Productivity trends in the Canadian automotive industry.

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LA THÈSE A ÉTÉ MICROFILMÉE TELLE QUE NOUS L'AVONS RÉCU
PRODUCTIVITY TRENDS IN THE CANADIAN AUTOMOTIVE INDUSTRY

By

ALEXANDER LIST

A THESIS
Submitted to the Faculty of Graduate Studies through the Department of Industrial Engineering in partial fulfillment of the requirements for the Degree of Master of Applied Science at the University of Windsor

UNIVERSITY OF WINDSOR
WINDSOR, ONTARIO

1978
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ACKNOWLEDGEMENTS

I wish to express my sincere thanks to Prof. A.A. Danish for his interest in the subject thesis, professional advice and devoted time to have this project finalized.

I extend my thanks to other members of the thesis committee: Dr. E.M. Basic, Dr. Dev Kochhar, Dr. Reza Lashkari, and the former committee member, Dr. M.A. Ragab for their professional advice and constructive suggestions.

Previous faculty members and chairmen of the thesis committee: Dr. C.L. Proctor and Dr. Kozi Morooka deserve thanks for taking interest in the subject matter and their professional advice.

I am indebted to the management of the Master Mechanic Department of the Detroit Diesel Allison Division, G.M.C., namely, Mr. P.B. Kauffmann, Mr. L.F. Kaminski, Mr. G.E. Evans, and Mr. E.C. Strang for their strong interest in the subject thesis and valuable assistance during the final typing and re-typing stages of it.

I owe a special debt to my wife, Lydia, who bore patiently the inconvenience caused by my commitment to complete this thesis.

My express thanks are due to the manuscript typists: Mrs. Anne Stebelsky, Ms. Alma Price, and Ms. Roseann Thayer.

I owe special appreciation to Ms. Cathie Walton for her meticulous preparation of statistical tables and typing of the paper and my special gratitude is expressed to Ms. Roseann Thayer for her painstaking and immaculate re-typing of the entire thesis.
The objective of this study is to determine productivity trends in the Canadian Automotive Macroeconomic sector since the signing and implementation of the Canada - United States Automotive Products Trade Agreement of 1965. The study encompasses all automotive manufacturers whose products are identified by the Standard Industrial Classification Codes #323 and #325.

Total Factors productivity defines a relationship between total production output and all the associated resource inputs expressed in real terms and a ratio form in a sequence of compared periods of the total production macroeconomic sectoral system.

The present study utilizes empirical data, the Integrated Systems Concept of measuring productivity and multiple regression analysis. It provides productivity trend analysis for the intervening decade, (1964-1973).
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CHAPTER I
INTRODUCTION

A. An Overview of the Canadian Automotive Industry

The establishment of the Canadian automotive industry began in Windsor, Ontario, in 1904 with the manual assembly of 117 Ford vehicles during the first year of its operation. Many attempts were made by Canadians to produce automobiles and failed. It was in 1908, when Canada's foremost individual in the automotive industry, young "Sam" McLaughlin, first built a motor vehicle. With the arrangement to purchase Buick engines, the McLaughlin Motor Car Company was established to build the rest of the automobile in Oshawa, Ontario.

Canadian government of the day provided the tariff protection of 35 percent to its infant automotive industry; however, it was not enough. All automobile ventures that survived in Canada were allied to successful United States motor vehicle companies. The master mechanics of Detroit had developed the techniques of mass production for mass consumption which were necessary to make the automobile a practical, commercial, and profitable product.

Canadian automotive industry leaders always had basic agreement with the federal government in power that the industry must develop economic production of motor vehicles in Canada as efficient as the size of the market would permit. To effectively develop the industry in Canada, the Motor Vehicle Manufacturers' Association made a number of suggestions to the tariff board: (1) to simplify the tariff regulations
to be subordinated to the prime need for adequate and equitable protection by increasing the intermediate tariff and imposing excise tax; (2) to establish in-plant content base, whereby it would be necessary to attain a minimum of Canadian content produced in each plant; (3) to lower duties on production machinery of a class and kind not made in Canada as a positive inducement to manufacture automotive parts in Canada. The Association made further suggestions, all of which were designed to reduce the cost of vehicle production in Canada and to enhance competitive position of the automotive industry in relation to the United States and European imported vehicles.

The European and United States motor vehicle import situation became considerably aggravated in Canada in the fifties due to the stagnant position of the domestic automotive industry during a period of growth in the Canadian market for automotive products. This stagnant position became sufficiently important for the federal government to appoint the distinguished Canadian economist and scholar, Prof. Vincent W. Bladen, as the one-man Royal Commission to inquire into and report upon the situation of prospects for the industries in Canada manufacturing motor vehicles and automotive parts.

The Royal Commission conducted its hearings with all parties concerned which culminated in the report submitted to the Canadian government in April of 1961. In the report,
Prof. V. W. Bladen expressed his diagnosis on the basis of voluminous submissions of all concerned and prescribed his recommendations for the implementation.

The most important characteristics of the Canadian automotive industry has been its domination by the same industry in the United States. To implement any or all of Prof. V. W. Bladen's recommendations, the Canadian government had to commence negotiations with the United States government and the automotive corporations concerned. Negotiations between the two federal governments lasted about four years and culminated in the reaching of the Canada - United States Automotive Products Trade Agreement of 1965, which was signed by the two governments on January 16, 1965.[9]

The Canadian junior partnership in the North American automotive market achieved a most significant milestone in 1967 as the original terms of the 1965 agreement were almost fulfilled. During that calendar year, the Canadian industry reached new all-time records in the production output, facilities expansion, productivity growth, sales, employment, and payroll.

B. The Objective of the Study

The objective of this study is to determine productivity trends in the Canadian automotive industry by means of productivity measurements and, at the same time, evaluate the extent of technological and labour contributions to the
productivity growth in the subject industrial manufacturing sector since the signing and implementation of the Canada - United States Automotive Products Trade Agreement of 1965.

This study encompasses members of the Motor Vehicle Manufacturers' Association[75], the Motor Vehicle Parts and Accessories Manufacturers' Association[76] of Canada, and all other automotive manufacturers whose products are identified under the Standard Industrial Classification (SIC) Code #325 and #323, respectively.

C. The Problem Statement

The Canadian automotive industry has implemented the most modern manufacturing, assembly and quality control techniques thus upholding manufacturing management's concept that the high degree of work specialization with a drastically increased volume of production leads to a definite productivity growth. As a result of this management philosophy, automotive industry corporations in Canada have limited their production to a minimal number of parts per manufacturing plant and to only a few car or truck assembly lines per each assembly plant. Sophisticated production, assembly automation, and automated material handling facilities have been installed to enormously improve productive capabilities (i.e. 110 engines per hour versus 16 engines per hour), reducing the cost of vehicle production to a minimum; therefore, the Canadian automotive industry merits to be studied to provide productivity trend analysis for the intervening decade.
D. Definition of the Problem

The term "productivity" defines a relationship, expressed in real terms and a ratio form, between production outputs and the associated resource inputs in a sequence of compared periods of the total production system. This relationship establishes, at least, rough measure of the impact on the production process of the investments and other variables that advance knowledge, improve technology and organization, and otherwise enhance the productive efficiency of the factors of production.

E. Importance of this Study

Productivity has remained highly resistant to the attempts of students of the subject to provide universally acceptable methods of measurements. The methods of measurement which were recommended for use in productivity, such as total costs per unit of output, worker effort and labour productivity, have been proven inadequate. They do not allow for the complex realities of productivity growth. Reliance on costs per unit of output provides for no satisfactory indication of the level of performance of the production system. Labour productivity, measured in terms of labour time, or work measurement data for labour efforts, labour costs, is too narrow a measure of one input to be meaningfully representative of total productivity.

If productivity is to be successfully measured, the productivity of all resources being used in combination of
the production system must be taken into account. To meet these requirements, partial and total factor productivity methods which take into consideration the complexity of the total production system, are utilized in this study.

The productivity trend analysis and results obtained from it will contribute to a better understanding of the Canadian automotive industrial sector performance, and provide an improved base for comprehending the importance of productivity growth and its measurements.

To further improve the reliability of the productivity trend analysis, a multiple regression model will be used to compute productivity indexes of both sub-sectors of the automotive industry sector as elaborated on in Chapters III and V.
II REVIEW OF LITERATURE

Factors affecting the productivity growth are so interrelated that determining the separate effect of each one is an impossible task. Changes in productivity can be attributed to factors which vary according to whether the movements are short-term or long-term. Therefore, in this review each author makes his unique contribution in understanding and interpreting concepts of productivity.

In his analysis of the trend of national productivity, Solomon Fabricant[24] stated that the trend rate of increase in output per man-hour in the economy at large was stated to be 3.2 percent per annum during 1958-63. The rate in productivity increase should always be specified in the period from which it was derived. In his elaboration on greater efficiency in the use of labour and capital to improve increased rate of productivity, Fabricant states that of the three sources of increased output per man-hour -- better quality of labour, more tangible capital, and greater efficiency in the use of labour and tangible capital -- it is the last that bulks the largest.

Fabricant strongly concurs that the technological advance has been unusually rapid in our generation. Growth of knowledge and of productivity is a cumulative process that feeds on itself. The knowledge, trained people, and equipment needed to devise new technologies became available in greater supply to influence the increased rate of productivity in the economy.
at large, but automotive industry in particular.

In his formula for productivity, Faraday [26] equates efficiency with productivity where a prescribed output is created solely by the input of man-power, materials and capital equipment. Faraday further elaborates on a measure of productivity where he assumes that "productivity" is the ratio of output to input. In this case he states that to obtain a measure of productivity is to quantify the four constituents of the formula (output and manpower, material and capital equipment as an input). However, his further admission in this regard is that the calculation of productivity has long been a field of controversy.

Productivity, at times, is expressed in terms of "the value added concept" where a sales volume or price of an item produced is needed.

Faraday is of the opinion that there is a direct relationship between national productivity and a country's standard of living. Standard of living depends on the total value of goods and services produced in a country and on the number of people living there. The author considers two factors - total national income and total population - and this is his basis of measuring the standard of living, expressing it in terms of the average income per head of the population.
Gossling[30] has developed the concept of a sub-system where he makes an attempt to abstract from the difficulties pertaining to the interdependence of separate activities in an industrial system. The analysis of a system into sub-systems is a novel approach to the theory of the industry and of the commodity within the economy. In his application of sub-systematic analysis to a firm, Gossling uses a set of matrices and rather elaborate indices to obtain desired results of a firm's activities, such as inputs, outputs, and the measure of productivity.

Salter[55] considers three questions which are preliminary to the analysis of the effects of the process on best-practice productivity: (a) the relationship between technical knowledge and techniques of production; (b) the nature of the interaction between economic choice and technical restraints; and (c) the controversial question of units of measurement for factors of production. To express the concept of production function in concrete terms, and to relate it to the productivity factors of production, units of measurement must be specified for each factor. In a simple case where labour and capital are the only factors of production, these restraints are described by the function: 

\[ 0 = f(N, I, L), \]

Where
- \( O \) = output per annum
- \( N \) = man-hours per annum
- \( I \) = initial investment at constant prices, and
- \( L \) = the life of this investment

Such a production function describes each possible technique
in terms of labour force and initial investment required to produce a flow of output extending over periods of time.

Siegel[36] in his rather extensive presentation "On the Design of Consistent Output and Input Indexes for Productivity Measurement" elaborates on the subject of multifactor productivity. In his opinion, it is much easier to write consistent formulas for multifactor productivity than actually to measure non-labour factor inputs in suitable characteristic units. To assure that the productivity formulas are internal means of relatives, the cancellation rule is involved. He, specifically, proposes to employ a concept of net output that is identical in scope with factor input. In this case, if the inputs refer to labour and capital, the net output concept should ideally be restricted to the value added by these factors.

Siegel provides the verbal identity, Multifactor Input = Net Output x Unit Factor Requirements, leads to at least two kinds of consistent formulas. In one case, according to Siegel, the net output measure is really a Paasche or Laspeyres aggregate index of gross quantities with "netifying" unit-value-added weights. Since the input concept corresponds to net output in scope, valuation at cost permits one to write a Paasche or Laspeyres input index that yields a productivity measure containing only weighted aggregates. In Siegel's opinion, this productivity measure may be re-written as a weighted mean of relatives.
Richard and Nancy Ruggles[36] in their presentation of "Concepts of Real Capital Stocks and Services" have made very meaningful contributions to the measurement of productivity as one of the major purposes for which real capital stocks and services data are developed. The very concept of productivity, in their opinion, implies that the contributions to output that a factor makes can differ for reasons other than differences in the quantity of that factor.

The two authors are of the opinion that the measurement of output in real terms requires a determination of the quantity of capital produced. Capital formation not only provides for future input into the corporate system, but it is also a major component of gross national product and national income.

Ruggles approached the quantity of capital as a concept for productivity measurement with detailed analysis of the subject matter. The concept involved in measuring the efficiency of capital as a factor of production can be traced back to the same notions underlying the theory of production function. In their analysis, the two authors have shown numerous examples to prove their point.

Kendrick[38] in his monumental study provides the background for an analysis of the role of productivity in aggregate economic growth and a standard for comparison of productivity changes in the individual industries of the economy. He attaches special interest to over-all productivity indexes as the best available measures of net changes in the productive
efficiency of the entire national economy. In effect, it is the author's strongly supported thesis that the index of productivity in the private domestic economy is a weighted average of productivity indexes for the various industrial sectors.

Kendrick undertook to provide macroeconomic study and he uses the national productivity estimates for the analysis of aggregate economic growth comparing long-period productivity trends in the private domestic and the total national economies. He describes the long-term growth of total factor productivity and the partial productivity ratios in terms of average annual rates of change between the segments of the long period.

Kendrick looks not only at the aggregates for the macroeconomic analysis but he looks at the diverse productivity movements in the various sectors of industries. Not only do various sectors of industries provide productivity indexes, but they reveal the sources of national productivity advance by industry or origin and relative changes in productivity by industry can be related to changes in other variables of input. The author also provides sectoral macroeconomic analysis in various industrial groupings and, therefore, he gives very generous descriptions of the estimates of total factor productivity and the partial productivity ratios for major segments of the economy.

Lithwick, Post and Rymes[11] attempt to examine production relationships in Canadian manufacturing industry from several perspectives. The three authors present their study in three sections:
(a) Capital inputs and investment decisions, thus employing three models in the analysis of investment behavior.

(b) Total measured factor productivity is examined at a disaggregated level within the Canadian manufacturing sector. The main set of their estimates deals with thirteen combined major groups. The estimates reveal (1) the expected cyclical sensitivity of total measured factor productivity; (2) substantial inter-major group variations in measured productivity advance; (3) considerable sensitivity with respect to assumptions about the average economic lives of fixed capital goods. To prepare cyclical sensitivity to their estimates, the authors compiled a table and a chart for each major manufacturing group. Collected data suggest either advances or declines in total measured factor productivity.

(c) The final section surveys Cobb-Douglas type functions which have been applied to the major sectors of the total economy. The authors suggest that while manufacturing growth performance was not spectacular in the postwar period, it had contributed substantially to the growth of aggregate productivity.

The three authors have presented a rather lengthy statistical appendix, which includes most of the data developed for their study. Finally, they have added a technical appendix which gives the theoretical arguments that underlie the procedure.
CHAPTER III

REGRESSION ANALYSIS

A. Simple Linear Regression Model

Regression analysis is a statistical tool which utilizes the relation between two or more quantitative variables so that one variable can be predicted from the other, or others. For example, if one knows the relation between advertising expenditures and sales, one can predict sales of cars by means of regression analysis once the level of advertising expenditure has been set. Regression analysis can be utilized when a single independent variable is used for predicting the dependent variable of a particular interest.

There are two relations between variables that can be considered here: A functional relation and a statistical relation. A functional relation between two variables, is expressed by a mathematical formula. If $X$ is the independent variable, a functional relation is of the form:

$$ Y = f(X) $$

If a particular value of $X$ is given, the function $f$ indicates the corresponding value of $Y$. This functional relation is expressed by the equation:

$$ Y = bX $$

B. Multiple Regression Model

Multiple regression analysis is a method of taking into account simultaneously the relationship between all the variables
when two or more independent variables are to be used in making
estimates of the dependent variable $Y_i$. The use of two or
more independent variables is an extension of the basic prin-
ciples in two-variable regression analysis.
First, it is necessary to determine the first-order model
with two independent variables. Next, a measure of the accuracy
of the estimates from this model must be computed.

The model for a multiple regression analysis with two
independent variables is written:

\[
Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \varepsilon_i
\]

This model is also known as a first-order model with
two independent variables. As explained previously, a first-
order model is linear in the parameters and linear in the in-
dependent variables. $Y_i$ denotes the dependent variable in
the $i$th trial, and $X_{i1}$ and $X_{i2}$ are respective values of the
two independent variables in the $i$th trial. The parameters
of the model are $\beta_0$, $\beta_1$, and $\beta_2$, and the error term is $\varepsilon_i$.

Assuming that $E(\varepsilon_i) = 0$, the regression function for
the model (1) is:

\[
E(Y) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 \quad [49].
\]

In a simple linear regression function $E(Y) = \beta_0 + \beta_1 X$
is a line, in this regression function (2) it is a plane.
It is, at times, called a regression surface.

The model for a multiple regression analysis with $(p-1)$
independent variables $X_1 \ldots X_{p-1}$ is written as follows:
(3). \[ Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \cdots + \beta_{p-1} X_{i,p-1} + \varepsilon_i \]

Assuming that \( E(\varepsilon_i) = 0 \), the dependent function for the model (3) is written as follows:

(4). \[ E(Y) = \beta_0 + \beta_1 X_{11} + \beta_2 X_{21} + \cdots + \beta_{p-1} X_{i,p-1} \]

This is no longer a simple linear function, it's a dependent variable function known as a hyperplane.

The general linear regression model, with normal error terms, is written as follows [49]:

(5). \[ Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \cdots + \beta_{p-1} X_{i,p-1} + \varepsilon_i \]

Where:

\( \beta_0, \beta_1, \ldots, \beta_{p-1} \) are parameters
\( X_{i1}, \ldots, X_{i,p-1} \) are independent variables
\( \varepsilon_i \) are independent \( N(0, \sigma^2) \)
\( p-1 \) are different independent variables
\( i=1, \ldots, n \)

Let \( X_{i0} \equiv 1 \). Model (5) can be written as follows:

(5a). \[ Y_i = \beta_0 X_{i0} + \beta_1 X_{i1} + \beta_2 X_{i2} + \cdots + \beta_{p-1} X_{i,p-1} + \varepsilon_i \]

Where: \( X_{i0} \equiv 1 \)

Since \( E(\varepsilon_i) = 0 \), the dependent variable function for model (5) is:

(6). \[ E(Y) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \cdots + \beta_{p-1} X_{p-1} \]

In the general linear model for every combination of fixed X's there will be a distribution of Y's. Each distribution will have a mean, and a standard deviation with the
assumption that these distributions are normal and that the standard deviations are equal.
CHAPTER IV

MAJOR FACTORS AND CONCEPTS OF PRODUCTIVITY

The operational concept of productivity can be separated into two main categories consisting of total factors productivity and partial factor productivity. Total factors productivity relates total output to a weighted aggregate of all associated inputs. It is a very broad concept which is influenced by a wide range of factors and the interrelationships among them. Partial factor productivity relates output to either a combination of several input factors such as capital, labour and cost of materials, or to a single input such as capital.

In this chapter, a series of synthesized major factors and concepts contributing to productivity growth are described and/or defined in the following manner:

Major Factors Contributing to Productivity Growth

A. Corporate Management

The most important characteristic of the Canadian motor vehicle industry is its dominance by that industry in the United States. The motor vehicle manufacturing companies are owned and controlled by parent organizations in the United States. Top executive officers, whether American citizens or Canadian citizens, are appointed for certain periods of time by their respective corporate executives in Detroit. Canadian motor vehicle manufacturing corporations are managed, with a few isolated exceptions, in the same manner and style.
and by the same philosophy as their parent corporations in Detroit.

Contemplating new policy measures, the government of Canada informed the motor vehicle manufacturing industry that it intended to take action to improve the trade imbalance with the United States by reducing imports or increasing exports by whatever means were available and necessary. The motor vehicle industry was to be its first and most important target. [20] The corporate executives of the automotive manufacturing companies of Canada immediately began short- and long-range planning and developing programmes to comply with the government of Canada policy in reducing trade imbalance.

Short- and long-range planning became of paramount importance to top corporate executives. Planned change was essential at the time and productivity opportunities were identified. Executives, therefore, were concerned with how well automotive corporations achieve their objectives and the total resources required to achieve them. Productivity became an integrated and continuous part of all functions of planning and policy implementation, and a concern with every function, each act and activity, and all resources. [15] Corporate management's planning, itself, became highly productive as it has increased the productivity of other functions and activities during and after the period of the implementation of the Canada – United States Automotive Products Trade Agreement of 1965.
B. **Capital Investment**

Growth in capital per man-hour has been an important factor in productivity improvement, since more and better equipment allows a worker to perform his job more effectively.\(^{[46]}\) Productivity is more likely to increase rapidly in an automotive corporation where this ratio is high than in a corporation where it is low.

Capital investment has made very important contributions to the growth in output per man-hour with the signing and implementation of the Automotive Products Trade Agreement of 1965 in Canada. Most researchers \(^{[20]}\) have concluded that total output per man-hour has increased in large part because the amount of capital supporting each worker has increased substantially in the Canadian automotive plants.

The role of capital investment is outlined by measures in the implementation stages of the Agreement during 1965 through 1968. The motor vehicle manufacturers alone invested $533 million in new modern assembly and parts manufacturing facilities, increasing their employment by 5,150 persons. Their purchase of automotive parts increased by $510 million over 1964 level (base year). Vehicle assembly capacity was increased by over 50 per cent to over one million units a year.\(^{[20]}\) Further importance of capital investment in the Canadian automotive industry can be emphasized by the following achievements: 69 new plants and 136 plant expansions, a 27.5 per cent increase in production, a 51 per cent increase in the automotive parts
and accessories production, a 16 per cent increase in employment, a 94 per cent increase in exports, only a 33 per cent increase in imports, and price reductions on the average factory wholesale price differential from about 8 per cent to somewhere between 3 to 5 per cent on basic automobiles. [20]

C. Economies of Scale

The Canadian Automotive Industry operations have expanded and the high degree of modernization was achieved within this macroeconomic sector, therefore, certain economies of scale have been realized in accordance with the previous plans. After optimally adjusting all inputs, the unit cost of production has been reduced by increasing the size of plants and a degree of specialization in them.

Proficiency is gained by concentration of effort. The advantages of division and specialization of labour have long been known to both industrial management and economists. [40] Larger plants with larger work forces employed by the automotive corporations permit, and actually require, each worker to specialize in one job, gaining proficiency and obviating time-consuming interchanges of location, tools and equipment. Proficiency, naturally, contributes to a corresponding reduction in the unit cost of automotive production.

Technological factors constitute a second force contributing to economies of scale. For larger outputs and scales of plant for mass production, technological methods are used to
affect reduction in per unit costs.\[40\]

Another technological element in the automotive industry is the fact that the cost of purchasing and installing larger machines, particularly multi-station transfer lines, is usually proportionally less expensive than the cost of smaller, individually operated machines. A final technological element is perhaps the most pronounced: as the scale of operation expands in each automotive corporation in Canada there is usually a qualitative, as well as quantitative, change in machinery, equipment and fixed assets.\[46\]

Expansion of scale of the automotive manufacturing and assembly facilities with the signing and implementation of the Canada - United States Agreement of 1965 encouraged and required by Canadian law the introduction of the most modern manufacturing and assembly technology to gear for the North American automotive products market. All these innovations and scales of production have enormously reduced the unit cost of products thus increasing productivity growth.

There are financial reasons for economies of scale. Large-scale purchasing of raw and processed materials enables a corporate buyer to obtain more favourable prices (quantity discounts). The same is true of advertising and financing of large-scale automotive corporations are normally easier and less expensive than for smaller corporations. Large North American corporations with branches in Canada have easy access to organized security markets, so they place their bonds and
stocks on a more favourable term. Bank loans usually come easier and at lower interest rates to well-known automotive corporate giants.

In the final analysis, economies of scale of division and specialization of labour, technological, and financial factors[4] influence productivity growth very substantially.

D. **Technical Factors**

All factors except human performance factors which are contributing to productive efficiency are considered to be technical ones. In the automotive industry, particularly manufacturing phase of it, operations are capital intensive, and the most important factor influencing productivity is the technological development. On the other hand, in the assembly operations, the degree of technology may have lesser effect on productivity, and human performance may be the major determinant. Some of the more important technical factors have been identified in the automotive industry and are listed below:

A. **Plant:**

1. Size
2. Capacity (production output per day).
3. Efficiency (percentage of capacity utilized).
4. Design and age of production machines and equipment.
5. Layout of plant and jobs, workflows and methods.
6. Degree of integration of the production processes.
7. Length of production runs.
B. Product (automobiles and trucks):
   1. Design
   2. Quality
   3. Product mix and degree of specialization
   4. Competitive advantages (power output vs. power plant weight, etc.)
   5. Immediate availability of spare parts to service original equipment.

C. Raw Materials:
   1. Quality
   2. Continuity of supply
   3. Scarcity of supply

D. Power Use:
   1. Fuel (oil, natural gas, gasoline, diesel oil, liquefied petroleum gases, coal, etc.)
   2. Electricity purchased

   All of these technical factors have a direct relationship to productive efficiency and can also exert an influence on the measurement of partial factors productivity.

E. HUMAN FACTORS

   The automotive industry sector of the Canadian economy endeavours to provide more humanized working conditions constantly planning improvements in job performance, job satisfaction, productivity, and, at the same time, reduce occupational hazards.

   A discussion of job performance can be simplified by identifying four major variables that influence employees' job performance and produc-
tivity: work environment factors, role perceptions, abilities and skills, and motivation.

1. Work Environment Factors

A great number of factors can be identified with and fit into the category of work environment factors such as working conditions, co-workers, corporate policies, rate of pay, generosity of incentive plans, strictness of discipline, etc. Line supervisors and managers directly influence some of these factors by providing employees with work assignment and/or rotational reassignment, meaningful performance and creating friendly work atmosphere in the departments for which they are responsible[1]. These various factors influence the capacity of employees to effectively utilize their abilities and skills on the job.

The utilization, usefulness of employees' abilities and skills and motivation to efficiently perform a job depends to a great degree on the management's capability to schedule necessary production machines, equipment, materials, needed supporting services in case of breakdown, and tactful and honest appreciation for good productive efficiency. Motivation, at times, is adversely affected by the continued absence of meaningful job assignments. If such shortages persist and cause employees to be unable to meaningfully perform, they may soon begin to wonder about their role perception at a work place. Thus, work environment factors influence what employees can do (ability and skill), how much effort they must exert doing it (motivation), and their understanding of what it is they are expected to do (role perception) [28].

Major work environment factors that have a direct or indirect influence on individual employee's job performance and productivity may be
identified as follows: task design, working conditions, production and assembly machines, production and non-productive materials, tools equipment, performance goals, organization structure, time, types of supervision and management, work group of immediate co-workers, corporate policies, etc. [1]. In turn, these factors influence in various degrees employees' abilities and skills, role perception and motivation.

2. Role Perception

Role perception is identified as one of the four variables affecting job performance and productivity. It may be defined as the individual employees' imagination of his work responsibility and the kind of effort he imagines is needed to fulfill his work assignment. However, each employee has his own, vastly different concept of a role perception [1]. It is highly desirable from the point of view an individual employee and the corporation that each employee has a clear and accurate understanding of his role perception.

If an employee in the automotive industry perceives that his job performance is primarily evaluated on the basis of the quality of output, he is spending a great deal of time and effort to produce high quality product. However, he may find out to his dismay that his superiors expected of him high quality and quantity output then his performance is being evaluated in these terms, and, therefore, he is appraised as an inferior or unsatisfactory job performer.

In the large automotive industry corporations, role perceptions are learned on the job and instructed by the industrial relations departments, personnel departments, and the line supervisory personnel so that there is no misunderstanding or what is expected of all employees.
3. Abilities and Skills

Individual differences partially account for the differences in job performance between employees. An individual's capacity to perform is determined by factors such as physical size and body type, manual dexterity, verbal and mathematical skills, and other genetically determined and learned individual characteristics.[61]

Abilities are characteristics of individuals. A great number of individual characteristics are learned during childhood and adolescence. Employees already have some ability characteristics when they begin to work in the industry.[44]

Skills are usually identified with the proficiency on specific assignments. [61]: An employee may have the manual dexterity ability but does not know how to operate a production machine or a machine tool because he has never learned how to do it, or might have never had a chance to see one. There is a definite relationship between abilities and skills. Individuals who possess certain basic abilities are expected to be able to learn associated skills quicker.

A great number of operations performed in the automotive industry are paced by the individuals doing work. It becomes obvious that individual abilities and skills are basic to pace and job performance. Deficiencies in skills simply and clearly prevent an increase in performance and productivity, even when the desire and pace are present.[34] An individual employee may be well motivated to be productive, but he may not be able to produce effectively because of his undeveloped skills. A - zesty pace of operations without a high degree of skill means quality defects in large quantities.
The abilities and skills of individual employees are relatively stable and they are not affected by work environment factors. However, abilities and skills can be changed by means of employee selection, training and/or re-training and development as a long run measure. Abilities and skills are closely related to motivation and all variables have a definite influence on job performance and productivity.[34]

4. Motivation

Motivation is the fourth major variable that determines an individual's job performance and productivity. Motivation process may be described as the mechanism which gets the individual employee from the motivated state to some specific and directed form of behavior that produces positive results in job performance and productivity.[28]

Factors that motivate job performance are numerous, however, the most important one is being identified as a motive. A motive may be defined as an inner state that activates, directs, sustains and stops behavior toward goals.[28] The study of motives is primarily concerned with what it is inside a person that causes the individual to engage in goal-directed behavior. An individual's motives are inferred from observations of his behavior and/or job performance.[42]

Pertinent to this section of the study are the two very important motives: the achievement motive and the money motive. They are discussed here because of their prominent role in job behavior.

a) The Achievement Motive

The most prominent motivator of an individual job performer in the automotive industry is the desire for achievement.[28] The achievement motive is an inner state that activates and directs behavior toward
goals and is considered to be a relatively stable disposition, or behavioral tendency, to strive for an achievement or a social success. Self-motivated achievers possess the following three major characteristics:

1.) Setting their own goals.
2.) Setting goals that are moderately difficult to achieve.
3.) Setting means by which frequent and concrete feedback of performance is obtained.

b) The Money Motive.

Employees - hourly rated and salaried - supervisors, managers, and executives are motivated to earn more money or aggregate more wealth by various means.

Money is very important factor because all the necessities of life may be acquired by spending it. Money is very important to some people; it is of some importance to almost everyone.

The role of money is automotive corporations is not all-important to a large segment of work population. For the same segment of employees, money is not the only variable that motivates their behavior to increase job performance and productivity. If money is to motivate productive output, it must be related to that particular job performance.

Money is considered in the automotive industry as a motive - an inner state that activates and directs individual behavior. For employees with high achievement motivation, money serves as a definite indicator to them about their worth to an employing enterprise. High achievers expect to be paid well because they value their services highly. The incentive value of money is more effective in people with low need for achievement.
High achievers do not need money to motivate them to work harder; they are already motivated and are working hard.

3. Other Motives

Several other motives [28] that are important in understanding of motivation in the automotive industry sector need be briefly highlighted in the following manner:

The affiliation motive - the desire to belong to a group or groups of people regardless of any gain achieved by it. The number of groups to which an individual belongs is an indicator of his need and/or craving for such an affiliation.

The competence motive - an individual's concern with balance of successes and failures in his work experience within the industrial corporation. The competence motive reaches its plateau where the individual seldom achieves more than he expects for various reasons.

The power motive - an important motive with which effective leaders are supposed to be endowed.

The adequacy motive - the basic need of an individual is a feeling of adequacy. A great striving force by which individuals continually seek to make themselves ever more prepared to cope with daily life and work situations.

The inherently human process of being preoccupied with a goal setting in the work situations is a way of life in the industrial society in which an employee can find out who he is, his worth to an employer, and his potential for personal and professional growth. The motivation to work is a basic ingredient in human existence, and through it the employee satisfies personal needs as he achieves personal goals.[35]
The motivation needs for growth and achievement are a part of almost everyone's psychological make-up.

Motivation needs are the factors that can produce effective job performance and productivity because most of them are satisfied through work itself. Once an individual committed himself to organizational objectives, his potential is tremendous - provided his own goals and those of the company have been allowed to influence each other. Motivation-seeking individuals in the automotive industry go to great lengths to reach personal goals with relatively high regard for effective job performance and productivity. [62]

The relationship between need satisfaction and motivation, employee performance and technology, and productivity has been definitely established. Productivity depends on the two factors employee performance and technology. [34] In turn, employee performance depends on motivation and ability and skill of the employee. An individual employee's high degree of motivation alone does not automatically render high degree of productivity if his ability is not suited for the calling and his skills were never properly developed to perform a certain job. However, if the motivation, ability and skills are at their highest level of adaptation but the machinery and equipment are of inferior capacity to produce quantity and quality of a subject product then it is very unlikely that a productivity increase will materialize.
F. Research and Development

Technological innovations in methods of production and new products have been the main source of increased productivity and hence in the increase of the capital growth of the automotive industry in Canada. These gains have occurred because improved production processes reduced real unit costs while new products provided greater performance capabilities and, therefore, more real output. Organized research and development based on applied science has become an important source of technological change and productivity growth [65].

Contribution of research and development to productivity growth can be analyzed in the conceptual framework of capital and labour inputs. The question may arise here to what extent research and development expenditures in a given automotive corporation contribute to a productivity increase. The rate of growth of research and development capital investment in different automotive corporations cannot be measured in any detail by an indirect method of productivity analysis.

A systematic use of knowledge directed toward the design and production of useful prototypes, new materials, devices, systems, methods and manufacturing processes, develop many automotive product areas in which technological and market changes occur. Technological developments alter the capabilities urgently needed to profitably compete in the automotive market with the Japanese and European imports.

The sophisticated, developed and applied technologies in the automotive industry sector today are: Computer aided design, computer aided manufacturing and computer aided production planning to enhance productivity growth.
Concepts of Productivity

G. Profit Measures

Profit is described as the difference between revenue and expenditure. Revenue depends on what an automotive corporation receives from selling automotive products, and is therefore affected by market influences such as competition. Expenditure is the side of the equation influenced by total factors productivity. If the total factors productivity of a production system is as high as possible, expenditure is most likely to be at its lowest level.

Hence the two concepts are quite distinct because they are based on different factors. If productivity is high, the chances of profitability are that much higher. But there may well be automotive plants which are profitable and have a poor productivity, and others which do not make a profit despite high productivity simply because public is not buying the product.

Changes in the relative profit position of the automotive corporations over the long run largely reflect their relative productivity performance. That is, since competing corporations are faced with much the same price changes in the market where they sell and buy, their profit margins depend on their relative degree of success in reducing real costs per unit of input (the reciprocal of increasing productivity). If a corporation's productivity increases more and thus unit real costs decline more than the average of the automotive industry, profit margins should improve relative to industry average.
H. **Costs and Prices**

Total costs of the firm for various output levels are the summation of the total fixed costs and total variable costs for those output levels. [40]

In the automotive industries, labour costs, including hourly rates of pay, salaries, overtime, and all types of fringe benefits, are the largest single cost element. Consequently, the trend of labour costs per unit of output plays a major role in determining the price per unit of output. If the effect of an increase in unit labour costs can be minimized by a greater increase in production, pressure to increase prices will obviously be lessened, although changes in profits or materials cost per unit of output may be able to offset this effect.

On the other hand, changes in unit labour costs can be a result as well as a cause of price rises. Price increases that cause employee purchasing power to fall lead to pressure for higher wages and/or salaries. If the wage and/or salary increases exceed productivity growth, unit labour costs increase also. [36]

Productivity movements are an important factor in determining price and cost stability. This aspect of productivity change stems from the role of output per man-hour -- an especially relevant concept when dealing with unit labour costs -- as a critical link between the cost of labour and the price of goods. Costs are inversely proportional to productivity growth.
I. **Value Added**

The concept of "value added" can be described as an input of materials and services to already existing production activity. Additional value added to the input by the direct and indirect labour efforts that transform materials into saleable goods.

The "value added" figures are compiled on the basis of the three activities: a) manufacturing activities, b) non-manufacturing activities, and c) total activities.

a) Figures are compiled for the manufacturing activities by deducting the cost of manufacturing materials, supplies, etc., and fuel and electricity consumed from the value of shipments of goods of own manufacture adjusted for changes in the value of inventories of finished goods and goods in progress. [75]

b) Compilation of statistical data for the non-manufacturing activities of the automotive industry is generated by subtracting the cost of goods purchased for re-sale (adjusted for changes in the value of inventories of goods purchased for re-sale) and the cost of non-manufacturing materials and supplies used from the value of shipments of goods not of own manufacture, plus other revenue.

c) In the total activities, the statistical data consist of value added contributed by manufacturing and non-manufacturing activities. [75] This total value added statistical data may, in some cases, be less than value added contributed by
manufacturing activities as a result of expenditures associated with non-manufacturing activities. Revenues from non-manufacturing activities may not be able to exceed the expenditures of such activities or because of a decrease in inventory of goods not of own manufacture exceeding the mark-up on the sale of such goods. [76]

"Value added" concept is used as an index of productivity in two main ways: a) for the calculation of incentive increments in a total wage structure, and b) as part of a comprehensive and integrated range of management control data based upon ratios developed for specific purposes, such as:

\[
\frac{\text{Value Added}}{\text{Labour Costs}} \quad \text{and} \quad \frac{\text{Value Added}}{\text{Total Costs}}
\]

The first of these ratios can be defined as the financial productivity of the labour force, and the second ratio measures the financial productivity of all the company's resources, put together. The use of these ratios jointly or separately can, depending upon the automotive corporation's cost structure, be of vital importance as a control mechanism for management.

It is quite possible that such financial indexes will ultimately become the only productivity indicators accepted as valid or realistic.

Furthermore, value added per labour unit may be expressed in terms net labour productivity. The calculation of value added or net labour productivity is based on an estimate of the net product. The net product is defined as the difference between the gross value of the product and the total value of all other
factors entering into the production cycle (including capital servicing charges)[53] expressed in constant dollars.

Value added per labour unit is obtained by dividing the net product thus computed by the amount of direct work expended in the production cycle. The concept of value added per labour unit is of importance in connection with the study of sectoral and/or national productivity.

In the context of the Canada - United States Automotive Products Trade Agreement [20], the Canadian government insisted on collateral commitments from the Canadian Motor Vehicle Manufacturers to increase, in each model year over the preceding model year, the dollar value of Canadian value added (C.V.A.) in the production of vehicles and original equipment parts by an amount equal to approximately 60 per cent of growth in the Canadian market.

J. Efficiency

The key to effective measurement of value added by an automotive corporation over a period of time is a measure of its productivity and efficiency. These two terms are often considered to be synonymous, but this is true only under certain conditions.
Efficiency may be defined as the optimum utilization of resources in the achievement of optimum value added. A productivity measure offers information that can imply efficiency in the use of a specific resource; but such a productivity measure cannot indicate overall efficiency of the automotive corporation or of a given project because increasing productivity in the use of labour resource for instance may be more than offset by the reduction in productivity of capital resources.[53]

The level of efficiency can be estimated by evaluating all the significant productivity measurements related to it. It is difficult to measure efficiency directly, but it can be inferred from a comprehensive productivity evaluation.

\[
\text{The Efficiency Ratio} = \frac{\text{Standard Hours Produced}}{\text{Actual Hours Spent On}} \times 100
\]

K. Quality

The concepts of quality and productivity, which have often been contrasted, are closely related to each other in two ways:[52]

1. In estimating the productivity of the automotive industry, an improvement in technical quality is, strictly speaking, linked with an increase in quantity: with equal expenditure and for a constant quantity produced, an improvement in quality raises the productivity index.
2. On the other hand, productivity in the automotive industry is greatly influenced by the technical quality of the products used as production factors.

From the engineering point of view, quality, combined with quantity, is a factor in the evaluation of productivity. Other things being equal, a vehicle is of greater value if its quality renders it more useful to the user. One of the basic problems of purchase is to decide whether the price asked by the seller corresponds with the utility value provided by the quality of the vehicle. [39]

Quality of a vehicle may be divided into two categories: a) the pleasure it affords, or b) economy in use it provides to the user. The quality provided by the use of a vehicle may be called technical and it is objective insofar as economy in use is concerned. This technical quality has two further aspects: a) physical quality results from the mechanical properties of the vehicle considered, and b) functional quality, from its durability or convenience in use.

When the effort to improve the quality of a vehicle reaches its technical limits, the achievement of the higher quality would fail to bring a gain in satisfaction commensurate with the extra expenditure.

1. Total Labour Productivity

The concept of total labour productivity is evolved by including direct labour and indirect labour with other factors
of production. Any outlay in dealing with raw materials, plants, or services of any kind can be expressed as an outlay in human labour. Labour is required to deal with these factors of production. And, therefore, it is the basis of most evaluations. This concept inversely expresses the total unit cost of the output in terms of human labour. The total labour productivity concept emphasized here is to distinguish it from both total factors productivity and net labour productivity of direct labour.

\[
\text{Total Labour Productivity} = \frac{\text{Production Output}}{\text{Direct Labour} + \text{Indirect Labour}}
\]

M. Net Labour Productivity

The concept of net labour productivity is expressed in terms of the net product or value added divided over the direct labour. The net product is usually expressed in terms of dollar value because production and the factors of production are heterogeneous. [36]

The net product is defined as the difference between the gross value of the product and the total value of all the other factors entering into the production cycle.

These values for products and the factors of production must be expressed in terms of constant price dollar range, not at variable market prices.

The net labour productivity of an automotive corporation may be regarded as expressing the combined action of the two internal factors direct labour and capital. In this concept,
the net product of the automotive corporation is the difference between gross product and total external factors (excluding capital): The Net Labour Productivity $= \frac{\text{Net Product Output}}{\text{Direct Labour}}$, or $P_{\text{nl}} = \frac{\text{Onp}}{\text{Ld}}$.

N. Partial Factor Productivity

The concept of partial factor productivity may be defined as the relationship between the total output and a partial associated input factor included in the production cycle of an automotive corporation. In practice, partial factor productivity can be and should be expressed in by an estimate in constant dollars, as the factors of production are usually heterogeneous. The effects of cost variations must be eliminated, particularly in comparative measurements where values of product output and input factors are required to be calculated by a constant dollar method. In the final analysis, productivity indexes calculated depend on the constant dollar system, used in relating outputs to inputs expressed in constant dollars also.

Partial factor productivity calculations are useful in providing comparative analysis among factors of input and their relative contribution to the total factor productivity.

Partial Factor Productivity $= \frac{\text{Total Output}}{\text{Partial Factor Input}}$

or, $P_{\text{pt}} = \frac{t}{pf}$.
0. **Total Factors Productivity**

Total productivity of the factors of production may be defined as the relationship between the total production output and total associated input factors included in the production cycle of an automotive corporation. In practice, total productivity can most conveniently be expressed by an estimate in constant dollars, as the factors of production are usually heterogeneous. The effects of price variations must be eliminated, particularly in comparative measurements where values of product output and input factors are required to be calculated by a constant price method. In the final analysis, productivity indices obtained depend on the price system used in making comparisons between inputs and outputs.

The increase in total productivity indicated the total actual savings made on the total consumption of production factors. Lower costs may result from either a decrease of factor costs, or from more efficient factor utilization. The increase in total productivity of the factors of production thus reflects the lower cost achieved provided price fluctuation has been eliminated. However, this estimate is still affected by the price structure chosen as a basis for the evaluation. Total factors productivity is linked to the partial productivity of the various factors of inputs and outputs and it represents their weighted average. Total factors productivity is given by:

\[ \text{Total Factors Productivity} = \frac{\text{Production Output}}{\text{Total Factors Input}}, \text{ or } P_{tf} = \frac{0t}{t_f} \]
CHAPTER V
MEASUREMENT OF PRODUCTIVITY LEVELS AND INDEXES

A. Methodology of Measurements

Motor Vehicle Manufacturers Industry as defined for statistical purposes in the Standard Industrial Classification Manual [82] covers the operations of establishments primarily engaged in manufacturing and/or assembling complete motor vehicles such as passenger automobiles, commercial cars and buses, trucks and special purpose motor vehicles such as ambulances and taxicabs. [75] Products manufactured and/or assembled by this branch of the automotive industry are classified under the S.I.C. #323. Statistics Canada provides diversified information for these establishments in its Catalog #42-209 and other publications designed to serve specific statistical purposes.

Motor vehicle Parts and Accessories Manufacturers Industry as defined for statistical purposes in the same Standard Industrial Classification Manual describes the operations of establishments primarily engaged in manufacturing and partial assembling of motor vehicle parts and accessories such as engines, brakes, clutches, axles, gears, heaters, air conditioners, radios, auxiliary power units, horns, mirrors, etc. [76] Products manufactured and/or assembled by this branch of the automotive industry are classified under the S.I.C. #325. Statistics Canada reports various information for this industry branch in its Catalog #42-210 and other publications designed to serve specific statistical purposes.
A span of one decade has been taken into consideration for the study of productivity trends. The base year or the standard period commences with 1964 as the pre-Agreement year. The subsequent periods, 1965 through 1973, are being analyzed with the Canada - United States Automotive Products Trade Agreement of 1965 either in the process of being implemented or in full force.

The various indexes of output per unit of partial factor input presented in this study seek to measure the changing relationship between the volume of output in the automotive industry each year.

1. **Output:** The basic concept of output used in this study is that of total output at factor cost. Total output is, in the automotive manufacturing sector, essentially a measure of the contribution of the factors of production which are utilized in the transformation of raw materials into finished products. In practice, this concept has to be approximated by "census value added" which tends to overstate net output to the extent that it fails to exclude certain purchased services. Net output (census value added) cannot be expressed in real terms directly but only by the "double deflation" technique in which aggregate measures of gross output and intermediate inputs (materials, fuel, electricity, etc.) are separately calculated in real or constant dollar terms and the latter subtracted from the former.[80] Therefore, total output is expressed in terms of the value of shipments of goods of own
manufacture plus inventory adjustment (closing minus opening).

2. **Input**: The basic concept of labour input utilized in this study, i.e. labour time, is measured either by the man-years or man-hours expended within the automotive industry. The latter may be expressed either by measures of man-hours worked or man-hours paid and, then, expressed in constant dollars.

There is a need for measures of labour input in terms of both production and non-production workers. The persons employed in the automotive industry may be classified as follows:

a) "production and related workers", essentially all factory workers in manufacturing operations whether paid on a monthly, weekly, hourly or piece-work basis. Specific classes of workers defined as falling into this category are working foremen doing similar work to that of employees they supervise; also maintenance, warehousing and delivery staffs, etc.

b) "administrative and office employees" category is defined as including all executive and supervisory officials such as presidents, vice-presidents, secretaries, treasurers, managers, professional employees, superintendents and supervisors above the working foremen and their clerical staffs.[80]

Salaries and wages are reported before deductions for income tax and employee benefits and comprise all man-hours paid (for regular work, overtime and paid leave) as well as bonuses, commissions, etc., paid to regular employees. Where shown, production and related workers classified to
non-manufacturing activity include separately reported
loggers, employees on construction for own use, beginning with
the 1970 Census outside pieceworkers formerly included for
certain industries are excluded from all employment totals and
their remuneration treated as contract work done by others.
Sales and distribution employees include all personnel charged
to selling expense, certain drivers, etc. [84]

Value Added: Net output as measured by gross output less
purchased commodity inputs used and contract work by others.

a) Value added, manufacturing activity: Value of ship-
ments of goods of own manufacture plus net change in
inventory of goods in process and finished goods,
less cost of materials and supplies used, fuel and
electricity.

b) Value added, total activity: Consists of (1) value
added, manufacturing activity and (2) value added,
non-manufacturing activity. The latter is calculated
by subtracting relevant commodity inputs from non-
manufacturing revenues or outputs; these commodity
inputs are net of the change in inventories of goods
purchased for resale. Non-manufacturing revenues
include depreciable fixed assets produced by own
work force for own use, revenue from product rentals,
etc., but exclude non-operating revenue such as real
property rentals, dividends, interest. [75]
Cost of Materials and Supplies, Fuel and Electricity:
Generally, consumption of purchased items only, at laid-down cost. Includes inter-company and intracompany transfers, contract work by others, fuel used by vehicles.

Inventories: Book value of owned inventory held in Canada, including goods in transit and on consignment.

Value of Shipments of Goods of Own Manufacture: Goods made by reporting establishment, or for its account, from its own materials, net of discounts, return, allowances, sales taxes and duties, returnable containers, common or contract carriers' charges for outward transportation (but not of own carriers' delivery expense). Includes repair and custom revenue, transfers to reporting units of same firm, all exports, book value of own products shipped on rental basis. Unsold domestic consignment shipments are included in inventory.[76]

Small Establishments: For establishments filing "short forms", "cost of materials, supplies and services", includes all purchased services, and "total revenue excluding interest and dividends received" is used for both shipments of goods of own manufacture and gross output, total activity [76]. Value added is calculated using these figures and net change in total inventory and is thus identical for manufacturing and total activity.
B. Measurements of Productivity

The present study attempts to provide productivity measures of the Canadian automotive industry sector, taking into consideration three distinct concepts:

1. The Value Added Concept
2. The Sectoral Macroeconomic Model Concept
3. The Integrated Systems Concept

a.) The Value Added Concept may be used to measure productivity growth provided a sales volume or value of shipments of products and all other related inputs required for the model are available. The following value added model is considered for the measurement of productivity:

\[
\text{Productivity} = (V-Q) + (M+C) \text{ i.e. Value added per man}
\]

NOTES: Let \( V \) be the value of shipments;
Let \( M \) be the input of manpower
Let \( C \) be the input of capital equipment
Let \( Q \) be the input of materials[26].

All values are to be expressed in constant dollars.

However, this concept as expressed above will not be utilized in computing the productivity measurements for the automotive industry sector due to the insufficiency of reliable information available at this time.

b.) The Sectoral Macroeconomic Model Concept may be utilized to measure productivity growth provided all the
necessary factors of input and output required for the com-
putation are available.

The concept of the sub-system is related to an existing
production. The mathematical evaluation of the sub-system may
be set out from as many as ten independent activities. Other
algebraic comparisons of indexes of productivity for the auto-
motive industry as a sub-system may be made as well. The
comparisons are often made on the assumption of a closed economy
[30] with single-product industries for each of which the product
output is of a constant quality. Labour is also assumed to be
of a constant quality and to be employed full time.

This model is concerned with the isolation of a self-
sufficient sector from its economy. The automotive industry
sector can be classified as a self-sufficient sector and,
therefore, it can be called a sub-system. The principal use
of the sub-system is to eliminate the many analytical diffi-
culties arising from the interdependence of a set of activities,
whether they are processes within a corporation or corporations
within the industry sector[30]. In this way the information
about a complex multi-activity system is improved.

To illustrate this model, productivity indexes related
to the sub-system [30] can be constructed as follows:

1. Total Factors Output:
   \[ O_{t} = t_{1} (1 - U_{1}) \]

2. Total Factors Input:
   \[ I_{t} = \phi - \sum_{k=1}^{n} x_{k} \]
3. Total Factors Productivity Index:

\[ P_{tf} = \left( t_1 \cdot (1 - U_{i1}) \right) \cdot \left( \phi_1 - \sum_{k=1}^{n} X_{k1} \right) \]

**NOTES:**

- \( t_1 \) = Total gross sales of activity 1.
- \( X_{k1} \) = Sales of activity "k" to activity 1.
- \( U_{i1} \) = Market share coefficient goes from activity i to activity 1. (expressed in percentages)
- \( \phi_1 \) = Gross input of activity 1.

All variables \( t_1, \phi_1, \nu \) and \( X_{ij} \) are expressed in terms of constant dollars, and \( i, U, K=1,2,...n \), are general activity numbers.

It is a common knowledge that motor vehicle manufacturers do purchase from each other, particularly smaller from the larger ones, certain parts, part assemblies and complete assemblies such as engines, automatic transmissions, engine block castings, etc. However, there is no sufficient information published in this regard by the Statistics Canada and/or other publishing agencies to reliably utilize the sectoral macro-economic model for the measurements of productivity in the Canadian Automotive industry sector.

**c.)** The Integrated Systems Concept of measuring productivity is designed to provide computation of the performance of the total sectoral production system over the selected period of one decade, expressed in the index form and real terms. It
is based on a total output per year achieved and the cost of total factors input per the same year utilized in a sequence of compared periods of the total manufacturing system.

The total factors productivity index is computed by means of the model:

\[ P_t = \left( \frac{Q_t}{Q_0} \times \frac{I_t}{I_0} \right) \times 100\% \]

**NOTES:**
- \( P \) - The total factors productivity index
- \( Q \) - The total output in constant dollars
- \( I \) - The total factors input in constant dollars
- \( o \) - The base year (standard period)
- \( t \) - The current year (subsequent period) [72].

**EXAMPLE:** ($'000,000 Omitted)

1964 - Standard Period \[ \frac{1.673}{1.673} \times \frac{1.079}{1.079} \times 100\% = 100.00 \times 0.00\% \]

1965 - Subsequent Period \[ \frac{2.130}{1.673} \times \frac{1.292}{1.079} \times 100\% = 105.80 \times 5.80\% \]

1966 - Subsequent Period \[ \frac{2.190}{1.673} \times \frac{1.318}{1.079} \times 100\% = 107.20 \times 7.20\% \]

These index figures represent the size of the improvements taking place in the level of productivity as changes are made to the motor vehicle production system during the subsequent periods.

The main requirement of the productivity index stems from the provision in the Integrated Systems Concept of measurement for comparisons to be made between the standard period
(immediately preceding the implementation of changes to the production system) and the subsequent periods [59].

The partial factor productivity index is computed by means of the similar model:

\[ Pt = \left( \frac{Qt}{Qo} + \frac{Ft}{Fo} \right) \times 100\% \]

NOTES:  
P - Partial factor productivity index  
Q - The total output in constant dollars  
F - Partial factor input in constant dollars  
o - The base year (standard period)  
t - The current year (subsequent period) [72].

EXAMPLE:  ($ '000,000 Omitted)  

1964 - Standard Period \[ \frac{1,673}{1,673} + \frac{627}{627} \times 100\% = 100.00 = 0.00\% \]

1965 - Subsequent Period \[ \frac{2,131}{1,673} + \frac{743}{627} \times 100\% = 107.43 = 7.43\% \]

1966 - Subsequent Period \[ \frac{2,190}{1,673} + \frac{806}{627} \times 100\% = 101.87 = 1.87\% \]

These index figures represent the size of the improvement contributed to the level of productivity by one particular input factor, fuel and electricity, as changes are affected in the motor vehicle production system during the subsequent periods. The computation of the level of productivity commenced in 1964 for a standard period or a base pre-agreement year. The level of productivity and the productivity index in the base year becomes a yardstick with which all subsequent
period levels of productivity are compared.

The primary source for the measures of output and inter-
medicate inputs of the automotive industry sector dealt with in
this study is the Annual Census of Manufacturers, the empirical
data which are available for the entire period covered in
the form suitable for productivity measurement purposes[80].
Statistical tables, in the appendix section, are prepared in
accordance with the Annual Census empirical data as published
by Statistics Canada. The tables contain principal statistics
(Tables #1 and #2), other necessary statistical data (Tables
#3 and #4) expressed in current dollars and the production
deflators (Table #7) for both Motor Vehicle and Parts and
Accessories Manufacturers of Canada.

In the computation of productivity indexes, both output
and input must be expressed in real terms or constant dollars.
Measures of constant dollar values are derived by the deflation
of current dollar values of output and intermediate input with
appropriate deflators (Table #7).

The publication of a set of Wholesale Prices Indexes[79]
for Motor Vehicle Manufacturers and Parts and Accessories
Manufacturers, compiled and presented at the three-digit level
of the Standard Industrial Classification, affords a much
more realistic basis for output and input deflation. Output,
input and value added data computed and compiled (Exhibits
#1 and #2) in current dollars for both Motor Vehicle Manu-
facturers and Parts and Accessories Manufacturers are deflated
(Exhibit #3) for the calculation of productivity indexes.

Statistical data and the productivity indexes thereof have been computed, indexed in the appendix, and tabulated in various exhibits to provide the necessary information for the plotting of relative trends of performance in the Canadian Automotive macroeconomic sector and the productivity trend analyses based on them.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Output Per Year</th>
<th>Total Input Per Year</th>
<th>Total Value Added Per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>1,694,929</td>
<td>1,156,852</td>
<td>548,077</td>
</tr>
<tr>
<td>1965</td>
<td>2,145,465</td>
<td>1,412,690</td>
<td>732,775</td>
</tr>
<tr>
<td>1966</td>
<td>2,188,260</td>
<td>1,471,237</td>
<td>717,023</td>
</tr>
<tr>
<td>1967</td>
<td>2,484,486</td>
<td>1,541,362</td>
<td>943,124</td>
</tr>
<tr>
<td>1968</td>
<td>3,033,913</td>
<td>1,980,159</td>
<td>1,053,754</td>
</tr>
<tr>
<td>1969</td>
<td>3,542,866</td>
<td>2,382,928</td>
<td>1,159,938</td>
</tr>
<tr>
<td>1970</td>
<td>2,976,676</td>
<td>2,107,481</td>
<td>869,195</td>
</tr>
<tr>
<td>1971</td>
<td>3,682,438</td>
<td>2,501,867</td>
<td>1,180,571</td>
</tr>
<tr>
<td>1972</td>
<td>4,046,691</td>
<td>2,684,620</td>
<td>1,362,071</td>
</tr>
<tr>
<td>1973</td>
<td>4,752,384</td>
<td>3,201,624</td>
<td>1,551,760</td>
</tr>
</tbody>
</table>
## TOTAL MANUFACTURING AND NON-MANUFACTURING ACTIVITIES

(MOTOR VEHICLE PARTS AND ACCESSORIES MANUFACTURERS)

$'000 Omitted (Current Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Output</th>
<th>Input</th>
<th>Value Added</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>627,966</td>
<td>342,152</td>
<td>285,814</td>
</tr>
<tr>
<td>1965</td>
<td>755,608</td>
<td>422,241</td>
<td>333,367</td>
</tr>
<tr>
<td>1966</td>
<td>860,500</td>
<td>475,979</td>
<td>384,521</td>
</tr>
<tr>
<td>1967</td>
<td>912,422</td>
<td>502,167</td>
<td>410,255</td>
</tr>
<tr>
<td>1968</td>
<td>1,193,805</td>
<td>672,316</td>
<td>521,489</td>
</tr>
<tr>
<td>1969</td>
<td>1,340,376</td>
<td>722,413</td>
<td>617,963</td>
</tr>
<tr>
<td>1970</td>
<td>1,272,154</td>
<td>722,901</td>
<td>549,253</td>
</tr>
<tr>
<td>1971</td>
<td>1,660,665</td>
<td>906,665</td>
<td>753,828</td>
</tr>
<tr>
<td>1972</td>
<td>1,903,161</td>
<td>1,027,119</td>
<td>876,042</td>
</tr>
<tr>
<td>1973</td>
<td>2,304,562</td>
<td>1,260,949</td>
<td>1,043,613</td>
</tr>
</tbody>
</table>
PRODUCTION DATA DEFLATED
CONSTANT DOLLARS
($'000 Omitted)

| Year | Motor Vehicle Manufacturers | | | Motor Vehicle Parts and Accessories Manufacturers |
|------|----------------------------|----------------------------|
| Year | Total Output Per Year | Total Input Per Year | Total Value Added Per Year | Total Output Per Year | Total Input Per Year | Total Value Added Per Year |
| 1964 | 1,673,178 | 1,079,455 | 593,723 | 609,676 | 323,609 | 286,067 |
| 1965 | 2,130,551 | 1,292,016 | 838,535 | 725,152 | 388,160 | 336,992 |
| 1966 | 2,190,450 | 1,318,313 | 872,137 | 820,305 | 428,810 | 391,495 |
| 1967 | 2,486,972 | 1,339,965 | 1,147,007 | 856,734 | 438,497 | 418,237 |
| 1968 | 2,980,268 | 1,673,138 | 1,307,130 | 1,106,399 | 574,973 | 532,426 |
| 1969 | 3,453,086 | 1,944,771 | 1,508,315 | 1,216,312 | 594,138 | 622,174 |
| 1970 | 2,864,944 | 1,699,581 | 1,165,463 | 1,128,797 | 581,578 | 547,219 |
| 1971 | 3,457,688 | 1,968,424 | 1,489,264 | 1,452,900 | 719,233 | 733,667 |
| 1972 | 3,722,807 | 2,069,390 | 1,653,417 | 1,633,615 | 799,377 | 834,238 |
| 1973 | 4,044,434 | 2,486,119 | 1,558,315 | 1,904,597 | 944,885 | 959,712 |
PRODUCTION DATA DEFLATED

Motor Vehicle Manufacturers

CONSTANT DOLLARS

($000,000,000 Omitted)

Exhibit #4

[Diagram showing production data deflated for Motor Vehicle Manufacturers in constant dollars with years 1964 to 1973]
PRODUCTION DATA DEFLATED
Parts and Accessories Manufacturers
CONSTANT DOLLARS
(\$'000,000,000 Omitted)
<table>
<thead>
<tr>
<th>Year</th>
<th>Fuel and Electricity Input</th>
<th>Total Labour Input</th>
<th>Motor Vehicle Manufacturers</th>
<th>Motor Vehicle Parts and Accessories Manufacturers</th>
<th>Total Labour Input</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>6,270</td>
<td>218,859</td>
<td>1,125,719</td>
<td>1,377,308</td>
<td>1,577,331</td>
</tr>
<tr>
<td>1965</td>
<td>7,432</td>
<td>276,731</td>
<td>1,403,446</td>
<td>1,489,612</td>
<td>1,743,928</td>
</tr>
<tr>
<td>1966</td>
<td>8,058</td>
<td>276,839</td>
<td>1,493,329</td>
<td>267,804</td>
<td>1,747,126</td>
</tr>
<tr>
<td>1967</td>
<td>8,739</td>
<td>295,318</td>
<td>1,548,887</td>
<td>313,346</td>
<td>1,871,475</td>
</tr>
<tr>
<td>1968</td>
<td>9,693</td>
<td>299,942</td>
<td>1,654,939</td>
<td>299,942</td>
<td>1,954,874</td>
</tr>
<tr>
<td>1969</td>
<td>10,422</td>
<td>346,912</td>
<td>1,854,939</td>
<td>346,912</td>
<td>2,191,844</td>
</tr>
<tr>
<td>1970</td>
<td>9,781</td>
<td>14,209</td>
<td>2,116,998</td>
<td>14,209</td>
<td>2,221,207</td>
</tr>
<tr>
<td>1971</td>
<td>11,264</td>
<td>15,978</td>
<td>2,408,204</td>
<td>15,978</td>
<td>2,513,775</td>
</tr>
<tr>
<td>1972</td>
<td>12,138</td>
<td>341,655</td>
<td>2,874,564</td>
<td>341,655</td>
<td>3,216,219</td>
</tr>
<tr>
<td>1973</td>
<td>12,947</td>
<td>459,543</td>
<td>3,794,350</td>
<td>459,543</td>
<td>4,253,893</td>
</tr>
</tbody>
</table>
### CALCULATION OF PRODUCTIVITY

#### Motor Vehicle Manufacturers

#### CONSTANT DOLLARS

($'000 Omitted)

<table>
<thead>
<tr>
<th>Year</th>
<th>Productivity Level</th>
<th>Productivity Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>( \frac{1,673,178}{1,079,455} = 1.550 )</td>
<td>( \frac{1.550}{1.550} \times 100% = 100.0 \ - \ 0.0% )</td>
</tr>
<tr>
<td>1965</td>
<td>( \frac{2,130,551}{1,299,016} = 1.640 )</td>
<td>( \frac{1.640}{1.550} \times 100% = 105.8 \ - \ 5.8% )</td>
</tr>
<tr>
<td>1966</td>
<td>( \frac{2,190,450}{1,318,313} = 1.662 )</td>
<td>( \frac{1.662}{1.550} \times 100% = 107.2 \ - \ 7.2% )</td>
</tr>
<tr>
<td>1967</td>
<td>( \frac{2,486,972}{1,339,965} = 1.856 )</td>
<td>( \frac{1.856}{1.550} \times 100% = 119.7 \ - \ 19.7% )</td>
</tr>
<tr>
<td>1968</td>
<td>( \frac{2,980,268}{1,673,138} = 1.781 )</td>
<td>( \frac{1.781}{1.550} \times 100% = 114.9 \ - \ 14.9% )</td>
</tr>
<tr>
<td>1969</td>
<td>( \frac{3,453,086}{1,944,771} = 1.776 )</td>
<td>( \frac{1.776}{1.550} \times 100% = 114.6 \ - \ 14.6% )</td>
</tr>
<tr>
<td>1970</td>
<td>( \frac{2,864,944}{1,699,581} = 1.686 )</td>
<td>( \frac{1.686}{1.550} \times 100% = 108.8 \ - \ 8.8% )</td>
</tr>
<tr>
<td>1971</td>
<td>( \frac{3,457,688}{1,968,424} = 1.757 )</td>
<td>( \frac{1.757}{1.550} \times 100% = 113.4 \ - \ 13.4% )</td>
</tr>
<tr>
<td>1972</td>
<td>( \frac{3,722,807}{2,069,390} = 1.799 )</td>
<td>( \frac{1.799}{1.550} \times 100% = 116.1 \ - \ 16.1% )</td>
</tr>
<tr>
<td>1973</td>
<td>( \frac{4,404,434}{2,486,119} = 1.772 )</td>
<td>( \frac{1.772}{1.550} \times 100% = 114.3 \ - \ 14.3% )</td>
</tr>
</tbody>
</table>

**Cumulative Total** = 115.8%

**Average Per Year** = 12.9%
## CALCULATION OF PRODUCTIVITY

### Parts and Accessories Manufacturers

#### CONSTANT DOLLARS

($'000 Omitted)

<table>
<thead>
<tr>
<th>Year</th>
<th>Productivity Level</th>
<th>Productivity Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>( \frac{609,676}{323,609} ) = 1.884</td>
<td>( \frac{1.884}{1.884} \times 100% = 100.0 ) - 0.0 %</td>
</tr>
<tr>
<td>1965</td>
<td>( \frac{725,152}{388,160} ) = 1.868</td>
<td>( \frac{1.868}{1.884} \times 100% = 99.2 ) - (0.8)</td>
</tr>
<tr>
<td>1966</td>
<td>( \frac{820,305}{428,810} ) = 1.913</td>
<td>( \frac{1.913}{1.884} \times 100% = 101.5 ) - 1.5</td>
</tr>
<tr>
<td>1967</td>
<td>( \frac{856,734}{438,497} ) = 1.954</td>
<td>( \frac{1.954}{1.884} \times 100% = 103.7 ) - 3.7</td>
</tr>
<tr>
<td>1968</td>
<td>( \frac{1,106,399}{574,973} ) = 1.924</td>
<td>( \frac{1.924}{1.884} \times 100% = 102.1 ) - 2.1</td>
</tr>
<tr>
<td>1969</td>
<td>( \frac{1,216,312}{594,138} ) = 2.047</td>
<td>( \frac{2.047}{1.884} \times 100% = 108.7 ) - 8.7</td>
</tr>
<tr>
<td>1970</td>
<td>( \frac{1,128,797}{581,578} ) = 1.941</td>
<td>( \frac{1.941}{1.884} \times 100% = 103.0 ) - 3.0</td>
</tr>
<tr>
<td>1971</td>
<td>( \frac{1,452,900}{719,233} ) = 2.020</td>
<td>( \frac{2.020}{1.884} \times 100% = 107.2 ) - 7.2</td>
</tr>
<tr>
<td>1972</td>
<td>( \frac{1,633,615}{799,377} ) = 2.044</td>
<td>( \frac{2.044}{1.884} \times 100% = 108.5 ) - 8.5</td>
</tr>
<tr>
<td>1973</td>
<td>( \frac{1,904,597}{944,885} ) = 2.016</td>
<td>( \frac{2.016}{1.884} \times 100% = 107.0 ) - 7.0</td>
</tr>
</tbody>
</table>

---

**Cumulative Total** = 40.9 %

**Average Per Year** = 4.54%
### CALCULATION OF PARTIAL FACTOR PRODUCTIVITY INDEX

(Total Labour)

Motor Vehicle Manufacturers

**CONSTANT DOLLARS**

($'000 Omitted)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Index</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>1,673,178</td>
<td>218,859</td>
<td>100%</td>
</tr>
<tr>
<td>1965</td>
<td>2,130,551</td>
<td>276,731</td>
<td>100%</td>
</tr>
<tr>
<td>1966</td>
<td>2,190,450</td>
<td>276,839</td>
<td>100%</td>
</tr>
<tr>
<td>1967</td>
<td>2,486,972</td>
<td>257,804</td>
<td>100%</td>
</tr>
<tr>
<td>1968</td>
<td>2,990,268</td>
<td>295,318</td>
<td>100%</td>
</tr>
<tr>
<td>1969</td>
<td>3,453,086</td>
<td>313,346</td>
<td>100%</td>
</tr>
<tr>
<td>1970</td>
<td>2,864,944</td>
<td>299,842</td>
<td>100%</td>
</tr>
<tr>
<td>1971</td>
<td>3,457,688</td>
<td>346,912</td>
<td>100%</td>
</tr>
<tr>
<td>1972</td>
<td>3,722,807</td>
<td>394,247</td>
<td>100%</td>
</tr>
<tr>
<td>1973</td>
<td>4,044,434</td>
<td>459,543</td>
<td>100%</td>
</tr>
</tbody>
</table>

**CUMULATIVE Total** 195.66%

**Average Per Year** 21.74%
CALCULATION OF PARTIAL FACTOR PRODUCTIVITY INDEX
(TOTAL LABOUR)
Parts and Accessories Manufacturers
(Constant Dollars)
(000's Omitted)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>X</th>
<th>X 100%</th>
<th>X 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>609,676</td>
<td>159,068</td>
<td>100.0</td>
</tr>
<tr>
<td>1965</td>
<td>725,152</td>
<td>181,470</td>
<td>104.21</td>
</tr>
<tr>
<td>1966</td>
<td>820,305</td>
<td>186,639</td>
<td>114.66</td>
</tr>
<tr>
<td>1967</td>
<td>856,734</td>
<td>188,027</td>
<td>125.72</td>
</tr>
<tr>
<td>1968</td>
<td>1,106,399</td>
<td>240,021</td>
<td>118.21</td>
</tr>
<tr>
<td>1969</td>
<td>1,215,312</td>
<td>258,569</td>
<td>122.69</td>
</tr>
<tr>
<td>1970</td>
<td>1,128,797</td>
<td>249,054</td>
<td>113.84</td>
</tr>
<tr>
<td>1971</td>
<td>1,452,900</td>
<td>310,965</td>
<td>121.89</td>
</tr>
<tr>
<td>1972</td>
<td>1,633,615</td>
<td>341,655</td>
<td>124.72</td>
</tr>
<tr>
<td>1973</td>
<td>1,904,597</td>
<td>410,518</td>
<td>128.34</td>
</tr>
</tbody>
</table>

CUMULATIVE TOTAL 174.28%
AVERAGE PER YEAR 19.36%
### CALCULATION OF PARTIAL FACTOR PRODUCTIVITY INDEX

(MATERIALS AND SUPPLIES)

Motor Vehicle Manufacturers
(Constant Dollars)
(000's Omitted)

<table>
<thead>
<tr>
<th>Year</th>
<th>Numerator</th>
<th>Denominator</th>
<th>(Numerator/Denominator) x 100</th>
<th>Cumulative Total</th>
<th>Average/Per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>1,673,178</td>
<td>1,125,719</td>
<td>1.4628</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>2,130,551</td>
<td>1,377,308</td>
<td>1.5568</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>2,190,450</td>
<td>1,403,446</td>
<td>1.5566</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>2,488,972</td>
<td>1,489,612</td>
<td>1.6568</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>2,980,268</td>
<td>1,854,687</td>
<td>1.6178</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td>3,453,086</td>
<td>2,118,689</td>
<td>1.6388</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>2,864,944</td>
<td>1,854,939</td>
<td>1.5558</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>3,457,688</td>
<td>2,216,998</td>
<td>1.5571</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>3,722,807</td>
<td>2,408,204</td>
<td>1.5482</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>4,044,434</td>
<td>2,874,564</td>
<td>1.4150</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Cumulative Total**: 46.49%

**Average/Per Year**: 5.17%
EXHIBIT #12

CALCULATION OF PARTIAL FACTOR

PRODUCTIVITY INDEX

(MATERIALS AND SUPPLIES)

Parts and Accessories Manufacturers
( Constant Dollars)
(000's Omitted)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Output (000's)</th>
<th>Input (000's)</th>
<th>Output/Input (%)</th>
<th>Productivity Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>609,676</td>
<td>609,676</td>
<td>1.00</td>
<td>100.00 = 0.00%</td>
</tr>
<tr>
<td>1965</td>
<td>725,152</td>
<td>609,676</td>
<td>1.20</td>
<td>103.85 = 3.85%</td>
</tr>
<tr>
<td>1966</td>
<td>820,305</td>
<td>609,676</td>
<td>1.34</td>
<td>103.78 = 3.78%</td>
</tr>
<tr>
<td>1967</td>
<td>856,734</td>
<td>609,676</td>
<td>1.38</td>
<td>107.42 = 7.42%</td>
</tr>
<tr>
<td>1968</td>
<td>1,106,399</td>
<td>609,676</td>
<td>1.82</td>
<td>106.45 = 6.45%</td>
</tr>
<tr>
<td>1969</td>
<td>1,216,312</td>
<td>609,676</td>
<td>2.00</td>
<td>109.02 = 9.02%</td>
</tr>
<tr>
<td>1970</td>
<td>1,128,797</td>
<td>609,676</td>
<td>1.80</td>
<td>105.46 = 5.46%</td>
</tr>
<tr>
<td>1971</td>
<td>1,452,900</td>
<td>609,676</td>
<td>2.21</td>
<td>112.04 = 12.04%</td>
</tr>
<tr>
<td>1972</td>
<td>1,633,615</td>
<td>609,676</td>
<td>2.32</td>
<td>112.14 = 12.14%</td>
</tr>
<tr>
<td>1973</td>
<td>1,904,597</td>
<td>609,676</td>
<td>2.82</td>
<td>109.81 = 9.81%</td>
</tr>
</tbody>
</table>

Cumulative Total: 69.97%
Average per Year: 7.77%
## CALCULATION OF PARTIAL FACTOR PRODUCTIVITY INDEX

(*Fuel and Electricity*)

Motor Vehicle Manufacturers
(Constant Dollars)
(000's Omitted)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Expression</th>
<th>Multiplicand</th>
<th>Multiplicand</th>
<th>Product</th>
<th>Percentage</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>$\frac{1,673,178}{6,270} \times 100%$</td>
<td>1,673,178</td>
<td>6,270</td>
<td>100.00%</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>1965</td>
<td>$\frac{2,130,551}{6,270} \times 100%$</td>
<td>2,130,551</td>
<td>6,270</td>
<td>107.43%</td>
<td>-</td>
<td>7.43%</td>
</tr>
<tr>
<td>1966</td>
<td>$\frac{2,190,450}{6,270} \times 100%$</td>
<td>2,190,450</td>
<td>6,270</td>
<td>101.87%</td>
<td>-</td>
<td>1.87%</td>
</tr>
<tr>
<td>1967</td>
<td>$\frac{2,486,972}{6,270} \times 100%$</td>
<td>2,486,972</td>
<td>6,270</td>
<td>106.67%</td>
<td>-</td>
<td>6.67%</td>
</tr>
<tr>
<td>1968</td>
<td>$\frac{2,980,268}{6,270} \times 100%$</td>
<td>2,980,268</td>
<td>6,270</td>
<td>115.20%</td>
<td>-</td>
<td>15.20%</td>
</tr>
<tr>
<td>1969</td>
<td>$\frac{3,453,086}{6,270} \times 100%$</td>
<td>3,453,086</td>
<td>6,270</td>
<td>124.13%</td>
<td>-</td>
<td>24.13%</td>
</tr>
<tr>
<td>1970</td>
<td>$\frac{2,864,944}{6,270} \times 100%$</td>
<td>2,864,944</td>
<td>6,270</td>
<td>109.74%</td>
<td>-</td>
<td>9.74%</td>
</tr>
<tr>
<td>1971</td>
<td>$\frac{3,457,688}{6,270} \times 100%$</td>
<td>3,457,688</td>
<td>6,270</td>
<td>115.09%</td>
<td>-</td>
<td>15.09%</td>
</tr>
<tr>
<td>1972</td>
<td>$\frac{3,722,807}{6,270} \times 100%$</td>
<td>3,722,807</td>
<td>6,270</td>
<td>114.93%</td>
<td>-</td>
<td>14.93%</td>
</tr>
<tr>
<td>1973</td>
<td>$\frac{4,044,434}{6,270} \times 100%$</td>
<td>4,044,434</td>
<td>6,270</td>
<td>117.05%</td>
<td>-</td>
<td>17.05%</td>
</tr>
</tbody>
</table>

**Cumulative Total**: 112.11%

**Average per Year**: 12.46%
### CALCULATION OF PARTIAL FACTOR

**PRODUCTIVITY INDEX**

*(FUEL AND ELECTRICITY)*

Parts and Accessories Manufacturers

(Constant Dollars)

(000's Omitted)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Value</th>
<th>Value 1</th>
<th>*</th>
<th>100%</th>
<th>=</th>
<th>Value 2</th>
<th>=</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>609.676</td>
<td>6.761</td>
<td>6.761</td>
<td>x</td>
<td>100%</td>
<td>=</td>
<td>100.00</td>
</tr>
<tr>
<td>1965</td>
<td>725.152</td>
<td>8.086</td>
<td>6.671</td>
<td>x</td>
<td>100%</td>
<td>=</td>
<td>99.44</td>
</tr>
<tr>
<td>1966</td>
<td>820.305</td>
<td>9.629</td>
<td>6.671</td>
<td>x</td>
<td>100%</td>
<td>=</td>
<td>94.45</td>
</tr>
<tr>
<td>1967</td>
<td>856.734</td>
<td>10.279</td>
<td>6.671</td>
<td>x</td>
<td>100%</td>
<td>=</td>
<td>92.43</td>
</tr>
<tr>
<td>1968</td>
<td>1,106,399</td>
<td>11.856</td>
<td>6.671</td>
<td>x</td>
<td>100%</td>
<td>=</td>
<td>103.48</td>
</tr>
<tr>
<td>1969</td>
<td>1,216,312</td>
<td>11.198</td>
<td>6.671</td>
<td>x</td>
<td>100%</td>
<td>=</td>
<td>120.47</td>
</tr>
<tr>
<td>1970</td>
<td>1,128,797</td>
<td>11.509</td>
<td>6.671</td>
<td>x</td>
<td>100%</td>
<td>=</td>
<td>108.75</td>
</tr>
<tr>
<td>1971</td>
<td>1,452,900</td>
<td>14.209</td>
<td>6.671</td>
<td>x</td>
<td>100%</td>
<td>=</td>
<td>113.37</td>
</tr>
<tr>
<td>1972</td>
<td>1,633,615</td>
<td>15.978</td>
<td>6.671</td>
<td>x</td>
<td>100%</td>
<td>=</td>
<td>113.37</td>
</tr>
<tr>
<td>1973</td>
<td>1,904,597</td>
<td>17.813</td>
<td>6.671</td>
<td>x</td>
<td>100%</td>
<td>=</td>
<td>118.56</td>
</tr>
</tbody>
</table>

**CUMULATIVE TOTAL**

64.32%

**AVERAGE PER YEAR**

7.15%
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Assets</td>
<td>1,288.6</td>
<td>1,552.9</td>
<td>1,715.7</td>
<td>1,801.4</td>
<td>1,855.2</td>
<td>1,851.7</td>
<td>1,914.0</td>
<td>2,595.7</td>
<td>3,011.8</td>
</tr>
<tr>
<td></td>
<td>Total Liabilities</td>
<td>644.1</td>
<td>929.5</td>
<td>1,029.3</td>
<td>1,027.8</td>
<td>875.3</td>
<td>868.0</td>
<td>859.7</td>
<td>1,201.2</td>
<td>1,454.0</td>
</tr>
<tr>
<td></td>
<td>Total Equity</td>
<td>644.4</td>
<td>623.6</td>
<td>687.2</td>
<td>773.8</td>
<td>979.8</td>
<td>983.7</td>
<td>1,054.3</td>
<td>1,394.4</td>
<td>1,557.8</td>
</tr>
<tr>
<td></td>
<td>Total Liab. &amp; Equity</td>
<td>1,288.6</td>
<td>1,553.1</td>
<td>1,720.9</td>
<td>1,801.4</td>
<td>1,855.2</td>
<td>1,851.7</td>
<td>1,914.0</td>
<td>2,595.7</td>
<td>3,011.8</td>
</tr>
<tr>
<td></td>
<td>Total Income</td>
<td>2,843.7</td>
<td>3,159.8</td>
<td>3,640.3</td>
<td>4,328.3</td>
<td>5,199.8</td>
<td>4,536.3</td>
<td>5,622.8</td>
<td>7,785.0</td>
<td>8,781.5</td>
</tr>
<tr>
<td></td>
<td>Total Deductions</td>
<td>2,787.3</td>
<td>3,099.8</td>
<td>3,549.0</td>
<td>4,077.7</td>
<td>4,907.4</td>
<td>4,406.7</td>
<td>5,307.3</td>
<td>7,288.1</td>
<td>8,302.1</td>
</tr>
<tr>
<td>Net Profit</td>
<td>106.4</td>
<td>59.9</td>
<td>91.3</td>
<td>143.8</td>
<td>159.5</td>
<td>73.2</td>
<td>172.8</td>
<td>295.7</td>
<td>283.9</td>
<td></td>
</tr>
</tbody>
</table>

**RETAILED EARNINGS:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Opening Balance</th>
<th>549.6</th>
<th>578.0</th>
<th>528.3</th>
<th>571.3</th>
<th>669.1</th>
<th>826.0</th>
<th>825.7</th>
<th>1,076.5</th>
<th>1,224.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>106.4</td>
<td>59.9</td>
<td>91.3</td>
<td>143.8</td>
<td>159.5</td>
<td>73.2</td>
<td>172.8</td>
<td>295.7</td>
<td>283.9</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>65.3</td>
<td>98.7</td>
<td>21.6</td>
<td>21.4</td>
<td>17.5</td>
<td>26.8</td>
<td>71.0</td>
<td>123.8</td>
<td>121.7</td>
<td></td>
</tr>
<tr>
<td>Other Credits</td>
<td>1.6</td>
<td>5.6</td>
<td>3.4</td>
<td>1.2</td>
<td>25.1</td>
<td>34.4</td>
<td>3.9</td>
<td>.01</td>
<td>72.9</td>
<td></td>
</tr>
<tr>
<td>Closing Balance</td>
<td>593.7</td>
<td>545.9</td>
<td>596.0</td>
<td>694.6</td>
<td>836.2</td>
<td>838.1</td>
<td>918.5</td>
<td>1,232.8</td>
<td>1,376.0</td>
<td></td>
</tr>
</tbody>
</table>
### Aggregate Sector Output

(Motor Vehicle and Parts and Accessories Manufacturers)

**Constant Dollars ($'000,000 Omitted)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>2,282.8</td>
</tr>
<tr>
<td>1965</td>
<td>2,855.7</td>
</tr>
<tr>
<td>1966</td>
<td>3,010.8</td>
</tr>
<tr>
<td>1967</td>
<td>3,343.7</td>
</tr>
<tr>
<td>1968</td>
<td>4,086.7</td>
</tr>
<tr>
<td>1969</td>
<td>4,669.4</td>
</tr>
<tr>
<td>1970</td>
<td>3,993.7</td>
</tr>
<tr>
<td>1971</td>
<td>4,910.6</td>
</tr>
<tr>
<td>1972</td>
<td>5,356.4</td>
</tr>
<tr>
<td>1973</td>
<td>5,949.0</td>
</tr>
</tbody>
</table>
EXHIBIT #17

CALCULATION OF PARTIAL FACTOR

PRODUCTIVITY INDEX

(TOTAL ASSETS)
(MOTOR VEHICLE AND PARTS AND ACCESSORIES MANUFACTURERS)
($'000,000 OMITTED) CONSTANT DOLLARS

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PRODUCTIVITY INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>$2,855.7 \div \frac{1,288.6}{1,288.6} \times 100% = 100.00 = 0.00%</td>
</tr>
<tr>
<td>1966</td>
<td>$3,010.8 \div \frac{1,552.9}{1,288.6} \times 100% = 86.8 = -13.2%</td>
</tr>
<tr>
<td>1967</td>
<td>$3,343.7 \div \frac{1,715.7}{1,288.6} \times 100% = 83.6 = -16.4%</td>
</tr>
<tr>
<td>1968</td>
<td>$4,086.7 \div \frac{1,801.4}{1,288.6} \times 100% = 102.14 = 2.1%</td>
</tr>
<tr>
<td>1969</td>
<td>$4,669.4 \div \frac{1,855.2}{1,288.6} \times 100% = 113.9 = 13.9%</td>
</tr>
<tr>
<td>1970</td>
<td>$3,993.7 \div \frac{1,851.7}{1,288.6} \times 100% = 97.2 = -2.8%</td>
</tr>
<tr>
<td>1971</td>
<td>$4,910.6 \div \frac{1,914.0}{1,288.6} \times 100% = 115.4 = 15.4%</td>
</tr>
<tr>
<td>1972</td>
<td>$5,356.4 \div \frac{2,595.7}{1,288.6} \times 100% = 93.5 = -6.5%</td>
</tr>
<tr>
<td>1973</td>
<td>$5,949.0 \div \frac{3,011.8}{1,288.6} \times 100% = 88.9 = -11.1%</td>
</tr>
</tbody>
</table>

CUMULATIVE TOTAL $-18.6\%
Average Per Year $ -2.3\%
# Exhibit #18

**Productivity Index of Value-Added per Employee**

(constant dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Motor Vehicle Manufacturers</th>
<th>Parts and Accessories Manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>$16,480 = 100 = 0.00%</td>
<td>$9,716 = 100 = 0.00%</td>
</tr>
<tr>
<td>1965</td>
<td>19,762 = 120 = 20%</td>
<td>10,537 = 108 = 8%</td>
</tr>
<tr>
<td>1966</td>
<td>20,517 = 124 = 24%</td>
<td>11,263 = 116 = 16%</td>
</tr>
<tr>
<td>1967</td>
<td>28,071 = 170 = 70%</td>
<td>11,998 = 123 = 23%</td>
</tr>
<tr>
<td>1968</td>
<td>25,568 = 155 = 55%</td>
<td>13,460 = 139 = 39%</td>
</tr>
<tr>
<td>1969</td>
<td>35,984 = 218 = 118%</td>
<td>14,977 = 154 = 54%</td>
</tr>
<tr>
<td>1970</td>
<td>30,553 = 185 = 85%</td>
<td>14,080 = 145 = 45%</td>
</tr>
<tr>
<td>1971</td>
<td>35,180 = 213 = 113%</td>
<td>16,747 = 172 = 72%</td>
</tr>
<tr>
<td>1972</td>
<td>37,542 = 227 = 127%</td>
<td>18,061 = 186 = 86%</td>
</tr>
<tr>
<td>1973</td>
<td>33,275 = 202 = 102%</td>
<td>18,161 = 187 = 87%</td>
</tr>
</tbody>
</table>

Cumulative Total = 714%  
Average Per Year = 79.3%

Cumulative Total = 430%  
Average Per Year = 47.8%
EXHIBIT #19

PRODUCTIVITY INDEX OF VALUE-ADDED PER FUEL AND ELECTRICITY INPUT

CONSTANT DOLLARS ($'000,000 OMITTED)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>MOTOR VEHICLE MANUFACTURERS</th>
<th>PARTS AND ACCESSORIES MANUFACTURERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>$593,723 ( \frac{6,270}{100} = 94.7 = 100 = 0.00% )</td>
<td>$286,067 ( \frac{6,761}{100} = 42.3 = 100 = 0.00% )</td>
</tr>
<tr>
<td>1965</td>
<td>$838,535 ( \frac{7,432}{100} = 112.8 = 119 = 19% )</td>
<td>$336,992 ( \frac{8,086}{100} = 41.7 = 99 = (-1)% )</td>
</tr>
<tr>
<td>1966</td>
<td>$872,137 ( \frac{8,058}{100} = 108.2 = 114 = 14% )</td>
<td>$391,495 ( \frac{9,629}{100} = 40.7 = 96 = (-4)% )</td>
</tr>
<tr>
<td>1967</td>
<td>$1,147,007 ( \frac{8,739}{100} = 131.3 = 139 = 39% )</td>
<td>$418,237 ( \frac{10,279}{100} = 40.7 = 96 = (-4)% )</td>
</tr>
<tr>
<td>1968</td>
<td>$1,307,130 ( \frac{9,693}{100} = 134.9 = 142 = 42% )</td>
<td>$532,426 ( \frac{11,856}{100} = 44.9 = 106 = 6% )</td>
</tr>
<tr>
<td>1969</td>
<td>$1,508,315 ( \frac{10,422}{100} = 144.7 = 153 = 53% )</td>
<td>$622,174 ( \frac{11,199}{100} = 55.6 = 131 = 31% )</td>
</tr>
<tr>
<td>1970</td>
<td>$1,165,463 ( \frac{9,781}{100} = 119.2 = 126 = 26% )</td>
<td>$547,219 ( \frac{11,509}{100} = 47.6 = 113 = 13% )</td>
</tr>
<tr>
<td>1971</td>
<td>$1,489,264 ( \frac{11,254}{100} = 132.2 = 140 = 40% )</td>
<td>$733,667 ( \frac{14,209}{100} = 51.6 = 122 = 22% )</td>
</tr>
<tr>
<td>1972</td>
<td>$1,653,417 ( \frac{12,138}{100} = 136.2 = 144 = 44% )</td>
<td>$834,238 ( \frac{15,978}{100} = 52.2 = 123 = 23% )</td>
</tr>
<tr>
<td>1973</td>
<td>$1,558,315 ( \frac{12,947}{100} = 120.4 = 127 = 27% )</td>
<td>$959,712 ( \frac{17,813}{100} = 53.9 = 127 = 27% )</td>
</tr>
</tbody>
</table>

CUMULATIVE TOTAL = \( \frac{304}{12 \text{ years}} = 25.3\% \)
Aver/Year = 33.8%

CUMULATIVE TOTAL = \( \frac{113}{12 \text{ years}} = 9.4\% \)
Aver/Year = 12.6%
## EXHIBIT #20

**PRODUCTIVITY INDEX OF VALUE-ADDED**

**PER MATERIALS AND SUPPLIES INPUT**

**CONSTANT DOLLARS ($'000 OMITTED)**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>MOTOR VEHICLE MANUFACTURERS</th>
<th>PARTS AND ACCESSORIES MANUFACTURERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>(\frac{593,793}{1,125,719} = .48 = 100 = 0%)</td>
<td>(\frac{286,067}{335,059} = .85 = 100 = 0%)</td>
</tr>
<tr>
<td>1965</td>
<td>(\frac{838,535}{1,377,308} = .61 = 127 = 27%)</td>
<td>(\frac{336,992}{384,478} = .88 = 104 = 4%)</td>
</tr>
<tr>
<td>1966</td>
<td>(\frac{872,137}{1,403,446} = .62 = 129 = 29%)</td>
<td>(\frac{391,495}{434,375} = .90 = 106 = 6%)</td>
</tr>
<tr>
<td>1967</td>
<td>(\frac{1,147,007}{1,489,612} = .77 = 160 = 60%)</td>
<td>(\frac{418,237}{436,120} = .95 = 112 = 12%)</td>
</tr>
<tr>
<td>1968</td>
<td>(\frac{1,307,130}{1,854,887} = .70 = 146 = 46%)</td>
<td>(\frac{532,426}{571,276} = .93 = 109 = 9%)</td>
</tr>
<tr>
<td>1969</td>
<td>(\frac{1,508,315}{2,118,689} = .71 = 148 = 48%)</td>
<td>(\frac{622,174}{613,290} = 1.01 = 119 = 19%)</td>
</tr>
<tr>
<td>1970</td>
<td>(\frac{1,165,453}{1,854,934} = .63 = 131 = 31%)</td>
<td>(\frac{547,219}{576,776} = .95 = 112 = 12%)</td>
</tr>
<tr>
<td>1971</td>
<td>(\frac{1,489,264}{2,216,998} = .67 = 140 = 40%)</td>
<td>(\frac{733,667}{712,707} = 1.03 = 121 = 21%)</td>
</tr>
<tr>
<td>1972</td>
<td>(\frac{1,653,417}{2,408,204} = .69 = 144 = 44%)</td>
<td>(\frac{834,238}{800,528} = 1.04 = 122 = 22%)</td>
</tr>
<tr>
<td>1973</td>
<td>(\frac{1,558,315}{2,874,564} = .54 = 113 = 13%)</td>
<td>(\frac{959,712}{953,265} = 1.01 = .119 = 19%)</td>
</tr>
</tbody>
</table>

**CUMULATIVE TOTAL = 338%**

Aver/Year = 37.6%

**CUMULATIVE TOTAL = 124%**

Aver/Year = 13.8%
<table>
<thead>
<tr>
<th>Year</th>
<th>Motor Vehicle Manufacturers</th>
<th>Motor Vehicle Parts and Accessories Manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Productivity Ratios</td>
<td>Productivity Index (%)</td>
</tr>
<tr>
<td>1964</td>
<td>1.550</td>
<td>Base Year</td>
</tr>
<tr>
<td>1965</td>
<td>1.640</td>
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<tr>
<td>1966</td>
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<td>8.8</td>
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<tr>
<td>1971</td>
<td>1.757</td>
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<td>1.799</td>
<td>16.1</td>
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<tr>
<td>1973</td>
<td>1.777</td>
<td>14.3</td>
</tr>
<tr>
<td>Cumm. Total Avg. per Yr</td>
<td>115.8%</td>
<td>12.9%</td>
</tr>
</tbody>
</table>
C. Productivity Trend Analyses

The main cause of the productivity growth in the Canadian automotive macroeconomic sector is the signing of the Canada - United States Automotive Products Trade Agreement of 1965 (A.P.T.A.) with the purpose of improving trade imbalance with the United States by reducing imports or increasing exports using whatever means were available and necessary. This Agreement has fostered an accumulation of technical knowledge, investment in new methods of production, and the education and training of workers and managers which have raised productivity in the automotive industry of Canada. A necessary condition for the effective use of these resources and an increasing rate of productivity growth is an expanded North American market and an expanding economy with high employment and optimum utilization of manufacturing and assembly plants and machines.

Significant productivity gains have been made through the cooperation of the Canadian and the United States governments, motor vehicle corporate managements and organized labour. Productivity growth vastly differs between the two sub-sectors of the Canadian automotive industrial sector over both the short and the long term. The short term is influenced by the effects of changes in the business cycle because productive capacity, including the work force, is not so flexible that manufacturers can adjust it immediately to changes in consumer demands. The long term is basically affected by
by changes in the input factors underlying productivity improvements, such as increased availability of capital, improvements in the quality of labour, advances in technology, allocation of resources, increased economies of scale, and advances in managerial expertise.

**The Motor Vehicle Manufacturers Sub-Sector**

The total factors productivity trend for the Motor Vehicle Manufacturers Sub-sector comprising between 18 to 22 members shows significant productivity growth during the first three years of the life of the agreement and thereafter as indicated by the productivity index and trend analyses (Exhibits #21 and #22). The average improvement in the productivity rate has been 12.9 per cent per year over the span of nine years.

The Motor Vehicle Manufacturers alone invested $533 million[^20] in new modern assembly and parts manufacturing facilities to satisfy legal commitments undertaken by the automotive corporations. Labour content in this highly capital-intensive industry was drastically reduced and the ratio of total output to the total labour input changed significantly to account for the rapidly increasing productivity growth as expressed by the productivity index and trend analyses graph (Exhibits #21 and #22).

**The Parts and Accessories Manufacturers Sub-Sector**

Productivity growth in this sub-sector has been relatively slower as indicated by the productivity index and trend analysis.
graph (Exhibits #21 and #22), due to its structure and the competitive position in the Canadian market as well as the United States market. As indicated in Table #2, there have been between 154 and 229 Parts and Accessories Manufacturers to share about 36 per cent of the volume of output compared to Motor Vehicle Manufacturers. Since consumer demand for parts and accessories manufactured in Canada is small, it is not possible to draw a meaningful comparison of productive efficiencies and productivity growth between Parts and Accessories Manufacturers and the giant automotive corporations and/or United States parts and accessories suppliers.

Parts and Accessories Manufacturing sub-sector is relatively affected by the Original Equipment Manufacturers (O.E.M.) and after market demand by numerous parts and accessories dealers; car, truck and bus dealers; independent service garages; etc. The biggest expectation for a huge United States parts and accessories market, however, has not yet materialized, which is in reality a failure to fully implement the Automotive Products Trade Agreement of 1965.

The total factors productivity trend for the Motor Vehicle Parts and Accessories Manufacturers sub-sector shows a decline (Exhibit #21) in productivity to the point of (-0.8%) in 1965 due to the reorganization and restructuring of both the Motor Vehicle Manufacturing Industry and their own manufacturing facilities. As indicated by the trend analysis graph (Exhibit #22), the productivity growth gained steady by rather sluggish
improvement over the span of subsequent eight years averaging 4.5 per cent per year.

Another valid reason for this industry to have slow productivity growth is that it comprises a large number of small companies with low volume of production and inadequately automated manufacturing and assembly facilities. As a sub-sector it can not economically compete or expect to attain productivity growth equal to Motor Vehicle sub-sector with the huge volume of production facilities and superior capital investment availability.

Total Labour Input: Productivity trend of this input has shown rapid and continuous improvement in productivity growth as indicated by the productivity index and trend analysis graph (Exhibits #21 and #24). Total Labour Input of both sub-sectors is analysed here as a singular input in relation to the total output, therefore, it is shown in much more favourable light that the total factors input.

Motor Vehicle Manufacturers Total Labour Input gained very little productivity growth during the first two years of the life of the agreement due to industry adjustment to a new environment. Productivity growth as contributed by the Labour Input gained its momentum in 1967 and has steadily continued ever since. The underlying reason behind this rapid productivity growth is that the industry became highly capital intensive, highly automated and more centralized with parent automotive companies in the United States.
Motor Vehicle Parts and Accessories: Total Labour Input initially contributed to the productivity growth in 1966 and has constantly been increasing ever since as indicated by the productivity index and trend analysis graph (Exhibits #21 and #24). Productivity growth, though, began increasing one year sooner, has not reached as high as the labour input of Motor Vehicle sub-sector.

The Parts and Accessories sub-sector is not as capital intensive as the Motor Vehicle sub-sector and there are many small or very small parts manufacturers in this group. However, total labour input of this sub-sector has made, as a singular input, a significant contribution to productivity growth during the decade.

Fuel and Electricity Input: Productivity trend of this input has shown a rapid and continuous improvement in productivity growth particularly in the Motor Vehicle Manufacturing sub-sector as indicated by the productivity index and trend analysis graph (Exhibits #23 and #25). Fuel and Electricity input is being analysed as a singular input in relation to the total output of the automotive industry sector. This factor input is judged on its own merit in the context of productivity level whether it is an improvement or decline.

Motor Vehicle Manufacturers: Fuel and Electricity input had shown a slight productivity increase of 7.43 per cent per year in 1965 and the following two years gained lesser rate of increase that 1965. Actual productivity gained rapid increase
in 1968 and 1969 consecutively and at a slower pace thereafter. Reorganization and restructuring of this sub-sector was accomplished in 1968 and Motor Vehicle industry was able to negotiate and obtain much more favourable cost rates from the utilities, coal mining companies, and the fuel oil and gasoline suppliers to better utilize newer fuel and electricity consuming facilities with more emphasis on economy and efficiency.

Parts and accessories manufacturers fuel and electricity input had experienced a declining trend in the productivity level during the first three years of the life of the agreement as indicated by the productivity index and trend analysis graph (Exhibits #23 and #25). However, in 1963, the productivity level began to slightly improve and steadily gained productivity growth for the subsequent six years.

The underlying reason or reasons behind the initial decline in the factor productivity is that this industry with many small manufacturers was unable to secure favourable enough volume discount rates from the energy suppliers during the years of reorganization and restructuring of this sub-sector of the automotive industry sector. Small parts and accessories manufacturers do not have efficient energy consuming and controlling facilities and, therefore, there is liable to be unwarranted waste and misuse of the energy input.
Materials and Supplies Input: Productivity trend of this input factor shows that a gradual productivity growth has been experienced as indicated by both the productivity index and the trend analysis graph (Exhibits #21 and #26).

This input factor comprises quantities and laid down cost values of materials, supplies and purchased components owned and used during the year in manufacturing activities and related processes. Included in this group are maintenance and repair supplies not chargeable to fixed assets accounts and any amounts charged by other suppliers for work done on materials owned by the automotive manufacturer.

Motor Vehicle Manufacturers sub-sector productivity trend indicates a constant increase in productivity until it reaches 1972. At this point, there is a definite decline by 5.36 per cent per year in the productivity level. Since this factor input comprises a multitude of activities that may contribute to a sudden cost increase without prior budgeting for it or a shortage of a kind of material that may have to be substituted by other, more expensive material. A supplier may go out of business and an automotive company is forced to transfer its requirements to another supplier and pay a premium price for a few months of the model year to maintain production and/or assembly output.

Parts and accessories manufacturers sub-sector displays its steady productivity growth for the entire span of nine years. This sub-sector being smaller and more flexible in
changing their suppliers, has not had any experience that might have contributed to a decline.

Total Assets Input: Productivity trend of the subject input has shown rapid and rather unusual decline in productivity level as indicated by the productivity index and trend analysis graph (Exhibits #17 and #27).

Total assets comprise the total resources which automotive industry sector owns, such as land used for sites of manufacturing activities, office buildings, plants, power houses and facilities, machinery, equipment, unoccupied land planned for future development of manufacturing and assembly facilities, patents, unexpired insurance, durable inventory, goods-in-process inventory, notes receivables, accounts receivable, cash, etc. When total assets are included as an input in the productivity measurements, it is obvious that productivity level is lowered in proportion to the industry sector's total assets intensity and that total assets productivity trends are to be inversely correlated with labour productivity.

Included in the total assets aggregate are many highly valued components such as unoccupied land, office buildings, etc., that immediately do not contribute to productivity and, therefore, indicate on the trend analysis graph (Exhibit #27) a negative effect on the productivity level.

Value-added per Employee: Productivity trend of the Value Added concept illustrates that a very rapid productivity growth has been gained for the duration of nine years as indicated by both the productivity index and trend analysis
The type of automotive parts that are being manufactured makes a significant impact on total labour productivity when measured in terms of value-added per employee. The value-added per employee in general increases in relation to the level of capital intensity of the automotive manufacturing industry. As indicated by the productivity trend analysis graph, the value-added per employee in the Motor Vehicle Manufacturing sub-sector is substantially higher than the value-added per employee in the Parts and Accessories Manufacturing sub-sector. This is due to the fact that Motor Vehicle Manufacturing industry uses heavy machinery and equipment for the manufacture of engines, transmissions, large stampings, etc., which are highly capital intensive. A comparison of productivity growth on the basis of value-added per employee shows that the productivity growth in the Canadian Motor Vehicle Manufacturing Industry will remain higher than that in the Motor Vehicle Parts and Accessories Industry for the same compelling reason of capital intensity.

**Value-Added per Materials and Supplies Input**: Productivity trend analysis of this concept vividly indicates that the productivity level has drastically increased in the Motor Vehicle Manufacturing sub-sector, however, it has not followed the same pattern in the case of parts and accessories manufacturing sub-sector as indicated by the productivity index and trend analysis graph (Exhibits #20 and #29).
It follows the same explanation that Motor Vehicle Manufacturing sub-sector is much more capital intensive than Parts and Accessories sub-sector and the rate of productivity growth of the value-added per factor input in the former is much higher than in the latter.

The average rate of productivity growth of the value added per factor input is 37.6 per cent per year for the Motor Vehicle Manufacturers and 13.8 per cent per year for the Parts and Accessories industry.

A comparison of productivity growth of the value-added per material and supplies input indicates (Exhibit #29) that the productivity growth in the Parts and Accessories industry will always remain lower due to its lower capital intensity.

Value-Added per Fuel and Electricity Input: The productivity trend of the fuel and electricity input, as expressed in terms of value-added, has shown a quick and constant increase in productivity growth specifically in the Motor Vehicle Manufacturers sub-sector as indicated by the productivity index and trend analysis graph (Exhibits #19 and #30). However, the Parts and Accessories sub-sector showed a declining trend of the productivity level during first three years of the life of the agreement (Exhibits #19 and #30). During subsequent years productivity level has shown constantly increasing trend. However, its performance was only 12.6 per cent per year comparing with the Motor Vehicle Manufacturers' increase of 33.8 per cent per year.
The underlying reason for such a vast difference in the productivity growth between the two sub-sectors is, again, the Motor Vehicle Manufacturing industry is highly capital intensive and the Parts and Accessories Manufacturers lack that capital intensity.
TOTAL FACTORS PRODUCTIVITY TREND ANALYSIS

Motor Vehicle Manufacturers
Parts and Accessories Manufacturers
# Exhibit #23

## Partial Factor Productivity Indexes

**Fuel and Electricity, Material Supplies and Total Labour**

**Constant Dollars**

<table>
<thead>
<tr>
<th>Year</th>
<th>Motor Vehicle Manufacturers</th>
<th>Motor Vehicle Parts and Accessories Manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fuel and Electricity Index</td>
<td>Material and Supplies Index</td>
</tr>
<tr>
<td>1964</td>
<td>Base Year</td>
<td>---</td>
</tr>
<tr>
<td>1965</td>
<td>7.43%</td>
<td>4.09%</td>
</tr>
<tr>
<td>1966</td>
<td>1.87</td>
<td>4.97</td>
</tr>
<tr>
<td>1968</td>
<td>15.20</td>
<td>8.07</td>
</tr>
<tr>
<td>1969</td>
<td>24.13</td>
<td>9.62</td>
</tr>
<tr>
<td>1970</td>
<td>9.74</td>
<td>3.88</td>
</tr>
<tr>
<td>1971</td>
<td>15.09</td>
<td>4.98</td>
</tr>
<tr>
<td>1973</td>
<td>17.05</td>
<td>-5.36</td>
</tr>
</tbody>
</table>

**Cumulative Total**
- 112.11%
- 46.49%
- 195.66%
- 64.32%
- 69.47%
- 174.28%

**Average/year**
- 12.46%
- 5.17%
- 21.74%
- 7.15%
- 7.77%
- 19.36%
EXHIBIT #24

PARTIAL FACTOR PRODUCTIVITY TREND ANALYSIS
(TOTAL LABOUR)

MOTOR VEHICLE MANUFACTURERS

PARTS AND ACCESSORIES MANUFACTURERS
PARTIAL FACTOR PRODUCTIVITY TREND ANALYSIS
(FUEL AND ELECTRICITY)

MOTOR VEHICLE MANUFACTURERS

PARTS AND ACCESSORIES MANUFACTURERS
PARTIAL FACTOR PRODUCTIVITY TREND ANALYSIS
(MATERIALS AND SUPPLIES)

MOTOR VEHICLE MANUFACTURERS

PARTS AND ACCESSORIES MANUFACTURERS
EXHIBIT #27

PARTIAL FACTOR PRODUCTIVITY TREND ANALYSIS.
(TOTAL ASSETS)

COMBINED MOTOR VEHICLE AND
PARTS AND ACCESSORIES MANUFACTURERS
PRODUCTIVITY TREND ANALYSIS OF VALUE-ADDED PER EMPLOYEE

MOTOR VEHICLE MANUFACTURERS

PARTS AND ACCESSORIES MANUFACTURERS

EXHIBIT #28

1964 65 66 67 68 69 70 71 72 73
PRODUCTIVITY TREND ANALYSIS OF VALUE-ADDED PER MATERIALS AND SUPPLIES INPUT

MOTOR VEHICLE MANUFACTURERS

PARTS AND ACCESSORIES MANUFACTURERS
PRODUCTIVITY TREND ANALYSIS OF
VALUE-ADDED PER FUEL AND ELECTRICITY INPUT
MOTOR VEHICLE MANUFACTURERS
PARTS AND ACCESSORIES MANUFACTURERS

1964  66  67  68  69  70  71  72  73
D. **Multiple Regression Application**

Multiple regression analysis is a method by which the relationship between all the variables is simultaneously taken into account when two or more independent variables are to be used in obtaining estimates of the dependent variable.

In multiple regression analysis, the regression model is described as the path of the means of the dependent variable \( Y \) for all combinations of \( X_1, X_2, \ldots, X_{p-1} \). Assume that the path of the means of \( Y \) takes the form:

\[
Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \beta_3 X_{i3} + \beta_4 X_{i4} + \epsilon_i
\]

Which is a multiple regression model with four independent variables to be used for the computation of productivity indexes utilizing empirical data in the automotive industry sector.

Motor Vehicle Manufacturers data of partial factor inputs—fuel and electricity, materials and supplies and total labour, total outputs, and productivity index were set up according to the multiple regression model and programmed for the computer using "Multfit" programme to compute the variables for nine years. The computer print-out provides calculated productivity index (Variable \( Y_i \)), a difference between actual and calculated data, percentage difference, regression coefficient, mean value, standard deviation, standard deviation of residuals and the coefficient (index) of determination as shown on the Exhibit #31.

A criterion for the evaluation of the "goodness of fit" of a regression relationship is the coefficient of multiple
determination. It is the proportion of the total variability in the data set which may be illustrated by a regression surface.

The coefficient of multiple determination, \( R^2 \), can be expressed as the ratio of the explained variation and the total variation of \( Y \), or as one minus the ratio of the residual or unexplained variation and the total variation of \( Y \). The maximum value of \( R^2 \) is one when \( \Sigma e^2 \) is zero. The coefficient of multiple determination of one indicates that the dependent variable surface provides a perfect fit for the data and explains 100 per cent of the variability. A coefficient of multiple determination of zero indicates that the regression surface does no better than using the mean of \( Y \); that is, it explains zero per cent of the variability.

The computer print-out for the Motor Vehicle Manufacturers sub-sector shows that the coefficient of multiple determination is 54.7 per cent which is far from one and, therefore, far from being a perfect fit on the regression surface. In this case, the coefficient of multiple determination is successful in explaining 54.70 per cent of the total variation in the productivity index, \( Y \), associated with the use of the total factor input and output variables, \( X_1, X_2, X_3 \) and \( X_4 \).

The computer print-out for the Motor Vehicle Parts and Accessories sub-sector indicates that the coefficient of multiple determination is 94.9 per cent which is much closer to a perfect fit on the regression surface. In this case, the coefficient of multiple determination is successful in
explaining 94.90 per cent of the total variation in the productivity index Y associated with the use of the input and output variables X₁, X₂, X₃ and X₄ shown on the Exhibit #32.

1) **Multiple Regression Model as a Prediction Tool**

The principal purpose of the multiple regression analysis is to incorporate the empirical data of the input factors (fuel and electricity, materials and supplies, and total labour (Exhibit #6), and the total output (Exhibit #3) as independent variables into a model which will result in the improved computation of the dependent variable.

In the multiple regression model, productivity growth is affected by a large number of factors, such as the quality and motives of management and labour, the state and application of technology, the availability of capital, economies of scale, materials and supplies, fuel and electricity as well as market fluctuations. However, the most significant contribution to productivity growth is attributed to the quantifiable input factors already cited which are being evaluated below.

a) **Fuel and Electricity Factor Input**: Energy consuming process has a very significant influence upon productivity growth. The energy supply is international in scope since most of the oil purchased abroad is for Eastern Canada, therefore, the cost of oil supplies varies with the unpredictable mood and climate of internation cartel economics and trade in the Middle East and the South American countries. Stable prices of oil supply will ensure the automotive industry sector of more predictable productivity growth as far as this factor input is concerned. The automotive industry sector will have to decrease its dependence upon oil supplies from abroad by returning to coal burning of North American coal
supplies thus ensuring more predictable cost of the vital input factor in the productivity growth.

Natural gas is another very important factor for the energy consuming automotive industry of Eastern Canada. However, major bulk of natural gas is of domestic supply and, therefore, the cost of it is more reliably predictable for immediate and distant future. Federal Government mutually with provincial government have jurisdiction over the supply of gas, therefore, no erratic price fluctuations are expected that may have a considerable influence on the future of the manufacture and assembly of the automotive products and hence productivity growth.

Electricity supply is very extensively utilized in the manufacture and assembly of the automotive products. Its contribution to the total production system is extremely important in many ways, however, this source of energy is of domestic and provincial generation and supply. The stability in supply and the cost of it is positively assured for many years to come without any drastic interruptions. Automotive corporations will be able to make long-range planning as far as the utilization of electricity is concerned for the future years.

b) Materials and Supplies Factor Input: This factor input is the most diversified of the major three factors. It comprises quantities and laid down cost values of materials, supplies and purchased components owned and used during the year in manufacturing activities and related processes. Since this factor input encompasses a multitude of activities that may contribute to an unexpected cost increase without prior budgeting for it or a shortage of a kind of material that may have to be substituted by other more expensive variety, it is very difficult to provide definite,
predictable future for this factor. This factor input will fluctuate with the economic conditions of the country and it will continue to be the least controllable of the three factor inputs.

c) Total Labour Factor Input: This category of factor input comprised both production and related workers and administrative and office employees. Their contribution to productive processes is expressed in terms of constant dollars.

Human resources management in each corporation are continuously engaged in the short-term and a long-term planning of manpower requirements in both hourly or salaried categories. An accurate forecast can be made of future needs by a careful analysis of the past relating it, statistically, to economic forecasts. Therefore, automotive industry sector is capable of planning and controlling manpower requirements.

Multiple regression model may be used as a prediction tool to project into the future years but with caution. The estimates or predictions outside the scope of the model may not be appropriate once they are extended outside the region of the observations. In multiple regression, it is particularly easy to lose track of this region since the levels of \( X_1, \ldots, X_{p-1} \) jointly define the region. An individual range of each independent variable cannot define the region of observations, it must consist of two or more independent variable ranges. The farther away the individual ranges of independent variables extend from the region of observation, or from the actual data obtained, the less correlation remains between them. As a result, prediction becomes less reliable for that particular year of for subsequent years.
MULTIPLE REGRESSION MODEL PRODUCTIVITY INDEX
(MOTOR VEHICLE MFRS)

MULFIT

DO YOU WANT INSTRUCTIONS (0=NO, 1=YES) .... WHICH, 70
N, P, S, D = 78, 5, 0, 0

IN 751  EXP OVERFLOW
IN 751  EXP OVERFLOW
IN 751  EXP UNDESPLO

MULTIVARIATE CURVE FIT

VARIABLE  RESP COEFF  MEAN VALUE  STD. DEV
1 (CONSTANT = -17.46856 )  .  12.75598  .  4.283971
3 1.57387e-05  30353.00  341253.9
3 1.004355  10.052.67  1735.415
4 -3.96448e-05  1250981.  479437.3
5 1.57475e-05  32532.8  60501.79

STANDARD DEVIATION OF RESIDUALS = 2.88163
INDEX OF DETERMINATION (R-SQ) = .5473436
ZERO-CHECK ON MEAN RESIDUAL = 2.03395e-07

ACTUAL VS CALCULATED

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<td>15.5</td>
</tr>
<tr>
<td>15.1</td>
<td>13.03143</td>
<td>2.03143</td>
<td>10.9</td>
</tr>
<tr>
<td>14.8</td>
<td>11.51545</td>
<td>-2.78455</td>
<td>-24.1</td>
</tr>
</tbody>
</table>
MULTIPLE REGRESSION MODEL PRODUCTIVITY INDEX
(PARTS AND ACCESSORIES MFRS)

DO YOU WANT INSTRUCTIONS (0=NO, 1=YES) ... WHICH TO
M, P, S, D = .935, 0, 0

MULTIVARIATE CURVE FIT

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>REG. COEFF</th>
<th>MEAN VALUE</th>
<th>STD DEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (CONSTANT = 9.547222)</td>
<td>4.544444</td>
<td>3.21288</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>9.52599e-05</td>
<td>1204979</td>
<td>372647</td>
</tr>
<tr>
<td>3</td>
<td>-0.017716</td>
<td>12384.11</td>
<td>2954.732</td>
</tr>
<tr>
<td>4</td>
<td>-7.51313e-05</td>
<td>809479.4</td>
<td>175531.5</td>
</tr>
<tr>
<td>5</td>
<td>-0.0001953</td>
<td>252991.8</td>
<td>73854</td>
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</tbody>
</table>

STANDARD DEVIATION OF RESIDUALS = .7268317
INDEX OF DETERMINATION (R-SQ) = .9438813
ZERO-CHECK ON MEAN RESIDUAL = -3.24514e-07

ACTUAL VS CALCULATED

<table>
<thead>
<tr>
<th>ACTUAL</th>
<th>CALCULATED</th>
<th>DIFFERENCE</th>
<th>PCT DIFFER</th>
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<tbody>
<tr>
<td>Y</td>
<td>Y</td>
<td>Y-Y</td>
<td>Y-Y</td>
</tr>
<tr>
<td>-8</td>
<td>-6.8392658</td>
<td>1.980731</td>
<td>-26.5</td>
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<tr>
<td>1.5</td>
<td>5.834363</td>
<td>-0.773538</td>
<td>-12.4</td>
</tr>
<tr>
<td>3.7</td>
<td>2.639655</td>
<td>-1.015442</td>
<td>-37.3</td>
</tr>
<tr>
<td>2.1</td>
<td>3.528308</td>
<td>1.325692</td>
<td>35.9</td>
</tr>
<tr>
<td>6.7</td>
<td>8.128244</td>
<td>-1.937556</td>
<td>-27.3</td>
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<tr>
<td>3</td>
<td>3.804315</td>
<td>0.934315</td>
<td>22.8</td>
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<tr>
<td>7.2</td>
<td>7.47512</td>
<td>-0.773538</td>
<td>3.6</td>
</tr>
<tr>
<td>8.5</td>
<td>8.245101</td>
<td>-0.345101</td>
<td>3.9</td>
</tr>
<tr>
<td>7</td>
<td>6.832242</td>
<td>-0.736758</td>
<td>11.7</td>
</tr>
</tbody>
</table>

READY
2. Multiple Regression Data And Calculations for the Testing of Hypotheses

(Motor Vehicle Manufacturers)

This Multiple Regression Model comprises five variables: one dependent variable, $Y_i$ and four independent variables $X_{i1}$, $X_{i2}$, $X_{i3}$, and $X_{i4}$ resulting in the following equation:

\[ Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \beta_3 X_{i3} + \beta_4 X_{i4} + c_i \]

Hence, the dependent variable, $Y_i$ = Productivity index, and the four independent variables:

$X_{i1}$ = Total output

$X_{i2}$ = Fuel and electricity factor input

$X_{i3}$ = Materials and Supplies factor input

$X_{i4}$ = Total Labour factor input, and including the five regression coefficients:

a (constant) = -17.466655

$\beta_1 = 1.57867 \times 10^{-5}$

$\beta_2 = 4.5156 \times 10^{-3}$

$\beta_3 = -3.51448 \times 10^{-5}$

$\beta_4 = 1.67475 \times 10^{-5}$

Therefore, the Multiple Regression Model (1) results in the following equation:

\[ \hat{Y} = -17.46655 + 1.57867 \times 10^{-5} \cdot X_{i1} + 4.5156 \times 10^{-3} \cdot X_{i2} - 3.51448 \times 10^{-5} \cdot X_{i3} \\
+ 1.67475 \times 10^{-5} \cdot X_{i4} \]

This example typifies a major objective of regression analysis: making predictions. If the type of relation between the variables is known, then knowledge of independent variables will improve the prediction of a
dependent variable.

A second major objective of the regression analysis is hypothesis testing. Thus, to provide sufficient data for hypothesis testing, values of the five coefficients \(a, b_1, b_2, b_3,\) and \(b_4\) have been determined by the computer "Mulfit" programme [Exhibit #31.]

Since the standard deviation of regression is measured from the mean, which in itself was determined by the least-squares method, it is relatively easy to estimate the standard deviation of regression:

\[
S_{y|x} = \sqrt{\frac{\sum (Y - \hat{Y})^2}{n-5}} \quad [50]
\]

Where \(S_{y|x}\) is the estimate of the true standard deviation of regression, \(\sigma_{y|x}\) between \(Y\) and \(X\).

To construct confidence intervals around the estimated mean, \(S_b\) must be used in testing hypothesis.

\[
S_b = \frac{S_{y|x}}{\sqrt{EX^2 \cdot (1-R^2)}}
\]

Where \(S_b\) is the estimator of a standard deviation \(\sigma_b\), and \(R^2\) is the coefficient of multiple determination. [Exhibit #31.]

\[a.\]

**CALCULATION OF \(\hat{Y}\)**

\(\hat{Y}\) - predicted Productivity, was computed by the "Mulfit" programme [Exhibit #31.]
### b)
### REGRESSION DATA AND CALCULATION OF \( x(y-\hat{y})^2 \)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>( x_1 )</th>
<th>( x_2 )</th>
<th>( x_3 )</th>
<th>( x_4 )</th>
<th>( (y-\hat{y}) )</th>
<th>( (y-\hat{y})^2 )</th>
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</thead>
<tbody>
<tr>
<td>1964</td>
<td>1,673.2</td>
<td>6.27</td>
<td>1,125.7</td>
<td>218.9</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1965</td>
<td>2,130.6</td>
<td>7.43</td>
<td>1,377.3</td>
<td>276.7</td>
<td>1.56</td>
<td>2.43</td>
</tr>
<tr>
<td>1966</td>
<td>2,190.5</td>
<td>8.06</td>
<td>1,403.5</td>
<td>276.8</td>
<td>1.61</td>
<td>2.59</td>
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<tr>
<td>1967</td>
<td>2,487.0</td>
<td>8.74</td>
<td>1,489.6</td>
<td>267.8</td>
<td>-5.31</td>
<td>39.62</td>
</tr>
<tr>
<td>1968</td>
<td>2,980.3</td>
<td>9.69</td>
<td>1,854.9</td>
<td>295.3</td>
<td>-1.79</td>
<td>3.20</td>
</tr>
<tr>
<td>1969</td>
<td>3,453.1</td>
<td>10.42</td>
<td>2,118.7</td>
<td>313.3</td>
<td>-2.29</td>
<td>-0.08</td>
</tr>
<tr>
<td>1970</td>
<td>3,864.9</td>
<td>9.78</td>
<td>1,854.9</td>
<td>299.8</td>
<td>2.66</td>
<td>8.76</td>
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<tr>
<td>1971</td>
<td>3,457.7</td>
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<td>2,217.0</td>
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<td>2.48</td>
<td>6.15</td>
</tr>
<tr>
<td>1972</td>
<td>3,722.8</td>
<td>12.14</td>
<td>2,408.2</td>
<td>394.3</td>
<td>1.98</td>
<td>3.92</td>
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<tr>
<td>1973</td>
<td>4,044.4</td>
<td>12.95</td>
<td>2,874.6</td>
<td>459.5</td>
<td>-2.78</td>
<td>7.73</td>
</tr>
<tr>
<td>( \Sigma )</td>
<td>90.47</td>
<td>17,599.0</td>
<td>2,930.4</td>
<td>74.68</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### c)
### REGRESSION DATA

<table>
<thead>
<tr>
<th>YEAR</th>
<th>( x_1^2 )</th>
<th>( x_2^2 )</th>
<th>( x_3^2 )</th>
<th>( x_4^2 )</th>
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</thead>
<tbody>
<tr>
<td>1964</td>
<td>2,798.9</td>
<td>39.31</td>
<td>1,267,200.5</td>
<td>47,917.2</td>
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<td>1,896,955.3</td>
<td>76,562.9</td>
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<tr>
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<td>4,796.1</td>
<td>64.96</td>
<td>1,969,812.3</td>
<td>76,618.24</td>
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<tr>
<td>1967</td>
<td>6,185.2</td>
<td>76.39</td>
<td>2,218,908.2</td>
<td>71,716.8</td>
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<tr>
<td>1968</td>
<td>8,882.2</td>
<td>93.90</td>
<td>3,440,654.0</td>
<td>87,202.1</td>
</tr>
<tr>
<td>1969</td>
<td>11,923.2</td>
<td>108.58</td>
<td>4,488,889.7</td>
<td>98,156.9</td>
</tr>
<tr>
<td>1970</td>
<td>8,207.7</td>
<td>95.65</td>
<td>3,440,654.0</td>
<td>89,980.0</td>
</tr>
<tr>
<td>1971</td>
<td>11,955.7</td>
<td>126.79</td>
<td>4,915,039.0</td>
<td>120,339.6</td>
</tr>
<tr>
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<td>13,859.2</td>
<td>147.38</td>
<td>5,799,427.2</td>
<td>155,472.5</td>
</tr>
<tr>
<td>1973</td>
<td>16,357.2</td>
<td>167.70</td>
<td>8,263,325.2</td>
<td>211,140.3</td>
</tr>
<tr>
<td>( \Sigma )</td>
<td>89,502.3 ( \times 10^6 )</td>
<td>975.86 ( \times 10^6 )</td>
<td>37,700,915.4 ( \times 10^6 )</td>
<td>1,724,570.3 ( \times 10^6 )</td>
</tr>
</tbody>
</table>
d.) **HYPOTHESIS TESTING**

At this point, it is important to determine how far the true rate of change, \( \beta \), is expected to deviate from the estimate of it. Thus it is proper to construct confidence limits around the estimate. In this case, the sample size of 10 is not sufficiently large to utilize the normal distribution and construct 95 per cent limits (± 1.96 standard deviations). However, it can be assumed that the distribution of the dependent variable \( y \) to be normally distributed, then the "t" distribution may be utilized. Hence, to construct a 90 per cent confidence interval utilizing the "t" distribution, the following may be used [50].

1. **Total Output Hypothesis Testing**

\[
S_{b_1} = \frac{S_{Y\cdot X}}{\sqrt{\sum X_1^2(1-R^2)}}
\]

\[
= \frac{4.283}{\sqrt{89,502.3 \times 10^6 (1-.547)}}
\]

\[
= \frac{4.283}{\sqrt{89,502.3 \times 10^6 (.453)}}
\]

\[
= 2.13\times 10^{-5}
\]

\[
b_1 = 1.58E-05
\]

\[
b_1 - t_{0.05} S_{b_1} < \beta < b_1 + t_{0.05} S_{b_1}
\]

\[
1.58E-05 - (2.015 \times 2.13E-05) < \beta < 1.58E-05 + (2.015 \times 2.13E-05)
\]

\[
1.58E-05 - 4.29E-05 < \beta < 1.58E-05 + 4.29E-05
\]

\[
-2.71E-05 < \beta < 5.87E-05
\]

\[
R = .547 \text{ (Exhibit #31)}
\]

\[
S = 4.283
\]
$H_0: \beta_1 = 0$

$H_A: \beta_1 \neq 0$

$\alpha = .05$ (two tailed)

$$t = \frac{b_1 - \beta_1}{S_{b_1}} = \frac{1.58E-05 - 0}{2.127E-05} = \frac{1.58E-05}{2.127E-05} = .743$$

Criterion:

For n-5 or five degrees of freedom, at 90 per cent confidence, 5 per cent in each tail, $t_{.05} = 2.015$ and $t_{.025} = 2.571$, reject hypothesis if "t" is greater than 2.571 or less than -2.571.

Thus .743 is less than 2.571 causing the hypothesis not to be rejected. Therefore, the independent variable $X_1$, total output, does not have a significant effect on the dependent variable $Y_1$, Productivity.

2.) Fuel and Electricity Factor Input Hypothesis Testing

A 90 per cent confidence interval utilizing the "t" distribution can be constructed as follows:

$$S_{b_2} = \frac{S_{Y\cdot X}}{\sqrt{\Sigma X_2^2 (1-R^2)}}$$

$$= \frac{4.283}{\sqrt{975.86 \times 10^6 \times (1-.547)}}$$

$$= \frac{4.283}{\sqrt{975.86 \times 10^6 \times .453}}$$

$$= .204E-03$$

$b_2 = 4.52E-03$

$$b_2 - t_{.05} S_{b_2} < \beta_2 < b_2 + t_{.05} S_{b_2}$$

$$4.52E-03 - (2.015 \times .204E-03) < \beta_2 < 4.52E-03 + (2.015 \times .204E-03)$$
\begin{align*}
4.52E-03 & < \beta_2 < 4.52E-03 + .411E-03 \\
4.109E-03 & < \beta_2 < 4.931E-03 \\
H_0 : \beta_2 = 0 \\
H_A : \beta_2 \neq 0 \\
\alpha = .05 \text{ (two tailed)} \\
t = \frac{b_2 - \beta_2}{s_{b_2}} = \frac{4.52E-03 - 0}{.204E-03} \\
= 22.2
\end{align*}

Criterion:

For \( n-5 \) five degrees of freedom at 90 per cent confidence, 5 per cent in each tail, \( t_{0.05} = 2.015 \) and \( t_{0.05} = 2.571 \), reject hypothesis if "\( t \)" is greater than 2.571 or less than -2.571.

Thus 22.2 is greater than 2.571 causing the hypothesis to be rejected. Therefore, the independent variable \( x_2 \), fuel and electricity factor input, does have a significant effect on the dependent variable \( Y \), Productivity.

3. Materials and Supplies Factor Input Hypothesis Testing

A 90 per cent confidence interval utilizing the "t" distribution can be constructed in the following manner:

\begin{align*}
S_{b_3} &= \frac{S_{y'x}}{\sqrt{\sum x^2_3 (1-R^2)}} \\
&= \frac{4.283}{\sqrt{37,700,915.4 (1- .547)}} \\
&= \frac{4.283}{\sqrt{37,700,915.4 \times 10^6 (1- .547)}} \\
&= .104E-05 \\
b_3 &= -3.51E-05
\end{align*}
\[ b_3 - t_{0.05} S_{b_3} < b_3 < b_3 + t_{0.05} S_{b_3} \]

\[-3.51E-05 - (2.015 \times 1.04E-05) < b_3 < -3.51E-05 + (2.015 \times 1.04E-05)\]

\[-3.51E-05 - .210E-05 < b_3 < -3.51E-05 + .210E-05\]

\[-3.72E-05 < b_3 < -3.30E-05\]

\[ H_0 : \beta_3 = 0 \]
\[ H_A : \beta_3 \neq 0 \]

\[ \alpha = .05 \text{ (two tailed)} \]

\[ t = \frac{b_3 - \beta_3}{S_{b_3}} = \frac{-3.51E-05 - 0}{1.04E-05} \]

\[ = -33.75 \]

Criterion:

For \( n = 5 \) or five degrees of freedom at 90 per cent confidence, 5 per cent in each tail \( t_{0.05} = 2.015 \) and \( t_{0.025} = 2.571 \), reject hypothesis if \( "t" \) is greater than 2.571 or less than -2.571.

Thus -33.75 is less than -2.571 causing the hypothesis to be rejected.

Therefore, the independent variable \( X_3 \), materials and supplies factor input, does have a significant effect on the dependent variable \( Y \), Productivity.

4.) Total Labour Factor Input Hypothesis Testing

A 90 per cent confidence interval using the "t" distribution can be constructed as follows:

\[ S_{b_3} = \frac{S_{Y-X}}{\sqrt{\Sigma X^2 (1-R^2)}} \]

\[ = \frac{4.283}{\sqrt{1,724,570.3 \times 10^6 \times (1 - .547)}} \]

\[ = \frac{4.283}{\sqrt{1,724,570.3 \times 10^6 \times .453}} \]

\[ = 485E-05 \]
\[ b_4 = 1.67E-05 \]

\[ b_4 - t_{.05} S_{b4} < \beta_4 < b_4 + t_{.05} S_{b4} \]

\[ 1.67E-05 - (2.015 \times .485E-05) < \beta_4 < 1.67E-05 + (2.015 \times .485E-05) \]

\[ 1.67E-05 - .977E-05 < \beta_4 < 1.67E-05 + .977E-05 \]

\[ .693E-05 < \beta_4 < 2.647E-05 \]

\[ H_0 : \beta = 0 \]

\[ H_A : \beta \neq 0 \quad \alpha = .05 \text{ (two tailed)} \]

\[ t = \frac{b_4 - \beta}{S_{b4}} = \frac{1.67E-05 - 0}{.485E-05} \]

\[ = 3.44 \]

Criterion:

For \( n-5 \) or five degrees of freedom at 90 per cent confidence, 5 per cent in each tail, \( t_{.05} = 2.015 \) and \( t_{.025} = 2.571 \), reject hypothesis if "t" is greater than 2.571 or less than -2.571.

Thus 3.44 is greater than 2.571 causing the hypothesis to be rejected. Therefore, the independent variable \( X_4 \), total labour factor input, does have a significant effect on the dependent variable, \( Y \), Productivity.
Multiple Regression Data

And Calculations For The Testing Of Hypotheses

(Motor Vehicle Parts and Accessories Manufacturers)

The presentation of data and calculations for the testing of hypotheses in this sub-sector will follow the same method as in the Motor Vehicle Manufacturers sub-sector.

The Multiple Regression Model consists of five variables: a dependent variable, $y_i$, and four independent variables $x_1, x_2, x_3,$ and $x_4$, resulting in the following equation:

$$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \beta_3 x_{i3} + \beta_4 x_{i4} + \epsilon_i$$

Hence, the dependent variable $y_i$ = Productivity Index, and the four independent variables:

- $x_{i1}$ = Total Output
- $x_{i2}$ = Fuel and Electricity Factor Input
- $x_{i3}$ = Materials and Supplies Factor Input
- $x_{i4}$ = Total Labour Factor Input, and including the five regression coefficients:

\[ \begin{align*}
  a \text{ (constant)} &= 9.547232 \\
  b_1 &= 9.52599 \times 10^{-5} \\
  b_2 &= -1.7716 \times 10^{-3} \\
  b_3 &= -7.61318 \times 10^{-5} \\
  b_4 &= -1.9680 \times 10^{-4}
\end{align*} \]

Therefore, the Multiple Regression Model (1) is expressed in the following equation:
\[ \hat{Y} = 9.547222 + 9.52599 \times 10^{-5} \cdot X_{11} - 1.7716 \times 10^{-3} \cdot X_{12} - \\
7.61318 \times 10^{-5} \cdot X_{13} - 1.9680 \times 10^{-4} \cdot X_{14} \]

A major objective of regression analysis is to make predictions of the size of a dependent variable \( Y \) provided independent variables are known.

A second major objective of the regression analysis is hypothesis testing. Thus, to provide sufficient data for the hypothesis testing, values of the regression coefficients, \( a, b_1, b_2, b_3, b_4 \) have been determined by the computer "Mulfit" programme [Exhibit #32.]

Since the standard deviation of regression is measured from the mean, which in itself was determined by the least-squares method, it is relatively easy to estimate the standard deviation of regression. The following expression is used to calculate the sample standard deviation of regression:

\[ S_{y^*x} = \sqrt{\frac{\sum (Y-Y_0)^2}{n-5}} \]  
[50]

Where \( S_{y^*x} \) is the estimate of the true standard deviation of regression, \( \sigma_{y^*x} \) between \( Y \) and \( X \).

To construct confidence intervals around the estimated mean, \( S_b \) must be used in testing hypothesis.

\[ S_b = \frac{S_{y^*x}}{\sqrt{\sum x^2 (1-R^2)}} \]  
[50]

Where \( S_b \) is the estimator of a standard deviation \( \sigma_b \), and \( R^2 \) is the coefficient of multiple determination. [Exhibit #32.]

Since the standard deviation of regression is measured from the mean, which in itself was determined by the least-squares method, it is relatively easy to estimate the standard deviation of regression. The following expression
is used to calculate the sample standard deviation of regression:

\[
S_{y|x} = \sqrt{\frac{\sum (Y-\hat{Y})^2}{n-5}} \tag{50}
\]

where \( S_{y|x} \) is the estimate of the true standard deviation of regression, \( \sigma_{y|x} \), between \( Y \) and \( X \).

To construct confidence intervals around the estimated mean, \( S_b \) must be used in testing hypothesis.

a.) \hspace{1cm} \text{CALCULATION OF } \hat{Y} \]

\( \hat{Y} \) - predicted productivity was computed by the "Mulfit" programme

[Exhibit #32.]
b.) REGRESSION DATA AND CALCULATION OF $\sum (Y-\hat{Y})^2$

| YEAR | $x_1$  | $x_2$  | $x_3$  | $x_4$  | $Y-\hat{Y}$ | $(Y-\hat{Y})^2$
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>609.7</td>
<td>6.8</td>
<td>335.1</td>
<td>159.1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1965</td>
<td>725.2</td>
<td>8.1</td>
<td>385.0</td>
<td>181.5</td>
<td>0.17</td>
<td>0.029</td>
</tr>
<tr>
<td>1966</td>
<td>820.3</td>
<td>9.6</td>
<td>434.4</td>
<td>186.6</td>
<td>-0.58</td>
<td>0.336</td>
</tr>
<tr>
<td>1967</td>
<td>856.7</td>
<td>10.3</td>
<td>438.1</td>
<td>188.0</td>
<td>-1.02</td>
<td>1.040</td>
</tr>
<tr>
<td>1968</td>
<td>1,106.4</td>
<td>11.9</td>
<td>571.3</td>
<td>240.0</td>
<td>1.23</td>
<td>1.513</td>
</tr>
<tr>
<td>1969</td>
<td>1,278.3</td>
<td>11.2</td>
<td>613.3</td>
<td>258.6</td>
<td>-0.58</td>
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<td>11.5</td>
<td>576.8</td>
<td>249.1</td>
<td>0.89</td>
<td>0.792</td>
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<td>712.7</td>
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<td>341.7</td>
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<td>953.3</td>
<td>410.5</td>
<td>-0.74</td>
<td>0.548</td>
</tr>
</tbody>
</table>

$\sum 11,454.5$ $117.4$ $5,820.5$ $2,526.1$ $4.795$

c.) REGRESSION DATA

| YEAR | $x_1^2$ | $x_2^2$ | $x_3^2$ | $x_4^2$
<table>
<thead>
<tr>
<th></th>
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<tbody>
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<td>326,383.7</td>
<td>57,000.0</td>
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<tr>
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<td>1,479,385.7</td>
<td>125.4</td>
<td>376,136.9</td>
<td>66,874.0</td>
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<td>1,274,199.4</td>
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<td>332,699.2</td>
<td>62,050.8</td>
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<tr>
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<td>908,780.9</td>
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$\sum 11,150,643.7$ $1,483.8$ $3,733,894.3$ $696,933.8$ $x 10^6$ $x 10^6$ $x 10^6$ $x 10^6$ $x 10^6$
d.) **HYPOTHESIS TESTING**

At this point, it is important to determine how far the true rate of change $\beta$ is expected to deviate from the estimate of it. Thus it is proper to construct confidence limits around the estimate. In this case, the sample size of 10 is not sufficiently large to utilize the normal distribution and construct 95 per cent limits ($\pm 1.96$ standard deviations). However, it can be assumed that the distribution of the dependent variable $Y_1$ to be normally distributed, then the "t" distribution may be utilized. Hence, to construct a 90 per cent confidence interval utilizing the "t" distribution, the following may be used \[50\]:

1. **Total Output Hypothesis Testing**

\[ S_{b_1} = \frac{s_{Y\cdot X}}{\sqrt{\sum X_1^2 (1-R^2)}} \]

\[ R^2 = .949 \]  \[ \text{[Exhibit #32]} \]

\[ S = 3.213 \]

\[ \frac{S_{Y\cdot X}}{\sqrt{\sum X_1^2 (1-.949)}} = \frac{3.213}{\sqrt{11,160,643.7 \times 10^6 \times .051}} \]

\[ = \frac{3.213}{\sqrt{569,192.8 \times 10^6}} \]

\[ = .426 E-05 \]
\[ b_1 = 9.526E-05 \]

\[ b_1 - t_{.05} S_{b_1} < \beta < b_1 + t_{.05} S_{b_1} \]

\[ 9.526E-05 - (2.015 \times 4.26E-05) < \beta < 9.526E-05 + (2.015 \times 4.26E-05) \]

\[ 8.665E-05 < \beta < 10.384E-05 \]

\[ H_0 : \beta = 0 \]

\[ H_A : \beta \neq 0 \]

\[ \alpha = .05 \text{ (two tailed)} \]

\[ t = \frac{b_1 - \beta}{S_{b_1}} = \frac{9.526E-05 - 0}{.426E-05} \]

\[ = 22.4 \]

Criterion:

For n=5 or five degrees of freedom, at 90 per cent confidence, 5 per cent in each tail, \( t_{.05} = 2.015 \) and \( t_{.025} = 2.571 \), reject hypothesis if "t" is greater than 2.571 or less than -2.571.

Thus 22.4 is greater than 2.571 causing the hypothesis to be rejected. Therefore, the independent variable \( X_1 \), total output, does have a significant effect on the dependent variable \( Y_1 \), Productivity.

2.) Fuel and Electricity Factor Input Hypothesis Testing

A 90 per cent confidence interval utilizing the "t" distribution can be constructed in the following manner:

\[ S_{b_2} = \frac{S_{y-x}}{\sqrt{\sum X^2} (1 - .949)} \]

\[ = \frac{3.213}{\sqrt{1483.9 \times 10^{-4} \times 0.51}} \]
\[
\frac{3.213}{\sqrt{75.68 \times 10^6}} \approx \frac{3.213}{8.70 \times 10^3} 
\]

\[b_2 = -1.77E-03\]

\[b_2 - t_{0.05} \times s_{b_2} < \beta < b_2 + t_{0.05} \times s_{b_2}\]

\[-1.77E-03 - (2.015 \times 3.69E-03) < \beta < -1.77E-03 + (2.015 \times 3.69E-03)\]

\[-1.77E-03 - 7.44E-03 < \beta < -1.77E-03 + 7.44E-03\]

\[-2.514E-03 < \beta < -1.026E-03\]

\[H_0 : \beta = 0\]

\[H_A : \beta \neq 0, \quad \alpha = .05 \text{ (two tailed)}\]

\[t = \frac{b_2 - \beta}{s_{b_2}} = \frac{-1.77E-03 - 0}{3.69E-03} \approx 4.80\]

Criterion:

For \(n - 5 = 5\) degrees of freedom at 90 per cent confidence, 5 per cent in each tail, \(t_{0.05} = 2.015\) and \(t_{0.025} = 2.571\), reject hypothesis if "\(t\)" is greater than 2.571 or less than -2.571.

Thus \(-4.80\) is less than -2.571, causing the hypothesis to be rejected.

Therefore, the independent variable \(X_2\), fuel and electricity factor input, does have a significant effect on the dependent variable \(Y\), Productivity.

3.) **Materials and Supplies Factor Input Hypothesis Testing**

A 90 per cent confidence interval utilizing the "\(t\)" distribution can
be constructed in the following manner:

\[ S_{b_3} = \frac{S_{Y-X}}{\sqrt{\sum X_3^2 (1-.949)}} \]

\[ = \frac{3.213}{\sqrt{3,733,894.3 \times 10^6 \times .051}} \]

\[ = 7.36 \times 10^{-6} \]

\[ b_3 = -7.61 \times 10^{-5} \]

\[ b_3 - t_{0.05} S_{b_3} < \beta_3 < b_3 + t_{0.05} S_{b_3} \]

\[ -7.61 \times 10^{-5} - (2.015 \times 7.36 \times 10^{-6}) < \beta_3 < -7.61 \times 10^{-5} + (2.015 \times 7.36 \times 10^{-6}) \]

\[ -7.61 \times 10^{-5} - 1.483 \times 10^{-4} < \beta_3 < -7.61 \times 10^{-5} + 1.483 \times 10^{-4} \]

\[ -9.093 \times 10^{-5} < \beta_3 < -6.127 \times 10^{-5} \]

\[ H_0: \beta_3 = 0 \]

\[ H_A: \beta_3 \neq 0 \]

\[ \alpha = .05 \text{ (two tailed)} \]

\[ t = \frac{b_3 - \beta_3}{S_{b_3}} = \frac{-7.61 \times 10^{-5}}{.736 \times 10^{-5}} \]

\[ = -10.30 \]

Criterion:

For \( n \leq 5 \) or five degrees of freedom at 90 per cent confidence, 5 per cent in each tail, \( t_{.05} = 2.015 \) and \( t_{.025} = 2.571 \), reject hypothesis if "t" is greater than 2.571 or less than -2.571.

Thus -10.3 is less than -2.571 causing the hypothesis to be rejected. Therefore, the independent variable \( X_3 \), materials and supplies factor input, does have a significant effect on the dependent variable \( Y \), Productivity.
4. Total Labour Factor Input Hypothesis Testing

A 90 per cent confidence interval using the "t" distribution can be constructed as follows:

\[ S_{b_4} = \frac{S_{YX}}{\sqrt{\sum X_4^2 (1-.949)}} \]
\[ = \frac{3.213}{\sqrt{696.933.8 \times 10^6 \times 0.051}} \]
\[ = 5.39E-06 \]
\[ b_4 = -1.96E-04 \]

\[ b_4 - t_{.05} \cdot S_{b_4} < \beta < b_4 + t_{.05} \cdot S_{b_4} \]
\[ -1.96E-04 - (2.015 \times 0.054E-04) < \beta < 1.96E-04 + (2.015 \times 0.054E-04) \]
\[ -1.96E-04 - .109E-04 < \beta < -1.96E-04 + .109E-04 \]
\[ -2.069E-04 \leq \beta \leq -1.851E-04 \]

\[ t = \frac{b_4 - \beta}{S_{b_4}} \]
\[ = \frac{-1.96E-04 - 0}{5.39E-06} \]
\[ = -36.40 \]

Criterion:

For n=5 or five degrees of freedom at 90 per cent confidence, 5 per cent in each tail, \( t_{.05} = 2.015 \) and \( t_{.025} = 2.571 \), reject hypothesis if "t" is greater than 2.571 or less than -2.571.
Thus -36.4 is less than -2.571 causing the hypothesis to be rejected. Therefore, the independent variable $X_4$, total labour factor input, does have a significant effect on the dependent variable $Y$, Productivity.

4. **Regression Coefficients and Significance of Hypotheses Testing**

A regression coefficient measures the change in the dependent variable $Y_i$ that is associated with variations in the independent variables $X_{ij}$. The parameters $B_1$, $B_2$, $B_3$ and $B_4$ are called partial regression coefficients because they reflect the partial effect of one independent variable when the other independent variables are included in the model and are held constant. [49]

Each of the partial regression coefficients, in both Motor Vehicle and Parts and Accessories Manufacturers sub-sectors, was subjected to a test of hypothesis to determine which, if any, of the independent variables $X_{ij}$ are significant. In the seven cases, the independent variables $X_{ij}$ do have significant effects on the dependent variable $Y_i$, and all partial regression coefficients, regardless of their sizes, do have significant effects on the dependent variables $Y_i$ as long as they are not equal to zero. A significant non-zero slope is indicative of a relationship between the independent and the dependent variables.

The least-squares estimates of $B_0$, $B_1$, $B_2$, $B_3$, and $B_4$ were obtained by computing the five regression coefficients $a$, $b_1$, $b_2$, $b_3$ and $b_4$ which are utilized in the predicted productivity regression equations.

a.) $\hat{Y} = -17.47 + 1.58E-05X_1 + 4.52E-03X_2 - 3.51E-05X_3 + 1.67E-05X_4$

This predicted productivity regression function indicates that the
mean dependent variable, \( \hat{Y} \), is expected to increase by 1.58E-05 when the total factor output \( X_1 \), increases by a unit holding the other independent variables \( X_2, X_3 \) and \( X_4 \) constant regardless of at what levels they are held. The mean dependent variables, \( \hat{Y} \), is expected to increase by 4.52E-03 when the fuel and electricity factor input, \( X_2 \), increases by a unit holding the other independent variables \( X_1, X_3 \) and \( X_4 \) constant. The mean predicted productivity \( \hat{Y} \), is expected to decrease by 3.51E-05 when the materials and supplies factor input, \( X_3 \), increases by a unit holding the other independent variables \( X_1, X_2 \), and \( X_4 \) constant, no matter at what levels they are held. The mean predicted productivity, \( \hat{Y} \), is expected to increase by 1.67E-05 when the total labour factor input, \( X_4 \), increases by a unit holding the other independent variables \( X_1, X_2 \), and \( X_3 \) constant.

The nature and significance of the relations between the four independent variables and the dependent variable, as expressed in macroeconomic terms and the change measured by their respective regression coefficients, indicate a positive productivity trend in the Motor Vehicles Manufacturers' sub-sector.

Regression coefficient (-3.51E-05) for the variable \( X_3 \), materials and supplies factor input, indicates a decreasing effect due to the fact that this variable was overpriced in the macroeconomic sector with upward cost pressures and, therefore, was contributing a negative influence to the productivity trend. Other two regression coefficients of factor inputs \( b_2 \) and \( b_4 \), indicate increasing effects due to controllable prices and costs of the independent variables \( X_2 \) and \( X_4 \) (energy and
labor) therefore, they contribute a positive influence to the productivity growth.

b.) \( \hat{Y} = 9.55 + 9.53E-05X_1 - 1.77E-03X_2 - 7.62E-05X_3 - 1.96E-04X_4 \)

The coefficient \( b_1 \) indicates the increase by 9.53E-05 in the mean predicted productivity \( \hat{Y} \) per unit increase in the independent variable \( X_1 \), total factors output, when the other independent variables \( X_2, X_3 \) and \( X_4 \) are held constant, no matter at what levels they are held. The coefficient \( b_2 \) indicates the decrease by 1.77E-03 in the mean predicted productivity, \( \hat{Y} \), per unit increase in the independent variable \( X_2 \), fuel and electricity factor input, when the other independent variables \( X_1, X_3 \) and \( X_4 \) are held constant. The coefficient \( b_3 \) indicates the decrease by 7.62E-05 in the mean predicted productivity, \( \hat{Y} \), per unit increase in the independent variable \( X_3 \), materials and supplies factor input, holding the other independent variables \( X_1, X_2 \) and \( X_4 \) constant. The mean dependent variable \( \hat{Y} \) is expected to decrease by 1.96E-04 when the total labour factor input increases by a unit holding the other independent variables \( X_1, X_2 \) and \( X_3 \) constant.

The Motor Vehicle Parts and Accessories Manufacturers' sub-sector indicates the nature and significance of the relations between the four independent variables and the dependent variable with the change measured by their respective regression coefficients in rather different and mixed terms.

Regression coefficients \( b_2, b_3 \) and \( b_4 \) for the independent variables \( X_2, X_3 \) and \( X_4 \) all three factor inputs, indicate decreasing effects due to the fact that this sub-sector comprises relatively larger number of individual plants which operate on the basis of less productive efficiency, lower dollar volume.
buying power and more upward cost and price pressures than their counterparts in the Motor Vehicle Manufacturers' sub-sector. Therefore, this sub-sector indicates a negative productivity growth in 1965 and, then, slowly increases it, never reaching the magnitude as the Motor Vehicle Manufacturers' sub-sector.

The magnitude of the effect of any given of eight independent variables on the two dependent variables in the two macroeconomic sub-sectors is very significant ($p \leq .05$).

In summary, regression coefficients $a$, $b_1$, $b_2$, $b_3$ and $b_4$ are significant indicators and measure of the change in the predicted productivity that is associated with variations in the independent economic factors contributing to productive efficiency in the Canadian Automotive Macroeconomic Sector.
CHAPTER VI
SUMMARY AND CONCLUSIONS

This study endeavours to take the Integrated Systems approach and Multiple Regression to analyze the growth and performance of the Canadian automotive industry since the signing and implementation of the Canada-United States Automotive Products Trade Agreement of 1965.

The Automotive Products Trade Agreement of 1965 between Canada and the United States has helped the Canadian automotive industry to become more efficient and productive. It has helped Canadian automotive manufacturers be able to compete in the North American market, and make its significant contribution to the Canadian economy.

In this study, there is definite correlation between total labour productivity and total factors productivity, and both tend to increase with the increased volume of output. Total factors productivity tends to be higher in the capital-intensive sub-sector of the automotive industry. The influence of productivity growth on costs and prices explains its critical importance in the fight against inflation and provides improved positions in a competitive market.

Productivity movements are affected by a large number of factors, such as the quality and effort of labour and management, the state and application of technology, the availability of capital, economies of scale, materials and supplies, fuel and electricity, as well as market fluctuations.
Productivity trend analyses indicate that the Canadian automotive industry had the fastest increase in productivity in the first three years of the Agreement's implementation, particularly in the Motor Vehicle sub-sector. Parts and Accessories sub-sector did not fare well in the first three years following the implementation of the Agreement. However, the average improvement in the productivity rate ranged from 12.90 per cent per year in the Motor Vehicle Manufacturers sub-sector to 4.54 per cent per year in the Parts and Accessories Manufacturers sub-sector.

When considering total industrial manufacturing spectrum, the automotive manufacturing sector has the second fastest rate of production increase and the highest rate of increase in the productivity growth in Canada. [71]

Therefore, productivity trend analyses illustrate by means of productivity indexes and graphs that the Agreement, despite its shortcomings, has helped the Canadian automotive Macroeconomic sector and the economy to improve in productive efficiency and productivity growth.
Suggestion for Future Research

1. It is suggested to research other macro-economic sectors or industrial groups with a view of providing productivity trend analyses by means of total factors productivity concept and the integrated systems method.

2. Productivity centers or productivity institutes are being established in almost every industrialized nation for the purpose of accumulating and disseminating meaningful and useful information to all those concerned with and about the productivity growth and its measures.

It is suggested that a research programme be undertaken to establish productivity concept as the productivity science.

The productivity science may encompass other disciplines to serve common and meaningful purpose for the benefit of the national economy and manufacturing industry sector in particular. Other disciplines and/or techniques may be included as main body of the productivity science:

1. Operations research
2. Management science
3. Ergonomics
4. Network analysis
5. Organization analysis and methods
6. Work study
7. Value analysis
8. Cost and financial analysis
9. Systems analysis
10. Macro-economic productivity forecasting models (computer)
11. Others to serve management function of productivity improvement.
<table>
<thead>
<tr>
<th>Year</th>
<th>Establishments</th>
<th>Prod. and Related Workers</th>
<th>Mfg. Wages and Salaries</th>
<th>Value of Manufacture</th>
<th>Shipments of Own Goods</th>
<th>Wages and Salaries</th>
<th>Value Added</th>
<th>$'000 Omitted</th>
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</thead>
<tbody>
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<td>18</td>
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<td>55,921</td>
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<td>207,176</td>
<td>1,774</td>
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<td>2,165,169</td>
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<td>22</td>
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<td>15,753</td>
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<td>3,124,183</td>
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<td>16,673</td>
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<td>3,701,864</td>
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Source: Statistics Canada Cat. No. 11-209
## PRINCIPAL STATISTICS, 1964 - 1973

(MOTOR VEHICLE PARTS AND ACCESSORIES MANUFACTURERS)

(CURRENT DOLLARS)

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<thead>
<tr>
<th>Year</th>
<th>Establishments</th>
<th>Manufacturing Activities</th>
<th>Total Activities</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Cost of Fuel and Electricity Purchased</td>
<td>Value of Shipments of Goods of Own Manufacture</td>
</tr>
<tr>
<td></td>
<td>Prod. and Related Workers</td>
<td>Cost of Materials and Supplies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Man-Hours</td>
<td>Wages and Salaries</td>
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<tr>
<td></td>
<td>Empl.</td>
<td>Paid</td>
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<tr>
<td>1965</td>
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<td>57,268</td>
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<tr>
<td>1966</td>
<td>174</td>
<td>27,928</td>
<td>59,730</td>
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<tr>
<td>1967</td>
<td>178</td>
<td>27,993</td>
<td>59,547</td>
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<td>1968</td>
<td>179</td>
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<tr>
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<td>73,207</td>
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<td>1970</td>
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<td>203</td>
<td>35,753</td>
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<tr>
<td>1972</td>
<td>211</td>
<td>37,921</td>
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<tr>
<td>1973</td>
<td>229</td>
<td>44,135</td>
<td>96,232</td>
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Source: Statistics Canada Cat. #42-210
### MOTOR VEHICLE FACTORY SHIPMENTS AND WHOLESALE VALUE, 1964 - 1973

#### TABLE #3

(CURRENT DOLLARS)

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<thead>
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<th>Year</th>
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<th>Motor Trucks and Buses</th>
<th>Total</th>
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<td>Factory Shipments</td>
<td>Wholesale Value</td>
<td>Factory Shipments</td>
</tr>
<tr>
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<tr>
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<td>705,620</td>
<td>1,233,762</td>
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<tr>
<td>1966</td>
<td>683,374</td>
<td>1,451,732</td>
<td>187,070</td>
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<tr>
<td>1967</td>
<td>711,883</td>
<td>1,644,635</td>
<td>211,911</td>
</tr>
<tr>
<td>1968</td>
<td>885,191</td>
<td>2,102,881</td>
<td>260,141</td>
</tr>
<tr>
<td>1969</td>
<td>1,032,571</td>
<td>2,474,040</td>
<td>301,261</td>
</tr>
<tr>
<td>1970</td>
<td>922,659</td>
<td>2,125,493</td>
<td>236,199</td>
</tr>
<tr>
<td>1971</td>
<td>1,083,351</td>
<td>2,810,759</td>
<td>263,967</td>
</tr>
<tr>
<td>1972</td>
<td>1,135,872</td>
<td>2,476,988</td>
<td>293,584</td>
</tr>
<tr>
<td>1973</td>
<td>1,220,133</td>
<td>3,358,383</td>
<td>331,678</td>
</tr>
</tbody>
</table>

Source: Statistics Canada Cat. #42-209
# EMPLOYMENT AND PAYROLL, 1964 - 1973

**TABLE #4**

(MOTOR VEHICLE MANUFACTURERS)

(CURRENT DOLLARS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production and Related Workers</th>
<th>Administration and Office</th>
<th>Sales and Distribution</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>1964</td>
<td>24,455</td>
<td>476</td>
<td>6,104</td>
<td>1,515</td>
</tr>
<tr>
<td>1965</td>
<td>29,525</td>
<td>588</td>
<td>6,777</td>
<td>1,666</td>
</tr>
<tr>
<td>1966</td>
<td>29,470</td>
<td>411</td>
<td>6,960</td>
<td>1,673</td>
</tr>
<tr>
<td>1967</td>
<td>28,094</td>
<td>366</td>
<td>6,710</td>
<td>1,527</td>
</tr>
<tr>
<td>1968</td>
<td>26,901</td>
<td>203</td>
<td>6,386</td>
<td>1,405</td>
</tr>
<tr>
<td>1969</td>
<td>29,041</td>
<td>237</td>
<td>6,708</td>
<td>1,407</td>
</tr>
<tr>
<td>1970</td>
<td>25,160</td>
<td>143</td>
<td>6,754</td>
<td>1,377</td>
</tr>
<tr>
<td>1971</td>
<td>29,238</td>
<td>242</td>
<td>6,661</td>
<td>1,179</td>
</tr>
<tr>
<td>1972</td>
<td>30,322</td>
<td>258</td>
<td>6,926</td>
<td>1,365</td>
</tr>
<tr>
<td>1973</td>
<td>32,462</td>
<td>308</td>
<td>7,264</td>
<td>1,469</td>
</tr>
</tbody>
</table>

| Year | Salaries and Wages | | | |
|------|---------------------| | | |
|      | Production and Related Workers | Administration and Office | Sales and Distribution | Total |
| 1964 | 153,790 | 57,093 | 23,288 | 234,551 |
| 1965 | 207,176 | 66,906 | 27,918 | 302,518 |
| 1966 | 203,552 | 73,766 | 30,897 | 308,952 |
| 1967 | 203,308 | 70,796 | 33,165 | 308,505 |
| 1968 | 231,001 | 78,973 | 38,605 | 349,489 |
| 1969 | 253,008 | 86,762 | 43,373 | 383,943 |
| 1970 | 229,311 | 95,588 | 46,906 | 371,804 |
| 1971 | 279,937 | 105,878 | 55,109 | 440,923 |
| 1972 | 332,725 | 116,919 | 61,811 | 511,458 |
| 1973 | 390,660 | 133,448 | 67,672 | 591,800 |

Source: Statistics Canada Cat. #42-209
## EMPLOYMENT AND PAYROLL, 1964 - 1973

(MOTOR VEHICLE PARTS AND ACCESSORIES MANUFACTURERS)

(CURRENT DOLLARS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees</th>
<th>Salaries and Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production and Related Workers</td>
<td>Administration and Office</td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>20,349</td>
<td>3,548</td>
</tr>
<tr>
<td>1965</td>
<td>21,786</td>
<td>4,029</td>
</tr>
<tr>
<td>1966</td>
<td>23,226</td>
<td>4,833</td>
</tr>
<tr>
<td>1967</td>
<td>23,367</td>
<td>4,745</td>
</tr>
<tr>
<td>1968</td>
<td>25,985</td>
<td>5,814</td>
</tr>
<tr>
<td>1969</td>
<td>27,878</td>
<td>6,092</td>
</tr>
<tr>
<td>1970</td>
<td>25,485</td>
<td>5,412</td>
</tr>
<tr>
<td>1971</td>
<td>29,555</td>
<td>6,285</td>
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<tr>
<td>1972</td>
<td>30,905</td>
<td>7,064</td>
</tr>
<tr>
<td>1973</td>
<td>35,530</td>
<td>8,609</td>
</tr>
</tbody>
</table>

Source: Statistics Canada Cat. #42-210
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>1,408.9</td>
<td>1,733.1</td>
<td>1,973.0</td>
<td>2,125.7</td>
<td>2,272.6</td>
<td>2,296.1</td>
<td>2,430.8</td>
<td>3,343.2</td>
<td>3,906.3</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>704.3</td>
<td>1,037.3</td>
<td>1,183.7</td>
<td>1,212.6</td>
<td>1,072.3</td>
<td>1,076.3</td>
<td>1,091.8</td>
<td>1,547.2</td>
<td>1,885.8</td>
</tr>
<tr>
<td>Total Equity</td>
<td>704.6</td>
<td>695.9</td>
<td>790.3</td>
<td>913.1</td>
<td>1,200.3</td>
<td>1,219.8</td>
<td>1,339.0</td>
<td>1,796.0</td>
<td>2,020.5</td>
</tr>
<tr>
<td>Total Liab. &amp; Equity</td>
<td>1,408.9</td>
<td>1,733.2</td>
<td>1,979.0</td>
<td>2,125.7</td>
<td>2,272.6</td>
<td>2,296.1</td>
<td>2,430.8</td>
<td>3,343.2</td>
<td>3,906.3</td>
</tr>
<tr>
<td>Total Income</td>
<td>3,109.3</td>
<td>3,526.3</td>
<td>4,186.4</td>
<td>5,107.4</td>
<td>6,369.7</td>
<td>5,625.0</td>
<td>7,141.0</td>
<td>10,027.1</td>
<td>11,389.6</td>
</tr>
<tr>
<td>Total Deductions</td>
<td>2,993.0</td>
<td>3,459.4</td>
<td>4,081.3</td>
<td>4,811.7</td>
<td>6,011.6</td>
<td>5,464.3</td>
<td>6,740.3</td>
<td>9,387.1</td>
<td>10,767.8</td>
</tr>
<tr>
<td>Net Profit</td>
<td>116.3</td>
<td>66.9</td>
<td>105.0</td>
<td>169.7</td>
<td>195.4</td>
<td>90.8</td>
<td>219.5</td>
<td>380.8</td>
<td>368.2</td>
</tr>
</tbody>
</table>

**RETAINED EARNINGS:**

| Opening Balance | 600.9 | 646.0 | 607.6 | 674.1 | 819.6 | 1,024.3 | 1,048.7 | 1,386.5 | 1,587.8 |
| Net Profit | 116.3 | 66.9 | 105.0 | 169.7 | 195.4 | 90.8 | 219.5 | 380.8 | 368.2 |
| Dividends | 71.4 | 110.1 | 24.8 | 25.3 | 21.5 | 33.2 | 90.2 | 159.5 | 157.8 |
| Other Credits | 1.8 | 6.3 | 3.9 | 1.4 | 30.8 | 42.7 | 4.9 | 1.1 | 94.5 |
| Closing Balance | 649.2 | 609.2 | 685.4 | 819.6 | 1,024.3 | 1,039.2 | 1,166.5 | 1,587.8 | 1,784.7 |
### PRODUCTION DATA-DEFLATORS (1961 = 100.00)

**TABLE #7**

<table>
<thead>
<tr>
<th>Year</th>
<th>Motor Vehicle Manufacturers</th>
<th>Motor Vehicle Parts and Accessories Manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Output</td>
<td>Input</td>
</tr>
<tr>
<td>1961</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>1962</td>
<td>101.20</td>
<td>103.80</td>
</tr>
<tr>
<td>1963</td>
<td>101.60</td>
<td>105.04</td>
</tr>
<tr>
<td>1964</td>
<td>101.30</td>
<td>107.17</td>
</tr>
<tr>
<td>1965</td>
<td>100.70</td>
<td>109.34</td>
</tr>
<tr>
<td>1966</td>
<td>99.90</td>
<td>111.60</td>
</tr>
<tr>
<td>1967</td>
<td>99.90</td>
<td>115.03</td>
</tr>
<tr>
<td>1968</td>
<td>101.80</td>
<td>118.35</td>
</tr>
<tr>
<td>1969</td>
<td>102.60</td>
<td>122.53</td>
</tr>
<tr>
<td>1970</td>
<td>103.90</td>
<td>124.00</td>
</tr>
<tr>
<td>1971</td>
<td>106.50</td>
<td>127.10</td>
</tr>
<tr>
<td>1972</td>
<td>108.70</td>
<td>129.73</td>
</tr>
<tr>
<td>1973</td>
<td>107.90</td>
<td>128.78</td>
</tr>
</tbody>
</table>

Source: Statistics Canada Cat. #62-002 and #62-528
Automotive Trade with United States: Exports, Imports and Balances, 1965-1973

Change from previous year

Exports (U.S. Imports)

Imports

Balance

Millions of Dollars

-800 -400 0 +400 +800


Source: Facts and Figures of the Automotive Industry
AGREEMENT CONCERNING AUTOMOTIVE PRODUCTS
BETWEEN THE GOVERNMENT OF CANADA
AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

The Government of Canada and the Government of the United States of America,

Determined to strengthen the economic relations between their two countries;

Recognizing that this can best be achieved through the stimulation of economic growth and through the expansion of markets available to producers in both countries within the framework of the established policy of both countries of promoting multilateral trade;

Recognizing that an expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each-country's trade and industrial potential;

Recognizing the important place that the automotive industry occupies in the industrial economy of the two countries and the interests of industry, labour and consumers in sustaining high levels of efficient production and continued growth in the automotive industry;

Agree as follows:

Article I

The Governments of Canada and the United States, pursuant to the above principles, shall seek the early achievement of the following objectives:

(a) The creation of a broader market for automotive products within the full benefits of specialization and large-scale production can be achieved;

(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;

(c) The development of conditions in which market forces may operate effectively to obtain the most economic pattern of investment, production and trade.
It shall be the policy of each Government to avoid actions which would frustrate the achievement of these objectives.

Article II

(a) The Government of Canada, not later than the entry into force of the legislation contemplated in paragraph (b) of this Article, shall accord duty-free treatment to imports of the products of the United States described in Annex A.

(b) The Government of the United States, during the session of the United States Congress commencing on January 4, 1965, shall seek enactment of legislation authorizing duty-free treatment of imports of the products of Canada described in Annex B. In seeking such legislation, the Government of the United States shall also seek authority permitting the implementation of such duty-free treatment retroactively to the earliest date administratively possible following the date upon which the Government of Canada has accorded duty-free treatment. Promptly after the entry into force of such legislation, the Government of the United States shall accord duty-free treatment to the products of Canada described in Annex B.

Article III

The commitments made by the two Governments in this Agreement shall not preclude action by either Government consistent with its obligations under Part II of the General Agreement on Tariffs and Trade.

Article IV

(a) At any time, at the request of either Government, the two Governments shall consult with respect to any matter relating to this Agreement.

(b) Without limiting the foregoing, the two Governments shall, at the request of either Government, consult with respect to any problems which may arise concerning automotive producers in the United States which do not at present have facilities in Canada for the manufacture of motor vehicles, and with respect to the implications for the operation of this Agreement of new automotive producers becoming established in Canada.

(c) No later than January 1, 1968, the two Governments shall jointly undertake a comprehensive review of the progress
made towards achieving the objectives set forth in Article I. During this review the Government shall consider such further steps as may be necessary or desirable for the full achievement of these objectives.

**Article V**

Access to the Canadian and United States markets provided for under this Agreement may by agreement be accorded on similar terms to other countries.

**Article VI**

This Agreement shall enter into force provisionally on the date of signature and definitively on the date upon which notes are exchanged between the two Governments giving notice that appropriate action in their respective legislatures has been completed.

**Article VII**

This Agreement shall be of unlimited duration. Each Government shall, however, have the right to terminate this Agreement twelve months from the date on which that Government gives written notice to the other Government of its intention to terminate the Agreement.

DONE in duplicate at Johnson City, Texas, this 16th day of January, 1965, in English and in French, the two texts being equally authentic.

IN WITNESS WHEREOF the representatives of the two Governments have signed this Agreement.

For the Government of Canada:

Lester B. Pearson

Paul Martin

For the Government of the U.S.A.

Lyndon B. Johnson
ANNEX A

1. (1) Automobiles, when imported by a manufacturer of automobiles.

(2) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in automobiles to be produced in Canada by a manufacturer of automobiles.

(3) Buses, when imported by a manufacturer of buses.

(4) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in buses to be produced in Canada by a manufacturer of buses.

(5) Specified commercial vehicles, when imported by a manufacturer of specified commercial vehicles.

(6) All parts, and accessories and parts thereof, except tires and tubes and any machines or other articles required under Canadian tariff item 438a to be valued separately under the tariff items regularly applicable thereto, when imported for use as original equipment in specified commercial vehicles to be produced in Canada by a manufacturer of specified commercial vehicles.

2. (1) "Automobile" means a four-wheeled passenger automobile having a seating capacity for not more than ten persons;

(2) "Base Year" means the period of twelve months commencing on the 1st day of August, 1963, and ending on the 31st day of July, 1964;

(3) "Bus" means a passenger motor vehicle having a seating capacity for more than 10 persons, or a chassis therefor, but does not include any following vehicle or chassis therefor, namely an electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle or motor vehicle designed primarily for off-highway use;

(4) "Canadian value added" has the meaning assigned by regulations made under Section 273 of the Canadian Customs Act;

(5) "Manufacturer" of vehicles of any following class, namely automobiles, buses, or specified commercial vehicles, means, in relation to any importation of goods in respect of which the description is relevant, a manufacturer that
(i) produced vehicles of that class in Canada in each of the four consecutive three months' periods in the base year, and

(ii) produced vehicles of that class in Canada in the period of twelve months ending on the 31st day of July in which the importation is made,

(A) the ratio of the net sales value of which to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in that period is equal to or higher than the ratio of the net sales value of all vehicles of that class produced in Canada by the manufacturer in the base year to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in the base year, and is not in any case lower than seventy-five to one hundred; and

(B) the Canadian value added of which is equal to or greater than the Canadian value added of all vehicles of that class produced in Canada by the manufacturer in the base year;

(6). "Net sales value" has the meaning assigned by regulations made under Section 273 of the Canadian Customs Act; and

(7) "Specified commercial vehicle" means a motor truck, motor truck chassis, ambulances or chassis therefor, or hearse or chassis therefor, but does not include: (a) any following vehicle or chassis designed primarily therefor, namely a bus, electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle, golf or invalid cart, straddle carrier, motor vehicle designed primarily for off-highway use, or motor vehicle specially constructed and equipped to perform special services or functions, such as, but not limited to, fire engine, mobile crane, wrecker, concrete mixer or mobile clinic; or (b) any machine or other article required under Canadian tariff Item 438a to be valued separately under the tariff item regularly applicable thereto.
The Government of Canada may designate a manufacturer not falling within the categories set out above as being entitled to the benefit of duty-free treatment in respect of the goods described in this Annex.
ANNEX B

(1) Motor vehicles for the transport of persons or articles as provided for in items 692.05 and 692.10 of the Tariff Schedules of the United States and chassis therefor, but not including electric trolley buses, three-wheeled vehicles, or trailers accompanying truck tractors, or chassis therefor.

(2) Fabricated components, not including trailers, tires, or tubes for tires, for use as original equipment in the manufacture of motor vehicles of the kinds described in paragraph (1) above.

(3) Articles of the kinds described in paragraphs (1) and (2) above include such articles whether finished or unfinished but do not include any article produced with the use of materials imported into Canada which are products of any foreign country (except materials produced within the customs territory of the United States), if the aggregate value of such imported materials when landed at the Canadian port of entry, exclusive of any landing cost and Canadian duty, was

(a) with regard to articles of the kinds described in paragraph (1), not including chassis, more than 60 per cent until January 1, 1969, and thereafter more than 50 per cent, of the appraised customs value of the article imported into the customs territory of the United States; and

(b) with regard to chassis of the kinds described in paragraph (1), and articles of the kinds described in paragraph (2), more than 50 per cent of the appraised customs value of the article imported into the customs territory of the United States.
HISTORICAL HIGHLIGHTS OF THE CANADIAN AUTOMOTIVE INDUSTRY

1904 Ford Motor Company of Canada, Limited, established at Windsor. 117 motor vehicles produced in the first year.

1907 McLaughlin Motor Car Company established at Oshawa.


1911 Self-starters introduced; International Harvester established at Chatham -- assumed assets of Chatham Wagon Works (first truck produced in 1920).

1912 All-steel bodies introduced but most remained wood framed.

1914 The assembly line technique developed.

1915 Chevrolet of Canada established at Oshawa.

1917 93,810 automobiles produced -- first calendar year for which statistical records are available.

1918 McLaughlin and Chevrolet of Canada became General Motors of Canada, Limited.


1922 Balloon tires introduced. Automobiles subject to special excise taxes of 5% or 10% depending upon the value of the vehicle.

1923 Four-wheel brakes appeared on popular makes.

1924 Automotive products rank as Canada's fourth largest export item.

1925 Chrysler Corporation of Canada, Limited, was established at Windsor -- assumed Canadian assets of Maxwell-Chalmers.

1926 Safety glass offered. "Canadian Content" concept introduced. The 35% duty on automobiles, inherited from the carriage building industry, reduced to 20% on vehicles valued at not more than $1200.00 and 27½% on vehicles valued at over $1200.00 with lower British preferential rates. Total mileage of surfaced highway and rural roads exceeded 50,000 miles.

1928 Synchronized transmission introduced. One million vehicles registered.
1929  Stock Market crash ushered in the Depression.
1930  One million driver licenses issued.
1932  Depression reached lowest point -- only 61,000 vehicles produced. Provision made for duty-free entry for all motor vehicles imported from the United Kingdom.
1935  All-steel body in general use.
1936  United States accorded intermediate tariff rates of 17 1/2% on motor vehicles. Total mileage of surfaced highway and rural roads exceeded 100,000 miles.
1940  Military vehicle production increased. Special excise taxes increased to 20% to 90% depending upon the value of the vehicle. Two million driver licenses issued.
1942  The Canadian automobile industry discontinued production of motor vehicles for civilian use.
1944  500,000th war vehicle produced.
1945  Civilian car production started again; a flat rate of 10% excise tax imposed.
1947  Studebaker moved their operations to Hamilton, Ontario. To conserve foreign exchange the special excise tax increased from the 10% flat rate to 25% on vehicles valued at $1,200.00 and less, 50% on those valued from $1,200.00 to $2,000.00 and 75% on those valued at more than $2,000.00.
1948  International Harvester opened plant at Chatham. Special excise tax revised to the former 10% flat rate. Total mileage of surfaced highway and rural roads exceeded 150,000 miles. Two million vehicles registered.
1950  Excise tax increased from 10% to 15%. Three million driver licenses issued.
1951  Excise tax increased from 15% to 25%.
1952  Ford moved its assembly operations to Oakville. Excise tax reduced from 25% to 15%. Three million vehicles registered. Four million driver licenses issued.
1954  Tubeless tires standard equipment on automobiles.
1955 Excise tax reduced from 15% to 10%. Total mileage of surfaced highway and rural roads exceeded 200,000 miles.

1956 Four million vehicles registered.

1957 Excise tax reduced from 10% to 7 1/2%. Five million driver licenses issued.

1959 Compact cars introduced. Five million vehicles registered. Total mileage of surfaced highway and rural roads exceeded 250,000 miles. First Kaiser jeep made in Canada.

1960 Royal Commissions appointed to study Canadian Automotive industry. Six million driver licenses issued.


1962 10% import surcharge placed upon all imported motor vehicles as of June 25th. Duty Remission Programme introduced November 1st.

1963 10% import surcharge removed from all imported motor vehicles as of March 31st. General Motors opened Canada's first automatic transmission plant at Windsor. Volvo (Canada) Ltd. began production of Volvo "Canadian" cars at Dartmouth, Nova Scotia, on June 12th. Studebaker Corp. announced transfer of auto products to Studebaker of Canada Ltd. December 9th. Duty Remission Programme expanded -- The Drury Plan -- effective November 1st. Six million vehicles registered. Total mileage of roads and streets exceeded 344,000 miles.

1964 Seven million driver licenses issued.

1965 Canada-United States Automotive Products Trade Agreement signed January 16th, 1965. 12 millionth vehicle produced in Canada. La Société de Montage Automobile Inc. (SOMA) commenced assembly of Renault passenger cars at St. Bruno, Quebec in October.


1967 White Motor Company complete Kelowna plant for production of the Western Star. Remaining 6% federal sales tax removed from production machinery June 1st. Federal sales
tax on manufacturers' sales price increased to 12% from 11%. Volvo moved assembly plant from Dartmouth to Halifax. Ford Motor Company of Canada, Limited, St. Thomas passenger car assembly plant opened in December. Automotive exports exceed $1 billion. Eight million driver licenses issued.

1968 CMI announced commencement of production of Japanese cars at Point Edward, Nova Scotia, in January. Over 1,000,000 vehicles produced during year.


1970 Production totalled 940,389 passenger cars and 253,183 motor trucks. Average monthly employment was 54,793 with a payroll of $46,162,202. Two-door hardtops dominated passenger car body styling with 38% of production.

1971 Estimated vehicle miles travelled in Canada over 80,000,000,000. Total motor vehicle registration reached 9,022,136.

1972 Exports of Canadian automotive products to the United States increased 16.4% to $5,300,000,000. This was over one-fourth higher than the growth recorded in the previous year. Imports, on the other hand, climbed 26.3% to $5,656 million, a pick-up of over one-half from the growth in 1972.


Source: Facts and Figures of the Automotive Industry
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83. Statistics Canada, Survey of Production, Cat. #61-202 (1964 - 1973), (Ottawa, Queen's Printer).


VITA AUCTORIS

Born and received primary and secondary education in Ukraine

1951 Arrived in Toronto, Ontario, as a landed immigrant

1952 Employed by Walker-Wallace, Ltd. (later became A.P.V. (Canada) Equipment Ltd.) Toronto, Ontario, as a Design Draftsman

1959 Employed by Ford Motor Company of Canada Ltd., Windsor, Ontario, as a Tool Designer, Manufacturing Engineer and Financial Analyst

1962 Graduated with the Bachelor of Science Degree in Mechanical Engineering from the Detroit Institute of Technology, Detroit, Michigan

1967 Employed by Kelsey-Hayes Company, Detroit, Michigan, as a Senior Manufacturing Engineer

1969 Employed by American Motors Corporation as a Senior Purchase Analyst, Corporate Staff, Detroit, Michigan

1973 Received Master of Arts Degree in Economics and Finance from the University of Detroit, Detroit, Michigan

1974 Enrolled in the Faculty of Graduate Studies, Department of Industrial Engineering, University of Windsor, Windsor, Ontario

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