EFFORTS PROVING FRUITFUL

In the meantime a variety of recent economic evidence has come to hand which bears directly on the Commission's efforts to help get the inflation of recent years under better control with as little disruption of output growth and employment levels as possible.

The news from the price front is unquestionably encouraging. In June 1970, the consumer price index in Canada stood 3.2 percent higher than a year earlier. Over the previous 12-month period the increase had been 5.2 per cent.

There is some difficulty in taking a reliable reading of the annual rate of increase in the index over any short period, partly because there is some seasonal pattern in price behaviour and partly because of the irregularity of movements in food prices. On careful examination, however, it looks as though the underlying annual rate of increase in consumer prices from the fourth quarter of last year to the second quarter of this year averaged out at between 3 and 3.5 per cent. This compares with an annual rate of increase of 5 to 5.5 per cent over the corresponding period a year earlier. The general impression of a marked slowing down of the rate of increase in consumer prices in recent months from what we were seeing a year ago holds, whether one looks at the total index or at the index for all items other than food prices.

COMPARISON WITH OTHER COUNTRIES

A second point of some interest is that the recent rate of increase of consumer prices has been much less rapid in Canada than in the United States, or indeed in most other industrial countries in the Western world. The 3.2 percent increase in the consumer price index in Canada over the last 12 months may be compared with corresponding increases of 6 per cent in the United States, 5.6 per cent in the United Kingdom, 5.7 per cent in France, 8.3 per cent in Japan, 5 per cent in Italy and 3.8 per cent in Germany. The fact that consumer prices in Canada have been rising less rapidly than in the United States is not a new development, since this has been the case since 1967. It is noteworthy, however, that the difference between the rates of price increase in the two countries has rarely if ever been as large as in recent months. It is a development that requires explanation by those who have been telling us all along that inflation is a world-wide problem about which Canadians can do little through their own efforts, and who regard it as inevitable that prices should rise in Canada at about the same rate as in the United States and other industrial countries.

Evidence of a much slower rate of price increase is also to be found in the area of wholesale prices, where the index for commodities other than farm products has declined for two months running and currently stands only 2.3 percent higher than a year ago. An increasing number of industry selling-price indexes have registered declines in recent months and in the case of certain basic commodities sold on world markets, notably copper and other metals, the weakening of prices that has emerged in the last month or two has been quite dramatic.

Signs that inflationary pressures have reached their peak and now are receding are not confined to the behaviour of the price indexes for consumer goods and industrial commodities. As everyone is aware, there has been a sharp fall in common stock prices over the last year, and more recently we have seen declines in money market rates of interest, bond yields, bank-lending rates and mortgage rates. In many urban areas of the country the long upward climb of real estate values has given way to a temporary pause, and even the relentless rise in rents has shown some hesitation in many of our major cities.

The other side of the coin is that the growth of employment and output has now become quite sluggish and that the level of unemployment has risen sharply, even after allowance for the indirect effect of a number of major work stoppages arising out of industrial disputes. Over a wide range of business activity firms now are confronted with a weak market demand for their products and increasingly limited opportunities for raising their prices. At the same time, their unit costs are under strong upward pressure from the combination of steeply rising rates of pay and the abnormally low rate of productivity improvement which occurs when production volume stops rising or declines. As a result, profit margins have come under strong pressure in a growing number of industries, and the profits-squeeze is in turn having a dampening effect on the hiring and expansion plans of many business firms.

OUTLOOK ENCOURAGING

What are we to make of all this? So far as inflationary pressures are concerned the situation that we face today looks very different indeed from the appearance of things a year ago. There now are increasing grounds for believing that the inflation which raged on through the second half of the 60s has been, at least temporarily, checked and that over the next several months we should be able to make some further progress towards greater price stability. The improvement in the price situation that we have seen so far has been made possible partly by the squeeze on profits and partly by the absence this year of widespread increases in provincial sales taxes. In the months ahead we could get further relief from a slowing rate of price increase in the United States, from the softness in world commodity prices, and from the effects of the moderate appreciation which has occurred in the exchange rate for the Canadian dollar.

Looking back over the last year I think it is fair to say that the Commission's efforts to arouse the public to the dangers of unrestrained price and income increases have not fallen entirely on deaf ears. If we had been able to do more along these lines we think it would have been helpful in getting inflation

(Continued on P. 6)