September 28, 1954

Mr. E. A. Walton,
Economic Adviser
Bank of Montreal
P.O. Box 6002
Montreal 1, Canada

Dear Ted:

I am most grateful to you for the Jones Heward & Co. review of Canadian securities which I have read with very much interest indeed. The appetite for Canadian investment was certainly not lessened by our meeting in Ottowa.

In the next two or three weeks you will be hearing from the Committee on the History of the Federal Reserve System formally asking you and your institution for some assistance. I do hope that you will be able to help the worthy cause pro bono publico.

With regards.

Cordially,

DBW:lw

Bank of Montreal
ESTABLISHED 1817
HEAD OFFICE

Montreal 1, Canada,
P.O. Box 6002

Twenty-third
September
1954

Dear Don,

Herewith Jones Heward & Company's review of Canadian securities, which I promised to send you. I did not, of course, mention any names in asking Dick Petrie for a copy. Petrie's senior officer and predecessor in the company's investment analysis work is Sidney C. Scobell.

It was good to see more of you and the others on your return trip and I hope that your judicious playing of the ends against the middle at the house will be effective in getting Jean and me into New York if not of getting me into a new hat.

Best regards,

Sincerely,

E.A. Walton
Economic Adviser

Donald B. Woodward, Esq.,
Chairman of the Finance Committee,
Vick Chemical Company,
122 East 42nd St.,
New York 17, N.Y.,
U.S.A.

ANNUAL REVIEW No. 6 • JUNE, 1954

CANADIAN SECURITIES
FOR
LONG-TERM INVESTMENT

Prepared by the Statistical Department of

JONES HEWARD & COMPANY
MEMBERS

MONTREAL STOCK EXCHANGE :: CANADIAN STOCK EXCHANGE
249 St. James Street, West - Montreal

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GENERAL COMMENTS

The spectacular post-war boom in Canada has levelled off and more normal conditions have become apparent. For the first time in years the Canadian economy is operating at a level somewhat below full employment. Although last year was still another of continued development and expansion of both primary and secondary industry, and most of the economic indicators established new records, there were clear indications of a somewhat different economic climate.

The world-wide deflationary forces that have been so apparent for the past year or so (in sharp contrast to the serious inflation set off by the outbreak of war in Korea) have been reflected in the Canadian economy, highlighted by the real distress of the textile industry and a marked recession in the farm implement industry. Many of the key products of Canada have come into ample world supply, and some of them are now surplus to world requirements. Wheat represents one of the main problems. None of the 1953 crop has been sold. The price reduction early in June has not yet stimulated sales and further price reductions may be in the offing in view of heavy world supplies.

Although total personal income was at an all-time high last year, the net cash income of Canadian farmers was 2 per cent less than in 1952 and 10 per cent less than in 1951. It may decline again this year as a result of a smaller wheat crop and lower prices for wheat and other farm produce. So far this is a year of mixed trends with neither boom nor depression. Prices have been less firm. Labour costs are still rising in some industries, although they appear to have stabilized in others. But there is no sign yet of any reduction in wage levels, despite the relatively high unemployment in recent months. An adverse trade balance still persists but recently there has been a slight closing of the gap. On the other hand, new capital investment is expected to establish another all-time high, the heavy inflow of foreign capital still continues, and total government expenditures will probably establish a peace-time record. These factors will have a buoyant influence and counteract less constructive developments. At the same time, however, competition is having a serious effect on the earnings of many industries and it shows signs of spreading. In short, the post-war seller's market has given way to a vigorous buyer's market. This year and possibly next appear to be a period of consolidation of the economic advances of more than a decade. In the longer term the underlying growth potentialities of the country are impressive and basic to any appraisal of the Canadian economy.

GROSS NATIONAL PRODUCT

For the first time in years, there has been no official forecast of gross national product, apart from the statement of the Minister of Finance in his last Budget Speech that "national product in 1954 will be at least equal to 1953, and probably higher". Last year gross national product was $24,345 million, not quite 5 per cent more than in 1952, and somewhat higher

than the official forecast. Since prices were relatively stable in 1953, this increase reflects a greater physical output in contrast to the more spectacular gross national product increases of a few years ago which were distorted considerably by price inflation.

Although the level of activity in 1953 set an all-time high, the peak was reached in the second and third quarters, followed by a moderate decline in the final quarter which has continued into 1954. In the middle quarters there was a significant rate of inventory accumulation, and a cutback in the final quarter was a major factor in the decline. The pattern of national product over the past two years is shown in the following table:-

	Seasonally Adjusted at Annual Rates ($ billion)							
	1952				1953			
	I	II	III	IV	I	II	III	IV
Gross National Product (excluding accrued net income of farm operators from farm production)	20.5	21.1	21.4	21.6	22.3	22.7	22.7	22.5
Percentage change from preceding quarter	-	+2.9	+1.4	+0.9	+3.2	+1.8	-	-0.9

The average monthly index of industrial production last year was more than 6 per cent greater than in 1952, with the greatest relative gain in the manufacturing of durable goods. The index of mining production was off sharply by 34 per cent, largely because of the prolonged strike in gold and copper mines, and the reduction in coal. The index so far this year is running below the corresponding months of last year, and is considerably below last year's average, indicating no change in the moderately downward trend that began last autumn. Gross national product this year can equal last year's level only if a substantial increase over first quarter volume occurs in the remaining months.

NEW CAPITAL INVESTMENT

Capital investment, one of the major factors in maintaining a high level of economic activity, was at an all-time high last year, and it is officially expected that this year's volume will be even greater. The estimate of $5,838 million is nearly 3 per cent greater than the 1953 figure, and 10 per cent greater than 1952. Since little change in price is anticipated, volume this year should also increase by about 3 per cent. If gross national product in 1954 is at about its last year's level, new investment will account for almost 24 per cent of it, an all-time high. The major increases in capital investment are in the institutional services (schools, hospitals, retail stores, and office buildings), housing, utilities, railways, and pipe lines. Decreased investment is indicated in agriculture, fishing, and forestry, as well as in manufacturing, all of which showed declines last year from the record levels of 1952. Total new investment in machinery and equipment is expected to fall slightly, while indicated investment in new construction may be about 6 per cent higher. Capital expenditures in defence and defence-supporting industries, which were so prominent two and three years ago, are no longer significant.

DOMESTIC TRADE

The major expansionary influence in the economy last year was the continued growth of consumer's expenditures which were supported by the record level of personal income after taxes, which was 5 per cent greater than in 1952. Total consumer's expenditures increased by $723 million (5 per cent), compared with an $842 million increase in disposable income, so that personal saving also increased. Retail sales exceeded $12 billion for the first time, and were 4½ per cent greater than in 1952. Durable goods showed the largest relative increase (over 15 per cent). Sharp increases in sales of motor cars, television sets, and electrical appliances accounted for the major part of the gain. This volume of expenditures reflects the rise in "real" incomes that occurred last year when consumer prices remained relatively stable. The momentum of retail sales has carried into 1954, but it has lost some of its impetus, so that dollar volume this year may not be quite as high as in 1953.

FOREIGN TRADE

One of the major reversals in trend last year was the deficit of $210 million in foreign trade, by far the largest in the country's history, and in sharp contrast to the $325 million surplus in 1952. Thus the commodity trading balance worsened last year by $535 million. The deterioration in the total of all current transactions was even greater, as shown in the following section on Balance of Payments. The value of domestic exports in 1953 was down by 4 per cent, while the value of imports was greater by nearly 9 per cent. The decline in exports was caused in part by reduced overseas demand for Canadian grain. Import controls and exchange difficulties continued to limit overseas exports, and high-cost Canadian manufactured goods have been meeting sharp competition in the export markets. Part of the decline in dollar volume of exports was caused by price reductions in such key exports as lead and zinc, woodpulp, lumber, and farm produce. The price index of exports last year was down about 3 per cent, while the volume index decline by only 1½ per cent.

The downward drift in foreign trade carried into January, 1954 but for the subsequent three months the value of Canada's exports was equivalent to that of the corresponding period of 1953:

Foreign Trade - Four Months
(Millions of Dollars)

	Exports			Imports		
	1952	1953	1954*	1952	1953	1954*
United Kingdom	230	170	175	96	133	124
Other Commonwealth	104	73	57	55	42	44
U.S.A.	736	767	719	940	1,060	957
Other Foreign	284	209	214	149	155	159
Total	1,354	1,219	1,165	1,240	1,390	1,284
Balance	+ 114	- 171	- 119			

* Preliminary estimate.

The value of imports for the first part of 1954 was reduced somewhat more sharply than the value of exports. If this trend is maintained, Canada's debit trade balance will not be as large as in 1953 but wheat exports will have to show a sharp rise during the summer and early fall months.

BALANCE OF PAYMENTS

A significant change in Canada's balance of payments position occurred last year, when a current account deficit of $467 million replaced the surplus of $157 million in 1952. Most of this change resulted from the shift from the large commodity export balance to an import balance, although other current transactions, chiefly freight and shipping, showed a significantly increased deficit, and the total deficit in invisible items was the largest in the post-war period. Balance of payments estimates in current account are shown below:-

Current Account Balance of Payments
($ Million)

Balance on Commodity Trade *		Balance on Other Current Transactions		Total	
1952	1953	1952	1953	1952	1953
+491	- 55	-334	-412	+157	-467

* Adjusted for purposes of national accounting.

About one-third of the change in commodity trading account was the result of a decline in the value of exports, and two-thirds resulted from the rise in Canadian imports. Canadian Mutual Aid to North Atlantic Treaty countries amounting to $246 million is excluded from the accounts.

The marked reversal of Canada's commodity trade balance reflects the sharp reduction of the former surplus with overseas countries which was particularly evident in the first two quarters. While exports to overseas countries fell off, imports rose significantly. This surplus, which in 1952 more than offset the persistent long-term deficit in trade with the United States, was no longer a balancing item. This points up the basic problem connected with Canada's current transactions with the United States which last year established a heavy deficit of $984 million. The pattern of Canada's international transactions in current account over the last four years has been as follows:

International Transactions with U.S. and Overseas Countries
($ Million)

	1950	1951	1952	1953
Credit balance with overseas countries	66	434	1,015	481
Debit balance with U.S.A.	400	951	858	948
Net credit (+) or debit (-) balance	- 334	- 517	+ 157	- 467

Canada's current account deficit was, of course, financed by an equivalent net import of foreign capital, resulting in a further growth of the country's international indebtedness. At the end of 1952 foreign long-term investment of all types in Canada was about $10.2 billion, and at the end of last year it was probably about $11 billion. Inflows of long-term direct investment last year were an estimated $385 million, and new foreign portfolio investment was about $322 million, considerably more than enough to offset the current account deficit. Other capital movements last year were on a generally reduced scale compared with 1952.

The deficit on commodity trade has continued this year. Despite the narrowing of the spread between money rates in New York and Canada, the differential is still enough to favour Canadian borrowing in New York and U.S. investment in Canada. More recently, however, Canadian borrowing in the United States

has been reduced as the long-term exchange risk has been given greater consideration. It is expected that long-term investment in Canada will continue this year in substantial volume which will probably be more than sufficient to offset any likely current transactions deficit. This, of course, will be a factor in the exchange value of Canadian funds.

THE BUDGET AND TAXATION

For the eighth consecutive year, Canada has applied a budgetary surplus to the reduction of the public debt. But in the past two years the surplus has shrunk to nominal size following large surpluses during the years 1947-52, when they averaged $373 million annually. Last year's surplus was only $10 million, and the forecast for the current fiscal year is a nominal $4 million on a $4.5 billion budget. Total debt reduction in eight years has been $2,370 million. As of March 31, 1954, the net debt of Canada was an estimated $11,151 million, 14 per cent less than in 1947. This amounts to 46 per cent of gross national product, compared with 113 per cent in 1946, so that the real burden is considerably less than half its weight in 1946, and about 25 per cent less than before the war. At the same time, however, interest charges have been rising steadily since 1951, despite reduced indebtedness. This year's estimate of $492 million is 16 per cent greater than interest charges in the fiscal year 1950-51 and will bear about the same relationship to the gross national product.

Canada's defence program continues to exert heavy pressure on the national budget, and accounts for 44 per cent of the estimated budgetary expenditures this year. The projected expenditures for the fiscal year ending March 31, 1955 amount to $4,460 million, $70 million more than last year. A comparison of these expenditures with those in 1949-50 before the defence program was initiated is shown in the following tabulation:-

Budgetary Expenditures
(Millions of Dollars)

	1949-50	%	1953-54*	%	1954-55**	%
Defence	385	16	1,893	43	1,955	44
Debt interest	440	18	477	11	492	11
Payments to provinces	104	4	338	8	351	8
Welfare and Veterans' Affairs	711	29	726	16	747	17
All other	809	33	956	22	915	20
Total	2,449	100	4,390	100	4,460	100
Deficit in Old Age Pension Fund (non-budgetary item)	-		45		50	

*Preliminary.
**Budget estimates.

The 1954 Budget provided for a nominal reduction in taxes of $36 million, or 0.8 per cent of estimated revenues before the reduction. Estimated budgetary revenue this year is $4,464 million which is about 18 per cent of estimated gross national product. Before Korea total revenues represented 15 per cent of gross national product, so that the marked increase in national product has enabled the nation to carry the nearly 80 per cent increase in taxes without any serious economic dislocation. Of utmost importance, of course, is the tremendous leverage in the Canadian tax structure.

The extent of the leverage is illustrated by the personal income tax. In fiscal year 1950-51 this tax yielded $652 million. In the fiscal year ended March 31, 1954 the tax (with exactly the same rate structure) yielded $1,180 million, an increase of 81 per cent against an increase in the gross national product of 33 per cent. By the same token, the leverage factor would work in reverse under circumstances of a decline in gross national product. Should gross national product this year be no greater than the seasonally adjusted annual rate of the last quarter of 1953 and the first quarter of this year, the anticipated surplus of $4 million could well be replaced by a deficit of $100 million or more, although this would be a revenue shortfall of only 2 or 3 per cent.

It is unlikely that the Canadian budget will be much less than $5 billion in the foreseeable future, so that there are no significant tax reductions in sight. Unless, as a matter of deliberate fiscal policy designed to curb a business recession, the Government should choose a course of deficit financing. Canadian taxes are admittedly high. But they are not out of line with those of other industrial nations, and the 20 per cent tax credit on dividend income from Canadian companies has provided an important investment incentive.

An important provision in the 1954 budget proposals concerns depreciation. Until this year the Department of National Revenue has not allowed companies to claim larger depreciation, as a deductible expense for tax purposes, than was shown on the books of account. Now, under a new income tax regulation, a company may charge the amount allowed for income tax purposes without the necessity of reporting the full amount in its books of account. Thus reported earnings can be higher, in some cases considerably so, without any increase in 1954 operating profits. An example of the effect of this change is shown below:-

			Per Share	
			Old Method	New Method
Operating profit			$12.00	$12.00
Depreciation:	Normal	$2.00		
	Excess	1.50	3.50	2.00
Net profit before taxes			$ 8.50	$10.00
Taxes			4.17	4.17
Reported net profit			$ 4.33	$ 5.83

MONETARY POLICY

During the period 1946-48 the Bank of Canada's policy was one of preventing the chartered banks' reserves from rising and restraining the use of bank credit, without at the same time producing unsettled conditions in the bond market. By 1949 the post-war inflationary pressures had eased, and an easier money policy became apparent. After the outbreak of the Korean war Canada implemented a hard money policy involving increased interest rates and drastic curtailment of consumer credit, coupled with heavy sumptuary taxation. Increased pressures on the banks and other lending institutions for capital funds caused them to become heavy sellers of Government bonds. Without official support bond prices fell sharply, and bond yields reached their highs last August and September.

Meanwhile, the inflationary forces generated by the Korean war had been dissipated and replaced by deflationary forces all over the free world. Last year the United States abandoned its hard money policy by lowering member bank

reserve requirements and more recently the rediscount rate has been reduced. Central bank rates were lowered in the United Kingdom and in most European countries, and recently the United Kingdom rate was reduced again. It was obvious that Canada could not stand alone on an economic island of hard money in the face of easier money policies in the key countries of the free world. The disparity between money rates in Canada and elsewhere caused a further inflow of foreign capital marked by relatively heavy Canadian borrowing in the United States. This had the obvious effect of increasing the premium on Canadian funds, to the detriment of the export industries and industries manufacturing for the domestic market. Concurrently the changing economic climate pointed to the desirability of moderating monetary policy, and money rates have been lowered in Canada. The impact of easier money on bond prices and yields has been substantial, as shown below:-

Long-Term Bond Yields
(Average of Business Days)

	Canada*	U.S.A.**
1949	2.85%	2.24%
1950	2.77	2.24
1951	3.21	2.58
1952	3.54	2.64
1953 (1st half)	3.63	2.90
1953 (2nd half)	3.69	2.85
1954 (1st half)	3.20	2.45
1954 (latest)	2.98	2.44

* Government of Canada 3% due 1961-66.
** U.S. Treasury 2½% due 1963-68.

Canadian yields have declined by 20 per cent from last year's high, somewhat more than the decline in the United States, and the spread has accordingly been narrowed. The underlying factors that have resulted in cheaper money rates still remain, and the outlook is one of continuing easy money and upward pressure on the bond market.

THE CANADIAN DOLLAR

Canadian funds have persistently sold at a premium since early in 1952, fluctuating between 1/2 cent and a 4 cent premium in terms of U.S. funds. The high was reached in the late summer of 1952, and then followed a year-long downward drift back to a half-point premium last summer. After a slow rise beginning last July (which coincided with the abrupt abandonment of its hard money policy by the U.S. Government) the exchange rate reached a peak of U.S. $1.038 towards the end of February, and for the month of February it averaged U.S. $1.034. During March and April the rate declined by more than two points, and recently it has been relatively stable at about U.S. $1.015. This decline has been accompanied by a slight fall in Canada's official holdings of gold and U.S. dollars with the latest figures showing holdings of $1,810 million, against $1,844 million one year ago and $1,803 million two years ago.

Noon Average Exchange Rates
on the U.S. Dollar in Canada

(Quarterly)

Quarter	1951	1952	1953	1954
I	104.94	100.06	98.14	97.01
II	106.43	98.13	99.34	
III	105.72	96.33	98.81	
IV	104.00	97.05	97.77	

Currently the discount on U.S. funds (1½ per cent) is the same as the average of last year, compared with the average of 2-1/8 per cent in 1952. The premium on Canadian funds has continued despite the heavy deficit of $467 million last year on the current balance of international payments indicated previously. The underlying factor in the continued strength of Canadian funds has been the sustained inflow of foreign capital for long-term investment which more than offset the deficit on current transactions last year and is continuing to do so. Foreign investors still appear to be taking a favourable view of investment opportunities in Canada, and the persistent spread between Canadian and U.S. money rates (despite the easier Canadian monetary policy) has attracted Canadian borrowers to the U.S. money market. Canadian borrowing in the United States, however, is being curbed by a continuation or extension of cheap money in Canada.

To date two clearly defined forces have been apparent in connection with the exchange rate on Canadian funds. They have been working in opposite directions. The trade deficit has exerted downward pressure while capital movements have exerted even stronger upward pressure. The recent easing of funds has coincided with the changed monetary policy, and easier money rates may result in a further movement in funds closer to parity with the U.S. dollar. Basically, and in the longer term, the dollar's strength or weakness hinges on current account rather than capital transactions so that the continuing deficit in foreign trade should result in a discounted Canadian dollar. Whether the downward trend in funds so far this year will culminate in a discount will depend upon several factors, including short-term capital movements, the volume of new capital investment in Canada, and the effects of an easier money policy on the Canadian economy.

ALUMINUM

Aluminum continues to be one of the world's great growth industries. It is the most important of the non-ferrous metals. and last year the free world produced and sold more primary aluminum than ever before. Canadian production in 1953 reached a record 545,800 short tons, a 9 per cent gain over 1952, and 22 per cent more than in 1951.

Growth of smelting capacity, particularly in the United States, has been substantial in recent years. By 1955 estimated U.S. capacity will be about 75 per cent larger than the 1950 capacity, and about 2½ times Canada's 1954 capacity when the first stage at Kitimat comes into production this summer. The full development of the Kitimat project would increase Canadian capacity to 1.1 million tons or twice last year's Canadian production.

North American capacity in 1955 related to 1953 output is as follows:

	Output in 1953	Capacity in 1955	% Increase
U.S.A.	1,250,000 tons	1,500,000 tons	11
Canada	545,800 "	638,500 "	17
	1,795,800 tons	2,138,500 tons	16

Since the latter part of last year, aluminum demand and supply in the free world have been in balance after a period of acute shortages. Competition has been increasing. In the United Kingdom, which typically has been Canada's most important market for ingot, there was a decline in aluminum fabrication last year, but so far in 1954 there has been an improvement in this market. Reduced demand from the United Kingdom resulted in a sharp shift in Canada's export shipments last year from the U.K. to the U.S. market. In 1953, shipments to the United Kingdom accounted for about one-third of the total Canadian production compared with over one-half in 1952. Shipments to the United States were 43 per cent of the total, compared with 23 per cent a year earlier.

This increase in Canada's reliance on the U.S. market coincides with the substantial increase in U.S. capacity which normally could result in surplus metal in the United States. However, all the U.S. producers have the option of selling the output of their new capacity to the U.S. aluminum stockpile. This is believed to be currently far short of the amount justified by the defence program and requirements are currently being re-assessed. At the same time, Canada has a definite cost advantage over the United States, largely because of cheap power. A substantial amount of U.S. capacity is submarginal, and is currently enabled to operate because of subsidies. Barring increased U.S. tariffs or other import restrictions, Canada will be able to continue to compete effectively in the U.S. market. It is understood that most of the projected Canadian primary production for this year and next is either now committed (about 70 per cent) or earmarked for normal requirements of customers who buy on a spot basis.

The longer-term outlook for aluminum is promising. The number of fabricators has increased greatly (there are now some 17,000 independent U.S. fabricators) and they have created new markets for primary aluminum which should result in greater future consumption. Among the uses which give promise of large future tonnage are: containers, electrical conductors, housing and other types of building, automotive, railway and air transport, irrigation tubing, and chemical processing equipment. The Canadian industry is in a good position to take advantage of future growth in consumption because of the potential capacity at Kitimat which could, with relative ease, double existing capacity for low-cost metal.

ALUMINIUM LIMITED

Total Debt Consolidated	$346,291,575
Subsidiaries' Preferreds	47,498,050
Common Stock, no par value	9,013,994 shares

Aluminium Limited operates forty-six subsidiaries in twenty countries including the world's largest producer, Aluminum Company of Canada, which accounts for about 80 per cent of the consolidated fixed assets and all the 1953 profits. By mid-year, Aluminium will have an annual ingot capacity of 638,500 tons supported by hydro electric power in excess of three million h.p. This completes a four-year $465 million expansion programme which included the construction of the first stage at Kitimat, British Columbia, with an initial capacity of 91,500 tons, and the construction of 540,000 h.p. and 71,500 tons of ingot capacity in Quebec. Ultimate planned capacity at Kitimat is 550,000 tons of aluminum per annum, supported by hydro electric power of 2¼ million h.p. This capacity, up to the 270,000 ton level (one tunnel) can be attained at, roughly, one-third of the cost per ton of the initial capacity and power site. Not until this 270,000 ton level is attained can Kitimat operate profitably after depreciation. Depreciation charges on a second tunnel necessary for the full development at Kitimat will temporarily increase unit costs until still larger capacity is achieved.

Because of higher depreciation provisions and lower earnings from its fabricating capacity, earnings in 1953 dropped to $2.16 a share from $2.73 a share reported in 1952. If only normal depreciation had been written off, Aluminium could have reported $3.97 a share. If the Company continues to deduct accelerated depreciation allowances from earnings, it is improbable that there will be any appreciable change in reported 1955 earnings even with the benefit of the initial Kitimat capacity.

Reported earnings have been disguised by heavy depreciation provisions which have been designed to amortize three-quarters of the total cost of the expansion programme by 1957. It is the present intention of Aluminum Company of Canada to bring its depreciation allowances in the years 1954-1955 to an amount equivalent to 3½-4 cents per lb. of aluminum sales and in the years 1956-1957 to an amount equivalent to 3-3½ cents per lb. of sales. It is estimated that these total provisions will reach a peak in 1955 of about $6.75 a share and the accelerated portion on present assets will terminate by 1957. Following this termination of accelerated depreciation and based on Kitimat's 1954 capacity, present profit margins, and normal activity in fabricating plants, earnings of between $5.00 - $5.50 a share could be shown. With the utilization of Kitimat's full potential capacity, earnings could be double this figure, assuming present profit margins and prices.

Recently negotiated contracts in the U.S. will account for the delivery of metal in excess of a total of one million tons during the next 5½ years, and only about 30 per cent of the Company's Canadian 1955 capacity is not already committed.

Aluminium Ltd. has many long-term advantages, such as a production cost in Canada several cents a pound below other North American producers, a large potential capacity, important overseas subsidiaries and an excellent growth trend for its product.

Stock market quotations have been reflecting these advantages rather more than reported earnings. Temporarily, productive capacity in North America may exceed actual consumption. This could hamper the performance of the stock particularly as it is believed that there are still over one million shares held

by certain U.S. shareholders which must be disposed of by 1961 under an order of a U.S. District Court.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Aluminium Limited	57¾	58¼ - 41¼	Dec.	$2.73	$2.16	$2.00

ASBESTOS

Canada is the world's foremost producer of chrysotile asbestos, and almost all (96 per cent last year) of Canada's output is exported. The chief market is the United States. The industry has experienced outstanding growth, with a long-term growth trend of about 10 per cent per annum. This is well above that of most industries. During the post-war period of virtual asbestos famine, Canadian production reached its all-time high in 1951 (973,000 tons). In 1952 output declined by 4 per cent because of the fluctuating market for short fibres. Exports of "shorts" in 1952 were 9 per cent below 1951 but the longer fibres showed improvement. Last year, total shipments showed a slight further decline (less than 2 per cent) but this time the decline was caused by a softening in demand for the higher-grade long fibres, exports of which were off 7 per cent. Demand for the medium and short fibres strengthened in 1953 and exports were maintained.

The world market for asbestos is now more nearly in balance than at any time since 1945. The shortage of the long staple fibres (spinning grades) required heavily for defence purposes has been relieved considerably as a result of the stretch-out of defence programs and the increase in the production of these grades. Competition, particularly from Russian asbestos, is apparent. Prices, however, are still firm, although the market for the spinning grades is sensitive.

The immediate outlook may be one of some uncertainty in the U.S. market (exports to the United States last year were nearly 10 per cent off from 1951) but the demand for short fibres is likely to continue. These are used chiefly for asphalt tiling, acoustical cement and tile, and as filler in various products, including automobile undercoating. The outlook for housing in the United States is relatively good, and better markets seem likely in the United Kingdom and Western Europe, where asphalt tile has become popular, and manufacturing facilities for it are being expanded. Over the longer term standard uses for asbestos, involving the medium length fibres, are likely to be expanded, and new uses will probably be developed on a substantial volume basis. New properties are being brought into production in Canada in expectation of such developments.

ASBESTOS CORPORATION LIMITED

Common Stock, no par value ..... 1,800,000 shares

Although volume declined slightly in 1953, Asbestos Corporation's sales increased 5 per cent to about $20½ million. Profit margins improved and the Corporation reported earnings of $2.45 a share after a special provision for depreciation of 61 cents a share. Pre-production and development expenditures

(about 74 cents a share) which were claimed as a deduction for tax purposes, but which were not written off formally against the income account, had the effect of reducing the tax liability by about 25 cents a share. Comparable earnings in 1952 were $2.36 a share which included no special depreciation write-offs.

Asbestos Corporation, the largest independent producer of asbestos in the world, has four producing mines with a total daily mill capacity of about 15,000 tons of ore. By employing bulk handling mining methods the Corporation has been able to expand its existing properties and operate profitably otherwise marginal mines. As a result, Asbestos Corporation itself mills about 40 per cent of the ore in the industry but recovers only 20 per cent of the total fibre. The new Normandie property will add about one-third to total existing capacity by the latter part of this year. The net expansion in the longer run, however, will be somewhat smaller because this capacity will replace, for the most part, production from other mines approaching depletion. The property is expected to qualify for income tax exemption for three years. This program, costing $14½ million, was financed entirely from retained earnings and should broaden materially the Corporation's earnings base. The expanded capacity appears to be adequate to meet current market demands, and lower capital expenditures should allow a more liberal dividend policy.

Considerable new ore was proven up last year from the Normandie property and ore reserves are now about 104.6 million tons or over 30 years' supply at present rates of production. There would appear to be sufficient unproven ore to support operations for an indefinite period.

Dollar sales in 1953 showed the smallest increase for any year since the war and there were signs that supply and demand were in balance. The recovery in the "shorts" market was attributed to the expanding use of the fibre for floor tile in the United Kingdom and elsewhere. About 55 per cent of the Corporation's production is exported to the United States and this market will continue to be of utmost importance to the Canadian industry. Exports to Europe are meeting competition from Russia and South Africa, but the market in Japan was re-established in 1953. Asbestos Corporation's 1954 production will find a ready market but signs of less urgent buying (partly because of fabricators' inventory situations) is reflected in asbestos exports from Canada in the first part of 1954. A more efficient operation resulting from the development of a new property, and other factors, should be apparent this year. Moreover, earnings and the completion of the expansion program may allow a more generous dividend policy, particularly as there are no senior securities, and the working capital position of the Company is healthy.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Asbestos Corp.	30-5/8	31 - 23¾	Dec.	$2.36	$2.45	$1.25

AUTOMOBILES & EQUIPMENT

Factory shipments of motor vehicles in Canada last year totalled 479,649, an increase of about 10 per cent over 1952. Truck production, however, was about 20 per cent below 1952 and exports of Canadian automobiles were down by 20 per cent. So far this year automobile production has been keeping pace with last

year's record level but only one producer, The Ford Motor Company of Canada, has shown an improvement over last year.

Automobile production, however, has been running ahead of automobile sales, and dealers' inventories are high, partly because of the late spring. It seems unlikely that total sales in 1954 will be maintained at last year's level because of unfavourable business conditions in several key industries which are affecting labour income. Indeed, a reduction of about 15 per cent in the volume of new car sales now appears to be a reasonable forecast for 1954. Thus, if any producer maintains or betters its last year's volume (as Ford has been doing), it will be at the expense of the other producers. The automobile industry promises to be fiercely competitive during the rest of the year. In the longer term, however, Canadian automobile production should expand at a faster than normal rate.

Before, and immediately after, the war one-fourth to one-third of the Canadian output of passenger automobiles was exported. This has shrunk to about ten per cent of the output. If exports had been maintained, last year's production of passenger cars would have been about 400,000 units instead of 360,000. Exports now seem to have been stabilized and the total consumption of automobiles in Canada will bear a closer relation to production than in the years just before and just after the war. Chrysler Corporation of Canada, which is engaged in a major expansion program, forecasts that in 17 years the total number of cars in use in Canada should be 4 million, compared with about 2½ million at the end of last year. This would be a car for every 4.3 persons as against a present one car for every 6.7 persons in Canada. In the United States, there is one car for about every 3½ persons.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Ford of Canada "A"	96¼	100 - 58¾	Dec.	$9.25	$12.07	$4.00
Ontario Steel Products	25	25¼- 17½	Sept.	2.55	4.04	1.25

FORD MOTOR COMPANY OF CANADA, LIMITED

Class "A" Shares, no par value, non-voting .....1,588,960 shares
Class "B" Shares, no par value, voting ..... 70,000 shares

With its 1954 models, Ford of Canada has more than regained its former trade position and now does between 35 and 40 per cent of the total Canadian passenger car business. Despite an increase in total sales of over 15 per cent in 1953, operating profits declined due to heavy write-offs for pre-production expenses, and abnormally high costs during a period in which production was being built up in the new Oakville assembly plant. These expenses accounted for more than the reported decline in operating profits from Canadian operations in 1953 when larger dividends from overseas subsidiaries resulted in an increase in total reported earnings as shown below:

Per Share of "A" and "B" Stock	1950	1951	1952	1953
Reported net earnings from Canadian operations ..	$ 9.80	$ 6.31	$ 6.47	$ 6.38
Dividends received from subsidiaries**	2.05	2.66	2.78	5.69
Reported earnings	$11.85	$ 8.97	$ 9.25	$12.07
Undistributed profits of overseas subsidiaries	2.89*	2.20*	1.76*	.18

*After making an arbitrary adjustment for withholding taxes, etc.
**After deduction of withholding taxes at source.

Assuming that the pre-production expenses were no more than equivalent to the decline in operating profits in 1953, reported earnings in 1953 would have been about $13.15 a share after adjustment for taxes in respect of depreciation charges pertaining to prior years. With the Oakville assembly plant operating under more normal conditions, production of passenger cars and trucks in the first quarter of 1954 increased over 36 per cent with factory sales setting a new record. The market for trucks has been less satisfactory.

Ford has been gaining rapidly on its competitors during the past two years. Early in 1952, Ford's proportion of the business dropped as low as 21 per cent of the total, recovered to 32.3 per cent in 1953 and is now running at about 40 per cent. Last year, Ford's sales increased chiefly at the expense of Chrysler and in the first quarter of 1954 Ford's total production exceeded that of General Motors. Before the war and in 1946 about one-half of Ford's production was exported. In 1953 it shrank to about 7 per cent, the lowest since the war. It is unlikely that export business can be increased materially in the near future, but Ford benefits from its assembly plants which have been established in the British Commonwealth.

Over $29 million ($17.60 per share) was spent on Canadian plant facilities in 1953 and with a further expenditure of about half that amount this year, Ford will have completed its expansion program which will increase its motor vehicle productive capacity by 40 per cent. Of even greater importance, perhaps, will be the reduction in operating costs during peak periods. Working capital at the end of 1953 was equivalent to $22.94 per share. Overseas subsidiaries had additional liquid assets amounting to the equivalent of $17.02 a share. Ford of Canada is increasing its output at the expense of its competitors, and without last year's heavy pre-production expenses, earnings from Canadian operations should compare favourably with those of 1953. Moreover, there is a possibility of a stock split.

ONTARIO STEEL PRODUCTS COMPANY LTD.

5¼% Sinking Fund Debentures, due 1968	$2,000,000
7% Preferred Stock, $100 par	360,300
Common Stock, no par value	242,200 shares

In many ways Ontario Steel Products has reflected the rise in automobile consumption in Canada better than the primary industry itself. This Company is the chief supplier of automobile springs in Canada, and carries on an important bumper and plating business and a less important plastic business. Since the war, plants have been rebuilt and modernized to the point where the Company is in a position to meet competition from the low-cost U.S. producers. Because of this improved efficiency, and a broader range of activities, Ontario Steel's production has represented an increasing component of the automobiles manufactured in Canada.

Last year construction was commenced on two plants at Milton, Ontario. One plant will produce leaf chassis springs and the other will be used for automatic electro-plating and for the assembly of automotive parts. In addition to providing expanded capacity, these plants enable a more efficient distribution of output to the large automotive producers. The plastic operations at Chatham, Ontario were transferred to Gananoque, Ontario to make way for additional capacity of springs, bumpers and electro-plating, and the spring plant at Oshawa was enlarged. This program was financed by a $2 million issue of 5¼ per cent debentures. Previous to this the entire expansion and modernization of plants was financed from retained earnings and depreciation provisions which have amounted to about $18 a share since the war.

As a supplier to the primary industry, Ontario Steel is not subjected to the same swings in consumer preferences but its business is as cyclical as the automobile industry itself. However, with expanded plant facilities and increasingly efficient operations under astute management, the stock is in a strategic position to reflect the long-term growth of the Canadian automobile industry.

BANKS

Since 1944, total loans in Canada of the Canadian chartered banks have increased at an average annual rate of over 15½ per cent. The average annual increase in total assets has been about 5¼ per cent. Lower taxes since 1944 and other factors have had a favorable effect on earnings and dividends, but partially because of the extension of controls into the early 1950's net earnings have risen an average of only about 8 per cent since 1944, and dividends about 8½ per cent.

It is trite to say that earnings of the Canadian chartered banks are conservatively reported. Earnings from operations outside Canada are believed to be distinctly profitable for most of the banks, but during recent years it is doubtful whether the income accounts of all banks have fully reflected these operations. In addition, allowances for inner reserves, which do not appear as deductions in the income accounts, have been substantial. For example, such reserves as at the 1953 fiscal year-ends would have amounted to $320-million if all the banks had been holding the permitted maximum reserve. No information is available regarding the inner reserves of individual banks, but if the maximum reserve had been held, such an amount would have been equal to about $21 per share of the outstanding stock of all the chartered banks combined. Published reserves or rest funds, at the same date were equivalent to almost an additional $17 per share, representing chiefly transfer from profit and loss account on which income taxes have been paid. Paid-up capital amounts to $10 a share. These figures compare with the average price of bank stocks of slightly over $40 per share.

The unpublished, or inner, reserves of a bank can be equivalent to two per cent of the net book value of Government of Canada, United States and United Kingdom securities (other than those issued for a term of less than one year). Against Canadian provincial securities three per cent of the net book value can be taken; and five per cent of the net book value of other investments, loans, letters of credit and net long foreign exchange positions.

It is apparent that during recent years when losses have been small that these reserves have been ample. For instance, in the 15 years ending 1953 the rate of losses experienced in each year on loans and other investments was equivalent to .12 per cent, or about the same as on provincial securities and smaller than the .17 per cent loss on Government of Canada securities. In the 15 years ended 1944, the loss experience on loans and other investments was about .77 per cent annually.

If loans and investments stabilize, and with inner reserves at a maximum, a bank cannot transfer further amounts to such reserves. Consequently any stabilization of loans and investments will largely eliminate such unpublished reductions from earnings. If loans and investments shrink, inner reserves may have to be reduced by transfers to the banks' income accounts as a taxable credit. Thus these reserves act as built-in stabilizers of earnings.

During the past five years, there has been a distinct improvement in the earnings of the chartered banks from interest and discount on loans and there is every indication that this improvement is carrying through 1954.

Current Operating Earnings - All Chartered Banks
(millions of dollars)

	1946	%	1948	%	1950	%	1952	%	1953	%
Interest & Discount on Loans	$ 70.7	34.8	$106.5	43.7	$125.0	44.3	$166.3	49.4	$191.6	50.6
Interest, Discount & Trading Profits on Securities	89.1	43.8	89.7	36.9	101.3	35.9	100.8	29.9	111.4	29.4
Exchange, Commission, Service Charges, etc.	43.5	21.4	47.2	19.4	55.8	19.8	70.0	20.7	75.5	20.0
Total Current Operating Earnings	$203.3	100.0	$243.4	100.0	$282.1	100.0	$337.1	100.0	$378.5	100.0

It was not until 1953 that the shares of the banks began to reflect the expansion of their operations but since then, encouraged by the prospect of subscription rights following the revision of the Bank Act this year, the market for bank stocks has risen to a level where indicated dividend returns (based on 1953 disbursements) are closer to the yield on long-term government bonds than at almost any time in the past. The average price of eight bank stocks is currently $40.69 a share and the dividend return on the basis of 1953 payments is only 3.54%. Such a comparison with previous years must take into consideration the probability of valuable stock rights, as well as the inauguration of the 10 per cent tax credit on dividends in 1949 which was increased to 20 per cent in 1953.

EIGHT BANKS	Average Annual Price	Average Earnings per Share	Average Dividend Inc.Extras	Average Yield	Average Yield on Theoretical 15-Year Government of Canada Bond
1953	$33.84	$2.06	$1.44	4.26%	3.68%
1952	30.56	1.69	1.31	4.29	3.59
1951	30.39	1.60	1.30	4.28	3.24
1950	31.23	1.64	1.20	3.84	2.78
1949	28.11	1.53	1.10	3.91	2.83
1948	26.98	1.47	1.06	3.93	2.93
1947	27.69	1.37	0.97	3.50	2.57
1946	27.49	1.22	0.92	3.35	2.61

The expansion in assets and earnings of certain of the chartered banks has stemmed in part from a policy of increasing quite sharply the percentage of their loans to deposits. At the end of the 1953 fiscal years loans of individual banks ranged from below 50 per cent of deposits to over 60 per cent.

Representative bank stocks would include the following:

	Approx. Price	1953-54 Price Range to Date	1953 per Share Earnings	1953 per Share Dividends	Approx. Yield
Canadian Bank of Commerce	37½	37¼ - 28½	$1.93	$1.20	3.22%
Bank of Montreal	43¾	44 - 31	1.96	1.40	3.20
Bank of Nova Scotia	46½	46¾ - 38½	2.01	1.80	3.87
Bank of Toronto	46	46 - 39	2.17	1.70	3.70
Royal Bank of Canada	46	46¼ - 31¾	2.47	1.40	3.04

BASE METALS

Canadian volume of exports of refined lead and zinc spelter declined last year. Meanwhile the United States Government intends to resume stockpiling. This may carry with it the threat of increased customs duties on lead and zinc, or some other form of protection for the hard-pressed U.S. industry. The major Canadian base metal producers have relatively low costs, and in a free market possess distinct advantages but relatively unhampered entry to the U.S. market is essential for effective operations. For example in 1952 and 1953 about one-half of the lead and about two-thirds of the zinc was exported to the United States.

Copper is one of the few base metals currently selling above the official U.S. price established after the outbreak of the Korean War. The price has been firm at 30 cents for about a year despite ample supplies of the metal. Indeed, there is evidence of a world copper surplus. World production of refined copper last year totalled a record 2.5 million tons, about 250,000 tons in excess of deliveries to the consuming industries. Global stocks of unused copper are almost double their level of a year ago. Last year U.S. production of refined copper set an all-time record and, as imports increased and consumption declined, U.S. supplies were relatively high. Most recent data indicate that U.S. producers' stocks of copper were 80 per cent greater than a year ago. Production of copper at established U.S. mines has now been reduced by about 18 per cent, but new properties are coming into production at guaranteed prices and will offset this reduction to some extent. Canadian production last year was off slightly because of a prolonged strike, but exports were 13 per cent ahead of 1952. Because of some apparent decline in copper consumption and high producers' inventories, the outlook is one of some reduction in copper prices, but any immediate decline is likely to be orderly rather than a sharp break.

In contrast to copper, lead and zinc prices are sharply below the official U.S. prices established during the Korean War, although recently both metals have firmed, and currently, their combined price is just about equal to last year's average.

Cents per Pound
(Canadian Funds)

	Lead	Zinc
1951 Average	18.42	18.95
1952 Average	16.12	15.88
1953 1st Quarter	13.36	11.41
2nd Quarter	12.83	10.90
3rd Quarter	13.64	10.59
4th Quarter	13.20	9.78
1954 1st Quarter	12.62	9.30
Recent	13.50	11.00

Currently U.S. zinc inventories in producers' hands are over 200,000 tons, more than double the amount of a year ago. Canadian zinc production last year was about 7 per cent greater than in 1952, bolstered by new properties. Output of some established properties, however, was reduced. U.S. production (535,000 tons, the lowest in 15 years) was down by almost 20 per cent, the result of cutbacks by marginal operators who were unable to show any profit at the prevailing prices. The outlook this year for the three main uses of slab zinc (galvanizing, brass working, and die casting) is one of a downward drift, so that U.S. mine production will continue to fall, or imports will be reduced until

excessive inventories are reduced. At the same time, however, it is hoped by the industry that renewed stockpiling activity may cushion the downward drift.

Lead supplies are not as great as zinc, but U.S. stocks are running about half as much again as last year. Deliveries are much better maintained than in the case of zinc. Overseas requirements have firmed, and the outlook for lead this year is reasonably satisfactory. Canadian lead production last year showed a 16 per cent increase over 1952.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Consolidated Smelters	28-5/8	34¾ - 21-7/8	Dec.	$2.00	$1.24	$1.20
Hudson Bay Mining	46½	58 - 36	Dec.	5.37	4.15	4.00
Noranda Mines	68	78¾ - 57-7/8	Dec.	5.45	4.78	3.00

CONSOLIDATED MINING AND SMELTING COMPANY OF CANADA LIMITED

Common Stock, no par value ..... 16,381,645 shares

Consolidated Smelters is one of the largest and lowest-cost base metal producers in the world. The Company accounted for about 85 per cent of Canada's total 1953 output of lead, 22 per cent of its zinc and about 57 per cent of its silver. It is estimated that last year's lead dollar sales were slightly higher than zinc and combined accounted for about two-thirds of the total. Fertilizer, chemicals and other metals made up the remainder.

In 1953 sales dropped over 20 per cent and earnings declined to $1.24 a share from $2.00 a share in 1952. These lower results were caused chiefly by a decline in metal prices, a lower discount on U.S. funds and some drop in production. Lead output was about 9 per cent lower, while zinc and silver output established new records being up 15 and 25 per cent respectively. Despite the lower earnings in the last half of 1953, the year-end disbursement of 40 cents regular plus 20 cents extra was maintained at the mid-year rate.

Since the year end zinc production has been cut back by about 30 per cent and although inventories have been reduced, it is felt that stocks are still high in relation to present markets for the metal. A compensating factor will be the increased output from the Company's new fertilizer plant with a capacity of 70,000 tons per annum. With the combined price of lead and zinc at the present time about the same as last year's average, earnings now, with the benefit of increased fertilizer output, are being well maintained. It is estimated that a one cent change in the combined price of lead and zinc means a theoretical increase of 25 - 30 cents a share after taxes.

In addition to its Sullivan Mine which is one of the largest and lowest cost producers of lead and zinc in the world, the Company has been bringing other properties into production during the past few years. The Bluebell lead and zinc mine produced for a full year for the first time in 1953. The Tulsequah expanded its output but production at the H.B. mine was deferred due to low metal prices. Exploration activities were continued and ore reserves at the Pine Point mine in the Northwest Territories were more clearly defined. The ore is of relatively high grade and can be recovered by open pit mining. Capital expenditures last year were $23.7 million which about completes the post-war modernization and expansion program. The modernization of the Trail lead smelter and the increase in power facilities at Waneta are well on their way to completion.

Consolidated Smelters is in the most strategic position to benefit from any sustained improvement in base metal prices. On the basis of current earnings, however, it is difficult to justify current prices for the stock as there is not sufficient evidence that the recent firmness in lead and zinc prices will carry to the point where earnings could support materially higher prices for the shares.

HUDSON BAY MINING & SMELTING COMPANY LIMITED

Common Stock, no par value ..... 2,757,973 shares

In relation to current earnings and dividends, Hudson Bay is one of the more attractive of the major base metal stocks in Canada. Although the Company has been finding it difficult to maintain ore reserves at its main property at Flin Flon, the development of outside properties has become more clearly defined. Ore reserves at Flin Flon were increased last year for the first time in many years and reserves at the Yukon property are now estimated at about 60 per cent of those of the main mine. These reserves, however, consist chiefly of zinc averaging 5 per cent and are not as valuable as those of the main property but they have potential value. Other mining locations including those in the Flin Flon area are being intensively examined at the present time and hold more immediate promise. These outside discoveries have generated more confidence in the stock in recent months.

Based on current prices, zinc sales are about two-thirds those of copper and combined account for about 85 per cent of the total. Gold and silver make up the remainder. Due to higher costs and lower zinc prices, earnings in 1953 were $4.15 a share compared with $5.37 a share in 1952. Copper production increased slightly and zinc output was the highest on record being 6.5 per cent greater than in 1952. Although there has been some apprehension about zinc sales in 1954, recent price increases have brought the level to about last year's average. Assuming that output is maintained and that copper prices remain stable, earnings should be stabilized at close to $4.00 a share. If copper prices were to decline to say 25 cents a pound, it is estimated that earnings would drop to about $3.50 a share provided output were maintained at last year's rate. This would result in a decline in the current $4.00 a share dividend.

Hudson Bay's ore reserves at the end of 1953 were 17,456,000 tons averaging 3.2 per cent copper and 3.9 per cent zinc with gold and silver values. These would be sufficient for about 12 years' operations at last year's level. The reserves include an increase of 428,000 tons which followed a steady decline over the previous 10 years of some 40 per cent. This may be the turning point, particularly as intensive exploration is being conducted in the Flin Flon area. A new orebody, the "Coronation Mine", located about 13 miles from Flin Flon, is being developed and about 545,000 tons averaging 5.37 per cent copper and $2.00 a ton in gold and silver has been outlined to a depth of 600 feet. Moreover, the Yukon properties are becoming increasingly interesting. At the Tom Claims, ore reserves are estimated at about 10½ million tons averaging 5 per cent zinc. In addition, Hudson Bay has a 79 per cent interest in Cuprus Mines located near Flin Flon which has reserves of about 46,000 tons averaging 2.95 per cent copper, 5.5 per cent zinc, and smaller amounts of silver and gold. The zinc fuming plant which utilizes zinc plant residue, has been operating now for two years, thus conserving ore reserves at Flin Flon.

NORANDA MINES LIMITED

Revolving Bank Credit	$10,000,000
4¾% Sinking Fund Debentures, due 1967	20,000,000
Common Stock, no par value	2,239,772 shares

Noranda Mines is a combination of a holding company and metal producer. As such its holdings of marketable securities have a value of about 40 per cent of the current value of the stock, and give a return which exceeds the income from Noranda's own operations. Not included in the above are such important new properties as Gaspe Copper, a 51 per cent interest in a zinc-pyrite property formerly controlled by MacDonald Mines and a new sulphur iron plant. The new Gaspe property is scheduled to commence smelter operations in 1955 and the sulphur iron plant will be in operation in September. The development of these properties is designed to offset the declining ore reserves at the Horne Mine.

Despite the fact that operations at Noranda were suspended for 4½ months last year, due to a strike, earnings were fairly well maintained. Investment income was higher and exceeded earnings from operations for the second successive year. About one-half of such income came from Waite Amulet. Earnings for the past four years are shown below.

	Earnings per Share			
	1950	1951	1952	1953
From Noranda's own operations	$3.17	$3.22	$2.69	$1.87
Investment income	2.09	2.48	2.76	2.91
	$5.26	$5.70	$5.45	$4.78

Under normal conditions, based on present prices for copper and gold, the value of copper produced from the Horne Mine is roughly twice that of gold. On this basis a decline in the price of copper would have an adverse effect on earnings. Moreover, 1954 operations have been disrupted by the strike which ended in mid-February. This prolonged shutdown at the property from August 1953 resulted in a cut in the dividend from the $4.00 annual rate to $3.00.

Noranda's investment portfolio at current market prices has a value of about $30 a share. The investment in Waite Amulet alone is equivalent to about $12.25 a share of Noranda. The market values of other principal holdings are as follows:- Kerr Addison, $5.00; Canada Wire and Cable, $4.00; Anglo Huronian, $3.25, and Hallnor Mines, $2.50. Placing the customary appraisal on this entire portfolio of between one-half and two-thirds its value, earning power at Noranda's own operations is being capitalized at a relatively high price. It would seem that investors are willing to pay a premium for the Company's outside properties.

Noranda's Horne Mine has a life of about ten years, based on normal production and present ore reserves of 14.8 million tons. These reserves have been declining steadily and are less than half those available to the Company in 1935. Offsetting this decline is the 67 million ton reserve averaging about 1.3 per cent copper at Gaspe Copper Mines which will be in production in 1955. It is estimated that this property could add as much as $2.00 a share to Noranda's earnings after taxes (not exigible for three years), which would more than replace the current dividend of $1.40 a share received from the depleting Waite Amulet property. This has been a supporting factor to the stock and would seem to have offset somewhat earlier apprehension regarding the Horne's ore reserves, and the maintenance of income from Waite Amulet.

BREWERIES

There has been a sharp increase in Canadian beer sales during the postwar period. Total sales of 8.1 million barrels last year were 44 per cent greater than in 1946, compared with a 20 per cent population increase in the same period. Historically per capita beer consumption in Canada has been lower than in the United States, and considerably lower than in the United Kingdom. But the marked upward trend in Canada in recent years, in contrast to the steady decline in the United States since 1947, has narrowed the gap.

Taxes are a major factor in the brewing industry. Exclusive of corporate income tax and the federal 10 per cent general sales tax, federal beer taxes last year amounted to about 2½ times the net operating profit of seven major brewing companies. Although federal and provincial taxes and duties account for about 41 per cent of the gross selling value of beer at the brewery, there seems to be little likelihood of any tax reductions on beer in the near future. The 1954 federal budget provided, however, for the substitution of a 38 cent per gallon excise duty in place of the former excise duty on malt. The gallonage tax provides allowance for wastage which results in a modest easing of the impact of the tax.

In the early part of this year beer sales softened, chiefly because of the shorter working week and lower labour income in several key industries, and these conditions may curb the upward trend of beer consumption temporarily. This would mean intensified competition in the already competitive key Ontario-Quebec market (which accounts for more than 70 per cent of total Canadian beer sales). Last year all the breweries reflected the increase in consumption in higher profits. Even a minor drop in consumption this year would mean that further gains by one brewery would probably be at the expense of one or more competitors with attendant effects upon operating profits.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Canadian Breweries	25-7/8	26 - 17	Oct.	$2.25	$3.06	$1.25
Dow Brewery	25	25¾ - 15	Oct.	0.22(d)	1.35	-
Labatt, John	20	20¼ - 16¼	Sept.	1.33	1.90	1.00
Molson's Brew. "A" & "B"	25¾	26½ - 23	Sept.	2.70	2.99	1.20
Sicks' Breweries	27	28 - 20	Dec.	2.04	2.43	1.40

(d) - Deficit.

CANADIAN BREWERIES: Canadian Breweries is the most integrated of the breweries in Canada. Its profitable subsidiaries, Victory Mills and Dominion Malting, produce malt, brewers' yeast and other allied products for use in the parent Company's plants and for outside sale. For this reason it is difficult to determine the actual profits of the brewery business itself, but indications are that unit costs are about the lowest in the industry. The Company demonstrated its ability last year to maintain its competitive position in Ontario where it does roughly 60 per cent of the business under various company and brand names, and competes effectively for its share of about 20 per cent in the Quebec market. Moreover, its U.S. subsidiary, Carling Brewing Company Inc. which operated at a loss in recent years, seems to have turned the corner and is now making a profit.

DOW BREWERY (formerly National Breweries) is now effectively controlled by Canadian Breweries. Last year Dow reported the highest operating profits since 1949 and seems to be making its way back towards its former trade position. This position was lost principally to Molson's in the postwar years.

In 1952 a new management took over the Company and concentrated efforts were made to integrate operations and to cut costs. The output of certain brands of beer was eliminated and important capital expenditures amounting to $9 million were initiated. New merchandising costs and other charges cut profits to the point where both the preferred and common dividends were deferred in 1952. With last year's improvement dividends were resumed on the preferred shares in April, 1954. Heavy capital expenditures in progress will be a factor in delaying the resumption of disbursements on the common. Indications are that Dow is more than keeping pace with the rise in beer consumption and is taking business from its competitors.

MOLSON'S BREWERY is believed to do slightly less than half the total business in Quebec. The Company is vulnerable as its total production has been sold under one brand name, and it is unusual for a single brand to command more than one-third of a single market. More recently a lager beer "Crown and Anchor" was introduced with emphasis on the brand name rather than on the Company name. Molson's is also making a bid for a larger share of the Ontario market and is building a brewery in Toronto at a cost of $9 million. The Company's working capital position is probably sufficiently strong to finance this project. Dow's recent improvement may be indicative of a turn in the trend away from Molson's although there is no real concrete evidence to support this belief.

JOHN LABATT: It is estimated that John Labatt does between 10 - 15 per cent of the total business in Ontario and Quebec. In order to broaden its market, the Company acquired control of Shea's Winnipeg Brewery Limited for a cash consideration and shares of its own stock. If all the class "A" and "B" shares of Shea's are acquired, Labatt's issued and outstanding capital stock would consist of 1,255,000 common shares. It is significant that the average combined earnings of Labatt and Shea for the past ten years based on this larger number of shares outstanding were $1.90 a share or the equivalent of last year's reported earnings.

SICKS' BREWERIES LIMITED operates five plants in the western provinces of Saskatchewan, Alberta and British Columbia. In addition, substantial interests are held in the United States which are not consolidated in the Company's accounts. Tighter competition in British Columbia prompted the building of a new plant in Vancouver at a cost of $3½ million. Since 1945, including the poor summers of 1950 and 1951, the Company's growth in profits has been better than those of the breweries in Eastern Canada. This is accounted for in large part by the rate of population growth in British Columbia which has been about twice that of the rest of Canada during this period. Moreover, the development of the oil fields of Alberta and Saskatchewan have further stimulated sales. In reflection of this potential growth the shares sell high in relation to reported earnings (which do not include undistributed earnings of important U.S. subsidiaries), but the dividend yield is better than average.

CAPITAL GOODS

New capital investment in Canada is continuing at very high levels, but the abnormally high rate of annual increase stimulated by the Korean war has levelled off. The official estimate of new investment this year is $5,838 million, 2½ per cent greater than last year, the smallest increase in the post-war period. But projected new investment in machinery and equipment this year is about 3 per cent less than last year's record $2,033 million. This is the first down-turn since World War II. Until recently the supply of capital goods could not keep pace with demand, and the Canadian industry was effectively insulated from foreign competition in the domestic market. But now a buyers' market exists, and high-cost Canadian capital goods are being hit by relatively lower priced goods from the United Kingdom and Europe. Typically the capital goods companies this year have a smaller backlog of orders, and the near-term outlook is one of increasing competition and a lower overall volume of business. Industrial construction contracts during the first quarter of 1954 were 11 per cent lower than during the corresponding period of 1953, and engineering construction contracts were off by 64 per cent. It appears likely that earnings in the cyclical capital goods industry will reflect the slowing down of new investment in machinery and equipment. On the other hand, however, the construction of the St. Lawrence Seaway, pipe lines and other capital projects will cushion the downward trend that became apparent last year.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Dominion Bridge	18	18 - 13-7/8	Oct.	$1.83	$1.90	$0.65
Page-Hersey	64	74¾ - 64	Dec.	5.86	4.65	3.00

DOMINION BRIDGE COMPANY LIMITED

Common Stock, no par value ..... 2,569,755 shares *

* After adjustment for 5 for 1 stock split.

For many years the stock market adopted a somewhat lethargic attitude towards the stock of Dominion Bridge and it sold for about the amount of its working capital including its 62 per cent interest in the working capital of its subsidiary, Dominion Engineering. As the major factor in the structural steel business in Canada, more recent earnings have reflected the vigorous post-war demand for its products.

For the twelve months ended October, 1953, Dominion Bridge reported earnings of $1.90 a share after adjustment for the five-for-one stock split. Including the undistributed profits of Dominion Engineering, consolidated earnings were $2.21 a share. Earnings for the 1952 fiscal year were slightly higher if an adjustment of 12 cents a share is made for a special write-off for depreciation. Bridge's work in progress at the beginning of the 1953-54 fiscal year was slightly lower than that of the previous year, but profits are taken on contracts only as they are completed which should contribute substantially to this year's earnings.

Despite extensive capital expenditures, Dominion Bridge has maintained its very strong financial position. At the end of October, 1953, working capital amounted to $10.25 a share or over $12.00 a share if the Company's interest in Dominion Engineering is included. This strong working capital position stems from the reinvestment of earnings since the war which, including

depreciation provisions, have amounted to over $10 a share. About one-half of this has been invested in new plant and equipment. Despite its strong cash position, the dividend policy of Dominion Bridge has been very conservative.

Record earnings for the past two years, followed by a five-for-one stock split, have resulted in higher levels for the stock. However, the backlog of business has been reduced, and the rate of new business may have a less constructive effect as the year progresses. Apart from this, the stock has investment merit based on its excellent asset value, strong financial position, and as a dominant factor in the capital goods industry.

PAGE-HERSEY TUBES LIMITED

3-1/8% Debentures, due April 1st, 1965	$5,000,000
Common Stock, no par value	697,104 shares

As the largest manufacturer in Canada of tubular products and metal pipe up to 16 inch in diameter, Page-Hersey Tubes has reflected the growth of this industry in Canada. Last year was the first year that the Company reported lower earnings since 1943. Failure of earnings to respond reflected increasing competition and declining business in the latter half of the year.

Export markets, which have enabled the Company to achieve relatively low operating costs, have disappeared and Page-Hersey is now restricted to the domestic market in which foreign competition is increasing sharply. Imports of duty-free casing and tubing for the oil industry have prevented the Company from operating at capacity, and drill pipe cannot be produced competitively.

Page-Hersey will not be in a position to supply pipe for a main line of the Trans-Canada natural gas pipeline, but it expects to benefit from the construction of gathering and distribution lines which are of smaller diameter. It is estimated that the total tonnage of this type of pipe will be as large as the main line, but spread over a 10-year period the annual requirement would be only about 65,000 tons. This would be equivalent to about 15 per cent of Page-Hersey's capacity for this type of pipe.

During the interval since 1943 when earnings were rising steadily, dividends were either maintained or increased and the stock registered a new high each year with the exception of 1947 and 1953. In reflection of this record the stock always sold high in relation to earnings. Because of restricted export, and more competitive import conditions, however, a less favourable investment attitude might temporarily be adopted towards the shares.

CHEMICALS

The chemical industry has been one of the fastest growing in Canada with a total capital outlay over the past eight years amounting to almost $500 million. Since 1925 the industry has grown at an average annual rate of 10 per cent. Last year output of Canadian chemicals exceeded $800 million in value. The field of petrochemicals is an important growth segment of this key industry, with 23 plants in operation or under construction. This branch of the industry will produce 34 specific chemicals derived from petroleum or natural gas. Technological changes and the increasing industrialization of the nation have changed the emphasis in the industry from bulk inorganic chemicals (associated chiefly with the extractive industries--mining, forest products and

agriculture) to basic organic chemicals and intermediates for synthetic fabrics, rubber, film and resins. Most of the new plant completed last year or still under construction is for this type of chemicals, several of which have never before been produced in Canada.

Currently there is reason to expect some slackening in the stimulus to the chemical industry resulting from the rapid postwar rate of general industrial expansion, and the short-term outlook is one of a sharply lower rate of capital outlay in the chemical industry. Anticipated new capital investment this year is about 60 per cent lower than in 1953. In the immediate future it appears likely that there will be excess capacity in Canada for such products as acetone, formaldehyde, ethylene glycol, pentaerythritol and polythene because in order to build efficient plant to supply Canada's comparatively small market it is often necessary to provide facilities far in excess of current domestic demand. At the same time formidable competition from the United States is prevalent because of the relatively low Canadian duty on chemicals, and some, such as phenol, enter this country duty-free. Last year, for example, imports of chemicals amounted to $221.8 million, roughly a quarter of the value of Canadian-made chemicals. High U.S. duties make it difficult for Canadian producers to penetrate the U.S. market, and overseas demand is restricted by currency problems. Thus the Canadian industry is heavily dependent upon a relatively restricted domestic market which must be shared with U.S. producers who are sharply competitive. However, the continued industrial expansion of Canada should provide an effective Canadian outlet for the increasingly wide range of chemical products produced in Canada. An official forecast indicates an increase of at least 50 per cent in Canadian chemical requirements between 1953 and 1960, with a possibility of doubling by 1975. But basically, the Canadian chemical industry requires virtually the whole of the domestic market to ensure an outlet for the capacity now existent.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Canadian Industries	46¼	48¼ - 31¾	Dec.	$1.48	$1.49	$1.00
Canadian Chemical & Cellulose	7¼	14 - 7-3/8	Dec.		0.24(d)	-
Dominion Tar & Chemical	8-7/8	11¼ - 7-1/8	Dec.	0.51	0.60	0.40
Shawinigan Water & Power (see Utilities)						

(d) - Deficit.

CANADIAN INDUSTRIES LIMITED

7% Preferred, $100 par $4,650,000
Common Stock, no par value ..... 7,059,081 shares

Canadian Industries has about doubled its physical volume of business in the post-war period. Capital expenditures of about $92 million have been made, 90 per cent of which were financed from earnings and its own cash and investment resources. Last year $10 million was borrowed from the parent companies, Imperial Chemical and duPont. The rapid write-off of assets tends to disguise the real growth in earning power. Last year, for example, depreciation including special provisions exceeded reported net profits of $1.49 a share. Had special depreciation of 76 cents a share not been charged, earnings would have been $1.88 a share.

By order of a U.S. Federal Court the present Company will be split into two separate companies, C.I.L. 1954, of which Imperial Chemical Industries of England will be the chief shareholder, and duPont of Canada, of which E.I. duPont of the United States will have the principal interest. The present preferred

shareholders will receive two shares of 7½% preferred stock $50 par, one in each of the companies, and the present common minority shareholders will receive one and one-tenth common shares in each of the two companies. As neither Imperial Chemical nor duPont will receive the extra one-tenth of a common share, the minority common shareholders will own 17.7 per cent of the common stock of the two new companies (present interest 16.4 per cent). On an accounting basis, both new companies will have roughly the same book value. On the basis of 1953 earnings, however, duPont of Canada's earning power was roughly half that of C.I.L. 1954, before special depreciation, or one-third after special depreciation. It is expected that the growth of duPont of Canada will be greater with its more glamorous products such as nylon and cellophane. Apart from its new terylene (dacron) plant, C.I.L. 1954 will produce the more stable chemicals such as chlorine, explosives, paint and various acids. It is our belief that the break-up of the present Company will bring out, in sharper relief, the relative merits of each.

Canadian Industries is the foremost chemical equity in Canada, and has always sold high in relation to earnings and dividends. With only 18 per cent of the stock in the hands of the public, it has commanded a scarcity value. Huge capital expenditures have not been fully reflected in earnings to date, and it may be some time before the present optimistic expectations of the investor are vindicated.

DOMINION TAR & CHEMICAL COMPANY LIMITED

Funded Debt	$22,600,000
$1 Preferred, $23.50 par value	300,000 shares
Common Stock, no par value	2,800,000 shares

Dominion Tar & Chemical reported earnings in 1953 of 60 cents a share based on 2,800,000 shares outstanding. Comparable earnings in 1952 were 51 cents a share based on 2,400,000 shares outstanding. These comparable net earnings are slightly misleading. Because of large start-up expenses of new plants, operating profits declined to $7.7 million in 1953 as against $7.9 million in 1952. In 1953, however, the Company did not charge off additional depreciation as it did the previous year. On the basis of normal depreciation, earnings in 1952 would have been 85 cents a share which are more truly comparable with the 60 cents a share reported last year. About 21½ per cent of the shares are held by Argus Corporation.

During 1953, Dominion Tar acquired Brantford Roofing and the Cooksville Company which controls Aerocrete Construction, Interprovincial Brick and the Laprairie Company. Net earnings of these companies in 1952 seem to have been in excess of $1 million (38 cents per share of Dominion Tar) and were probably even higher in 1953. Because they were acquired towards the end of 1953, only a small proportion of their earnings were shown in the consolidated income account of Dominion Tar. Earnings of these subsidiaries should be fully reflected in the 1954 statement. Dominion Tar should be able to integrate these companies with its own building division and effectively supply the demand of Canadian Equity & Development Company. Argus Corporation has a substantial interest in this Company, a subsidiary of which is actively engaged in a vast housing development just outside Toronto.

Excluding these recent acquisitions, it is estimated that the major portion of the Company's profits are derived from its creosoting, building supplies and conduit business. Its chemical operations, on which major expenditures have been made in the past few years, are coming in at a time when conditions are most competitive. Operations at the new petrochemical plant at

Montreal East and the caustic soda and chlorine plant at Beauharnois have not been as profitable as had been anticipated. The expansion of the fibre conduit plant at Cornwall, Ontario, will be completed this summer, and construction will commence soon on the first plant to manufacture "Siporex", a lightweight cellular concrete material. It is estimated that expenditures on new facilities this year will be about $7 million. This follows expenditures in 1953 of $8.8 million and $11.7 million in 1952.

The outlook for chemicals is still clouded but profits from creosoting, fibre conduits and building supplies should enable the Company to report satisfactory earnings in 1954. The large capital expenditures on chemical plants have still to be justified by earnings.

CANADIAN CHEMICAL & CELLULOSE COMPANY, LIMITED

3¾% - 4¾% Notes Payable	$24,743,750*
Mortgage Bonds	58,620,000
Common Stock, no par value	5,000,000 shares

* A loan of $10 million 4¾% notes held by Celatino S.A., a subsidiary of Celanese Corporation of America, will be discharged by the issue of 100,000 shares of $100 par preferred stock. It is anticipated that these shares will carry a 6 per cent dividend which will be non-cumulative for five years.

Canadian Chemical & Cellulose is 80 per cent owned by Celanese Corporation of America. Its pulp plant at Prince Rupert and its petrochemical plant at Edmonton were designed to produce the basic organic chemicals towards the production of cellulose acetate and other basic materials for use in the plants of the parent company and for outside sale. These plants are coming into production at a time when the markets for its products are depressed.

Profitable pulp operations in 1953 were more than offset by losses from chemical and yarn operations which were gradually brought in during the latter half of the year. Costs were high due to the impact of substantial non-recurring start-up expenses, but pulp production is now almost 300 tons a day and operations are more efficient.

Last year pulp accounted for the major portion of sales which reached $18.8 million. A loss was incurred of about $1.2 million or 24 cents a share. This loss would have been over $8 million ($1.60 a share) if total bond interest (almost $4 million) had been charged and depreciation provided at 5 per cent of gross plant ($6½ million). Assuming a 20 per cent gross profit margin, it is estimated that it would require sales of about $20 million to cover full bond interest before depreciation, or about $52 million if depreciation were provided at the rate mentioned above. Under a more favourable operating margin, of say 30 per cent, it is estimated that sales of about twice those of 1953 would be required to cover full depreciation and bond interest.

Because of the prevailing conditions in the chemical and textile industries and the possibility of a temporary surplus of dissolving pulp in 1955, it may be some time before the Company can show a proper return on its capital investment of over $150 million. Supporting Canadian Chemical's operations are the long term contracts with guarantees of Celanese Corporation of America for most, if not all, of the surplus pulp, and 90 per cent of the fibre and yarns at a price 5 per cent below the Canadian market price, plus the surplus cellulose acetate. In order to break into the relatively small Canadian market for fibre and yarn, the Company reduced prices on these products and Canadian Celanese immediately followed suit. These moves resulted in levels for fibre and yarn well below equivalent import prices.

CONSTRUCTION

Construction in Canada has undergone an unbroken upward swing during the post-war period, increasing by about 2½ times. Estimated new construction this year is $3,646 million, an increase of 6 per cent over last year. Construction has steadily been accounting for a greater proportion of the rising volume of new capital investment, and this year is expected to be about 66 per cent of the total. Since building materials are largely of domestic origin (much of the machinery and equipment components of new investment is imported) this trend has benefitted Canadian producers of building materials. This year's forecast of new construction includes two new and major projects, the St. Lawrence Waterway Project and the Trans-Canada natural gas pipeline from Alberta to Ontario and Quebec. These will ultimately represent a billion dollar investment. It seems unlikely, however, that either of these projects will receive more than a start this year.

Last year's total construction contracts were better than 10 per cent in excess of 1952. But industrial and engineering contracts declined, indicating a tapering-off in both the construction stage of the defence program and the expansion of a large part of Canada's secondary industry. Housing contracts, however, were greater last year by $221 million (a 43 per cent increase over 1952), and they are continuing their advance this year. Although housing completions this year are expected to be only about 3 per cent more than the 100,000 completions last year, recent residential housing contracts suggest an acceleration. Greater availability of mortgage funds is expected in 1954 as a result of amendments to the National Housing Act which allow the chartered banks to lend on residential mortgages. Moreover, underlying factors indicate a strong and continuing demand for new housing and conversion of old homes. Suburban expansion of metropolitan areas is providing a rising demand for hospitals, schools, churches and stores. Institutional construction is expected to increase by 35 per cent this year, and buildings for the wholesale and retail trades by nearly 20 per cent.

It appears that 1954 will be a good year for the construction industry generally, and building will probably be somewhat above 1953 levels. But the long upward swing in the industry is levelling off, and housing has become its key component, a position held before the outbreak of the Korean War.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Canada Cement	105	110 - 72	Nov.	$4.62	$6.97	$3.00
Foundation Company	17½	18¾ - 11	Dec.	1.15	2.12	0.70
Gypsum, Lime & Alabastine	40½	40½ - 32	Nov.	2.57	3.67	2.00

GYPSUM, LIME & ALABASTINE CANADA LIMITED

3½% First Mortgage Bonds, due November 1, 1966 ..... $1,000,000
Common Stock, no par value ..... 440,043 shares

Last year Gypsum, Lime and Alabastine regained its 1951 earning power of $3.67 a share after suffering a sharp drop in earnings in 1952. With but this exception operating profits since the war have shown a steeper rise than those of Building Products. For example the rate of annual increase during the period has been about three times as great until now Gypsum's operating profits are equal to those of Building Products. During the same period Gypsum has retained earnings, including depreciation provisions, of $25.50 a share

compared with $19.67 a share for Building Products. Gypsum's industrial lime division may suffer from a slowing down in industrial activity, but the upward trend of residential construction, especially of mass-produced houses, is in Gypsum's favor.

CANADA CEMENT COMPANY LIMITED

4% Serial Debentures, due Nov. 1, 1954-61	$ 4,000,000
Preferred Stock, $1.30 cum., red., $20 par, call. at $30	$19,611,160
Common Stock, no par value	600,000 shares

Canada Cement reported earnings last year of $6.97 a share or $8.35 a share if only normal provision were made for the pension fund. The Company followed a policy in 1953 of charging against current income the full amount of depreciation allowed for tax purposes including special provisions of $6.69 a share. Had only normal depreciation been charged, earnings would have been almost $12.00 a share.

The stock market at current prices is placing a net value on the Company's plants equivalent to $4.00 a barrel of capacity. It is interesting to note that in 1945 when the stock was selling at 13 the stock market appraisal was substantially the same. In the meantime, over $90 a share, including depreciation provisions, has been plowed back principally to finance a 75 per cent increase in capacity to 17½ million barrels. Further additions are being made to the Fort Whyte plant near Winnipeg this year which will increase total cement capacity to 19 million barrels.

At the last annual meeting the President said that the demand for cement this year will be "substantially lower" than in 1953, and that import competition might force down the price of cement. But the upward trend of cement consumption, adjusted 1953 earnings and high property values have not been fully reflected in the price of the shares. Moreover, as the stock is one of the highest priced industrials on the Canadian stock exchanges, it is a logical candidate for a stock split.

FOUNDATION COMPANY OF CANADA LIMITED

3½% Serial Debentures, due 1955-59	$1,250,000
Common Stock, no par value	428,400 shares

Foundation Company is probably entering the most competitive phase of the post-war construction industry in Canada. The influx of foreign contracting firms awaiting developments of the St. Lawrence Seaway, has added appreciably to the number of companies who are bidding in a more selective market. The trend of industrial and engineering contracts continues downward and tender prices have become highly competitive. Foundation will undoubtedly benefit from the construction of the St. Lawrence Seaway and ancillary projects but it will be up against competition from the largest construction firms in the world. Meanwhile, the backlog business in 1954 would appear to be satisfactory even though the trend of general non-residential construction is less reassuring.

Foundation reported earnings last year of $2.12 a share which included non-recurring profits of 49 cents a share. Volume of construction work was slightly higher than 1952 and the business of the equipment sales and services division was maintained. Marine salvage work was well below the 1952 peak which led to the sale of one vessel and two obsolete steam tugs. The engineering services department was incorporated as a separate company in order to handle an increasing volume of skilled work.

DISTILLERIES

By far the greater part of the sales of Canada's two major distillers, Seagrams and Walker, are made in the United States, and it is estimated that their combined U.S. sales last year amounted to about 46 per cent of the total sales of tax-paid liquor in that country.

Like brewers and tobacco manufacturers, distillers have been singled out for very heavy taxation. The current U.S. tax is $10.50 per gallon of liquor. Although many U.S. excise taxes were reduced on April 1, 1954, the tax on distilled spirits was not changed. This tax is considered to have been a factor in the 5 per cent reduction in apparent U.S. consumption in 1952. Another factor was the continued liquidation of distributors' inventories earlier in the year. Reflecting large inventories of aging whiskey, production of spirits declined in 1953, but withdrawals from producers' inventories were slightly higher. Merchandising of distilled spirits has become increasingly competitive and in recent months straight whiskies have tended to gain against the blended whiskies which have comprised the bulk of the total sales volume. Although apparent consumption of distilled spirits in the United States was down slightly earnings of major companies generally had been maintained until recently.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Distillers Seagrams	31½	31-5/8 - 24½	July	$4.25	$4.32	$1.70
Hiram Walker	59¾	60¼ - 43	Aug.	5.43	6.62	3.75

	HIRAM WALKER	DISTILLERS SEAGRAMS
Total Debt	$2,793,179	$77,264,500
Common Stock	2,896,016 shares	8,769,350 shares

From a statistical viewpoint, Distillers Corporation-Seagrams appears to be more favourably priced than Hiram Walker, but its conservative dividend policy hampers market appreciation of the shares. Seagrams sells for about its working capital after deduction of all senior securities. On the same basis, Hiram Walker has liquid assets in excess of $40 a share.

Like Hiram Walker, Distillers Seagrams carries on most of its business in the United States where it is the largest factor in the industry, and does about two-and-one-half times the volume of Hiram Walker. Since the war, Seagrams' sales have doubled and last year they were about 55 per cent higher than those of National Distillers, its nearest competitor. Walker's sales trend has been much more modest but its trend of profits has been almost as satisfactory as that of Seagrams. Incidentally, the earnings trend of Schenley and National Distillers has been downward since 1945.

Seagrams has been able to sense consumer tastes with uncanny accuracy and has concentrated entirely on the production of the more profitable and popular blends as distinct from straight whiskeys. Although there is a slight swing to straight whiskeys of late, Seagrams' dominant position in the industry has not been threatened. Walker's blend "Canadian Club" is its leading brand, but it also has a popular straight whiskey which provides some hedge in a keenly competitive market.

The distillers, as a group, have been using their excess cash resources to finance new ventures such as chemicals, animal feeds and others. Both Seagrams and Walker have avoided the pitfalls of outside activities that have proved expensive for both National Distillers and Schenley. Last year, however,

a Seagrams' U.S. subsidiary became interested in various U.S. oil and gas projects which have resulted in a number of producing oil wells. This may prove a profitable diversion from its main business, but in relation to its own operations, these outside activities are very small at the present time.

The extension of the present U.S. excise tax to April 1955 was a disappointment, but both stocks have acquired a sound investment rating and are suitable for income as well as for their defensive characteristics.

FARM MACHINERY

The Canadian and U.S. farm machinery industries are integrated and complementary. No customs duties apply to farm implements crossing the Canadian-U.S. border either way, and the major North American companies have plants in both countries. Canadian exports to the United States consist largely of light tractors, combines, seeding and cultivating equipment. Important imports are heavy tractors, and combines.

Over the years there has been a traditional relationship between the demand for farm machinery and farm income. The whole North American implement industry has been and is still going through a period of adjustment brought about chiefly by the downward trend in farm income. Last year net farm income in Canada fell about 14 per cent from 1952, which in turn was lower than the record $2.1 billion in 1951. U.S. farm income in 1953 was down by some $1.4 billion (nearly 5 per cent).

Sales of farm machinery in both countries reflected this decline in farm income, and the export sales from North America continued to be affected seriously by dollar shortages abroad and import restrictions. Canadian shipments to both the U.S. and overseas markets were sharply below 1952.

There are no indications of any upturn for the industry this year. U.S. food surpluses continue to have a depressing effect. In Canada the downward drift in most farm prices is yet unchecked. The very heavy carry-over of unsold wheat is delaying the prairie farmers' flow of incoming cash, and the unprecedented wheat surplus in the world points to lower prices. Although there appears to be some improvement in Canada's overseas shipments to date, these markets represent typically only about 20 per cent of the total exports. The North American market is the mainstay of the industry, and sales in both the United States and Canada are declining further this year. In fact, Cockshutt Farm Equipment expects a 20 to 25 per cent reduction in its 1954 volume. Operating profits are being affected adversely by the reduced sales, and the shares of the implement companies reflect this condition. In the longer term, however, the increasing need for mechanization of farm operations, and the basic soundness of the farmers' economic position on this continent, all point to a renewed growth of the industry.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Cockshutt Farm Equipment	8-3/8	16½ - 7½	Oct.	$2.70	$1.07	$0.40
Massey-Harris-Ferguson	9¼	10½ - 7-1/8	Oct.	1.62	0.96	0.60

MASSEY-HARRIS-FERGUSON

Funded Debt	$47,950,000
Common Stock, no par value	9,500,855 shares

Massey-Harris' profits reached a peak in 1950 and have been declining since, in the face of rising sales in 1951 and 1952. Last year total sales declined about 15 per cent to $249.1 million, of which three-quarters represented sales in North America. Despite import restrictions and dollar shortages overseas business was not as severely affected as business on the North American continent where implement sales declined over 20 per cent. Due to a continuation of drought conditions and severe competition, sales in the United States declined more than those in Canada. Massey's North American sales totalled $189.1 million of which 24 per cent was defence work.

During the past ten years, Massey-Harris has spent about $42 million on modernizing and expanding its plants, particularly in the United States. Moreover, last year Massey extended its operations by amalgamating with the Harry Ferguson Companies, another world renowned implement organization whose sales last year were about one-half those of Massey's. The assets acquired had a net value of $16,385,000 of which $14.7 million was working capital, and were purchased for a consideration of 1,805,055 shares of Massey-Harris' capital stock. Including this acquisition Massey-Harris-Ferguson had working capital, after deducting all senior securities outstanding, of over $7.00 a share. Because of the less satisfactory condition of the industry this combination may not show up in immediately higher profits, but the Company has a potential earning power which could be of material benefit to shareholders under more favourable conditions and as better integration is achieved. Meanwhile, the outlook in both Canada and the United States is not yet reassuring.

COCKSHUTT FARM EQUIPMENT LIMITED

Funded Debt	$4,250,000
5% Convertible Debentures, due Feb. 1, 1968*	4,767,000
Common Stock, no par value	1,068,460 shares

*Convertible 6 shares per $100 to Feb. 1, 1956, thereafter 5 shares to Feb. 1, 1959, thereafter 4 shares to Feb. 1, 1962.

In terms of total sales Cockshutt Farm is about one-fifth the size of Massey-Harris. Probably because of this relatively small size, the Company was more severely affected by increased competition and difficult marketing conditions. In face of a 14 per cent decline in sales, earnings dropped by almost two-thirds to $1.07 a share in 1953. Assuming conversion of the convertible debentures outstanding, earnings would have been 76 cents a share. Business continues to decline in 1954 and the dividend has been reduced from $1.00 a share to 40 cents a share. The stock has persistently sold for less than its net working capital which at the end of last year amounted to almost $17 a share after deduction of all senior securities, but before inventory reserves of about $2 a share. Operating results for the first six months were not profitable, and the outlook for the seasonally more active second six months "is not as promising as in previous years".

FINANCE COMPANIES

About three-quarters of the finance companies' business is the financing of new and used automobiles, and tractors. The rest consists for the most part of appliance, industrial and equipment financing. It is believed that the major finance companies in Canada have been able to obtain an initial equity of 40 per cent in their financing of motor vehicles. Instalment paper carries the endorsement of the dealer as well as the customer.

As a result of consumer credit restrictions imposed during the Korean War, the amount of instalment paper held by the acceptance companies was reduced by about 20 per cent between the second quarter of 1951 and first quarter of 1952. The abolition of credit restrictions in the second quarter of 1952 resulted in a sharp upward surge of retail instalment financing that reached a peak in the third quarter of 1953, reflecting the boom in automobile and other durable goods sales. The volume of new financing has subsequently eased, as shown below:

Instalment Paper Held by Finance Companies
($ million)

	1950	1951	1952	1953
March 31	122	216	176	423
June 30	162	224	265	520
Sept. 30	191	215	334	544
Dec. 31	202	186	373	510*

* Preliminary.

The slow start in new automobile sales this year and the sluggishness of the used car market have reduced further the amount of automobile financing. Total instalment sales seem to have passed their peak, at least for the present, and may decline further. Nevertheless, with the heavy carry-over of paper from last year's unexcelled volume of financing, profits are being sustained. Moderately higher dividend disbursements could even be justified but a decline in total receivables may preclude such action.

	Industrial Acceptance	Traders Finance
Secured Notes (short term)	$ 136,260,540	$ 19,250,000
Secured Notes (longer term)	53,825,938	125,339,500
Funded Debt	33,250,000	19,587,500 *
Preferred Stock	2,614,700	3,008,900
Total Senior Securities, excluding Convertibles	$ 225,951,178	$ 167,185,900
Convertible Debentures	-	4,059,000
Convertible Preferred	10,027,970	5,000,000
Common Stock (now outstanding)	1,051,350 shares	1,133,992 shares
Common Stock (assuming conversion)	1,327,334 shares	1,397,289 shares
Indicated Dividend	$2.50 per share	$2.40 per share
1953-54 Price Range	46 - 28	42½ - 25
Present Price	43	39

*Including $1,950,000 of debentures carrying stock purchase warrants, most of which have been exercised.

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

Industrial Acceptance is the largest finance company and about three-quarters of its business is the financing of automobiles. In practice, Industrial Acceptance's initial equity averages over 40 per cent minimizing the prospect of loss. Moreover, about 80 per cent of the Company's paper will fall due within a twelve-month period. Last year, notes and accounts receivable increased 15.6 per

cent to almost $288 million, after reserves for losses, and the Company reported earnings of $6.30 a share or about $5.18 a share assuming full conversion of convertible preferreds. These earnings were after an additional provision in excess of statutory requirements of 41 cents a share (or 30 cents a share after conversion) for unearned premium of an insurance subsidiary. Liquid assets, after deducting all senior securities and assuming conversion, were the equivalent of $23.87 a share which includes a provision for losses of $4.02 a share.

TRADERS FINANCE CORPORATION LIMITED

Traders Finance Corporation's principal source of income is the financing of Ford products. In 1953 accounts receivable increased by about 30 per cent to almost $189 million. Relative to this marked increase in receivables reported earnings were disappointing at $3.82 a share or $3.43 a share assuming the exercise of stock purchase warrants and conversion of all convertible securities outstanding at the year-end.

The relatively small increase in earnings last year may have been due to abnormally large appropriations to reserves although this is not apparent from the Company's balance sheet or income account. Undoubtedly Traders Finance's automobile insurance subsidiary, which started business about two years ago, had the usual unprofitable initiation period. At the end of last year, liquid assets were equivalent to $19.94 a share assuming the full conversion of convertible debentures. The reserve for losses was not disclosed.

On the basis of accounts receivable it would appear that Traders Finance does about two-thirds of the business of Industrial Acceptance but its insurance subsidiaries, which do a general insurance business, tend to provide some degree of diversification to the Company's operations.

FLOUR MILLING

Canada's third successive wheat crop last year resulted in record volume handled by the elevators and a record supply of wheat. The carryover of 369 million bushels at the beginning of the current crop year August 1, 1953, was 70 per cent greater than a year earlier. At the same time excellent yields in the United States, Australia and the Argentine have resulted in a heavy overall world surplus which has created a highly competitive condition for both wheat and flour sales. Nevertheless Canada's flour production last year was more than 4 per cent greater than the year before, and flour exports were up by 10 per cent, the greatest volume since the crop year 1947-48.

This year the United Kingdom (Canada's most important market for wheat and flour) has stayed out of the International Wheat Agreement. Wheat and flour purchasing is now in the hands of the private trade after being vested in the Imported Cereals Division of the British Ministry of Food since early in World War II. British policy is one of encouraging the milling and sale of domestic flour and the subsidy of approximately 5 cents per $1\frac{3}{4}$ lb. loaf of bread made from "National" flour, which is to a large extent the grade being shipped from Canada to Britain, is curbing imports from this country. A comparison of flour exports in the current crop year with last year is shown below:

EXPORTS OF CANADIAN FLOUR
(Thousands of barrels)

7 Months of the Crop Year

	United Kingdom	Other Commonwealth	Total Commonwealth	All Other	TOTAL
1952	2,699	1,130	3,829	3,289	7,118
1953	1,818	1,381	3,199	2,512	5,711
% Change	-32.6	+22.2	-16.4	-23.6	-19.7

Since the beginning of World War II, an average of 53 per cent of Canada's flour production has been exported. Before the war about one-third was exported. So far during the current crop year 47 per cent has been exported. Since domestic flour requirements are only one-third of Canada's total milling capacity, competition in the domestic market is keen and exports are essential. The near-term outlook for the milling industry as a whole is uncertain, especially so in view of the probability of other countries re-entering the flour export field. On the other hand, flour milling companies have been carrying out an aggressive diversification of output, and have conserved their financial resources at the expense of dividend disbursements.

	LAKE OF THE WOODS	OGILVIE FLOUR MILLS	MAPLE LEAF MILLING
Funded Debt	-	$4,500,000	$3,876,000
Preferred Stock, $100 par value	$1,500,000*	$2,000,000*	$6,537,668
Common Shares, no par value	147,689	600,000	523,664
1952-53 earnings per share	$2.05	$1.98	$1.21
1951-52 earnings per share	$2.39	$1.93	$1.24
Dividend per share	$1.60	$1.50	$0.50
Gross working capital per share	$53.34	$26.57	$17.21
Net working capital per share**	$39.12	$14.40	Nil
1953-54 price range to date	33¼ - 28	33 - 29¾	9 - 6½
Current price	29¼	32¼	8½

* 7% non-callable preferreds.

** Working capital including marketable securities after deduction of bonds and preferred stocks. Non-callable preferreds were deducted on a 5% basis.

COMMENTS:

Ogilvie Flour was able to maintain earnings last year only because of an increase in investment income. Because of inadequate information with respect to both its investment portfolio and subsidiary companies, an intelligent appraisal of the stock cannot be made.

Lake of the Woods is selling well below its net working capital including its investment in Inter City Baking but after deducting all senior securities.

Maple Leaf Milling has not the strong working capital position of its competitors but--despite one unfortunate year--its operating profits have shown a better trend since the war. It has a high degree of leverage in its capitalization.

FOOD

Food sales in Canada continue to share in the long and spectacular growth of retail sales generally. The dollar value of food sales has increased about 8½ per cent annually in recent years, but last year the increase narrowed to 4.3 per cent over 1952, compared with an increase of 7.1 per cent in 1952 over 1951. The increasing urbanization of the Canadian population is resulting in greater purchases of standard brands of food products, and a corresponding growth in chain store retail food outlets, such as Dominion Stores, Loblaw and Thrift.

The growth of the "Supermarket" during the post-war period, with its increase in efficiency and economy of marketing on a self-service basis, has been an outstanding feature of the food distribution business. Since 1938-39 the total number of retail outlets operated by the five largest food chains has decreased from 836 to 595 (28.2 per cent), and the average dollar value of sales per store has increased from $92,000 to $863,000 (838 per cent). All five companies reported record sales in the last fiscal year, and in the aggregate they were 15 per cent better than in the year before, well ahead of the increase in total food sales in Canada. The sales growth of the five companies is shown below:

SALES DATA FOR FIVE LEADING FOOD CHAINS
(As reported at end of Fiscal Year)
($000)

	1938 - 1939			1946 - 1947			1952 - 1953		
Company	Sales	No. of Stores	Sales per Store	Sales	No. of Stores	Sales per Store	Sales	No. of Stores	Sales per Store
Canada Safeway	$ 20,381	218	$ 93	$ 42,568	141	$302	$111,751	138	$ 810
Dominion	19,909	378	53	40,899	229	177	120,647	202	497
Loblaw	23,128	113	205	53,847	113	477	176,220	150	1,175
Steinberg's	4,759	23	207	18,748	24	781	80,373	32	2,512
Thrift	8,837	104	85	9,622	60	160	24,769	73	339
TOTAL	$ 77,014	836	$ 92	$165,684	567	$292	$513,760	595	$ 863

The canned foods industry, however, is undergoing some pressure from overproduction, inventory reduction reduction by retailers, competition from frozen vegetables, and competition from the surplus U.S. pack. Exports of processed fruits and vegetables last year were almost 30 per cent below 1952. It appears likely that the canning industry will reduce their pack of vegetables this year, but the outlook generally is one of continued increase in demand for branded food products produced by such companies as George Weston and Canada Packers.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Canada Packers "A"	39	40 - 33½	Mar.	$1.64	$3.67	$1.50
Canada Packers "B"	36½	36½ - 28¾	Mar.	1.64	3.67	1.50
George Weston	46	46½ - 26-1/8	Dec.	2.55	2.58	1.00

CANADA PACKERS LIMITED

Class "A" $1.50 Cum. Partic. Pfd., no par value	400,000 shares
Class "B" Non-Cum. Partic., no par value	800,000 shares

Canada Packers earnings continue their impressive upward postwar trend broken only in 1952 when the United States imposed embargoes on imports of meat from Canada. Earnings for the period ended March 1953 showed a sharp recovery from those in 1952 but profit margins were not as favourable as those in 1951. This was caused by a 22 per cent decline in the price of meat, and meat constitutes about 60 per cent of the total dollar sales of Canada Packers.

Canada Packers has no senior securities outstanding and its growth has been unusually consistent in face of a declining trend in the packing industry as a whole. Stock market quotations have moved with the general market but have broken away from the trend from time to time in anticipation of a tax free distribution of earned surplus. This surplus amounted to $22.89 per share of "A" and "B" stock outstanding at the end of the 1953 fiscal year. Working capital was equivalent to $16.03 a combined share.

GEORGE WESTON LIMITED

4¾% Sinking Fund Debentures, due 1968	$ 7,600,000
4½% Preferred Stock, $100 par value	$11,871,500
Common Stock, no par value	685,896 shares

In addition to its food and confectionery business in Canada and the United States, George Weston has other important interests, the undistributed profits of which are as important as its own operating earnings. It is estimated that the Company has a 55 per cent interest in Western Grocers which, at current market prices, is equivalent to about $6.00 a share of Weston. It also has about a 51 per cent interest in Loblaw Groceterias which at current market prices has a value of about $20.00 a share of Weston. Loblaw Groceterias, in turn, has about a 57 per cent interest in Loblaw Inc., a retail food chain in the United States.

If the undistributed earnings of the above holdings are consolidated, earnings of George Weston would be about $4.50 a share, as distinct from the $2.58 (including investment income of 53 cents a share) reported in 1953. This calculation includes the earnings of Loblaw Groceterias for the year ended May 31, 1953. If earnings of Loblaw continue to grow at the average post-war rate of 20 per cent annually, this would be reflected in still higher consolidated earnings of Weston. Earnings on the "B" voting stock of Loblaw Groceterias could be considerably enhanced by calling the participating "A" shares outstanding at $50, and substituting say a 5 per cent preferred. On this basis, consolidated earnings would be increased to about $5.25 a share.

George Weston is only beginning to reflect the expansion and integration of its widespread interests. It represents the best diversification available in the food business in Canada. Meanwhile, the $1.00 a share distribution, which will probably not be materially increased in the forseeable future, is retarding market appreciation in the shares.

GLASS CONTAINERS

The glass container industry in Canada has shown a steady and continuous post-war upward trend, paralleling the upward trend of beer sales and sales of packaged food. Glass containers are one of the cheaper forms of packaging in addition to being the most attractive. They are manufactured under two separate classifications, narrow necked and wide mouth. The former are used for medicine, beer, wine and spirits bottles, and containers for certain foods such as catsup and sauces. Production of whiskey bottles is not a major item in Canada because most of the Canadian distillers' sales are in the United States, and the spirits are largely packaged in duty-free U.S. bottles, although whiskey sold in Canada is packaged in Canadian bottles. The wide mouth variety includes milk bottles, and jars for pickles, jams and olives.

To a certain extent alternative containers have made inroads into the use of glass containers. Glass cannot compete with cheap vegetable canning, and the glass "self-sealer" jar has long since given way to the tin can, even in the case of a substantial portion of the dwindling practice of home preserving. But for packaged foods which are not entirely consumed when opened, the glass container has a marked advantage. Canned beer has not been popular in Canada, and the glass industry has developed a popular throw-away bottle in response to a demand for non-deposit bottles and the disinclination of many dealers to handle empties. In the case of certain medicines the non-toxic properties of neutral glass are essential for safety. Cardboard milk cartons have become widely used by the chain food stores because of the extra cost of handling milk bottles, but the bulk of milk purchased by Canadians is still through home delivery in returnable bottles in which milk keeps longer and acquires no taste from the container.

The glass container industry is in a well-entrenched position in Canada with a long-term outlook of relatively slow and stable development, keeping pace with population growth and further urbanization of the population. Imports of standard mass-produced glass containers are not an important factor in the sales position of the domestic industry. In recent years costs have risen more than selling prices, so that the producers have been forced to absorb part of the increase with a corresponding restriction of profits. Although new synthetic containers will continue to capture a part of the packaging market, they are a premium product and glass will continue its dominating position as a cheap and attractive packaging medium. The shares of Dominion Glass and Consumers Glass represent a defensive type of investment for income because of the relatively stable, non-cyclical character of the industry.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividends or Indicated Rate
Consumers Glass	30	30 - 21¾	Aug.	$1.91	$2.06	$1.50
Dominion Glass	45	45 - 28½	Sept.	2.97	3.67	1.50

DOMINION GLASS COMPANY LIMITED

7% Cum. Preferred Stock, $10 par value $2,600,000
Common Stock, no par value ..... 425,000 shares

During the past 20 years, the annual growth in the demand for glass containers in Canada has been about twice the annual growth in population. Operating earnings of Dominion Glass have been keeping pace and in 1953 were more than double those of 1949, the first normal post-war year. Last year the Company reported earnings of $3.67 a share, but on the basis of income tax accounting these would appear to have been closer to $5.00 a share.

Dominion Glass has about three-quarters of the glass container capacity in Canada. In anticipation of future expansion the Company purchased a new plant site in the Vancouver area on which an office and warehouse will be constructed for the present. During the past five years, over $5.3 million ($12.50 a share) has been spent on new plant and equipment, which has been entirely financed out of earnings. Moreover, these expenditures are continuing and over $1 million is to be spent in 1954. Although expenditures have been heavy during this period, working capital was increased by $7.50 a share and amounted to about $22.50 a share at the end of last year. Despite this strong working capital position no substantial increase in dividend disbursements is likely until the modernization and expansion program is completed. Nevertheless, the stock has many investment qualifications because of its defensive nature and market quotations should adjust themselves more in keeping with the real earning power of the enterprise.

CONSUMERS GLASS COMPANY LIMITED

Funded Debt	$3,000,000
Common Stock	319,570 shares

Consumers Glass is about one-third the size of Dominion Glass and does about one-quarter of the total Canadian business, the greatest proportion of which is done in Eastern Canada. Its post-war record of earnings has not been as good as its competitor because of its limited facilities. Although over $2 million was spent in the post-war period in modernizing and expanding its single plant at Montreal, the Company suffered from burdensome distribution costs as markets were expanded in Ontario. A new plant is being built near Toronto which will add about one-quarter to over-all capacity and reduce its marketing costs considerably. This $3 million plant, which will be in production by mid-1954, was financed by an issue of 5 per cent bonds, one-third of which were serials.

Consumers Glass reported earnings of $2.06 a share in 1953 compared with $1.91 a share in 1952. Last year's earnings, however, were after a special reserve equivalent to 27 cents a share. The Company has paid out a larger proportion of its earnings in dividends than Dominion Glass and the expected higher profits from its new plant should give ample protection to the present $1.50 a share disbursement.

GOLD

The outlook for the gold industry is drab from both an output and earnings viewpoint. Caught between an official price which has been frozen at $35 U.S. for twenty years, and sharply increased costs of labour, supplies, and equipment, marginal producers have ceased operations and two-thirds of the gold mines operating in Canada in 1940 have been closed. No new gold mine came into production last year, and prospecting and development are at a low ebb. Established mines have had to write off millions of tons of ore as uneconomic in recent years. The post-war high in gold production (1952) was 16 per cent below the all-time high (1941), and gains in the first half of last year were more than offset by the effect of costly strikes in the latter part of year. Gold has lost its traditional place as Canada's leading mineral, giving way last year to petroleum, nickel and copper, in that order.

The official Canadian price of gold has been under the $35 level for the past two years because of the premium on Canadian funds. But the premium price of gold on the free market, which when opened to Canadian producers was about $40 U.S., has now fallen to little more than the officially pegged price. Consequently nearly all Canadian gold mines are now selling their output to the Canadian Government and accepting the cost-aid provided by the Gold Mining Assistance Act. This year's appropriation of $15.8 million will continue to be an important factor in the earnings of nearly all gold producers.

Basically the remedy for the gold industry is an increase in the price. But the U.S. Government stated at the last annual meeting of the International Monetary Fund that no increase is contemplated. This policy is likely to remain unchanged unless the United States is faced with an extended and severe business depression. The index of 20 Canadian gold shares is currently 73.40 down 16 per cent from the 1953-54 high, and 49 per cent from the post-war high of 143.57 established in February 1946. The market action of the gold stocks shows no indication of discounting any improvement. Nevertheless, mining efficiency is being improved, some materials costs are lower, wages are levelling off, and the slightly lower premium on the Canadian dollar strengthens the Canadian price of gold. These factors will not have a powerful effect on the industry, but they will assist in a well deflated situation.

Although there are no tangible signs of an early, vigorous upswing in the shares of the gold mining companies, some of them offer a good hedge. For example Dome has investments with a market value of about $20 a share including a 62 per cent interest in Sigma and 100 per cent interest in Dome Exploration which controls Campbell Red Lake. In addition to its gold mining properties, Hollinger has an advantageous participation in the Quebec-Labrador iron ore development. The market value of McIntyre Porcupine's investment portfolio about equals the price of the shares. A major portion of these investments are in the United States. Kerr-Addison is Canada's largest gold producer. With its low costs and expanding reserves, the stock is the premier security in the industry. Of the junior golds, Giant Yellowknife is rapidly expanding its output and has vast reserves which have not yet been fully defined. Campbell Red Lake is also expanding its output and is developing reserves of high grade ore. If any improvement in the industry materializes, the lower grade producers such as East Malartic, MacLeod-Cockshutt and Malartic Gold Fields could be the most profitable purchases.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ending	1953 Cost-Aid per Share	Earnings per Share 1952	Earnings per Share 1953	Indicated Dividend
Senior Golds & Holding Companies							
Dome	16	22¾ - 13-5/8	Dec.	$0.31	$0.75	$0.86	$0.70
Hollinger	15-7/8	16¼ - 11	Dec.	0.19	0.39	0.15-c	0.24
Kerr-Addison	18	21-3/8 - 16¼	Dec.	Nil	0.82	0.70	0.80
McIntyre	63½	69½ - 50	Mar.	0.73	2.88	2.59 *-c	3.00
Noranda (see "Base Metals")							
Junior Golds							
Aunor	2.15	3.10 - 1.96	Dec.	0.10	0.20	0.15-c	0.16
Campbell Red Lake	7.25	8.50 - 6.70	Dec.	0.05	0.16	0.25	0.10
Giant Yellowknife	8.30	11.75 - 7.30	June	0.17	0.05-a	0.38-b	0.20
Leitch	0.70	1.09 - 0.55	Dec.	0.03	0.07	0.07	0.07
Lower Grade Producers							
East Malartic	2.40	3.45 - 1.45	Dec.	0.14	0.07	0.10	0.05
MacLeod-Cockshutt	1.70	2.95 - 1.16	Sept.	0.06	0.17	0.15	0.10
Malartic Goldfields	1.45	1.95 - 1.31	Dec.	0.16	0.10	0.13	0.05

* Comparable consolidated earnings for 12 months ended March 31, 1954 were $2.93 a share including $0.95 cost-aid.

a- Thirteen months. Costs abnormally high on newly expanded production in 1952.

b- Nine months earnings ended March 1954 were 31 cents a share including cost-aid of 17 cents.

c- Operations hampered by strike lasting over three months.

	No. of Shares	Working Capital	1953 Gold Production M Ozs.	Reported Ore Reserves M Tons *	Grade of Ore at $35 per Oz.
Senior Golds & Holding Companies					
Dome	1,946,668	$3,139,994-a	170	2,470	N.A.
Hollinger-b	4,920,000	3,740,978-a	220	4,704	$10.82
Kerr-Addison	4,730,301	4,597,361	342	15,269	10.28
McIntyre	798,000	1,242,386-a	147	2,639	11.40
Junior Golds					
Aunor	2,000,000	706,421	55	726	12.95
Campbell Red Lake	3,999,500	1,130,811	89	764	18.74
Giant Yellowknife	4,000,000	2,676,490	177	1,639-a	26.95
Leitch	2,912,505	666,414	32	81	22.40
Lower Grade Producers					
East Malartic	4,000,000	1,700,914	76	1,813	6.68
MacLeod-Cockshutt	2,862,490	1,321,877	61	1,527	5.57
Malartic Goldfields	4,000,000	3,707,727	109	3,550	6.51

* In some cases ore reserves include only blocked out ore.

a- Ore above 750 ft. level only.

b - See under "Iron Ore" section.

IRON ORE

There are three important iron ore areas in Canada, Wabana in Newfoundland which supplies the Dominion Steel and Coal Corporation, the Lake Superior area where Steep Rock and others are operating, and the Quebec-Labrador ore body which comes into production this year with an initial shipment of 1 million tons. Almost a billion tons of iron ore have been indicated in this body. The decline in the better-grade reserves of the Mesabi range in the United States points to the future importance of the Lake Superior and Quebec-Labrador ore bodies as a source of supply to the U.S. steel industry.

The entire Quebec-Labrador deposit is under lease to the Iron Ore Company of Canada (no stock is outstanding in the hands of the public), which plans to produce 10 million tons a year, with a longer-term objective of 20 million tons a year. Five U.S. companies, Republic Steel, National Steel, Armco Steel, Wheeling Steel and Youngstown Sheet and Tube, have guaranteed to take the first 10 million tons at prevailing prices. The objective of 20 million tons will have to await completion of the St. Lawrence Seaway, which when completed would allow all shipments to inland mills to move via the Great Lakes. No Canadian market exists at the moment for this ore.

The other ore body under development is in the Lake Superior area, where Steep Rock Iron Mines is carrying out a major expansion program, and the ore body may be as large as the Quebec-Labrador deposit. Inland Steel is also engaged in a major development program on part of this ore body.

Canadian iron ore exports have already shown a sharp increase, and in the future iron ore seems certain to become a major export item and could amount to almost 19 million tons in 1956 as against about 5 million at present.

HOLLINGER CONSOLIDATED GOLD MINES LIMITED

Common Stock, $5 par value ..... 4,920,000 shares

Aside from being the second largest gold producer in Canada, Hollinger's chief outside interest is in the Quebec-Labrador iron ore development. There is no direct way of investing in this project as all the stock of the Iron Ore Company of Canada is held privately. Hollinger, however, through its direct and indirect interests would appear to be the best participation available.

Hollinger participates in three ways in this project through its subsidiaries:

(1) In the management fee of 10 cents a ton through Hollinger-Hanna;
(2) In the 7% royalty through Labrador Mining and Hollinger North Shore;
(3) In the earnings of Iron Ore Company of Canada by a direct and indirect stock ownership.

Hollinger holds 51 per cent of the stock of Labrador Mining (which has one-third of the ore deposit), 60 per cent of Hollinger North Shore (which has two-thirds of the ore deposit), 50 per cent of Hollinger-Hanna (the management company), and an 8.3 per cent direct interest in Iron Ore Company of Canada. In addition Hollinger has an indirect interest of 9.4 per cent in Iron Ore Company of Canada through Labrador Mining and Hollinger North Shore.

Based on a production of 10 million tons annually by 1956 indicated earnings are shown below. These are after taxes (the Iron Ore Company's earnings will be exempt for the first three years from 1954) and assuming all earnings are passed along by receiving to participating companies.

	Per Share Hollinger
From 7% royalty (45 cents a ton)	$0.33
From 10 cent management fee	0.05
From direct and indirect interest in Iron Ore Co. for each $1 a share of net earnings ($4 a share estimated)	0.21

Ultimately 20 million tons may be produced. It is improbable that the receiving companies will pass along all their earnings, particularly Iron Ore Company. However, the two exploration companies retain the rights to all other ores in the property and to the ownership of certain iron ore reserves. Eventually these might prove valuable.

STEEP ROCK IRON MINES LIMITED

Total Debt	$17,000,000
5% Preferred, $100 par	$ 2,000,000*
Common Stock, no par value	7,360,444 shares

*Convertible into Common at $3.00 a share.

Although not as large as the Quebec-Labrador iron ore project in its present stages of development, Steep Rock Iron Mines is another major property in the iron ore industry in Canada. It is well located on the existing Great Lakes channels in the Lake Superior region, in close proximity to the major steel producers in the United States.

On shipments of about 1.3 million tons in 1953 Steep Rock reported earnings of 46 cents a share. Last year's production came almost entirely from the open pit Errington Mine. This property was changed over to an underground operation and production was commenced at the new Hogarth open pit orebody. Eventually these two properties will be capable of producing at an annual rate of 3½ million tons, but the 1954 production target is 2 million tons.

Other properties including the "G" orebody, located between the Hogarth and the Errington, and the Errington No. 2 are being prepared for production. The plan is to step up production by a million tons a year until an output of 4 million tons is reached by 1956 and ultimately 5½ million tons by 1958. In addition Inland Steel, through its Canadian subsidiary, is investing $50 million to establish an initial production of 750,000 tons by 1960 which will be increased to at least 3 million tons annually by 1969. Under an agreement Inland Steel is to pay royalties on a minimum of 3 million tons and advance Steep Rock $8 million at 3¾% interest which will be used to help finance Steep Rock's own production program. Royalties from this agreement could exceed $3 million annually by 1969.

Ore reserves are estimated at about 288 million tons to a depth of 1,000 feet. About 60 per cent of these ore reserves are located in the area directly owned by Steep Rock Mines, and the other 40 per cent is located in the area leased to a subsidiary of Inland Steel. These combined reserves are situated along about one-half of the total contact zone of the Steep Rock Range considered as potential ore-bearing property.

Steep Rock, on a production of 5½ million tons, could earn up to $2.00 a share after taxes on the basis of present iron ore prices and assuming conversion of the preferred. It is expected that no significant taxes will be paid before 1957 which will preserve working capital for the retirement of the funded debt.

Steep Rock refinanced its outstanding funded debt by an issue of $17 million 4½% bonds. The $10 million of bonds originally purchased by the U.S. Government agencies and the $2,250,000 debentures, together carrying an average interest rate of 4.87%, were retired and the remaining $4,750,000 will be used as additional capital. This new financing removed the rigid restrictions on common dividend payments imposed by the U.S. Government loans.

Under present market conditions it should be possible for the Company to retire a substantial portion, if not all, of its debt within the next 10 years. This assumes optimum conditions and no delays in the present production schedule.

LUMBER

The chief Canadian lumber companies are in British Columbia, where production of sawn lumber has been running at high levels. Average annual output from 1951 through 1953 was in excess of 3.6 billion board feet, nearly 30 per cent greater than the average for 1946-50. In recent years about 35 per cent of the shipments of B.C. lumber has gone to the Canadian market. The U.K. market has become less important than formerly, following the cessation of bulk buying by the U.K. Government, and last year shipments to that country were lower by ¼ billion board feet than the 1951 level (a 36 per cent decline). Fortunately the U.S. market was able to absorb this cutback, and more. Shipments to the United States last year were some 1/3 billion board feet (42 per cent) greater than in 1952, and the U.S. is now the most important market for west coast lumber.

Last year lumber prices continued their downward trend, although by year-end they had stabilized, and since then have firmed slightly. Generally fir lumber prices in the United States are 7 to 10 per cent below their level of a year ago, and the outlook this year appears to be one of greater stability. Lumber prices have more than doubled since the end of World War II, but wage costs have risen sharply and now average about $2 per hour. Break-even points in the industry are high.

Residential construction is the most important outlet for lumber, and the volume of housing in both the domestic and the U.S. markets (which accounted for 75 per cent of last year's shipments) promises to be satisfactory. (See "Construction"). The outlook for this year is one of well-maintained volume by the major lumber companies. But easier prices, coupled with higher costs, will restrict improvement in profits. In the longer term the excellent wood reserves in British Columbia, together with increasing diversification of output, provide the larger B.C. lumber producers with a favourable growth outlook.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
B.C. Forest Products	7	7 - 4½	Sept.	$0.59	$0.96	$0.40
MacMillan & Bloedel "B"	22	22 -15¾	Sept.	2.61 *	2.14 *	0.80

* Per share "A" and "B" outstanding.

MACMILLAN & BLOEDEL LIMITED

Funded Debt	$7,914,935
Class "A" Stock, non-call., conv., cum., no par value	133,499 shares
Class "B" Stock, no par value	5,152,039 shares

MacMillan & Bloedel represents the best investment in timber in Canada. The merger with Bloedel resulted in the acquisition of timber reserves which combined are estimated at 10 billion board feet. In many quarters these reserves are estimated at closer to 17 billion board feet. At current market prices of 22 the stock market is placing a value on the entire enterprise of $116.2 million or about $85.2 million after subtracting working capital. This is equivalent to about $8.50 per 1000 board feet based on official estimates or about $5.00 per 1000 board feet based on unofficial estimates. The valuation is low in relation to present-day values for standing timber and gives no consideration to the Company's important sawmill, plywood and bleached sulphate facilities.

MacMillan continues to follow a policy of diversifying its production in order to utilize more intensively and profitably its valuable timber. Last year almost $18 million was spent chiefly to complete the second bleached sulphate pulp unit at Harmac. This plant was designed to utilize waste wood products and will more than double capacity bringing it to 600 tons daily. About 95 per cent of the Company's total pulp production is sold outside Canada.

Last year volume of production in almost every department exceeded that of 1952, when the Company's plants were closed by a strike for six weeks. This increased output, however, was sold at lower prices with the result that profits declined.

The new bleached sulphate pulp unit is resulting in higher profits from this division but this is being offset by lower profits in other departments. Moreover, there is a possibility that the increase in the North American capacity for producing bleached pulp may result in some temporary oversupply in 1955. Nevertheless, this Company is extremely well situated to benefit from any betterment in the industry and from the long-term trend of expansion in the cellulose field.

BRITISH COLUMBIA FOREST PRODUCTS LIMITED

Funded Debt	$6,675,000
5% Convertible Debentures, due 1962	$4,832,500
Common Stock, no par value	2,000,000 shares

B.C. Forest Products is probably not as attractive a common stock investment in timber as MacMillan as only 20 per cent of B.C. Forest's reserves are Crown granted timber. The balance is held under Government lease and license or under purchase contracts. Nevertheless, based on earnings, B.C. Forest is more underpriced. Cash earnings (including depreciation provisions) are substantial lending adequate coverage for the present 40-cent dividend.

Last year earnings made a sharp recovery from the 1952 low of 52 cents a share to 96 cents a share in 1953. Earnings in both these years were after a provision to special reserves amounting to 45 cents a share in 1953 and 38 cents in 1952. B.C. Forest's 1952 operations were more seriously affected than its competitors by such factors as strikes which were common to the industry at the time. Output from its new plywood plant and the continued demand for specialty products enabled the Company to offset the decline in prices and increased costs in 1953. This improvement has not continued in 1954.

Since its inception in 1946 the Company has spent over $11 a share on new plant and equipment and timber reserves, over half of which was financed from retained earnings including depreciation provisions. The Company is considering entering the pulp business which should enable a more intense utilization of its timber resources.

NATURAL GAS

Natural gas reserves in Canada (practically all in Alberta) have shown a very marked growth since major discoveries of oil took place in Alberta in 1947. In April of 1948 natural gas reserves in Alberta were estimated at approximately 4 trillion cubic feet. On June 30, 1953, the official estimate made by the Petroleum & Natural Gas Conservation Board of Alberta was 11.5 trillion cubic feet. All of this gas has been discovered incidental to the search for crude oil. On May 14, 1954 the Government of Alberta declared that as of March 31, 1954 Alberta's established gas reserves amounted to 13.4 trillion cubic feet. The same announcement declared that over 5.3 trillion cubic feet were available for export to Eastern Canada and Trans-Canada Pipe Lines were granted their request for 4.35 trillion cubic feet.

Although there have been several indications of natural gas in size, no significant amount has yet been discovered in Saskatchewan which would affect the eastern export market, but the general Kindersley area is considered to have gas reserves of approximately 400 billion cubic feet. Natural gas in Manitoba to date is negligible. Reserves in British Columbia, mainly in the general Fort St. John area, are estimated at a minimum 3 trillion cubic feet.

It now appears that the Trans-Canada Pipe Lines will become a reality within one-and-a-half to two years. Considerable stimulus to the oil and gas industry is expected to follow this development.

The proposal of Trans-Canada Pipe Lines is to construct a large-diameter pipeline from Alberta, principally from the Pincher Creek field, to Winnipeg with the ultimate objective Ontario, and eventually Quebec. A spur line will run from Winnipeg to the Minneapolis area of the United States. Permission from the Federal Power Commission will be required for such spur line. The overall cost of this project, when completed, is expected to be in excess of $300 million. Daily potential capacity is estimated at 540 million cubic feet. The first stage of the project from Alberta to the Winnipeg and Minneapolis areas will likely be profitable from the outset. The economics of the extension to

Ontario and Quebec has been the subject of considerable difference of opinion during the past two years. However, the importance of the project to Canada and the industrial areas of Eastern Canada could override economic considerations and attempts have been made to obtain government guarantees or some form of subsidy, direct or indirect. The Minister of Transport, however, said that the government had no intention of including provision for a subsidy to Trans-Canada Pipe Lines when the amendment to the Pipe Lines Act was drawn up. In order to build up the potential market in Ontario, approval has been given to the Consumers' Gas Company of Toronto to import gas from the United States via Niagara Falls to Toronto. Consumers' have agreed with Trans-Canada to switch to Alberta gas when, as and if it is available for the Toronto area.

The West Coast Transmission Company, in which Pacific Petroleums is substantially interested, applied for a permit from the U.S. Federal Power Commission to export natural gas from the Peace River area of Alberta to the U.S. Pacific Northwest. This application was refused by the F.P.C. because there was no intergovernmental agreement guaranteeing a continuous supply of gas, and all control over the production, allocation and transport to the U.S. border would be in the hands of agencies of another government whose primary interest would of necessity always be in the needs and advantages of their own people. The Commission also declared it would not be in the public interest to permit the importation of Alberta gas as the sole source for the consumers in need of uninterruptable supply at a reasonable price which should always be assured by the Commission. Consequently, the F.P.C. authorized Pacific Northwest Pipeline Corporation of Houston to build a pipeline from the San Juan basin in New Mexico and Colorado to the Pacific Northwest. It is not improbable that at some later date an application may be made to build a pipeline from Southern Alberta to feed the main line of Pacific Northwest Pipeline which might then serve British Columbia.

Apart from International Utilities and Union Gas, which are discussed more fully below, the following are among the many companies that stand to gain from the development of the Trans-Canada line: One of the first will be Winnipeg and Central Gas with its distribution system in Winnipeg. Capital expenditures will be necessary, however, for the Company to take advantage of natural gas. Consumers' Gas of Toronto has a present rate structure enabling it to pay 80 cents a share. This Company may become the largest distributor of natural gas in Canada. Canadian Delhi Oil owns a half interest in the equity of Trans-Canada Pipe Lines and has relatively extensive gas reserves. The Calgary and Edmonton Corporation has one of the largest potential gas reserves of any independent company.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
International Utilities	31½	31¾ - 24	Dec.	$1.72	$1.96	$1.40
Union Gas	40	42 - 25½	Mar.	2.23*	2.42*	1.40

*Earnings for fiscal year ended March 1953 and 1954.

INTERNATIONAL UTILITIES CORPORATION

Senior Securities of Subsidiaries	$39,704,233
$1.40 Cum. Conv. Preferred Stock, $25 par value	$ 6,187,000
Common Stock, $5 par value	964,662 shares

International Utilities is a holding company operating two gas subsidiaries (Canadian Western Natural Gas and Northwestern Utilities) and an electric power subsidiary (Canadian Utilities). In addition the Corporation recently acquired all the outstanding stock of two propane gas subsidiaries and a majority interest in another. These subsidiaries supply gas, electricity and propane gas to the major cities of Alberta. Excluding dividend income, the natural gas subsidiaries contributed about 76 per cent to the consolidated operating earnings, the electric company about 22 per cent and the newly acquired propane gas companies about 2 per cent.

Last year International Utilities reported earnings of $1.96 a share which included investment income of 60 cents a share. Natural gas sales increased 11 per cent with the benefit of a 10 per cent rate increase, but they were not up to expectations because of the very mild weather in the final quarter of the year. Despite the rate increase, natural gas earnings are estimated to be about three-quarters of those permitted by the Board of Public Utility Commissioners. Canadian Western obtains two-thirds of its gas requirements from the Turner Valley and the remainder from the Jumping Pound field. The combined reserve of these two fields is about 706 billion cu. ft. Northwestern produced about 68 per cent of its requirements from its own reserves. Sales of electricity continued to expand and increased about 21 per cent last year.

Capital expenditures in 1953 by all the subsidiaries were over $9 million and an equally large sum will be spent in 1954. These will be financed from the Corporation's consolidated resources. Working capital at the end of last year amounted to $2.1 million which did not include an investment portfolio with marketable securities of about $5 million. The Corporation also owns 424,400 shares of Anglo Canadian Oil which, at current prices, has a value of $2.2 million. Thus the combined cash resources of the enterprise exceed $9 million or $9.70 a share. Assuming conversion of the outstanding preferred stock, this would be equivalent to $7.72 a share. In addition, a 25 per cent interest was held in Western Pipe Lines which was merged with Trans-Canada Pipe Lines for a 12½ per cent interest in this latter company. This gives International an interest in the proposed all-Canadian east-west natural gas pipe line. International Utilities is well-established in the Alberta natural gas industry. Moreover, its gathering facilities form a network which could be of strategic value when the Trans-Canada line materializes.

UNION GAS COMPANY OF CANADA LIMITED

4¾% First Mortgage Bonds, due 1968	$7,600,000
Common Stock, no par value	706,199 shares

Union Gas serves the highly industrialized south-central area of Ontario with natural gas. In addition, the Company owns almost all the stock of United Fuel Investments which, through subsidiaries, distributes manufactured gas in the Hamilton area. The Company has been expanding rapidly and sales of gas have risen from about 5.3 billion cu. ft. in 1946 to its present annual volume of over 10 billion cu. ft. Earnings have kept pace and have shown a continuous upward trend during this period with but one minor exception. Moreover, the possibility of attaining a larger supply of natural gas should enable Union to expand its operations at an even sharper rate.

In addition to reserves available to the Company of upwards of 150 billion cu. ft. from the immediate area, Union has a contract with Panhandle Eastern Pipe Line for delivery of 5½ billion cu. ft. annually. This gas is imported from the U.S. during off peak periods and stored. Just recently a new contract for an additional 15½ billion cu. ft. annually was completed with Panhandle. This contract has yet to be approved by the U.S. Federal Power Commission and an export permit has yet to be received. If approved this additional supply of relatively cheap gas would enable the Company to meet the additional requirements of its own area and assure sufficient gas to justify conversion to natural gas of the area served by United Gas and Fuel. Plans are being formulated to build a pipe line system from its storage facilities to service Hamilton, Oakville, and other major markets in Southwestern Ontario. If an export permit is granted by the U.S. Federal Power Commission, the Company's unique storage facilities could be the distributional focal point of natural gas for the entire area.

At a depth of 1,600 ft. below the surface at the former Dawn gas field, there are masses of porous rock forming natural storage capacity of about 15 billion cu. ft. With this natural reservoir, Union is able to meet peak winter load requirements making it a logical storage for Alberta gas when it is piped east. Meanwhile, earnings continue to rise and, although the Company's distribution system is subject to rate regulation, it stands to benefit from the continued growth of the area served.

NEWSPRINT

(also see Pulp and Paper)

An uninterrupted succession of gains in each year since the war has increased Canadian newsprint production by 27 per cent or by 1,215,000 tons over the total achieved in 1946, and by 80 per cent or 2,547,000 tons over the prewar level of 1939. This continuity of increase was maintained in 1953 although the gain of .6 per cent was the smallest of any postwar year. It was accompanied by a further addition to capacity and for 1954 Canadian rated capacity is 5,920,000 tons, an increase of 197,000 tons or 3.4 per cent. The average operating ratio for 1953 was 100 per cent, compared with 103.2 per cent in 1952, indicating virtually full operation but some let-up in the degree of urgency shown in recent years.

Since about 85 per cent of Canada's newsprint production is taken by the United States, and since Canada supplies about 80 per cent of U.S. requirements, the outlook for the industry is heavily dependent upon U.S. consumption which showed renewed growth last year after two years of insignificant increases. Consumers' stocks were reduced by about 60,000 tons during 1953, indicating consumers' confidence in assured availability of supply. Tonnage actually received by U.S. consumers last year showed an increase of 26,000 tons from Canada but this was more than offset by decreases in supply taken from domestic mills and from Europe. Both of the major factors in newsprint consumption showed increases last year; advertising linage rose 4.2 per cent and there was a small increase in total newspaper circulations.

Percentage Annual Change in U.S. Newsprint Data

	Newspaper Circulation		Newspaper Advertising Linage	Newsprint Consumption	Consumers' Stocks at Year-end
	Daily	Sunday			
1953	+ 0.9	- 0.6	+ 4.2	+ 2.6	- 7.4
1952	0	- 0.2	+ 1.1	+ 0.2	+ 14.6
1951	+ 0.3	- 0.6	+ 1.6	+ 0.6	+ 20.6
1950	+ 1.9	+ 0.4	+ 6.0	+ 7.4	- 2.5

To date this year the rate of consumption of newsprint in the United States shows little change from the same period of 1953. Figures actually reported for the first quarter showed a decline of nearly one per cent but most if not all of it may be attributed to the effect of calendar and weather variations upon advertising. Such factors as the later date of Easter and the later spring weather this year may have moved into the second quarter advertising which was carried in the first quarter last year. Consumers'

stocks in the U.S. show about the same number of days' supply as at the same date in the last two years and are not regarded as abnormal.

Canadian mills' total operating ratio was just below 1954 rated capacity in the first quarter and just over it in April, indicating incidentally that capacity is still rising. For the year to date production is nearly 4 per cent over last year's record level in Canada. U.S. production has increased by more than 4 per cent and further material gain is expected soon when the new Bowaters' mill starts to operate. This U.S. increase is not, however, expected to cause a reduction in the rate of Canadian production during the rest of the year. To date in 1954 Canadian shipments to the United States have been about one per cent higher than in 1953 and are expected to remain ahead of last year's record. In this regard it is noteworthy that a large amount of the increase in U.S. consumption last year came from the drop of 60,000 tons in consumers' stocks. No such drop in stocks is likely this year so that an increase in supply will be needed to support the same rate of consumption as in 1953.

Meanwhile overseas shipments are rising sharply. Although they amount to only about 8 per cent of total Canadian output, their gain of 40 per cent for the year to date represents an increase of 40,000 tons during the four months. Moreover, further substantial gains are in prospect later in the year. It has been reported that contracts with the United Kingdom, already higher than last year, will rise, effective July 1st, by a further 50,000 long tons per year, of which 25,000 will move in the latter half of 1954. A similar gain is reported in tonnage for Australia, where dollars have been made available to increase purchases under Canadian contracts from 25,000 to 45,000 long tons per fiscal year, commencing 1st April, 1954.

Looking at the general balance between overall supply and demand it seems likely that during the next two years there will be a further increase of roughly 450,000 tons in North American capacity, representing a 6½ per cent increase over last year's capacity. This is a considerably larger rate of gain than the last year's U.S. consumption increase of 143,000 tons and is larger than the long-term average rate of increase in U.S. consumption which has been about 150,000 tons per year. These comparisons suggest maintenance of a reasonable margin of capacity over North American demand and also that more newsprint will be available for overseas markets where potential demand is heavy if exchange problems can be solved.

Newsprint has been one of the main props to the pulp and paper industry in Canada and should be regarded as one of the more stable of its products. Apart from rising costs and a discount on the U.S. dollar, earnings have been affected more by declines in non-newsprint earnings than by deterioration of the general newsprint situation. The mills' other products may be slightly more profitable this year and their loss on conversion of the discounted U.S. dollar may be lower. Newsprint stocks continue to sell far below the replacement value of their assets but their much improved financial position has engendered more confidence in their equities. This confidence in the absence of any real improvement in earnings or dividends over the past year has been a potent stock market factor.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
LESS VOLATILE ISSUES						
Consolidated Paper	50	50¼ - 34-1/8	Dec.	$4.03	$4.28	$2.25
Maclaren Power & Paper	61¾	63 - 47½	Dec.	5.89 *	5.34	2.00
Powell River	34	34-7/8 - 26-1/8	Dec.	1.89	2.32	1.55
Price Brothers	37¾	38-3/8 - 27¼	Dec.	2.67	2.68	2.00
AVERAGE GRADE ISSUES						
Anglo-Canadian	31	31½ - 21	Dec.	2.05	2.46	2.00
Great Lakes Paper	25¾	26-5/8 - 15	Dec.	1.98	2.24	1.60
Minnesota & Ontario	35¾	37 - 24	Dec.	4.06	4.42	2.00
MORE VOLATILE ISSUES						
Abitibi Power & Paper	23	23½ - 12¼	Dec.	2.02	2.27	1.20
Donohue Brothers	20	20-1/8 - 12½	Dec.	1.95	2.39	1.20
St.Lawrence Corporation	49½	52 - 29½	Dec.	5.63	4.74	2.00

* Thirteen months.

	Working Capital (Thousands)	Senior Securities Call Price (Thousands)	Indicated Daily Saleable Capacity (Tons)	Approximate Percentage Newsprint	1953 Operating Profit (Per Ton)
LESS VOLATILE ISSUES					
Consolidated Paper	$51,270	$ 7,502	2,800	85	$34.35
Maclaren Power & Paper	13,136	16,425	375	100	42.56 *
Powell River	11,851	Nil	1,300	85	63.63
Price Brothers	30,506	11,826	1,625	100	31.91
AVERAGE GRADE ISSUES					
Anglo-Canadian **	$10,495	$ 9,693	1,025	70	$29.66
Great Lakes Paper	11,609	8,029-a	700	70	40.30
Minnesota & Ontario	19,906	6,000	960	65	52.34
MORE VOLATILE ISSUES					
Abitibi Power & Paper	$32,202	$64,185-b	3,100	80	$32.19
Donohue Brothers	4,489	3,172	250	90	26.13
St.Lawrence Corporation	21,504	32,161	2,150	60	34.86

* Exclusive of income from power.
** Excluding interest in Dryden Paper.
a- Including $3.4 million of Class A Preferred which has been called.
b- Including $26.3 million of 7½% Preferred Stock which the Company proposes to refinance on about a 4½ per cent basis.

COMMENTS

CONSOLIDATED PAPER will shortly have all its bonds retired and as the property is fully expanded, earnings should be available for increased dividend disbursements. Even around its present high, the stock market is placing about the same valuation on a ton of newsprint capacity as it did in 1945.

MACLAREN POWER & PAPER can be purchased for considerably less than the replacement value of its power facilities alone, production from which is sold chiefly to the Ontario Hydro at an extraordinary low price. About one-third of these contracts expire in 1956.

POWELL RIVER, with its extremely low costs in comparison to eastern producers, is the investment issue of the group. Moreover, the Company will have the advantage of a 10 per cent increase in newsprint capacity in 1954.

PRICE BROTHERS is in a strong financial position despite its recent expenditures on power. Earnings in 1953 did not show any improvement due to dislocations caused by modernization and by the extension of its power facilities. These installations should result in lower costs and the stock has attraction for income.

ANGLO-CANADIAN PULP AND PAPER will have the full advantage of the kraft paper and pulp facilities of Dryden in 1954. These products are in good demand at the present time.

GREAT LAKES PAPER. With about 25 per cent of its capacity in unbleached sulphite pulp, the Company is in the best position to benefit from a rise in the demand for this product. Meanwhile, the poor demand is holding earnings down, but important managerial improvements are having an effect on earnings.

MINNESOTA & ONTARIO is the cheapest of any of the newsprint producers on the basis of almost any yardstick. Its dividend, however, is not eligible for the 20 per cent tax credit and to Canadian residents this has dampened enthusiasm for the stock.

ABITIBI POWER & PAPER common stock is more volatile because of the Company's capital structure, which is undergoing a slight change, and earnings reflect sensitively any change in the industry. Management is forward-looking and aggressive.

ST. LAWRENCE CORPORATION is about the only one of the group which will have the benefit of increased capacity in 1954 and 1955. Under present operating conditions it may be possible to soon show earnings equivalent to an annual rate of $6.00 a share this year and over $8.00 a share in 1955.

DONOHUE BROTHERS is the smallest of the group and its stock has been selling on a relatively lower basis than that of other companies. Its operating efficiency is not as high as its larger competitors but this is being improved by important capital expenditures.

NICKEL

Certain aspects of the nickel industry stand out in bold relief:-

(1) Nickel has been one of the world's great growth industries, but the increase in consumption since 1935-39 has not been spectacular although demand is sensitive to armament and heavy industry requirements;

(2) Canada's 1953 production of about 143,000 tons of nickel was 50 per cent greater than the 1935-39 average;

(3) Canada occupies a dominant position, supplying nearly 85 per cent of the free world's nickel requirements last year;

(4) Nickel is now Canada's most important metal replacing the production of gold in dollar value;

(5) About half the 1953 nickel output was allocated for military, atomic energy, and government stockpile requirements, and 65 per cent of Canada's 1953 output was marketed in the United States;

(6) The U.S. Government is the largest individual purchaser, holding contracts for the purchase of 260,000 tons over the next decade for stockpiling and defence requirements.

Nickel was in better supply last year, after a period of acute shortage caused by rearmament, and commencing in mid-year, government restrictions on the allocation and end uses of the metal were relaxed in various countries. The U.S. Government revoked controls over civilian use of nickel in November, as did Canada and the United Kingdom. The International Materials Conference made no recommendation for allocating nickel for the fourth quarter of last year. Thus nickel was one of the last of the metals to return to the free list.

During 1953 the search for new nickel deposits surpassed anything previously undertaken by the Canadian industry, and nickel resources have been substantially expanded despite the rising volume of output. Production from properties other than those of the International Nickel Company is becoming more important and by 1960 other properties in Canada will have about 20 - 25 per cent of International Nickel's capacity.

Nickel is one of the few important metals for which there was a price increase last year. In January, 1953, the price of Canadian nickel was raised by 3½ cents per pound to 60 cents, U.S., inclusive of 1¼ cents U.S. import duty. There appears to be little likelihood of any price change this year but certain U.S. contract prices for new production are well above current market levels.

New end uses for nickel continue to unfold as a result of intensive research and technological changes in industry which are creating demands for new alloys. Nickel alloys are finding increasing uses in the broadening range of engineering alloy steels for both military and non-military purposes. One of the newest developments (after ten years of research) is nickel plating that bonds so strongly with appropriate aluminum alloys that the composite materials may be deep drawn and later finished with chromium plate.

Although the considerable new productive capacity that will be established during the next few years may result in a temporary oversupply of nickel, it does not appear at this time that any easing of military requirements will affect the Canadian industry adversely. There is such a widespread civilian demand for the metal, which has been only partly met because of shortages, that it seems likely that Canada will sell all the metal that can be produced this year.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Falconbridge Nickel	17½	23-⅞ - 13	Dec.	$0.69	$1.04	$0.50
International Nickel	42¼	46¼ - 33½	Dec.	3.91	3.54	2.35
Sherritt Gordon Mines	4.00	6.00 - 3.80	Dec.	*	*	-

*Will be in production in July 1954.

INTERNATIONAL NICKEL COMPANY OF CANADA LIMITED

7% Cum. Red. Preferred, $5 and $100 par values $27,627,825
Common Stock, no par value ..... 14,584,025 shares

The growth of International Nickel's profits during recent years has been disappointing. Increased sales have been offset by higher mining costs but the stock market is appraising the stock in a realistic manner. Moreover, nickel prices should continue firm, base metal production will be increased slightly as a result of contracts which will allow the mining of lower-grade ore, and there will be new products which the Company itself has developed. Furthermore, the stock can be purchased now on a reasonable basis in relation to earnings and dividends.

In the face of rising output, accompanied by increased prices for copper and nickel in 1953, International Nickel reported lower earnings of $3.54 a share compared with $3.91 a share in 1952. The drop in earnings can be attributed almost entirely to rising mining costs from underground operations. This trend of rising sales and declining profits has been in progress since 1951. There are indications, however, that capital expenditures will stabilize costs. These expenditures have been financed out of retained earnings and the extra dividend was reduced last year from 60 cents to 35 cents a share. Larger expenditures are planned for 1954.

It is estimated that in 1952 nickel sales accounted for about 45 per cent of International's total, copper sales slightly less than one-half those of nickel, and platinum metals and other products, the remaining one-third. Current earnings are being maintained. If copper were to decline to say 25 cents a pound, it is estimated that earnings would be reduced to between $3.00 - $3.25 a share. Meanwhile, both copper and nickel prices have shown no change from those prevailing at the end of 1953.

There were only fractional increases in copper and nickel deliveries in 1953, but capacity of both these metals has been expanded by about 10 per cent. In addition it is expected that about one million tons of iron ore will be recovered annually as a by-product. This increased nickel and copper production is being sold to the U.S. Government under a five-year contract, the nickel to be delivered at current prices and the copper at 27 cents a pound. Both prices are subject to escalation and allowances are to be made for additional costs. The major market for nickel is in the United States while copper is sold chiefly in the domestic market. All controls on the distribution of nickel were relaxed in the last quarter of 1953, and an attempt was made to make a more equitable distribution to civilian customers.

Ore mined in 1953 established an all-time record of 13.7 million tons over 80 per cent of which came from underground operations. The more costly underground mining operation is now of major importance and has accounted for the comparatively higher costs. Over $21 million was spent on modernization and expansion and about $30 million is to be spent in 1954 which, it is hoped, will check this rise in costs.

Record expenditures of about $6 million were made in 1953 in the search for ore. Ore reserves at the end of 1953 were higher than those of the previous year despite the heavy withdrawals during the year and amounted to 261.5 million tons with a combined nickel-copper content of 3 per cent. Exploration activities outside the Sudbury Basin were centered in western Canada, particularly in Manitoba and the Northwest Territories. The find at Mystery Lake, Manitoba, has attracted attention and a large low-grade nickel deposit is indicated.

New processes are continually being discovered by the Company's extensive research facilities and these, rather than materially increased production, are becoming increasingly important in broadening the Company's earnings base.

FALCONBRIDGE NICKEL MINES LIMITED

Funded Debt	$34,372,320
Common Stock, no par value	3,726,272 shares*

*Of which about two-thirds is owned by Ventures Ltd.

Falconbridge Nickel reported earnings last year of $1.04 a share compared with 69 cents a share in 1952. These earnings were after pre-production expenditures, and other write-offs of $1.17 a share in 1953 and 90 cents a share in 1952. The Company's sales increased by about 18 per cent last year to $29.2 million. Despite higher wages, and lower grade ore, a higher profit margin

was achieved on these sales. The income tax provision for the year was smaller due to the lower rates and also due to the fact that a substantial portion of the income was not subject to income tax because of a three-year tax exempt period applicable to new mines. By the end of 1953, Falconbridge Nickel was producing at the annual rate of 36 million pounds of nickel. This output will be raised to between 40 and 45 million pounds within the next two years and stepped up to 55 million pounds by 1960. This expansion program will cost about $55 million and will be financed by special contracts with U.S. Government agencies and by an issue of $30 million of 5¼% 1st mortgage and collateral trust bonds. Provision was made in the financing for the construction of a refinery at Falconbridge if the pilot plant now under construction proves that the metal can be produced profitably on a commercial scale by use of a new process.

In addition to expanding its smelter and refining facilities, the Company must increase its ore output. At the present time two producing mines are supplying the Company's requirements and six additional properties are at various stages of development. In addition, the new Fecunis Lake orebody, with reserves conservatively estimated around 10 million tons of high grade ore, is being developed to meet expanded output. Last year's reserves were estimated at about 34½ million tons averaging 1.57 per cent nickel and .83 per cent copper. Relative to its production and present capitalization, Falconbridge has large unexplored nickel-bearing properties which could support an even higher output than now planned.

Falconbridge has firm contracts to sell up to 200 million lbs. of nickel (five times current production) to the U.S. Government before 1962 which will represent the major part of the Company's total production. In addition, U.S. Government agencies have options to buy a further 75 million lbs. by 1967. The contract price represents the market price plus an amount for amortization and cost of new construction. There are also similar contracts covering cobalt and copper.

Falconbridge Nickel sells for about 40 per cent higher in relation to earnings and gives a return of about one-half that of its largest competitor, International Nickel, but production targets call for a 50 per cent increase by 1960 and a better integrated operation should increase the margin of profit.

SHERRITT GORDON MINES LIMITED

First Mortgage 4-4¾% Bonds, Series A & B	$21,000,000 (U.S.)
First Mortgage 5% Bonds, Series C	$ 3,000,000 (U.S.)*
Convertible Debentures	$ 8,000,000 (a)
Common Stock, $1 par value	8,133,318 shares

* Bonds bear a fixed interest rate of 5% and a deferred interest rate of 3%, payable when bonds retired. The deferred interest may then be converted into common stock at 75 per cent of the market value of the stock, but at not less than $2.50 a share.

(a) Convertible at $2.50 a share prior to June 30, 1956, bearing interest thereafter at 5 per cent. Entire issue sold to Newmont Mining Corporation. Assuming conversion of these debentures and including its existing holdings Newmont would have about 38 per cent of the outstanding stock.

Sherritt Gordon's new $46¾ million plant is about to come into production. Due to rising costs the capital expenditure was about one-third more than was originally planned. A new ammonia leaching process will be used which, it is claimed, will reduce operating costs considerably and give a recovery of nickel of about 94 per cent. The property is expected to qualify for income tax exemption for three and one-half years.

Sherritt's nickel production will be about 7 per cent of that of International Nickel and less than half that of Falconbridge's present output. Initial annual output is estimated at about 17 million pounds of nickel, 9 million pounds of copper, 300,000 pounds of cobalt and 70,000 tons of ammonia sulphate fertilizer. Contracts have been arranged with the U.S. Government to take 60 per cent of the nickel, half of the copper and 60 per cent of the cobalt. Four U.S. steel companies have contracted for the other 40 per cent of the nickel and the remaining cobalt and copper will be sold in the open market. Sales of fertilizer will be made through Harrisons and Crosfield, the Canadian branch of a world-wide distribution organization.

Ore reserves are sufficient for about 20 years assuming operations at capacity of 2000 tons daily but the property appears capable of further development. Based on the merits of its low-cost manufacturing process, the stock is reasonably priced but the main attraction lies in the possibility of larger capacity.

OIL

The oil industry continues its outstanding performance of growth. Last year an estimated $365 million was spent on exploration and development, compared with $330 million in 1952. This year the industry is expected to spend a further $350 million in the search for oil and gas, exclusive of manufacturing and pipeline facilities. Proven oil reserves at year-end were just over 2.1 billion barrels, an increase of 26 per cent during the year. A total of 2,212 wells were drilled to completion during 1953, slightly more than a year earlier. The newly discovered Pembina field in Alberta will add substantially to previous reserves. In fact, the oil reserves at Pembina are estimated at being between 762 million and 952 million barrels.

Canadian production has expanded largely from year to year by expansions in the pipe line systems which have been about as large as could be physically or financially accomplished in any year. These expansions have permitted increases in crude production of the order of 25 to 35 per cent each year. This programme of expanding the supply system is being continued. The Interprovincial Pipe Line's potential capacity will be 300,000 barrels a day from Superior at the head of the Great Lakes to Sarnia, Ontario, when the necessary expansion between Edmonton and Superior has been made. Trans Mountain Oil Pipe Line's potential capacity to the West Coast will be approximately the same. The growth of the industry is illustrated in the following figures:

	1946	1952	1953	% Change 1952-1953
Acreage under exploration (millions)	20	208	183	- 12.0
Number of producing oil wells	393	3,589	4,498	+ 25.3
Proven reserves at year-end (million bbls.)	72	1,680	2,120	+ 26.0
Year's average output (000 bbls. per day)	20	168	221	+ 31.5

Consumption of oil in Canada has been rising sharply during the postwar period. Between 1946 and 1953, it increased 131 per cent. Canada now consumes more oil per capita than any country except the United States, and the Canadian rate of increase is greater than in the U.S., as shown below:

Per Capita Consumption of Petroleum Products
(barrels)

	1946	1951	1952	1953	% Increase 1946-1953
Canada	6.6	11.0	11.8	12.7	92.1
United States	12.7	16.6	17.0	17.8	40.1
Canada as % of U.S.	52	66	69	71	-

The number of motor vehicles in Canada has more than doubled since 1946, so that there has been a corresponding increase in the consumption of gasoline and lubricants. During the same period there has been nearly a fourfold increase in consumption of middle distillates for home heating.

Chief problem connected with western oil is markets. Although potential Canadian production is now approaching total Canadian crude oil requirements, actually Canadian production will supply only about one-half of the indicated Canadian requirements this year, compared with 43 per cent in 1953. The Montreal area, which supports 35 per cent of total Canadian refining capacity, has so far been economically inaccessible to western crude because of cheap ocean tanker rates. The present domestic outlets for Canadian crude are the west coast, prairies, and central and western Ontario. Among them they should support production this year of some 260,000 barrels a day, out of a potential output of nearly 500,000 barrels a day. The immediate future of the industry is dependent to some degree upon its ability to lay down Canadian oil along the U.S. Pacific seaboard in competition with Near and Middle-East crude. At the moment this market for Canadian crude is restricted because of distress ocean tanker rates. But some Canadian oil is likely to enter this segment of the U.S. market in 1954 for the first time on the completion of the extension of the Trans Mountain Pipe Line to Ferndale, Washington, where a 35,000 barrel per day refinery is expected to come into production before year-end. In the longer run it appears likely that the Trans Mountain Pipe Line will be able to deliver oil competitively in the U.S. Pacific Northwest. Moreover, the extension of the Interprovincial Pipe Line from Superior, Wisconsin through Michigan to western Ontario opens the possibility of marketing Canadian crude in the Michigan-Ohio area. The marked growth of Canadian oil consumption points, therefore, to an expanding domestic market and new U.S. markets should be acquired.

Meanwhile domestic crude cannot yet compete with imported crude in eastern Canada and, temporarily, much of the expanding reserves are frozen assets. Nevertheless the industry itself is spending another $350 million this year to explore and develop further reserves in Western Canada with confidence that western Canadian oil will always find a market.

Apart from the major oil companies with their refining and distribution organizations, a large number of smaller producing companies are trying to build up reserves with varying success. A major discovery by any one would have a marked effect upon the market value of its shares, but no longer do individual discoveries have a stimulating influence on the market as a whole.

The smaller companies listed below are representative of the exploration and producing companies in the industry. No attempt has been made at selectivity. The shares of some are overpriced on the basis of financial positions, oil reserves and acreage. Others are merely attractive speculations. A set of favourable circumstances could materialize to justify the purchase of still others, but the following list is a good cross-section:

1953-54 Price Range		Current Price	Indicated Dividend
8.25 - 4.55	Anglo-Canadian Oil	$ 5.25	$ 0.15
5.90 - 2.95	Bailey Selburn	4.55	-
14.75 - 7.50	Calgary & Edmonton	13.00	0.10
6.65 - 3.25	Calvan Consolidated	4.90	-
18.125 - 4.25	Great Plains Development	17.75	-
8.00 - 2.00	Merrill Petroleums	6.70	-
13.375 - 6.75	Pacific Petroleums	10.75	-
17.375 - 11.75	Royalite Oil	12.25	0.26
3.50 - 2.00	Triad Oil	3.15	-
6.85 - 4.15	Western Leaseholds	4.75	-

MAJOR COMPANIES

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Imperial Oil	34	36 1/8 - 26½	Dec.	$1.38	$1.60	$0.90
British American	25½	26¾ - 16¾	Dec.	1.78	2.40	0.85
McColl-Frontenac	35¼	38¼ - 23 7/8	Dec.	2.18	2.71	1.00

IMPERIAL OIL LIMITED

Total Debt $50,919,199
Common Stock, no par value ..... 29,847,227 shares *

* 69.65 per cent controlled by Standard Oil of New Jersey.

Imperial Oil shares are the most representative purchase in the oil industry in Canada. At the end of 1953 the Company's gross crude oil production represented 41 per cent of all Canadian production; it owned about one-third of the producing oil wells and probably about one-third of the total crude oil reserves in Western Canada. Moreover, Imperial accounts for over 40 per cent of the refinery capacity in Canada, has minority interests in Interprovincial, Trans Mountain, Montreal and Portland Pipe Lines as well as owning three other smaller pipe lines, and interests in other enterprises.

At current prices of 34 the stock market is placing a value of about one billion dollars on the assets of the Company. After taking into account senior securities and working capital there would remain a residual value equivalent to about $1.35 a barrel of estimated crude oil reserves. This figure is a modest one as no consideration is given to refining capacity, its extensive marketing and transportation and other facilities.

Imperial Oil's sales of crude oil products have increased at an annual rate of about 10 per cent during the post-war period. As the Company is the largest distributor of petroleum products, it is becoming increasingly difficult for it to expand its sales at a greater-than-average rate. Last year, for example, refinery sales increased only slightly over 2 per cent. Nevertheless, refinery capacity is being further expanded by about 16 per cent at a cost of between $25 - 30 million. The refinery at Dartmouth, Nova Scotia, is being largely replaced by a modern catalytic cracking unit which will be in production by mid-1956. Expansion of the Regina refinery is just about completed and work

on the Montreal East refinery expansion has begun. When this program is completed Imperial will have a refinery capacity of 263,000 barrels daily.

After normal depreciation provisions, Imperial Oil reported earnings of $1.60 a share compared with $1.38 a share in 1952. To obtain the maximum benefits under the income tax regulations, a direct charge was made to earned surplus in the amount of $15½ million representing special depreciation allowed on new plant facilities. This served to reduce the tax liabiliby by $6½ million (22 cents a share) which amount was also credited to earned surplus.

Although Imperial Oil is not as attractive a purchase on earnings as its competitor British American, the Company has built up larger potential earning power which should ultimately accrue to shareholders.

BRITISH AMERICAN OIL COMPANY LIMITED

Non-Convertible Debentures	$13,860,000
Convertible Debentures	$28,670,200
Common Stock, no par value	8,208,118 shares *

* Gulf Oil has a substantial interest, estimated at one-quarter to one-third of the outstanding shares.

British American Oil would seem to be better value than either McColl or Imperial on the basis of current earnings. Most of the improvement in last year's earnings came from operations in the United States. This reflected a larger volume of crude oil from B.A.'s Wyoming and Colorado fields over the Platte Pipe Line, completion of which was delayed in 1952 by strikes in the oil and steel industries. Moreover, an increase in the price of crude compensated for higher costs. Sales of refined petroleum products continued their vigorous upward trend increasing about 10 per cent last year. A break-down of earnings for the past four years is shown below:

	Per Share of Common Stock*			
	1950	1951	1952	1953
Earnings - U.S. Operations	$0.53	$0.61	$0.16	$0.64
Earnings - Canadian Operations	0.87	1.11	1.62	1.76
Reported Earnings	$1.40	$1.72	$1.78	$2.40
Plus Inventory Reserve	0.13	0.07	-	-
Total Earnings	$1.53	$1.79	$1.78	$2.40

* Outstanding at year-end.

About $6.8 million (83 cents a share) was charged against earnings in 1953 and about $4.8 million (60 cents a share) in 1952 representing sundry write-offs and amortization costs.

British American's sales of petroleum products are about 40 per cent of those of Imperial Oil and over twice those of McColl-Frontenac. B.A. has shown the greatest growth in sales of refinery products which have risen at an annual rate of about 12½ per cent annually during the past ten years. Moreover, the Company's growth has been more pronounced during the past five years and much greater than its competitors in 1953. B.A.'s crude oil reserves have more than doubled in five years reaching 110 million barrels. Although B.A. has been active in Western Canada, the bulk of its oil reserves are in the United States. During the past five years capital expenditures have totalled $148 million ($18.02 a share) about 45 per cent of which was used for exploration

and development. For the most part this program was financed from retained earnings of $13.79 a share which included depreciation provisions, and other write-offs. Because of these expenditures dividend disbursements (recently increased to 85 cents) have been small, but the policy of retaining earnings has resulted in better-than-average growth in sales.

McCOLL-FRONTENAC OIL COMPANY LIMITED

Total Debt	$23,999,000
4% Cum. Red. Preferred Stock, $100 par value	$ 6,000,000
Common Stock, no par value	2,607,963 shares*

*Controlled by Texas Company.

McColl-Frontenac is the third largest oil company in Canada. Despite its more active alliance with the Texas Company since the war its sales of petroleum products do not appear to have measured up to those of its senior competitors. Although such comparisons can be misleading, McColl's rate of growth in sales of petroleum products has been about 7 per cent annually during this period against British American's 12 per cent and Imperial's 10 per cent. On the other hand, the Company's working agreement with Texaco Exploration has produced results, and indications are that the Company is able to show a substantial profit from its crude oil production. This probably accounted for a large portion of the increase in reported earnings last year. With only about one-third as many shares outstanding as British American, earnings per share under favorable conditions could increase sharply.

Before 1949 McColl-Frontenac had little success in the search for crude oil in western Canada and an agreement was made with the Texaco Exploration Company. This gave the Company a working interest in certain producing acreage owned by Texaco, a 10 per cent royalty interest in the net production from existing extensive acreage owned by Texaco and the right to participate at cost up to 50 per cent in certain future acreage acquired by Texaco. Under this agreement McColl has working interests in 59 producing wells and a royalty interest in 114 other producers. McColl plans to re-enter the exploration field in 1954 on its own behalf, but intends to continue its working arrangement with Texaco Exploration Company.

Through its wholly-owned subsidiary in Trinidad, the Company acquired a net production of crude of over one million barrels in 1953 which combined with its Canadian production amounted to about 2.2 million barrels. This was an increase in the net production of crude of about 70 per cent over 1952. These exploration activities are becoming of increasing importance although McColl is still primarily a distribution company.

OIL PIPE LINES

By means of two oil pipe lines, Interprovincial Pipe Line moving oil east and Trans Mountain Oil Pipe Line moving oil west, Canada has a system which in effect links Vancouver, B.C. with Sarnia, Ontario, through adjacent terminals at Edmonton, Alberta. Both these lines are essential to the marketing of Canadian crude oil, and markets are of major importance to the oil pipe lines. There has been no problem of marketing oil east through the Interprovincial line and still broader territories are envisioned. Trans Mountain's potential marketing plans were frustrated, however, by competition from Middle East crude on the Pacific Coast.

Trans Mountain's 24 inch line was opened last October with an initial capacity of 120,000 barrels daily which is currently being expanded to 150,000 barrels a day. This is one-half ultimate capacity which can be attained by the addition of pumping stations. To be really profitable the Company must lay down Alberta crude competitively in the Pacific Northwest and along the California coast. The drop in world tanker rates, thus reducing the delivered cost of Middle East crude, has effectively barred Alberta crude from entering the California market. The Company must await, therefore, the expansion of refinery capacity in the Pacific Northwest and British Columbia to make its present capacity effective. On the other hand, an improvement in ocean tanker rates, another flare-up in the cold war, or a cut in the field price of Alberta crude, could result in a more competitive position for this oil in California.

The present refinery capacity in British Columbia which can be serviced by Trans Mountain is 38,000 barrels a day. Two new refineries are under construction which will bring the potential market in this area to 54,000 barrels by the end of 1954. Similarly, in the Pacific Northwest two refineries located at Ferndale and Anacortes, Washington, are under construction having a combined daily capacity of 85,000 barrels. Trans Mountain, through a U.S. subsidiary, is constructing spur lines to both these locations. Consequently, there will be a potential market of 89,000 barrels daily in both British Columbia and the Pacific Northwest by the end of 1954 and 140,000 barrels daily by the end of 1955. Until then, operations will be barely profitable unless Alberta crude becomes competitive in California.

Interprovincial Pipe Line made its first deliveries to Sarnia last January with an initial throughput of about 95,000 barrels per day. This extension of the main line from Superior, Wisconsin, to Sarnia, Ontario, effectively eliminates the seasonal bottleneck at the lake head. The Company continues to expand its capacity which ultimately can reach a daily throughput of 300,000 barrels. Contracts were awarded recently for the looping of the main line from Edmonton to Superior and the addition of nine pumping stations. When completed at the end of this year at a cost of about $63 million, the line will have a throughput of 205,000 barrels daily out of Edmonton, and 138,000 barrels out of Superior.

Although oil pipe lines are common carriers they have not been declared as such under the Pipe Lines Act of Canada. Consequently, rates are not yet subject to control. Because of their vital importance to the oil industry generally, it is likely that management will limit earnings to 6 - 7 per cent of invested capital. Estimates of future earnings depend in large measure, therefore, on the type of future financing which presumably will be designed to keep senior indebtedness high relative to the equity. For example, Interprovincial recently placed privately $30 million of 3-5/8% first mortgage and collateral trust bonds to help finance its 1954 expansion program. Present pipe line tariffs provide a basis for high equity earnings, but as capacity and therefore capital investment is increased, tariffs will probably be reduced so that profits are kept within the limits which would result from regulation. Over a longer period, pipe lines should become of even greater economic importance with consequently higher - but regulated - earnings.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Interprovincial Pipe Line	26	29 5/8 - 17¾	Dec.	$1.16	$0.88	$0.30
Trans Mountain	28½	46½ - 16¾	Dec.	—	—	—

INTERPROVINCIAL PIPE LINE COMPANY

Funded Debt	$160,734,943
Common Stock, $5 par value	5,039,832 shares*

* 50,000 shares were recently authorized to be issued under an employees' incentive plan.

Last year, Interprovincial Pipe Line reported earnings of 88 cents a share. These earnings were achieved without the benefit of its expanded line from Superior to Sarnia. In 1954, the Company plans a further expansion of its line (described above) at a cost of $63 million. On this basis, and assuming a 7 per cent rate of return on capital, the Company could show earnings of twice those reported last year although such earnings are not likely to be achieved in 1954. The line could be fully expanded to 300,000 barrels a day out of Superior at a relatively moderate cost. Assuming no further equity financing and a 7 per cent return on capital, earnings in excess of $2.25 a share could then be shown on the common stock.

TRANS MOUNTAIN OIL PIPE LINE COMPANY

Funded Debt	$ 70,207,500
Common Stock, no par value	1,500,028 shares

Present throughput is just about sufficient for this pipe line to break even before depreciation charges. The outlook, however, is more reassuring than it was a few months ago when a reduction in world tanker rates reduced the landed cost of Middle East crude below that of Canadian crude at most Pacific ports. It is felt that a solution will be found over the next few years as there is a preference for Alberta crude in the Pacific Northwest, and refineries are being built in the Seattle area to take Alberta crude. Moreover, Trans Mountain is the logical outlet for the vast crude reserves of the Pembina area.

Based on a tariff of 30 cents a barrel, the Company could show earnings of slightly over $2.00 a share operating at its present capacity of 150,000 barrels daily. Based on the present outlook these earnings could not be reached before the end of 1955 (see "Industry" above). The ultimate capacity of the line is 300,000 barrels daily which can be achieved by the addition of further pumping stations at moderate cost. As, and when, this capacity is reached, the tariff will probably be reduced in order to keep earnings within the limits which would result from rate regulation. On the basis of a 7 per cent return on capital, earnings of between $2.50 and $3.00 a share could be shown.

PUBLIC UTILITIES

The great expansion of Canada's public utilities reflects the rapid expansion of the nation's industrial economy. Last year more than 1,150,000 horsepower was added to installed capacity, an increase of 8 per cent for the year. Yet the output of power barely kept pace with demand. Consumption of primary power was about 30 per cent greater last year than in 1950, and it has almost doubled since the end of the war. A further 1,420,000 h.p. was under construction at year-end and planned for completion this year. Still another 1,450,000 h.p. is planned for completion by 1956. Estimated capital investment by the utilities this year is $1,239 million, 6 per cent above 1953, and it will account for one-fifth of the estimated total of all new investment in Canada this year.

The control of rates by federal and provincial regulatory bodies has tended, however, to moderate earnings, so that investors in public utilities have not received fully the benefit from the outstanding growth of the industry. Increasing competition from income tax-free utilities owned by provinces and municipalities creates subsidized competition for investor-owned utility companies which have to pay out nearly half their earnings in income tax. Moreover, such companies are at all times exposed to the possibility of expropriation. Nevertheless individual issues may offer special attraction for investors. Apart from the two companies mentioned below, representative utilities include:

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Bell Telephone	43¼	43½ - 35 1/8	Dec.	$2.47	$2.65	$2.00
B. C. Power	23¼	23½ - 17¾	Dec.	1.34	1.47	1.00
B. C. Telephone	40⅝	41 - 32½	Dec.	2.14	2.90	2.00
Canada Northern Power	11½	12½ - 10	Dec.	1.10	1.13	0.60
Gatineau Power	25	25 - 20 1/8	Dec.	1.62	1.77	1.20
Power Corp.	39½	40 - 31½	June	2.82	2.20	2.00
Quebec Telephone	28½	33 - 6¾	Dec.	1.51	2.84	0.50
Shawinigan	46¼	48 - 36¼	Dec.	1.91	2.26	1.45
Southern Canada Power	39½	40 - 27¾	Sept.	1.76*	2.11*	2.00

Earnings calculated on a participating basis.

THE BELL TELEPHONE COMPANY OF CANADA

Total Debt $271,646,427
Common Stock, $25 par value ..... 11,617,032 shares

Bell Telephone's rate structure is apparently not designed to provide a dividend higher than $2.00 a share. On the other hand, the Company is now obtaining greater benefit from its $545 million capital program which has been in progress since the war. This has cemented confidence in the continuation of the $2.00 dividend and the stock has reflected the rise in high-grade bonds and preferred stocks.

The backlog of new installations is still at virtually an all-time high and further expansion of facilities will be carried out over the next few years. This year expenditures are expected to be about $100 million, and a $40 million 3¾% bond issue was sold to help finance these projects. Provision has been made for an additional issue of the same amount. As Bell Telephone maintains a balance between equity financing and bond financing, another stock issue is a probability next year or early in 1956. Because of the security of the $2.00 dividend, and the 20 per cent federal income tax credit, the stock should continue to be absorbed by investors seeking income.

THE SHAWINIGAN WATER & POWER COMPANY

Funded Debt $120,297,000
4 - 4½% Preferred, $50 par value 25,000,000
Common Stock, no par value ..... 2,178,250 shares

In addition to being one of the largest power companies of its kind in the world, Shawinigan has an important chemical business, the earnings of which have exceeded those of power in 1950 and 1951. Although chemical earnings showed a slight improvement last year, they were below these peak levels. Because of exceptionally favourable water conditions, power earnings have been rising since 1951 and the Company set aside 17 cents a share in 1953 and 24 cents a share in 1952 for a water storage reserve.

A more complete picture of the Company's earning power is shown below:

	Per Share			
	1950	1951	1952	1953
Shawinigan's own power earnings	$1.08	$0.96	$1.39	$1.63
Less: Water storage reserve (net)			.24	.17
	$1.08	$0.96	$1.15	$1.46
Dividends from Quebec Power and similar companies	.26	.24	.24	.28
Earnings from power	$1.34	$1.20	$1.39	$1.74
Dividends from Shawinigan Chemicals	$0.64	$0.64	$0.52	$0.52
Undistributed profits of certain chemical operations	0.72*	0.94*	0.33	0.45
Earnings from chemicals **	$1.36	$1.58	$0.85	$0.97
TOTAL	$2.70	$2.78	$2.24	$2.71

*Before special provision of 16 cents a share in 1950 and 18 cents a share in 1951.

**Includes reported chemical earnings only.

Last year the peak load increase was 4 per cent above 1952, although total kilowatt hours sold were down about 3.7 per cent. Sales of Shawinigan Chemicals increased about three per cent. A marked improvement in the chemical business in the U.S. was largely offset by a decline in overseas sales. Overall business in Canada was maintained largely because of the increased sales of the stainless steel division. Sales to the depressed textile industry continued to drift lower and competition in other fields became increasingly keen. Since the war Shawinigan has expanded its chemical operations largely in partnership with such companies as British American Oil, Heyden Chemical, Monsanto Chemical and Union Carbide and Carbon. Major expenditures on new manufacturing facilities have been completed and the Company is now consolidating its position. Meanwhile, Shawinigan announced it has found a method of making high-grade titanium metal by an electrolytic process which could be of great long-term importance.

Shawinigan has a power capacity of its own of about 1,340,000 h.p. but including subsidiaries the peak load last year was about 1.9 million h.p. Since the war, Shawinigan has been expanding its peak load at the rate of about 10 per cent per annum. This growth has been tapering off and it is estimated that the increase will be about 7 per cent between now and 1960. Shawinigan is expanding three of its generating stations by 150,000 h.p. and has agreed to purchase 400,000 h.p. from Quebec Hydro's new Bersimis River development. These extensions are expected to supply the needs of the territory to about 1960. Undeveloped power sites on the upper St. Maurice River are estimated at 700,000 h.p. and are being held in reserve for future expansion. The cost of the present expansion program will be about $50 million, about one-fifth of which is expected to be financed by outside resources.

Because of inadequate rates, Shawinigan's power earnings have not kept pace with the large capital investment required since the war. An application has been made to the Provincial Electricity Board for an increase in residential, farm and commercial rates but no decision has been rendered yet. Free of income taxes, the Quebec Hydro is better able to operate under present rate schedules.

Unless water conditions remain favourable, it may be difficult for Shawinigan to maintain the steady rise in power earnings which has been experienced since 1951. Moreover, chemical operations are becoming increasingly competitive. On the other hand, power operations are still expanding, there is a possibility that an increase in rates will be granted, while in the chemical field several of the new projects in which substantial sums have been invested recently have potentialities for ultimate and important earnings.

PULP AND PAPER

(also see Newsprint)

In addition to the newsprint producers, who use chiefly groundwood pulp for their product, there are several important Canadian companies producing chemical pulps - sulphite and sulphate for various grades of paper, boxboard and containers; and the non-paper grades of dissolving pulps used in the production of rayon, cellophane, plastics, photographic film, etc.

Chemical pulp production during the post-war period has increased by more than 50 per cent, totalling about 3¾ million tons last year. During this period about half of the output has been exported, principally to the United States. Last year both production and exports of all grades except unbleached sulphite recovered from the slump in 1952, as shown below:

Production and Exports of Chemical Pulp

(000 tons)

	Production			Exports		
	1951	1952	1953	1951	1952	1953
Bleached Sulphite	844	773	845	610	559	633
Unbleached Sulphite	1,690	1,594	1,551	565	428	341
Bleached Sulphate	557	559	628	488	483	547
Unbleached Sulphate	656	548	593	227	144	170

Last year Canada supplied 75 per cent of the total U.S. pulp imports, despite keen Scandinavian competition. The outlook for pulp this year is slightly better than 1953, when the market was mixed, prices spotty, and when Scandinavian pulp was more competitive. The strengthening of U.S. demand noted in the latter part of 1953 has carried into 1954. U.S. paper consumption last year was 393 pounds per capita, 3 pounds short of the 1951 high, and the U.S. industry is optimistic about the outlook. In January, 1954, some producers increased the price of unbleached sulphate by $5 a ton, the first sign of a reversal in the downward price trend of pulp that began in May and June of 1952. But there is no indication of any further price changes at this time.

Last year's high Scandinavian inventories were worked off, and the outlook this year is one of less competition from Scandinavian suppliers in the U.S. market. Canada's position in a reasonably firm U.S. market is not unfavourable, but greatly expanded North American dissolving pulp capacity (non-paper) in 1955 may result in temporary oversupply unless overseas exports can be increased materially.

Apart from newsprint, Canada consumes most of its paper and paper products. Last year increased demand in the domestic market resulted in improvement in all grades of paper, and much of 1952's declines were recovered. The upward trend of production has carried into 1954, with all grades showing increases in the first quarter, as indicated in the following tabulation:

% Change in Canadian Paper Production (ex Newsprint)
From Preceding Year

	1952	1953	First Quarter 1954
Fine Papers	-12.7	+10.5	+10.3
Containers Grades	- 8.2	+ 8.7	+ 1.6
Boxboard Grades	-11.0	+ 7.5	+ 1.7
Wrapping Paper	-11.2	+ 6.1	+ 3.4

Increased production last year was accompanied by price increases. Fine papers rose by $10 to $14 per ton. Kraft paperboard was increased by $5 per ton effective September 1. These prices are expected to be firm for 1954 and earnings of the industry should show improvement over 1953.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Howard Smith Paper	24	24½ - 17	Dec.	$2.05	$2.51	$1.00
Fraser Companies	19 7/8	19 7/8 - 13½	Dec.	1.52	1.30	1.00

HOWARD SMITH PAPER MILLS LIMITED

Funded Debt	$19,817,000
$2 Cum. Preferred, $50 par value	$ 8,000,000
Common Stock, no par value	1,742,750 shares

Howard Smith is the largest producer of fine and specialty paper in Canada, most of which is sold in the domestic market. About one-third of the total saleable capacity (including Donnacona) is surplus pulp which is sold domestically, in the United States, and foreign markets. In addition, the Company manufactures laminated plastics under the name of "Arborite" and has about a 97 per cent interest in Donnacona Paper, a producer of newsprint, sulphite pulp and insulating board.

Since the war Howard Smith has reinvested earnings equivalent to about the present price of the stock, principally for new plant and equipment. Over one-half of this reinvestment of earnings was represented by depreciation provisions which last year were about two-and-one-half times those of Fraser relative to capacity. Further capital expenditures are being undertaken in 1954 at the mills of Canada Paper and at Cornwall. Last year, larger fine paper sales were offset by unsatisfactory sales of pulp and about the same operating profit was reported as in 1952. Lower income tax provisions and higher royalty receipts, however, enabled Howard Smith to report per share earnings of $2.51 compared with $2.05 the previous year. Two of the Company's mills were on strike from September to early January, but these plants represent only a small proportion of the total output. The demand for fine paper continues strong but there has been no material improvement in the sales volume

of surplus pulp. Nevertheless these large pulp facilities are necessary to the future growth of the Company's paper business. On this basis the stock is the outstanding long-term investment equity in the industry. Meanwhile, the improbability of any sizeable increase in the $1 annual dividend could be a retarding influence in the market action of the stock.

FRASER COMPANIES LIMITED

Funded Debt	$4,550,000
4¾% Preferred, $100 par value	$1,424,100
Common Stock, no par value	2,226,102 shares

In contrast to Howard Smith, Fraser Companies showed an increase in dollar sales in 1953, but lower profit margins resulted in a decline in earnings to $1.30 a share, compared with $1.52 a share in 1952. Before inventory adjustments and other write-offs, earnings were $1.23 a share in 1953 and $1.89 a share in 1952. At the beginning of 1953, Fraser's pulp mills were operating on a curtailed basis. By February, kraft pulp sales picked up, permitting normal operations for the balance of the year, but bleached sulphite pulp output was below capacity. Paper and paperboard sales were more normal, resulting in a 6½ per cent increase in the sales of all products on a tonnage basis. Reductions in prices for some grades of pulp affected profit margins, and earnings might have been improved by about 10 cents a share if the Canadian dollar had been at par throughout 1953. Fraser's pulp mills are situated in New Brunswick and its paper mill in the United States. About one-third of total saleable capacity is in pulp.

Since the war, Fraser has reinvested earnings and depreciation provisions of about $19 a share, about three-quarters of which was used to finance new plant and equipment. The demand for bleached sulphite pulp has improved and the Company stands to benefit from the repeal of the U.S. excess profits tax. On this basis earnings are believed to be running higher than the $1.52 a share reported in 1952. Fraser, with its excellent timber limits and modern plants, could improve its earnings sharply, given more favourable market conditions particularly in pulp.

RETAIL TRADE

The consistent upward rise in retail trade evident since the end of the war was halted in the first quarter of 1954 when total retail trade dropped 1.2 per cent from year earlier levels. This was the first time in the post-war period that first quarter retail sales showed a decline from the corresponding period of the preceding year. In this period department store sales were up 0.8 per cent, but a great deal of this rise is attributable to sales in British Columbia where an increase in the sales tax went into effect on April 1st. A decline in sales was reported in the Prairie and Atlantic Provinces while Ontario and Quebec showed increases of less than one per cent.

For the year 1953 total retail trade sales rose to over $12 billion, a 4.5% increase above the 1952 total but the rate was considerably below the 12 per cent average increase of each of the previous four years. The greatest rise in 1953 sales was in lumber and building materials followed by radios and appliances. Grocery sales, particularly chain store sales, continued their upward trend. Since 1945 the trend has been towards the large, efficient supermarket offering an increasing variety of merchandise.

An important factor in the increase in retail sales in the last few years has been consumer credit. Long-term installment credit has encouraged the purchase of durable consumer goods by the middle and lower income groups. After a sharp increase in the first half of 1953 installment buying dropped and in the fourth quarter was 8.4 per cent below the comparable period in 1952, and no expansion is evident in the first six months of 1954.

Competition is becoming keener and price-cutting is already evident in certain lines, particularly appliances and radios. With the exception of farm income, disposable consumer income will probably be close to the high level of 1953. The decline in farm income, however, is expected to continue and sales in the Prairie Provinces are already showing a downward trend. The physical volume of sales is approximating last year's level, but under buyers' market conditions there is the likelihood of lower prices and therefore somewhat lower dollar volume.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Dominion Stores	25¾	25 - 14	Mar.	$1.64*	$2.01*	$0.80
Loblaw "A"	42	47½ - 36	May	3.84	4.60	1.50
Loblaw "B"	52½	55 - 37	May	3.84	4.60	1.50
Simpsons	19½	21 ⅛-12 ⅛	Jan.	**	0.94	0.50

* Twelve months ended March 1953 and 1954 respectively.

** Earnings not comparable with those of 1953.

SIMPSONS LIMITED

4¾% Debentures, due January 1, 1973 ..... $29,500,000
Common Stock, no par value ..... 3,000,000 shares

Simpsons Limited, through its association with Sears, Roebuck, hopes to take full advantage of the growth in Canadian retail trade. Simpsons sold its mail order business (which had accounted for almost as much as half Simpsons' profits) to Simpsons-Sears which has inaugurated an aggressive expansion in the retail store field. Both Sears, Roebuck and Simpsons have a one-half interest in this new Company. Simpsons' share of the 1953 profits amounted to 22 cents a share which combined with its own earnings amounted to $1.16 a share on a consolidated basis. Although these earnings are not comparable with reported earnings a year ago, indications are that earnings from Simpsons' own operations were better than those of 1952. Total volume of sales continues to expand but profits are being squeezed by increased costs.

Until more retail outlets can be built Simpsons-Sears' business will come largely from the former but expanded mail order and order offices of Simpsons Limited. The Company plans to build 15 new retail stores during the next four years about half of which will be in operation by 1955. Warehousing facilities are being constructed to complement the operation.

It is on the anticipated future growth rather than immediate earnings that the stock has attraction. Meanwhile, until the smaller retail outlets are established, profits will be restricted by development expenses and the challenging competition of Eaton's of Canada.

LOBLAW GROCETERIAS CO. LIMITED

4¾% Sinking Fund Debentures, 1973	$7,600,000
Class "A" Stock, no par value	445,056 shares
Class "B" Stock, no par value	508,300 shares

Loblaw Groceterias has been more than keeping pace with food sales in Canada and has been holding its own against the aggressive competition of Dominion Stores. Loblaw does about 50 per cent more business than Dominion with about 25 per cent fewer outlets. Earnings have been rising at an average annual rate of about 20 per cent since the war and reached $4.60 a share for the year ended May 1953.

At the fiscal year-end, 100,000 shares of "B" stock were issued at $39 a share which, together with $3,849,360 in cash, was used to finance the purchase of 193,734 shares of Loblaw Incorporated, a food chain in the United States. This purchase brought Loblaw's interest in this U.S. company to 199,627 shares or 56.8 per cent of the total shares outstanding. Including the undistributed profits of this Company for the year ended February 1953, Loblaw Groceterias' consolidated profits would amount to $4.98 a share on its combined "A" and "B" shares outstanding. It would appear that this acquisition by the issue of additional "B" shares resulted in no dilution in earnings on a consolidated basis.

Earnings on the "B" voting stock could be considerably enhanced by calling the participating "A" stock at $50 and substituting say a five per cent preferred. This would increase 1953 earnings on the "B" shares to over $7.00 a share. Although there has been no announcement of such a scheme, the effect would be to make the "B" shares the sole participant in earnings after preferred dividends. A further increase in earnings for the year ended May 1954 should be witnessed.

DOMINION STORES LIMITED

Sinking Fund Debentures	$4,790,000
Common Stock, no par value	1,260,056 shares

Dominion Stores unit sales are still well behind those of its competitor Loblaw, but rapid progress has been made in the past few years in closing this gap. Last year, for example, 14 smaller retail outlets were closed and seven completely modern stores were opened. Moreover, nine other similar units are under construction and a number of the present stores are being modernized. This trend towards the more efficient "mammoth market" is being reflected in a better-than-average increase in overall sales which reached $140 million last year. Although operating costs were higher in 1953, a larger inventory turnover (20 times) enabled the Company to improve its profit margins. Dominion Stores has expanded its sales per store about five times in the post-war period. Still greater progress has yet to be achieved in this direction. Meanwhile the increasingly effective operation has resulted in higher earnings.

STEEL

By the end of this year the steel industry will have spent during the post-war period about $250 million for new plant. The expansion program is now almost completed, and represents about a one-third increase in capacity over 1951, and a 200 per cent increase over 1939.

Last year Canadian ingot production exceeded 4 million tons for the first time, and it was 15 per cent greater than in 1952. Steel imports last year were about 1.8 million tons, so that apparent consumption approached 6 million tons. Imports amounted to about 30 per cent of total consumption.

By the end of this year Canadian ingot capacity will be about 5 million tons. But not all of it will be utilized. During the first quarter of this year the industry operated at less than 70 per cent of last year's capacity and 60 - 65 per cent of 1954 expanded capacity. Ingot production during the first quarter of 1954 was 22 per cent lower than in the corresponding period of 1953, and production had declined every month since last October.

Foreign steel is sharply competitive in the Canadian market. The great expansion of steel capacity, not only in the major producing countries, but in the minor as well, has narrowed the export outlets for steel. Canada is one of the few countries which offers a market for steel and its products. There are no embargoes, quotas or currency restrictions, and the Canadian tariff schedules are not designed to impede the entry of foreign steel to the Canadian consumer. Canadian labour costs are close to those in the United States, and very much higher than in any other country in the world. Competition in the fabricated lines of steel, where labour content is relatively high, is especially keen and foreign-made products are offered in some cases at prices below Canadian costs. Mill runs are relatively small, so that like the textile industry, the steel industry is finding it difficult to meet foreign price competition under conditions of an international buyers' market for steel products. Some producers have already been hurt, and the near-term outlook for the industry is not entirely encouraging. But steel is a basic industrial metal, as well as the leading structural material, and the Canadian industry will continue to reflect the underlying industrial expansion of the country.

Apart from Steel Company of Canada and Dominion Foundries and Steel, there are two other major steel companies whose stocks have received some attention: Dominion Steel & Coal and Algoma Steel. Dominion Steel & Coal has been spending large amounts in improving its properties to enable it to operate profitably without its steel export business. The Company has important iron ore deposits at Wabana and part of this production is exported. If Dominion Steel & Coal had followed the same accounting policy as Steel Company of Canada and Dominion Foundries in charging off full depreciation against earnings, no profits in 1953 would have been shown, although the Company did report earnings of $1.82 a share. Import competition is proving to be a serious factor.

Information regarding Algoma Steel is not yet sufficient to appraise the common stock. The Company has important subsidiaries engaged in the mining of iron ore and coal and is generally believed to have large interests in other enterprises. For the 20 months ended December, 1953, the Company reported consolidated earnings of only $4.50 a share, but it was announced that special capital cost allowances reduced earnings by $3.74 so that "normal" earnings per share for the period were $8.24 a share. There were many other deductions from earnings including total depreciation, equivalent to $18.25 a share, and special reserves, equivalent to $4.07 a share. Thus the cash flow for the 20 month period would seem to have been equivalent to about $26.82 a share. The Company also wrote off the equivalent of $2.00 a share for moving expenses. In addition to these earnings, there may be undistributed profits of companies in which Algoma Steel's subsidiary companies have important interests.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Steel Company of Canada	35	36 - 29	Dec.	$3.55	$3.85	$1.30
Dominion Foundries	15	15 5/8-12 3/8	Dec.	0.61	0.65	0.60

STEEL COMPANY OF CANADA LIMITED

Funded Debt $33,285,687
Common Stock, no par value ..... 3,701,850 shares

Steel Company of Canada has about completed its expansion program which was designed to increase its primary steel capacity by 50 per cent. This program has made the Company self-sufficient and outside purchases of ingot, slabs and billets are no longer required. Over $81 million has been spent over the past few years and a further $21 million will be required to complete the program in 1954, including the Company's share of the financing of Erie Mining Company (iron ore) to production. A new record in ingot production of 1.9 million tons was achieved last year which was about one-half of the total produced in Canada. The Company is the largest producer of alloy steel which is sold principally to the automotive industry.

Steel Company of Canada reported earnings in 1953 of $3.85 a share compared with $3.55 a share in 1952 but the cash flow before depreciation was $8.98 in 1953 and $8.29 a share in 1952. In fact the 1953 annual cash flow was about the equivalent to the total funded debt outstanding at the present time. Last year dollar sales increased about 7 per cent and there was a modest improvement in profit margins. Output for the first six months of 1954 apparently was less than production in the first half of 1953, but earnings may not have declined correspondingly as the Company has been able to put new equipment to effective use.

Although Steel Company of Canada has expanded in growing lines as much as possible, some of this capacity is bound to meet competition from low-cost U.S. producers. This could pose serious problems and restrict earnings to a low return on the investment in enlarged plant.

DOMINION FOUNDRIES AND STEEL LIMITED

Funded Debt $11,250,000
4½% Cum. Red. Sinking Fund Preferred, $100 par value ..... $ 7,674,200
Common Stock, no par value ..... 2,400,000 shares

Last year's reported earnings of Dominion Foundries were 65 cents a share but if only normal depreciation had been charged they would have been $1.56 a share. Comparable reported earnings in 1952 were 61 cents a share or $1.79 a share after adjusting for accelerated depreciation. The Company is in the midst of a modernization program costing $15 million of which about $5 million was spent last year. This program includes the adoption of a new method for making oxygen steel.

In a relatively short period of time Dofasco has moved from a fabricator dependent on outside sources for pig iron, to a more integrated and efficient producer. Its competitive position has been greatly improved, its management is highly regarded, and its employee relations are excellent.

TEXTILES

The primary textile industry has been experiencing one of the worst depressions in its history. Production is down sharply. Some 22,000 employees have been laid off during the past two years. Mills have been closed. Most of the mills still operating are on short time. Before the war Canadian cotton mills supplied about 73 per cent of the cotton piece goods consumed in Canada. Now they are supplying only about 50 per cent. Total Canadian fabric requirements have increased by 60 per cent since 1935-39, so that if the domestic mills had their pre-war share of the market now, the industry would be thriving instead of depressed. The Canadian industry is supplying less per capita now than before the war, while per capita imports have almost doubled.

The deterioration in the textile industry stems from four major influences:

(1) In 1939 wage rates in the U.S. textile industry were 40 to 45 per cent higher than in Canada. Today U.S. wage rates are 20 per cent higher than in Canada and, in the Southern States, they are only 10 per cent higher. Japanese wage rates are about one-tenth those in Canada, and British rates are about 40 per cent of the Canadian. Thus Canada's competitive position has been materially weakened because wages represent so large a proportion of total costs.

(2) At the same time relatively small mill runs of the Canadian producers in relation to U.S. and U.K. producers with much larger markets result in higher Canadian mill costs. Moreover, there has been a great deal of emphasis on promotions and styling. In order to compete, Canadian mills are forced into still smaller runs, which greatly increase unit costs.

(3) The Canadian tariffs on textiles were reduced in 1936, 1939 and again in 1948. The impact of the lower import duties was disguised by the outbreak of war, by the post-war period of shortages, and by the scramble for goods following the outbreak of the Korean War.

(4) In 1948 the average spread in the United States between the price of raw cotton and a group of representative fabrics was 60 cents a pound. Currently the average spread is 29 cents a pound. This intensifies the difficulty facing the Canadian textile mills in their attempt to meet the competition of low-cost imports.

The Canadian industry has invested $265 million of new capital since 1946, most of it on replacement and modernization of existing equipment. But it is still not in a position to compete with the combination of legal and illegal imports into this country. Although consumption of textiles is holding well, mill inventories are still high in both Canada and the United States and better conditions in the industry will have to await less intensive competition from low-cost imports.

	Approx. Price	1952-53 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Canadian Celanese	18¾	46 - 18	Dec.	$2.41	$1.67	$0.60
Dominion Textile	6½	11 - 6	Mar.	0.40*	0.07*(d)	0.40

* Twelve months ended March 1953 and 1954 respectively.

(d) Deficit.

CANADIAN CELANESE LIMITED

3% Debentures, due April 1962	$ 7,100,000
$1.75 and $1.00 Preferred Stock	$12,500,000
Common Stock, no par value	1,241,636 shares

Canadian Celanese, a producer of cellulose acetate synthetic yarns and fabrics, would seem to have weathered the storm better than its cotton counterparts but severe competition is now depressing operations. The decline in earnings in 1953 to $1.67 a share from the $2.41 a share recorded in 1952 was due almost entirely to a decline in profits in the final quarter. Meanwhile operations have been cut back sharply in order to liquidate inventories. Costs have been reduced; but so have selling prices. There have been two successive reductions in the annual dividend from $2.40 to $1.20 to 60 cents a share and current operations continue unsatisfactory.

During the war and immediately following it, competition was not a factor as Celanese was the sole producer of acetate rayon in Canada and over $26 million was spent on expanding and modernizing its plants. The Company's chief problem was to meet the pent-up domestic demand which was intensified by restricted imports of all textiles. Just recently Canadian Chemical & Cellulose, operating its news plant at Edmonton, entered the market at lower prices (10 per cent) for its yarns and staple fibre. Although Celanese met those prices this domestic competition affects profits. Moreover, the fabric business is still being hurt by low-cost imports. Because of this change in its competitive position, the present depressed phase would not appear to be just an interruption in Celanese's previous strong growth trend, but a basic change to a different condition. On this basis, the stock has lost much of its former attraction as a long-term investment. With less severe import competition, however, the Company with its modern and well-located plants, and aggressive management should be able to secure a representative share of the business to insure profitable operations.

DOMINION TEXTILE COMPANY LIMITED

Debt	$10,806,316
4% Convertible Debentures, due August 1966*	$10,000,000
7% Preferred Stock, cum. non-call., $100 par	$ 1,940,600
Common Stock, no par value	2,574,374 shares

*Convertible $5\frac{3}{4}$ shares per $100 to August 1, 1955; thereafter 5 shares to August 1, 1958; thereafter $4\frac{1}{2}$ shares to August 1, 1961.

Dominion Textile and its subsidiary companies produce about one-half of the cotton piece goods manufactured in Canada. During the past few years the Company has earned virtually nothing from its operations. By carrying back previously tax paid inventory reserves, it has been able to report modest earnings, but last year a small loss was shown. This depressed condition resulted in the dividend being cut from 15 to 10 cents quarterly last November and present disbursements are being made out of surplus. Operations have been confined more to the staple lines of production which are required in substantial quantities in the Canadian market. Meanwhile, the common stock is selling for about its estimated consolidated working capital after deducting all senior securities. Drummondville Cottons was consolidated in the Company's accounts for the first time last year, which strengthened considerably the overall liquid position of the balance sheet. Other important subsidiaries such as Montreal Cottons, and Domil Limited, which operated at a substantial loss last year, have not yet been consolidated.

Since the war, Dominion Textile has been actively engaged in improving its productive facilities. Over $13 million has been spent on new plants and a further $10 million has been invested in subsidiary companies. About 70 per cent of these expenditures were financed from retained earnings. The Company's wholly owned subsidiary, Domil Limited, which produces rayon dress fabrics and suitings, is being further expanded.

As inventories have yet to be worked off, the prospect for immediate earnings is not encouraging and the dividend may be eliminated. Nevertheless, the stock represents an investment in assets which can pay off handsomely under less intensive competition from low-cost imports.

TOBACCO

Price and tax reductions last year resulted in a sharp rise in the consumption of tax-paid cigarettes. In the last three-quarters of 1953 (after the tax reduction) cigarette releases increased by 17 per cent over the corresponding period of 1952 and the upward trend is continuing, but at a lower rate at present. On an adjusted basis, this year's releases are a little better than the average annual rate of increase over the last three decades. Cigar sales are showing a marked improvement.

Although per capita cigarette consumption in Canada is less than 60 per cent of the U.S. figure, it has been showing a marked growth trend over the last two years. Last year Canadians smoked an average of 71 tax-paid packages of 20, more than double the pre-war figure. A reduction in illegal imports and lower prices resulted in a per capita consumption of Canadian cigarettes in 1954 15 per cent ahead of 1952 (while consumption was falling slightly in the United States). Several factors have accounted for the wide disparity in cigarette consumption between Canada and the United States, including higher Canadian prices, relatively lower personal income and relatively larger rural population which prefers home-rolled cigarettes and pipe tobacco. But the rising trend of personal income, steadily increased urbanization of the population, and greater cigarette usage by women point to a closer alignment of Canadian and U.S. per capita consumption in the longer run, if Federal taxes in this country are progressively reduced to the U.S. levels. While the 1954 federal budget made no provision for tobacco tax concessions this year, total cigarette sales should be slightly above those of 1953.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Imperial Tobacco	10 7/8	11 1/8 - 8	Dec.	$0.62	$0.70	$0.47½

IMPERIAL TOBACCO COMPANY OF CANADA LIMITED

Debentures	$24,300,000
Preferred Stock	$15,642,500
Ordinary Shares, $5.00 par value	9,670,532 shares

There is evidence that Imperial Tobacco is turning the corner and that earnings should keep pace in the future with the normal increase in cigarette consumption (7½ per cent annually since 1920). Although last year's increase

in consumption was not sufficient to counteract the reduction in cigarette prices, dividend disbursements were increased to 47½ cents a share from 45 cents in the previous year. Operating profits were down about 9 per cent, part of which could have been accounted for by non-recurring inventory losses. Reported earnings were 70 cents a share after appropriations to miscellaneous special reserves of 22 cents a share which were not allowed for income tax purposes.

Some years ago, Imperial Tobacco did about three-quarters of the total cigarette business in Canada. Increased competition and other factors reduced this to probably 50 per cent. By concentrating on fewer brands, indications are that the Company is now doing better than holding its own. From 1946 to 1950 dividends of 60 cents a share were paid and the recent increase was probably a first step towards higher disbursements. Moreover, the stock should have certain defensive qualities should disposable income shrink.

TRANSPORTATION

The two major Canadian Railways operate coast-to-coast systems strung across thousands of miles of sparsely settled country. The Canadian Pacific Railway competes generally with government-owned Canadian National Railways, although they pool passenger service between major cities of Quebec and Ontario. Railway rates in Canada (other than statutory) are under the control of the federal Board of Transport Commissioners, and the rate structure is archaic, based in the 19th Century on political rather than economic considerations. Freight rates have long been and still are a constant issue in Canada. The rails are confronted with cheap water-borne and motor transport freight rate competition in the populous and key eastern markets, and at the same time they must carry western grain, maritime coal, and other products at what in effect are subsidized rates.

Last October the Board of Transport Commissioners ordered a 5 per cent reduction in class rates on freight west of the Great Lakes, and allowed a 10 per cent increase in the east in fields where water or truck competition does not prevail and as might be dictated by the realities of the situation. More recently the Board has refused the application for increased rail freight rates to establish a fair return on railway investment.

General freight rate increases of 9 per cent effective at the first of last year, and 7 per cent, effective March 16, 1953, were more than offset by increased costs (largely labour), and lower volume of freight traffic, which is continuing to decline this year as a result of sharply lower carloadings for grain and decreases in several other commodities. Thus, during a period of record economic activity in Canada, the ratio of net to gross earnings reached one of the lowest points in the past 25 years. At the same time the railways have been compelled to make large capital investments to maintain property and equipment, and to reduce costs. Last year their combined outlay was $207 million, and in 1952 it was $181 million. The projected total for this year is $272 million of which over $200 million is for new rolling stock. This, of course, is having important implications for the railway equipment industry this year. Meanwhile rail traffic will probably decline still further and the outlook for earnings on railway operations is unsatisfactory. Ocean shipping is depressed and earnings are falling, and Great Lakes shipping companies are operating at far less than capacity because of the failure so far to move grain to the eastern seaboard.

	Approx. Price	1953-54 Price Range to Date	Fiscal Year Ends	1952 per Share Earnings	1953 per Share Earnings	1953 Dividend or Indicated Rate
Canadian Pacific Railway	26	33 1/8 - 20¾	Dec.	$2.61	$2.05	$1.50
Canadian Car "A"	22	21½ - 16½	Sept.	4.01	5.55	1.00
Canadian Car "Ordinary"	20	22 3/8 - 14 1/8	Sept.	3.29	4.97	0.80
Canadian Car (Combined)				2.10	2.90	
Canada Steamships	23½	24 - 14	Dec.	2.24	2.42	0.25

CANADIAN PACIFIC RAILWAY COMPANY

Debt (non-convertible)	$ 51,375,000
Convertible Debentures	$ 74,739,000
4% Debenture Stock	$292,548,888
4% Non-Cumulative Preferred	$137,256,921
Ordinary Stock, $25 par value	13,806,997 shares

Obviously the shareholders of Canadian Pacific Railway have been penalized by a freight rate structure which has prevented it from earning a return on its railway investment of 6½ per cent fixed as fair by the management. It is also obvious that the existing rate structure is rigid, archaic and inadequate, but it is also important that in an elongated country such as Canada low freight rates are essential in the public interest. Even with the benefit of freight rate increases, only about 2½ per cent was earned on C.P.R.'s railway investment in both 1952 and 1953. The Board of Transport Commissioners did not look with favour on the request of the Company that it be allowed rates sufficient to earn a 6½ per cent return on its railway assets. The Board did adopt, however, the principle that the net rail investment should be one of the "end" tests by which the reasonableness of rates may be judged. It could not accept this reason as the sole criterion because it was claimed that the cost of rate increases would be borne by an ever-narrowing section of the non-competitive, non-statutory rate structure. Much of the responsibility for this situation had, previously in the judgment, been ascribed to the fact that the railways are required to carry western grain at low statutory rates which "affects the net return on rail investment particularly when it becomes difficult or impossible to transfer the burden of the deficiency to other classes of traffic without loss of volume."

Gross earnings have increased every year since the war. In 1953, they reached a record of $470.6 million as a result of increases in freight rates which became effective early in the year. Nevertheless, about one-third of the total freight carried was subject to the Crows Nest Pass rates established in 1899. The improvement in revenues, however, was offset by higher costs despite the curtailment of maintenance expenditures in mid-year and railway earnings were about maintained. Net railway earnings represented 6.1 per cent of gross revenues which with but two exceptions was the poorest ratio in history of the Company.

Net income for steamship operations was down sharply which more than counterbalanced increased income from airlines, hotels, communications, etc. This combined with lower income from Consolidated Smelters (of which C.P.R. owns three-fifths of a share for each share of its own stock) resulted in the lower earnings as shown below:-

	Per Share of Ordinary Stock Outstanding at Year End			
	1950	1951	1952	1953
Gross railway earnings	$28.25	$32.01	$33.17	$34.08
Net railway earnings	$ 2.84	$ 2.00	$ 2.10	$ 2.09
Steamships, airlines, hotels, communications, etc.	0.54	0.81	0.64	0.49
	$ 3.38	$ 2.81	$ 2.74	$ 2.58
Less: Interest & Pfd. Divds.	1.25	1.21	1.13	1.26
Net before Cons. Smelters divd.	$ 2.13	$ 1.60	$ 1.61	$ 1.32
Divd. from Cons. Smelters	1.19	1.38	1.00	0.73
Reported Earnings	$ 3.32	$ 2.98	$ 2.61	$ 2.05

Not included in the income account was income from petroleum rents, royalties and reservation fees of 53 cents a share gross of C.P.R. which were about double those of 1952. This income, together with the proceeds of land sales, was credited to the land surplus account. Royalties from crude oil were received on 9.9 million barrels from 590 wells, compared with 6.3 million barrels from 450 wells during 1952. In addition, ten-year contracts were negotiated with two major oil companies on which a reservation fee of $1.00 an acre will be received on 1,590,000 acres in Alberta and Saskatchewan.

The outlook is for lower freight revenues and there is little possibility that Consolidated Smelters will be able to increase its dividend. Although stock market quotations will be swayed by the market action of Consolidated Smelters, and although income from oil royalties and reservation fees is becoming increasingly significant, the stock has lost much of its appeal as a railway investment until a more realistic view is taken towards the complex problem of freight rate adjustment.

CANADA STEAMSHIP LINES, LIMITED

Funded Debt	$ 7,228,500
5% Cumulative Preferred, $12.50 par value	$11,462,500
Common Stock, no par value	1,200,000 shares

Last year, Canada Steamships reported net earnings on the present stock of $2.42 a share as against $2.24 a share in 1952. Almost $8 million, however, was reserved for depreciation and the cash flow to the Company in 1953 was equivalent to $8.82 a share after payment of common dividends, compared with $7.39 a share in 1952. During the past three years, Canada Steamships has retained earnings equivalent to $21.22 a share of which $16.08 has been set aside for depreciation. This total cash flow of $25.5 million exceeds the par value of the preferred and bonds outstanding by $6.8 million.

Earnings from the Company's steamship business under normal conditions might be divided into three parts - one-third from iron ore, one-third from wheat and one-third from package freight. Last year, a substantial portion of the total profit was earned by the Company's non-water transportation facilities which include Kingsway Transports. Ship building and ship repairing is also an important factor and this division enjoyed a profitable year. Both the ship building and the transport business is operating favourably in 1954, but the steamship business is clouded by the meagre shipments of grain to date.

CANADIAN CAR & FOUNDRY COMPANY LIMITED

Class "A" Conv. non-call. non-cum., $20 par ..... 400,000 shares *
Ordinary Stock, no par value ..... 365,800 shares

* Convertible into Ordinary, share-for-share, at any time.

Canadian Car & Foundry's rolling stock facilities are about three-quarters the size of its chief competitor, National Steel Car, and in the past its operating profit in this division would appear to have been lower in relation to gross business. Canadian Car's operating efficiency is being improved under new management and the Company's operations are more diversified. These include a large foundry and machine shop operation, and bus and aircraft divisions. This diversification has not always been altogether profitable, but a higher degree of overall effectiveness is being obtained.

Canadian Car & Foundry reported higher earnings in 1953 at $2.90 a combined share, compared with $2.10 a share in 1952. Operating profits improved only slightly, and the improvement in reported earnings stemmed from greater efficiency, smaller depreciation charges and lower taxes rather than any increase in the combined operations of the enterprise.

Although last year's profits were not impressive, indications are that real progress is being made in increasing the efficiency and consolidating the operation of the Company. Moreover, the backlog of business on hand was larger than a year ago and new orders since will be sufficient to keep facilities at capacity to September 30, 1954. Working capital, including certain deferred items, was equivalent to $17.50 per combined share and may now be closer to $20 a share as the result of the sale of property and higher 1954 earnings.

Improvement in the Company's effectiveness may not be fully reflected in earnings unless the railways are able to finance necessary purchases of new rolling stock. The present low freight rate structure and declining carloadings are retarding factors. Meanwhile, either the "A" or Ordinary stock can be purchased for about the amount of the Company's working capital and the Company's other assets would seem to possess distinct potentialities for longer-term development even though railway equipment purchases will fluctuate from year to year. Earned surplus at the end of September 1953 was equivalent to $15.95 a combined share and this offers eventual opportunities for stockholders to benefit to a more representative extent.

THE JOHNS HOPKINS UNIVERSITY
BALTIMORE 18, MARYLAND

DEPARTMENT OF HISTORY

September 28, 1954

Mr. Donald Woodward
Committee on the History of the
Federal Reserve System
Federal Reserve Bank of New York
Federal Reserve P.O. Station
New York 45, New York

Dear Mr. Woodward:

In my discussions with Mr. Willits concerning research on the history of the Federal Reserve System, I remarked how useful that research might be to general students of American history, since the establishment of the Federal Reserve System as an effective agency is important not only from the point of view of the history of banking and public administration but also in American cultural and political history. Much of the material which Miss Adams is locating and arranging to make available could be used in studies that are peripheral to your central theme. Moreover, in determining what is peripheral and what is central to your theme, and in guiding accordingly the search for material and the planning of monographs, your committee might, I thought, find it useful to have an American historian of distinction participating in your discussions. He need not be especially interested in banking, but I had in mind someone thoroughly at home in the traditional problems of American history, and especially familiar with the political life of the period in which the Federal Reserve was created. But I do not myself qualify in these respects. I had in mind such persons as W. Stull Holt of the University of Washington, Commager of Columbia, or Tom Cochran of Pennsylvania. My own interests, although extended broadly over economic history in general, are primarily in European Economic History of early modern, almost medieval, times. After considering the matter more carefully than I could do during our telephone conversation, I have come to the definite conclusion that I lack competence and also lack time to devote to being a useful member of the Committee on the History of the Federal Reserve System.

Much as I appreciate the compliment you have paid me by inviting me to become a member, I feel that I must decline to accept the honor.

I enclose the material that Miss Adams so kindly sent me.

Sincerely yours,

Frederic C. Lane

Frederic C. Lane

Enclosure

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

October 1, 1954

Dear Dr. James:

In accord with the outcome of the poll of the Committee Dr. Lane was invited to become a member of the Committee. The attached letter is his response.

Presumably the Executive Committee will consider the question of further action on the matter at an early meeting.

Very truly yours,

Donald B. Woodward

Enclosure

Dr. F. Cyril James
Principal & Vice Chancellor
McGill University
Montreal 2, Canada

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

October 1, 1954

Dear Mr. Burgess:

In accord with the outcome of the poll of the Committee Dr. Lane was invited to become a member of the Committee. The attached letter is his response.

Presumably the Executive Committee will consider the question of further action on the matter at an early meeting.

Very truly yours,

Donald B. Woodward

Enclosure

Mr. W. Randolph Burgess
Deputy to the Secretary
Treasury Department
Washington 25, D.C.

September 28, 1954

Miss Mildred Adams
Committee on the History of
The Federal Reserve System
33 Liberty Street
New York 45, N.Y.

Dear Mildred:

You will have had a copy of Dr. Calkins letter of Sept. 22 to me stating that Dr. Chandler is entirely agreeable and satisfied with the contract. In view of your letter to me and oral comment this is confusing. We had better talk about it when you return. Will you please let this letter serve as a request to call me at your convenience?

Yours,

Donald B. Woodward

DBW:lw

The Brookings Institution

Washington 6, D. C.

722 JACKSON PLACE, N. W.

September 22, 1954

Dear Don:

I have Lester Chandler's approval of the agreement which we sent him on September 14. He indicates that he has already begun work on the study. He is entirely satisfied with the arrangements specified in the agreement. I shall keep the original signed copy of the agreement here on file at Brookings.

Sincerely yours,

Rob

President

Mr. Donald B. Woodward
Vick Chemical Company
122 East 42nd Street
New York 17, New York

cc: Miss Mildred Adams

September 27, 1954

Miss Mildred Adams
Committee on the History of
The Federal Reserve System
33 Liberty Street
New York 45, N.Y.

Dear Mildred:

As I told you when we were lunching with Mr. Spencer Scott I had some interesting conversations on our project while I was in Canada. I wonder if you would be good enough to follow up those conversations with some letters which you might say are written pursuant to the conversations I had.

One should go to Mr. J. R. Beattie, Director of Research, Bank of Canada, Ottowa, Canada. Dr. Beattie was most interested, promised to ponder the matter, discuss it in the bank and elsewhere as opportunity presented and to pass on suggestions to us. A letter to him telling him more about the project, perhaps briefly summarizing the progress reports with emphasis on the papers that have been located would be appropriate.

The same is true for Mr. Kenneth W. Taylor, Deputy Minister of Finance, Ottowa, Ontario, Canada. Mr. Taylor is interesting not only for his official position but from the fact that he was one of those who went to the Brookings School when it existed and he has an affectionate regard for Brookings.

A similar letter should go to Dr. W. A. Mackintosh, Principal and Vice Chancellor, Queens University, Kingston, Ontario, Canada. Dr. Mackintosh is the opposite member at Queens to Cyril James at McGill. Dr. Mackintosh served for a good many years as Deputy Minister of Finance.

These are the three with whom I discussed the project and promised to write.

Their suggestion pointed to the Bank of Montreal in Montreal which was the fiscal agent for Canada in the United States for many decades past and indeed still is. The Economic Advisor of the Bank of Montreal is Mr. Edward A. Walton and I think he would be interested. I know him fairly well. A letter to him would be in order, appealing for his aid and that of the Bank of Montreal in uncovering and providing access to materials that might be relevent to this work.

In addition to the Bank of Montreal several of the other Canadian Banks - which as you know are all nationwide branch systems - might well have included among their officers people who had some important contacts and who may have maintained papers or diaries. It was the suggestion of the three to whom I talked that a more general inquiry be sent to some of the other banks. I would suggest letters to Mr. J. Douglas Gibson, Bank of Nova Scotia, King and Bay Streets, Toronto, Ontario, Canada whom I know well and to whom my name could be used. Letters also might appropriately go, I was told, to Dr. William Lougheed, Economist, The Canadian Bank of Commerce, Toronto, Ontario, Canada and Dr. Donald Marsh, Economist, The Royal Bank, Montreal, Quebec, Canada. I had only met Lougheed and Marsh very briefly.

There were two or three other specific suggestions for papers which were mentioned to me and which I have noted someplace but can't find the notes. When they turn up I'll pass that on also.

Cordially,

Donald B. Woodward

DBW:lw

The Brookings Institution

Washington 6, D. C.

September 24, 1954

Mrs. Ellen Colt Singer
Committee on the History of
the Federal Reserve System
33 Liberty Street
New York 45, New York

Dear Mrs. Singer:

This letter is to confirm your appointment as a member of the staff of the group working on the History of the Federal Reserve System. As indicated by Miss Adams, your appointment is that of Executive Secretary and Research Assistant at an annual salary rate of $4,160, or $346.67 per month. It is understood that you will be on Temporary Appointment for ninety days, from September 9, 1954, and if your work is satisfactory at the end of that time, you will be transferred to an Annual Appointment basis as a member of the Special Staff for this Federal Reserve study.

I am enclosing herewith the rules and regulations governing the staff of the Brookings Institution, which generally apply to those serving on the Special Staff of the History of the Federal Reserve System.

Sincerely yours,

President

Enclosure

cc: Mr. Woodward
Miss Adams
Mr. Akers
Miss Maroney
Mrs. Wilson

September 23, 1954

Dr. Walter W. Stewart
Council of Economic Advisers
Executive Office Building
Washington 25, D. C.

Dear Walter:

Miss Adams has kindly sent me a copy of her letter to you of September 21. I do feel a marked sense of responsibility and am becoming uncomfortable at the slowness of development.

However, contrary to what her letter states I do not intend to try to see Mr. Burgess until I have heard from Dr. Calkins which will in turn be after he has had a conversation with you. This decision was made as a result of discussion with him after Miss Adams' letter to you was written. Otherwise all that she said is correct.

My very warmest regards.

Cordially,

Donald B. Woodward

DBW:lw

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM
33 Liberty Street, New York 45, New York

September 21, 1954

Dear Dr. Stewart:

I have been talking to Don Woodward about the problem posed by Mr. Burgess' continued absorbtion in his present job, and your kind offer to invite the three of us to dinner in Washington.

Don is as grateful to you as I am. His own sense of responsibility in this situation, as an initiator who drew Mr. Burgess into this so early that they both became, so to speak, co-planners, is very strong. It leads him to suggest that as a first step he see Mr. Burgess in New York in the very near future, and find out what an informal discussion a deux may reveal. If things are still vague and unresolved, he will then call for help from stronger quarters, namely your own good self.

We understand you are out of Washington this week. I hope that means a vacation. I shall be away from my desk until October 11th, showing New England to a couple of British friends, praying for lovely color and no hurricanes.

Gratitude and greetings,

Mildred Adams

Dr. Walter W. Stewart
Council of Economic Advisers
Executive Office Building
Washington 25, D. C.

c.c. - Mr. Donald B. Woodward
Vick Chemical Company
122 East 42nd Street
New York 17, New York

COMMITTEE TO STUDY THE HISTORY OF THE FEDERAL RESERVE SYSTEM

September 22, 1954

Dear Mr. Woodward:

Miss Adams asked me to send you the enclosed list of people suggested by Dr. Hart at lunch yesterday as ones who might meet to discuss this project.

Sincerely

Ellen C. Singer

Secretary

Mr. Donald Woodward
Vick Chemical Company
122 East 42nd Street
New York 17, New York

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

Names Suggested by Dr. Albert G. Hart, 9/21/54

John Lintner	Harvard
John Williams	Harvard
Alvin Hansen	Harvard
James Tobin	Yale
Milton Friedman	Chicago
Lawrence H. Seltzer	Wayne University, Detroit
George Leland Bach	Carnegie Institute of Technology
Lester V. Chandler	Princeton
Jacob Viner	Princeton
James W. Angell	Columbia
Albert G. Hart	Columbia
Howard S. Ellis	California
Roland I. Robinson	Northwestern
Charles R. Whittlesey	University of Pennsylvania
Edward S. Shaw	Brookings Institution
Thomas C. Cochran	University of Pennsylvania
Carter Goodrich	Columbia

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM
33 Liberty Street, New York 45, New York

September 17, 1954

Dear Don:

One further detail about the Chandler contract. We note that Mr. Calkins has signed that contract both for Brookings and for the Committee. Personally, I do not think that this is a good idea and I am sure that reasons for this belief will jump to your mind as they have to mine.

The incident brings up a question for which I find no answer in my notes, namely, who is supposed to represent the Committee officially in dealing with Brookings on matters requiring the action of both groups? The matter was brought up at a Committee meeting in the summer, but, unless I slipped up on making a record of it, it was never answered. You and I have, I think, talked of it. I would think you as secretary should play that role. The feeling expressed earlier was that for his own sake and for that of the Committee's autonomy Calkins should not be asked to wear both hats.

I raise this point because I think it is basically important, and can easily be handled by you now; a caveat now may avoid trouble in the future.

Best as always,

Mildred

Mildred Adams

Mr. Donald B. Woodward
205 West 54th Street
New York, New York

c.c. Mr. Donald B. Woodward
Vick Chemical Company
122 East 42nd Street
New York 17, New York

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM
33 Liberty Street, New York 45, New York

September 16, 1954

Dear Don:

As I told you over the phone, Lester Chandler came in yesterday afternoon and in the process of a long discussion mentioned the fact that there were two or three details which might have to be changed.

The principal thing which seemed to concern him was paragraph 6 which sets forth the Brookings system of passing on publications. He did not think that would pass Sproul's eye in view of a paragraph which Sproul had on the same day sent me.

The thing which is now coming up is the matter of how much control a bank or the Board will feel it must try to exercise and how far that control can be squared with the Brookings attitude and the Committee desires. This is, of course, not a new problem. We have known it would confront us and for that reason this particular moment becomes in a quiet way a test case.

Chandler's attitude is that the imponderables are so important that they can only be handled (a) by a precise and lengthy legal defining, or (b) by generalities and good faith. He would prefer the latter and I must say that I sympathize with him with my fingers crossed.

The problem is to find the general phrase. This may take time, but it will not hold up Chandler's work. He plans to come in to read Strong papers every Monday beginning September 27th. I took him yesterday to see Mr. Roelse who is providing him desk space. Other details will be worked out.

If there are further developments in this, I will report them to you on Tuesday.

Best as always,

Mildred

Mildred Adams

Enc.

P.S. I am returning your copy of the agreement.

Mr. Donald B. Woodward ✓
205 West 54th Street
New York, New York

c.c. Mr. Donald B. Woodward
Vick Chemical Company
122 East 42nd Street
New York 17, New York

The Brookings Institution

Washington 6, D. C.

722 JACKSON PLACE, N. W.

September 14, 1954

Dear Don:

I am enclosing herewith a copy of the agreement with Mr. Chandler. This is being sent today for his approval. I hope it meets with your approval. I submitted the draft to Walter Stewart and Randy Burgess today, who lunched here. They o.k.'d my sending it in this form.

Sincerely yours,

Bob

President

Mr. Donald B. Woodward
Vick Chemical Company
122 East 42nd Street
New York 17, New York

Enclosure

The Brookings Institution

Washington 6, D. C.

September 14, 1954

Professor Lester V. Chandler
Department of Economics
Princeton University
Princeton, New Jersey

Dear Les:

This letter sets forth the terms of the agreement between the Brookings Institution, acting for the Committee on the History of the Federal Reserve System and itself jointly, and you, who, as parties, agree:

1. That you will undertake the preparation of a biographical volume on Benjamin Strong - Central Banker, and complete this study substantially as outlined in your memorandum of May 18, 1954.

2. That you will complete the study within the next three years - July 1, 1954 to June 30, 1957, and that you will actually start work on the volume in September 1954.

3. That the Committee will underwrite expenses as outlined in your memorandum of May 18, 1954 up to a total of $7,000. The secretarial and other assistants employed for the study will be engaged by you. The Institution will pay over to you in advance the funds for these expenses so that you may make payments as the circumstances require. Pursuant to this provision, the Institution will pay over to you for expenses $3,000 in the fiscal year 1954-55, $3,000 in the fiscal year 1955-56, and $1,000 in the fiscal year 1956-57. These payments for expenses will be made in advance as the work proceeds: $1,000 on September 20, 1954; and subsequent payments of $1,000 each on January 1, May 1, and September 1 of each year until the full $7,000 has been paid. Unexpended balances of these funds for expenses on June 30, 1957 will revert to the Institution and the Committee.

4. That the Committee will pay you as compensation for this work the sum of $5,000. The Institution will pay this sum as the work proceeds in installments - $1,500 on June 1, 1955; $1,000 on December 1, 1955, June 1, 1956, December 1, 1956; and $500.00 on March 1, 1957.

5. With respect to publication, the Committee will defer publication arrangements until the feasibility of publishing the entire series of proposed studies in a single series by a commercial publisher, a university press, or the Brookings Institution has been explored. As soon as the Committee's publishing plans are settled, the publishing arrangements with you will be worked out in detail. Meanwhile, the Committee agrees to publish the volume, or, if it does not elect to publish the volume itself, it will allow you to arrange for publication on your own responsibility. In the latter event, the Committee will subsidize publication up to $5,000, if such a subsidy should be necessary.

6. That members of the Committee on the History of the Federal Reserve System will have an opportunity to examine the manuscript prepared by you before publication, in order that they may make criticisms and suggestions for your consideration. It is understood that this provision imposes on the author no obligation to adopt the suggestions of the Committee. If the study is published by the Committee itself, by the Brookings Institution, or under the auspices of the Committee or the Institution, a small reading committee of three scholars--appointed by the Committee and the Institution after consultation with the author--will have final determination of the acceptability of the manuscript for publication.

7. That you will send the Institution for each fiscal year ending June 30 a statement of expenditures made under this contract and will annually on that date furnish a report on the progress of the study. Any portion of the funds for expenses which remains unexpended on June 30, 1957 will revert to the Institution and the Committee.

If this agreement meets with your approval, will you kindly sign a copy and return it to me for our files.

Sincerely yours,

R A Calkins

President

Above agreement Approved: _____ 9/14/54

For the Institution and the Committee — Date

_____ _____

For the Author — Date

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

September 15, 1954

Dear Mr. Woodward:

Miss Adams asked me to send you the enclosed letters to keep you up-to-date on the details of this office.

Sincerely,

Ellen Colt Singer
Secretary

Mr. Donald B. Woodward
Vick Chemical Company
122 East 42nd Street
New York 17, New York

ASSOCIATED HOSPITAL SERVICE OF NEW YORK

The Hospital-Sponsored Blue Cross Plan

Enrollment Headquarters
370 Lexington Ave.
New York 17, N. Y.

80 LEXINGTON AVENUE
NEW YORK 16, N. Y.
MURRAY HILL 9-2800

September 13, 1954

Mr. Donald Woodward
Secretary
Committee on the History of the
Federal Reserve System
33 Liberty Street
New York 45, N.Y.

Dear Mr. Woodward:

Thank you for your letter of September 9, 1954. I am arranging to have Mr. George Shelton, our representative, who handles the Federal Reserve Bank contact you for an early appointment.

Cordially,

Norman T. Marten

Norman T. Marten
Assistant to the Vice President
Enrollment Department

ntm:ha

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

September 15, 1954

Dear Mr. Akers:

In the matter of personnel for this office, we have, up to the present, proceeded on an arrangement under which the Bank loaned us whomever we needed, and charged us for their services.

It has been understood that in moving from the pilot phase to the longer project we would end this somewhat awkward plan and take on our own people, who would be paid directly from our funds.

The first of these came to work on Thursday, September 9th. Her name is Ellen Colt Singer (Mrs. Thomas Singer) and her address is 19 Grace Court, Brooklyn 1, New York. She was graduated from Vassar in 1946, and holds a Master's degree from Radcliffe. She comes to us as executive secretary and research assistant at a salary of $80 a week. If it is convenient for you she would rather be paid by the month, dating from September 9th.

Mrs. Singer has gone through the regular personnel process of this bank and has filled out their application blank. Her references have all replied with enthusiasm. If you would like her to fill out a Brookings blank for your files, she will be glad to do so, or I can send you the Bank's blank.

We are in the process of finding a stenographer-typist, and I will let you know when we are successful. We hope to be as lucky as we are with Mrs. Singer.

Very sincerely yours,

MA

Mildred Adams
Research Director

Mr. Sheldon Akers
Brookings Institution
722 Jackson Place N.W.
Washington 6, D.C.

cc. Dr. Calkins
Mr. Donald B. Woodward ✓
Vick Chemical Company
122 East 42nd Street
New York 17, New York

COMMITTEE ON THE HISTORY OF THE FEDERAL RESERVE SYSTEM

September 15, 1954

Dear Miss Maroney:

The origin of our "deficit of $2,038.64" seems to be between Dr. Calkins and me. In his letter of August 11th, Dr. Calkins said, "Miss Maroney reports that as of the end of June we had spent $12,038.64, which is an over-run of $2,038.64 above the $10,000 grant originally made by the Foundation... This raises a question as to whether we should ask for $2,038.64 more from the Foundation to cover those expenditures, or whether we should endeavor to absorb them in the budget for the coming year." In subsequent considerings, this over-run seems to have been converted into a deficit. I am glad to learn from your letter of September 10th that the funds for the pilot project and the five year grant can be combined, and that therefore this deficit, which so depressed me, has never existed.

Such signal flags as your letter are most helpful to me in keeping our budget under control. Mr. Woodward and I are glad that you have straightened out this confusion and that you will be keeping watch for us in the future.

Sincerely,

MA

Mildred Adams
Research Director

Miss Mildred Maroney
The Brookings Institution
722 Jackson Place, N.W.
Washington 6, D. C.

c.c. Dr. Robert Calkins
President
The Brookings Institution
722 Jackson Place, N.W.
Washington 6, D. C.

Mr. Donald Woodward
Vick Chemical Company
122 East 42nd Street
New York City 17, N. Y.

Don -

Mr. Sproul recently sent this out (at his suggestion) to bring the other bank presidents up to date.

M.

C O P Y

Similar letter to all Presidents.

September 10, 1954

Mr. Malcolm Bryan, President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Malcolm:

Under date of February 18, 1954 I wrote to you about the establishment of a Committee on the History of the Federal Reserve System and asked you to give whatever aid you could to its representatives in forwarding the work which the committee hoped to promote. The pilot project mentioned in my letter proved so successful that the Rockefeller Foundation has now made a grant totaling $310,000 and covering a five year period to further the work of the committee. In its announcement of this grant the Rockefeller Foundation said:

> "The proposed history of the Federal Reserve System will include an appraisal of this unusual invention of government, and a review and analysis of its functioning as illumined by the papers and memories of men who helped develop it. How such a mechanism of monetary control, uniquely adapted to our needs, came to be established, by what devices it has endured and thrived, and a study of its role in both government and the economy will be some phases dealt with."

Miss Mildred Adams who is continuing as research director of the project may be calling upon you for help. For example, Miss Marguerite Burnett who recently retired as librarian at this bank is soon going to begin a study of regional archives and would benefit greatly from the help of your bank. I hope that you will find it possible to give aid and assistance to the work of the committee and to those who may be working with it or for it.

Yours faithfully,

Allan Sproul

AS:ES

Committee on the History of the Federal Reserve System
THIRTY THREE LIBERTY STREET

NEW YORK 45, N. Y.

September 8, 1954

Dear Don:

Among the many details which I dealt with in Washington was the matter of "fringe benefits" which you and I had discussed earlier. A letter from Dr. Calkins showed only three areas in which there was any question left, one of these was hospitalization. The New York bank puts its people under Blue Cross and Blue Shield and pays two-thirds of the cost. Brookings provides Blue Cross hospitalization but at the employee's expense. Calkins thinks that an equivalent arrangement should be made here in New York.

His exact phrasing is:

> "Hospitalization. Since the Institution provides Blue Cross hospitalization at the employee's expense, we believe that efforts should be made to arrange for similar benefits through the Blue Cross or Blue Shield systems in New York. If such arrangements can be made and the employees pay the full cost of coverage, as they do here at Brookings, we should provide this service on the same terms as it is provided here."

Under those circumstances I wonder if you would like to write in your capacity as secretary to the Blue Cross people. I am enclosing a suggested letter but I framed it merely to save you time and would be entirely content with any changes you might make.

Also you might like to know that I got the matter of our over-optimism with money sorted out. The $10,000 pilot project went from January 15 to May 30 without difficulty. By the latter date we had spent $8,679.30. That left us $1,320.70 available for work in June. Had we merely continued in the way we had been going we could almost have covered our June expenses but we began the Kinkaid project June 1, and $1,333 was the June portion of that; hence we spent $3,359.34 and were left with the deficit previously noted.

Committee on the History of the Federal Reserve System
THIRTY THREE LIBERTY STREET

NEW YORK 45, N. Y.

 Sept. 8, 1954

Having felt guilty about this I am cheered to know at least we did not run into deficit trouble until the pilot project was technically complete. Were the whole thing prorated we would probably find that we stretched the $10,000 for five months instead of for four. This somewhat soothes my conscience.

I will tell you other details of the Washington trip when your schedule developes a bit of free time.

Best as always,

Mildred

Mildred Adams
Research Director

Enclosure

Mr. Donald Woodward
c/o Vick Chemical Company
122 East 42nd Street
New York, New York

Committee on the History of the Federal Reserve System

September 9, 1954

Dear Mr. Marten:

We are writing you at the suggestion of Mr. Frederick Smedley of the Personnel Division, Federal Reserve Bank of New York.

This Committee has a small staff which is employed under a joint agreement between the Committee and the Brookings Institute of Washington, D.C. The home office of Brookings Institute (which is a research organization) has enrolled under the Blue Cross for the benefit of its Washington staff. The Federal Reserve Bank of New York, which houses the staff of this Committee in New York, is enrolled under the Blue Cross here.

In view of those arrangements we would like to inquire whether Blue Cross facilities and services in New York City could be made available to staff members of this Committee. Would you be so kind to send us appropriate information.

Very sincerely yours,

Donald Woodward
Secretary

Mr. Norman T. Marten
Assistant Vice President
Enrollment Department
Associated Hospital Service of New York
370 Lexington Avenue
New York 17, New York

Mr. Woodward

The Brookings Institution

Washington 6, D. C.

September 3, 1954

Dr. E. A. Kincaid
Rugby Road at Mason Lane
Charlottesville, Virginia

Dear Dr. Kincaid:

I have asked Miss Maroney, our Treasurer, to furnish the necessary information regarding your responsibilities with respect to Social Security and withholding taxes relative to the persons who are employed by you on the Glass papers.

Miss Maroney informs me that it will be necessary for you to pay the Social Security tax on salaries of each of your employee assistants and to withhold taxes in the event their compensation is taxable. I hope that your estimates of compensation for assistants have taken account of the OASI tax.

The employee must supply an exemption certificate (W-2) and a Social Security number. If any employee does not have a Social Security number, it will be necessary for them to get one. The application forms are enclosed. These forms should be supplied to you as employer.

The amounts to be withheld are as follows:

Income tax. This depends on the number of exemptions claimed by the employee on Form W-2, and whether the payroll period is weekly, monthly, daily or miscellaneous. The amounts are set forth in tables at p. 20 f. of the enclosed booklet.

OASI (F.I.C.A. tax). The amount withheld (to be matched by the employer) is set forth in the tables on pp. 30-31. There is an exemption for OASI, but not for income tax, for wages of less than $50 in a calendar quarter. But this exemption is peculiar to nonprofit institutions and it would not, we think, apply to you as employer.

If you have only one or two assistants and the records of their service and payments are in good order it is possible that we might help you on the paper work in straightening out any complications you encounter.

I talked with Miss Adams about this today. We think it might be well for you to furnish an accounting showing the amount spent and any unexpended balances. We, of course, hope that the funds available will be ample to

cover the OASI tax.

Miss Maroney also informs me that you will need to obtain an identification number as the employer. A form for this is enclosed. It is also advisable to keep suitable records for income tax purposes, since you will need to report the full amount of funds received from the Institution and then show the payments made as expenses deductible from other gross income received. A tax form is also enclosed.

If we can be of further assistance to you in this matter please let us know.

Sincerely yours,

President

Mr. Woodward

The Brookings Institution

Washington 6, D. C.

September 3, 1954

Miss Mildred Adams
Committee on the History of the
Federal Reserve System
33 Liberty Street
New York 45, New York

Dear Miss Adams:

In reply to your letter of August 17 regarding fringe benefits, I should like to set forth the following proposals:

(1) The contractual arrangement between the Committee and the Brookings Institution provides (Sec. 6) that employees "shall be joint employees of the Committee and the Institution for specified periods, and not regular employees of the Brookings Institution." Since employees are joint employees of the Institution they would normally come under such regulations which govern our own employees.

(2) Social Security. Employees must be covered by Social Security since employees of the Institution are so covered.

(3) Hospitalization. Since the Institution provides Blue Cross hospitalization at the employee's expense, we believe that efforts should be made to arrange for similar benefits through the Blue Cross or Blue Shield systems in New York. If such arrangements can be made and the employees pay the full cost of coverage, as they do here at Brookings, we should provide this service on the same terms as it is provided here.

(4) Sick Leave. The Brookings regulation on sick leave should apply to employees of the Committee in or out of New York.

(5) Vacation with pay. Brookings regulations providing vacation with pay should apply to the employees of the Committee.

(6) Retirement. The regular retirement age here at Brookings is 65 years. Appointments of personnel beyond that age require special action of the Executive Committee. We believe that similar regulations should apply to employees of the Committee. Such employment may jeopardize the retirement income from OASI. It would not normally imperil other retirement rights of employees.

(7) Teachers Insurance and Annuity Association. The Institution allows participation in the TIAA for employees who have at least 3 years of service, are at least 30 years of age, and have a minimum salary of $3,600. Since the employees of the Committee will come under Social Security and would not normally be eligible for TIAA for at least 3 years, we believe that any action with respect to TIAA should be left for later consideration. The problem may arise for employees who come from institutions that are under TIAA, and here through special contractual arrangements the Committee could undertake to continue the TIAA payments during the temporary period of service for the Committee.

(8) Insurance. I am turning your correspondence regarding unemployment insurance over to Mr. Akers with a view that he may follow up with you or the New York State officials regarding this matter. It seems clear that the Brookings Institution is exempt since we are incorporated as a nonprofit corporation for scientific and educational purposes, and are exempt under Sec. 101(6) of the Internal Revenue Code.

Sincerely yours,

President

CLASS OF SERVICE

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WESTERN UNION

W. P. MARSHALL, PRESIDENT

(25)

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1954 SEP 4 PM 1 27

B.P DA247 NL PD=JACKSON NHAMP 4=

DONALD B WOODWARD:

=122 EAST 42 ST NYK:

=OUR VISIT LANES DELAYED NOW JUST COMPLETED LANE INTERESTED KNOW MORE SUGGEST TELEPHONE FRED LANE WESTMINSTER MASS 6 RING 13 TO DISCUSS FURTHER=

WILLITS:

September 1, 1954

Dr. Joseph H. Willits
Jackson, New Hampshire

Dear Joe:

Forgive the appearance of chasing you - but I am curious as to the response of Dr. Lane. If there is anything you can tell me it will be much appreciated.

I do hope the vacation is going most enjoyably and I do apologize for intruding on it again.

With regards.

Cordially,

DBW:lw