



CANADIAN WEEKLY BULLETIN

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

CANADIAN ECONOMY CLOSER TO BALANCE

Vol. 12 No. 31

July 31, 1957

As the Canadian economy enters the second half of the year, it is abundantly clear that the expansionary forces which produced the marked upswing of the past two years are still being felt in some degree and are giving rise to the same outstanding features that dominated the economic scene during 1956 it is reported in the Bank of Montreal's "Business Review" for July. But the pace of expansion is much less rapid than it was a year ago, and for some industries the sales curve has levelled out and even, in a few instances, taken a downward slant.

The most important factor in the over-all buoyancy of business activity continues to be the large and still rising volume of capital investment in new plant, equipment and housing. A recently published official check on the original survey of capital investment intentions for 1957 indicates that the total value of work put in place may amount to \$8,776 millions, \$243 millions more than was estimated in the preliminary survey published in February, and \$876 millions more than was actually spent last year.

HOUSING

Much of this upward revision is concentrated in non-residential construction, notably uranium and petroleum development and pipelines. But the estimates were also raised in the one sector, namely housing, in which construction activity has declined noticeably from last year. In 1956, expenditures on new

housing construction amounted to \$1,575 millions and it was originally thought that such outlays in 1957 would drop to \$1,283 millions. Subsequently, it was generally believed that even this figure might be an over-estimate, for on a seasonally adjusted annual basis housing starts fell from 132,000 in the third quarter of 1956 to 73,000 in the first quarter of this year. It was against this background that the Bank of Canada made a special exception to its monetary policy and undertook to increase the resources of the chartered banks during the year by an amount sufficient to enable them to enter into commitments for new housing loans under the National Housing Act amounting to at least \$150 millions. Partly in consequence of the chartered banks being in a position to expand their mortgage loans, there has been more than a seasonal recovery in residential construction during recent weeks and it is officially estimated that new housing expenditures for the year as a whole may amount to \$1,351 millions.

INFLATIONARY PRESSURE

In all other respects, the Bank of Canada has held firm to its policy of monetary restraint in the belief that this policy is still necessary in order to contain inflationary pressures arising from the heavy volume of capital investment and the over-all strength of demand for goods and services. Certainly, from the consumer's point of view, there is impressive evidence to support this contention

(Over)

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