Economic Digest

Cost of living

Higher prices for food, especially meat, pushed the Canadian consumer price index up by 1·5 per cent in June, to an annual rate of 11·2 per cent, Statistics Canada reported at mid-July. This was the sharpest increase in the index since it rose 1·7 per cent in May 1974; it raised the annual rate from 7 per cent maintained during the preceding three months.

Statistics Canada predicted that the rise would continue into July; the June figures did not fully reflect a 10-cent-a-gallon increase in the excise tax on petrol introduced in the latest Canadian budget, June 23. That tax measure by itself would add half a percentage point to the index when July figures were in, Statistics Canada estimated.

Altogether food prices accounted for 60 per cent of the June index increase, rising to an annual rate of 19·5 per cent seasonally-adjusted from 4·8 per cent in May. It was the fastest rate for any month so far this year, but still below the increases for each of the final three months of 1974. The Food Prices Review Board predicted that food prices would continue to rise later in the year.

All other items covered by the index, however, showed an increase of only eight-tenths of 1 per cent, about the same rate of increase as during each of the previous six months. Next to food, the cost of housing, owned or rented, contributed the most to the index increase. The result brought the index to 184 from its base level of 100 in 1961 and 166·70 a year earlier.

Nuclear energy

The latest estimate from Canadian government authorities is that more than 40 new nuclear reactors will be built in Canada during the next 10 years. This will require capital outlays of C$ 7 billion, including C$ 5 billion for machinery and equipment; an additional C$ 1 billion is expected to be required for the building of heavy-water plants. Heavy-water is an essential ingredient in the Canadian-developed CANDU reactor which is expected to dominate this expansion of nuclear power production in the country.

This raises the certain prospect of considerable expansion of the Canadian nuclear industry. Currently there are about 60 Canadian firms producing the major components for nuclear reactors made in Canada. They employ some 25,000 workers. This skilled work force is expected to expand by at least 3,500 during the next four years. The anticipated demand will be for machinists, welders who can use precision welding techniques, quality-control personnel and technicians capable of working with exotic materials to extremely close tolerances.

The information was drawn from a speech to the 15th annual international conference of the Canadian Nuclear Association by J. P. Reny, director, machinery branch, Canada Department of Industry, Trade and Commerce. "Eventually," he predicted, "the economic benefits of the CANDU programme could extend to 1,000 or more companies."

Unemployment

The unemployment rate in Canada remained relatively stable during June, Statistics Canada reported at mid-July. The rate for younger job-seekers rose, but the overall rate was 7·2 per cent of the work force, up from 7·1 per cent in May. Across the country the rate fluctuated over a considerable range of ups and downs. The province of Nova Scotia showed the best improvement where unemployment fell to 7·3 per cent from 10·2. At the other end of the country, British Columbia had the sharpest rise in unemployment, to 8·3 per cent from 7·7.

The rate for those 24 years old or younger rose to 12·6 per cent from 12·5, but for the 25-and-older group remained unchanged at 5·2 per cent.

Foreign lenders

Removal of the withholding tax, ranging from 15 to 25 per cent, on interest paid to nonresident holders of medium and long term Canadian corporate borrowings is reported to have aroused fresh interest in the Canadian lending scene among European as well as American financiers.

In the budget of June 23, the tax exemption was offered on interest paid by a corporation resident in Canada to an unrelated (arm's length) lender on bonds, debentures or other debt obligations having a fixed term to maturity of not less than five years. It applies to debt issued after the budget date and before 1979. A similar exemption was applied earlier this year to interest on borrowings abroad by government at any of the three levels in Canada — federal, provincial and local.

Both these moves supplement the withdrawal in February 1975 of foreign borrowing guidelines. Since 1970 they had requested Canadian borrowers to exhaust Canadian sources before floating issues outside the country.

British bankers

The Financial Post, published weekly in Toronto, reported that one British banking team arrived there shortly before the budget was presented, in anticipation of the withholding tax change. These early birds represented the City investment banking firm of S. G. Warburg & Co. and its French associate, Banque de Paris et des Pays-Bas (*Parisbas*). Members of the team are frequent visitors to Canada, but Warburg executive director Peter Darling was reported to have told the FP that removal of the withholding tax was the main reason for this visit. He and his companions spent several days chatting up chief executives of large Canadian firms in Toronto and Montreal for possible new lending business. Their main interest was believed to be in firms with net worth of C$100 million or more.

From New York, meanwhile, came word that United States investment bankers intend to be competing for a piece of the Canadian corporate bond financing anticipated during the next few years — an action that could range to the C$ 1 billion area as new natural gas pipelines, nuclear reactors and other large energy projects are capitalised from foreign sources.

Motor-car sales

Canadians, brought up on the economic maxim that when the United States economy coughs Canada comes down with pneumonia, are pleased but puzzled by the almost record-breaking motor-car sales in their country this year, while in the U.S. the auto market is in its worst slump in history. U.S. motor-car sales at mid-year were down nearly 20 per cent from a year earlier. But Canada's motor-car market was booming and may come close this year to matching record-breaking sales in 1974. Analysts offer a variety of explanations. A frequent one is the world oil crisis created a year ago by the sudden increase in prices. Rich in their own oil and gas resources, Canadians enjoyed lower petrol prices than the U.S., at least initially; there were no filling stations closed, no lineups at the pumps, no threats of rationing as in the U.S. Another reason given in a recent analysis by Joseph Dupuis, business editor of *The Canadian Press* news agency, is a more stable employment scene in Canada than the U.S. recently, so that more consumer purchasing power stayed in circulation.

Unemployment has risen in Canada as inflation did but not so fast or high as in America. While the Canadian unemployment rate reached 7·2 per cent of the labour force, the U.S. rate rose to 9·2 per cent. A Ford of Canada executive also pointed to "an almost unbelievable 20 per cent" increase in personal income levels for the average Canadian worker as a major stimulus to the Canadian economy. A General Motors of Canada Ltd. executive put it this way: "Per capita disposable income in the U.S. has declined . . . while it has been increasing in Canada."