

part of the year the rate of new housing starts was declining). Government expenditures on goods and services increased, particularly capital expenditures by provincial governments.

Even with the unusually large increase in employment the supply of goods and services produced in Canada fell far short of the demand, and the economy was obliged to rely increasingly upon the use of foreign resources. Imports of goods and services rose by nearly 20 per cent, much more than the increase in exports, and our net use of goods and services from abroad increased by \$700 million to \$1,400 million. The larger current deficit in our international transactions was financed by a larger inflow of foreign capital. During the year the net inflow of capital into Canada tended to increase even more rapidly than the import deficit and the exchange value of the Canadian dollar rose by about 4 per cent.

CONTINUOUS PRICE RISE

The general level of prices in Canada rose continuously through 1956. In the aggregate, the prices of all goods and services used by the economy were about 4 per cent higher at the end of the year than at the end of 1955. This increase came about despite the restraining influence exerted by the movement in the exchange rate on the price of imported goods, which showed no increase over the year, and despite a declining price trend that developed in world markets during 1956 for several important Canadian primary commodities. Thus, to a much greater extent than in any recent year, the movement in the overall price level was in response to internal rather than external demand pressures. Prices of manufactured goods rose steadily during 1956. Price increases in the investment sector, where demand was particularly strong, were greater than elsewhere; average plant and equipment prices rose 6 per cent in the course of the year and were 10 per cent higher at year-end than in mid-1955. The period of relative price stability at the consumer level, which had prevailed in Canada since the end of the upsurge following the outbreak of the Korean War, ended in May 1956. Prices of nearly all goods and services used by consumers increased and the consumer price index rose by 3 per cent in the last seven months of the year.

The increasing variety and frequency of price increases in 1956 was impressive evidence of the pressure under which the economy was working. In an economy operating under a system of direct controls and rationing, physical shortages of goods are the main outward sign that the economy is overloaded. In an economy operating under a flexible price system, however, if demand exceeds supply at one price level, prices move up to the point where supply and demand come into balance. Under a flexible price system price increases

rather than physical shortages are the natural sign of strain.

Widespread price increases during 1956 reflected the emergence of the supply of manpower as the underlying physical shortage in the economy. In view of the pronounced seasonal variation in employment that exists in our climate the full extent of the demands on our manpower resources is most clearly revealed during the summer and autumn months. During this period of 1956 unemployment fell to 1.7 per cent of the labour force, and of those who were unemployed nearly one-half were out of work less than one month. At the same time there were widespread reports of labour shortages, and the number of job vacancies recorded was far higher than in recent years.

There were unusually large differences between developments in Canada and in the United States in 1956. Total demand in the United States was high and rising, but the pressure on resources appears to have been considerably less than in Canada. The percentage growth in total physical output in the United States was about one-third of that in Canada and the increase in prices in the United States was somewhat less than in Canada. Much of the difference is traceable to the investment area. Although the proportion of total output devoted to private investment in fixed capital in Canada was already one-third higher than in the United States in 1955, the percentage increase in private capital investment from 1955 to 1956 was more than twice as great in Canada. At the same time the rate of expenditure on consumer durable goods increased in Canada by 10 per cent while in the United States it fell by 5 per cent. In 1956 Canada was a net importer of goods and capital on a large scale while the United States was a net exporter.

PHYSICAL STRAINS REFLECTED

The physical strains under which the Canadian economy operated in 1956 were naturally reflected in the financial sphere. On the physical side there was a strong demand for things such as business plant, equipment and inventories, community facilities, and consumer durable goods which are not usually paid for entirely out of current income. The financial counterpart of this situation was a rapid increase in the amount of money that people wanted to borrow. Among those competing to borrow the funds available were hydro-electric utilities, telephone companies, uranium and other mines, petroleum and pipe line companies, pulp and paper, iron and steel, cement and many other manufacturing companies, retail stores, finance companies, house builders, provincial and municipal governments and school boards as well as many thousands of individuals. In some cases those who needed funds for capital expansion obtained them by selling financial assets, as for example bonds which they had previously acquired.