



Bulletin

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REVIEW OF ECONOMY IN 1968

Mr. Louis Rasminsky, Governor of the Bank of Canada, recently submitted his 1968 report to the Minister of Finance. Some of its highlights follow:

The performance of the Canadian economy last year was satisfactory in many ways, but it was marred by continuing inflation. The period of subdued growth which had lasted from the spring of 1966 to the final months of 1967 gave way to sharply accelerated economic expansion in 1968, led by an abnormally strong demand for Canadian exports. Real output appears to have risen by some 6 per cent in the course of the year, a rate which approached the average of the years of rapid expansion from 1961 to 1966. Employment also grew strongly, and the upward drift in the national unemployment rate, which had carried it from a 3 1/2 percent average in 1966 to nearly 5 1/2 per cent in the summer of 1968, was checked; unemployment declined in the latter part of the year and in January 1969. This occurred notwithstanding a large increase in the labour force and a welcome increase in average output per worker. Although imports grew rapidly in 1968, the increase in exports was substantially greater, especially to the United States where demand pressures were strong, and our deficit on current account was less than it had been for many years.

In 1967, there had been some hopeful signs that price inflation was gradually being brought under control. In 1968, however, little further progress seems to have been made. Indeed, between the fourth quarter of 1967 and the fourth quarter of 1968 the price index of all goods and services, as measured in the gross national product, rose by 4 per cent,

somewhat more than in 1967. The consumer price index has also continued to rise at the rate of about 4 per cent a year, with no clear evidence of any tendency to slow down.

The stubbornness of the inflation problem in the face of levels of unemployment, which have ranged between about 4 1/2 and 5 1/2 per cent during the past year or more, is very disappointing. It seems clear that the attitudes of all groups in the community to price and income increases within their influence are affected not only by the levels of unemployment and idle plant capacity but also by expectations about future price trends and by the degree of buoyancy in business conditions and in employment opportunities. It should be pointed out, moreover, that although unemployment rose substantially in the Atlantic Provinces and Quebec in 1968, it was not significantly higher in the rest of the country at the end of the year than it had been at the end of 1967.

EXTERNAL PRESSURES

A major factor that made it more difficult for Canada to achieve good price performance in 1968 than in the immediately preceding years was the marked intensification of demand pressures from beyond our borders, particularly from the United States. By the