a sharp rise from 1940. It is important to note that the actual volume of business did not show a decrease. There was, however, a slackening in the rate at which it has been expanding. The index, based on minerals, manufacturing, electric power, distribution and construction, gained 17 per cent over 1942.

The national income, which is the net value of commodities produced and services rendered, rose to a new high point. It was consistently higher month by month than in 1942, and the total was more than 17 per cent higher than in the previous year, while the increase over 1939 was 92 per cent. Of the total national income in 1943, conservatively figured at $8,800 million, government expenditures for war purposes are placed at $4,900 million, which is in excess of the total pre-war income of the nation.

In keeping with the change in production and expenditure of materials, there has been an enormous growth in Dominion Government financing. Revenue from April to November in the current fiscal year rose 20 per cent over the same period in 1942. While increase in ordinary expenditure was 15 per cent, the jump in war expenditure was 57 per cent. It is not generally realized to what extent Canada is paying her way in this war as compared with the first world war. The cost of the 1914-1918 war for six years, which covers the period of demobilization, was $1,670 million, and only $1,121 million was raised in taxes. In this war, the cost to March, 1944, has been $10,824 million, with $7,300 million raised by taxation. Everyone knows the impact of taxation upon his own business and purse, but this short table will bring home the magnitude of the total financing achievement of the Canadian people out of current income:

Fiscal Year	Individual Income Tax	Corporation Income Tax	Excess Profits Tax
	(Thousands of dollars)		
1943–44	$825,000	$300,000	$550,000
1941–42	296,139	185,836	135,168
1939–40	45,407	77,920	nil
1937–38	40,445	69,769	nil
1928–29	24,793	34,629	nil
1918–19	7,973	1,377	nil

Prior to 1917 there was no income tax, individual or corporation.

During the past year the government raised $2,692 million in two Victory Loans, bringing the total cash raised in public war loans to $5,919 million. The chartered banks do not subscribe to these public loans, but take up slack by short-term financing at very low rates of interest which barely repay the banks for the cost of bookkeeping. The interest rate on government borrowing averages 2.6 per cent, compared with 5.1 per cent at the end of the first world war.

A fact of great significance to businessmen is the amount of purchasing power now stored in the hands of the people. More than three million individuals participated in the latest Victory Loan, and more than two million in the other 1943 flotation. About $2,500 million in war bonds and savings certificates are owned by individuals. Add to that sum millions in refundable taxes, growing every month the war lasts. Add again nearly two billion dollars in the savings accounts of the chartered banks, the great bulk of which represents the stored up purchasing power of individuals. Add to that nearly two billion dollars invested in life insurance since the war started. Life insurance continues to take up a great deal of the excess of purchasing power over goods available, and sales in each of the past two years have been $200 million higher than in years before the war. The total of these impressive sums represents, for the most part, purchasing power which would not have existed in the form of savings in ordinary times.

A good indication of the speed of business is given by the cashing of cheques. During 1943, cheques cashed against individual accounts aggregated $54 billion, a new high point 18 per cent above 1942. Greatest advance, 37 per cent, was in the Prairie Provinces, while the other economic divisions were also up: Maritimes 15.6; Quebec 20.6; Ontario 11.5 and British Columbia 16 per cent. Circulating media in the hands of the public increased 31 per cent over 1942.

The chartered banks, reporting on their 1943 business, showed combined taxes up a million dollars to a total of $11½ million, while profits after taxes were down from last year to $15 million, and dividend payments were reduced $2 million to $9½ million. All banks showed increased total assets, deposits and investments in Government and other bonds. Three banks were over the billion dollar mark in assets, as compared with two last year, and The Royal Bank of Canada crossed the $1½ billion mark, the first time in history that this figure has been reached by any Canadian bank.

Other financial figures of general interest, as forming part of the overall business picture of 1943, are: sales of new Canadian bond and debenture issues rose more than 50 per cent over 1942, and amounted to nearly three times the 1941 total; common stock prices averaged 83.5 in 1943 against 63.5 in 1942, a gain of 32 per cent.; net import of capital from the United States was about $200 million, double that of 1942, and nearly four times that of 1939.

Amid all this activity of industry and finance, there was a wider distribution of the national income. Among the features of the year were higher earnings for labour and higher income for farmers. The contents of the average weekly pay envelope of those in recorded employment rose to a new maximum of $31.59. The index of wage rates is not yet available for 1943, but by 1942 it had risen to 128 from 102 in 1937, and the trend was upward all last year. The highest this index ever attained previously was in 1920, when it reached 113. At the turn of the century it was 40. Many labour saving devices and improved machines have been introduced in manufacturing, but the benefits have not been passed on to consumers in the form of lower prices, or to shareholders in the form of dividends. The benefits have actually been taken almost entirely by industrial workers who are receiving higher hourly rates of pay. Tables of corporation profits and dividends complied by the Bank of Canada show that business, after paying taxes and excess profits taxes, is not profiting from the war. Actually, owners of businesses are receiving three per cent less income from their investments than in 1939.

Industrial employment during the year under review showed a continuance of the expansion which has been in progress since the outbreak of war, but the acceleration was at a definitely lower rate. A new maximum was reached in November, but the increase in that month's report was smaller than in any November in the period of the war. The general index was 189, five points above the preceding November. Much of the increase in recent months, of course, reflects greater employment of women, of whom there were 1,170,000 in industry last October. One worker in every four producing war supplies is a woman; women comprise over 20 per cent of the 86,000 workers in the aircraft industry, and more than 80 per cent of the workers in instrument factories.

With employment at such a high peak, the unemployment insurance fund has reached a total of $171 million, and has paid out only $1¼ million in benefits in two years. In the first eleven months there were 448 strikes, affecting 200,000 workers, with a loss of 962,000 man-days. This was double the 1942 record.

Not much need be said in detail about the country's war production, which has been the subject of many reports in and out of parliament. It is commonplace to boast that Canada ranks fourth among the United Nations as a producer of war supplies, but it should not be forgotten that this industrial machine was not built from scratch at outbreak of war. It is true that industry was not, as in some European countries, designed with war in mind; it is also true that Canadian industry was hampered in its swing-over to war production by constantly changing requirements and specifications, by shortages of materials, tools and skilled labour. But it is important to remember, in contemplation of post-war problems, that prior to 1939 there was a great industrial machine here, built up over a long period of years. War production, expanded on the solid foundation of established industries, totalled $2,776 million in 1943, and $5,911 million since war began. This was achieved in the face of the need to improvise and adapt to meet emergencies which could not have been previously planned for. And in addition, industry loaned many of its best managers and technicians to government departments and agencies.

Those who imagine that the pioneer impulse is dead, or that industry has lost its power to initiate, should ponder the record of these industries. All can not yet be told, but it is known, just as an example, that seven major developments in signal equipment originated in Canadian plants, from a walkie-talkie radio set for one man to a super high-powered field radio station. Every other industry has its own triumphs, discoveries and achievements. And just as individual industries have shown unselfishness in their relation to the war, so the country as a whole has thrown its weight into the fray in a co-operative way: less than 30 per cent of Canada's war production is for her own armed forces; the remaining 70 per cent goes to other members of the United Nations.

A glance at the records of individual businesses is inspiring. Up to the end of 1943, shipyards had delivered 219 vessels of 10,000 tons and 13 ships of 5,000 tons. The 1944 schedule calls for 102 of the larger and 18 of the smaller vessels. Pulp and paper, which in peacetime leads all Canadian manufacturing industries in wages and salaries, and is second only to sawmills in the number it employs, continued its outstanding wartime job. More than 55 per cent of the pulpwood found its way into direct war uses. Less than three per cent was consumed for use as newsprint in Canada, and less than 45 per cent for use as newsprint in all markets. The woollen and knit goods industry, with 340 factories employing more than 40,000 workers, supplied 14 million yards of military wool cloth and 825,000 blankets, besides a score of million garments and pairs of socks. Canada continued to supply 40 per cent of the aluminum needs of the allies, 95 per cent of the nickel, 20 per cent of the zinc and mercury, 15 per cent of the lead, and 12 per cent of the copper. The production of nickel has been increased by 50 million pounds a year over the 1940 output. Steel production fell off 4 per cent in 1943, partly attributable to labour disturbances, though it was still double the production of 1939. Pig iron production was also off, but like steel it remained double the 1939 figure. Production of the paint and varnish industry has doubled since war started, and is now over $50 million.

An example of the return to civilian production to supply essentials is given by the shoe manufacturers. Up to mid-summer the factories were busy supplying footwear to the armed forces. When these rush orders were cut off, the factories turned immediately to replenishing the shoe store shelves, particularly in work boots and children's shoe lines. A newcomer in the industrial-agricultural field, to be completed by mid-summer, is a plant at Toronto to process soybeans, sunflowers and other plants into vegetable oils. To meet the electric power needs of its thousands of factories, Canada has about ten million horsepower developed, representing 23 per cent of the possible turbine installation on her rivers. Production in kilowatt hours was 42 per cent higher than in 1939.

The construction business was less successful than others in getting new business in 1943, contracts awarded showing a decrease of 29 per cent, and building permits a decrease of 21 per cent. Having built about all the war factories Canada has the labour to staff or the raw material to supply, the industrial construction concerns saw their production cut to less than half of the 1942 total and about a quarter of the 1940 peak. Home building kept up nearly level with 1942, and was exceeded only by 1941 in dollar volume.

The value of Canada's mineral production in 1943 was estimated at $524½ million, as compared with $567 million in 1942, the decrease being mainly accounted for by a lower output of gold. However, despite the decrease in gold, it is still by far the most important item on the mineral production list from point of view of value, which amounted in 1943 to $140½ million. There are signs that post-war Canada will witness greater interest in mines and mining. It is increasingly realized that not extent of territory but what the territory is made to yield, on its surface or from below, is the criterion of the nation's prosperity.

Transportation had a boom year, both by rail and in the air. Total figures do not give an adequate idea of the amount of work achieved, but the railways' own method of comparison shows impressive facts. The movement of tons of freight one mile was increased from 31¼ billion tons in 1939 to 63¾ billion in 1943, while passenger traffic increased from 1¾ billion passengers moved one mile in 1939 to 6½ billion in 1943. The combined gross operating revenue of the Canadian Pacific Railway and Canadian National Railways in the first eleven months of the year reached the unprecedented level of $671 million, two and a quarter times the total of 1938. Airlines also made phenomenal gains. Canadian Pacific Airlines carried 70,000 passengers, 2,200,000 pounds of mail and 9,100,000 pounds of cargo, representing increases of 21 per cent, 30 per cent and a decline of 6 per cent respectively. Trans-Canada Air Lines carried 141,000 passengers, 3,900,000 pounds of mail and 840,000 pounds of express, increases of 35 per cent, 69 per cent, and 100 per cent respectively.

Before considering the production of Canadian farms, it would be well to obtain a picture of the changed scene in regard to farm income. There was a further increase of 25 per cent in the cash income from the sale of farm products in the first six months of 1943, the latest period for which figures have been assembled. The Dominion increase was from $259 million in the first half of 1940 to $538 million in 1943, while in Saskatchewan the gain was from $32½ million to $111 million. These figures do not include income in the way of subsidies and bonus payments, except where the payments have been in the form of higher prices to the producers. The Searle Grain Company, which prepares a monthly index, reported that at year's end the purchasing power of a bushel of wheat was 103.6 per cent of what it was in 1913-14, compared with 68.8 per cent at the end of 1942. As a result of the immense betterment in farm income, the year 1943 saw a substantial increase in the discharge of farm mortgages.

Canada's wheat acreage, which reached a peak in 1940, was down in 1943 to 17½ million acres, the lowest in a quarter century. The wheat harvest in 1943 is estimated at 293 million bushels, valued at $298 million, compared with 556 million bushels in 1942, with a value of $385 million. The on-the-farm value of wheat was more than $1 a bushel in 1943, compared with 69 cents in 1942. The 1943 oat crop was down from 1942, but the price was higher, so that the decline in total value was only $15 million. A decrease in quantity of barley was offset by an increase in price, and the value was $15 million over that of a year ago. The total value of field crop production was $416 million greater than in 1939, an increase of 61 per cent.

Other farm produce may be mentioned briefly. In spite of shortage of manpower, farmers have produced livestock on a scale never before achieved. Returns from cattle sales in 1942 were two and a half times as great as in 1938, and there was a further increase last year. Total exports of pork products to Great Britain in four years of war were more than three times our total exports in the six years 1914-19. Creamery butter reached an all-time high of 312 million pounds, up 28 million pounds from 1942, while dairy butter declined 23 million pounds to 55 million. Cheddar cheese production diminished 21 per cent to 162 million pounds in the whole year, though there was an increase in December.

In the hot-house of war, Canada's external trade was forced to a new high point, the country retaining third place as a trading nation. Exports reached $2¾ billion, compared with a pre-war average of $1 billion annually, and the favourable balance of trade was $1.1 billion. If gold were included the per capita exports would amount to $260. A change of particular benefit to the Maritimes is the increased export of fish. Canada is providing a third of the United Kingdom's supplies of canned fish, and fish exports increased by more than $22 million from 1939. Sea fishermen received $35 million for their catches in the first ten months.

With half the country's production going into war, and people's incomes increasing greatly, new pressures developed upon the limited goods available for civilian use. Allowing for men overseas, the physical volume of goods bought by civilians has been running at least one-third above pre-war years, and if allowance be made for goods no longer available, the public has been consuming obtainable goods at a rate about 40 per cent above pre-war levels. Wholesale sales, on the base of the first eleven months, were about 7 per cent higher than in 1942; retail sales were up 4 per cent on the year, and 47 per cent since the war's start; department store sales increased only 1 per cent; while country general store sales showed an expansion of nearly 12 per cent, the country stores in the Maritimes leading with a jump of 22 per cent.

The prices of wholesale and farm products advanced noticeably during the year, while the index of cost of living remained stable. Wholesale prices averaged higher in 1943 than in any other year since 1926. The index passed the line of parity with that base year and reached 102.4 in November, compared with 78.6 in 1938. Prices of farm products advanced 20 per cent in the year, an increase of 79 per cent since war started.

A significant point seems to have been reached in the cost of living index. An increase of 1.4 points in the year brought it to 118.4, practically identical with the 118.3 registered in 1918. It was at the close of that first war that the index started to soar; it reached 150 in 1920, and did not come down appreciably below 120 until 1931. It is interesting to note that while Canada's index has gone up only 17 points since 1938, Britain's has risen 43, Australia's 25, and the United States' 24.

With such a record as has been achieved up to the end of 1943 Canadians are coming more and more to the opinion that there is no need for viewing the future with misgiving and fear. It required adaptability of thought and outlook to produce wartime achievements; the reverse changeover just requires continued elasticity of thought, co-operation, and ingenuity. But these things must be applied forcefully and sensibly. Many manufacturers are already warning the public against expecting revolutionary changes in equipment and fabrics immediately the war ends. New machine tools and patterns must await an easing-off in war production and the availability of materials. In addition, shortages are so acute in many durable goods lines that production will continue, or resume, on established styles to supply immediate needs.

PRINTED IN CANADA
by The Royal Bank of Canada