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REVIEW OF CANADA'S ECONOMY IN 1969 AND OUTLOOK FOR 1970

By the Honourable Jean-Luc Pepin, Minister of Industry, Trade and Commerce, December 1969.

Although serious problems of containing inflation have continued, 1969 has been another year of significant economic achievement for Canada. New export gains and renewed growth in business investment have been key factors contributing to the further expansion of production and employment. Canada's gross national product has risen 9 per cent from 1968 to 1969, with at least half of this increase representing real output growth. Business activity surged forward strongly in the early part of the year but the pace of advance moderated in subsequent months, reflecting in part an abnormal amount of time lost in work stoppages due to industrial disputes.

Total employment for the year was up more than 3 per cent, a larger increase than in 1968. Labour force growth also was somewhat higher, and average unemployment has changed little between the two years. Unemployment after adjustment for usual seasonal changes was running a little over 5 per cent of the labour force in the concluding months of 1969.

Per capita disposable income, in real terms, has increased moderately.

Industrial output was up about 5 per cent in 1969, matching the gain for the previous year. Manufacturing production has advanced somewhat faster than in 1968, even though growth has been hampered by strikes in the primary metal industries. Motor-vehicle output has shown another large advance. More than 1.3 million motor vehicles came off the assembly-lines, and for the first time production of passenger cars passed the one-million mark. The number of motor vehicles turned out in 1969 was double the number manufactured in 1964, the year immediately preceding the implementation of the Canada-United States Auto Agreement. Output of motor vehicle parts and supplies has continued to move upwards.

Elsewhere in manufacturing, good increases in output were realized in synthetic textiles, rubber products, industrial machinery and major consumer appliances.

A highlight among resource industries has been the resurgence of pulp and paper output following two years of little change. Production and sales have strengthened for both newsprint and woodpulp, contributing to a sharp rise in plant-utilization and efficiency. High levels of lumber and plywood production were stimulated by vigorous trends in housing and other construction early in the year. However, the trend has slowed since mid-year, paralleling the slow-down in residential building in Canada and the United States.

1969 has been a year of rising production for important mining and mineral processing sectors -- among them asbestos, aluminum, oil and natural gas. Additions to sulphur and potash productive capacity have, however, increased the available supply of these minerals in a situation of world over-supply and downward pressure on prices. Declines in production of iron ore, primary steel, copper and nickel in 1969 are principally a result of protracted work stoppages due to strikes at the mines and mills of leading producers.

The major service-producing industries have continued to expand to meet widening requirements of an increasingly urban-oriented population. Growth has remained particularly strong in the community and personal services sector. Electric-power generation has shown a further large increase, supported by new capacity following completion of several major hydro projects, most notably in Quebec and British Columbia.

Canada's merchandise exports have increased by nearly 10 per cent in 1969, about in line with the growth in world production and trade. The annual value of Canadian exports is now just short of the $15-billion mark, having more than doubled in the past six years.

An outstanding factor in export growth has been the continuing strong rise in exports of automative products. Continuing rationalization of North American car production has advanced automotive exports to about $3.5 billion in 1969. Imports of automotive products also have increased sharply, though somewhat less than exports. Canada's deficit in automotive trade is now at its lowest point in many years.

Higher foreign sales have been achieved in other manufactured lines, including wearing apparel, industrial equipment and non-farm machinery. Exports of aircraft and aircraft parts, however, are lower than in the previous year.

Among Canada's forest and mineral products, major increases have been achieved in exports of newsprint, woodpulp, aluminum and petroleum. Lumber and plywood exports rose sharply in the first half but have slowed in later stages of the year, with the decline in residential building in the United States. Strikes in some of the principal mining and metal-processing industries have been largely responsible for lower exports of iron ore, iron and steel products, copper and nickel.

Exports of agricultural products, other than grain, have increased moderately. Wheat and flour exports are down for the third consecutive year, reflecting the substantial world over-supply and increased domestic production in importing countries. However, orders now in hand suggest that this downward trend will be reversed in 1970.

Regionally, the outstanding feature of Canadian trade in 1969 has been the continuing strong growth in sales to the United States. Exports to this market are up 16 per cent in 1969 from the preceding year, notwithstanding the slowing pace of advance in the United States economy. United States purchases from Canada have been increasing nearly twice as rapidly as their total imports, and Canada's share of the U.S. import market is now higher than ever before.

In Britain, policies of restraint, including a temporary deposit scheme applied to imports, have had a slowing effect on British purchases. These restraints, together with scarcity of nickel and copper supplies, have led to a modest decline from last year's record level of sales to Britain. Commonwealth countries have about maintained their last year's level of purchases. Exports to Japan have gained with the continuation of Japan's economic boom. Sales to the European Economic Community were higher, largely due to increases to France and Western Germany. On the other hand, exports to state-trading countries have declined, primarily as a result of sharply lower purchases of wheat and wheat flour.

Canadian imports have increased sharply in 1969, more even than exports. The merchandise trade surplus has declined by about $.5 billion from the record $1.2 billion achieved last year.

Meanwhile, current payments for non-merchandise services have risen faster than receipts, reflecting in large part a further sharp increase in Canadian tourist spending abroad. Thus, with a narrowing in the merchandise trade surplus, and a higher deficit in the service sector, Canada's deficit on all current transaction is well above last year's low figure but compares favourably with the performance over the past decade.

The Canadian economy enters the New Year with considerable forward momentum. The underlying expansive thrust in the economy is reflected in the renewed growth of business capital spending in 1969 following two years of approximately level outlays. The realization of expansion programs in 1969 has been hampered by work stoppages, but the delays encountered have added to the carry-over of work into the New Year. A recent survey of capital-spending intentions indicates that large companies plan to spend 14 per cent more on new capital facilities in 1970 than in the preceding year. Much of this increase is expected to take place in manufacturing, particularly metal-refining, chemicals and a number of durable goods industries. In other major investment sectors, spending increases are expected to be relatively moderate. The evidence at hand suggests that total capital outlay in 1970, both public and private, is likely to provide significant forward impetus to the economy, without placing excessive demand pressures on capital-goods-producing industries and other investment resources.

Meanwhile, indications of a continued upward trend of personal incomes will provide the basis for continued growth in consumer spending.

The external economic climate is somewhat less buoyant now than a year ago. In the United States, demand pressures have lessened and the growth-rate in the economy has slowed perceptibly with the implementation of policies designed to stem the persistent upward movement of prices. In Western Europe also, there are indications that overall economic growth is losing some of its recent vigour, partly as a result of official measures of restraint. In Britain, demand restraint continues to be a key feature of national policy but the improvement now taking place in the balance of payments could open the way for expanded sales of Canadian products in that market. Across the Pacific, the strongly-expanding Japanese economy provides the basis for the further growth of exports to Canada's second-largest overseas customer.

Conditions in world product markets vary from situations of substantial surplus to acute shortage. For a number of Canada's major farm, forest and mineral products, firm or firming demand conditions prevail. If serious interruption to the production and movement of supplies to market can be avoided, growth of Canada's resource exports could show significant acceleration in the year ahead.

Notwithstanding these important elements of strength, the 1969 gain of $1.25 billion in total exports will be difficult to match in the face of easier demand conditions in the United States and slower growth in the world at large. Canadian exporters will be vying with competitors around the world for a reduced total volume of new business. In these circumstances of intensified world competition, it becomes increasingly important to stop the erosion of Canada's competitiveness resulting from the continuing upward movement in costs and prices.

Between 1968 and 1969, industry selling prices in Canada rose 3.4 per cent, while consumer prices and the price component of the gross national product each rose by about 4.5 per cent. Similar inflationary conditions have been prevalent in other industrialized countries. However, a superior price performance is of crucial importance to Canada. Simply to hold even on prices with our competitors will not permit Canadian producers to capture the increased share of world markets necessary to employ Canada's rapidly-growing labour force and absorb other available productive resources.

To some extent, price increases in Canada are a reflection of higher prices paid for imports and received for exports. It would not be practical for a trading nation such as Canada to try to insulate entirely its domestic price level from increases occurring in international product markets. It is critically important, however, to minimize price increases generated from within the domestic economy -- increases resulting primarily from widespred pressures for income returns which are out of line with the overall productive performance of the economy.

In the past year, productivity in Canadian industry has continued to improve. In manufacturing,output per person employed has been increasing at a rate close to the postwar average of 3.7 per cent. However, most income-rate increases have exceeded the improvement in national productivity by a considerable margin, the inevitable consequence being upward cost pressures and rising prices. This internally-generated inflation constitutes a serious obstacle to trade and industrial growth and to better economic performance generally.

The Government is trying in every practical way to contain the rise in prices. In addition to the application of the necessary expenditure restraint and appropriate fiscal and monetary policies, the newly-created Prices and Incomes Commission is endeavouring to develop new approaches to supplement the traditional remedies for control of inflation.

For the Canadian economy the decade ahead holds great promise. In its sixth annual review, the Economic Council of Canada demonstrates that Canadian potential for growth in the 1970s is no less impressive than that achieved in the 1960s. Great opportunities, however, bring with them new and imposing challenges. In the new decade, Canada must come to grips with such problems as urban growth, pollution and the need to achieve for all segments of the economy a fuller participation in the mainstream of Canada's development. Success in these endeavours depends on the sustained and balanced growth of the economy as a whole. This is why it is so important to stop inflation now. For a trading nation such as Canada, which is becoming increasingly involved in international commerce, the key to economic achievement lies in maintaining and improving our competitive position in the Canadian market and in the markets of the world.

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