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REVIEW OF CANADA'S ECONOMY IN 1968 AND OUTLOOK FOR 1969

Statement by the Honourable Jean-Luc Pepin, Minister of Industry and of Trade and Commerce, December 31, 1968

Nineteen hundred and sixty-eight has been another good year for Canada. Against the background of a sharp acceleration of the rate of growth of world production and trade, the forward momentum of the Canadian economy picked up significantly. It now appears that the gross national product has increased by close to 8 per cent this year and national output in real terms by no less than 4 per cent. The growth of demand and output, however, has not been adequate fully to absorb the new productive resources becoming available. While employment on average is up 2 per cent over 1967, unemployment has increased somewhat and is now running at about 5 per cent of the labour force, seasonal factors aside.

Total industrial output is up $4\frac{1}{2}$ per cent this year compared to last, and manufacturing has shown a gain of over 4 per cent. Gains in real returns to manufacturers and the consequent increase in demands upon other sectors of activity have been an important factor contributing to new job opportunities in the economy as a whole.

In varying degrees, continental rationalization of production continues to impart new vitality to Canadian manufacturing, and industries extensively involved in this process are in the forefront of this year's advance. Motor vehicle assemblies have exceeded 1.1 million units in 1968, and output of vehicles and parts combined has increased nearly one-fifth in the past year and three-fifths since 1964. Annual exports of automotive products have reached the $2.5-billion mark to become by far the largest single Canadian export. While imports of automotive products still exceed exports, the deficit incurred in 1968 is the smallest in a good many years. Output of aircraft and parts is also up substantially in 1968, this being another industry heavily involved in two-way trade. In iron and steel, the strong growth trend of preceding years has been sustained in 1968, reflecting both higher exports and the expanding domestic needs of other export-oriented industries.

Among industries encountering less favourable conditions are the newsprint producers, which, faced with newspaper strikes and expanded newsprint capacity in the United States, have barely maintained the 1966 production level. Also, various equipment- and material-producing industries have been adversely affected by the slower tempo of investment spending over the past two years.

Among the principal domestic sectors of demand, new expansive stimulus in 1968 has come mainly from housing and from consumer spending. Notwithstanding the high cost of mortgage money, about 15 percent more houses have been started this year compared to last and the value of residential construction is up substantially. Meanwhile, consumer spending has more than kept pace with growth in the economy, reflecting the continuing strong upward movement of personal incomes and sustained consumer buying interest, particularly for durables and services.

In 1968, as in the preceding year, the main impetus in the Canadian economy emanated from the growth of sales in foreign markets. Exports in 1968 are up by $2 billion, or 18 per cent. Imports have also increased, but by a lesser amount. Canada's surplus on merchandise trade has risen from $0.5 billion in 1967 to well over $1 billion in 1968, by far the largest trade surplus ever realized in a peacetime year.

Foreign toourist receipts have approximated the billion-dollar level and the balance on tourism compares favourably with the achievement of preceding years, with the exception of 1967, Canada's centennial year. While Canada's deficit on all service transactions is much higher in 1968 than in the preceding year, this increase has been more than offset by the improvement on merchandise trade. Thus, Canada's position on all current transactions with the rest of the world is now closer to balance than at any time in the past 15 years.

The dominant factor underpinning the sharp growth of Canada's exports in 1968 has been the accelerated tempo of business in the United States. Sales to this market have increased by a spectacular $1.75 billion, or 25 per cent, in the space of one year. In Canada's largest overseas market, Britain, a general policy of demand restraint has limited sales expansion opportunities, but exports to this market have nevertheless shown a moderate advance. Exports to Japan, now our third-largest market, are up moderately in 1968 following a spectacular 45 percent growth in 1967. Among other overseas markets, major gains have been achieved during the past year in Australia, West Germany and Belgium-Luxembourg.

Automotive products account for nearly two-fifths of the increase in Canada's exports and an even larger proportion of the rise in imports. Good export increases have also been achieved for copper, nickel, aluminum, iron ore, lumber, woodpulp, petroleum and natural gas, machinery of various kinds and aircraft. Wheat sales, on the other hand, are lower in 1968.

Looking ahead to 1969, external market conditions may not be as favourable as in the year past. In the United States in particular, demand pressures are expected to ease somewhat and this would entail less spectacular growth in sales to this market. In Britain and also in France, the recent intensification of restraint programmes, directed in particular toward improvement in external payments positions, will dampen for the time being new sales expansion opportunities. On the other hand, prospects are good in a number of countries, particularly Japan, where recent strengthening in the external-payments position will permit a more expansive demand policy, and West Germany, where foreign sellers will benefit from steadily expanding demand coupled with lower levies on imports.

All things considered, a further growth in exports in the range of 5 to 10 per cent appears to be a realistic expectation for the coming year. The further Kennedy Round cuts to be made on January 1 by the United States on a broad range of products of interest to Canada will be helpful.

From within the Canadian economy, it is evident that new growth impetus will be provided by the currently rising trend of capital investment. A recent survey of investment intentions of large companies indicates that capital spending in the business sector will rise by something like 8 per cent in 1969, compared to 2 per cent in 1968. House-building activity also continues to point upward. In the consumer sector, a firm trend of personal incomes will provide underpinning for sustained growth of spending on consumer goods and services.

It is quite possible that any slowing-down in export growth will be offset by stronger domestic demands, with the result that an active tempo of business activity will be sustained. How close the economy comes to realizing its full growth potential will depend on how Canadians respond to the exacting challenges ahead.

One worrisome feature of our current economic performance is the persistent upward movement of costs and prices. The price component of the gross national product increased by 3.9 per cent in 1967 and has increased only slightly less this year. Consumer prices rose by 3.5 per cent in 1967 and in 1968 are up by more than 4 per cent. This degree of price increase places cumulative strains on the economy. It creates inequities in the distribution of income (particularly for those on fixed money incomes), it disrupts the investment process by adversely affecting savings, and it erodes our competitiveness in international markets, which for a trading nation, such as Canada, is basic for sound growth and sustained prosperity. To date, the rise in prices has not prevented a good performance in foreign markets. However, in achieving this good showing, prices of Canada's exports in recent years have risen less than domestic prices generally. Clearly, there is a limit to the amount by which domestic costs and prices can rise before they start to impinge on exports.

If increases in the general price-level are to be held in check, income returns must be in line with the improvement in national productivity. Widespread efforts to achieve gains over and beyond the improvement in national productivity serve simply to erode the value of the dollar and disrupt the economy, and, in the end, are self-defeating. Real income gains for the whole community come only through the more effective use of the nation's resources. It is by directing our efforts to real, as opposed to illusory, gains that Canadians will make the most of the promising opportunities which lie ahead.

The new department combining the functions of Industry and Trade and Commerce will direct its efforts to the improvement of the productive capabilities of Canadian industry and the extension of the benefits accruing from international specialization and trade. In this endeavour, it will seek the co-operation of all Canadians, who can contribute to the achievement of the goal of sound and balanced growth and the expansion of our trade. Only by the constructive and purposeful pursuit of this objective by all concerned can we be assured of a truly prosperous New Year.

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