

## EXPENDITURE

Partly as a result of special factors, exports of goods and services, which were down in the first quarter, rose sharply in the second quarter, accounting for more than half of the rise in total gross national expenditure. The gain in exports was fairly widespread and reflected rising demands of the United States economy for Canadian export goods, especially in the wood and metal products groups. Personal and government expenditures on goods and services continued to rise in the quarter, but the advance in consumer spending was very modest, amounting to only about 1 per cent. Outlays for new housing fell further, continuing the first quarter decline, while the rate of business inventory accumulation moderated from the high level recorded in the first quarter.

Over the course of the past year, reversals in trend have occurred in a number of major categories of demand, and the pattern of the nation's total expenditure has shown a marked change. Business inventories have swung around from a position of heavy liquidation in the second quarter of 1958, to one of net accumulation; the turn-around here has been the equivalent of about \$0.6 billion in terms of new demands on production. The downward drift in business capital expenditure for new plant and equipment which was moderating in the latter part of 1958, has been reversed, and outlays by the business sector are now providing a positive stimulus to the rise in final demand. Both non-residential construction and machinery and equipment outlays are, of course, still far below the very high levels reached at the peak of the capital investment boom in 1957; but machinery and equipment outlays in the second quarter were running 10 per cent above levels a year ago, while non-residential construction outlays were only a little below the second quarter of last year.

Recovery in the general pace of business activity has been accompanied, as in the past, by a reversal in the trend of imports; after declining by 10 per cent from early in 1957 to a low point in early 1958, imports of goods and services have turned sharply upward in the past twelve months, and are now running 9 per cent above levels a year ago. Outlays for new housing, which rose by 40 per cent from the first quarter of 1957 to the end of 1958 and provided a strong sustaining force throughout the recession period, have now been moving downward for two quarters. These reversals in trend in major categories of gross national expenditure during the past twelve months have produced a pattern in the over-the-year comparisons 1958 to 1959 which differs sharply from that of the preceding 12-month period.

## INCOME

The flow of income to the personal, business, and government sectors during the past twelve months has also been marked by changes in the trend of import income components, and by shifts in the compositional pattern of the income aggregates. There has been a sharp change in the composition of personal income as between the proportion derived from productive activity (notably wages and salaries), and the proportion arising through transfer payments from government. From the second quarter of 1957 to the second quarter of 1958, transfer payments accounted for more than 49 per cent of the rise in total personal income. However, between the second quarter of 1958 and the second quarter of 1959, transfer payments accounted for only 11 per cent of the rise in total personal income, with the remainder of the increase coming from gains in those income components which are linked directly to productive activity. Labour income, for example, has shown an over-the-year gain of 8 per cent in 1959, compared with a much smaller gain of less than 3 per cent in the preceding 12-month period.

Turning to the business sector, corporation profits have shown a sharp reversal in trend during the past twelve months; having declined steadily from a peak early in 1956, they tumbled sharply upward in the third and fourth quarters of 1958, and have shown little change in either direction in the first half of 1959. In the second quarter of this year they were running 23 per cent above levels of a year ago, compared with a decline of 14 per cent in the same comparison made one year earlier. The sharp rise in profits during the past year, and the lesser role of transfer payments as a component of personal income, has altered the relationship between national income and personal income. Whereas a year ago, personal income was rising at a much more rapid rate than national income, in the current period personal income has lagged slightly behind the advance in national income.

One of the striking developments of the current period of expansion has been the sharp recovery in the flow of tax revenues to the government sector. From the second quarter of 1957 to the second quarter of 1958, the decline in tax revenues from the three major tax sources amounted to almost 7 per cent, for all levels of government combined. From the second quarter of 1958 through to the second quarter of 1959, the rise in revenues from these three sources has amounted to about 16 per cent, reflecting the recovery in profits, higher employment and earnings, a higher level of imports, sales and shipments, and increases in tax rates. About three-fourths of the rise in revenues during the past twelve months represents higher revenues collected by, or accruing to the Federal Government.