

9

LEATHER FOOTWEAR

PRODUCTION of leather footwear in Canada increased rapidly immediately after the end of the war and in 1946 the industry produced 44 million pairs, a record high. At that time, retail shoe prices still under control, were only about 16 per cent above their level in August, 1939, and this relatively favourable price stimulated a record level of demand. While restocking of retail stores absorbed part of this, sales to the consumer were also unusually high. Export sales reached a record level of 3.1 million pairs in 1946, largely to the British West Indies, Newfoundland and to various European countries under contracts with UNRRA. In 1947, however, production declined to about 35.6 million pairs and at current production rates the industry will only produce about 27.5 million pairs in 1948. This latter estimate is only 10 per cent higher than the 1935-1939 average. Both domestic and export sales have fallen off sharply.

A major factor in the decline in sales has been the price rise. An advance of 11 per cent on men's and children's footwear and nine per cent on women's footwear was authorized early in 1947 following an increase in the ceiling prices on leather. Subsequently, in April, footwear prices were decontrolled entirely but the major price rise did not come until after the removal of the ceiling on hide prices in September. Since then footwear prices have advanced sharply. Retail prices by December, 1947, were up 42 per cent over their level in August, 1939, and by June, 1948, they had advanced still further to 168 per cent of the 1939 level. This is somewhat more than the rise in the total cost-of-living index, which stood at 154.3 on June 1, but it is somewhat less than the advance in the index of clothing prices.

The various elements that have contributed to this advance in price can be better understood after a general examination of the structure and character of the leather footwear manufacturing industry and the practices of retail merchandisers of shoes.

LEATHER FOOTWEAR MANUFACTURE

Location and Structure of the Industry

In Canada leather footwear manufacturing is carried on primarily in Ontario and Quebec by a large number of small and medium sized firms. In 1946 the gross value of production in the industry was \$96.4 million and of this 65 per cent was produced by firms in Quebec and

31 per cent by firms in Ontario. During the period of rapid growth in footwear production at the war's end there was a large influx of new firms into the industry, the number of establishments increasing from 228 in 1944 to 294 in 1946. The majority of these new firms were small, for the number of new firms employing less than 50 persons increased by 50 during this period. Not only are there a large number of firms producing footwear, but the proportion produced by the larger firms is relatively small. In 1946 the five largest plants produced slightly less than 12 per cent of the industry's total product. In the same year the 36 largest plants, all plants with a production in excess of \$700,000, produced just over 46 per cent of the Canadian total. Though there are a few firms that own more than one plant, this would not materially change the above picture.

Because of the large number of firms and the inability of a few firms to dominate the industry, footwear production is highly competitive. All firms, of course, are not competing directly with one another for there is a considerable degree of specialization both as to type and quality of footwear produced. Some firms specialize in the production of men's footwear, others in women's or in juvenile and children's footwear, while still others may combine one or more of these types. Further, within each of these types there may be a certain degree of specialization in different price ranges. Some firms produce only a high-grade, high-priced shoe for the quality market, while others will produce mainly in the medium-priced or low-priced range. A number of the larger firms in the industry have succeeded in building up some degree of monopoly for their product by means of well-established, nationally advertised brand names.

The United Shoe Machinery Company

An important factor in maintaining a unique state of affairs in the industry has been the United Shoe Machinery Company of Canada Limited which leases most of its machinery rather than sells it. This company has a patent monopoly on a large proportion of the industry's machinery and it was estimated that only about 25 per cent of the shoes produced would not involve this company's machinery for at least part of their construction. In the main, the company has preferred to exploit its patent monopoly by renting its machinery on a combined rents' and royalty basis, rather than by selling the machines outright. Only the less important types of machines, about 30 per cent of the total, are sold. The effect of this has been to make it easier for new firms to come into the industry. Since it is not necessary to purchase expensive machinery all that is required to begin production is a building and sufficient funds to meet working capital requirements. New entrants are in this way encouraged. While this fosters a high degree of competition in shoe production, it may also lead to an over-competitive condition characterized by periodic over-production and a high rate of failure among the smaller firms.

Data submitted by the Shoe Manufacturers' Association show the following rate of failure among leather footwear firms in the pre-war period.

TABLE 152

FAILURES IN THE LEATHER FOOTWEAR INDUSTRY
1936-1941

Year	Number of Plants	Number of Failures
1936	219	9
1937	221	21
1938	213	13
1939	222	12
1940	217	14
1941	210	13

Source: Evidence, Royal Commission on Prices, p. 685.

It can be assumed that most of these failures were among newly established small scale firms that failed to make good. Throughout this period as some firms failed, others took their places and there was little change in the total number in the industry. The output of these additional firms would tend to exert a downward pressure on shoe prices.

Over 75 per cent of the machinery supplied by the United Shoe Machinery Company of Canada is now manufactured in Canada, the remainder being imported from the parent company in the United States. In addition to supplying machines, the company also sells a wide range of boot and shoe findings; total sales of these products in 1947 amounted to over \$2 million. It controls the distribution of celastic box toe caps and imports and distributes about 90 per cent of the shoe eyelets used in Canada.

The lease arrangements used by the company are extremely complicated. The three standard types of lease provide for some combination of an initial payment, a flat rate monthly rental, a unit charge for each shoe produced on the machine and a deferred payment or termination charge, which is payable only when the lease is terminated and the machine is returned to the company. Four per cent of the combined monthly rental and unit charge is credited to the customers' account each year and this is available to meet the deferred payment which is due at the time the machine is returned. An additional charge is levied if the machine is used less than a minimum amount during any month. However, part of this last charge is refunded. To allow for the normal seasonal slack in the industry, minimum charges for the four months in which operations are at their lowest point are automatically refunded. In addition, a refund would be made equal in amount to the four per cent deducted from the monthly rental and unit charge during that year. It

was estimated that about 80 to 85 per cent of all charges collected for machines used less than a minimum amount are refunded. These terms were set by the parent company and no explanation was given for them. However, it seems clear that this complicated arrangement is designed to give the producer an incentive to use the machine supplied by the United Shoe Machinery Company as much as possible. In slack times a footwear manufacturer can reduce his costs by discontinuing the use of machines which he owns outright or rents from other companies and maintaining production on machines of the U.S.M.C. For one type of machine on which evidence was submitted, the Goodyear Outsole Rapid Lockstitch Machine Model 0, it was estimated that the annual payment for use of the machine at the minimum rate would be \$504. The original average cost of this machine was reported to be \$1,333.94. The average net book value of 13 of these machines as of March 31, 1948, was \$713.11.

The various charges made under these lease arrangements are determined by the parent company in the United States and some of these are substantially higher in Canada than they are in the United States. Monthly rentals are, in most instances, from about 25 cents to \$2.50 per machine higher in Canada, though there were some instances where the rental was \$9.00 or more per month higher. In most cases the initial and deferred payments are the same in both countries. No data were submitted on the relative levels of unit charges in the two countries. The company attributed the higher rates to the higher cost of service charges in Canada. Leased machines are serviced free of charge by the company, though the shoe manufacturer has to pay for any new parts. It was alleged that the larger size of shoe manufacturers in the United States made it possible to service machines more cheaply.

Because of the complicated system used for leasing its machinery it seems evident that the cost of administration and keeping separate records of transactions for individual manufacturers must be extremely high. Likewise, each footwear manufacturer is faced with these heavy costs in keeping similar records. This is an unnecessary cost from the economy's standpoint and can be maintained only because this company is in a monopolistic position.

The average cost per pair of shoes for unit charges and rentals was estimated at 4.18 cents in 1947. Individual shoe manufacturers submitted estimates of machine cost per shoe varying from 3.19 cents per pair to 7.94 cents per pair. Higher rates on rentals became effective on June 2, 1947, but they would only become effective at the time leases came up for renewal. The increases varied from about five to 20 per cent.

Nature of Product

The different makes of boots and shoes produced are classified by rather technical names depending on the type of machine process used in their production. The Goodyear Welt process, considered to be the best, is used extensively in the better quality men's shoes. It has the advantage that there is no exposed stitching or nails in the insole, that

the sole is more firmly attached to the upper, and that the shoe retains its shape well. Since it requires more operations, it is also the most expensive process but gives much the longest wear. In the process known as McKays and Littleways, the upper is lasted with tacks and nails to the insole and then the insole is stitched to the outsole. This process is used extensively in the production of women's and growing girls' footwear. Stitchdowns are similar to the above except the upper is stapled to the insole and a Goodyear lockstitch is used to attach the outsole. Various types of cemented shoes in which the outsole is cemented on have become much more popular in recent years, particularly for women's and girls' footwear.

PRICING AND SELLING POLICIES

Relation of Costs to Selling Prices

It is the general practice for footwear manufacturers to estimate their production costs for each basic type of shoe on their costs for materials, labour and machinery expense. One firm reported that it determined its selling price by adding 35 per cent to this cost to cover administration, selling expenses and profit. It reported that this was a standard practice which had been followed for at least nine or 10 years. It was claimed that there was no specified amount of this which was an estimate for profit, that both expenses and profit would vary with the volume of sales. Other firms made an estimate for these other expenses and added a certain percentage for profit. Their estimates are apparently based on the assumption of some expected volume of sales. Variations from the basic shoe type would be priced by making certain added charges.

A number of firms reported that it was necessary to vary the selling price determined in this manner so that the shoe would sell at a price which would fit into the retailers' established price lines. They said there were certain price lines that were fixed in the minds of the public and unless a shoe was sold at a price by the manufacturer that would give a retailer his normal operating margin at one of these established prices the retailer would not buy it. One manufacturer reported that he would sometimes vary the quality of the shoe by using substitute materials for the sole or cheaper materials in the upper or lining in order that the factory selling price could be kept at a level which would meet the retailers' requirements. The need to change their shoes to meet this inflexible retail pattern could be expected to add something to the manufacturers' administrative costs.

Several firms reported that they at times had marginal lines of shoes. In these instances the selling price would be slightly less than their average cost but they continued to produce the shoe because the volume of sales was large and while the shoe did not yield a profit it absorbed part of the firm's overhead. Price theory would suggest that marginal considerations should apply to all their lines of shoes. Apparently the manufacturer is most clearly aware of the marginal factor when the whole line is selling at less than the average cost, including certain

overhead costs. In the production of each type of shoe, there is a marginal point at which the manufacturer must decide if any additional output will be worthwhile.

Relation of Inventories

Most firms reported that they kept enough leather on hand to meet their requirements for about three months. They were unwilling to reduce their stocks below this level in case they should be forced to interrupt their production because of insufficient stocks. When hide prices dropped they might reduce their stocks somewhat but not below their needs for the following three months. Data for 23 footwear manufacturers indicate that there has been a substantial decline in raw material inventories since the rise in leather prices in September, 1947. Several manufacturers reported that they followed the hide market and looked for some reduction in leather prices after a substantial decline in hide prices had occurred.

When the price ceilings were removed from hides and leather in September, 1947, the leather tanners advanced their prices immediately. Some manufacturers reported that they were in turn forced to advance their shoes prices at once to cover this increase. Others reported that they gave their customers some benefit from the lower cost inventory they had on hand and then advanced their prices at a later date on the basis of the higher cost leather. The wholesale index of boot and shoe prices for this period showed its largest jump in October, the month immediately following decontrol of leather prices; there was a further advance in November and only a small rise thereafter. This is shown by the following index of the wholesale prices of boots and shoes.

TABLE 153
WHOLESALE PRICE INDEX, BOOTS AND SHOES

(August, 1947 = 100)

Month	Index	Month	Index
September 1947	102.4	February 1948	128.2
October 1947	119.5	March 1948	128.2
November 1947	125.1	April 1948	125.9
December 1947	125.9	May 1948	124.3
January 1948	125.1	June 1948	122.8

Source: Dominion Bureau of Statistics, Ottawa.

It is evident that the manufacturers followed a replacement cost basis to a large extent in setting their prices in this period.

Resale Price Maintenance

A number of firms follow a policy of fixing the retail price on some or all of their shoes and they insist that the retailer shall adhere to this price. This usually occurs in the case of nationally advertised brands. Where such a policy is followed the retailer's percentage mark-up over cost is determined by the manufacturer, but it usually corresponds to the mark-up prevailing in the trade.

One firm reported its policy on resale price maintenance in some detail. For one of their shoes, the "Sisman Scamper", a uniform selling price is maintained across Canada. Retailers, however, are all charged the same f.o.b. factory price. This means that the retailer who is located close to the factory, because he has less freight to pay, obtains his shoes at a lower cost than one who is located at a more distant point; the retailer near the factory would make a slightly larger profit. If the company sets a selling price which gives the more distant retailer an adequate gross profit, this same price will presumably yield an extra margin of profit to the more favourably situated firm. However, since the average amount of freight is estimated at only about five cents or less per pair of shoes the possible difference in freight is unlikely to amount to more than one or two per cent of the retail selling price. The resale price set on these shoes yields the retailer who has to pay the average amount of freight a gross margin of 50 per cent on his laid down cost. This conforms exactly to the mark-up generally used by shoe retailers. In western Canada the retailer obtains an additional three per cent but out of this he must meet his higher freight cost. The difference is due to the fact that salesmen in that region receive a correspondingly smaller commission. This is because salesmen in the west sell only to larger accounts. No attempt is made to cover smaller centres. Thus the plant realization is exactly the same for all the company's sales.

The company stated that it was its policy to enforce this resale price and that if there was any departure from it it would cease selling to the account concerned. Resale prices were also suggested on some of its other shoes but no attempt was made to follow up or enforce these. However, this firm stated that a resale price maintenance policy was its objective for more of its lines.

The company said its reason for following this policy was to make it possible for the small retailer to carry its shoes. It was contended that before adopting this policy large chain stores or department stores would hold end-of-season sales on its product at prices which the small retailer could not match. Local customers of the small retailer, seeing these lower sale prices would cease buying locally. Presumably the existence of the nationally advertised brand would enable the local customer to identify the price difference in question. It was also contended that this resale price was a service to the small retailer who found it difficult to estimate a proper selling price and that it eliminated cut-throat competition.

None of the above contentions seems very substantial. A local retailer usually derives much of his trade from his convenient location, and from

his personal contact with his customers. It is difficult to believe that end-of-season sales would keep him from handling a nationally advertised shoe since he does in fact handle many shoes which are subject to clearance sales. In view of the prevalence of the 50 per cent mark-up in the trade, it is also hard to believe that retailers require any aid in setting their prices. On the question of cut-throat competition it seems more probable that the existence of resale price maintenance will change the form of competition rather than reduce it. If resale price maintenance becomes widespread there will be less price competition but more competition in other forms, such as the provision of services. If the resale price establishes more than a competitive rate of return, it will induce new firms to enter the field leading to over-investment in the retail field. This is particularly undesirable because the retail field has always been characterized by an over-supply of small firms and a high rate of failure.

The gain that the manufacturer expects to derive from a policy of resale price maintenance is not entirely clear. If, as the Sisman Company contends, it enables the manufacturer to induce more retail outlets to handle the product it will enable him to increase his total sales. This in turn may make the policy of national advertising more profitable.

The two companies which reported the use of a policy of resale price maintenance also reported that their sales were still increasing in 1948, whereas total sales for the industry are down. They reported that there was still a substantial amount of unfilled demand for their shoes and it was necessary to allocate them to retailers on a quota basis. The existence of an unfilled demand for their product indicates that while subject to competition, these companies could have charged higher prices for their product they have preferred to retain somewhat lower prices in order to build up a long term demand for their product. Another company which does not suggest a resale price also reported increased sales in 1948. It attributed this to its shift to production of shoes featuring an important element of style.

Quality of Shoes

Most of the manufacturers reported that there had been little change in the quality of their product. In some instances they reported improvements in certain models. One large manufacturer in the lower price field said most of the complaints regarding the quality of shoes were due to poor workmanship rather than quality of materials. However, he admitted that some manufacturers could use materials with inferior wearing qualities and that the consumer could not detect the difference at the time of purchase. He reported an increased demand for lower quality shoes since the recent rise in prices. On the other hand, most of the other manufacturers reported that the demand for quality shoes was well maintained. Some firms reported a shift to shoes featuring style. Almost all manufacturers reported that they were using a large amount of substitute materials for shoe soles and their wearing qualities compared favourably with sole leather.

Selling Policies and Selling Costs

Although some footwear manufacturers reported that they sold their shoes to all customers at an identical price, others reported different prices for different classes of customers. Thus large retailers would pay more than wholesalers and small retailers would pay a still higher price. In some instances large mail order stores would buy at the same price as wholesalers. Firms employing a resale price maintenance policy would sell direct to retailers and sell to all at the same price.

Five leather footwear manufacturers, all of whom sell relatively high grade merchandise under their own brand names, and advertise these brands in national magazines, showed the following changes in their selling, administrative and warehouse expenses as a percentage of total sales over the period from 1937 to 1947.

TABLE 154

SELLING, ADMINISTRATIVE, AND WAREHOUSING COSTS AS A PERCENTAGE OF TOTAL SALES, FOR FIVE FOOTWEAR MANUFACTURERS

Year	Per cent	Year	Per cent
1938 ^a	10.2	1943	8.5
1939	10.2	1944	8.3
1940	9.5	1945	8.6
1941	8.8	1946	9.4
1942	7.1	1947	8.5

^a) Data is for four companies only.

Source: Evidence, Royal Commission on Prices, pp. 490, 531, 569, 586 and 1706.

These costs as a percentage of sales declined during the war period, increased somewhat in 1946 and declined again in 1947. They are still smaller in relation to sales than they were in pre-war years. One company reported that it had adopted a definite policy of allocating a certain percentage of its sales to advertising.

THE SHOE MANUFACTURERS' ASSOCIATION OF CANADA

All companies appearing before us reported that they were members of the Shoe Manufacturers' Association of Canada and attended association meetings. In all, the Association has between 175 and 180 members, or about two-thirds of the total number of firms in the industry. The membership fee is based on the amount of business done by the member and varies from a minimum of \$100 to a high of \$720 per year. In addition to ordinary members provision is made for associate members. The latter are firms such as the United Shoe Machinery Company, who supply material to the industry but are not themselves footwear manufacturers.

Mr. Millington, the executive vice-president of the Association, said that one of the chief functions of the Association was to provide credit information to members. Each member submits information on the credit status of his customers and this information is compiled and sent out to all members. The Association is also engaged in a program of fostering good relations with the public. This program consists in part of educating the public to get a proper fit in their shoes and to care for them properly. This, it is hoped, will prevent unjustified criticism of the quality of shoes. It also consists in part of making people more shoe conscious which almost inevitably means being more style conscious. Mr. Millington claimed that the recent shift to more style in men's footwear was due to the demand by men for a shoe with a heavier sole because they had become accustomed to wearing heavier footwear during the war. But it was admitted that the great variety of styles are created by the manufacturer and that they increase the unit cost of production.

Information obtained from the minute book of the Association provides evidence that the Association is also interested in buying, pricing, and credit practices in the industry. The by-laws of the Association state that one of the objects of the Association is "to facilitate the collective buying of all supplies by its members", but Mr. Millington stated that this object had never been carried out in any way. One of the minutes contained a resolution that the Association should make a protest to the Tanners' Association regarding a change in credit terms on leather purchases.

Several minutes contained a reference to prices. One referred to the discussion at a directors' meeting of a complaint that the John Ritchie Company had failed to increase its price promptly in January, 1947, when the Prices Board authorized an increase. The minute stated that,

"Following discussion, it was ascertained that this particular firm had since changed its policy and now was requiring higher prices for its products. As this matter had apparently adjusted itself satisfactorily it was thought that this item should be tabled".

In reference to this minute Mr. Millington contended that the Association was not interested in the pricing policies of individual firms and they had made no representations to the John Ritchie Company. He also stated that the letter of complaint had remained unanswered but, notwithstanding this, it had been discussed at a directors' meeting; the discussion, he said, lasted about a minute and a half. When questioned on the meaning of the last sentence in the minute he said that this did not refer, as might be supposed, to the fact that the John Ritchie Company had now brought their prices into line with other manufacturers but to the fact that it was no longer necessary to discuss the matter with the person making the complaint. In another minute, a suggestion was made that certain manufacturers "should be granted permission to apply to the Federal authorities for selling at increased prices". Here again Mr. Millington contended that the Association did not deal with price

increases. He said the minute did not refer to obtaining permission from the Association.

Both credit and pricing policies are included in a code of standard practices that has been adopted by the Shoe Manufacturers' Association. Among other things, the code specifies that samples shall only be supplied to wholesalers and the larger retailers, that a charge shall be made for these samples and that any fillers or shoe trees supplied with the samples must be paid for. An extra charge is to be made on orders for single pairs. The terms on all shipments of footwear are to be 30 days net f.o.b. shipping point from requested date of delivery, states the code, and no shipments are to be made on approval or consignment. A minimum interest rate of seven per cent is to be charged on overdue bills. Mr. Millington stated that this code was considered to be a desirable set of practices for the industry but the Association took no steps to enforce it and a failure to live up to it did not affect the manufacturers' position in the Association. It is evident that adherence to these practices would help to protect the shoe manufacturers from the buying practices of large chain and department stores. Mr. Millington said the shoe manufacturer was often forced to take back unsold shoes and could not afford to refuse because he must continue to sell to the larger accounts. The code, if enforced, would also eliminate a form of price competition which would not be apparent from the stated selling prices of the individual firms.

Leather footwear manufacturing, in the main, appears to have been highly competitive and has been characterized by a high rate of failure. It is an industry which must buy and sell in markets where some degree of monopoly exists. A large part of the shoe machinery in use is supplied by one company and a considerable part of shoe production is sold to large chain and department stores. Many of the more serious difficulties which the industry has faced have disappeared with the higher level of consumer demand. The Association gained in strength during the war when it became the channel through which representations were made on behalf of the industry to government agencies. Although the evidence does not make it possible to evaluate what effects, if any, the Association has had on the degree of competition in the industry, the instances already mentioned indicate that there has been some tendency toward joint action to modify certain competitive practices and for the Association to become concerned in questions of price policy. Some examples are found in the evidence of individual shoe manufacturers endeavouring to remove their products from direct price competition in various ways, including resale price maintenance. More serious results would follow for the consumer, in our opinion, if, through or under the sponsorship of the Association, practices were encouraged which tended to restrict competition generally in the industry.

CHANGES IN COSTS AND SELLING PRICES

The relative importance of various costs in the leather footwear industry have been remarkably stable over a long period of years. This is supported by the following table which shows the percentage of various costs to the value of the product at the factory for three widely separated years.

TABLE 155

RELATIONSHIP OF COSTS, CANADIAN LEATHER FOOTWEAR INDUSTRY
(per cent)

Item	1929	1939	1946
Salaries	5.4	7.9	6.2
Wages	25.6	25.0	24.0
Cost of materials	52.5	52.6	54.3
All other, selling expenses, depreciation and profits	16.5	14.5	15.5
Total	100.0	100.0	100.0

Source: Dominion Bureau of Statistics, Ottawa.

Salary and Wage Costs

Salary and wage costs which account for about 30 per cent of the footwear manufacturer's cost have increased substantially since 1939. An index of wage rates in the industry increased 94.2 per cent between 1939 and 1947; between June 1, 1947, and June 1, 1948, average hourly earnings rose an additional 13.1 per cent. Despite this large percentage advance weekly earnings in the industry at July 1, 1948, were still only \$27.52 compared with \$41.22 in all industries. The lower wages are partly accounted for by the larger proportion of women employed in the industry. In 1946, about 42 per cent of the industries' employees were women whereas in all manufacturing the proportion of female employees was only slightly over 25 per cent.

The extent to which this rise in salary and wage costs would be reflected in factory selling prices would depend partly on what changes in productivity had occurred in the industry. Productivity is difficult to measure because of variations in the proportion of different types of shoes produced, each of which may require a somewhat different amount of labour. It will also vary with the importance of style in shoes. During the war the Wartime Prices and Trade Board by limiting the number of different styles of shoe that might be produced and by restricting frequent changes introduced considerable economy into the industry which would be reflected in increased productivity. Since the war's end, however, and particularly within the past year style is becoming a much more important factor. Unless counterbalanced by

other factors, the more frequent changes and larger number of shoe types which must be produced will inevitably reduce the output of shoes per worker. The following table which shows some data on number of pairs of footwear produced per wage worker makes no allowance for the changes in types mentioned above. Data are shown separately for boots and shoes and for other types of footwear, chiefly slippers.

TABLE 156
FOOTWEAR PRODUCTION
AVERAGE PRODUCTION PER WAGE WORKER, CANADA

(thousands of pairs per worker per annum)

Year	Boots and Shoes with Leather or Fabric Uppers	All other Footwear	Total Footwear
1926	1.29	.17	1.46
1929	1.26	.17	1.43
1937	1.38	.24	1.62
1939	1.42	.23	1.65
1945	1.75	.46	2.21
1946	1.72	.44	2.16

Source: Dominion Bureau of Statistics, Ottawa.

Much of the increased output per worker evident from the above data may be due to the larger proportion of cement type shoes produced, particularly the California process, and to less emphasis on style at the war's end. Restrictions on types of footwear were removed in 1945, but the retention of price ceilings no doubt discouraged a return to the industry's former practice at that time.

Raw Materials

The other chief component of cost amounting in 1945 to 54 per cent of the total product is raw materials. Sole and upper leather, the most important materials, were estimated in 1941 to make up about 75 per cent of all material cost. However, since the rise in leather prices in September, 1947, there has been some shift to substitute materials which might reduce this percentage somewhat. The rise in leather prices since 1939 has been an important factor in the increased cost of shoes. The wholesale index of leather prices in June, 1948, even after a 10 per cent decline from its December peak was still almost exactly double its level in 1939. Most of this rise occurred during 1947. A rise of about 20 per cent was allowed in January and when ceilings were removed in September a further jump of about 40 per cent took place. Until that time leather prices had been only about 25 per cent above their 1939 level.

Manufacturers' Profits

A consolidated statement on the sales and net profits of five footwear manufacturers has been prepared and this provides some measure of the relation of profits to selling prices in this industry. However, since these firms were larger than most firms in the industry and since they all sold nationally advertised shoes, it is not known whether their experience will be the same as that of the many smaller manufacturers.

Sales of these companies increased over 100 per cent in dollar value but only about 24 per cent in volume between 1939 and 1947. The average price per pair, a price which makes no allowance for variation in quality or the number of different types of shoes sold, increased 80 per cent. Neither operating income nor net profits were as large a percentage of the sales of these firms as they had been in 1939. However net profits in cents per pair were 2.9 cents per pair higher in 1947. This is shown in the following table.

TABLE 157

ANALYSIS OF SALES, FIVE FOOTWEAR MANUFACTURERS
1939-1947

Year	SALES		Average Unit Selling Price (in dollars)	Operating Income as Percentage of Sales	Net Profit as Percentage of Sales	Net Profit per Pair of Shoes (in dollars)
	Amount (thousands of dollars)	Quantity (thousands of pairs)				
1939	5,028	2,449	2.05	9.1	5.8	.119
1940	5,499	2,320	2.37	7.1	4.1	.098
1941	7,015	2,811	2.50	7.2	3.6	.090
1942	8,364	2,882	2.90	7.2	2.4	.069
1943	7,963	2,812	2.83	7.3	2.9	.083
1944	7,941	2,763	2.87	7.5	3.2	.092
1945	7,983	2,829	2.82	6.6	3.2	.090
1946	8,885	2,953	3.01	7.7	3.8	.116
1947	11,252	3,035	3.71	7.8	4.0	.148

Source: Evidence, Royal Commission on Prices, pp. 490, 531, 569, 586 and 1706.

Net profit as a percentage of the shareholders' equity in these companies increased substantially between 1945 and 1947. The following data indicates the percentage return on shareholders' equity.

1945	8.0
1946	14.0
1947	16.7

This sharp increase was due to higher profits and the 15 per cent decline in shareholders' investment during 1946, a decline that was due to the distribution of prior earnings in special dividends under Part XVIII of the Income War Tax Act.

It may be concluded from the above data that for these five companies increased profits have not been an important factor in contributing to higher prices, during the period from 1939 to 1947. Only three companies were able to present data on their profits during part of 1948 and the results are inconclusive. In comparison with 1947, one showed a higher percentage of operating income to sales, one showed a lower percentage and the third showed the same percentage. Because income tax rates are lower, the same operating income will yield a slightly larger net profit in 1948.

RETAIL MERCHANDISING OF SHOES

Evidence on the practices followed by retail shoe stores was given before us by the representative of a large chain store, a large department store and an independent family shoe store. In most respects these stores reported similar practices though there were some variations.

Fixed Percentage Mark-ups

All three reported that it is their practice to price their shoes by applying a fixed percentage to their laid-down cost for shoes. This practice is customary in the retail shoe trade and seems to be followed almost blindly. While the most widely used percentage is 50 per cent of cost or one-third of selling price, the T. Eaton Company reported some variation for their different shoe departments. On women's and the better grades of men's shoes they price their shoes to give them a mark-up of 40 per cent on the selling price or about 66.6 per cent over cost.

Where certain lines of shoes do not sell well at the price determined in this manner it is customary for the retailer to clear out the remaining stock at a lower price either in an annual or semi-annual sale or by special clearance sales. If necessary shoes may be sold below cost in order to clear surplus stock. During the war period these sales largely disappeared and they have only recently begun to reappear. The actual percentage obtained for the store's total sales will vary depending on the amount which must be sold at sale prices. This is shown by the statement of Pollock's Shoes Limited; this store has shown a gross profit equal to just over 31 per cent of sales in their last two fiscal years, substantially more than the margin of about 27 per cent shown in 1937 and 1938. On the other hand, for the T. Eaton Company the percentage of gross profit to sales was at about the same level in the last two years as in 1937 and 1938.

The effect of this practice is to cause retail shoe prices to move up and down at almost exactly the same rate as the manufacturer's selling price. Thus, when manufacturers' selling prices rise 20 per cent retail shoe prices also rise 20 per cent. The practice was justified on the grounds that it was a rule of thumb method which enabled stores to price their shoes without the elaborate bookkeeping method which would be required if the store were to attempt to estimate the cost attached to selling each type of shoe. It was also contended that this fixed mark-up represented the amount which experience had shown to be necessary to

cover competitive costs in the business. Otherwise, competition would have forced a lower mark-up. It is apparent that the net profit yielded by this practice will vary with the volume of sales obtained by the store concerned. A mark-up of 50 per cent may yield a large net profit when sales are heavy and yet may yield only a small net profit when the volume of sales is small.

As long as the uniform mark-up is adhered to by the trade the effect of the competition of new stores will be to reduce the volume of shoes sold by each store rather than to lower prices. This in turn may lead to an over-investment in store fittings or equipment. Just at present competition is limited by the number of retail outlets. New stores are appearing but new entrants are limited by the lack of available space and the general shortage of construction materials in turn places a limit on the number of new outlets which can be built.

In some cases the amount of the mark-up is determined by the manufacturer and the retailer is required to sell at a specified price. Both the independent and chain shoe store approved of this practice apparently because it reduced the amount of price competition. Shoes in this class are not subject to annual sales. On the other hand the T. Eaton Company said they liked to be completely free to set their own price and they resisted this practice to some extent.

So far this year in-dollar value shoe sales are up about 12 per cent, substantially less than the rise in prices. With a constant mark-up on this higher dollar value of sales the total gross profit of the retailer will also be about 12 per cent larger. The increase in net profit will depend on how much operating expenses have risen. Thus it is apparent that the use of a constant percentage mark-up protects the retailer's profit position though he may be selling fewer shoes. As long as his total dollar sales increase, his gross profit will also increase. This conclusion must be qualified to the extent that clearance sales prove necessary.

In the case of incorporated companies, part of the gain obtained by selling a larger volume of shoes at a fixed percentage mark-up has been taken away by the higher taxation rates on corporation income which are now in force.¹ Even though a fixed mark-up may have advantages in being easy to follow, there are grounds why the percentage mark-up might be reduced in inflationary periods like the present when restraint on the part of everyone concerned is essential if excessive price rises are to be avoided.

Established Price Lines

Another policy followed by some shoe retailers is the use of fixed well-established price lines. This pricing policy is used extensively by Pollock's Shoes Limited. This company sells its shoes under well known brands of its own which are stamped on the shoe by the manufacturer; each brand is sold at fixed unchanging prices, namely \$2.95, \$3.95, \$4.95, \$5.95 and so on at \$1.00 intervals. Because the company also follows a practice of pricing at a 50 per cent mark-up on cost it is necessary for them to look

¹Autumn, 1948.

for shoes at a cost which will fit into this line of selling prices after the application of a 50 per cent mark-up. In general practice the aim is to obtain the 50 per cent mark-up only on the average. The prices of some shoes will be raised in price above the 50 per cent mark-up over cost to fit into the store's established price lines while other shoes will be reduced in price.

During the past few years with rising prices the company has frequently asked the manufacturer to build a given shoe with lower cost materials in order that the established price line can be maintained. In general the company's representatives contended that these reductions in shoe quality were not changes which affected the shoes' wearing quality. In some instances shoes were priced at intermediate prices such as \$4.45 or \$3.25 but they try to avoid this because it results in too many price lines. This creates an added expense presumably largely in obtaining shoes to fit into each of these price lines. These additional prices may also conflict with the firm's policy of maintaining in the public mind a well defined and well known price range.

The T. Eaton Company also stated, that it tried to sell on established price lines. For this reason it might not change the selling prices with every increase in cost. In some cases it would absorb several increases in cost and later advance the selling price sufficiently to cover all of these increases at one time.

What advantage the retailer hopes to derive from a policy of established price lines was not stated. The evidence indicated, that it complicated pricing and buying policies and required production adjustments on the part of the manufacturer. All of this would increase the cost of producing and selling shoes although the amount of increase might not be large. The maintenance of price by variation in quality would reduce the amount of price competition at the retail level and presumably that is the intention.

Inventory Pricing

Little evidence was given on the way in which the inventories of retailers affected their pricing practice. All retailers indicated that sales of shoes had been extremely heavy in September, 1947, just after the price ceilings had been removed from hides and leather and the consumer bought in anticipation of a price rise. Apparently most retailers sold their stocks on hand without advancing their prices. A comparison of retail and wholesale shoe prices shows that between June and December, 1947, retail shoe prices advanced only about 11 per cent whereas wholesale prices increased almost 30 per cent. However, by June, 1948, the advance in retail shoe prices (31 per cent) since June, 1947, had exceeded the increase in wholesale prices (25 per cent). Since the price rise, retail stores have reduced their stocks somewhat and are not ordering as far in advance.

The T. Eaton Company reported that it is now ordering only two to three months ahead whereas a year earlier it had been ordering six

months in advance. This, in large part, represents a return to a practice prevailing before the war and the change is partially due to the desire to avoid a loss on its stocks in the face of a sudden decline in prices and partially because delivery on orders can now be obtained more promptly. Statistics show that at the end of July, 1948, inventories of department, mail order and chain stores were only about eight to 10 per cent higher than in July, 1947, whereas prices are up by about 30 per cent, thus indicating a substantial over-all decline in retail shoe stocks. A similar decline in the volume of stocks is apparent at the wholesale level whereas stocks at shoe factories show little change from their level a year earlier.

THE CONSUMER

Consumer Attitudes

None of the stores reported any shift to a lower quality shoe as a result of the recent price rise. The consumer has been gradually shifting to a better quality shoe in recent years and sales of these shoes have been well maintained.

Both Pollock's and Eaton's reported that shoes featuring a large amount of style had been selling much better than the conventional type shoe. They contended that the consumer is more interested in style than price and will buy a shoe featuring what is termed "high" style at a good price in preference to a more conservative shoe at a lower price.

Costs to the Consumer

The annual cost of shoes to a family of five was estimated at \$83.00 by Mr. Kealey, owner of an independent shoe store in Ottawa. The estimate was made up as follows.

TABLE 158

AVERAGE ANNUAL FAMILY EXPENDITURE ON SHOES, 1948

	Number of pairs	Unit Cost (in dollars)	Total (in dollars)
Man	1	13.50	13.50
Woman	3	10.00	30.00
1 School-age Child	4	5.00	20.00
1 Pre-School-age Child	3	3.50	10.50
Baby One Year Old	3	3.00	9.00
Total Cost			83.00

Source: Evidence, Royal Commission on Prices, p. 656.

In addition to this there would be a cost for rubbers and overshoes. It was suggested that \$20.00 might cover this making a total of \$103.00 per year for footwear.

Estimates of total per capita shoe consumption based on production data indicate that in the period from 1939 to 1943 the average Canadian family used somewhat fewer shoes than shown by the above estimate. This is shown by the following table.

TABLE 159

PER CAPITA APPARENT CONSUMPTION OF CIVILIAN LEATHER SHOES, CANADA
1939 to 1943

	1939	1940	1941	1942	1943
Men	1.64	1.60	1.81	1.57	1.62
Boys and Youths	2.65	2.49	2.87	2.51	2.96
Women	2.48	2.38	3.03	2.91	2.94
Misses and Children	1.98	1.86	2.31	2.20	2.23
Babies and Infants	1.10	1.05	1.50	1.58	1.73
Average	1.98	1.90	2.34	2.05	2.27

Source: Dominion Bureau of Statistics, Ottawa.

Total footwear sales through retail outlets in 1941 amounted to about 1.6 per cent of total personal income. At 1939 prices this was equal to about \$7.17 per person.

SUMMARY AND CONCLUSIONS

In explaining the rise in shoe prices that has occurred since August, 1947, a major causal role must be assigned to the sharp rise in leather prices. To the leather footwear manufacturer this rise in leather prices appeared as an increased cost which he was in large measure forced to accept and use in setting his selling price. To a small extent he was able to resist the price increase by shifting to substitute and less expensive materials and by deferring his leather purchases as he allowed his inventory of leather to decline. In setting their new selling prices at this time most footwear manufacturers followed a replacement cost basis increasing their prices almost immediately rather than waiting until they had used up any lower cost inventory which was on hand when price ceilings were removed.

Another major cost in footwear production is wages and these too have contributed to the rise in shoe prices. Wage rates in the industry are now double their 1939 level and since wage costs amount on the average to 25 per cent of the factory selling value of leather footwear these higher wage costs have necessarily been reflected in higher shoe prices. While there appear to have been some gains in productivity—the evidence is not conclusive—these have not been large enough to absorb more than a small part of the wage increase.

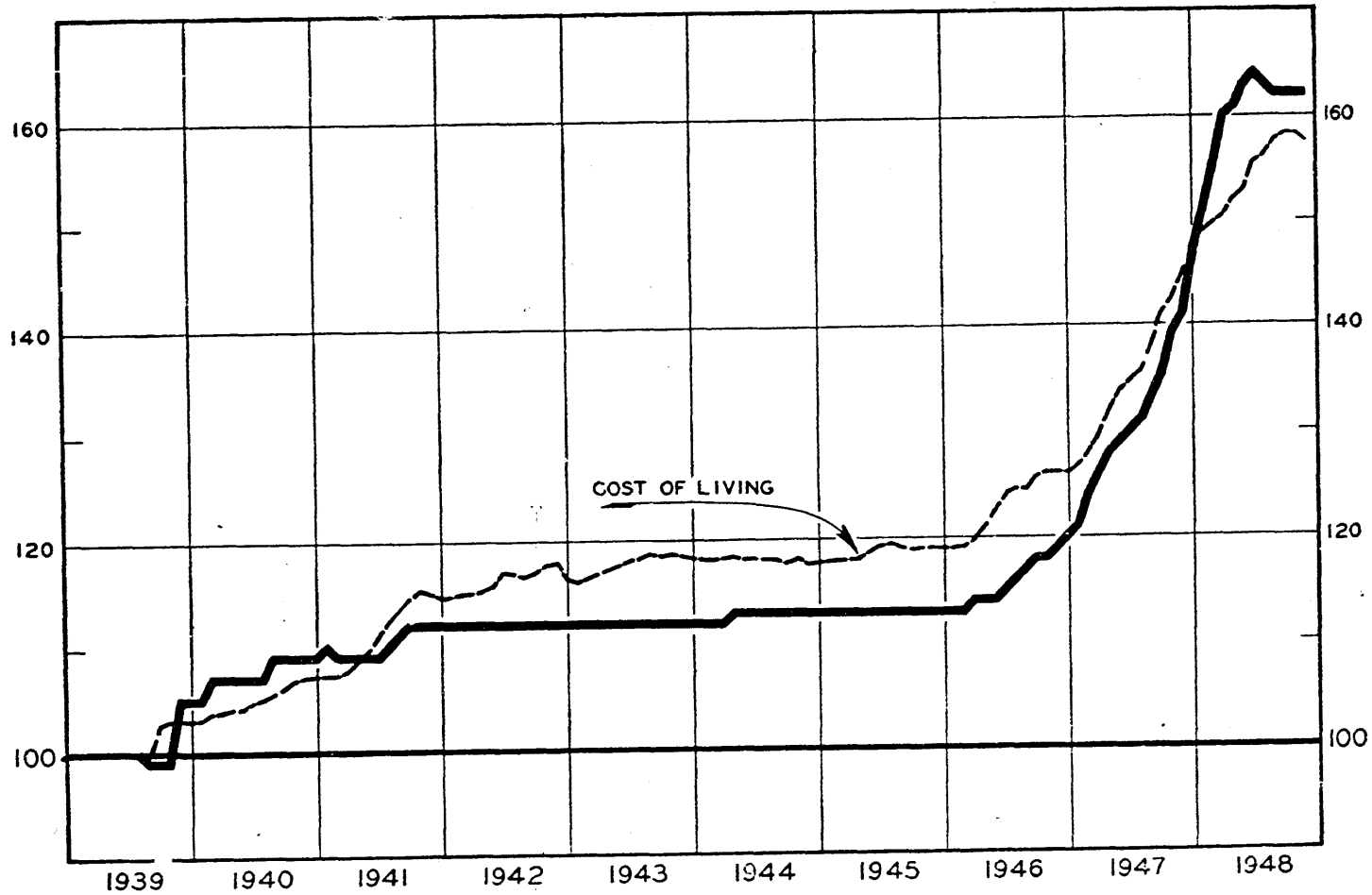
The available evidence indicates that manufacturers' profits have not been an important factor in contributing to higher shoe prices.

It is customary for the retail shoe store to set its selling price by applying a 50 per cent mark-up to the laid-down cost of shoes. Because of this rather inflexible practice the retail price of shoes rises and falls at almost exactly the same rate as the manufacturer's selling price. The increase in the dollar margin which the retailer obtains on each shoe sale in a period of rising shoe prices may or may not be accompanied by higher costs for the retailer. Since the recent rise in shoe prices, retailers are selling fewer shoes but because they are now receiving a larger dollar income on each shoe the amount of profits has not declined proportionately. Though the retailer contends that a 50 per cent mark-up represents the margin required to cover his costs there would seem to be no reason why this percentage could not be reduced if retail prices rise more rapidly than selling costs. The retailers' adherence to a fixed mark-up may reflect a desire to avoid price competition.

After the advance in the manufacturers' price of shoes during October and November, 1947, retailers in general continued to sell the stock of shoes which they had on hand without increasing their prices. The major increase in retail shoe prices did not occur until early in 1948 when the retailer was preparing for the spring season. This resulted in a delay of several months before the rise in leather prices finally reached the public in the form of higher shoe prices. During this period consumers were able to build up their stocks of shoes and thus avoid for a time the price rise.

CHART XVII
FOOTWEAR RETAIL PRICE INDEX

(AUGUST 1939 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

10

SECONDARY TEXTILE INDUSTRY

WITH the exception of food, clothing has risen more than any other group in the cost-of-living index, and most of that increase has occurred in the past two years. The clothing index, which stood at 126.3 in 1946 had reached 175.9 by August, 1948, compared with a total index of 157.5. The indexes of some very essential clothing items had risen considerably higher, such as men's shirts at 227.6 and men's overalls at 236.9. While footwear and piece goods are also included in the clothing index, textile garments are the dominant factor with a weighting of 77 per cent.

The secondary textile industry makes a great many household and industrial products besides clothing; but we have concentrated our attention on the clothing field, in view of its very essential nature and its importance in the average person's cost of living budget.

In the Canadian climate, the minimum essentials of clothing are considerably greater than they would be in warmer climates, and the varied needs of our population, such as deep-sea fishermen, lumber-jacks, miners, farmers, factory-workers, railwaymen, office-workers, housewives and children, are all reflected in a highly diversified textile garment industry, which includes both style and utility merchandise.

It would obviously have been impossible to make a definitive study of all commodities in this varied textile garment field, and so we decided to select three representative commodity groups for detailed examination:

- a) Men's fine shirts.
- b) Work clothing, especially overalls.
- c) Women's, misses' and children's wear.

In making this selection, we sought to choose types of garments in common use by large segments of the population. Particular attention was directed throughout our investigation to the lower price ranges, since it was felt that style would be less of a factor and that these ranges would be of greater proportionate importance in the clothing expenditures of the medium and low income groups.

Before reviewing these three commodity groups, it would seem useful to outline the salient features of the textile garment industry as a whole.

THE TEXTILE GARMENT TRADES

The textile garment trades divide into two main categories as to product, garments made from woven fabrics, and knitted goods and hosiery.

The enterprises in the first category, those using woven fabrics, are commonly referred to as "the cutting-up trades". They start their manufacturing process with the woven fabric as their raw material and carry on the various cutting and sewing operations necessary to transform the cloth into the finished garments. The main sub-divisions of the cutting-up trades are:

Men's Factory Clothing, which includes men's and boys' suits, overcoats, topcoats, separate trousers, jackets, work clothing, fine shirts, other furnishings, neckwear, suspenders and garters.

Women's Factory Clothing, which includes women's, misses' and children's coats, suits, dresses, shirts, blouses, underwear, sport clothing and embroidery.

The knit goods industry occupies a border-line position between the primary and secondary textile industry. In the knitting mills, the yarns are very generally transformed into the finished garment in one continuous process, and in consequence, the industry is usually classed with primary textiles. Like the primary industry, also, it generally requires a considerable capital investment in plant and machinery. The industry produces knitted outerwear, underwear and hosiery for men, women and children.

In this study, attention is centred on the cutting-up trades but many general observations have application also to the knit goods industry.

Structure of the Industry

The cutting-up trades are characterized by an exceptionally large number of plants, varying greatly as to size, from small family-owned concerns, sometimes operating in an attic or basement to very large, well-equipped factories turning out several million dollars worth of goods a year.

Men's and women's factory clothing plants constitute approximately half of all Canadian textile establishments, primary and secondary, employ nearly one-third of all textile employees, and produce about one-third of the gross value of production in the Canadian textile industry. The following table indicates the relative importance of the cutting-up trades in the over-all textile picture.

TABLE 160
PRINCIPAL STATISTICS OF MEN'S FACTORY CLOTHING, WOMEN'S FACTORY CLOTHING AND ALL CANADIAN TEXTILES, FOR 1947

	Men's Factory Clothing	Women's Factory Clothing	All Canadian Textiles
Number of Establishments	537 ^a	1,108 ^a	3,082 ^a
Number of Employees	29,586	31,191	175,756
Salaries and Wages (millions of dollars)	52.7	49.8	269.7
Cost of Materials (millions of dollars)	97.6	93.3	571.0
Gross Value of Production (millions of dollars)	186.1	185.5	1,056.9

^a These data are for 1946.

Source: Dominion Bureau of Statistics, Ottawa.

Since scissors and sewing-machines are the basic equipment for the needle trades, it is possible to set up small plants with very little capital, frequently in rented premises or make-shift quarters. While the larger factories use more expensive machinery, such as cutting machines which can cut hundreds of layers of cloth at one time, the manufacture of factory clothing remains essentially a multiplication of the cutting and sewing processes used by the home sewer.

In certain of the needle trades, such as men's fine clothing and women's coats and dresses, it is common practice for a single skilled operator to make the complete garment. The production line system is widely used in the garment trades in such lines as the less expensive dresses, men's shirts and furnishings, work clothing, etc. When the work is thus "sectionalized", a garment goes to a series of workers, each one of whom performs one process, such as cutting the cloth, stitching the seams, making pockets, attaching buttons, sewing in linings, and so forth. The work is more monotonous, but less skilled labour can be used.

A high proportion of small or medium scale competitive enterprises is characteristic of the cutting-up trades as a whole, and in most segments of the trade the larger firms do not dominate the all-inclusive picture sufficiently to create conditions leading to monopoly. This is particularly true of the women's factory clothing industry. In no sector of this industry do the five largest firms employ more than approximately one-fifth of the total employees, while in women's underwear, the five largest firms employ only 1,000 out of 9,000 persons. In the men's factory clothing industry, the five largest firms account for about one-third of total employment. However, a somewhat greater concentration in large-scale plants occurs in the men's fine shirt industry and in men's furnishings and neckwear, where the five largest firms account for more than half the employment in each of these sectors.

The geographical concentration of the garment trades in Quebec and Ontario is very marked, though not quite so pronounced as in the primary textile field. There are quite a substantial number of garment factories in the Maritimes and the western provinces, but the bulk of the needle trade is clustered in the two central provinces, close to its chief domestic sources of supply. Women's factory clothing shows the greatest degree of concentration, with 91 per cent of the production in Quebec and Ontario. Work clothing, on the other hand, shows perhaps the least concentration of any section of the garment trades. There is a noticeable westward trend in this section of the industry, with Winnipeg now the largest work clothing centre in Canada, exceeding both Montreal and Toronto, though Ontario and Quebec still maintain their lead in total production of work clothing.

The garment trades employ a larger proportion of female labour than any other manufacturing industry, with approximately 65 per cent in the men's clothing industry and 70 per cent in women's clothing.

This preponderance of female workers accounts for the average wage levels being lower in the garment trades than in most other industries. Average hourly earnings in men's garments and furnishings were 72.2 cents in September, 1948, compared to 93.4 cents in all manufacturing. A survey made by the Dominion Bureau of Statistics in November, 1946, shows that men's wages in the garment trades are as good as, or better than, men's wages in manufacturing industries generally; and that the same is true of women's wages in the garment trades compared to women's average wages in manufacturing. However, the men's average hourly earnings in the men's clothing industry were 71 per cent above the women's earnings, and 78 per cent higher in women's clothing, so it can be readily seen how the high proportion of lower female wages reduces the average.

Both wages and labour turnover vary to a marked degree, however, between those sections of the industry in which highly skilled labour is used to make complete garments and those in which less skilled labour is used on a production line system. In men's and women's fine clothing, coats, suits, dresses, etc., where very skilled operators are needed, the wages are among the highest of any industry in Canada, averaging over one dollar per hour, and labour turnover is very small. There has been a serious shortage of labour in these trades, however, due to the difficulties of replacing skilled workers as the older workers retire or the women workers marry. Special efforts have been made to relieve this situation through the rehabilitation program of the Department of Veterans' Affairs and the recent admission of displaced persons to work in the clothing trades. In those divisions of the industry where the work is sectionalized and inexperienced help may be trained fairly quickly to perform one operation, the wage levels are much lower and the turnover considerably higher. Such industries as men's shirts and work clothing, as evidence given at our public hearings showed, have experienced very great difficulties from high labour turnover and the consequent loss of efficiency while training new and inexperienced workers.

In the past, the garment trades were more or less seasonal in nature, but the very favourable conditions in the trade for the past seven or eight years have led to much more steady conditions of work throughout most of the year. In utility merchandise, such as work clothing, there is almost continuous production, but in seasonal and style merchandise, such as men's and women's fine clothing, slack seasons occur between the winter and summer production schedules, though not of as long duration as before the war.

Production

Almost all major articles of men's and women's clothing show an increase in production above pre-war levels, frequently a very substantial increase. Practically all of the war and post-war clothing shortages

have been overcome, despite difficulties in obtaining the desired quantities of certain types of broadwoven fabrics. The chief exception is in the case of men's fine shirts, for which the Dominion Bureau of Statistics reports a reduction from 710,313 dozen in 1939 to 634,484 dozen in 1947, in spite of steady increases in production over the past three years.

The following table gives the production figures for a number of the major items of men's factory clothing for the years 1939, 1946 and 1947.

TABLE 161

PRODUCTION OF MEN'S FACTORY CLOTHING

1939, 1946 and 1947

(thousands of units)

	Unit	1939	1946	1947
Suits	Number	1,301	1,554	1,560
Overcoats and Topcoats	Number	607	876	704
Separate Trousers, fine wool	Number	1,000	1,642	1,740
Jackets, wool	Number	54	293	212
Overalls, all kinds	Dozen	228	332	274 ^a
Work Shirts, cotton	Dozen	324	371	320
Men's Fine Shirts	Dozen	710	596	634
Underwear Shorts, cotton	Dozen	94	143	152
Pyjamas, cotton and flannelette	Dozen	105	111	110

^a) Decrease due to decline in number of firms reporting.

Source: Dominion Bureau of Statistics, Ottawa.

In women's clothing, the greatest change from the pre-war production picture is the tremendous increase in the output of women's suits and blouses, which has more than trebled since 1939.

In the children's wear section of the industry, production increases over pre-war levels are very great, and reflect both the increased birth-rate of the war years and the greater purchasing power of the average family.

The following table gives the production figures for a number of major items of women's and children's clothing for the years 1939, 1945 and 1946.¹

¹Production figures for women's and children's clothing for 1947 are not yet completed, but indications are that they will not differ by more than five per cent from the 1946 figures.

TABLE 162
 PRODUCTION OF WOMEN'S AND CHILDREN'S FACTORY CLOTHING
 1939, 1945 and 1946
 (thousands of units)

	Unit	1939	1945	1946
Women's Clothing				
Coats, all kinds	Number	1,106	1,486	1,455
Suits, all kinds	Number			
Dresses:				
Rayon and Mixtures	Number	5,131	7,546	8,052
Cotton and Linen	Number	4,514	3,957	3,681
Blouses:				
Cotton	Dozen	19	96	85
Rayon and Mixtures	Dozen	83	283	300
Slips, rayon and mixtures	Dozen	233	260	390
Children's Wear				
Coats, all kinds	Number	432	720	796
Dresses, cotton and linen	Number	1,918	3,063	3,130
Blouses, cotton	Dozen	not collected	59	75

Source: Dominion Bureau of Statistics, Ottawa.

Sources of Supply

Two factors of major importance in evaluating the present price and supply situation in the Canadian garment trades are the degree of their dependence on:

- a) import sources for a substantial portion of their cotton and woollen fabric requirements.
- b) a small number of very large domestic producers for the bulk of their lower-priced cotton fabrics.

As shown in the chapter on the primary textile industry, Canada was dependent on import sources in 1947 for approximately 52 per cent of cotton fabrics, and 34 per cent of wool fabrics.¹ For rayon fabrics, Canada is more self-sufficient, importing only some 20 per cent. Inasmuch as the average price of imports of cotton fabrics had risen from 1939 to 1947 by 155 per cent, of rayon fabrics by 145 per cent and of wool fabrics by 122 per cent, this dependence of the Canadian garment trades on import sources becomes an important factor in the costs of production, as well as in the general supply situation.

The dependence of the garment trades on a few large domestic mills for the bulk of their supplies of low and medium priced cotton fabrics has been a factor of considerable importance in limiting competitive conditions in the industry. As pointed out in the primary textile chapter, the domestic production of cotton broadwoven fabrics has steadily

¹See Chapter 6, The Primary Textile Industry.

declined from a wartime peak of 369 million yards in 1942 to 265 million yards in 1947, an amount slightly below the 1939 production level, this at a time when purchasing power and consumer demand are much greater than before the war. With garment manufacturers demanding greater yardages, the larger mills have retained an informal system of allocations to their customers, more or less along the lines established under the Wartime Prices and Trade Board during the period of control. Although these allocations may be justified on the grounds of continued shortages, they seriously limit the present possibilities of expansion of the secondary industry in the field of low and medium-priced cotton garments and may exclude the entry of new businesses in this field, since new factories would have little chance of obtaining quotas of the necessary fabrics from domestic mills. There was some indication, also, during our investigation of the men's shirt industry, that as allocations grow more flexible there is a tendency on the part of certain primary mills to direct a greater proportion of their production to the larger manufacturers and a correspondingly lower proportion to the smaller factories.

The most serious supply situation exists in this field of low and medium-priced cotton fabrics, where there is a threefold problem of procurement. First is the above-mentioned decline in domestic production. In the second place, our imports of cotton fabrics from the United States have been cut to about one-third of previous supplies by import control restrictions. Finally, the supplies available from the United Kingdom are higher in price than comparable fabrics produced in either Canada or the United States.

For the highest-priced fabrics made from the finer cotton yarns, which are not produced at all in our domestic mills, Canada before the war was almost entirely dependent on the United Kingdom.

During the war and immediately after, substitute materials were obtained from the United States in the absence of British supplies. At present, these finer fabrics constitute a very large proportion of our imports from the United Kingdom since, even at greatly increased prices, they can be used in garments for the higher-priced or luxury trade, and the higher costs passed on to the consumer. However, present high prices in the British market are acting as a serious deterrent to Canadian purchases of the lower-count fabrics, since garments made from these types of United Kingdom cloth must compete with garments made from comparable Canadian and United States cloth at much lower prices. Under present demand conditions, manufacturers are finding that they frequently have to absorb the difference between the Canadian and United Kingdom price in these cases, and are accordingly very reluctant to supplement their supplies from this source except as a last resort. The recent removal of the tariff on cotton fabrics coming from the United Kingdom should help this situation somewhat; but it is disturbing to note that in the first nine months of 1948 cotton fabric imports from the United Kingdom were only one-fifth of their target for the year.

It should, perhaps, be pointed out that small garment manufacturing firms, which are not equipped to weather the great uncertainties of import trade nor to build trade connections in these times, are almost entirely dependent for their supplies on domestic producers or Canadian wholesalers marketing both domestic and imported fabrics.

PRICING AND SELLING POLICIES

Competitive Conditions

The garment trades, which were highly competitive before the war, underwent a drastic change during the period of wartime controls when competition virtually vanished, and are only now beginning to return to what might be considered normal competitive conditions.

Prior to the war, the garment trades commonly resorted to all sorts of price-cutting devices in the race to attract buyers. Sometimes this competition took the form of direct efforts to lower prices, either by cutting costs or reducing profit margins and mark-ups; sometimes, instead of reducing the price, improvements in the quality of the garment were used as the competitive element. At the retail level, the traditional mark-up pattern was balanced to a large extent by mark-downs, so that the average return to the retailer would be considerably less than indicated by the original mark-up prices. Bargain sales of all kinds were a common feature of clothing or department stores. Many of these were clearance sales, involving genuine mark-downs of standard merchandise. Many others, however, involved "special sale merchandise", often manufactured to slightly substandard specifications in order to meet the designated sale price. Another common practice was to use certain clothing items as "loss leaders" in order to attract customers into the store.

The war changed the picture completely. Wartime shortages and high consumer demand, combined with price control, the freezing of styles and the system of quotas developed under a policy of equitable distribution set up by the Wartime Prices and Trade Board, reduced competition to the vanishing point.¹ At the same time, the garment industry enjoyed a period of unparalleled prosperity, with a high volume of sales for both military and civilian purposes, an assured market for all they could produce and little or no necessity for mark-downs. Clothing prices had risen some 20 per cent in the first two years of the war, so that the over-all price ceiling imposed in December, 1941, did not find the industry in too uncomfortable a position. A certain amount of "squeeze" on manufacturers' margins was largely compensated for by simplification measures, eliminating "frills", freezing styles and limiting dimensions, which reduced labour and material costs and lessened the need for high inventories. The retail section of the garment trade shared the high level of wartime prosperity. As shortages developed and consumer demand increased, merchandise practically walked off the

¹See Chapter 3, Vol. II, Price Control and Rationing.

store shelves and mark-downs and "sales" virtually disappeared. Restrictions on packaging, delivery and credit services also reduced the retailer's overhead. The representative of the Hudson's Bay Company, testifying during the hearings on the work clothing industry, described 1942 to 1947 as "the golden years".¹ The financial statements of companies in the three commodity fields under special investigation would seem to indicate that nobody in the clothing trades suffered during the war years.

Now that the wartime controls on the price, production and distribution of clothing have all been removed (the final controls were removed in September, 1947), the garment trades are gradually returning to more competitive conditions. However, no real return to competitive conditions can be said to have taken place as yet in such lines as men's fine shirts or overalls, so long as the difficulty in obtaining adequate supplies of lower-priced shirting materials and denims still limits the supply. Furthermore, it is a question of some importance whether there is not now a tendency in the garment trades to attempt to continue wartime patterns of pricing which gave assured margins and mark-ups but which are not in keeping with a return to a freely competitive economy.²

Before considering present pricing policies in more detail, it would be well to review the various selling arrangements commonly used by the garment trades.

Selling Arrangements

The two methods by which the garment manufacturer gets his goods to the public are either by direct sale to retailers or by selling to wholesalers and jobbers, who, in turn, sell to the retail trade. Direct sale to retailers is the dominant pattern in the style clothing field. Most ready-to-wear coats, suits, and dresses are sold in this manner, as are also style items of men's furnishings, such as nationally advertised brand-line shirts. A substantial number of overall and work shirt manufacturers also do a large proportion of their business as direct sales to retailers. Standard merchandise, such as underwear, lingerie, house dresses and similar lines, are more commonly sold through wholesalers, who can perform a useful service to countless small retailers by assembling a great variety of items from many manufacturers, not garments only, but related items such as oilcloth, diaper cloth, knitting yarns, etc. Substantial quantities of work clothing and men's shirts are also sold in this way.

Manufacturers who sell direct to retailers customarily have their own sales force, who usually work on a commission basis. Their warehousing and administrative costs, as well as selling costs, are large. On the other hand, manufacturers who sell only to a few large outlets, such as a few big wholesalers, mail order houses, chain stores and department stores, need a very small sales force and can greatly reduce expenses for ware-

¹Evidence, Royal Commission on Prices, p. 1176.

²This tendency is discussed at greater length in Chapter 11, Vol. II, Restrictive Business Practices.

housing, shipping staff, etc. As was clearly brought out in the evidence such as Yamaska Garments Limited, some manufacturers can take a much lower gross margin of profit than those selling direct to retailers and still come out with as good a net profit, due to their lower expenses. Midway between these two positions comes the manufacturer who sells to a large number of wholesalers and jobbers; his selling and warehousing expenses will be somewhat less than if he sold direct to retailers but considerably more than if he dealt with only a few big outlets.

The effect on the retail price of garments going through wholesale channels presents a very mixed picture, since some manufacturers have a standard price to all buyers, some have different prices for wholesalers and retailers, and some offer special discounts to large accounts.

PRICING PROCEDURES

Manufacturer's Selling Price

In determining his selling price, the garment manufacturer commonly goes through a complicated process of mental gymnastics in which he attempts to balance his costs on the one hand and probable retail price on the other hand and come out with a satisfactory margin for himself, while at the same time leaving sufficient leeway for the wholesaler and retailer to obtain their customary mark-ups. Basically, cost is the prime factor in determining the approximate level of the manufacturer's selling price. His first consideration, if he is to stay in business at all, must be to cover his actual cost of raw materials, labour and overhead, adding a sufficient amount of gross margin to take care of his probable warehousing, selling, administrative and financial expenses and to make provision for inventory reserves and taxes on income. But in large segments of the garment trades, the practice of working to a retail price is the prevalent pattern and determines in the final analysis just how much margin the manufacturer will take. Sometimes a retailer may go to a manufacturer and ask that a garment be produced to sell at a given retail price, in which case considerable bargaining may take place before costs, margins and mark-ups are finally tailored to fit under the retail price to which he is working. But even without such specific requests, manufacturers tend to have a retail price in mind when establishing their own selling prices in order to fit their product into accepted price ranges. As the representative of one of the large shirt manufacturing companies said at the hearings; "you just do not go out and buy cloth and make a shirt haphazardly and wonder what it is going to sell for... you work to those generally accepted prices to the public and you just do not hit haphazard figures in between".¹

Price Ranges

This matter of price ranges is not of great moment in the case of lower-priced goods, where odd amounts such as 59 cents, \$1.19, \$1.39 and

¹Evidence, Royal Commission on Prices, p. 843.

so forth are common. As goods go higher in the price scale, however, they begin to fall into definite price categories at jumps of 50 cents or a dollar, while the higher-priced garments, such as suits and coats, commonly jump by as much as five and 10 dollars, (psychological prices, such as \$1.98, \$4.95, etc. are considered to be the equivalent of the even figures, \$2.00, \$5.00, etc.)

These price ranges have been a convenient and accepted practice in the trade for many years, but in a time of rapidly rising prices, they often work to the disadvantage of the consumer, since an increase of two or three cents in the cost of production may carry the garment into a different price category, with an automatic jump of 50 cents, a dollar or more in the retail price. It would seem to be definitely in the interests of the consumer to adhere less rigidly to a fixed pattern of prices, which could more closely parallel actual increases in cost.

Mark-ups

Retail and wholesale mark-ups in the garment trades are commonly computed as a percentage of selling price. They vary considerably for different types of garments, with mark-ups generally higher for style merchandise than on standard utility items. During the period of wartime controls, the Wartime Prices and Trade Board issued schedules of maximum retail and wholesale mark-ups for practically all types of clothing. These mark-ups were based on traditional practice in the trade; but in a period when demand far outran the supply, there was an inevitable tendency for these maximum mark-ups to become the minimum or standard mark-ups as well. Since controls were lifted, there has been a marked tendency for the habits of mind formed during the control years to continue and for the fixed percentage retail mark-up to become a "law of the Medes and Persians" in the garment trades. Again and again, during our hearings, it was clearly indicated that the garment manufacturers accept without question the need for a certain fixed percentage mark-up for the retailer, even when their own profit margins vary considerably. This point of view was most evident in those fields where the dominant pricing policy is one of working to a retail price, since in these cases the manufacturer works back to his own profit margin after allowing a standard mark-up for the retailer, or retailer and wholesaler, as the case may be. In a number of instances, garment manufacturers stated definitely that they would prefer to reduce their own profit margin slightly rather than to raise the price to the retailer.

The chief reason given by the manufacturers for this devotion to a fixed percentage retail mark-up was that it represented the amount generally found necessary over a period of years for a retailer to carry on his business on a financially sound basis, and they wanted to see their customers stay in business and able to buy their goods. No account seemed to be taken of the fact that, in many cases, the traditional

mark-ups had originally been set high enough to take care of a considerable proportion of subsequent mark-downs, and that, in a period when the dollar volume of sales was high and mark-downs negligible, a somewhat lower mark-up might be adequate to give the retailer a reasonable profit margin. In this connection, it is interesting to note that the evidence of several retailers of men's shirts and overalls indicated that they felt they could do business very nicely on a lower percentage mark-up than the "traditional" mark-up the manufacturers appeared so willing to accord them.

Resale Price Maintenance

From the practice of working to a retail price with fixed allowances for wholesale and retail percentage mark-ups, it is an easy step to the adoption of a system of resale price maintenance, under which the manufacturer sets the retail or wholesale price. This practice of resale price maintenance has grown considerably within certain segments of the garment trades. For instance, in men's shirts, two of the largest brand name manufacturers John Forsyth Ltd. and Tooke Bros., Ltd., have made it a practice to affix to their shirts price tags giving the suggested retail price. The other two largest brand name manufacturers disclaimed in evidence even suggesting to retailers the price at which their shirts should sell. However, as the representatives of all four companies agreed that the retail mark-up should be in the vicinity of 37½ per cent of selling price and all were in fact offering shirts at \$2.37 or \$2.38 which were selling at retail for \$4.00, the result was very much the same.

The important question, however, is whether the retail price, as set or suggested by a manufacturer, is actually binding on the retailer and has the effect of preventing any reductions in price which the retailer might otherwise make in the course of normal competition. The disadvantages to the consumer are obvious if the more efficient retailers are prevented from passing on their savings in the form of lower prices, while the less efficient retailer is protected under the "umbrella" of a fixed retail price, more or less guaranteeing him a high margin. When questioned on this point, the shirt manufacturers all denied taking any steps to force a retailer to maintain a certain retail price, such as withholding further supplies from a retailer who reduced his price below that level. On the other hand, they all admitted that they would feel concern if a retailer dropped his price "all out of proportion" or made "a football" of the product. The garment trades, manufacturers and merchants alike, have memories of disastrous results from price battles in the past; and quite understandably want to avoid a return to what might be termed "unfair" price competition, such as actually selling below cost in order to take trade away from a competitor. It would seem, however, that the industry might achieve its legitimate aims in this regard without stifling normal price competition at the retail level.

The danger of a system of resale price maintenance is greater in a section of the garment industry such as men's shirts, where the five largest firms occupy such a dominant position and where the adoption of a policy of resale price maintenance by even three or four of them would remove all price competition at the dealer level in a very large segment of the trade.

Our hearings on the work clothing industry, on the other hand, revealed little or no indication of attempts to establish resale price maintenance for overalls. The representative of one work clothing firm said, "if anything our interest, when it comes to overalls, is to see that the retailer sells it as low as he can, feeling that in that way he is going to sell more of our products. There is no incentive for us to ask him to maintain the retail selling price."¹ However, this same firm manufactures other garments such as children's items, on which they have set retail prices. The explanation given for setting the price on children's items, but not on overalls, was that it was necessary as part of their national advertising program on the children's wear.

Freight Payment

Policies as to payment of freight vary considerably in the garment trades, but the location of competitors is the chief factor determining whether freight will or will not be prepaid. The shirt manufacturers do not as a rule pay freight, but quote f.o.b. factory prices to customers from coast to coast. Work clothing manufacturers, on the other hand, frequently pay all or part of the freight to certain parts of the country. Thus, Ontario manufacturers may prepay freight west of Port Arthur or east of the Quebec border, in order to meet the competition of the western and Montreal manufacturers. Winnipeg manufacturers, however, usually concentrate on the western trade and may adopt a policy of all shipments f.o.b. Winnipeg, or may allow the difference in freight from Toronto on sales to Fort William and Port Arthur.

When freight is prepaid by the manufacturer, it is included under overhead and thus adds a fractional amount to the selling price everywhere, but tends toward more uniform retail prices across Canada. When the price is f.o.b. factory, the effect in the more distant sections of the country is either to increase the price to the consumer or, if the retailer absorbs the freight, to give the retailer a lower mark-up.

FACTORS IN PRICE CHANGES

The rapid rise of clothing prices during the past two years may be attributed primarily to increased costs of production, both for materials and labour; but the percentage system of margins and mark-ups, which

¹Evidence, Royal Commission on Prices, p. 1156.

is in general use by the garment trades, has pyramided these initial cost increases throughout the price structure. Only a small proportion of the clothing price increases are due to manufacturers or distributors actually taking larger percentage margins or mark-ups than formerly, but the same percentage taken on a basis of increased costs has given a larger dollar and cents margin at every stage of distribution.

The greatly increased cost of materials affects all sections of the garment industry, and is particularly important in view of the high proportion of production costs which go for materials. The relation of material costs to labour costs and to the manufacturer's margin for other expenses, profits and depreciation may be seen from Table 163 for the men's factory clothing and women's factory clothing industries.

TABLE 163
COSTS IN MEN'S AND WOMEN'S FACTORY CLOTHING INDUSTRIES,
CANADA, 1947

(thousands of dollars)

	Men's Factory Clothing Industry		Women's Factory Clothing Industry	
	Amount	Per Cent of Total	Amount	Per Cent of Total
Salaries and Wages	52,739	29.9	49,785	26.8
Fuel and Electricity	590	0.3	557	0.3
Cost of Materials	97,656	55.5	93,340	50.3
Profits, Depreciation and Other Expenses	25,121	14.3	41,815	22.6
Gross Value of Production	176,106	100.0	185,497	100.0

Source: Dominion Bureau of Statistics, Ottawa.

The price of fabrics, both domestic and imported, has risen very substantially above pre-war levels, with the greatest increase in cotton fabrics, followed by wool and rayon. Domestic fabric prices were held fairly stable during the war years by the use of extensive subsidies, but as subsidies were reduced and finally removed during 1946 and 1947, the prices of domestic fabrics rose accordingly. Import prices are particularly significant in the case of cotton fabrics, since the proportion of imports to the total Canadian supply rose from about 30 per cent in 1939 to over half the supply in 1947. During the same period, the unit price of cotton fabric imports rose from 56 cents a pound in 1939 to \$1.43 a pound in 1947, while certain types of cotton fabrics rose much more than the general average.

The cost of findings, such as trimmings, buttons, thread and boxes, has increased a great deal since 1939, the cost of thread alone having gone up 200 per cent.

Labour costs have risen in the garment trades, both as a result of direct wage increases and of higher turnover and lessened efficiency. Some firms have been able to counterbalance these increases to some extent by increasing the productivity of labour with improved machinery and methods.

When labour turnover is high, there has been a tremendous increase in what are known as "non-productive" labour costs, that is, the amount necessary to make up wages to the minimum scale for new and inexperienced help who do not make enough on piece rates. Another type of "non-productive" labour cost occurs when there is a shortage of help and it becomes necessary to make up average earnings for skilled workers who have to be transferred to less familiar operations.

In general, factory labour costs have risen somewhat less than the cost of materials, and in any event account for only a small part of the increase in retail selling prices. The evidence on the women's and children's clothing industry showed that the increase in factory labour costs accounted for only 10 to 20 per cent of the increase in retail selling prices for a wide assortment of essential garments.

Distribution costs have also increased at every level from manufacturer to retailer during the past 10 years, with higher wages and salaries, increased rents, higher freight rates and so forth.

The effect on price changes of the percentage system of margins and mark-ups can best be seen in the case of specific commodities and will be dealt with in some detail in the following sections on men's fine shirts, work clothing, and women's and children's clothing.

MEN'S FINE SHIRTS

Men's fine shirts, as distinguished from other types of shirts such as work shirts and sport shirts, are generally made from the finer count cotton woven fabrics. While the farmer or factory worker may wear such a shirt only for Sunday or dress occasions, it is regulation attire for the man engaged in business or the professions. Variations occur in colour, styling and quality of the materials used, but by and large men's shirts are a relatively standard product. The chief manufacturers of shirts are making many of the same models to almost exactly the same specifications as to size, pattern and finish as they did in pre-war days. Shirt manufacturers testifying at our hearings generally stated that the workmanship on the lower-priced and higher-priced shirts was essentially the same.

The chief difference between the lower and higher-priced shirts lies in the materials used. The lower-priced are usually made from the lower count fabrics from Canadian and United States mills, while the higher-priced shirts depend almost entirely on imports of the finer count

weaves from the United Kingdom. In the medium-priced range, materials are used from both domestic and import sources. Print materials are frequently used in the low-priced shirts, while shirts made from woven-pattern fabrics usually command a somewhat higher price. Other differences lie in the use of sanforized or unsanforized materials; in the type of collar, whether fused or not, attached or unattached; and to some extent, in the amount of yardage used, (this varies exceedingly little among the well-known brands, which generally use $30\frac{1}{2}$ to $31\frac{1}{2}$ yards per dozen, but some of the cheaper shirts are cut from very much skimpier patterns).

The same firms which manufacture men's shirts frequently produce also men's pyjamas, shorts, neckwear, boys' shirts and women's shirts.

There are some 50 firms in Canada whose chief product is men's fine shirts, and of these, the five largest account for one-half of the gross value of production and employment in the industry. Of these five, four are brand name manufacturers: Cluett-Peabody & Co. of Canada, Limited; John Forsyth Limited; B. V. D. Company Limited and Tooke Brothers Limited. All of these sell direct to the retail trade. The fifth, Yamaska Garments Limited, manufactures a somewhat less expensive shirt which is sold in volume to the jobbing trade and large retail outlets such as department stores. Cluett-Peabody and B. V. D. are subsidiaries of United States companies, from which they derive the benefits of large scale advertising programs. The shirt manufacturing industry is concentrated almost entirely in Ontario and Quebec, and prices are usually quoted f.o.b. factory.

The shirt industry is an outstanding example of the difficulty of obtaining adequate supplies of the low and medium-priced cotton fabrics. Plentiful supplies of the higher-priced shirting materials are available in the United Kingdom to go into shirts retailing at \$5.50 and up. Imports from the United States are sharply limited by dollar quotas, and while subsidiaries of United States companies seem to be able to secure some of the lower-priced materials to go into shirts in the \$4.00 category, other companies claimed that they could not obtain any lower-priced shirting fabrics and that imports from the United States only helped out on production of shirts in the \$6.00 and up price ranges. For shirting materials to go into the low and medium-priced shirts, that is \$5.00 and under, the Canadian shirt manufacturers are heavily dependent on three Canadian primary mills, Montreal Cottons Limited, Wabasso Cotton Company Limited and Dominion Textile Company Limited. Evidence by representatives of these companies indicated that, while Montreal Cottons had greatly increased its production of shirting materials above pre-war levels, the other two companies showed a substantial decrease in the quantities of shirting materials supplied by them to the shirting trade. All of this domestic production is still under the informal system of allocation, previously noted.

The pattern of working to a retail price in determining the manufacturer's selling price is general throughout the trade. Although representatives of the four large brand name shirt manufacturers and one men's furnishing store said that they considered the retailer needed a mark-up on shirts of 35 to 38 per cent, the representatives of smaller manufacturers, wholesalers and department stores indicated that, in their opinion, 33 to 35 per cent would constitute a "reasonable and necessary" mark-up.

The question of resale price maintenance assumes special importance in the shirt industry, in view of the great percentage of the industry's total sales controlled by a few large firms. It has already been pointed out that two of the brand name manufacturers, Forsyth and Tooke, use price tags indicating the retail price of their shirts; and representatives of retail stores said that the travellers for some other brand name firms "suggested" the price at which their shirts should sell. The retailers indicated that they usually sold the shirts of these manufacturers at the suggested prices, even when their own normal mark-up was 33 to 35 per cent, rather than the 36 to 38 per cent allowed by the manufacturer in the "suggested price".

EVALUATION OF FACTORS IN PRICE CHANGES

The retail price of men's shirts has more than doubled since 1939. The pre-war \$2.00 shirt, which was the heavy volume line, has moved up to the \$4.00 level. There has also been an upward movement of the very cheap lines, pre-war \$1.29 and \$1.50, into the \$2.75—\$3.25 and the \$3.75 brackets respectively.

General Supply and Demand Factors

It has already been noted that men's fine shirts are the only major item of men's clothing in which production is still below pre-war levels. This, in itself, has a tendency to lessen price competition and keep the price of shirts at a high level.

In addition to the increase in the unit price of shirts, there has been a pronounced trend toward the production of a larger proportion of higher-priced shirts. The performance of the larger companies varies widely in this regard. Both Cluett-Peabody and B. V. D. have succeeded in increasing the production of their lower-priced shirts (\$4.00 and under) above pre-war levels; but Tooke and Forsyth have greatly decreased their lower-priced production. Only B. V. D. has maintained approximately the same proportion of lower and higher priced shirts from pre-war to the present, the other three all having increased their proportionate production of medium and high-priced shirts very sub-

stantially. Figures are available from these four companies which indicate the trend, and may be found in the following table.

TABLE 164
PRODUCTION OF LOWER-AND HIGHER-PRICED MEN'S SHIRTS,
FOUR CANADIAN SHIRT MANUFACTURERS

1939, 1947, 1948
(dozen of shirts)

	1939	1947	1948
Cluett-Peabody of Canada Co. Ltd.			
Low-priced shirts	59,066	67,574	73,535
Medium and high-priced shirts	3,770	26,279	21,965
B.V.D. Co. Ltd.			
Low-priced shirts	29,420	38,263	35,728
Medium and high-priced shirts	5,562	9,324	7,644
Tooke Bros., Ltd.			
Low-priced shirts	38,965 ^a	21,211	20,316
Medium and high-priced shirts	2,125 ^a	23,434	21,808
John Forsyth, Ltd.			
Low-priced shirts	68,456	32,619	23,977
Medium and high-priced shirts	7,815	30,954	25,486

^a 1940

Source: Evidence, Royal Commission on Prices, pp. 816, 832, 857, 879.

Yamaska's representatives said that they had reduced their production of lower-priced shirts by 35 per cent since 1939 and had shifted their production of a "cheap, skimpy shirt" to a shirt using more and better material, which was still, however, within what would be considered the lower-price range.

This trend toward a greater production of medium and higher priced shirts is due both to the actual need to supplement domestic supplies of lower-priced fabrics with more expensive imports and to the not unnatural tendency to move into the production of lines on which there is a better profit. Under the percentage mark-up system, both manufacturer and retailer make more money out of shirts made from higher-priced material. It should be pointed out that, while the shirt manufacturers claimed they were making every effort to secure more low-priced shirting materials, the representative of Montreal Cottons Limited reported that they were receiving many requests from shirt manufacturers for better quality broadcloth.

Present prices of shirts appear to be keeping annual demand below a normal replacement level, but there is little indication of effective buyer

resistance to prices much below the \$6.00 level. There is considerable difficulty in selling shirts in the \$7.50 to \$9.00 category, but a ready demand for the \$4.00 and \$5.00 shirt, with indications of some public preference for a woven-pattern shirt at \$5.00 over a print shirt at \$4.00. A growing buyer resistance to the higher-priced shirts and a demand for cheaper shirts was seen by representatives of wholesalers and department stores, but it was generally agreed that there was a definite consumer demand for quality, and that what was wanted was the same quality at a lower price.

Cost of Production

The most important item of cost is the shirting fabric itself. All types, both domestic and imported, have more than doubled in price from 1939 to 1948. One of the most common domestic broadcloths used in the medium-priced shirts, Montreal Cottons' JC41, has gone up from 13¾ cents a yard in 1939 to 37½ cents a yard in 1948, an increase of 172 per cent. One of the imported United Kingdom fabrics, which sold for 27 cents a yard in 1939, has gone up to 94 cents in 1948, an increase of 248 per cent. Manufacturers also reported that an increase of flaws in piece goods has necessitated the use of an additional half yard per dozen shirts.

The price of findings has risen by varying amounts. One company reported an increase of 134 per cent in the cost of interliners, and of 78 to 94 per cent in the cost of the fusing lining for collars. Another company estimated the total increased cost of findings in one of their best-selling shirts at 109 per cent.

The increase in labour costs varies from company to company, and for different types of shirt. The T. Eaton Company, Ltd. which operates a factory making men's shirts, gave the increase in labour costs from 1939 to 1948 on a shirt made of JC41 material as 117 per cent; while on a shirt made from imported materials, they had risen only 76 per cent. Higher labour cost in the large cities compared to the smaller places explains a good deal of the variation in manufacturers' factory-door costs.

On the whole, material costs have risen more than labour costs and therefore account for a larger percentage of total costs in 1948 than before the war. Manufacturers' total factory-door costs, which include materials, labour and factory overhead, have risen steadily over the 10 year period and are now just about double the 1939 costs.

Unit Costs and Selling Prices

Two different pictures as to the relation of unit costs and selling prices are presented in the case of shirts now retailing at \$4.00 and in the case of shirts selling below \$4.00. These represent the volume lines of shirts at the present time.

It will be seen from Table 165 that, in the case of the \$4.00 shirts, retail prices, manufacturers' selling prices and factory-door costs have

TABLE 165
ANALYSIS OF PRICES OF MEN'S FINE SHIRTS
(in dollars)

	Retail ^a Selling Price	Manufacturers' Selling Price	Factory-Door Cost	Manufacturers' Margin		Retail Mark-up ^b	
	Amount	Amount	Amount	Amount	Per Cent of Manufacturers' Selling Price	Amount	Per Cent of Retail Selling Price
Shirts Selling at \$4.00, 10 models							
September 1939	2.00	1.18	.83	.35	29.6	.82	41
September 1942	2.25	1.35	.92	.43	31.8	.90	40
September 1946	2.50	1.47	1.11	.36	24.4	1.03	41
September 1947	3.05	1.86	1.40	.46	24.7	1.19	39
1948, latest price	4.00	2.38	1.70	.68	28.5	1.62	40.5
Percentage 1948 to 1939	200	201	204.8	194.3		197.6	
Shirts Selling under \$4.00, 5 models							
September 1939	1.53	.99	.81	.18	18.2	.54	35.3
September 1942	1.79	1.12	.87	.25	22.3	.67	37.4
September 1946	2.07	1.28	1.04	.24	18.8	.79	38.2
September 1947	2.77	1.66	1.35	.31	18.8	1.11	40.1
1948, latest price	3.40	2.01	1.61	.40	19.9	1.39	40.9
Percentage 1948 to 1939	222	203	198	222		257.4	

a) As estimated by manufacturers of these models.

b) Retail percentage mark-ups given here include sales tax and transportation.

Source: Evidence, Royal Commission on Prices, pp. 812-13, 833, 854, 875, 894-95.

risen in approximately the same proportion (100, 101.7 and 104.8 per cent, respectively). On the other hand, in the case of under \$4.00 shirts, the retail selling prices have increased by 122 per cent, compared to an increase in manufacturer's selling price of 103 per cent and in factory costs of 98.8 per cent.

Manufacturers' Margins

On a dollar and cent basis, the shirt manufacturers' margins have increased very greatly since before the war.¹ The average margin between factory-door cost and manufacturers' selling price for shirts now retailing at \$4.00 has risen from 35 cents in 1939 to 68 cents in 1948, an increase of 33 cents or 94.3 per cent. For shirts selling under \$4.00, it has risen from 18 cents in 1939 to 40 cents in 1948, an increase of 22 cents or 122.2 per cent. However, when taken as a percentage of his selling price, the manufacturer's margin has changed little since before the war, having decreased from 29.6 per cent to 28.5 per cent on the \$4.00 shirts and increased from 18.2 per cent to 19.9 per cent on the shirts selling under \$4.00. It should be noted that present margins, whether taken in dollar value or as a percentage, are considerably greater on the \$4.00 shirts than on the lower price ranges.

Average margins do not, however, give at all a complete picture of the complicated variations in costs, margins and selling prices. The variations in costs are much greater than in selling prices, and the manufacturers' margin fluctuates accordingly. For the 10 shirt models in the \$4.00 category, the present variations are as follows:

Factory-door cost	\$1.59-\$1.84
Company selling price	\$2.37-\$2.38
Estimated retail price	\$3.95-\$4.00

The company with the \$1.59 factory-door cost, B.V.D., is getting a margin of 33.4 per cent on its selling price, while the company with the \$1.84 cost, Tooke Bros., is getting a margin of 22.7 per cent. It will be seen that the lower costs of the B.V.D. Company are not passed on to the consumer in a lower price, though other companies with higher costs than \$1.59 are putting shirts on the markets to retail at \$3.75, for example,

Cluett-Peabody, Model No. 4 Standish	
Factory-door cost	\$1.62
Company's selling price	2.17
Estimated retail price	3.75
Manufacturer's margin	25.3 per cent.
Tooke Bros. Model No. 12M	
Factory-door cost	\$1.79
Company's selling price	2.21
Estimated retail price	3.75
Manufacturer's margin	19 per cent.

¹See Table 165.

In border-line cases, a difference of one or two cents in factory costs may easily make a difference of 25 cents to the consumer, according to the retail price category into which the shirt is placed. For instance, Cluett-Peabody's Standish Prints, which have a factory-door cost of \$1.64, only two cents more than the woven Model No. 4 Standish, have a manufacturer's selling price of \$2.38 and a retail price of \$4.00.

While considerable fluctuations occur in the percentage margins on individual shirt models from year to year, most of those studied in our investigations showed only slight percentage increases or decreases over pre-war.

One model of Yamaska Garments Ltd. was, however, an exception to this general rule, the manufacturer's margin having risen from 7.3 per cent in 1939 to 15.6 per cent in 1948. Companies like Yamaska, which do the bulk of their selling to a few big outlets, normally have very much lower gross margins than companies selling direct to the retail trade. Changes in percentage margins on individual items need to be studied in conjunction with the gross margin shown by the manufacturer on his over-all operations, in which the variations on different items tend to cancel one another out and the general trend is revealed. In the case of this company, the gross margin on over-all operations follows almost exactly the same pattern as the individual item, having risen from seven per cent in 1939 to 15.2 per cent in 1948.

Wholesale Mark-up

Only one wholesale firm presented testimony during our hearings on the shirt industry, but its evidence indicated that the average wholesale mark-up on men's shirts was about 20 per cent of selling price, and that, if anything, the wholesaler's margin had tended to go down somewhat as a percentage of his selling price since 1939, while the retail margin had risen.

Retail Mark-up

The average retail mark-up on shirts now selling at \$4.00 has risen from 82 cents in 1939 to \$1.62 in 1948, an increase of 97.6 per cent. On shirts selling under \$4.00, the increase has been even greater, having risen from 54 cents in 1939 to \$1.39 in 1948, or an increase of 157.4 per cent.¹

As a percentage the retail mark-up on the \$4.00 shirts has remained fairly constant from 1939 to the present at approximately 39 to 41 per cent of selling price including sales tax and transportation, but on the lower-priced shirts, the retail mark-up has been moving steadily up from 35.3 per cent in 1939 to 40.9 per cent in 1948. In other words, the lower-priced shirts, which customarily took a lower percentage mark-up than the medium and higher-priced shirts, are now commanding approximately the same percentage mark-up.

¹See Table 165

The significance of the retail mark-up as a factor in the price increases for men's shirts may be seen from the following table.

TABLE 166
COSTS, MARGINS AND MARK-UPS AS FACTORS IN PRICE
INCREASES OF MEN'S SHIRTS

(in dollars)

	\$4.00 shirts			Shirts under \$4.00		
	1939	1948	Increase 1939-1948	1939	1948	Increase 1939-1948
Factory-door Cost	.83	1.70	.87	.81	1.61	.80
Manufacturers' Margin	.35	.68	.33	.18	.40	.22
Retail Mark-up	.82	1.62	.80	.54	1.39	.85
Retail Price	2.00	4.00	2.00	1.53	3.40	1.87

Source: Evidence, Royal Commission on Prices, pp. 812-13, 833, 854, 894-95.

Total Operations

The relation of profits to the rise in prices in the shirt industry may best be seen from the over-all operations of shirt manufacturers, wholesalers and retailers, with especial reference to operating income and net profit as a percentage of sales.

Manufacturers

The information relating to the composite operations of the five largest manufacturers of men's fine shirts has been summarized from financial statements and replies to questionnaires supplied by the companies. These five companies, which produce approximately half of the men's fine shirts manufactured in Canada, are:

Cluett-Peabody Company of Canada Limited
John Forsyth Limited
The B.V.D. Company Limited
Tooke Brothers Limited
Yamaska Garments Limited.

Four of the companies end their fiscal year on December 31 and one on August 31. Fiscal years ended within the calendar years have been combined.

The total sales in dollar value of the five companies had more than doubled from 1939 to 1947, although unit sales of shirts had shown a decrease for some of these companies.

During the same period, operating income, which may be defined as the profit from operations before provision for taxes on income, increased more rapidly than sales and in 1947 was more than three times that of 1939. As a percentage of sales, operating income increased from 5.8 per cent in 1939 to a peak of 9.4 per cent in 1946 and declined slightly in 1947 to 8.8 per cent. This will be seen from the following table.

TABLE 167
COMBINED SALES AND OPERATING INCOME
FIVE SHIRT COMPANIES

(thousands of dollars)

Year	Sales	Operating Income	
		Amount	Per Cent of sales
1939	5,694	330	5.8
1940-1944 average	8,506	624	7.3
1945	8,605	702	8.2
1946	10,091	945	9.4
1947	13,069	1,145	8.8

Source: Evidence, Royal Commission on Prices, p. 1821.

It should be pointed out that this averaging of composite operations does not reveal such greater extremes in operating profits which existed among the various companies before the war than at present. In 1939, some companies had an extraordinarily high operating income as a percentage of sales; others had very much lower levels of operating income and one company incurred a loss. By contrast, in 1947, all five companies were enjoying a very comfortable position with regard to operating income, both in dollar value and as a percentage of sales. Of the five companies analyzed, two subsidiaries of United States companies had the highest percentages of operating income to sales in 1947.

The net profit of the five companies in 1945 was only slightly larger than in 1939 but increased rapidly in the next two years and by 1947 was more than double that of 1939. As a percentage of sales, net profits showed a decline between 1939 and 1945, followed by increases in 1946 and 1947. The reduction of net profit in relation to sales during the war years was due to the imposition of the excess profits tax in 1940. The effective rate of all taxes on income paid by these companies was 16 per cent in 1939, 56 per cent in 1945, 51 per cent in 1946 and 46 per cent in 1947. The improvement in dollar net profit in 1946 and 1947 appears to be attributable both to the higher dollar volume of sales and to the reduction in the excess profits tax.

TABLE 168

NET PROFIT IN DOLLAR VALUE AND AS A PERCENTAGE OF SALES
FIVE SHIRT COMPANIES

(thousands of dollars)

Year	NET PROFITS	
	Amount	Per Cent of Sales
1939	295	5.2
1940-1944 average	296	3.5
1945	314	3.6
1946	475	4.7
1947	637	4.9

Source: Evidence, Royal Commission on Prices, p. 1821.

Again it must be pointed out that averages do not tell the whole story. Thus, while the above composite operations of the five companies show net profits as a percentage of sales in 1947 still slightly below that of 1939, three of the five companies showed a very substantial increase in net profits in relation to sales during this period. In fact, two of them rose from deficit positions before the war to a net profit of 3.6 and 6.9 per cent respectively in 1947. The reduction in the average may be accounted for almost entirely by the percentage reduction in net profits of one company from the very high pre-war level of 12 per cent to 5.6 per cent in 1947.

Expressed as a percentage of the shareholders' equity, the net profit for the five companies shows an increase over the period, as will be seen in the following table.

TABLE 169

NET PROFIT AS PERCENTAGE OF SHAREHOLDERS' EQUITY
FIVE SHIRT COMPANIES

Year	Net Profit Per Cent of Shareholders' Equity
1939	6.4
1945	5.7
1946	9.3
1947	14.6

Source: Evidence, Royal Commission on Prices, p. 1822.

The upward trend in net profits, both in dollar volume and as a percentage of shareholders' equity, combined with the decrease in taxation, would suggest that the shirt manufacturers were in a position to give the consumer some relief in the matter of prices.

Wholesalers and Retailers

Since only one wholesaler and three retailers were called to give evidence during our investigations of the men's fine shirt industry, the information regarding their operations cannot be looked upon as giving a general picture, but it provides useful examples.

The wholesaler who was examined reported that both dollar sales and departmental profit more than doubled between 1939 and 1947, though departmental profit decreased slightly as a percentage of sales from 5.2 per cent in 1939 to 4.9 per cent in 1947. This would indicate that the increased dollar volume had enabled this wholesaler to take a small decrease in his net mark-up and still obtain an adequate profit margin.

An independent retail store, specializing in men's furnishings, which had a net mark-up of 37 per cent in 1947, showed a net profit of more than 10 per cent in the same year. One departmental store with a net mark-up in its shirt department of 32.6 per cent, showed a net profit of 6.4 per cent; while another, with a net mark-up of 19.4 per cent, showed a net loss of 4.3 per cent during the same period.

The evidence would suggest that a fixed retail mark-up policy, rigidly maintained in a period of rising costs when there are no equivalent increases in overhead expenses, tends to place the net profits of some retailers of men's shirts at an unduly high level. While a percentage mark-up system represents a quick and easy way to determine selling prices and to maintain stock control, it would seem that, if the retailer were to review his percentage mark-up each year on the basis of the previous year's performance, it might frequently be possible for him to adjust his mark-up so as to provide some reduction in price to the consumer.

WORK CLOTHING

We chose overalls as the item of work clothing for special investigation for two reasons: first, they are an essential work garment for farmers, factory workers, railwaymen, construction workers, painters and many others, and second, they are the item of clothing which has shown the greatest price rise in the cost-of-living index since 1939, having reached 236.9 in August, 1948, compared to a total clothing index of 175.9.

The various types covered by our investigation included coveralls and dungarees as well as the regular overalls. These are all standard utility garments, with no style factor involved. The chief differences in value lie in the amount and weight of material used and such variations of detail as the number and lining of pockets. Blue denim is the standard material used.

The same firms which make overalls, also, commonly manufacture other articles of work clothing such as work shirts, shop coats, mackinaws, work gloves and caps. Some have branched out from work clothing into the field of children's wear or the women's and children's novelty business, including items such as children's picture overalls.

The work clothing industry shows a complete lack of concentration and uniformity of size. There are 72 firms whose principal business is work clothing, and the five largest of these account for less than one-quarter of the gross value of production.

For their basic material, blue denim, the industry is heavily dependent on two domestic mills, Canadian Cottons Limited and the Dominion Textile Company Limited. The Canadian supplies of denim have been inadequate to fill the demand, and the two-thirds reduction in United States imports following the dollar-saving restrictions have led many work clothing manufacturers to seek additional supplies in the United Kingdom where the price of denim was however, at the time of the hearings, about six cents per yard more than for comparable Canadian cloth.

In pricing overalls, manufacturers work almost entirely on a basis of their actual factory costs plus a percentage to take care of other expenses and provide some margin of profit. The practice of working to a retail price is little used, as the work clothing manufacturers indicated that the retail price would vary considerably in the different retail stores.

EVALUATION OF FACTORS IN PRICE CHANGES

General Supply and Demand Factors

The production of overalls is considerably above pre-war levels and is sufficient to meet demand at present prices. However, the supply situation is tight and a number of factories are working below their full productive capacity in overalls, chiefly because of the difficulties of obtaining a steady flow of supplies of denim.

There was a considerable difference of opinion expressed as to the degree of buyer resistance which existed toward present prices. The representative of the Western Glove Company Limited, of Winnipeg, said they were not meeting the price resistance they had expected, and attributed this to the relatively high level of farm income. He stated that two bushels of wheat will buy a pair of overalls today, which they would not do in 1939. The representative of another Winnipeg firm, Monarch Overall Manufacturing Company, Limited, said that they were finding no buyer resistance on overalls and that "the prices were acceptable without any question." On the other hand, two retailers of overalls said that customer resistance to overall prices was definitely growing. The representative of the Hudson's Bay Company Limited, of Winnipeg, said they had recently reduced one line of overalls from \$4.95 to \$4.75 on that account, and the president of Jack Fraser Limited, of Toronto, stated they were buying only a month's or six weeks' supply of overalls ahead, as they were fearful of a sudden drop in the market, now that the production of overalls was greater and demand not so heavy.

Some manufacturers saw a trend in consumer demand toward improved quality in overalls rather than a reduction in price. more sanforized 8 ounce denim, graded sizing, extra pockets, double lining for

pockets, etc. Here again, the evidence from the retailers was just the reverse. Mr. Jack Fraser stated that 6-2/3 ounce denim was very popular and actually more in demand than the heavy denim; also that the sizing of overalls was much better than formerly and that there was no public demand for more accurate sizing at the present time.

Unit Costs and Selling Prices

Overalls, which were selling chiefly at prices ranging from \$1.49 to \$3.00 in 1939, were selling at \$3.25 to \$5.75 for the same or similar models in 1948. The average retail price of overalls had risen from \$1.93 in 1939 to \$4.57 in 1948, according to the Dominion Bureau of Statistics. These increased prices were due both to increases in production costs and in profit margins.

Costs of Production

The rise in the price of blue denim is the greatest factor in the increased costs of overall production. Canadian denims which sold for 14 cents a yard in 1939 had risen to 38 cents a yard by April, 1948, an increase of 156 per cent. Other domestic denims rose proportionately. The price of United States denims did not fluctuate as did broadcloth prices in that country but were held close to the price set by the Office of Price Administration. They are slightly lower in price than Canadian denims but their landed cost in Canada is about equal to the price of the Canadian fabric of the same quality. As mentioned previously, the price of United Kingdom denims is higher than for comparable qualities produced in Canada and the United States, but a number of manufacturers are supplementing their supplies from this source and absorbing the difference in price, in order to keep their factories operating.

The cost of materials is a particularly important factor in the price of overalls, since they use a heavy cloth containing a lot of cotton and require ample yardage, normally 44 to 48 yards per dozen.

The recent increase in price of domestic denims by half a cent a yard may mean an increase in the price of overalls due to the practice of the industry of changing prices only when the primary industry changes its prices, but adding in the additional costs of any other items at the same time.

The increase in the cost of findings for overalls is somewhat less than for shirts. One company estimated its increased cost for sundries at 72 per cent over 1940.

Higher wage rates, higher turnover and more non-productive labour have combined to increase labour costs in the work clothing industry. One manufacturer estimated his increase of direct labour costs on overalls at 89.4 per cent, while his increase on all labour costs was 116 per cent. Labour turnover seems exceptionally high in this section of the garment industry, and several manufacturers gave the less efficient running of their plants due to labour turnover and lack of a steady flow of materials as an important factor in higher prices. Several firms have

been able, however, to effect improvements in their machinery and methods which tend to counteract these labour difficulties.

The total increase in costs of production of overalls may be estimated from the figures provided by the manufacturers as to their best-selling lines. By averaging the factory-door costs and manufacturers' selling prices for eight models, on which figures were available from 1939 to 1948, it appeared that the average cost of production had risen from \$1.25 in 1939 to \$2.66 in 1948, or an increase of 112.7 per cent.¹ It will be noted that production costs on overalls have risen by a greater percentage than those on shirts.

TABLE 170
MANUFACTURERS' COSTS, SELLING PRICES AND MARGINS
FOR OVERALLS, EIGHT MODELS

(in dollars)

Year	Factory-Door Cost	Manufacturers' Selling Price	Manufacturers' Margin	
	Amount	Amount	Amount	Per Cent of Selling Price
September, 1939	1.25	1.66	.41	24.7
September, 1942	1.48	1.95	.47	24.1
September, 1946	1.68	2.10	.42	20.0
September, 1947	2.30	2.95	.65	22.0
1948, latest price	2.66	3.44	.78	22.7
Percentage increase 1948 to 1939	212.7	207.7	190.2	

Source: Evidence, Royal Commission on Prices, pp. 1079, 1092, 1106, 1128, 1148.

Manufacturers' Margins

On the eight models of overalls used for the above analysis, the manufacturers' selling prices had increased on the average slightly less in proportion than the costs of production. The manufacturers' margins, while almost double the pre-war dollar amounts, had decreased somewhat as a percentage of selling price, from 24.7 per cent in 1939 to 22.7 per cent in 1948.²

The evidence of work clothing manufacturers at our hearings indicated that, in general, they aimed at a gross margin on overalls of 20 to 25 per cent of their selling price, and the above averages bear this out. However, our investigations showed that on some of the other

¹See Table 170.
²See Table 171.

overall models, which were not included in the analysis because complete figures were not available from 1939 to 1948, the manufacturers were now taking margins as high as 32 and 36 per cent. Furthermore, of the twelve models on which six work clothing manufacturers submitted statements, the percentage of margin had increased, compared to 1939 or 1940, on eight models and decreased on four.

Retail Mark-ups

The retail mark-up on overalls has always been lower than on most types of clothing, partly because they are a staple article on which mark-downs and loss are negligible, partly because they bring people into the store who then make other purchases. The manufacturers indicated that the retailers might take a mark-up on overalls of anywhere from 23 to 33-1/3 per cent of selling price, depending on the locality and type of store.

Due to the flexibility of retail prices of overalls, the estimated retail prices quoted by the manufacturers give only a partial guide to the actual rise in retail price or change in retail percentage mark-ups. However, it seems clear from the evidence that there has been a decided upward trend in the percentage of mark-up taken by retailers on overall sales. Several manufacturers pointed out that the usual retail mark-ups before the war were around 25 per cent of selling price, but that the maximum mark-up permitted by the Wartime Prices and Trade Board was 33-1/3 per cent of selling, and that many retailers were continuing to take the higher mark-up.

Total Operations

Before the war, the manufacturers of overalls commonly operated on very low profit margins, but most companies have substantially improved their earnings since 1942, though this improvement is due not alone to overalls but to the other articles manufactured by them as well.

The following analysis of total sales, operating income and net profit is taken from the composite operations of five companies engaged in the manufacture of work clothing, who supplied financial statements and replies to questionnaires. Financial information for fiscal years ended within the calendar years has been combined. The five companies are:

- Kitchen Overall and Shirt Company Limited, Brantford, Ont.
- Larned Carter and Company Limited, Toronto, Ont.
- Monarch Overall Manufacturing Company Limited, Winnipeg, Man.
- Union Overall Manufacturing Company, Montreal, Que.
- Western Glove Works Limited, Winnipeg, Man.

The sales of the five companies have increased substantially and were, in 1947, nearly three times the 1939 volume. The operating income of the companies increased enormously from \$12,703 in 1939 to \$361,793 in

1947. The sales and operating income, together with their related percentages, will be seen from the following table.

TABLE 171
SALES AND OPERATING INCOME
FIVE WORK CLOTHING COMPANIES
(thousands of dollars)

Year	Amount	Operating Income	
		Amount	Per Cent of Sales
1939	1,468	13	9
1942-1945 average	2,866	157	5.5
1946	2,884	221	7.6
1947	3,812	362	9.5

Source: Evidence, Royal Commission on Prices, p. 1826.

In the work clothing industry it is particularly true that averages taken from only a few companies cannot give a complete picture of the industry as a whole. Even among the five companies included in this analysis there are wide extremes. One company, which had always shown a small but comfortable profit since before the war, showed a deficit for the first time in 1947, while another company had increased its operating income in relation to sales from a fraction of one per cent in 1939 to 21 per cent in 1947.

During the period from 1939 to 1947, net profits also increased by leaps and bounds, whether viewed in dollar amounts, as a percentage of sales or as a percentage return on shareholders' equity. The greatest increase in profits occurred during the years 1946 and 1947. The increase in net profits is summarized in the following table.

TABLE 172
NET PROFIT AS A PERCENTAGE OF SALES AND SHAREHOLDERS' EQUITY
FIVE CLOTHING COMPANIES
(in dollars)

Year	NET PROFIT		
	Amount	Per Cent of Sales	Percentage Return on Shareholders' Equity
1939	6,774	.5	1.1
1942-1945 average	56,718	2.0	10.0
1946	111,121	3.9	12.8
1947	202,547	5.3	22.3

Source: Evidence, Royal Commission on Prices, pp. 1826-28.

Capital employed increased between 1939 and 1947 but not in the same proportion as did net profit, so that the net profit represented a larger return on the shareholders' equity.

From the financial statements and replies to questionnaires, it is apparent that most of the five companies analyzed were depressed until 1942. An increase in profits took place between then and 1945, when the return on shareholders' equity was just above 10 per cent. From then on, the net profits of certain of these companies have shown extraordinary increases. The net profits of one company jumped from \$28,325 in 1945 to \$74,940 in 1946, and \$123,378 in 1947. Two other companies tripled their net profits between 1946 and 1947.

It seems evident that some of the work-clothing manufacturers have received very high profits in 1947 and that part of the increased profits during 1947 might well have been passed along to the consumer.

The two retailers who supplied information during our investigations of the work-clothing industry both showed higher profits during 1946 and 1947 than before the war, though one company's net profits were very much reduced when compared with the "golden years" from 1942 to 1946, when the costs of distribution were much lower in proportion to sales. The other company showed a decreasing percentage of gross profit to sales when comparing 1947 to 1939, but, during the same period, the percentage of expenses to sales decreased even more, so that departmental profits showed an increase in relation to sales. From the evidence of this second retail firm, it would appear that a retail mark-up of 25 per cent on overalls was sufficient to realize a reasonable profit in a store which does not carry too large an overhead.

WOMEN'S AND CHILDREN'S CLOTHING

The rise in prices for women's and children's clothing has been less than that for men's clothing, but the women's wear sub-group in the cost-of-living index has risen 68.8 per cent since August, 1939. A large part of this price increase occurred during the past two years, the index moving from 126.2 in September, 1946, to 145.5 in September, 1947, and then to 168.8 at September 1, 1948. In general, cotton garments have gone up most, followed by wool garments, and then those made from synthetic fibres. The greatest increase was shown in women's cotton night gowns, with an index number of 219.1 at September, 1948.

For the industry as a whole, the cost of materials plus salaries and wages was 86 per cent of the gross value of production in 1939 and 77 per cent in 1947, from which it is evident that manufacturers' selling prices have risen more in proportion than production costs.

The choice of items for detailed investigation was confined to essential garments in which style was a minor factor, and emphasis was laid on the lower price ranges. The items selected were:

Women's clothing: slips, nightgowns and cotton house dresses.

Children's clothing: middy blouses, school blouses, tunics, flannelette and cotton pyjamas and frieze snowsuits.

EVALUATION OF FACTORS IN PRICE CHANGES

General Supply and Demand Factors

The production of most lines of women's and children's clothing is above pre-war levels, and supply is now sufficient to meet demand. This section of the clothing industry has returned to fairly competitive conditions, and the squeeze on manufacturers' margins in children's clothing particularly is evidence of customer resistance to higher prices.

Unit Costs and Selling Prices

Average retail prices of the women's garments chosen for this survey rose anywhere from 36 to 99 per cent between 1939 and 1948; the prices of the various children's garments also rose by varying amounts during the same period, from 32.9 per cent in the case of blouses to 99 per cent in the case of plain pyjamas. The greatest increases in retail prices occurred among the \$4-\$5 dresses, nightgowns, and in children's pyjamas. The following table shows the relative increases.

TABLE 173

AVERAGE RETAIL PRICES OF WOMEN'S AND CHILDREN'S CLOTHING^a
1939 and 1948

(in dollars)

	1939 Amount	1948 Amount	Percentage 1948 to 1939
Women's Garments			
Selling under \$4 in 1948			
Dresses	1.69	2.78	164.5
Slips	2.08	3.30	158.6
Nightgowns	2.74	4.00	146.0
Selling at \$4-\$5 in 1948			
Dresses	2.47	4.92	199.2
Slips	3.24	4.40	135.8
Nightgowns	2.98	5.07	170.1
Children's Garments			
Blouses	1.52	2.02	132.9
Tunics	2.95	4.31	146.1
Pyjamas:			
Plain	1.00	1.99	199.0
Printed	1.19	2.15	180.7
Snowsuits	4.32	6.07	140.5

^a This is a composite of information received by the Royal Commission from 13 women's clothing firms and 10 children's wear firms.

Source: Evidence, Royal Commission on Prices, pp. 1769-70, 1782.

Costs of Production

The manufacturers' costs of production have increased substantially on all garments included in the survey, but by widely varying amounts for the different items. Among the women's items, the increases in factory-door costs ranged from 37.9 to 90.5 per cent. Production costs increased less than the retail selling price for dresses and nightgowns in the \$4 - \$5 category, but more for the other items. In children's clothing, the increases ranged from 40.3 to 100 per cent on various items. Manufacturers' production costs have increased more proportionately than the retail selling price for children's blouses, pyjamas and snowsuits, but less than retail prices for tunics. The increases in the costs of production will be seen from the following table.

TABLE 174
AVERAGE FACTORY-DOOR COSTS OF^a
WOMEN'S AND CHILDREN'S CLOTHING
1939 and 1948
(in dollars)

	1939 Amount	1948 Amount	Percentage 1948 to 1939
Women's Garments			
Selling under \$4 in 1948			
Dresses	.82	1.44	175.6
Slips	.98	1.62	165.3
Nightgowns	1.28	1.97	153.9
Selling at \$4--\$5 in 1948			
Dresses	1.26	2.40	190.5
Slips	1.45	2.00	137.9
Nightgowns	1.42	2.34	164.8
Children's Garments			
Blouses	.71	1.06	149.3
Tunics	1.44	2.02	140.3
Pyjamas:			
Plain	.54	1.08	200.0
Printed	.62	1.17	188.7
Snowsuits	2.22	3.73	168.0

^a) This is a composite of information received by the Royal Commission from 13 women's clothing firms and 10 children's wear firms.

Source: Evidence, Royal Commission on Prices, pp. 1770, 1782.

Factory labour costs have increased considerably over the period, but do not account for more than about 10 per cent of the increase in the average retail price of the women's garments in the survey, nor more than 10 to 20 per cent of the increase in retail prices of the various children's items. In children's clothing, factory labour costs were 50 per cent higher on blouses in 1948 than in 1939, 30 per cent higher on tunics, 83 per cent on pyjamas and 23 per cent on snowsuits.

Manufacturers' Margins

In women's clothing, the manufacturer's average gross margin on the 32 garments surveyed (16 dresses, 10 slips and six nightgowns) had increased only from 33 cents per garment in 1939 to 27 cents per garment in 1948. As percentage of selling price, the gross margin realized on these particular garments had fallen from 22.7 per cent in 1939 to 16.8 per cent in 1948. However, these companies also manufacture garments in higher price ranges and on their over-all operations there is a reverse trend. On total operation, manufacturers of women's dresses increased their gross profit from 18.6 per cent of sales in 1939 to 25.0 per cent in 1947, while manufacturers of slips and nightgowns increased their gross profit from 14.3 per cent of sales to 17.5 per cent in the same period.

Children's garments showed much narrower manufacturers' margins, on the whole, with a more mixed picture among the various items. On children's blouses and snowsuits, manufacturers' margins declined both in cents per garment and as a percentage of selling price between 1939 and 1948. On pyjamas, the gross margins increased in cents per garment but decreased as a percentage of selling price, while for tunics, the margin increased both in cents and percentagewise. The composite operations of ten manufacturers of children's clothing show a slight over-all decrease in the gross margin of profit as a percentage of sales from 18.3 per cent in 1939 to 17.2 per cent in 1947. The following table shows the manufacturers' margin on the children's garments included in the survey.

TABLE 175
AVERAGE OF MANUFACTURERS' MARGINS ON CHILDREN'S CLOTHING
1939 and 1948
(in dollars)

	1939		1948	
	Amount	Per Cent of Selling Price	Amount	Per Cent of Selling Price
Blouses	.19	21.1	.15	12.4
Tunics	.19	11.7	.49	19.5
Pyjamas, plain	.06	10.0	.08	6.9
Pyjamas, printed	.08	11.4	.12	9.3
Snowsuits	.40	15.3	.14	3.6

Source: Evidence, Royal Commission on Prices, pp. 1785-88.

Retail Mark-ups

The retail mark-ups were approximately the same on all the women's garments included in the investigation, about 40 per cent, including sales tax and transportation, and this remained remarkably steady throughout the period. On children's garments, the retail mark-ups were also relatively constant, with mark-ups of 40 to 41.8 per cent on most garments in 1948 and 36.2 per cent on snowsuits.

For the 32 garments in the women's group, the average dollar and cent spread between retail price and factory selling price had increased from 74 cents per garment in 1939 to \$1.21 per garment in 1948. In the children's group, the actual dollar and cent increase in average retail mark-ups between 1939 and 1948 ranged from 19 cents on blouses to 50 cents on snow suits.

Total Operations

A survey of the composite operations of 13 manufacturers of women's clothing and 10 manufacturers of children's clothing was compiled from financial information supplied by the companies, and forms the basis for the following analysis of sales, operating income and net profit among manufacturers of women's and children's clothing.

The total volume of dollar sales approximately doubled between 1939 and 1947 for both women's and children's clothing. Operating income (the income on operations before taxes) increased much more rapidly than sales among the women's clothing manufacturers; among children's clothing manufacturers, it remained remarkably constant as a percentage of sales from 1939 to 1945, but increased somewhat in 1946 and 1947. In dollar value, the operating income of the children's clothing manufacturers more than doubled during the period, while that of the women's clothing manufacturers went from \$249,027 in 1939 to \$1,341,758 in 1947, between five and six times as much. The sales and operating income, together with their related percentages, will be seen from the following table.

TABLE 176

SALES AND OPERATING INCOME
WOMEN'S AND CHILDREN'S CLOTHING MANUFACTURERS
(thousands of dollars)

	Sales	Operating Income	
		Amount	Percentage of Sales
13 Women's Clothing Manufacturers			
1939	6,628	249	3.8
1945	10,913	955	8.8
1946	12,508	1,322	10.6
1947	13,785	1,342	9.7
10 Children's Clothing Manufacturers			
1939	4,134	229	5.5
1945	7,760	444	5.7
1946	7,659	528	6.9
1947	8,325	544	6.5

Source: Evidence, Royal Commission on Prices, pp. 1771, 1789.

From 1939 to 1947, net profits increased substantially in dollar amounts for both women's and children's clothing manufacturers. As a percentage of sales, they increased in the women's clothing group from 3.1 per cent in 1939 to 5.5 per cent in 1947, but in the children's clothing group, they decreased slightly from 4.3 per cent in 1939 to 4.1 per cent in 1947.

The failure of net profit to improve as a percentage of sales between 1939 and 1945 as did operating income was perhaps due to the higher rates of taxes on income and excess profits, which were, of course, more onerous during the war years. Conversely, from 1945 the decrease in rates of excess profits taxes may be reflected by substantially higher percentages of net profits to sales.

The following table summarizes the changes in net profits among women's and children's clothing manufacturers.

TABLE 177
NET PROFIT
WOMEN'S AND CHILDREN'S CLOTHING MANUFACTURERS
(in dollar amounts and percentage of sales)

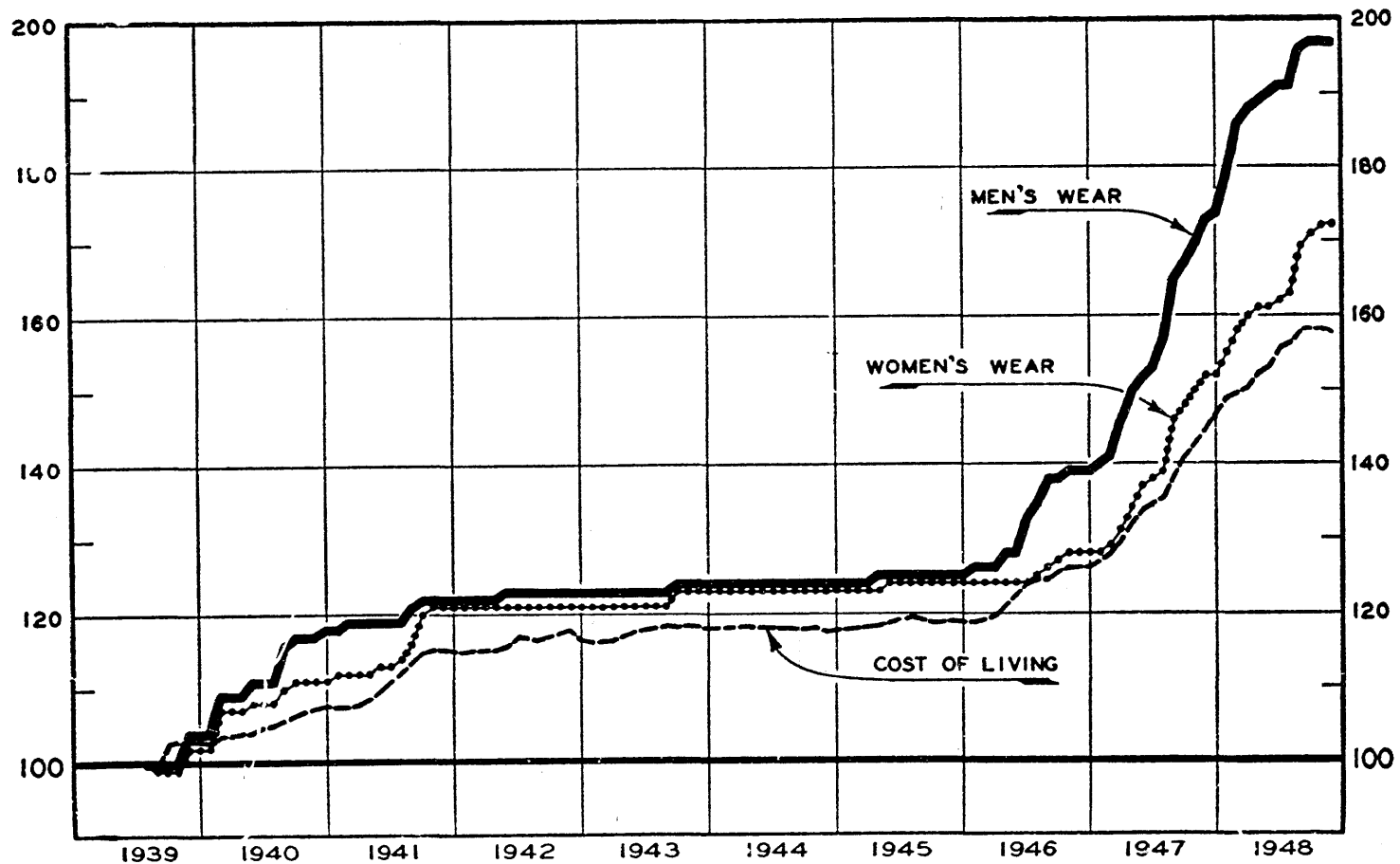
	Net Profit	
	Amount	Per Cent of Sales
13 Women's Clothing Manufacturers		
1939	208,549	3.1
1945	439,326	4.0
1946	692,584	5.5
1947	752,430	5.5
10 Children's Clothing Manufacturers		
1939	178,859	4.3
1945	186,253	2.4
1946	296,035	3.9
1947	338,972	4.1

Source: Evidence, Royal Commission on Prices, pp. 1772, 1789.

As a percentage return on shareholders' equity, the net profits of the women's clothing manufacturers were 16.8 per cent in 1947, and of the children's clothing manufacturers, 16.5 per cent in the same year. There are substantial variations in the percentage return on shareholders' equity among the different companies in each group, however. In the women's clothing, this return ranges from 9.9 per cent to 28.1 per cent, while in the children's clothing group, it goes from 13.0 per cent to 72.9 per cent.

This analysis would suggest that, in view of the higher dollar volume of sales and the decreases in taxation, some of the manufacturers of women's and children's clothing appeared to be in a position, in 1947, to make some reductions in prices and still provide for a reasonable return on the investment of the shareholders.

CHART XVIII
CLOTHING RETAIL PRICE INDEX
(AUGUST 1939 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

THE LUMBER INDUSTRY

LUMBER is one of the principal materials in residential construction. For all types of residential housing in general, including apartments and duplexes as well as single unit dwellings, and taking into account the differences in materials used from coast to coast, lumber on the average accounts for over 40 per cent by value of all materials and built-in equipment going into on-site construction.¹ Stated in another way, lumber accounts for 13 to 14 per cent of the cost of a house including the lot and labour. It has been estimated that 1,216 million board feet or nearly one quarter of the total annual Canadian production is required for the government's 80,000 unit housing target in 1948.²

Substantial quantities of lumber are used by commercial and industrial construction industries by railways and mines, and by governments in public works. Farmers are regular purchasers of lumber for the erection and repair of buildings and fences. Several industries manufacture articles in which wood is the principal component. The important field of wooden containers, where the cost of lumber has an influence on food prices, is an example. Indeed, few industries are completely independent of the use of lumber.

Lumber has been, for many years, one of Canada's leading export commodities. Demand has been at a high level because of the requirements for reconstruction throughout the world.

Canadian production is now considerably higher than in the pre-war period. An output of 3,977 million board feet in 1939 may be compared with the record levels of 5,033,280,000 board feet in 1946 and 5,346 million board feet in 1947. Production for 1948 promises to be close to the previous year's figures.

The Canadian wholesale price index for lumber had advanced to 250.7, a figure two and one-half times the 1935-1939 level, by September, 1947, when price control was suspended. A further increase since de-control has brought the index to three times the pre-war figure, August, 1948: 305.8, 1935-1939=100.

¹"Manpower and Material Requirements for a Housing Program in Canada", King's Printer, Ottawa, 1946, p. 66.

²Evidence, Royal Commission on Prices, p. 1534.

NATURE OF PRODUCT

Softwoods comprise by far the larger proportion of Canadian production, as shown in the following table.

TABLE 178
LUMBER CUT, BY KINDS OF WOOD, 1946
(millions of board feet)

	Amount	Per Cent of Total
Spruce	1,783	35
Douglas Fir	1,128	22
Pacific Coast Hemlock	452	9
White Pine	351	7
Cedar	222	4
Jack and Lodge Pole Pine	236	5
Other Softwoods	488	10
Hardwoods	423	8
Total	5,676	100.0

Source: Dominion Bureau of Statistics, Ottawa.

Spruce is found in every province, while Douglas fir and Pacific Coast hemlock grow only in British Columbia. These three species account for about two-thirds by quantity of the total lumber output.

Sawn lumber is produced in a wide variety of dimensions and patterns, which have become standardized in the practices of the trade over many years, although there are regional variations in standard finished sizes. The sawmill operator has some latitude as to what he will cut, but the dimensions and the relative proportions of each that develop in the sawing depend to a considerable extent upon the size and quality of the available logs.

Lumber may be marketed as green, air-dried, or kiln-dried; it may be rough or dressed in numerous forms or patterns. Processing beyond the sawing stage may be completed at the sawmill, or the dressing and drying may be done by the retailer, depending upon the particular facilities available. The manufacture of doors, sash, frames and other millwork is closely allied to the lumber industry and to a considerable degree is in the same hands. A substantial proportion of lumber requirements for construction is in 2" x 4" dimension and 1" x 6" boards. Most framing in residential construction is done with 2" x 4" dimension and sheathing and closing with 1" x 6" boards. We directed our inquiry into price increases with particular reference to those sizes in spruce and Douglas fir.

GRADING

Lumber is an organic substance and no two pieces are identical. There are wide variations in quality between "clears" free of all defects and "culls" that are barely usable except for fuel. Grading is accordingly essential and various systems of grading have been developed in the industry over many years.

The general purpose of grading is to establish and maintain a standard for use among mills manufacturing the same or similar woods so that a given grade of lumber will represent the same value and can be used for like purposes irrespective of the mill from which it comes or the log from which it is produced. A grade is defined by the number or degree of defects or irregularities which are permitted. The principal types of such defects and irregularities are:

Checks, lengthwise separation of the wood usually occurring across the rings of annual growth.

Imperfect manufacture, includes chipped or torn grain, skips in dressing, machine burn and mismatching.

Knots, classified according to size, quality (sound or unsound; tight or loose) and occurrence (number in a given area).

Pitch streaks and pitch pockets.

Shakes and splits, lengthwise separation of the wood.

Stain, sap stain in varying degrees of discolouration.

Variations in sawing.

Wane, bark or lack of wood on the edge or corner (pieces free from wane are termed "square edged").

Warp, variation from a tree surface including bow, crook and cup.

Wormholes, of varying sizes.

Lumber may be described as falling into the broad classifications of the clear grades, including the various grades of flooring, stepping, siding and finish where appearance, as well as wearing qualities, is important; the construction grades, including the grades of common boards and dimension lumber used as a general purpose product for sheathing, sub-flooring, rafters, joists, etc., in ordinary types of construction; and the structural grades for heavier construction where strength is a prime consideration.

There are also grades for industrial and shop lumber, such as door stock and ladder stock, and there is a further list covering railway car material. Each category is graded as to quality, No. 1, No. 2, etc. During the war some of the grades were merged or eliminated.

Grading Practices; West Coast

Lumber is usually graded after dressing. In the case of the West Coast industry, if it is for Canadian or United States rail shipment it is graded by the company's own employees. If the lumber is for export, including ocean shipments to the eastern United States, grading is done by the Pacific Lumber Inspection Bureau. This organization was formed

in the 1890's by the export sawmills in British Columbia, Washington and Oregon. The graders employed are selected from among men of some years' experience in the mills. Classes are given and examinations are held periodically to qualify candidates. The result is that lumber from the different mills is graded similarly so that overseas buyers can order from a number of sources in the confidence that their purchases will all be graded to a uniform standard. In many cases, letters of credit covering export sales provide for the inclusion of Pacific Lumber Inspection Bureau certificates with the shipping documents, and in some overseas markets such certificates are required for customs purposes.

In domestic shipments, where the lumber is graded by the company's own employees, a booklet of grading rules is published by the leading lumber association in British Columbia, which has been performing that function for many years. The mills conduct grading classes to familiarize their men with the rules. Test examinations are conducted by the larger concerns and periodically, a general test examination is set by the association.¹ Neither in this nor in the Pacific Lumber Inspection Bureau grading has there been supervision or intervention on the part of the provincial or Dominion governments. The West Coast mills all cut much the same type of logs with similar equipment, making for uniformity in the product. Evidence given before us was to the effect that disputes over grades were rare.

Some mills grade mark each individual piece of lumber with stencil or crayon in the case of the upper grades but the commons are generally not grade marked. It was said that there had been no demand from the trade for such marking.² Grade marks, of course, could be removed by the dishonest dealer in any case. The cost of grade marking was estimated to be 25 or 30 cents per thousand board feet which was not a factor at present prices but would be a consideration should the price fall to around \$11 per thousand as in 1931.

With respect to the different procedures employed on the West Coast in grading for the overseas and for the domestic markets, it was represented that in the case of the former, transactions are commonly in large amounts and an order may be filled from several mills. This has given rise to the necessity for an independent grading authority, the Pacific Lumber Inspection Bureau, which works for both the buyer and the seller. In domestic sales lumber is usually bought in carload lots and the amounts involved are consequently much smaller, so that adjustments if necessary can be effected more readily.

Grading of "Merchantable" Spruce

With respect to the grading of spruce, the evidence of witnesses from points east of the Rockies indicated that there may be considerable

¹Evidence, Royal Commission on Prices, pp. 1515, 1668.

²Ibid., p. 1668.

variance in the quality of different lots of lumber being marketed as "merchantable". Such variation is attributed principally to:

- a) differences in the quality of the timber being cut in particular localities,
- b) differences in the class of equipment, especially planers, as between mills,
- c) differences in the idea of what constitutes "merchantable" as between different sections.

It was indicated in the evidence given by wholesalers that part of their function was to be familiar with the differences in the product of various mills and to market each to the best advantage. Also, in a dispute recourse can be had to an inspection under the auspices of one of the associations such as The Canadian Lumbermen's Association or Maritime Lumber Bureau. In most cases, witnesses told us, the system doubtless works well enough in practice,¹ and it is probable that the greater portion of off-grade lumber can be attributed to new and inexperienced entrants and "fly-by-night" operators. However, it may be that further consideration should be given to the subject of grading spruce lumber.

Grading; General Comments

Notwithstanding the best grading rules, some deterioration in quality in the various grades has been practically inevitable. There is a high line and a low line in each grade and there will be many "liners", where it is a question, for example, whether the pieces fall within the low line of No. 1 Grade or within the high line of No. 2 Grade. There may be a tendency in a seller's market to include such boards in No. 1. Conversely, in a buyer's market the mills are likely to "sweeten" their grades to make their product more attractive.

Other general comments may be made with regard to lumber grading. In contrast to some other graded commodities, a relatively small proportion of the total lumber marketed is bought by grade by the ultimate user. The latter, consequently, is generally less concerned with the question of the grade of the lumber as such than with the quality of the house or article of which lumber is a component. It may be reasonably assumed that the industrial user and the building contractor are aware of the character of the grades and are alert to ensure that the lumber they buy comes up to the specifications they require and for which they are paying. However, if the industrial user and the builder lack workmanship and integrity, the grading of lumber means little for the protection of the purchasers of their products.

It may be well to add the comment that the various grades which develop in the sawing of lumber occur because trees grow that way and are not the result of any production plan of the manufacturer. Within certain limits the proportions of the better grades can be increased by the skill of the sawyer, who directs the setting of the log during the

¹Evidence, Royal Commission on Prices, p. 1565.

sawing process, and whose ability or the lack of it, it is said, can virtually make or break a mill. It is a feature of the industry that lower grades and less desirable specifications are produced as an unavoidable by-product of the manufacturing operation, giving rise to a particular marketing problem. The utilization to the fullest extent of the entire content of the log has engaged the attention of the larger and more efficient members of the industry. A considerable number of new plants, such as pulp mills, have been added in recent years to treat what otherwise largely would be waste.

DRYING

Allied with the question of grading is that of drying or seasoning. There was some evidence, that because of the urgency of demand, a significant amount of lumber has gone into housing and other uses in an inadequately seasoned condition. The difference in weight and consequently in freight costs as between dry and green lumber normally renders it advantageous to the trade to allow lumber to season properly, and the situation seems likely to remedy itself as the market comes into better balance.

SOURCES OF SUPPLY AND ORGANIZATION OF THE INDUSTRY

Timber is produced in some quantity in every province of Canada. Of the total forest area of the Dominion, ownership of over 90 per cent is vested in the Crown, and is administered by the provincial forest authorities. However, 71 per cent of the forests in New Brunswick, 50 per cent of those in Nova Scotia and all in Prince Edward Island are privately owned. Lumber firms, leasing timber rights on Crown lands, must abide by regulations enforced by the provinces for the conservation of this section of the public domain. In addition, they pay stumpage dues, at various rates in the several provinces, on the timber which they cut. The distribution by provinces of the lumber cut in 1946 is shown by the following table.

TABLE 179
LUMBER CUT BY PROVINCES, 1946
(millions of board feet)

	Amount	Per Cent of Total
British Columbia, coast	1,683	33.1
British Columbia, interior	486	9.5
Quebec	1,162	22.9
Ontario	673	13.2
New Brunswick	316	6.2
Nova Scotia	331	6.5
Alberta	256	5.0
Saskatchewan	105	2.1
Manitoba	59	1.2
Prince Edward Island	12	.3
Total	5,083	100.0

Source: Dominion Bureau of Statistics, Ottawa

Although each part of the country has a substantial output of lumber, there is an absence or shortage of certain necessary types and species in various sections. Fir timbers, cedar siding, and red cedar shingles, for example, are shipped from the West Coast across Canada as far as the Maritimes, while hardwood flooring from Ontario and Quebec is marketed in western Canada. Geography and freight rates are consequently important factors in the distribution of lumber.

The lumber industry is comprised of the three trade levels of manufacturing, wholesaling and retailing. The division is by no means clear cut, since some manufacturers have their own wholesale organizations and some have their own retail outlets. Some members of the industry, who are essentially retail dealers, operate sawmills.

Manufacturers

The following table classifies sawmills in Canada according to the quantity of lumber sawn in 1947.

TABLE 180
CLASSIFICATION OF SAWMILLS ACCORDING
TO INVENTORY OF LUMBER SAWN IN 1946^a

Production of Sawn Lumber in Thousands of Feet Board Measure	Number of Mills	Per Cent of Total Number of Mills	Per Cent of Total Quantity Sawn
Less than 100	1,540	27.1	1.5
100 to 199	952	16.8	2.6
200 to 499	1,363	24.0	8.3
500 to 999	827	14.6	11.2
1,000 to 4,999	861	15.2	33.0
5,000 to 14,999	92	1.6	14.5
15,000 to 19,999	15	.3	5.1
20,000 and over	26	.4	23.8
	5,676	100.0	100.0

^a In addition to the above number of mills which report to the Dominion Bureau of Statistics, there are probably several thousand other small operators including farmers sawing off their own wood lots.
Source: Dominion Bureau of Statistics, Ottawa.

Mills sawing less than one million feet a year account for 82.5 per cent of the total number and in the aggregate produce 23.6 per cent of the total. The group sawing between one million and 15 million feet represents 16.8 per cent of the total number and produces 47.5 per cent of the total output, while the 41 largest mills with production in excess of 15 million feet account for 28.9 per cent of the total. Of the last named group of large mills, 31 are on the West Coast, where they account for 73.8 per cent of the total quantity sawn in that district. Four are in Ontario and four in Quebec where they produce only 15 per cent and 8 per cent of the totals in their respective provinces. Indeed, east of the West Coast a substantial proportion of the output comes from mills in the one million to five million feet category.

West Coast Sawmills

Log-producing Mills

The evidence indicates that the larger mills have substantial timber reserves and conduct their own logging operations. This involves for the mill a survey and the construction of a road or logging railroad to tidewater. Logging operations are then conducted from the valley bottom up the mountain sides. Cable systems are set up to convey the logs from the stump to an assembly point on the truck road or railroad, whence they are transported to the water. They are there made up into rafts or booms and towed to the mill, sometimes for considerable distances. Fir, hemlock and cedar are found in the same stands and some companies follow the practice of trading logs of a species and type which they do not want for other logs of the required species and type.

At the mill the logs are hoisted from the water and placed on a carriage which runs back and forth against the saw. The log is turned and held in various positions by the mechanism on the carriage, as directed by the sawyer, to obtain the cuts and dimensions desired. The larger mills usually use band saws. The lumber is carried by conveyor belts to other smaller saws for re-sawing, following which it goes on to be dressed and air or kiln-dried.

The machines of these mills are largely designed to meet export trade requirements and a large proportion of their products goes to overseas markets. On the domestic market the merchandising practices of the different concerns is not uniform. Among the larger companies, Bloedel, Stewart and Welch Limited has a subsidiary sales company in Ontario but elsewhere sells through wholesalers or commission men except in the case of mines and railroads with which it deals directly. The H. R. MacMillan Export Company Limited, has its own wholesale organization. British Columbia Forest Products Limited, sells its products through the H. R. MacMillan Export Company Limited, except for a small proportion sold locally around the sawmills. All mills do a certain amount of retail business in the areas immediately around their mills. The Canadian Western Lumber Company Limited sells through wholesalers and also has three retail subsidiaries, Crown Lumber Company Limited, operating 30 yards in Alberta; Security Lumber Company Limited, operating 64 yards in Saskatchewan, and Coast Lumber Yards Limited, operating one yard in Winnipeg.

Independent Loggers

Apart from the logging operations of the large mills, there is also an important independent logging industry on the West Coast. About 40 per cent of the log output is produced by the independent loggers. Some of these are large and efficient operators but others are quite small, depending entirely on trucks for hauling. A regular system of grading is in force and an open market for logs has developed which has no counterpart in eastern Canada.

Log-buying Mills

There are mills which have no timber limits or whose limits are inadequate to supply their operations and which, in consequence, are dependent for their logs on the independent loggers. There are approximately 80 such operators on the West Coast, accounting in the aggregate for about one-third of the total production in that area. In commenting on this situation, the Report of the Sloan Commission on the Forest Resources of British Columbia remarks as follows:

"About one-half of the Coast mills are dependent either wholly or in large part on the open log market for their log supply. This simply means some log-producing concerns do not operate sawmills and some sawmills do not hold any reserves of timber. The open log market is the channel through which the process of extraction and conversion are integrated by these two classes of producers and consumers; in other words, it is the link which joins them together. . .

While it may be possible for the production from some Crown timber working-circles to be allocated to supply this market. . . it seems to me the future of those mills depending solely, or in most part, on the open market supplies for their logs is none too bright."¹

Export Sales Organization

Historically the West Coast mills have sold approximately two-thirds of their production in various export markets. Overseas sales are largely made by the H. R. MacMillan Export Company Limited, which handles the output of many smaller mills in addition to that of its own operations, by Alaska Pine Company Limited, and through Seaboard Lumber Sales Company Limited. The latter is co-operatively owned by 33 member mills for which it handles waterborne shipments. Among the advantages of this central selling organization for overseas orders is the fact that Seaboard is able to charter vessels and make up cargoes from its member mills for markets where no one mill's shipments would be large enough to warrant chartering. Seaboard buys from the mills only to fill specific orders which it knows the mills desire and are able to fill. Purchases are made on a free alongside vessel basis, Seaboard taking formal ownership of the lumber. A commission of 2½ per cent is deducted from the purchase price out of which operating expenses are met and, after paying a dividend of five per cent and taxes, any surplus is refunded to the mills.

In sales to the United Kingdom during the war and post-war periods, there has been in effect only one wholesale buyer, the British Timber Control. The practice has been for the British Timber Controller to negotiate with the representatives of the export groups and arrive at a

¹Report of the Commissioner, Hon. G. McG. Sloan, relating to the Forest Resources of British Columbia, King's Printer, Victoria, 1945.

contract uniform as to specifications and prices for the Coast region. The Dominion government has not participated in these negotiations, which have been carried out independently between the industry and the British Timber Control.

The coast mills' market in the United States is largely on the eastern seaboard where the high freight cost outbalances the United States duty on lumber, thus enabling them to compete with the Washington and Oregon mills which produce similar species and types of lumber.¹

Operations in Canada Other Than on the Coast of British Columbia

The deep winter snow, the more extreme climate and the suitability of rivers after the spring thaw for log driving in most parts of Canada other than the coast of British Columbia make logging largely seasonal. In contrast to the West Coast where most loggers are professional woodsmen, some 75 per cent of the workers in the eastern industry are farmers who turn to logging during the off season in farming. In addition, many farmers sell logs which they cut in their own woodlots.

Logging operations are usually conducted by the mill owners, who sometimes employ contractors and sub-contractors. Although there is some log production in the summer, where roads are good, particularly in hardwood, autumn and winter cutting is the usual routine. The logs after being trimmed and cut into merchantable lengths, are skidded onto the river ice to await the spring break-up, when they are carried on their way to the mills. In the case of many operations, river driving is not possible and the logs are transported to the mills by truck. Sawlogs, except at the coast of British Columbia, are not marketed as such but are converted into lumber by their owners. In some sections, however, considerable quantities of lumber are sawn by custom sawmills and other small mills purchase logs from the nearby farmers.

The brevity of the foregoing description of this section of the lumber industry is disproportionate to the relative importance of its output which comprises over 60 per cent by volume of the Canadian total. The varying nature of the operations in different sections, and the generally smaller size of the producing units, many of which serve local markets, give the industry a character which does not lend itself to summary description as do the more clearly defined and somewhat more spectacular operations of the West Coast lumbermen. The major producing areas are the northern and southern interior regions of British Columbia, northern Alberta, Ontario, Quebec, New Brunswick and Nova Scotia. All these areas produce surpluses for export. The Maritime provinces, traditionally, have shipped substantially to overseas markets, principally the United Kingdom. The remainder of the area sends its exports principally to the United States.

¹Evidence, Royal Commission on Prices, p. 1672.

WHOLESALEERS

As one wholesaler, Mr. A. P. Read, President, Read Brothers Limited, Toronto, said in giving evidence;

"Every wholesaler is a business unto himself. No two wholesalers do business exactly the same way. There are a number who act simply as commission agents for the mills and who simply handle accounts. . . Then they go from there where you have wholesalers financing mills."¹

The function of the lumber wholesaler are many. He finds markets for the product of the mills, especially the smaller operations which have no direct contacts with the market. Some mills have found it more economical to sell through wholesalers than to set up their own sales organizations.

The wholesaler who is in close touch with the market suggests to the mills advantageous ways of cutting their lumber. By the very nature of the product, mills cannot avoid producing some dimensions and grades that are less desirable than others, and the wholesaler's contacts with a broad market can assist the mill operator to market his entire output.

He has a knowledge of the quality of the product of the various mills gained by experience, inquiries and personal inspection. Even the larger retailers appear to buy quantities through the wholesale trade because of the better knowledge of the wholesaler as to where lumber can be obtained.

In some cases the wholesaler even assists the mills financially either through advances or by buying blocks of lumber on pro forma invoices. As explained by Mr. Read:

"A wholesaler will buy a block of lumber on a pro forma invoice. The manufacturer does not get his money immediately but he has that lumber sold. . . It will be shipped out during the summer, and if it is not shipped out it will be paid for on the agreed date and it is off his hands."¹

The wholesaler frequently extends credit to the retailers to whom he sells; the small mills supplying the lumber in many cases can not afford to have outstanding any large amount of accounts receivable, nor are they in a position to obtain the credit information necessary to avoid undue losses from bad debts.

In marketing the product of small mills which are without planing facilities, wholesalers frequently arrange to have the lumber finished in the dimensions and patterns required at a dressing-in-transit mill which operates on a custom basis.

RETAILERS

It is common practice in the retail lumber trade for dealers to carry, besides lumber, a line of millwork and builders' supplies including wall-boards, asbestos shingles, paints, hardware and cement. Sometimes, but not commonly, plumbing and electrical fixtures and supplies are included.

¹Evidence, Royal Commission on Prices, p. 1454.

The evidence seems to indicate that an increasing proportion of sales are in lines other than lumber and that there is a growing volume of lumber substitutes such as wallboards and asphalt shingles.¹

Many retailers, especially in the east, obtain a substantial proportion of their lumber from small mills within a relatively short radius of their yards. In such cases they may buy the small operator's entire cut which he delivers by truck to the yard unsorted and in the rough. It must then be tallied, put through the planer and graded by the retailer before being sold. Many retailers have such planing mills and also operate dry kilns and millwork plants in conjunction with their yards. In addition to their purchases from nearby mills, most retailers require to buy from wholesalers, usually in carload lots, commodities which are not produced or are produced in insufficient quantity or variety of dimensions in their own district. Thus, a retailer in Nova Scotia might buy through a wholesaler or commission man, fir timbers or cedar siding from the West Coast and possibly white pine for the millwork plant from Ontario or Quebec.

In the Prairie provinces the retail trade is dominated by the line yard companies which operate chains of branch yards in the cities and towns in that section. These branch yards sell millwork, shingles and a range of building supplies, and in some cases coal, in addition to lumber. Buying, which is done through the head office of each concern, is done both direct from the sawmills and through wholesalers. Price may vary among the different yards of any one company due to freight differentials.

There is no clear pattern in respect of the mark-up percentages traditionally taken by the retail lumber trade and there appears to be considerable variation between localities depending upon the rate of turnover. From evidence a mark-up of 26 per cent of selling price would probably be fairly representative of the general practice on commons and faster moving lines, while longer mark-ups would obtain on slow moving items.

FACTORS IN PRICE CHANGES SINCE THE BEGINNING OF THE WAR²

Timber prices were among the first to be brought under control. The Department of Munitions and Supply established a Timber Control in June, 1940, which by informal price agreements with the industry applied the brakes to rapidly accelerating prices. When the over-all price ceiling policy was instituted in November 1941, lumber prices came under the administration of the Wartime Prices and Trade Board. All prices were frozen at their basic period level but the actual ceilings applicable were varied and obscure for many in the trade. In view of this, and also of the large number of individual operators, it became clear that more specific ceilings would have to be introduced and, accordingly, numerous orders were issued setting maximum prices by regions for the various species and dimensions of lumber. These orders established, in many cases, prices which were somewhat in excess of basic period levels but they achieved a more clearly defined price ceiling, control over which

¹Ibid., p. 1307.

²A large part of the material in this section, dealing with the price control period has been drawn from Annual Reports of the Wartime Prices and Trade Board.

should be enforced more readily. Ceiling prices under these orders were established at two levels of trade, manufacturers and wholesalers, and retailers. Wholesalers traded under the manufacturers' ceiling. The orders set forth maximum prices in dollars and cents for each item both at the manufacturing and the retail levels, and provision for a maximum percentage mark-up at retail was very exceptional.

During 1942 and 1943, costs in the industry appear to have risen substantially despite the operation of wage and manpower controls as well as other regulations aimed at the stabilization of costs. This was due to the heavy exodus of men from the woods operations both into the armed services and into more highly paid war industry. Wage rates rose despite controls, and the lessening of efficiency as the better men left, added a further element to costs. To cover these rising costs and to encourage production to the maximum to meet the urgent wartime demands, upward adjustments of about \$4.00 per thousand feet were made.

The price level established in 1943 was maintained with relatively little change until early in 1946. In April 1946, prices were increased by eight per cent at the mill level, while retail ceiling prices were left unchanged. This action was intended to pass on to the manufacturers the benefit of the removal of the eight per cent sales tax on lumber which had been dropped in May, 1945. Retailers had enjoyed in the interval an increase in their margins to this extent, since retail prices were inclusive of sales tax and its remission had not generally been passed on to consumers.

During the remainder of 1946 wages in the industry rose. On the West Coast an increase of 15 cents an hour and a shorter working week were granted following a strike which lasted over a month. A material rise in production costs resulted and there was evidence that costs were close to if not above the domestic ceiling price at the mill, while in marginal operations, especially in the log buying section of the Coast industry, there was evidence that they might be placed in a loss position. However, with the virtual disappearance of price control in the United States and a marked strengthening in export prices in other markets, the return to the mills increased to the point where relief by way of a domestic price increase on the grounds of over-all financial need was avoided.

In the spring of 1947, with decontrol of prices in sight, some upward price adjustments were made across the country to provide incentives for the production of certain types and dimensions in short supply for the housing program, to compensate the mills in some districts for reductions in their export quotas, and to narrow in some measure the spreads between domestic and export prices.

The foregoing can be illustrated in tabular form with reference to mill prices on 2" x 4" No. 1 common B. C. fir.

TABLE 181

INCREASES IN DOMESTIC PRICES, AND COMPARISON OF DOMESTIC PRICES WITH EXPORT PRICES^a

2" x 4" No. 1 COMMON BRITISH COLUMBIA FIR

1939-1948

(in dollars)

Date or Period	Increase per thousand feet	Remarks	Domestic Price per Thousand Feet	Export Price per Thousand Feet	
				United Kingdom	Other
June 1, 1939		Pre-war prices	14.00-16.00	17.00-19.00	16.00
1939-1940	3.00- 5.00	Period before control	19.00		
May 1941	1.00	Incentive for war production	20.00		
June 1, 1942		Comparison with export prices	20.00	20.50	24.00
June 15, 1943	4.00	Incentive to production and in recognition of known cost increases	24.00		
April 1, 1946	1.92	Eight per cent increase passing on remission of sales tax	25.92		
Dec. 1, 1946		Comparison with export prices	25.92	42.00	70.00
May 1947	12.00	Compensation for increase in domestic quota from 35 per cent to 40 per cent and to narrow the spread in anticipation of decontrol	38.00	56.00-60.00	62.00-86.00
Sept. 13, 1943	13.00-25.00	Increase since decontrol	51.00-63.00	60.00-65.00	64.00-68.00

^a Since suspension of price controls, there are variations among the different companies but the above figures appear to be reasonably representative for the purpose.
 Source: Evidence, Royal Commission on Prices, pp. 1502, 1451, 1544, 1610, 1644, 1661.

The general course of prices is shown by the whole price indexes for lumber.

TABLE 182
WHOLESALE PRICE INDEXES, LUMBER
(1935-1939 = 100)

		Total Lumber	Fir Lumber	Spruce Lumber
Pre-War	1939—June	102.9	102.9	108.5
Period of Control	1942 June	148.7	139.2	165.1
	1945 Sept.	179.9	158.5	232.2
	1946 Sept.	190.0	171.2	247.5
	1947 Sept.	250.7	258.5	275.5
Period since Decontrol	1948 January	290.1	346.6	300.0
	1948 June	298.1	354.8	300.0
	1948 August	305.8	375.7	300.0

Source: Dominion Bureau of Statistics, Ottawa.

Subsidies

Apparently no subsidy arrangements were made covering the whole industry and, of those that were made, none lasted during the whole control period. Various subsidies were paid at times to meet particular problems of cost squeezes on certain kinds of distributors of lumber. The principal subsidies and the total amounts paid were as follows.

TABLE 183
SUBSIDIES PAID ON LUMBER BY WARTIME PRICES AND TRADE BOARD
(in dollars)

	Total Subsidy Paid	Date Terminated
Consumer, softwood	2,449,180	14 July, 1945
Retail, Prairie	622,042	15 Aug., 1943
Producer B.C. Coastal, incl. lath.	376,201	27 Oct., 1943
Producer B.C. Coastal, shingles	111,913	15 Aug., 1943
Sawmill B.C. Coastal, logs	261,663	30 June, 1945
Other Subsidies	328,918	
Total	4,149,917	

Source: Wartime Prices and Trade Board, Annual Report, 1946.

It is stated that the principal subsidy was introduced in 1943 to reduce the impact of higher softwood prices on certain groups of consumers. The arrangements provided that farmers, fishermen, fruit

and vegetable growers, trappers and certain other users could purchase lumber at retail, subject to certain limitations, for use in their personal trade or occupation at a discount of 10 per cent, the retailer concerned obtaining reimbursement from the Prices Board. As part of the general program of subsidy removal, the arrangement was cancelled in July, 1945.

We conclude that subsidies were not an important factor in the maintenance of lumber prices generally. The last of the subsidies was discontinued before the end of 1945 and their termination has not, we think, been a factor in the subsequent price increases.

Export Controls

During the war a system of quotas was put into effect by the Timber Controller, involving specific allocations to the United Kingdom and to various Commonwealth and United Nations countries. In January, 1946, the specific export allocations were discontinued and replaced by an over-all export quota leaving the trade free to choose its own export markets. An exception was made in the case of the United Kingdom whose contracts were protected by a special quota. The rising level of world prices, resulting in an increasing differential between domestic and export prices, led to the continuance of strict export controls, which are still in force.

The over-all effect of the system of export quotas may be illustrated by the following table.

TABLE 184
TOTAL CANADIAN LUMBER PRODUCTION AND TOTAL LUMBER
EXPORT TO ALL COUNTRIES

(millions of board feet)

	Total Lumber Production	Exports to all countries	Retained in Canada	Per cent Retained
Average 1935-1939	3,627	1,844	1,783	49.2
Years 1946	5,083	2,083	3,000	59.0
1947	5,345	2,726	2,619	49.0

Source: Dominion Bureau of Statistics, Ottawa.

The increased proportion of production exported in 1947 as against 1946 is attributable largely to heavy export shipments of ties from northern British Columbia, to an increased export quota for the Maritimes on spruce of 50 million feet for the United Kingdom and 40 million feet to other markets when a surplus appeared to be accumulating; and to the removal of quota restrictions on hardwoods during the year. The present quotas, in effect since the beginning of 1948, provide that 40 per cent of B. C. Coast production must be retained in Canada, while for areas east of the Rockies the proportion is 50 per cent.

Considerations in the Setting of Export Quotas

The following considerations appear to have entered into the setting of the export quotas on lumber:

A supply adequate for reasonable requirements should be retained in Canada. Export percentages have been lowered on occasion to ensure this while at other times these have been raised when it was apparent surpluses were developing.

Canada is one of the principal world sources of lumber. The pressing requirements for reconstruction on the part of the United Kingdom and Western Europe have had a claim upon our assistance.

The lumber industry, especially on the West Coast and in the Maritime provinces, historically has depended upon various export markets for the sale of substantial proportions of its product. Permanent loss of some markets might have been risked if exports had been cut off or substantially curtailed by the diversion of any much larger proportion into the domestic market.

The foreign exchange derived from lumber exports has been of substantial importance to this country in helping to balance its international accounts. The developing dollar problem made lumber exports to the United States a factor of major importance.

TABLE 185

DOLLAR VALUE OF EXPORTS OF WOOD, UNMANUFACTURED OR PARTIALLY MANUFACTURED (EXCLUDING PULPWOOD, FIREWOOD, CHRISTMAS TREES, AND SIMILAR ITEMS)
CANADA, 1945-1948
(thousands of dollars)

	1945		1946		1947		10 months ending October, 1948	
	Value	Per cent	Value	Per cent	Value	Per cent	Value	Per cent
United Kingdom	\$60,895	43.6	\$59,202	33.8	\$104,928	37.3	\$56,383	24.9
Other British Countries	12,037	8.6	25,825	14.8	36,840	13.1	18,267	8.0
United States	64,253	46.0	80,138	45.7	112,783	40.1	142,360	62.8
Other Countries	2,572	1.8	10,055	5.7	26,528	9.5	9,813	4.3
Total	139,757	100.0	175,220	100.0	281,079	100.0	226,823	100.0

Source: Dominion Bureau of Statistics, Ottawa.

Table 185 indicates the increased dollar value of the exports by the sawmill, logging, shingle and plywood industries. It illustrates the marked shift which has taken place during 1948 toward the United States and away from traditional overseas markets. The latter have found it necessary to curtail their purchases on account of shortage of dollars. There are also recent indications that the United Kingdom's buying is to be more selective. This creates a problem in the disposal of lower grade material, especially for some mills which have been heavily dependent on sales to that market.¹

¹Evidence, Royal Commission on Prices, pp. 1526, 1527.

It was represented to us that, insofar as the British Columbia coast is concerned, it would be much more important that Canadian lumber should obtain freedom of entry into the United States market than that it should enjoy preferential tariffs in other markets whose lack of dollars prevented them from buying. The existing rate of \$1 per thousand feet on lumber entering the United States was not an important factor at the prices prevailing in 1948.

Some mills are specially geared to the export market, producing types or dimensions not usually marketed in that form in Canada.

Under price control, especially in its later stages, domestic ceiling prices were materially below the export level and there was evidence given before us that they were also in some, if not the majority of cases, below the cost of production.¹ The average return on the total of domestic and export shipments, however, enabled the industry generally to operate profitably. Nevertheless, there were mills which were close to the margin and were probably getting by only by exploiting the highest priced export markets to the limit of their quotas. Under these circumstances a reduction in the export quota involved a compensating increase in domestic prices if the marginal mills were to stay in business.

General Comments Regarding Price Control of Lumber

The control of timber, and its products, must have been very difficult to administer and was apparently one of the least successful in terms of price stabilization of any coming within the price ceiling. The wholesale lumber price index, on a 1935-1939 base, which had risen to around 180 by the close of hostilities, increased further to about 250 by September, 1947, when price control was suspended.

The steadily rising level of prices in world markets, in conjunction with the system of export controls made it possible to maintain domestic prices at a level close to and in many cases actually below the cost of production. In effect the domestic buyer was subsidized by the export buyer. On the one hand this situation permitted a considerable degree of stability in domestic prices during the war and in the immediate post-war housing construction period. This was of great advantage to the stabilization program as a whole. On the other hand, it made for intense pressure both on the price ceiling, while controls were in effect, and on the export quotas.² Manufacturers who had previously exported all or most of their production felt the effect of the export quota, while mills serving largely domestic customers were more interested in pressing for relief from price controls. There were doubtless many instances where manufacturers and wholesalers had to choose between filling the orders of their importunate domestic customers and the more profitable alternative of exporting to the limit of their quota. Even where over-all earnings were satisfactory, however, the manufacturer's normal disinclination to sell a portion of his product below its cost of production,

¹Evidence, Royal Commission on Prices, pp. 1526, 1527.

²Ibid., p. 1527.

must have made for steady pressure on the ceiling. It may be added that, while orders for the total quantities required to be retained in Canada were filled, there was a tendency, difficult to prevent, for the better grades to be shipped to the export markets where they commanded premium prices.

Distortions under Price Control

With abnormal demand, price control export quotas and so on, there was a tendency for the normal pattern of price relationships to become distorted and out of balance.

Mills were processing lumber to the point where it gave the greatest net return irrespective of whether the product was in the form required by the consumer. A noteworthy example is the case of 2 x 4's where mills found it more attractive to ship 2 x 8's and leave it to the retailer to arrange for the necessary ripping. This may have involved added expense which was borne by the consumer.¹ Labour shortages in some cases may have been responsible in part for the situation.

We heard in evidence that there was a tendency as the control period progressed for shippers to concentrate on the points where sales yielded the best return after deducting freight charges, while points with longer freight rates got less than their share. Measures were apparently taken wherever possible to alleviate such situations. For example, the Board ordered that shipments to a so-called "Designated Area" south of the Canadian Pacific Railway's main line in Saskatchewan and Manitoba would earn a larger export credit as an inducement to the mills to ship to that area, which was a longer freight haul.

Some mills located close to their market short-circuited normal channels by selling at retail to get the benefit of the higher ceiling price set at that level. Attempts to control this situation by restricting retail licences only to bona fide retail dealers were only partially successful.²

Such distortions were, of course, only in part a consequence of controls and to quite an extent are what might be expected in any event in a strong sellers' market.

Narrowed Retailers' Margins Under Price Control

Witnesses stated that in several areas the margins between wholesale and retail prices were squeezed below the percentages considered normal. Retailers in such areas were generally close to sources of supply and, at the time the maximum prices were established, were able to buy at prices below the ceiling. As demand increased, the prices at which they could purchase crept up to the ceiling while the retail ceiling itself remained unchanged. Due to the increase in sales volume enjoyed by the retail trade, and to the fact that adequate margins evidently were obtained in other building materials constituting a portion of their business, over-all profits were apparently not reduced to a point where relief by way of increased margins on lumber would have been warranted by over-all

¹Evidence, Royal Commission on Prices, pp. 1809, 1810.

²Cf. Annual Reports, Wartime Prices and Trade Board.

financial need. Another factor in narrowing the retailers' percentage mark-up under price control was the practice in many instances of allowing only the actual dollar and cent increase permitted at the manufacturing level to be passed on by the retail trade. A tendency to restore traditional percentage mark-ups, they stated, was to be expected, however, after price control was suspended.

Production Costs

Because of the large number of mills of varying sizes operating under widely different conditions, and the fact that logging and sawmill costs can not be segregated as against particular grades and dimensions, we found it difficult to determine average cost figures for the period under review which could be used as the basis for any general statement on the relationship of production costs to the trend of prices. A further consideration is that the high level of demand has led to the cutting of less accessible and inferior stands of timber where it was probably uneconomical to operate at the prices prevailing pre-war.

As an indication of the trend however, Table 186 indicates the cost of production, together with the selling prices prevailing on corresponding dates for one West Coast operator and one eastern producer.

TABLE 186

COSTS AND SELLING PRICES OF ONE WEST COAST LUMBER FIRM AND ONE EASTERN PRODUCER OF LUMBER, 1939-1948

(in dollars per thousand board feet)

	Cost ^a	Wholesale Price		
		Domestic	United Kingdom	F.O.B. Mills United States
Company A, West Coast 2" x 4" Common B.C. Fir				
June 1, 1939	21.02	16.00	19.00	16.00
Jun 1, 1942	28.97	20.00		24.00
Dec. 1, 1946	42.91	24.00	39.00	69.50
Sept. 1, 1947	45.66	38.00	60.00	62.00
Sept. 13, 1948	58.59	63.00	60.00	68.00
Company B, Eastern Canada 2" x 4" Merchantable Spruce				
June 1, 1939	29.97	22.37		23.49
June 1, 1942	33.61	32.28	33.22	35.21
Dec. 1, 1946	50.97	41.75	54.96	54.60
Sept. 1, 1947	56.87	48.97	63.46	68.11
Sept. 13, 1948	67.01	59.95		73.48

^a Cost shown represents average cost for all grades and dimensions.
Source: Evidence, Royal Commission on Prices, pp. 1588-89, 1661.

The significant points are not only the substantial absolute increase in costs but also the level of costs in excess of the controlled domestic prices which, as outlined above, were in effect subsidized by the export market.

Course of Wage Rates

Labour costs represent a high proportion of total costs of production in this industry. Evidence given by one West Coast manufacturer was that labour is between 50 per cent and 60 per cent of the cost of logs. From the time the log reaches the sawmill until it is shipped as finished lumber, labour is again a very high proportion of cost. The course of wage rates since 1939 in the lumbering and allied industries is shown by Table 187.

TABLE 187

INDEX NUMBERS OF WAGE RATES IN LOGGING, SAWMILL PRODUCTS, PLANING MILLS, SASH, DOORS, ETC.

(Rates in 1939 = 100)

Year	Logging		Sawmill Products	Planing Mills Sash, Doors, etc.	General Average All Industry
	Eastern Canada	Western Canada ^a			
1941	114.8	110.8	115.0	120.0	113.1
1942	124.9	127.9	130.7	123.7	122.5
1943	142.0	147.5	143.8	134.9	133.7
1944	143.2	156.8	148.7	139.4	137.9
1945	151.4	160.5	157.5	147.2	141.8
1946	162.8	184.9	184.8	161.2	155.2
1947	188.3	220.8	215.7	180.2	173.7

^a Index for logging western Canada based on rates on the Coastal area of British Columbia only.
Source: Department of Labour, Labour Gazette, Ottawa.

Noteworthy in the above table is the extent to which wages in the industry, especially in the sawmills and West Coast logging camps, have increased since 1942 in comparison with the general average for all industry in Canada.

The West Coast logging industry is a year-round operation; it is more highly mechanized; operating methods and consequently the various occupations are considerably different from those in eastern Canada. Average wage rates per day range from \$7.63 for "bullcooks" and "flunkies" to \$17.27 for "fellers" and "buckers", the latter being mostly on piece work. Lodging, but not board, except for cooks, is supplied in addition. A large proportion of the workers are covered by collective wage agreement. Since 1946, nearly all are on a 40-hour, five day week.¹

¹Labour Gazette, Department of Labour, Ottawa, June 1948.

In the east, logging operations as we have said, are more of a seasonal nature. For eastern Canada as a whole the average wage rates of time workers ranged from \$3.66 per day for "cookees" to about \$5.50 for "blacksmiths" and "cooks". Board and lodging with an average reported value of from 60 to 70 cents per day are provided by the employer in addition. Except in north western Ontario around the head of the lakes, workers are not fully organized and are not covered by collective agreements, so that wage rates tend to be less standardized than on the West Coast. Working hours are usually eight to ten hours per day, six days a week.¹

There was little evidence presented on the question of the efficiency of labour. It was stated by a representative West Coast manufacturer that performance per man hour had fallen during the war when many of the most active ages were drawn into the armed services, but that since the war it had risen.

PRICES SINCE SUSPENSION OF CONTROL

The wholesale price index on a 1935-1939 base had reached 250 when price controls were suspended on September 15, 1947. In the following year a further rise occurred bringing the index to 305 in August, 1948. The demand evidently was such that buyers were prepared to pay higher prices, and manufacturers evidently were motivated by a desire to raise their domestic selling prices at least to a point where they would cover production costs.

There is indication that the return to percentage mark-ups following decontrol increased retailers' margins in dollars and cents. There was a tendency for this increase to be accentuated where dealers whose percentage mark-ups had been squeezed under price controls reverted to their pre-control percentages.

The evidence presented by the sawmills has shown however, that the increase stopped short of the price level obtaining in the export market. It was represented that some of the companies for reasons of policy have endeavoured to exert a restraining influence on the rise in prices. This appears to have been only partly successful. Even in the case of the larger producers the sales of any one company represent only a small fraction of the total and could have little over-all effect.

The system of export quotas which has been continued in effect since suspension of price control also appear to have exercised a modifying influence on prices by ensuring reasonably adequate domestic supply.

CYCLICAL FLUCTUATIONS IN LUMBER PRICES

Lumber is one of this country's principal export commodities and its price is strongly influenced by the level of external prices. At the same

¹Labour Gazette, Department of Labour, Ottawa, June 1948.

time it is a commodity the demand for which is subject to sharp cyclical fluctuations. This was stated to us by Mr. H. R. MacMillan,

"I think the essential and important aspect respecting the rise in lumber prices is that lumber is a raw material which enters into the export trade. . . . a raw material depending for its market chiefly on exports is susceptible of very rapid and sharp rises in price, and similarly very rapid and sharp drops in price. That has been the history of the lumber business and of some other bulk raw material commodities. When there is a shortage in the world, buyers hasten to buy, production has to be expanded and it goes up very rapidly. As soon as demand equals supply or supply equals demand, buyers become hesitant and prices come down.

That does not apply to internal commodities to the same degree".¹

Sharp fluctuations in prices appear to have imparted a "feast or famine" character to the profit history of the lumber industry in Canada.

SUMMARY AND CONCLUSIONS

The lumber industry was chosen by us for scrutiny because lumber is one of the largest items entering into residential construction, and because its price appeared to have advanced to a greater extent than the prices of other building materials. In addition, lumber is essential in varying degrees throughout almost the entire range of industry. The manufacture and distribution of lumber and its allied products are of major importance both in domestic and external trade. The economic well-being of several sections of Canada is vitally dependent upon the continuing successful operations of the industry.

Factors in the advance in price since 1939 have been, primarily, the unprecedented demand in both the domestic and export markets and, secondarily, the steadily rising costs of production. Due to its essentiality, price increases were sanctioned during the period of emergency as incentives to maximum output. However, from the latter part of 1943 until early in 1947 the operation of price control effected a reasonable degree of stability, in the face of enormous pressures. This was of particular benefit to housing construction in the critical years immediately following the war. This period was marked by a steady rise of prices in world markets, which reached levels substantially above the controlled Canadian prices. During 1946, and subsequently, production costs rose materially, following wage increases, and became generally higher than the ceiling prices in force. The overall earnings of the industry, nevertheless, were maintained by reason of the higher return on exports. In effect, therefore, the Canadian market was subsidized by foreign buyers. In the spring of 1947, increases in maximum prices were allowed both to induce an enlarged output of items required for the housing program, and to narrow the spread between the domestic and export price levels in anticipation of decontrol.

¹Evidence, Royal Commission on Prices, p. 1530.

Approximately three-quarters of the increases which have taken place in lumber prices since 1939 already had occurred by September, 1947, when price control was suspended. At that time, Canadian ceilings at the mill level were still some \$15 to \$20 per thousand feet below prevailing prices on shipments to external markets. Prices following decontrol did not generally rise to the export level. This may be perhaps attributed to some measure of self-control on the part of the industry, to buyer resistance to higher prices and to the influence of export controls.

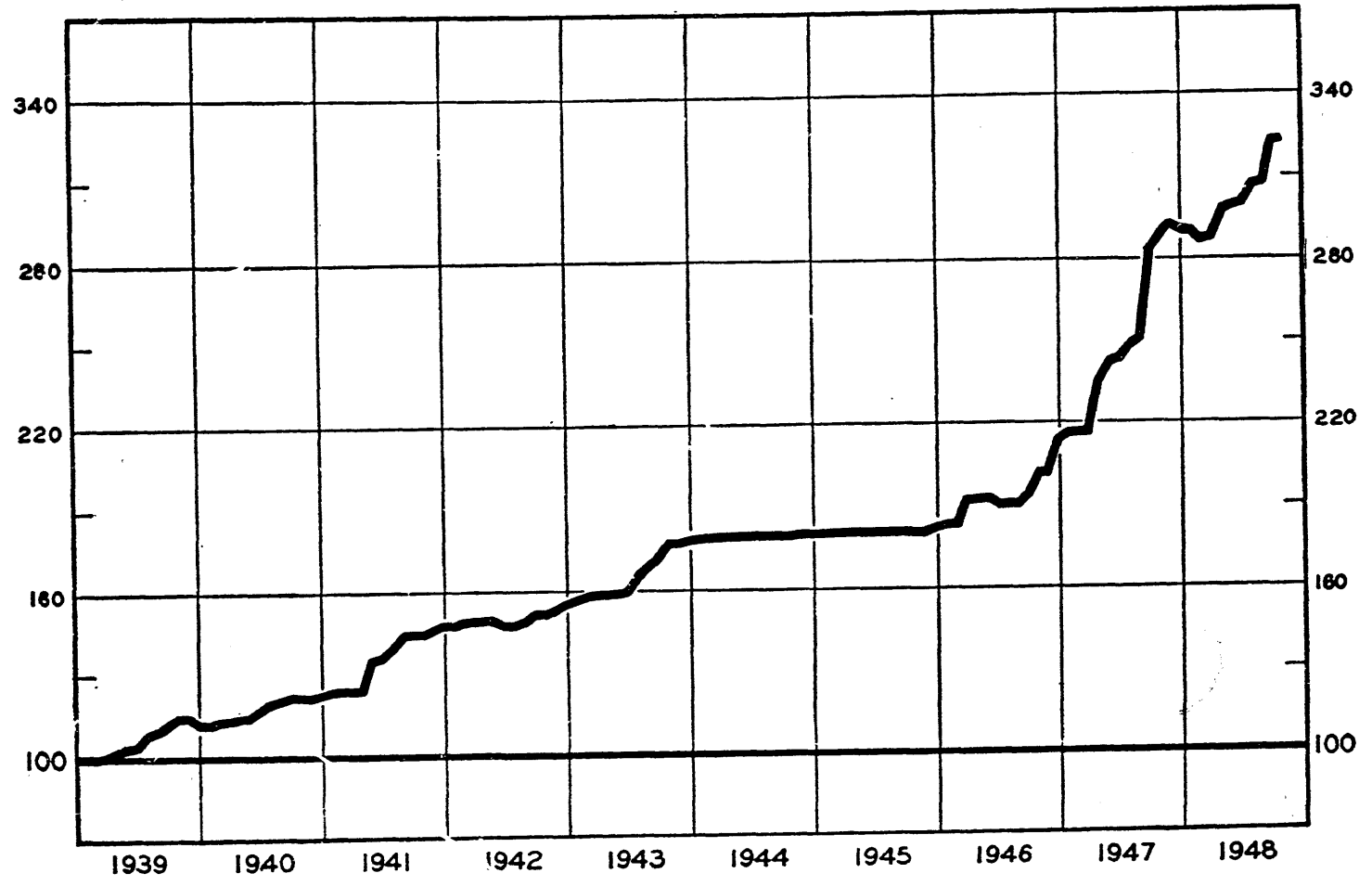
There are a very large number of producers and distributors in this industry and the quantities of lumber sold by even the larger companies represent relatively small fractions of the total output. There is little evidence to indicate widespread attempts by sections of the trade to raise or maintain prices by agreement; and there does not appear to be any system of price leadership. In this connection, it is worthy of note that an effort by one of the largest concerns on the West Coast to exercise a restraining influence on the upward course of domestic prices in the period following suspension of control had no apparent effect on the pricing policies of other mills.¹

We were impressed by the absence of a clear pattern in the organization, and pricing policies of the industry which embraces a large number of enterprises of widely varying types and sizes. There are considerable differences in the methods of operation, not only as between sections of the country. Frequently, differences exist between businesses in the same section and same level of trade.

The matter of grading offered special difficulties. In particular, the apparent lack of uniformity in the quality of spruce lumber for example being marketed as "merchantable" grade in parts of eastern Canada made it difficult to draw comparisons between the prices being charged by different dealers in that area.

¹Evidence, Royal Commission on Prices, p. 1523.

CHART XIX
LUMBER WHOLESALE PRICE INDEX
(1935-39=100)



Source: Dominion Bureau of Statistics, Ottawa.