VOLUME III

REPORT

of the

ROYAL COMMISSION

on

PRICES

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1949

Vol. I — $0.50 Vol. II — $1.00 Vol. III — $1.00 Series $2.00

Orders should be sent to the King's Printer, Ottawa, Canada, and remittances made payable to the Receiver General of Canada.

ROYAL COMMISSION ON PRICES

C. A. CURTIS, Esq., Ph.D.,
Chairman.

H. C. BOIS, Esq.,
Commissioner.

Mrs. T. W. SUTHERLAND,
Commissioner.

A. G. S. GRIFFIN, Esq.,
Secretary.

H. A. DYDE, Esq., K.C.,
Counsel.

H. M. CARON, Esq., C.A.,
Accountant.

Volume III

TABLE OF CONTENTS

CHAPTER 1

THE COST-OF-LIVING INDEX

CHAPTER 2

THE BREAD BAKING INDUSTRY

CHAPTER 3

THE BUTTER INDUSTRY

CHAPTER 4

THE LIVESTOCK AND MEAT INDUSTRY

Chapter 5

FRUITS AND VEGETABLES

Chapter 6

THE PRIMARY TEXTILE INDUSTRY

Chapter 7

THE CHEMICAL FERTILIZER INDUSTRY

CHAPTER 8

THE HIDES AND LEATHER INDUSTRY

CHAPTER 9

LEATHER AND FOOTWEAR

CHAPTER 10

SECONDARY TEXTILE INDUSTRY

CHAPTER 11

THE LUMBER INDUSTRY

CHAPTER 12

CONSUMER CREDIT

CHAPTER 13

STATISTICAL SUPPLEMENT

GENERAL PRICE LEVEL COMPARISONS (1935-1939 base)

WHOLESALE PRICES (1926 base unless noted otherwise)

RETAIL PRICES AND COST-OF-LIVING INDEX
(1935-1939 base unless noted otherwise)

FARM PRICES (1935-1939 base)

1

THE COST-OF-LIVING INDEX

THROUGHOUT this report reference is made to the cost-of-living index prepared by the Dominion Bureau of Statistics. To an increasing extent, too, it is being used by the public to measure the general effect of changing prices on the average family pocket book. We therefore include in this report an outline of the purpose of the cost-of-living index, how it is constructed and the method used to adjust it to changing conditions. While the treatment is popular, the factual material has been checked with the Bureau for accuracy.

WHAT THE COST-OF-LIVING INDEX IS DESIGNED TO DO

The cost-of-living index is designed to measure the changes in the cost of an average urban wage-earner's family budget from month to month, both for the total budget and for the six main groups of family expenditure, food, clothing, shelter, fuel and light, house furnishings and services, and miscellaneous items.

It is a measure of price changes only; it is not intended to measure changes in the standard of living although in the long view, adjustments are made to reconcile a changing standard. The same family budget is priced from month to month over a long period of time, using the same quantities and qualities of all items included in the budget. No allowance is made for people buying more goods or better goods, since this is really a change in the standard of living, not a price change. To quote Mr. Herbert Marshall, the Dominion Statistician:

> "What the maker of a cost-of-living index tries to do is to establish a basket of goods which do not change in number, quantity or quality, price it from month to month, and express the latest cost as a percentage of the cost in the base period."[1]

It should be remembered, too, that the index measures only average changes in the cost of living. Due to their particular circumstances, the cost of living for some families will have risen more sharply than the average and for others less sharply. There are variations also in the change in living costs for cities in different parts of the country, but the indexes prepared by the Bureau for eight major Canadian cities show that the inter-city differences are relatively small.

---

[1] Evidence, Special Committee on Prices, p. 17.

How the Cost-of-Living Index is Constructed

There are five main steps in setting up and operating a cost-of-living index, which will be summarized briefly at this point and described in more detail further on:

1. Making a budgetary survey to determine what is the average budget of an average family, and what proportion of the family income is spent on food, clothing, rent, etc. This indicates the relative importance or "weight" to give each item or group of expenditures.
2. Selecting representative items from each main group in the average family budget for regular pricing.
3. Pricing these items across Canada, monthly in most cases, and compiling accurate reports of average prices from this information.
4. Weighting the various items and groups of items in the index in proportion to their importance in the family budget, as determined by the budgetary survey.
5. Calculating the cost-of-living index as a percentage of the base period.

What Standard of Living is to be Represented?

In setting up a cost-of-living index, it is necessary first to decide what standard of living is to be represented. Price changes may have varying effects on the budgets of people in widely differing income groups—for instance, people living in the lower income level will tend to spend a larger proportion of their income on essential foods, clothing and shelter, while people in the higher income levels will generally spend more on other things. Thus a rise in the price of an essential food would be likely to have a greater proportionate importance in the budget of the low-income family than among the more well-to-do. Conceivably, a country might set up a number of indexes for different income levels, different size communities and so on, but the great expense involved has caused most countries to limit themselves to one or two indexes. If only one cost-of-living index is used, it becomes vital to have one that will be typical of the expenditures of a large proportion of all families.

In Canada, we really have two living-cost indexes:

1. "The cost-of-living index", based on the average family budget of urban wage-earners.
2. "The farm family living-cost index", a parallel index based on the average budget of rural families.

The urban wage-earner index is used as the general cost-of-living index because it reflects the basic expenditures of families who have to purchase all of their cost-of-living needs; while the farm living-cost index gives the more specialized picture of those who produce an important part of what they consume.

The cost-of-living indexes in other countries are very similar to our own in their general construction, but according to national customs and conditions, different items may be included as essential or given different weightings. For example, in India, rice bulks large in the food budget while it is of slight importance in Canada. Similarly, tea and cocoa are more heavily weighted in the United Kingdom index than in ours. The United States cost-of-living index is of very similar construction to our own.

How the Canadian Budgetary Survey was made

Urban Wage-earners

The present cost-of-living index is based on a budgetary survey conducted among families of urban wage-earners in 1938. Before commencing the survey, the Dominion Bureau of Statistics made a preliminary study of the 1931 census figures to determine what constituted an average family. A general survey was then made of 45,000 homes in twelve cities to establish over-all guides. Finally, records of living expenditures were secured from 1,439 families across the Dominion for the year from October 1, 1937 to September 30, 1938.

Each of the survey families consisted of husband and wife and from one to five children, the average family being 4.6 persons, statistically speaking. The families chosen for the survey were all self-supporting and lived in a self-contained house or apartment. There were approximately two tenant families to every home-owning family, and about one family in three operated a motor car.

Total incomes of the survey families, at the time the survey was made in 1938, ranged from $600 to $2,800 per annum, but were heavily concentrated between $1,200 and $1,600. The average family expenditure was $1,453, of which $1,414 was spent on items which could properly be included in the cost of living, the rest being used for such things as gifts and donations to charity.

The general distribution of living expenditures of this average family in 1938 was as follows.

TABLE 71

URBAN WAGE-EARNER FAMILY ANNUAL LIVING EXPENDITURES

(Year ending September 30, 1938)

Budget Group	Expenditure Averages (in dollars)	Percentage of Budget
Food	443.0	31.3
Shelter	269.5	19.1
Fuel and Light	90.5	6.4
Clothing	165.8	11.7
Home Furnishings	125.7	8.9
Miscellaneous, such as Health, Personal Care, Recreation, etc.	319.4	22.6
Total	1,413.9	100.0

Source: Dominion Bureau of Statistics, Ottawa.

The above percentages indicated the relative importance of the six expenditure groups in the family budget. By adjusting them to the nearest round figure (e. g. food—31 per cent; clothing—12 per cent, etc.) they serve as the basis for the weighting of these groups in determining the index. Similar information was obtained as a basis for weighting the various individual items and sub-groups of items in the six main expenditure groups outlined above.

Farm Families

A budgetary survey among farm families was also made during 1938 as the basis for the index of farm family living costs. Expenditure records were obtained from 1,692 family groups, together with information as to what commodities each farmer in the survey produced for his cost of living needs. The items in the farm family living-cost index are roughly comparable to those in the urban cost-of-living index, but there are important differences. In the first place, no allowance is made in the farm family index for the cost of housing accommodation, since it is impossible to segregate the costs of the farm home from the general farm rent or cost of upkeep. Then too, the cost of food produced on the farm is omitted. There are, in addition, some differences in the weighting of the clothing items, such as men's suits and overcoats, windbreakers, etc. As a result, the farm family living-cost index shows substantial differences from the urban index in the relative importance, or "weight" given to the various items. The following table shows the weights for the various expenditure groups in the farm family index for eastern and western Canada.

TABLE 72

FARM FAMILY LIVING-COST INDEX WEIGHTS

(per cent)

	East	West
Food	24	26
Clothing	26	26
Household Equipment and Supplies	17	15
Fuel	6	8
Health	10	8
Miscellaneous	17	17
	100	100

Source: Dominion Bureau of Statistics, Ottawa.

The reason that the farm family living-cost index has run consistently above the urban index in recent years (in August, 1948, the urban cost-of-living index stood at 157.5 and the farm living-cost index stood at 169.5) is due chiefly to omission of rents, which in the urban index have risen much less than other components such as food and clothing. The pricing and weighting methods used in compiling the farm living-cost index are very similar, with the exception that price information is collected only three times a year, instead of monthly, and is procured from stores in centres serving the rural areas and from mail order catalogues.

Inasmuch as the urban cost-of-living index is the one with the wider general application, it is the one dealt with in detail in the following sections.

How are Representative Items for the Cost-of-Living Index Selected and Priced?

Since it would not be practicable to price from month to month all of the thousands of items which enter into the cost of living, a careful selection has been made of representative items for regular pricing. The complete list of these items will be found at the end of this chapter. In making this selection, the Dominion Bureau of Statistics is following a well established statistical principle that a relatively small sample of prices can measure accurately the price changes of a much larger group of similar items. For instance, by pricing four or five cuts of beef, it is possible to estimate the price changes for the entire carcass.

Some items in the average budget are omitted because they are of such minor importance that the expense of collecting monthly prices would not be warranted. For others, for example style merchandise such as women's hats, it is so difficult to get prices that are comparable over a period of time that their inclusion might very easily reduce the accuracy of the index.

The cost-of-living index is derived from 65,000 individual price quotations obtained each month from all across Canada. Much of this price information is obtained directly from stores and other retail outlets, and the Dominion Bureau of Statistics maintains its own field staff in the larger centres. In sending in price reports, especially on clothing and home furnishings, merchants are asked to report on any significant changes in quality, and the field staff also makes a point of checking on quality as well as price. Such quality changes are recorded as a price increase or decrease. The figures for the urban cost-of-living index are taken on the first of each month in urban centres across Canada, the information being entirely collected from primary sources such as merchants, hospitals, theatres, etc.

A brief outline of the method of pricing the six groups of family expenditures follows.

Food Items

Forty-seven items are priced, representing 75 per cent of the total cost of foods in the basic budget. The other 25 per cent are considered to have changed by the same proportion as the 75 per cent that are priced, and appropriate allowance is made for them in the weight of the food group. Prices are collected from 1,600 stores, including independent and chain grocers and butchers.

Clothing

Thirty-two items of clothing, piece goods and footwear are priced. This comparatively small list includes carefully selected items of men's and women's apparel, of fairly standard construction.

The items priced have not included children's clothing or footwear, because of the very substantial difficulties in finding sufficiently standard items to price over a period of years. The Bureau has therefore assumed that the children's items fluctuate in approximately the same proportion as men's and women's apparel made of the same basic materials. The children's items are, of course, given full representation in the weight of the clothing budget.

Department stores are the source of the clothing price information. Since they handle one-third of the Dominion's clothing trade, they are a reasonably representative source.

Fuel and Light

Coal, coke, gas and electricity are priced, the first two from fuel dealers and the last two from typical monthly bills charged by public utilities in the various cities.

Shelter

Changes in rents were until recently obtained in May and October of each year from real estate agencies in main cities across the country. They are now obtained directly from tenants by door-to-door surveys, which are made four times a year by representatives of the Dominion Bureau of Statistics. The group weight includes the cost of maintenance, interest, taxes and repairs for those who own their own homes We understand that there are statistical difficulties involved in measuring the prices of these components of owner-occupied dwellings' costs. Present practice is to assume that these prices change the same as rents.

This problem of pricing monthly shelter costs in the house-owner sector would seem to fall into three parts. For those who continue to occupy the same house there are changes in taxes, repairs and maintenance from time to time. For those who buy newly built homes or homes previously rented there are questions of monthly payments and interest charges as well as taxes and repairs. Finally there is the statistical difficulty of attempting to combine the price series obtained for these types of owner-occupied expenditure with the series for rentals, taking into account the changing proportion of rented and owned dwellings.

Home Furnishings and Services

There are eight sub-groups: furniture, floor coverings, textile furnishings, hardware, dishes and glassware, cleaning supplies, laundry and telephone. The data regarding the first five are obtained from department stores, and the remainder are obtained from grocery stores, laundries and telephone companies. A comparatively small number of representative items, made of the basic materials or representative of the service rendered, are priced as frequently as is necessary to determine accurately the rate and extent of the price change.

Miscellaneous Items

These include five sub-groups: health maintenance, for which household medical supplies, hospital care and doctors' and dentists' fees are priced; personal care, for which toilet articles and barbers' charges are priced; transportation, under which are included motor car operating costs, railway and street car fares; recreation, which includes such items as theatre admissions and newspaper, magazine and tobacco costs; and life insurance.

How is the Weighting System used in Calculating the Index?

A rise in the price of some things makes a great deal more difference in the family budget than the rise in some other things. For illustration consider such food items as milk, bacon and lard. In September, 1948 milk was 17.4 cents a quart, bacon was 74 cents a pound and lard was 35.7 cents a pound. The weights were 10.5 quarts of milk a week, seven-tenths of a pound of bacon, and two-tenths of a pound of lard. The cost to the family for the week would be for milk, 10.5 quarts multiplied by 17.4 cents making $1.83, for bacon seven-tenths of a pound multiplied by 74 cents making 52 cents, for lard, two-tenths of a pound multiplied by 35.7 cents making seven cents. Thus it will be seen that a rise in the price of milk would make a great deal more difference in the family budget than a rise in the price of either bacon or lard. This is the meaning of weighting.

In the process of weighting and computing the index a beginning is made at the individual items, advanced through sub-groups, groups and finally to the completed all-inclusive cost-of-living index itself. Individual items are weighted by quantities as described above, they are then added to obtain sub-group totals. These sub-group totals are compared with the corresponding sub-group total for the base period to give a sub-group index. For instance, the sub-group index for men's clothing for September, 1948, was obtained from the following quantities:

Overcoats	.2	Balbriggan combinations	1.0 set
Topcoats	.2	Underwear, winter	1.0 set
Suits	.8	Pyjamas	1.0 pair
Sweaters	.4	Shirts, work	1.0
Overalls	1.0 pair	Shirts, broadcloth	2.5
Socks	9.0 pairs	Trousers, work	.7
Underwear, athletic	1.5 sets		

These quantities were multiplied by September 1948 prices and the total cost came to $135.04. The base period cost was $67.98. The sub-group index was therefore $135.04 divided by $67.98 which equals 1.985 or, as it is customarily written in percentage form, 198.5.

Indexes for the remaining sub-groups were as follows:

Women's Wear	167.3
Piece Goods	192.6
Footwear	160.9

The average of these sub-group indexes gave an index for the entire clothing group of 179.9. In this step the weights were expressed in percentage terms. They were obtained from the share of the men's clothing costs in total clothing costs which was actually 41 per cent. Women's wear took 36 per cent, piece goods four per cent and footwear 19 per cent.

The next step was merely a repetition of the above procedure, this time at the group level. The group indexes, their weights and the calculation were as follows.

TABLE 73

COST-OF-LIVING INDEX CALCULATIONS

(At September 1948)

	Index	Weight	Product
Food	203.9	31	6320.9
Rent	121.0	19	2299.0
Fuel and Light	128.5	6	771.0
Clothing	179.9	12	2158.8
Home furnishings and services	164.2	9	1477.8
Miscellaneous Items	124.4	23	2861.2
Total		100	15888.7

$$\text{Weighted average} = \text{Cost-of-living index} = \frac{15888.7}{100} = 158.9$$

Source: Dominion Bureau of Statistics, Ottawa.

Why Is The Index Expressed In Percentages?

The question is sometimes asked: Why is the cost-of-living index not expressed in dollars and cents instead of percentages?

The chief reason is that a percentage index applies equally well to a fairly wide range of income levels and to different size families. To find out what the average survey family of 4.6 persons having an average expenditure of $1,414 in 1938 would have to pay for exactly the same family budget of goods and services today, is a matter of simply multiplying $1,414 by the current index number (159.6 for October, 1948) and dividing by 100, giving $2,256.74. But the cost of living would go up by the same percentage for larger or smaller families, with expenditures considerably above or below $1,414 in 1938, so long as they kept to approximately the same budgetary pattern of expenditure, and each of them could multiply their pre-war expenditure by the index to find out the cost of their same budget today. Thus a family spending $1,000 on their annual budget in 1938 would need 159.6 per cent of $1,000 or

$1,596, to purchase the same things in October, 1948, while a family spending $2,000 in 1938 would need 159.6 per cent of $2,000 or $3,192, always supposing that these families spent about the same proportion of their money on the various items as in the average budget.

Another reason for not expressing the index in dollars is that an index so expressed might be looked upon as an approved minimum living standard, whereas the Dominion Bureau of Statistics does not endeavour in establishing a cost-of-living index to determine what is an adequate living standard, but endeavours simply to construct an accurate measure of price changes in a reasonably typical budget.

How The Index is Adjusted

The cost-of-living index is constantly the subject of questions from a public which wants to be sure that this yard-stick of price changes is a true and accurate measure under current conditions. The further away we get from the pre-war basis for the present index (the budgetary survey of 1938), the more questions are raised as to whether the cost-of-living index is sufficiently up to date. Does it take into account things the public was unable to buy in periods of shortage, or new articles which have come into widespread use since the war? Does it reflect shifts in consumption over the 10 year period since the last survey? Have changes in family expenditure patterns due to higher average wage levels any effect on the index?

The first point to make clear is that minor adjustments in the weighting or list of items included in the index are made from time to time as circumstances warrant. Three such changes were made in 1947. The allowance for sugar was raised from 3.5 to 4.8 pounds per week when rationing was removed; the ratio of houses to apartments in the rent index was changed in accordance with the sample survey of tenants made during 1947; and radios, refrigerators and washing-machines were added to the list of household items when improved supply made it possible to buy them more readily.

A second point of importance in judging the accuracy of the index is the relatively small effect which changes in income level and patterns of expenditure have on the rate of price changes as measured by the index. For instance, as incomes rise, increased expenditures for goods on which prices have risen rapidly, such as meat, would tend to be balanced by additional expenditures on some other item which had changed less than the average. It is only when the proportion of expenditure on the different groups in the budget varies significantly that any important effect would be registered in the index by a new expenditure pattern. Even where patterns vary, however, the result of different weightings of the main groups has a comparatively small effect on the over-all rate of change in the total cost-of-living index. The Dominion Bureau of Statistics has made numerous tests by re-weighting the main groups according to various United States and Canadian consumer expenditure patterns, and the results show only relatively small changes.

Finally, the Bureau makes it a practice to conduct a new budgetary survey every 10 or 12 years in order to establish a fresh basis for the index, which will reflect any long-term changes in patterns of expenditure and standards of living. Such an expenditure survey was made in the autumn of 1948, and we understand the Bureau is now preparing to revise the cost-of-living index on the basis of the new survey and supplementary data.

It is anticipated that, while this survey will undoubtedly show changes in family expenditures and standards of living over the past decade, there will be little difference shown in the over-all price trend when the articles in the new budget are priced back over the preceding years.

Are Present Cost-of-Living Statistics Adequate?

We raise two questions regarding the adequacy of the present cost-of-living index, namely the treatment of shelter costs and children's clothing and footwear.

The present practice in compiling the index is to assume that rental trends reflect with reasonable accuracy changes in housing costs generally. This may have been so in normal times. Considering a period when rentals are still controlled but when building costs, repairs and the selling price of houses have risen, it is likely that the present system of reckoning shelter costs from rental information does not reflect fully the true rise of these costs.

At present no items of children's clothing and shoes are priced for the cost-of-living index. If reliable and comparable data can be obtained, this gap should be filled.

The International Labour Organization in 1947 clearly recognized that possibilities of improving upon the standard cost-of-living index should be thoroughly tested especially in view of the increased use of such information in labour-management relations and in formulating government policies.

Weighting System of the Dominion Bureau of Statistics

Cost-of-Living Index

(As at January 2, 1948)

	Commodity Weights (Weekly Quantities)	Sub-Group Weight	Group Weight
A. FOOD			31
1. CHAIN STORES		1	
2. INDEPENDENT STORES		2	
Dairy Products			
Milk	10.5 qts.		
Butter	2.8 lbs.		
Cheese, ½ lb. pkg.	.8 pkgs.		
Eggs	1.4 doz.		
Meats and Fish			
Sirloin Steak	.5 lbs.		
Round Steak	.9 "		
Rolled Rib Roast	.7 "		
Blade Roast	1.1 "		
Stewing Beef	1.0 "		
Veal	1.0 "		
Lamb	.3 "		
Pork, fresh loins	1.5 "		
Pork, fresh shoulder	1.0 "		
Bacon, rind-on	.7 "		
Fish	.8 "		
Vegetable Shortening	.8 "		
Lard	.2 "		
Cereals			
Bread	12.1 lbs.		
Flour	2.9 "		
Rice	3 "		
Rolled Oats	[illegible] "		
Corn Flakes, 8-oz. pkg.	[illegible] pkgs.		
Dry Groceries			
Granulated Sugar	4.2 lbs.		
Yellow Sugar	.6 "		
Tea, ½-lb. pkg	.8 pkgs.		
Coffee	.2 lbs.		
Cocoa, ½-lb. tin	.2 tins		
Salt	.5 lbs.		
Vegetables			
Beans	.4 lbs.		
Onions	.8 "		
Potatoes	.8 pecks		
Canned Tomatoes, 2½'s	.6 tins		
Canned Peas, 20 oz.	.6 "		
Canned Corn, 20 oz.	.3 "		
Cabbage	1.0 lbs.		
Carrots	1.5 "		
Turnips	1.0 "		

	Commodity Weights (Weekly Quantities)	Sub-Group Weight	Group Weight
2. INDEPENDENT STORES—*continued*			
Fruits			
Raisins	.2 lbs.		
Currants	.1 "		
Prunes	.1 "		
Strawberry Jam	.6 "		
Marmalade	.1 "		
Canned Peaches, 20 oz.	.1 tins		
Corn Syrup, 2-lb. tin	.25 tins		
Lemons	.1 doz.		
Oranges	.7 "		
Bananas	1.2 lbs.		
B. RENTALS			19
C. FUEL AND LIGHT			6
Coal		42	
Coke		11	
Gas		14	
Electricity		33	
	(Annual Replacement Allowances)		
D. CLOTHING			12
Men's Wear		41	
Overcoats	.2		
Topcoats	.2		
Suits	.8		
Sweaters	.4		
Overalls	1.0 pair		
Socks	9.0 pairs		
Underwear, athletic	1.5 sets		
Balbriggan combinations	1.0 set		
Underwear, winter	1.0 "		
Pyjamas	1.0 pair		
Shirts, work	1.0		
Shirts, broadcloth	2.5		
Trousers, work	.7		
Women's Wear		36	
Top Coats, fall and winter	.3		
Top Coats, Spring	.2		
House Dresses	1.5		
Slips, rayon	2.5		
Hosiery, rayon	10.0 pairs		
Hosiery, woollen mixture	3.0 "		
Panties, rayon	5.0		
Panties, woollen mixture	1.0		
Nightgowns, cotton	.7		
Nightgowns, rayon	1.6		
Piece Goods		4	
Cotton Dress Print	3.0 yards		
Wool	.3 "		
Flannel	.2 "		
Celanese or Rayon Material	.7 "		
Flannelette	2.0 "		

	Commodity Weights (Annual Replacement Allowances)	Sub-Group Weight	Group Weight
D. CLOTHING—*continued*			
Footwear		19	
Men's Work Boots	2.0 pairs		
Men's Oxfords	.7 "		
Men's Rubbers	3.5 "		
Women's Shoes	2.0 "		
E. HOME FURNISHINGS AND SERVICES			9
Furniture		25	
Dining Room Suite	.06		
Bedroom Suite	.06		
Kitchen Table	.08		
Kitchen Chairs	.20		
Studio Couch	.05		
Bed Springs	.05		
Mattress	.16		
Chesterfield Suite	.05		
Floor Coverings		7	
Axminster Rug	.04		
Congoleum Rug	.15		
Linoleum (square yards)	1.70		
Furnishings		11	
Sheets	1.0		
Towels, cotton terry	3.0		
Blankets, all wool	.5		
Table Oil Cloth (yards)	.4		
Electrical Equipment		24	
Washing Machine	.03		
Radio	.15		
Refrigerator	.02		
Hardware		3	
Frying Pan	.2		
Saucepan, enamel	.5		
Garbage Can, galvanized	.25		
Kitchen Broom	1.0		
Kitchen Pail	.2		
Dishes and Glassware		2	
Set of Dishes	.1		
Glass Tumblers	2.0		
Cleaning Supplies		13	
Laundry Soap	24 bars		
Soap Flakes	24 pkgs.		
Abrasive Cleansers	9 cartons		
Chloride of Lime	2 pkgs.		
Laundry		3	
Sheets / Towels / Men's Shirts } Geometric Average			
Telephones		12	

	Commodity Weights	Per Cent	Sub-Group Weight	Group Weight
F. MISCELLANEOUS ITEMS				23
1. HEALTH			17	
(a) *Medicines*		23		
Aspirin Tablets, box of 12	1.3			
Epsom Salts, lb.	.7			
Boracic Acid, 2 ozs.	.3			
Tincture of Iodine, 1 oz.	.7			
Zinc Ointment, 1 oz.	.7			
Cod Liver Oil, large bottle	1.3			
(b) *Hospital Charges*		17		
Semi-Private Room	1			
Public Ward Bed	1			
(c) *Doctors' Fees*		42		
Office Consultation	Geometric Average			
Ordinary Day Visit				
Ordinary Confinement				
(d) *Dentists' Fees*		18		
Amalgam Filling	Geometric Average			
Porcelain Filling				
Gold Filling				
Upper and Lower Dentures				
Ordinary Extraction				
Prophylaxis				
2. PERSONAL CARE			9	
(a) *Personal Cleaning Supplies*		58		
Talcum Powder, tins	1.3			
Tooth Paste, tubes	21.7			
Tooth Brushes	8.7			
Shaving sticks	2.2			
Toilet Soap, bars	52.2			
Vaseline, jars	1.3			
Razor Blades, packages of 5	13.1			
(b) *Barbers' Fees*	Ratio	42		
Haircut (men's)	5			
Shave	2			
3. TRANSPORTATION	(Percentages)		26	
(a) *Motor Operating Costs*		67		
Gasoline	42			
Repairs and Maintenance	9			
Licenses	8			
Depreciation	35			
Tires	6			
(b) *Rail Fares*		4		
(c) *Street Car Fares*		29		
4. RECREATION			26	
(a) *Theatre Admission*		23		
(b) *Newspaper Costs*		22		
(c) *Magazine Costs*		4		
(d) *Tobacco Costs*		51		
Cigars	Geometric Average			
Cigarettes				
Cut Tobacco				
5. LIFE INSURANCE			22	

2

THE BREAD BAKING INDUSTRY

NATURE OF THE PRODUCT

BREAD is the most commonly used of all foods. Its chief ingredient is flour. Water, shortening, sugar, salt, milk, malt and yeast as a leavening agent constitute the other components. It may be baked in large plants or in the smallest home kitchens. Because bread is of such a nature that it must be consumed within a short time after it is made, it is not a product adaptable to storage or to long transportation. Daily production must not exceed daily consumption if wastage is to be avoided. About 95 per cent of the bread produced on this continent is "white bread" which is made from wheat flour.

THE INDUSTRY

Expansion

With the advent of mechanical power and automatic processes and speedy transportation facilities, the bread industry has made rapid progress. Improvement of highways in recent years and the development of fast transport equipment have been potent factors. More and more consumers are being brought within the market scope of the bakeries. As a result, bread is being distributed over very wide areas by a few producing units situated at strategic points across the country. In 1946 the industry ranked fifteenth in gross value of production, fourth in number of employees and ninth in salaries and wages paid.

The data in the following table give a fair indication of the expansion which has taken place since 1939.

TABLE 74
EXPANSION IN THE BREAD INDUSTRY SINCE 1939

Item	1939	1946	1947[a]	Percentage Increase	
				1946 over 1939	1947 over 1946
Establishments	3,115	2,864	—	- 8.1	—
Salaried Employees	3,459	4,846	4,700	40.1	- 3.0
Wage-Earners	19,662	25,607	26,600	30.2	3.9
(in millions of dollars)					
Salaries	3.9	8.2	8.3	110.8	2.0
Total Wages	18.5	34.8	40.0	88.6	15.0
Fuel and Electricity	2.4	4.5	5.3	88.6	17.0
Cost of Materials	34.4	70.9	78.7	106.1	11.0
Selling Value of Products	76.0	148.4	164.7	95.0	11.0

a) 1947 figures based on the preliminary estimate.
Source: Dominion Bureau of Statistics, Ottawa.

In all aspects large increases were made during the war period, except in the number of establishments. The 1947 gains were exclusively due to the inflated price level.

Further evidence of expansion in the industry is noted when flour consumption and bread production figures are considered.

In 1946 the industry produced 1,368,713,372 pounds of bread with a selling value of $79,263,744 as against 992,007,885 pounds with a selling value of $51,263,436 in 1939, an increase in quantity of 38 per cent and in value of 54.6 per cent. The selling value of other bakery products produced in 1946 was $69,093,784 as compared with $24,777,215 in 1939, an increase of 178.8 per cent. The proportion of the selling value of bread to total selling value of all bakery products declined from 67 per cent in 1939 to 53 per cent in 1946. The total quantity of all types of flour used in 1946 amounted to 5,714,549 barrels as against 3,920,509 barrels in 1939, an increase of 45.7 per cent.[1] Most of the wheat used for the production of bread is hard wheat grown in the Prairie provinces.

Geographical Location and Sales Distribution

The following table shows the distribution of baking establishments by provinces and the percentage distribution of sales both wholesale and retail, within each province, for the year 1946.

TABLE 75

DISTRIBUTION OF BAKERIES AND BREAKDOWN OF SALES BY PROVINCES, 1946

Province	Number of Establishments	Number of Employees	Selling Value of Products (millions of dollars)	Distribution of Sales Per Cent		
				Wholesale	Retail	
					House to House	Through Bakery Stores
Prince Edward Island	13	85	.3	74.8	2.6	22.6
Nova Scotia	87	762	4.4	79.1	2.4	18.5
New Brunswick	77	715	4.0	79.3	6.5	14.2
Quebec	1,046	8,064	37.8	43.5	45.1	11.4
Ontario	1,033	14,239	66.9	40.9	32.6	26.5
Manitoba	130	1,442	7.3	62.3	21.2	16.5
Saskatchewan	91	1,009	5.4	70.0	12.1	17.9
Alberta	123	1,398	8.4	68.2	10.1	21.7
British Columbia	261	2,728	13.9	55.7	12.4	31.9
Yukon and North West Territories	3	11	.05	45.4	—	54.6
Canada	2,864	30,453	148.4	48.9	29.6	21.5

Source: Dominion Bureau of Statistics, Ottawa.

Conforming to the distribution of population the greatest part of the industry is situated in Ontario and Quebec. Together the two provinces produce 70 per cent of the value sold by the entire industry.

[1] Dominion Bureau of Statistics, Ottawa.

The province of Quebec differs from the other provinces, with respect to the distribution of bakery products, in that the greater percentage of distribution is through retail house to house sales. Wholesalers play a larger part in the distribution of bread all other provinces except Ontario.

Size of Establishments

The following table, showing the grouping of bakery establishments in order of output value for 1946, indicates that the degree of concentration in the baking industry is quite substantial.

TABLE 76

BAKERY ESTABLISHMENTS GROUPED ACCORDING TO PRODUCTION VALUE, 1946

Range of Production Value	Number of Establishments	Number of Employees	Selling Value of Products (millions of dollars)	Percentage Selling Value Produced
Under $50,000	2,457	9,838	35.7	24
$ 50,000 — $ 99,999	182	2,825	12.7	8.6
100,000 — 499,999	163	5,734	31.0	21
500,000 — 999,999	36	4,233	24.3	16.4
1,000,000 and over	26	7,803	44.6	30
	2,864	30,453	148.4	100

Source: Dominion Bureau of Statistics, Ottawa.

Many of the large bakeries are controlled by companies operating a number of establishments and may be termed multiple bakeries. In 1946, the sales of 93 multiple bakeries amounted to $61,809,832 or just under 42 per cent of total selling value produced by all establishments.

Capital Investment

Since 1920, the amount of fixed capital invested in the industry increased steadily from $18,377,517 to the all-time peak figure of $45,620,295 in 1931. The subsequent decline to a low of $36,698,271 in 1934 coincided with the end of the steady expansion in the number of establishments which had then reached 3,173, or almost double the figure reported for the year 1920. The next crest in the capital investment figures, $41,311,965 in 1937, was followed by a slight decline in 1939 and levelled out at around $42 and $43 million during the war period. The number of establishments fluctuated between 3,100 to 3,200 during the period of 1934-1938 and from there on decreased to 2,864 by the year 1946. The rise in the number of employees proceeded evenly upwards from 13,389 in 1926 to 30,453 in 1946, the only interruption occurring in the year 1932.[1]

[1] Cf. Table 77.

The statistics suggest the stability of per capita demand one would expect to find in an industry manufacturing largely a staple such as bread. Small capital and only a short period of time are required to enter the baking industry.

TABLE 77

FIXED CAPITAL INVESTMENT IN THE BREAD BAKING INDUSTRY

Year	Number of Establishments	Number of Employees	Fixed Capital Investment (millions of dollars)	Selling Value of Products[a] (millions of dollars)	Ratio	
					Selling Value to Investment Dollar	Selling Value in Dollars per Employee
1920	1,769	9,940	18.4	61.9	3.4	6,228
1926	2,214	13,389	29.9	62.9	2.1	4,622
1929	2,568	17,023	38.4	77.2	2.0	4,508
1931	2,912	18,337	45.6	64.8	1.4	3,533
1934	3,173	18,562	36.7	57.3	1.5	3,080
1937	3,179	21,252	41.3	76.5	1.9	3,600
1939	3,116	23,121	40.8	76.0	2.2	3,892
1943	2,996	26,829	43.5	120.4	2.7	4,480
1946	2,864	30,453	43.5[b]	148.4	3.2[c]	4,870

a) Adjusted by wholesale price index of bakery products.
b) 1943 figure.
c) On basis of 1943 relationship.
Source: Dominion Bureau of Statistics, Ottawa.

The output per man in 1946 increased by a third as compared to the average of the periods 1929 and 1939. This is more remarkable when it is considered that the average number of hours worked per employee decreased between 1939 and 1945 as shown by the following table.

TABLE 78

AVERAGE NUMBER OF HOURS WORKED

Year	Wage — Earners		Average Number of Hours Per Week	
	Male	Female	Male	Female
1939	16,972	2,690	52.7	46.3
1940	17,336	3,259	52.2	46.4
1944	16,090	7,019	50.4	42.6
1945	16,868	7,426	49.9	42.2

Source: Dominion Bureau of Statistics, Ottawa.

The loss of skilled men, the higher proportion of women employed in the industry, and the heavy labour turnover decreased labour efficiency during the war period. To account for the increase in man-hour productivity one must examine the factor of production capital.

There is a 60 per cent increase in the production per dollar of fixed assets for the year 1946 over 1929. Part of this increase is due, no doubt, to improved efficiency of the capital equipment itself. The largest advance, 45 per cent during the war period must have been due to a more intensive utilization of the equipment when replacement was almost impossible.

There would seem ample justification to conclude that the scale of production of the industry in pre-war days was below the optimum point with respect to the amount of capital invested, and that the larger output during the war brought about a better combination of factors. Operating under conditions of decreasing average costs must have been instrumental in withstanding the pressure of a rising price level against the price ceiling on bakery products.

Concentration of Financial Control

Concentration of control has been clearly established in the baking industry. The growth of large-scale plants and the concentration of financial control in the hands of a few dominant groups have been outstanding features of the industry since the end of World War I. Large milling companies secured control over groups of bakeries to provide outlets for substantial sales of flour.

The Maple Leaf Milling Company, Limited, was first, when in 1922 it acquired a controlling interest in Canada Bread Company, Limited, operating in the provinces of Ontario, Quebec and Manitoba. In 1925 The Maple Leaf Milling Company acquired control of Canadian Bakeries, Limited operating in Saskatchewan, Alberta and British Columbia. In 1929 a controlling interest in Eastern Bakeries, Limited, operating bakeries in Nova Scotia and New Brunswick and, later in the same year, acquired control of Dominion Bakeries, Limited, operating about 16 bakeries in smaller centres in Ontario.

Lake of the Woods Milling Company, Limited, Ogilvie Flour Mills Company, Limited, Purity Flour Mills, Limited (formerly Western Canada Flour Mills Company, Limited) were the other principal milling companies which secured financial control over large baking companies during the late twenties.

Independent baking groups include Geo. Weston Bread and Cakes, Limited, which operates bakeries in Ontario, and Weston's Bread and Cakes (Canada), Limited, operating in western Canada and formed in 1938 from Inter-City Western Bakeries Limited, (a former subsidiary of Lake of the Woods Milling Company, Limited) and from an Edmonton bakery acquired in 1945. A more recent entrant is Christie's Bread Limited, a subsidiary of National Biscuit Company of the United States. This organization entered the bread business in Toronto in 1939 and set up the present company in 1941. Christie's Bread Limited bought a small bakery in Welland in May, 1947, and in March, 1948, entered the baking field in Montreal. Canadian Food Products Limited, either directly or through subsidiaries, has been increasing its interests in the bread and cake baking fields. According to the Financial Post Survey of Corporate Securities, Canadian Food Products Limited has in recent years acquired control of companies operating bakeries in Toronto and in several cities in western Canada.

In the Price Spreads inquiry it was found that, in 1932, the combined output of the plants of Canada Bread was equivalent to 7.6 per cent of the total bread produced by all bakeries in Canada in that year. From data supplied to the Special Committee on Prices in 1948 it may be estimated that the combined output of all plants of Canada Bread in 1946, the latest year for which full statistics of the baking industry are now available, was probably in excess of nine per cent of the total production of all bread baking plants in the Dominion.

According to the evidence of the President of Consolidated Bakeries of Canada, Limited, before the Special Committee on Prices, Glenora Securities, a subsidiary of Ogilvie Flour Mills Company, Limited, now holds 155,504 shares of a total of 339,442 issued shares.[1] The production by Consolidated Bakeries constituted 6.9 per cent of the total production of bread in 1932 and one of its subsidiaries, Wonder Bakeries Limited, maintained approximately the same percentage of the Dominion total in 1946.[2]

In February, 1948, Trent Valley Baking Company Limited became a subsidiary of Consolidated Bakeries, operating in five of the smaller Ontario cities. In western Canada, Ogilvie Flour Mills Company, Limited, has financial interest in the McGavin group of baking companies.

Out of a total production of 1,368,713,372 pounds of bread in the bread and other bakery products industry in 1946, multiple bakeries produced 603,782,119 pounds or 44 per cent of the total. This may be compared with 30 per cent for mill-controlled bakeries in 1932 or 34 per cent in 1930 and 36.5 per cent in 1929. The total for 1946 does not include production for Christie's Bread Limited which, if added, would bring the proportion closer to 47 per cent.

Multiple baking companies are to be found in every Canadian province but the largest plants exist in greater Montreal where the production in 1946 was equivalent to 55.7 per cent of the bread made in that area. In Alberta, Saskatchewan and British Columbia multiple baking companies produced, in 1946, 75.8, 68 and 63 per cent respectively of bread baked by commercial bakeries in those provinces. These percentage figures show marked increases over comparable figures of former years.

Not only is the production of bread becoming concentrated in the plants of a few large baking companies, but production is being carried on to an increasing extent in large factories which, in many cases, supply not only the needs of the city in which they are located but a considerable area outside. In 1929, bakery establishments having a production of $1,000,000 or more in that year accounted for only 12 per cent of the total value of products produced in the industry, while in 1946, as has been shown earlier, they accounted for about 30 per cent although there were only 26 establishments in this group.

---

[1] Evidence, Special Committee on Prices, p. 826.
[2] Ibid., p. 800.

A substantial factor may be the increasing emphasis on the production of articles other than bread in bakery establishments. As in the case of bread, which had in early years been made largely in the individual household, the production of cakes and other sweet goods appears to be shifting from the home to the factory. This tendency was undoubtedly strengthened materially during the war by the rationing of sugar and other products used in baking, as well as by the number of women employed in industry. In 1929, more than 75 per cent of the value of products made in the bread baking industry consisted of bread alone. It is probable that the proportion for multiple bakeries was even higher. In 1946, the value of bread produced by multiple bakeries was about 60 per cent of their total value of production but in the case of other bakeries the proportion was less than 50 per cent. The independent baker in recent years has found his principal field of development in the production of pies, cakes, pastries, etc. In many cases the products made in independent establishments are sold directly to the public over the counter.

Pricing and Selling Policies

Influence of Pricing Policies of the Multiple Bakeries on Bread Prices

The concentration of the production of bread in the plants of multiple baking companies in practically all leading cities of Canada, (Quebec City and Halifax may be noted as exceptions), has resulted in the pricing policies of these principal baking companies being the determining factors in the establishment of the price of bread. In the period prior to the war it appeared that the competition of retail chain stores, operating their own bakeries, and of independent bakers would exercise considerable influence over the general price level of bread. However, these producers presently serve only a small proportion of the market. It appears that a wide price difference between the selling price of chain store brands and the retail price charged by multiple baking companies may exist for an indefinite period.[1] This cannot be attributed to any substantial differences among the lower and higher priced loaves in terms of nutritional value. The laboratory analysis made for the Special Committee on Prices showed that loaves selling for 10 cents had calory content equal to or greater than loaves selling for 13 or 14 cents.[2]

The multiple baking companies exert significant influence over the retail price of bread by sales made directly to householders by wagon delivery and also over sales of bread by independent retailers. The result has been the establishment of a rigid structure of bread prices applying to a large proportion of the bread sold over wide areas. The interest of most of the multiple baking companies in maintaining prices on house to house sales appears to have had the tendency of establishing the same level of prices on sales made by independent retailers. On the

[1] Evidence, Special Committee on Prices, p. 374.
[2] Ibid., pp. 2552-2554.

other hand, certain large baking companies have concentrated on supplying bread at wholesale to independent retailers and do not engage in direct sales to householders.

The wholesale baking companies have shown the same concern with respect to the maintenance of retail prices by offering an established selling margin between wholesale cost and retail selling price. This attempt to secure the favour and patronage of the retailer leads to a bidding for the retailer's patronage in terms of enlarging the gross profit on sales of bread. At one time a margin of one cent per loaf was accepted as a normal charge to be made by the retail merchant who handled bread. Such a margin persisted in many localities up to the outbreak of war, and, of course, wholesale and retail prices of bread became subject to the price ceiling in 1941 and remained so until September, 1947.

This development is clearly illustrated by the evidence given by certain baking companies and large retailers to the Special Committee on Prices. Prior to September, 1947, General Bakeries, Limited, which does only a wholesale business in Toronto, was supplying bread at eight cents per loaf to retailers who resold the bread at 10 cents, thus receiving a margin of two cents per loaf.[1] However, retailers who purchased products to the value of $100 or more per month, roughly 50 loaves per day in terms of bread, were only charged 7.6 cents per loaf, thus getting a margin of 2.4 cents per loaf. On September 18, 1947, the wholesale price for smaller buyers was increased to 11 cents and that of larger buyers to 10.45 cents, so that the margins with bread retailing at 13 cents were two cents and 2.55 cents per loaf respectively. On September 24, however, the wholesale prices were reduced to 10.5 cents and 9.97½ cents which resulted in margins of 2.5 cents for smaller buyers and 3.025 cents per loaf for larger buyers. In October, General Bakeries raised the level of purchases for volume buyers to a minimum of $130 per month.[2] In January, 1948, wholesale price to small buyers was increased one cent per loaf and the retail price advanced by an equal amount. This left the margin for the small buyer at 2.5 cents per loaf but the wholesale price for large buyers was advanced to 10.925 cents per loaf so that the margin for this class became 3.075 cents.

The situation in Toronto may be contrasted with that in Montreal where the same retail price level prevailed for the brand bread of multiple bakeries operating in that city but where the margin which the smaller retailer and some of the larger ones secured was generally one cent or 1.5 cents per loaf up to September, 1947. General Bakeries, Limited, which operates bakeries in both Toronto and Montreal, supplied bread to small buyers in Toronto at eight cents per loaf prior to September, 1947, whereas in Montreal, it charged nine cents. It supplied Dominion Stores with its regular brand at 7.6 cents per loaf in Toronto, but charged 8.1 cents to the same company in Montreal, prior to September. In February, 1948, the price to Dominion Stores was 10.93 cents in Toronto and 11.25

[1] Evidence, Special Committee on Prices, p. 464.
[2] Ibid., p. 605.

cents in Montreal[1] which resulted in margins of 3.07 cents in Toronto and 2.75 cents in Montreal. The wholesale price to smaller buyers was advanced by half a cent in February, while the retail price increased by one cent so that the retail margin for such buyers became 1.5 cents compared with one cent prior to September, 1947, and with 2.5 cents in Toronto.

In March, 1948, Christie's Bread Limited, entered the Montreal market and offered bread at wholesale for 12 cents per loaf for both unsliced and sliced bread.[2] This was half a cent more per loaf than for unsliced bread sold by the company in Toronto and the same as its regular price for sliced bread in Toronto. The retail price was intended to be 14 cents in Montreal for both types of bread so that the retailer would secure a margin of two cents per loaf compared with one or 1.5 cents which he had been getting previously on the regular brands of the multiple baking companies. This action by Christie's was reported to be followed by certain other bakers who reduced their wholesale prices for unsliced bread to 12 cents per loaf without reduction in the retail price, thus tending to establish the retail margin on bread at two cents per loaf in Montreal.[3]

These developments in Toronto and Montreal, are not isolated instances, but are symptomatic of the minimization of competition which guarantees the margin the retailer may secure. In the case of the regular brands the margins now being established appear to be out of proportion with the margin that would exist under competitive conditions on a fast-moving packaged food such as wrapped bread. This conclusion is supported by evidence given by Steinberg's Wholesale Groceterias Limited of Montreal, on the margins secured on various grocery lines compared with bread.

TABLE 79

STEINBERG'S WHOLESALE GROCETERIAS

GROSS MARGINS AS PERCENTAGE OF SALES

	Per Cent
Butter	5.14
Fresh Milk, Quarts	5.71
Pints	10.53
Canned Soups	9.87
Jam	13.59
Canned Vegetables	13.69
Canned Fruits	13.75
Household Cleaners	14.49
Soaps	14.64
Tea and Coffee	14.88
Peanut Butter	15.82
Bakers' Brands of Bread	19.60
Fresh Fruits and Vegetables	22.46
Biscuits	23.35

Source: Evidence, Special Committee on Prices, p. 734.

[1] Evidence, Special Committee on Prices, p. 592.
[2] Ibid., p. 993.
[3] Ibid., p. 786.

In contrast with the regular brands of bread on which such wide margins are made available to the retail stores, is the second quality bread (aside from the private brands produced for the chain stores). The retailer's margin is quite small on this type in comparison, and there is little or no competition for dealer patronage. This grade of bread was brought on the market to meet the competition from the chain store bakeries. The following table showing some cost and selling price data for the regular and secondary brands of Canada Bread Company as at January 1, 1948, is representative of the general relationship prevailing between first and second grade bread.

TABLE 80

CANADA BREAD COMPANY LIMITED

COMPARISON OF COSTS AND SALES RETURNS
FIRST AND SECOND QUALITY BREAD

(cents per loaf as at January 1, 1948)

	Total Cost	Sales Return
Sold House to House		
First Quality	12.46	13.00
Second Quality	11.65	11.00
Difference	.81	2.00
Sold to Stores		
First Quality	10.48	10.40
Second Quality	9.91	9.50
Difference	.57	.90
Second Quality	9.91	9.50
Special Chain Store Bread	9.87	9.00
Difference	.04	.50

Source: Evidence, Special Committee on Prices, p. 891.

The figures in the foregoing table show that the difference in baker's selling prices, between the regular and secondary brands at both retail and wholesale levels, is much greater than the difference in cost. The lower cost of the secondary bread arises principally from the relative amounts of ingredients used in each loaf and from a slight saving in the commission paid to the delivery man. In the case of special chain store bread there is even a lower distribution cost than in the cost of secondary bread sold wholesale. Savings accrue both to the baker and dealer as this loaf is handled like any ordinary grocery item, with economies on transportation, package material and clerical work.

According to evidence before the Special Committee on Prices competition forces the baker to produce second grade bread.[1] It may be significant in this regard that in the investigation of the bread baking industry in western Canada the special commissioner under the Combines Investigation Act reported arrangements being made among members of bakery associations to produce only bread of one price.[2] This would bring higher average returns per loaf on a smaller total volume for those bakers who formerly produced second grade bread. The result would be a smaller total profit, however, than if production of the low priced loaf had been continued. Further light will be thrown on related problems by an examination of the selling margins obtained by the stores. Choosing a customer of Canada Bread Company, we have:

TABLE 81

LOBLAW GROCETERIAS LIMITED

SELLING PRICE AND COST OF 24 OUNCE LOAF

(in cents per loaf)

	Septembre 1, 1947	Septembre 24, 1947	January 1, 1948	January 27, 1948
Cottage Brand				
Selling Price	7.50	10.00	10.00	10.00
Cost Price	5.95	8.45	9.00	9.00
Gross Margin before deducting Warehousing or Selling Costs	1.55	1.55	1.00	1.00
Per Cent of Selling Price	20.0			10.0
Other Loaves Canada Bread Co.				
Selling Price	10.00	13.00	13.00	14.00
Cost Price	7.45	9.85	9.36[a]	10.35
Gross Margin before deducting Warehousing or Selling Costs	2.55	3.15	3.64	3.65
Per Cent of Selling Price	25.5			26.0

[a]) Deviation from "Sales Return" of 10.40 cents and 9.50 cents for first and second grade bread respectively, as in Table 74, is largely due to an additional discount given. (Standard: an extra five per cent for customers buying more than $120–$140 worth of bread a month.)

Source: Evidence, Special Committee on Prices, p. 357.

The selling price of Loblaw's special brand loaf was not raised when, toward the end of January, all other bread prices were advanced. This seems to have been due to the fact that the Great A. & P. Tea Company did not increase the price of bread made in its own bakeries. Apparently other large chain stores in Ontario and Quebec are prepared to make their own bread if the bakeries cannot or will not deliver at a price which will permit them to sell a special brand on a competitive basis

[1] Evidence, Special Committee on Prices, p. 874.

[2] Bread-baking Industry in Western Canada, Report of H. Carl Goldenberg, Ottawa, November 8, 1948, pp. 30, 74.

with A. & P.'s own brand. The A. & P. Company, the only chain store appearing before the Special Committee on Prices which operates its own bakeries, claimed that it can produce a nine cent loaf without loss.[1] It is an open question whether chain stores generally could produce more efficiently than the bakeries, (although the fact that production would be concentrated on fewer lines would undoubtedly be a factor of substantial importance) or whether the baking industry assumes part of the cost of a product which chain stores without bakeries are prepared to sell on a narrow or no margin as long as a competitive product is being offered on the market.

While margins for the Cottage brand were decreasing as compared to that for the regular brand from September, 1947, to January, 1948, the over-all percentage margin remained approximately the same. The margin for regular bread increased by 1.1 cents, however. One would conclude that the chain stores are either taking a loss in the one or are receiving abnormal profits for the other. As other lines of groceries are handled on as low or lower margins than that taken on the Cottage brand of bread there would appear no reason to conclude that the former is the case. Retail stores, generally, are being given increased margins because their suppliers do not wish to have competition between the price of bread sold by stores and that sold house to house. Also various suppliers offer greater attractions in the form of larger margins in order to get retailers to feature their brands.

The different loaves of bread sold do not constitute a homogeneous commodity in the consumer's mind, although differences in nutritive value among the various brands and grades of bread in any market are relatively unimportant. Product differentiation rests on the principle of distinguishing the brand. This permits a new entrant to secure a share of the existing market if he can create a demand on the part of consumers for his particular brand and encourage dealers to feature it. Inevitably the price is higher and the scale of production smaller than is the case under more competitive conditions. To increase the demand for its product a bakery would have two choices. It would either lower its price, in which case it would have to meet the competition of its rivals who would presumably immediately follow suit, or it would increase its selling effort through advertising, etc. It is apparent that efforts to increase the demand by greater expenditures on such things as quality, service, and sales promotion have increased in importance in this industry.

Uniformity of prices in a market may indicate either competition or monopoly. One result which would be expected in the industry is the reduction of profits to the competitive level as long as there is no bar to entry. In this industry the competitive element appears to come largely from the large-scale merchandisers, particularly chain stores. This assumes two main forms, the competition among bakeries for store and institutional business and competition between stores and bakeries.

---

[1]Evidence, Special Committee on Prices, p. 699.

In the competition for store business, the evidence before the Special Committee on Prices indicates the existence of a rather unstable situation. Under-selling, taking the form of greater rebates, is much more noticeable than in the house to house market, and a degree of uncertainty is present as to whether a competitor will retaliate. The fewer sellers are restricted to manufacturers of the better-known brands (except where the retailer sells under his own brand), so that the gain of one will be mainly at the expense of another. The competitor's reaction is, therefore, one of the important factors on which price policy will be based. Retaliation need not be immediate, however, as the product is sufficiently differentiated, thus offering the possibility of increasing his share to the one who first offers a larger discount or lower wholesale price. The gains made by the retailer are apparently not passed on to the consumer, at least not in the form of lower bread prices.

With regard to special brands of bread, competition by chain store bakeries is very effective in bringing a low priced loaf to the consumer's market. If this kind of bread were used by the stores as a loss leader the consequences would be serious for the bakery business, one of whose principal products would be affected. As long, however, as the lowness of price is secured by savings in manufacturing or distributive costs, the competition by the chain store bakeries would act as a real check on prices of bread sold in other ways. Such restraining influence is confined to certain areas and is probably limited even in the localities in which chain stores are operated.

In the readjustment of prices after decontrol of bread prices in September, 1947, the price of the bakers' second quality loaf tended to follow the price of first quality brands rather than keep in line with the prices at which the chain stores' special brand was sold. The price differential in favour of the chain stores' special brand was one cent per loaf at first and increased to two cents when chain stores did not advance their prices in January, 1948, when other brands were increased a further one cent in most of the larger cities in eastern Canada. While the pressure to minimize this differential seems to be strong, the bakers secure some relief as long as there is no substantial diversion of purchases from the higher priced first quality loaf.

Except for the influence which the low priced loaf has in keeping down the general level of bread prices it is difficult to establish how much actual saving in dollar amount accrues to the public from this kind of competition. Because the market for first quality brands is the larger one and because the price for the second quality loaf appears definitely linked to that of the first, these price rigidities may more than offset the advantage derived from the existence of a low priced, low profit loaf. If, however, retailers generally were more inclined and had greater freedom to compete in the sale of bread, the availability of lower priced bread might have a much more significant effect.

Factors in Price Changes Since 1939

Increased Consumption

In the table below are given some data with respect to the consumption of bread in Canada from the year 1929 to and including 1946. During the depression years the per capita consumption of bread dropped from the 1929 record level of 93.3 pounds to 88.3 pounds in 1939. Not until 1941 was the pre-depression level regained. In the entire period between 1939 and 1946, the per capita consumption increased by 27 per cent with a rough 22 per cent of the increase taking place up to 1943. From then on consumption increased at a declining rate.

TABLE 82

CONSUMPTION OF "BAKERS'" BREAD IN CANADA

Year	Quantity of Bread[a] (millions of pounds)	Value of Bread (millions of dollars)	Per Capita Consumption[b]
1929	935.8	59.6	93.3
1939	999.4	51.7	88.3
1940	1,015.9	54.0	88.9
1941	1,068.4	58.3	93.6
1942[c]	1,153.8	63.3	100.7
1943[c]	1,244.2	68.9	108.0
1944[c]	1,249.1	70.3	107.8
1945[c]	1,291.9	73.8	110.4
1946	1,375.3	79.6	112.1

a) Includes bread made in the Biscuit and Confectionery Industry.
b) Based on the population figures given in the Bulletin "Population of Canada, 1867–1946".
c) Armed Forces overseas omitted.
Source: Dominion Bureau of Statistics, Ottawa.

Though the price of bread did not increase between 1941 and 1946, at a time when the food component index of the cost-of-living series rose by 24.3 points, the fact that personal income increased from $5,873 millions to $9,670 millions during the same period, had probably more to do with the increase in the consumption of bread than any change in the relative prices of food items. A decline in the proportion of bread baked in the home, and an increase in demand from lower income groups should account in the main for the shift in consumption since 1939.

It is difficult to assess the changes in demand; following decontrol and the subsequent increases in the price of bread, however, a certain trend is discernible. While the demand for the bakers' first quality bread seems to have kept fairly steady, the second quality loaf apparently loses in sales volume in favour of the low priced chain store special brand of bread.

Wartime and Post-War Control of Bread Baking Industry

During World War II the production and sale of bread and other bakery products were closely regulated by the Wartime Prices and Trade Board. The first restrictions were instituted in August 1941, and pertained to the slicing and wrapping of bread. The sale of sliced bread was banned entirely and wrapping was limited to one wrapper per loaf of a specified type of paper of one color. All markings on the wrapper were required to be of one colour and were not to cover more than 25 per cent of the surface. Maximum prices of bread were established under the price ceiling regulations which became effective in December, 1941.

Early in 1942 restrictions affecting the production and delivery of all bakery products were applied. Production processes, such as docking, cross-panning, twisting and cutting of dough, which added a measure of differentiation to loaves, were prohibited. A limitation was placed on the varieties of bread and rolls that could be made in any one day. Customers were limited to one delivery a day, with Sunday and special deliveries discontinued, except to such customers as hospitals, railways, steamships and the Department of National Defence. Unwrapped loaves were required to bear a label showing the weight, brand and retail price, and the name and address of the bakery. The return, by anyone, of bread or any other bakery products which had been delivered in a sound and edible condition by a manufacturer or distributor, was prohibited.

The ceiling prices applied in 1941 remained in effect, along with the above restrictions generally, until the removal of price controls on September 15, 1947. Some exceptions were the price adjustments allowed small bakers in Quebec and eastern Ontario in 1946 and a 10 per cent increase in the prices of cakes and sweet goods authorized February 1, 1947.

Extent of Rise in Bread Prices since 1939

The following table shows the price of bread in cents per pound, in certain principal cities and the average for the Dominion, at various periods extending from 1939 to November, 1948. It thus embraces the time immediately prior to the war and the imposition of price ceilings in December, 1941, the period of price control, including the suspension of price ceilings on bread in September, 1947, and their re-imposition in August, 1948.

TABLE 83

RETAIL BREAD PRICES AT SPECIFIED DATES IN SELECTED CITIES

(cents per pound—plain white wrapped loaves)

	1939	1941 Oct.	1945 Dec.	1947		1948		
				Sept.	Oct.	Feb.	July	Nov.
Dominion Average	6.2	6.7	6.7	6.8	9.1	9.4	9.5	9.5
Halifax	5.7	8.0	8.0	8.0	9.6	9.6	9.6	9.6
Charlottetown	6.7	7.3	7.3	7.3	9.3	9.3	9.3	9.3
St. John	6.7	7.3	7.3	7.3	9.3	9.3	10.0	10.0
Montreal	6.7	6.7	6.7	6.7	8.7	9.3	9.3	9.3
Toronto	6.7	6.7	6.7	6.7	8.7	9.3	9.3	9.3
Winnipeg	8.0	8.0	8.0	8.0	10.0	10.0	10.0	10.0
Regina	7.2	7.2	7.2	7.2	9.6	9.6	9.6	9.6
Calgary	7.2	8.0	8.0	8.0	10.4	10.4	10.4	10.4
Vancouver	9.6	9.6	9.6	9.6	11.7	11.7	11.7	11.7

Source: The above prices, with the exception of the Dominion averages, are based on the average wagon prices of the large bakeries for a single loaf as reported to the Dominion Bureau of Statistics, Ottawa.

The Dominion average retail price of 6.2 cents per pound in 1939 increased by 0.5 cents prior to the establishment of price ceilings, an increase reflecting advances in certain localities, such as Halifax, where prices had been depressed in a period of severe price competition, and then remained stabilized during the war period and until the suspension of the price ceiling in September, 1947. This extraordinary stability in price was a deliberate part of wartime price control policy. It was achieved by the subsidization of flour in order to maintain the relatively low price which had prevailed during the basic period in 1941. The price of wheat, and consequently of flour, which had advanced during the early period of the war from the extremely low level reached in mid-1939, declined during 1941 so that the maximum price of flour became fixed at a level substantially below the 1935-1939 average. A report of the Wartime Prices and Trade Board contained the following comment on the program:

> "Consumer prices of flour and bread continued under individual basic period ceilings. The price of wheat to the farmer has been raised from time to time and during 1944, No. 1 Northern was accepted by the Wheat Board at $1.25 per bushel. This is a very substantial increase in the price of wheat since the basic period, and to enable the milling companies to continue to sell flour at their basic period ceilings the mills receive from the Canadian Wheat Board a subsidy on their domestic production equal to the difference between the Wheat Board's selling price and the average price paid for wheat in the basic period,[1] subject, however to the formula for the limitation of subsidies in relation to excess profits".[2]

The maintenance of price ceilings on bread ingredients and the economies resulting from the regulations affecting production and deliveries were referred to by the Executive Secretary of the National Council of the Baking Industry as factors tending to offset increases in bakers' costs. More important, in his opinion, in enabling bread prices to be kept stable, were the greatly increased sales of bakery products which distributed overhead, selling and administrative costs over a large number of units.

Reinstatement of Subsidy on Wheat and of Price Ceilings on Bread

The cost of wheat to millers for domestic use remained unchanged following the increase resulting from the removal of the subsidy in September, 1947. Selling prices of flour declined for a time from the levels established immediately after the suspension of the price ceiling. However, the domestic selling price of wheat was related to the price under the United Kingdom contract which advanced from $1.55 per bushel to $2.00 on August 1, 1948. In order to prevent any increase in the cost of wheat to millers which would lead to an increase in the domestic selling price of flour and thus, in turn, to a further advance in the price of bread, the government announced on July 31 that a subsidy

[1]About 77⅜ cents.
[2]Annual Report, Wartime Prices and Trade Board, 1944.

of 45 cents per bushel would be paid on wheat processed for human consumption in Canada.

As there were indications that in spite of this action, prices of bread, and also of flour, might be increased by sellers in certain markets, the Wartime Prices and Trade Board, in orders effective August 19, 1948,[1] reimposed price ceilings on bread and flour at the levels prevailing on July 31. The Board made provision in September, 1948, whereby firms which had not increased prices since November 1, 1947, and which could demonstrate "financial need" could apply for authorization for an increase in selling prices not exceeding one cent per loaf.

Increased Costs in Post-War Period

No comprehensive figures on changes in costs of bakery establishments are available for the war period. Data for certain large baking companies in central Canada were presented to the Special Committee on Prices and show the changes reported for these bakeries in the period preceding and following the suspension of price ceilings.[2]

Flour

A system of subsidy payments was established to maintain the cost of wheat to millers at a level appropriate to the basic period prices of flour. These arrangements were made in 1942 and as the domestic selling price of wheat was advanced from time to time the difference between the two levels of prices widened considerably as shown in Table 84.

TABLE 84
PRICE OF No. 1 NORTHERN MANITOBA WHEAT
(cents per bushel—in store Fort William)

		Monthly Average Domestic Cash Price	Price to Millers
August	1939	54.9	54.9
September	1939	73.9	73.9
February	1940	83.8	83.8
August	1940	72.2	72.2
February	1941	75.2	75.2
August	1941	73.0	73.0
October	1941	73.7	73.7
February	1942	78.0	78.0
August	1942	88.9	77.4a
February	1943	90.5	77.4
August	1943	111.9	77.4
November	1943	125.0b	77.4
August	1944	125.0	77.4
August	1945	125.0	77.4
August	1946	125.0	77.4
March	1947	155.0c	77.4
August	1947	158.5d	77.4
September	1947	(subsidy withdrawn September 14)	
October	1947	158.5	158.5
August	1948	205.0e	160.0f
September	1948	205.0	158.5f

a) "Appropriate price" of 77⅜ cents fixed by W.P.T.B. for subsidy purposes.
b) Future wheat trading discontinued on September 27, 1943, and price of wheat for domestic purposes set at $1.25 per bushel.
c) Domestic price of wheat increased to $1.55 per bushel February 17, 1947.
d) Includes carrying charge of 3½ cents per bushel.
e) Domestic price of wheat increased to $2.00 plus carrying charge of five cents per bushel.
f) Price ($1.55 and five cents carrying charges) fixed for subsidy purposes, adjusted at September 1, 1948, to ($1.55 plus 3½ cents carrying charges).
Source: Dominion Bureau of Statistics, Ottawa.

[1]Cf Chapter 3, Vol. II., Price Controls and Rationing.
[2]Evidence, Special Committee on Prices, p. 357.

The average cash price of wheat for August, 1938, was 54.9 cents. With the outbreak of war it moved up to 73.9 cents and varied upward and downward from this level during the early period of the war, averaging 73.7 cents for October, 1941, and 78.0 cents for February, 1942. On August 1, 1942, the fixed initial price of wheat was set at 90 cents and the subsidy arrangements, previously mentioned, came into operation. On September 27, 1943, trading in wheat futures was discontinued on the Winnipeg Grain Exchange and the domestic selling price of wheat was established at $1.25 per bushel. As shown in the above table, this price was increased in February, 1947, and again in August, 1948.

The removal of the subsidy paid on flour, on September 15, 1947, increased the cost of wheat purchased by millers by approximately 81 cents per bushel, or $3.65 for 4½ bushels.[1] However, as the price of millfeeds, derived in the manufacture of flour, increased by $10.00 per ton or by approximately 35 cents for the same quantity of wheat, the net increased cost to the millers would be $3.65 less 35 cents or $3.30. The general advance in the price of flour on September 15, 1947, was $4.05, the additional 75 cents over the increased cost of wheat was attributed to accumulated costs of labour, bags and other material.

In subsequent months, further increases in the price of millfeeds and competition among millers led to some reductions in the price of flour from the levels established on September 15. Information on list prices furnished to the Dominion Bureau of Statistics showed reductions averaging about 35 cents per barrel by February, 1948, while some baking companies reported larger reductions in the cost of flour in the same period.

As a barrel of flour produces about 280 pounds of bread or 186 24 oz. loaves, the increase in the price of flour of $4.05 per barrel would mean an increase, on this basis, of about 2.2 cents per loaf. Information submitted to the Special Committee on Prices by baking companies, which would be affected by flour inventories, showed increases in the cost of flour per loaf in September at less than this amount. Figures submitted for operations in February, 1948, following the reductions in flour prices noted above, put the increase in flour cost per 24 oz. loaf at over one and a half cents over the cost at September 1, 1947.[2] The retail price of the 24 oz. primary loaf was generally raised in Quebec and Ontario by three cents immediately following the advance in flour prices. An additional advance over the increased cost of flour was considered necessary by bakers because of higher cost of labour and other materials for which an increase of one cent a loaf had been requested in representations to the Wartime Prices and Trade Board before the price ceiling was lifted.

Normally, the inventory of flour at a bakery would represent two to three months' supply in order to allow it to go through an aging process. On September 15, 1947, due to regulated distribution, the inventories seem to have been much lower. Nevertheless the almost immediate increase in the price of bread following the announcement of higher flour

[1] Four and a half bushels of wheat equals one barrel of flour weighing 196 pounds.
[2] Evidence, Special Committee on Prices, p. 895.

prices meant that some profit was made on the flour inventory. The successive decreases in the price of flour in the following months also led to some temporary easing of the cost situation with respect to this item. However, as already mentioned, bakers in a number of centres in Ontario and in Montreal increased their retail prices by an additional cent early in 1948, making the total increase following decontrol four cents per loaf. It was represented that the increase of three cents made in September had not been sufficient to cover increases in costs. During the spring of 1948 and up to the time that price ceilings on flour were reimposed[1] there was an apparent stiffening in flour prices and quotations for second patent bakers flour in this period recovered about half the amount of the reduction made earlier in the year.

Most of the bakeries represented at the hearings of the Special Committee on Prices were mill-controlled or affiliated with milling companies. They seem to derive no cost advantage in their purchases of flour but, as the Royal Commission on Price Spreads pointed out in 1935, "the existence of these inter-relationships between mills and bakeries results in the removal from the competitive flour market of a substantial demand for flour". Another effect has been to add to the financial resources of the multiple bakeries and thus to make the concentration in the industry even greater.

Other Ingredients

In the following table the total cost of all ingredients used in the bread baking industry in Canada in 1939 and 1946, is shown.

TABLE 85
MATERIALS USED BY THE BREAD AND OTHER BAKERY PRODUCTS INDUSTRY IN CANADA 1939 AND 1946

	Unit	1939		1946	
		Quantity (thousands)	Cost Value at Plant (thousands of dollars)	Quantity (thousands)	Cost Value at Plant (thousands of dollars)
Fruits	lb.	13,301.5	1,342.9		5,141.3
Eggs, in shell	doz.	3,144.5	704.1	4,668.2	1,618.7
Eggs, frozen	lb.	4,387.1	829.5	12,201.9	3,309.5
Lard	lb.	7,426.0	647.5	14,936.8	2,495.5
Malt Extracts and Syrups	lb.	1,302.8	126.7	12,226.8	1,184.7
Milk, powdered	lb.	9,389.8	880.6	16,578.9	2,171.1
Shortening	lb.	23,271.8	2,234.4	35,792.3	6,191.3
Sugar	lb.	45,260.4	2,578.7	49,627.9	3,746.1
Yeast	lb.	9,926.0	1,935.9	16,938.8	3,190.4
Packing Materials			3,196.2		7,678.5
Sub-total[a]			14,476.5		36,727.1
All Other Ingredients and Supplies			3,742.8		9,341.4
All Ingredients Exclusive of Flour			18,219.3		46,068.5
Flour (hard and soft wheat)	bbl.	3,920.5	16,172.1	5,703.5	24,817.5
Total Cost of Material Used			34,391.4		70,886.0

a) All ingredients which had a "Cost Value at Plant" of over one million dollars in 1946.
Source: Dominion Bureau of Statistics, Ottawa.

[1] August, 1948.

The dollar amount spent on all materials used in 1946 had increased by 106 per cent over 1939, representing 47.8 per cent of the selling value of the products as compared with the 1939 figures of 45.2 per cent. The proportion of flour as a percentage of the total cost of materials used decreased from 47 per cent in 1939 to 35 per cent in 1946. The percentage increase in unit cost of other ingredients over 1939 ran from nil for yeast, malt extract and syrup to 90 per cent for lard.

The cost of all ingredients in a 24 oz. loaf of Wonder Bread manufactured by Consolidated Bakeries of Canada, Limited, shows that the increase over the two year period from January, 1946, to January, 1948, in cost materials was 2.51 cents while the increase in the total cost of the loaf was 4.14 cents.[1]

The figures for other companies express a general relationship between a first grade and a second grade bread, because of the use of a greater proportion of more costly ingredients such as sugar, milk and shortening in the better grade.

During the war, Prices Board regulations reduced the number of varieties of bread which a baker could make to the minimum. Resumption of the pre-war pattern will inevitably decrease productive efficiency and be translated into higher costs.

Another cause of increasing costs of general significance in the post-war period is the enrichment of bread formulas undertaken by the bakeries. The tight supply situation with regard to ingredients and the pressure of the price ceiling against uncontrollable cost increases, had, during the war years, halted the competitive trend in that direction. Evidence cited before the Special Committee on Prices puts the added cost per loaf at anywhere up to 0.8 cents.

Wages and Production Costs

Wage rates in the bread baking industry increased by more than 70 per cent since pre-war days, as is shown in the following table.

TABLE 86

INDEX NUMBERS OF WAGE RATES FOR THE BREAD BAKING INDUSTRY, 1939-1947

Year	Index Numbers
1939	100.0
1940	102.9
1941	115.5
1942	123.9
1943	128.9
1944	134.3
1945	139.0
1946	152.6
1947	174.2

Source: Department of Labour, Ottawa.

[1]Evidence, Special Committee on Prices, p. 802.

While the total increase is more or less evenly distributed over the control period, the sharpest increases took place in the years following the end of the war. Average weekly wages for men rose from $19.32 in 1939 to $29.65 in 1945, while wages for females increased from $10.51 to $14.11 in the same period. No earnings figures are available for 1946 but the 13.6 increase in the wage rate index in 1946, and the further increase of 21.6 in 1947, indicate further substantial advances. This may be due partially to a shift in the sex proportion of workers in favour of the male wage earner. Total employment increased by about 1,300 to over 25,000 workers since 1945, while the number of women workers decreased by about 500.

During wartime little or no new machinery was available. The cost of repair and maintenance increased greatly. The situation in this regard should become progressively better as replacement takes place. In the first two post-war years new capital investment seems to have been slow. Delivery equipment was given priority and made up the major item of outlay.

Slicing of bread which was prohibited during the war is being introduced again. The additional cost is estimated at around ¼ cent per loaf of bread which is being sold to the consumer at one cent in excess of the price prevailing after January 1948, for unsliced bread. Contrasting the slicing with the wrapping shows how an innovation, allowing extra profits, is generally taken up by the trade. With a more or less fixed market, the added costs are quickly absorbed into normal costs, permanently raising the price. After realignment of the industry's cost structure in the face of changing conditions, only normal profits remain, giving rise to another innovation and higher prices. With the cost of wrapping amounting to about 1/5 of a cent per loaf, wrapped bread brought a net return of roughly 4/5 of a cent. Today the practice of wrapping bread is generally accepted, and the industry spent almost three million dollars on that account alone in 1946, while no allowance other than cost (plus normal profits) is made in the price of the product.

Overhead

During the war period sales expanded rapidly and overhead cost was distributed over a larger number of units, thus partly offsetting the effect of rising costs. No such spectacular production increases can be expected for the future. While long needed replacement of machinery and equipment will increase the productive efficiency, the higher replacement cost of equipment will result in higher charges for depreciation and will be increasingly reflected in the operating statements.

Distribution and Selling Expenses

While the operation and maintenance expenses of delivery vehicles are important items in distribution costs, the expenses centering around the delivery-man appear to be of major significance. A fairly accurate description of the sales organization in one of the large baking companies would run somewhat as follows: At the head of the bakery sales division is a sales manager; every group of from 11 to 13 routes has a sales supervisor and there is a spare salesman for every 12 or 13 routes. Both supervisors and deliverymen usually receive a small basic wage plus a commission on the sales made. The rate is generally around seven per cent on wholesale routes (sales to retail stores) and 15 per cent on retail routes (house to house).. The top heavy structure of a bakery concern in favour of the sales' end of the business is underlined by some statistics supplied by the Canada Bread Company. Out of a total of 2,700 employees, 900 or 33 1/3 per cent belong to the sales division. In the seven months ended January 31, 1948, the percentage of wages and salaries paid in relation to the sales value of products sold by this company was as follows.

TABLE 87

PERCENTAGE OF WAGES AND SALARIES IN RELATION TO SALES VALUE OF PRODUCT

	Per Cent
Delivery Wages	18.1
Bakery Wages	13.1
Branch Office Salaries	2.1
Head Office Salaries	.6
	33.9

Source: Evidence, Special Committee on Prices, p. 896.

An example of the large portion of distribution costs that is taken up by delivery expenses for a standard loaf of bread of Consolidated Bakeries for the month of January in 1946, 1947 and 1948 is provided in the following table.

TABLE 88

CONSOLIDATED BAKERIES OF CANADA, LTD.

DISTRIBUTION COSTS IN CENTS PER 24 OZ. LOAF OF WONDER BREAD

JANUARY, 1946 — JANUARY, 1948

	January 1946	January 1947	January 1948
Sales Wages	1.79	1.83	2.48
Delivery Expenses	1.28	1.26	1.65

Source: Evidence, Special Committee on Prices, p. 802.

The large increase in sales wages of .65 cents per loaf between January, 1947, and January, 1948, during which time price control ended, highlights the fact that the cost of bread is automatically increased as soon as the price goes up. The salesmen's commissions which are on a value basis will inevitably increase in proportion to the price increase. The total cost per loaf of Wonder Bread, exclusive of sales wages, increased by 3.31 cents between 1947 and 1948. Allowing two cents per loaf for the increased cost of flour it is apparent that the increase of .65 cents per loaf in sales wages in the same period is equal to about one-half of the increase of all other elements than flour in the cost structure.

None of the baking companies at the hearings of the Special Committee on Prices appeared to be inclined to make any changes which would interfere with the system of basing salesmen's commissions on the value of products distributed. In fact, with the quest for customers becoming a matter of concern again in the post-war period the expenditures on sales wages may well rise in order to attract the best sales force to engage in aggressive promotion of brands.

SUMMARY AND CONCLUSION

The primary cause of the sharp increase in the price of bread after the lifting of price ceilings in the fall of 1947, was the delayed adjustment in basic costs in the industry. Such adjustment, and with it the change in selling prices, had been held in abeyance through the maintenance of rigid price ceilings which the payment of subsidies had made possible. In the case of many other food products, adjustments in maximum prices were made from time to time during the period of control, but in the case of bread the level of prices prevailing in the pre-war period was generally maintained up to the time that price ceilings were suspended. The price of bread was established in 1939 when the price of wheat and consequently of flour were at extremely low levels. In the case of wheat the price was less than one-third of the price now applying on sales in Canada. Adjustments were necessary to provide for changes during the period of control and subsequently, in the costs of materials, supplies, labour and capital equipment. Public comment arose not so much over the fact that price increases were made as it did over the manner in which they were made and the differences which were made evident between various sections of the trade and in different regions of the country. These features were regarded as related to the organization of the industry and to practices followed in the trade.

The emergency controls over prices and production tended to hold in check the more extreme forms of competitive distribution which were developing in the pre-war period but the shortages of supplies and of man-power may have contributed to the continued rise in the importance of large-scale units in the industry. In many parts of the country the production of bread became concentrated in a few large bakeries, many of them branches of mill-controlled or affiliated baking companies. In western Canada, the report of a recent investigation under the Combines Investigation Act showed that the large baking companies had understandings as to common price policies and trade practices. In other parts of the country where multiple bakeries operate it is evident that with respect to the retail price the companies adopted similar price structures.

The maintenance of a uniform price structure for bread, particularly for what is termed the "primary" or "first quality" loaf has become a matter of consistent policy on the part of the large bakery organizations. Seldom do new entrants to the industry attempt to secure consumer preference by offering an equal or improved product at a lower price but rather rely on brand or feature advertising and on the granting of more attractive terms or facilities to the distributor. Some variations do, of course, occur. Christie's Bread Limited when it entered the Toronto market in 1939, as a wholesale baker, was satisfied to have the retailers handling its bread conform to the level of retail prices already established. When the same company entered the Montreal market in 1948, it accepted the prevailing retail price for wrapped unsliced bread but offered sliced and unsliced bread at the same wholesale price, giving the retailer a margin of one-half a cent more than he had been obtaining on most other brands of bread, and allowing him to sell both types of bread at the same price. This showed that the price differential which the company maintained in Toronto in common with other baking companies there could be disregarded in a new territory when there was a possibility that in so doing a greater volume of business could be secured. The purchaser of unsliced bread in Montreal could secure no price advantage in buying the Christie loaf although the retailer was given a wider margin than he had been enjoying on competitors' lines.

The development of aggressive sales policies in the bread baking industry had been critically examined in inquiries made in the early 1930's from one of which the following excerpt is taken:

> "Most of this expensive sales effort is designed not so much to increase the consumption of bread as to persuade customers of rival concerns to 'change bakers'. This can hardly be called a social benefit. The big bakery can not be held solely responsible for the system. There is little doubt that the demand of the public, or of some portions of the public, for something new to eat is one of the reasons back of the development of such sales methods. This desire for change is capitalized by the shrewd sales manager: new varieties of bread are advertised under 'catchy' names as being made by the latest scientific processes and as containing the last word in nutritive value: new shapes are turned out, bread ready sliced is introduced and special delivery services added, all in an effort to retain old customers and gain new ones from competitors."[1]

The concentration of bread production in large baking companies and the absence of active price competition among them have tended to make distribution more costly. Additional costs have resulted in increases in the established selling price.

---

[1]Investigation into an Alleged Combine in the Bread Baking Industry in Canada, Report of Registrar, Ottawa, 1931, p. 40.

In the pre-war period it had been expected that competition from chain stores operating their own bakeries and from other retailers not concerned with house to house bread delivery would compensate for the disappearance of price competition among the large baking organizations. The extent to which brand differentiation has existed in the industry has, however, greatly reduced the effect of the competition from chain stores. The increasing insistence on the maintenance of resale prices by retailers at wagon prices has reduced price competition.

Whether or not in a period of less buoyant consumer incomes the competition of chain stores in the sale of bread would have a more direct effect on the general level of bread prices is a matter of speculation. It is evident that many of the large merchandising organizations are prepared to accept the substantial margins on bakers' bread which the observance of resale prices provides.[1] The influence of those chains which operate their own bakeries is the most significant factor remaining. This difference amounts in many instances to three or four cents per loaf which the public seems prepared to pay for bread which possesses practically the same nutritive values.

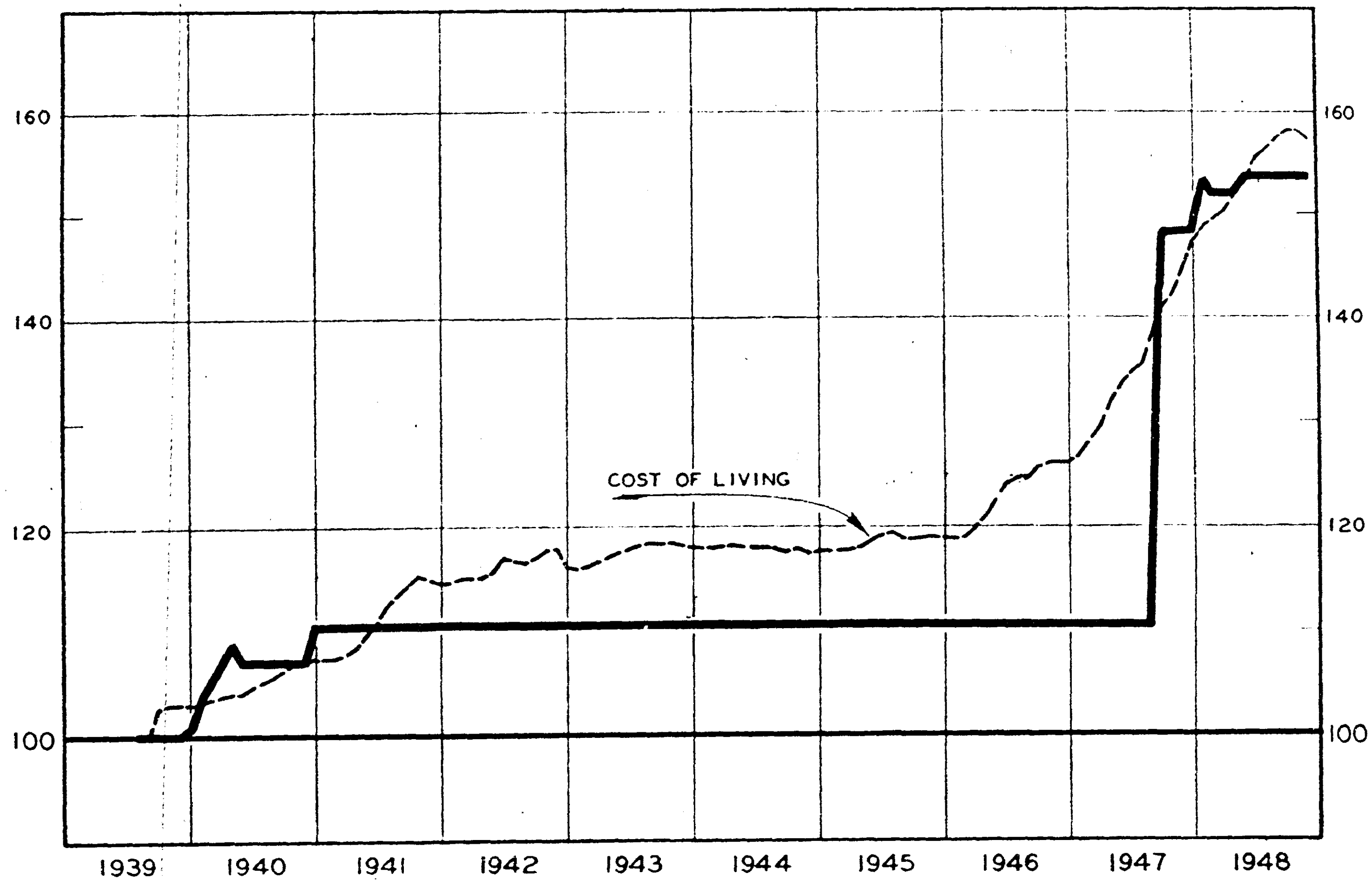
The forms of competition which have developed among the large baking companies and merchandising organizations have had serious effects upon independent bakers[2] who have not the resources to engage in the costly distribution methods of their larger rivals nor the volume of business which would enable them to compete with chain stores. The multiple baking companies distributing their products in many markets may engage in aggressive promotional activity to secure consumer patronage for their brands in a particular locality. The local baker with only that market to serve can not engage in the same tactics and hope to survive. In some cases, it appears, the only course open to him has been either to discontinue his business or sell out to the multiple company.

[1]Evidence, Special Committee on Prices, p. 734.
[2]Ibid., pp. 664-6.

CHART X

BREAD RETAIL PRICE INDEX

(AUGUST 1939 = 100)



Source: Dominion Bureau of Statistics, Ottawa.