

Bright prospects for Canadian economy says Bank of Montreal

In its latest *Business Review*, the Bank of Montreal looks at last year's "erratic" business conditions and forecasts that the "spectacular" gains of the final quarter that restored "a strong forward momentum" to the Canadian economy will carry over into 1973 and could lead to "one of the most buoyant years of the past decade".

In setting out its predictions for 1973, the Bank makes the assumption that, while money supply is unlikely to grow at the 1972 rate, there should be no credit "crunch". But with interest rates expected to rise abroad, "this monetary stance will probably result in some upward pressure on interest rates during the year".

As to fiscal policy, the Bank believes that, in addition to the higher spending programs already announced, some tax relief is in store for Canadians, both at the personal and corporate levels.

On this basis, the Bank estimates that consumer spending will increase by 9.8 per cent. The average employment gain in 1972 was 3.1 per cent and, assuming that this rate will be maintained in 1973 and that there will be a 6-7 per cent rise in average wages, total labour income will increase by about 10 per cent. Sharply higher farm incomes, higher dividend payouts, and higher unemployment insurance benefits also seem to assure no shortage in spending power.

The continuing unemployment problem will almost inevitably mean a

somewhat faster rate of growth in Federal Government spending; in recent weeks several large new employment-creating programs have been announced. The Bank expects government spending to increase by 12.8 per cent.

Business intentions

In capital spending, a preliminary survey of intentions of major businesses taken late last autumn indicated a 10 per cent increase in 1973. With confidence rising and production moving towards capacity levels, expenditures on new plant can be expected to rise more rapidly this year than in 1972 and a 10 per cent increase would appear to be realistic.

This projected increase in business investment in 1973 however, could well divert construction activity away from housing, says the Bank. While there is now no indication that vacancy rates are unduly high, despite two record-breaking years of construction activity, this could change in view of the large number of completions scheduled for this year. In these circumstances, the Bank expects housing starts in 1973 to be slightly lower than last year's record high number.

The desire of business to keep down costs will no doubt continue to restrain the rate of inventory accumulation, but with rising sales-prospects a moderate increase in the area of \$500 million seems likely.

International trade

In the export field all signs point to a good year. The United States economy is booming and business activity is strengthening in the economies of

most of Canada's other principal trading partners. Prospects for grain and oil exports seem particularly good.

On the other hand, the Canadian economy should be drawing in more imports because of the strong growth in the consumer and machinery and equipment sectors. In general, the Bank expects a moderate deficit in trade in goods and services of less than \$500 million. Exports should increase by 11.8 per cent and imports by 10.8 per cent.

A 10.9 per cent increase is foreseen in Gross National Product (GNP) made up of a 4.2 per cent increase in prices and 6.5 per cent in real GNP. Some lessening in food-price increases are expected to result in a slightly better inflation record and if average productivity increases by 2.5 per cent in 1973, the Bank's forecast implies an increase in employment of 3.9 per cent.

The Bank concludes that unless the growth rate of the labour force speeds up appreciably, an employment gain this large should reduce the average unemployment rate by about half of 1 per cent to about 5.9 per cent, and perhaps lower.

New airport for Calgary

A new air terminal worth \$57.7 million will be built at Calgary during the next three years, Transport Minister Jean Marchand announced recently.

Work on the complex, scheduled to begin in the summer, should be completed early in 1976, when the terminal will be capable of handling up to two million passengers a year. The design allows for expansion to the year 2000 and beyond to meet the estimated increase in passenger traffic. Projections show that, by 1980, 3.1 million travellers will be "processed" annually, 4.6 million by 1985, 6.7 million by 1990 and, by the year 2000, 13.5 million people will be travelling to and from the Calgary terminal each year.

A sharp increase in freight is also forecast for Calgary, from 11,197 tons of cargo and mail in 1970 to 246,900 tons by the year 1990.

The Province of Alberta and the City of Calgary have given assurances that airport operations will be protected by

For the past two years, the Bank of Montreal has published its economic forecast for Canada in the January issue of its Business Review.

The following is the 1971-1972 "Boxscore":

Percentage increase in:	1971		1972	
	Forecast	Actual	Forecast	Actual*
Consumer spending	7.7	7.8	10.4	10.5
Government spending	12.3	12.7	9.8	11.2
Business capital investment	5.7	5.8	8.0	10.0
Housing construction	14.5	23.0	12.0	17.4
Exports	8.2	5.3	8.4	9.5
Imports	9.4	9.6	13.0	12.5
GNP (current dollar)	8.3	8.9	9.3	10.7
Price deflator	2.8	3.3	3.1	4.9
GNP (constant dollar)	5.4	5.5	6.0	5.5

* With fourth quarter estimated.