

THE YEAR AHEAD

At the year's end there is little evidence of change in the strong general pressure of demand which has prevailed since 1955. Production and employment have continued to press steadily ahead. Despite higher imports, shortages of some materials persist. Apart from seasonal changes the labour market remains tight. Planned projects are in many cases behind schedule. Interest rates moved upward throughout the year and are now at peak levels. By and large the conditions which have necessitated a close rein on the overall expansion of credit are still present.

What is presently known of investment plans for 1957 suggests a further increase in overall capital spending. Industries likely to have a further rise in capital outlays include the production, distribution and processing of oil and natural gas, non-ferrous metal refining, uranium development, primary iron and steel, electric power, transportation and communications and retail trade. In pulp and paper and chemicals, expenditures will probably run close to the greatly expanded programmes of 1956. Steadily mounting requirements for schools, local improvements and the like will scarcely permit any let-up in institutional and government construction. Of all the major investment sectors, residential building is the only one likely to show a significant decline.

The 1957 programme, therefore, will have its heaviest impact in equipment industries and heavy construction. In these fields availability of structural steel and plate may continue to cause delays in the implementation of investment plans.

The Middle East crisis and other recent international events have introduced new elements of uncertainty into the world trade situation, the effects of which are not now discernible. Apart from these influences, the pressure of world demand on Canada's principal export materials is not presently as strong as a year ago. Nevertheless foreign markets for these commodities, with one or two exceptions, remain reasonably firm. In addition, expanded capacity in export industries will increase the volume of supplies available. The diversion of large quantities of Western Hemisphere oil to Europe will entail a further substantial rise in Canada's exports of petroleum, although distribution facilities will limit the extent of this movement. In addition much larger quantities of uranium concentrates will be moving into export channels during 1957. More moderate increases will probably be realized in sales of a number of other commodities. Given sustained prosperity in the United States, total exports will continue at a high level.

Consumer trades also can look forward to a busy year. Rising real incomes will probably

bring a further expansion in sales. Even with the steady increase in personal consumption in Canada, capacity in consumer industries is under no strain. This factor together with the ready availability of foreign goods will mean that business in consumer lines, while rising in volume, will remain keenly competitive.

The indications are that overall demand will remain strong in 1957. Toward the end of the year pressure from new investment may ease, as some of the larger expansion projects now underway approach completion. Meanwhile the likelihood of an increased influx of immigrants will help to fill deficiencies in the supply of labour. The current economic upswing, though now in its third year, gives no indication of general vulnerability. Inventories have increased but not out of line with final demands. Speculative tendencies have been restrained and prices have increased but moderately. Shifts in market demands will continue to cause ups and downs in some industries, but these are not likely to affect the underlying surge toward ever-widening economic horizons.

DEFENCE PRODUCTION

Orders and expenditures for defence supplies and construction in 1956 reached levels only slightly below those of 1955, although substantially under the peaks of earlier years. The rapid growth in the national product had the effect of diminishing further the relative importance of the defence programme in the economy, continuing the trend which began in 1955. It is important to recognize, however, that while the total impact of defence spending is weakening, this programme continues to be the mainstay of certain industries, particularly aircraft and shipbuilding. Wherever possible, diversification has been encouraged in defence industries, in order to reduce their sensitivity to fluctuations in defence orders. There remains, however, a hard core of facilities whose specialized character precludes their use for any production other than that for which they were designed.

The direct investment of public funds in the form of capital assistance continued at about the same level as in 1955, and was used primarily to provide equipment for the highly specialized production tasks. In other cases, manufacturers were urged to invest their own capital in the production facilities needed to meet developments in design and in manufacturing techniques. To this end, encouragement was given through tax incentives to about the same extent as in 1955. In line with the policy of encouraging private investment in defence production facilities, a number of capital assistance assets were sold to industry.

The supply of domestic materials for defence programmes continued to be satisfactory throughout the year and no programme was seriously delayed on this account. The full co-