

Part I

ECONOMIC WHITE PAPER FOR 1968

THE CANADIAN ECONOMY: REVIEW AND OUTLOOK

In the course of the past two years, Canada has passed through a period of economic adjustment while still in the midst of the longest and strongest expansion in its history. During 1967 many of the adjustments taking place resembled that of a mild cyclical recession, but other expansionary forces more than offset these movements, and production, income and employment continued to rise. Some serious industrial disputes have occurred in 1968, but despite these it seems clear that a moderate acceleration of growth was established in the early months of this year.

Cyclical Developments

Business profits reached a peak early in 1966 and declined to a trough in the first quarter of 1967, recovering thereafter. Excess capacity emerged in some manufacturing industries. Strains developed in the markets for capital, beginning in 1966 and persisting, in varying degree, throughout 1967 and early 1968. In response to these developments, business expenditures on plant and equipment first levelled off and then turned down; the trough was reached in late 1967 and an improved first-quarter 1968 level appeared. This renewed expansion was maintained in the second quarter. The business inventory pattern has also followed a characteristic cyclical form. Accumulation rose to peak rates in mid-1966, after which it fell back. In early 1967 only nominal accumulation occurred, but a third-quarter pickup was followed by a very substantial swing to actual decline in the fourth. Inventories may now have completed their cyclical correction, and seem likely to resume a normal growth pattern in coming months.

In the personal sector, 1967 was a year of continued increase in both hourly earnings and the unemployment rate. This pattern has persisted in the first half of 1968. During 1967, wage settlements under collective bargaining produced a quarterly record of increases which, on the whole, exceeded gains made in the corresponding quarters of 1966. However, some signs of moderation appeared towards year-end and have persisted in the first and second quarters of 1968, although current gains are still excessive in relation to productivity. Throughout this period, consumers have continued to increase their spending at rates little changed from those of 1966. Price increases, however, particularly in consumer services, accelerated in 1967, except in the case of food prices. Some easing in the rate of advance took place in 1968, but it is not sufficiently strong to suggest that recent pressures have been completely checked.

Expansionary Forces

The mild recessionary pattern of 1967 described above was almost totally obscured by the continuation of a number of strong expansionary forces, including the special events of Centennial year, particularly Expo. These special events contributed substantially to the maintenance of relatively high levels of employment and output, mainly in the service industries, during the second and