

as restrictive credit policy has made it more difficult for some buyers and builders to raise mortgage money. There has been continued buoyancy in personal spending on non-durable goods and services, but purchases of automobiles and other durable goods softened noticeably in the second half. The advance in retail trade was sluggish, inventories grew and some production cut-backs occurred. After falling sharply in the first half, the ratio of personal saving to income after taxes increased in the latter half of 1969. Surveys at the end of the year indicated a mood of caution among consumers. In real terms, business investment in plant and equipment in the second half of 1969 was running about 7 per cent above the rate in the second half of 1968. Successive surveys late last year showed higher investment intentions for 1970. The explanations offered included fear of higher prices of capital goods.

Productivity in the U.S. economy was no higher in 1969 than it had been in 1968. Average earnings continued to increase at a rapid rate, however, and so wage costs per unit of output rose more rapidly. This development, in turn, was reflected in the high rates of price increase in 1969 and the decline in profits per unit of output. In 1970 negotiations will take place on a large number of key wage settlements.

American fiscal and monetary policies were restrictive in 1969, and the effects could be seen in the decline in the growth of demand and production. As in Canada, the results in terms of moderating increases in prices and costs have yet to become evident.

PRICES

We have stated that inflation was our most pressing economic problem in 1969, and that it is a widespread phenomenon. The purpose of this chapter is to provide more detail on the price movements of the last year, before reviewing the underlying cost and demand developments.

Consider first the consumer price index, one of our most widely used indicators of price trends. Figures in this paragraph relate to the percentage changes from December 1968 to December 1969. In this period the total index advanced 4.6 per cent. Over the previous 12 months the advance was 4.1 per cent. Some items in the consumer's standard selection of goods and services rose in price much more rapidly than others. The cost of shelter increased considerably more than any other component; its advance accelerated sharply in 1969, reaching the very high rate of 7.5 per cent, more than a full percentage point greater than the increase during 1968. Shelter costs include such items as rentals, prices of new houses, and related financing and maintenance. The increase in the cost of services (excluding shelter), reflecting closely the increases of wages in the economy, was almost as great as that of shelter, but the acceleration was very much greater. Service prices were up 7.1 per cent during 1969, which is almost three percentage points higher than in the previous year. Notable among the service items where prices increased rapidly were local transportation, rail fares, theatre admissions, postage, and household help. Shelter costs have a weight of 18 per cent in the total consumer price index; costs of services have a weight of 13 per cent. Food prices, though they moved irregularly during the past