›Canada Weekly

Volume 5, No. 50

December 14, 1977

Ottawa, Canada





## Canada's economic prospects moving in the right direction

***The following passages by Gerald K. Bouey, Governor of the Bank of Canada are from an address to the Canadian Club of Toronto on November 28:***

* * * *

So far as the current economic situation is concerned, there is no shortage of difficulties to point to. Unemployment remains undesirably high. In recent months food prices have produced a significant bulge in the rate of increase in consumer prices. Although there has recently been some recovery in retail sales, consumer confidence does not seem to be strong. Business confidence is also at a rather low ebb, judging from the level of new investment in plant and equipment in fields other than energy. On the external side, we have been making progress in our merchandise trade but our balance-of-payments deficit on current account remains very large and we are financing it by going into debt abroad at a rate that is correspondingly high.

That's one side of the current picture, but there is another side. There are factors at work in our economy which, given time, should considerably improve our situation. Indeed, I would argue that the Canadian economy has now in fact made many of the adjustments that were necessary in order to allow it to perform better and to compete more effectively with the rest of the world. Thus, while the bad news is that our economy has been going through a difficult period, the good news is that we may already have completed a large part of what was bound to be a difficult journey. Much of the essential groundwork has already been laid both for a pick-up in the pace of economic activity and for a better cost-and-price performance – provided, that is, that we stick to the course we are on.

### Wage settlements

The most fundamental way in which we have been getting our economy into better shape is through the progress that has been made in reducing inflation. On that front we have seen a remarkable moderation of the average size of negotiated wage settlements – from annual increases that were running in the 15 to 20 percent range back in 1975 to increases that are currently averaging no more than 7 to 8 per cent a year, and that soon, now that the new guideline is in effect, should be down to 6 per cent or less. Thus the rate of increase in our labour costs – a fundamental determinant of our ability to compete internationally – is now back into much the same range as that of labour-cost increases abroad.

### Consumer price index

At first glance the recent trend of the consumer price index would seem to be at odds with the view that the underlying pace of inflation in Canada is continuing to moderate. But here is an instance where appearances are deceiving. An unusual temporary down-swing in food prices in 1976, combined with the effects of a strong Canadian dollar in holding down the prices of imported consumer goods, gave an exaggerated impression of the degree to which our underlying price performance was improving at that time. A renewed bulge in food prices in 1977, combined with the effects of a substantial decline in our exchange rate, have correspondingly obscured the continuing improvement in our non-food price performance over the course of the present year. Taking the two years together, the overall rise in the consumer price index to date has not been greatly out of line with what had been hoped for back in 1975 when the anti-inflation program was first introduced. It is hoped that the prices of foodstuffs both from domestic and foreign sources will not continue to rise at such high rates much longer. Meanwhile, the recent weakness of world prices for many industrial commodities, together with the decline in Canadian interest rates from last year's levels, both represent – for the

Dec. 14/77