CANADA PACKERS LIMITED

REPORT TO SHAREHOLDERS

The twenty-first fiscal year of Canada Packers Limited closed March 31st, 1948.

Dollar Sales, a new high, were - - - - - $238,454,037 (A)
Tonnage,—weight of product sold,—was - 1,447,725,661 lbs. (B)
Net Profit,—after Depreciation, Taxes and Inventory Reserve,—**(also a new high)** $2,182,300 (C)
Net Profit in relation to Sales,—(C to A),—is 9/10 of 1 per cent.
Net Profit in relation to Tonnage,—(C to B),—is 15c per 100 lbs., otherwise 1/7c per lb.

The following is a comparison of this year's Profit and Loss Statement with those of the two previous years.

	1948	1947	1946
Dollar Sales - - - - - -	$238,000,000	$204,000,000	$209,000,000
Out of each Sales Dollar there was paid:—			
For Raw Materials,—chiefly Live Stock and other farm products	81.37c	80.21c	81.33c
For Wages plus Salaries	8.48	9.10	8.06
For Services,—General Expenses - - - - - - -	4.38	4.25	4.13
For Materials and Packages - - - - - - -	3.12	4.06	3.76
For Taxes,—Municipal, Provincial, plus Federal	1.08	.98	1.48
For Inventory Reserve -	.26	—	—
For Depreciation on Fixed Assets - - - - - - - - -	.42	.43	.40
	99.11c	99.03c	99.16c
Remainder,—Profit from Operations - - - - - -	.89	.97	.84
Plus Income from Investments, etc. - - - - - -	.02	.04	.03
Total Net Profit for the year on each dollar of Sales	.91c	1.01c	.87c

The products handled by the Company fall into four groups—viz.:—

LIVE STOCK PRODUCTS, comprising products derived from live animals:—
Meats,—Beef, Veal, Pork, Lamb and Mutton;
By-Products,—Hides, Skins, Tallow, Bones, Tankage, etc.
Tonnage of this group - 467,879,272 lbs
Profit from this group - - - - - - $1,049,833
Profit per 100 lbs. - - - 22.4c

OTHER FARM PRODUCTS, comprising,—
Butter, Eggs, Cheese, Poultry, Fruits, Vegetables, etc.
Tonnage of this group - 241,899,777 lbs.
Profit from this group - - - - - - $644,013
Profit per 100 lbs. - - 26.6c

NON-FARM PRODUCTS, comprising,—
Edible Oils, Shortening, Soap, Fish, Fertilizers, Stock Foods, etc.
Tonnage of this group - 658,548,607 lbs.
Profit from this group - - - - - - $863,024
Profit per 100 lbs. - - - 13.1c

MANUFACTURING, comprising,—
Canned Meats, Canned Fruits and Vegetables, and Frosted Foods.
Tonnage of this group - 79,398,005 lbs.
Profit from this group - - - - - $198,046
Profit per 100 lbs. - - 24.9c

Profit from the four groups - - - - - - - $2,754,916
Profit on Group No. 2 includes an unusual profit on Storage Butter, viz. - - - - - - - - - 625,968

This item has been set up in toto as an inventory reserve.

Net Profit after setting up this inventory reserve - $2,128,948
Profit from Investments - - - - - - - - - 53,352

Total Net Profit - - - - - - - - - - - $2,182,300

The outstanding feature of the year was the spectacular advance in the price of all foods, especially live stock and live stock products.

The measure of these advances is shown in the following table which sets up average prices of foods in Canada (in each case the average for the month of July) for the following periods:—

(1) The six pre-war years, 1934/39
(2) The six war years, 1940/45
(3) The three years since the war,—1946, 1947, 1948.

	Average July price 1934-39	Average July price 1940-45	July 1946	July 1947	July 1948
Good Steers, live, Toronto, per lb. -	6.07c	10.70c	13.22c	14.47c	21.01c
Hogs, B-1 dressed, Toronto, per lb. -	13.20	16.65	21.87	22.98	31.88
Lambs, live, Toronto, per lb. - - - - -	9.55	14.84	16.91	17.21	22.75
Eggs, 'A' large, Toronto, per doz. -	23.75	34.50	46.00	39.75	52.00
Creamery Butter, Toronto, per lb. - -	21.12	35.60	47.90	50.50	67.37
Cheese, f.o.b. Factory, Ontario, per lb. -	12.60	20.50	26.00	28.00	33.87
Vegetable Oil, refined, Toronto, per lb. -	6.90	14.65	16.40	41.10	30.50
Wheat, No. 1 Northern, Fort William, per bushel - -	92.75	97.75	135.00	155.00	155.00
Oats, No. 2 C.W., Fort William, per bushel - - -	42.37	51.12	61.50	65.00	88.25
Barley, No. 1 Feed, Fort William, per bushel - - -	46.00	63.75	84.75	93.00	120.50

NOTE: On certain products subsidies have been paid by Governments,—Federal and Provincial. The prices appearing above include all subsidies, except in the case of Wheat which is shown at Board price. The Wheat Board will make a participation payment (the amount of which is not now known) covering the five crop years end'ng July 1950.

As between **July 1939** and **July 1948**, the live stock products listed in the above table show the following percentages of advance:—

Steers - - - -	223%	Eggs - - - - -	62%
Hogs - - - - -	157%	Creamery Butter -	217%
Lambs - - - -	123%	Cheese - - - -	151%

In contrast to the above, the average advance of **all** wholesale prices from July 1939 to July 1948 is 110%.

It must be remembered that in 1939 live stock prices were low in relation to other products. It was to be expected that the advance in live stock products would be greater than the average for all products. Nevertheless, the phenomenal advances recorded above inevitably give rise to the following queries:—

1. Is the present level of live stock prices likely to be maintained?
   NOTE: If the embargo on shipments to the United States is lifted, the immediate prospect is for still higher prices.*
2. If, finally, there is to be a recession, will that recession be gradual or 'vertical'?
   NOTE: Following World War I, prices continued to advance for a period of eighteen months after Armistice Day (November 1918 to July 1920). Then a violent collapse of prices set in.
3. If and when the decline comes, at what (approximate) level are prices likely to be ultimately stabilized?
   NOTE: At least one prediction seems safe,—viz. that prices of live stock products will not again sink to the levels of the 1930's. This for two reasons:—
   (a) that prices in the 1930's were abnormally low;
   (b) that the post-war dollar is equivalent to pre-war 50-60c.

All three of the above questions are of the utmost importance to live stock producers and processors. But,—except for the inserted notes,—no one as yet has the answers.

At the present time, complicated and unpredictable political factors seem to count almost as heavily as the purely economic elements of the problem.

One fundamental factor at some time will come into play. The world's food is produced from year to year. At any one time, whether food supplies are sufficient depends upon the last crop. In a period of short supply, people go hungry. But if a bountiful crop follows, the hunger does not carry over. After a few days (possibly weeks) of heavy eating, famished appetites are reduced to normal appetites. Then the increased food supply will tend to bring prices back to normal (that is, normal as established by the new conditions).

The crop now being harvested in the Northern Hemisphere is a bountiful (perhaps a record) one. This may prove to be the year when mounting food prices will turn downward.

Mention has already been made that net profit was the highest in the Company's history. The record profit of the year is accounted for by the record advance in price (within the year) of most of the products handled by the Company. In addition to the normal operating profit an 'inventory' profit accrued from the advancing prices.

On January 2nd, 1948, the Canadian Meat Board announced an advance in the contract price of Wiltshire Bacon (to U.K.) of 7c per lb. This advance was immediately reflected in corresponding advances in the price of Hogs and of domestic Pork products.

These advances (in domestic Pork products) led to widespread protests from housewives' associations, which in turn led to the appointment of a Select Committee of the House of Commons, enjoined to examine into the causes of the advancing cost of living.

The extent to which packinghouse costs, and particularly packinghouse profits, enter into these advancing food prices was a natural subject of investigation by this Committee. Packers were asked for voluminous reports covering operations of the Industry over a period of thirteen years.

The scope of the present Report does not permit a lengthy analysis of the data submitted, but the essenial facts revealed may be summarized as follows:—

1. That over a period of thirteen years (1936 to 1948, inclusive) the average net profit of the Packing Industry was 1/7 of 1c per lb. of product sold.
2. That the highest profit in any one year was 1/5 of 1c per lb. of product sold.
3. That in the rapidly advancing costs of meat, packinghouse profits have played no part. Within the three-year period 1946 to 1948, the retail price of major Beef cuts advanced approximately 20c per lb., and Pork cuts approximately 19c per lb., whereas packinghouse profits in the same three years had been respectively 1/12c, 1/7c and 1/7c per lb.†
4. If the Packing Industry had made no profit whatever, the relief to the consumer could not have been noticed.
5. The advance in meat prices was due **entirely** to advancing costs of live stock. These advances were brought about by conditions of supply and demand. Packers do not and can not influence either supply or demand, and therefore have no part in determining the general level of live stock prices.
   For instance, during the depression of the early 1930's, packers could do nothing to advance prices. They were able to pay for the live stock only what they were able to get back for the meats (and by-products).
   Conversely, at the present time packers can do nothing to alleviate the high costs of meats, which are due to a world shortage of all foods, especially live stock.
6. The operations of the Packing Industry, both in buying and selling, are carried on under conditions of keen and constant competition.
   The live stock which is the packer's raw material is purchased upon the various markets throughout Canada. On each market numerous packer buyers compete for the live stock. The producer is represented by a commission man. The commission man is an expert judge of live stock, and his job is to get the highest possible price for the animals consigned to him for sale. That he is competent to do this is evidenced by the speed at which prices are forced up when supplies are short of demand. (Example,—Within a period of four weeks,—between May 8th and June 8th, 1948,—the price of Cattle in Canada was forced up 4 to 5 cents per lb.)
   After processing the live stock, the packer sells the meats to the retail butcher. Here again the transaction is one in which the keenest competition prevails. Each retailer is called upon each week by many packer salesmen, and the retailer naturally trades down each salesman against the others. In the end the retailer divides his order amongst several salesmen, selecting from each those products for which his prices are lowest, value considered.
   The fact is not generally realized that there are no established prices either for live stock or for meats. Each purchase and each sale is a separate 'bargain',—in which the buyer and seller compete, the one to reduce the price a fraction, and the other to advance it a fraction.
   It is this keen and continuous 'bargaining' which explains the small percentage of profit upon which the Industry is carried on. This small percentage upon sales, however, does not mean that the Industry is necessarily unprofitable. In the year under review, capital was turned over approximately eight times, so that a profit of .91 per cent on sales yielded a return of aproximately 7.3 per cent upon capital. However, the small margin of profit does enforce efficiency. While a profit of 1 per cent on sales yields an adequate return on capital, a loss of 1 per cent, if continued, means ruin. The record of the Packing Industry in Canada is strewn with the wrecks of companies which failed to keep pace with competitors, by this narrow margin.

*The report was in the printer's hands before the embargo was lifted.
†The figures quoted are from the submission of Canada Packers.

LABOUR RELATIONS

In spite of the fact that a strike, lasting six weeks, occurred within the year under review, Directors are pleased to report that in the main relations with Employees are cordial and co-operative.

The Company Officers feel that the strike was the result of an unwise method of negotiation (on the part of the Union) which had been followed for four successive years.

That method was the introduction of a strike threat at an early stage each time a new agreement was under negotiation. This comment is made, not by way of recrimination, but solely in the hope that a better method may be permanently established. Discussions with the Union are at point of completion as this Report is being written, and there are good reasons to believe that foundations of such a method have been laid.

In the discussions, an increase of 9.6% in wage rates has been agreed upon.

No absolute standard has been devised by which to determine just what wage rates should be in any industry. But two criteria are commonly used:—

1. How do increases in wage rates compare with increases in living costs?
2. How do present rates compare with present rates in other industries?

The following tables apply these criteria to the rates of Canada Packers:—

1. **Comparison with Increased Living Costs**
   Present rates (including the increase of 9.6 per cent) and those of 1939 are as follows:—

	1939	1948	Percentage Increase
Average rate, men - -	50.8c	108.4c	113.8%
Average rate, women -	32.8	81.2	147.6%
Combined average rate -	48.1	103.4	115.0%

   In August 1939, the Dominion Cost of Living Index stood at 100.8. It now stands (July 1948) at 156.9, an increase of 56.1 points, or - - 55.7%
   The increase in rates is thus more than double the increase in the Cost of Living.
   However, this excess percentage (wages over cost of living) does not represent an equivalent increase in purchasing power. Corrections must be made for advanced Income Tax rates (modified by Family Allowance payments) and for considerably shorter working hours. When all corrections are made, the increase in actual purchasing power of all hourly rated employees of the Company works out at an average of at least - 25%
2. **Comparison with Rates Paid in Other Industries.**
   Comparison of packinghouse average rates with those of Canadian Industry generally is possible by reference to a report published monthly by the Dominion Bureau of Statistics.* That report includes wages of men and women, up to and including foremen. Besides regular earnings, it includes such additional income as overtime premiums, night work premiums, and incentive bonuses.
   By this standard Canada Packers' average rate (including the 9.6 per cent increase just granted) compares with others as follows:—

Canada Packers Limited - -	$1.101 per hour
Meat Industry (as a whole) -	.954 " "
All Manufacturing - - -	.906 " "

   Canada Packers' rate is thus higher than:

The Meat Industry (as a whole) by -	15.4%
The average of All Manufacturing in Canada by - - - - - - - -	21.1%

During the year a plan has been worked out between the Company and Employees whereby through joint contribution, comprehensive protection in time of illness is provided. The protection includes:—

Medical attention and medicines;
Hospitalization for Employees and their dependents;
Surgical expenses up to $200.00;
Funeral Benefit of $100.00;
Weekly Indemnities in sickness of $21.00 for men and $16.00 for women, continuing according to length of service up to 52 weeks.

A Group Life Insurance Plan to which the Company contributes has been in effect since 1940. Each Employee irrespective of age can insure for $2,000 for a premium of $5.20 per $1,000 per year. For male Employees this Insurance is compulsory,—for females, optional.

PROFIT SHARING

Canada Packers was formed in 1927.

For eight years no dividends were paid on the Common Shares.

In 1935, dividends on the Common Shares were begun.

In the same year the profit-sharing plan of the Company was initiated.

The policy of the Company is to maintain regular salaries and wages at a level equivalent to the highest paid elsewhere in the Industry.

If profits permit, a further payment, by way of bonus, is made to each Employee at the end of the fiscal year.

The profit-sharing plan is not contractual. The sum to be paid in bonuses is determined by the Directors, and is based upon the earnings of the Company for the year.

This year, in view of the record profits, a record sum was allotted,— viz. $1,500,000.

Distribution of profits for the year under review has been as follows:—

Net Profit before bonus was - - - -	$3,682,300
Paid to Employees, as bonus - - -	1,500,000
Net Profit available for Shareholders -	$2,182,300

Reminder:
This sum is equivalent to 9/10 of 1 per cent of sales
1/7 cent per lb. of product sold.

Out of this sum there was paid to Shareholders as dividends - - - - - - - - - -	$1,000,000
The remainder was added to Reserves -	$1,182,300

Since the adoption of the profit-sharing plan (1935), distribution of profits as between Shareholders and Employees has been as follows:—

To Employees, as bonuses - - -	$10,410,000
To Shareholders, as dividends - - -	10,550,000

J. S. McLEAN,
President.

Toronto, August 12th, 1948.

*"Statistics of Average Hours Worked and Average Hourly Earnings"

NOTE: Extra copies of this report are available and so long as they last will be mailed to anyone requesting them. Address to Canada Packers Limited, Toronto 9.