

STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

56/4

CANADA'S ECONOMIC OUTLOOK

Address by John H. Dickey, Parliamentary Assistant to Minister of Defence Production to Canadian Retail Hardware Association in Toronto, Ontario on February 6, 1956.

The subject allotted to me at today's luncheon is "Canada's Economic Outlook". Perhaps I might do three things today: review briefly where the Canadian economy stands at present; comment on what seems to lie ahead for us over the next year; and finally, conclude with some observations on how the economic outlook is likely to affect your own business - the hardware business.

By any standard of comparison the year just passed has been Canada's best peacetime year of economic achievement. The nation's output reached a value of close to \$26½ billion in 1955, or 10 per cent above the gross national product of 1954. The remarkable thing about this record output was that it was achieved with comparative ease. The economy was not entirely free from stresses and strains of serious supply bottlenecks, which became more noticeable as the year came to a close. But inflationary pressures which usually accompany such a rapid expansion of economic activity, were almost wholly absent. The general price level in Canada in 1955 was little different from that in 1954. As a result, almost all of the increase recorded in Canada's gross national product represented an addition to the volume of goods and services produced in the country and available to Canadians to use.

You may recall that the last peak in economic activity was in 1953 when we had a gross national product of about \$24½ billion. In the ensuing year, the Canadian economy levelled off. In the non-agricultural sector we about held our own, but in the agricultural sector a decline was recorded. Even if the achievements of 1955 are stacked up against the previous economic record of 1953, last year still marks a period of significant economic progress. The increase in the volume of gross national product over the two-year period, that is, 1953 to 1955, was 7 per cent, or at an annual average rate of increase

over the two-year period of better than 3 per cent. It looks as if the Canadian economy, after a period of eight years of uninterrupted post-war expansion, paused in 1954, only to resume its upward trend with renewed vigour, resulting in two years' economic growth being compressed into one year.

Another outstanding feature of Canada's economic achievements of last year was that our expansion proceeded on a broad front covering almost every sector of the economy as well as all regions of our country.

The volume of industrial output was about 9 per cent higher in 1955 than in 1954, exceeding the previous record of 1953 by about 7 per cent. The volume of mining production was 15 per cent above the level of 1954, and considerably higher than 1953, by almost 30 per cent. Manufacturing output in volume terms showed a gain of 7 per cent over 1954 and of 2 per cent over the previous high mark of 1953. The volume output of Canada's electric power and manufactured gas industries rose by 8 per cent over 1954 and 14 per cent over 1953. Many of our key industries chalked up new records. Our steel production rose by over 40 per cent in the year just passed. Notable records were also achieved in other industries, including nickel, iron ore, zinc, asbestos, cement and passenger cars. Even in the newsprint industry, which has been working at capacity in the post-war period, another record was set in 1955, with an increase in output of 4 per cent over 1954. Business also picked up in some industries that had had difficulties the year before, such as the textile industry and the farm implements industry. And, of course, your own industry, the hardware business, kept in step with the nation by chalking up new records. I shall have something to say about this a little later.

That economic expansion was well distributed regionally across Canada is illustrated by the expansion in output in our manufacturing industries. The gross value of production of our manufacturing industries reached a total of \$18.7 billion in 1955, up by 6½ per cent over the year previous. Here are the comparable percentage increases for the major regions of Canada: Atlantic Region, up 4 per cent; Quebec, up 6 per cent; Ontario, up 6 per cent; Prairie Region, up 8 per cent, and British Columbia, up 7 per cent. Employment in all major regions in Canada rose and so did the incomes Canadians were earning. This in turn has made it possible for Canadians to spend more, and merchants across Canada were doing a landslide business. Our retail trade sales reached a record of \$12.7 billion, recording an increase of 6 per cent over 1954. The percentage increases for the major regions were as follows: Atlantic Region, up 6½ per cent; Quebec, up 5 per cent; Ontario, up 7 per cent; Prairie Region, up about 3 per cent, and British Columbia, up 10 per cent.

As for employment and income in Canada generally, two features that became apparent in 1955 are particularly encouraging.

New job opportunities developing have been rising at a more rapid rate than the number of persons entering the labour force. Canada's civilian labour force rose by about 150,000 from December 1954 to December 1955, new jobs by about 200,000, resulting in a drop in the number of unemployed of about 50,000. In December 1955 persons without jobs and seeking work numbered 200,000, or 3.6 per cent of the civilian labour force. This is the same proportion recorded in Canada's previous peak year of economic activity in 1953.

Personal income in 1955 reached a record total of better than \$19½ billion, about 8 per cent ahead of 1954. The income of wage earners and salaried personnel, which represents the bulk of personal income, has been on a rising trend throughout 1955. Running ahead about 5 per cent at the beginning of the year, it was running ahead about 10 per cent at the end of the year.

As a result of higher levels of employment and income and the generally prosperous conditions in the country, the Canadian standard of living rose notably. This is reflected in record expenditures by Canadians on consumer goods and services, about \$16¾ billion, or about one billion dollars more than in 1954. This works out to a per capita increase in consumer spending of 3.6 per cent from 1954 to 1955, or a greater improvement in living standards in real terms than in most other post-war years.

Future Prospects

Looking ahead at what might happen during the coming year, we have good reason to expect a further expansion of the Canadian economy. Two of the most important dynamic elements in our economic outlook are our foreign trade situation and capital expenditures.

In 1955, new peaks were established in both the value and volume of our commodity trade, and the total value of goods exchanged between Canada and the rest of the world was of the order of \$9 billion. This represents an increase of about \$1 billion over the value of the goods imported and exported during 1954.

Total exports did not increase quite as much as did imports, despite significant gains in our sales to both the United States and the United Kingdom. The encouraging strength of the 1955 export market stemmed largely from the persistent world-wide demand for forest products, iron ore, base metals, petroleum and certain chemicals. Total commodity exports during 1955 were about 12 per cent higher in value than during the corresponding period in 1954.

Commodity imports in 1955 were the highest in Canada's history in both value and volume terms. The value of goods imported during 1955 was about \$4.7 billion, over $\frac{1}{2}$ billion or 15 per cent above the 1954 level. Purchases from the United States were higher by about 17 per cent, those from the United Kingdom were up 4 per cent, and the rest of the world increased sales to this country by about 16 per cent.

The outlook for our foreign trade for 1956 continues to be encouraging. The economic prospects of our major customers, the United States and the United Kingdom, appear fairly bright. The continuation of high levels of economic activity in the United States and Europe means that world demand for the products of our forests, mines and factories is likely to be well maintained. There will undoubtedly be some changes in the composition of our exports but any reduction may be more than made good by increased sales of other products, i.e., if softwood lumber sales were not maintained at the record levels of 1955 - and the prospects are they may - increased shipments of forest products such as newsprint and pulp, coupled with higher prices, would more than compensate.

Grain exports in 1956 are likely to be higher than in 1955. You may recall that Mr. Howe stated in Parliament last month that the current outlook for wheat exports was encouraging - that despite a slow start orders had been coming in steadily since November last, and that by March of this year we might pass last year's exports. The addition of these foreign wheat sales, which would normally have been largely in the 1955 export total, will further swell our 1956 foreign sales figure.

The prospects are for imports to continue at a high level in 1956. As our domestic economy expands, we will need more raw materials, consumer and capital goods from abroad. In fact, in some fields imports will aid us in relieving a tight supply situation.

Another important sector of Canadian economic activity of particular interest to the hardware industry involves capital expenditures on such things as new structures and on plant and equipment. Construction activity in Canada during 1955 was at a record level. It now appears that the outlays of \$4.1 billion for new construction that were anticipated earlier in the year have been realized and expenditures for this purpose have exceeded those of 1954 by more than 10 per cent. The accomplishment of this record construction program is particularly noteworthy since most of the increased activity occurred in the latter part of the year. This upsurge in demand took place at a time of high activity in both the United States and Western Europe, making it more difficult to obtain supplies of scarce materials from these sources. The fact that a substantially increased construction program could be accomplished under these circumstances, and with very moderate price increases, reflects great credit on both the Canadian construction industry

and the suppliers of building materials. However, the volume of construction work accomplished in 1955 did not fully reflect the demand for new structures.

In the housing sector, achievements were particularly spectacular, as you probably will have noticed from the record sales of household hardware. Preliminary estimates put the number of new units started in 1955 at 138,000, a significantly larger number than those recorded in 1954, which itself had been a peak year. This expansion in housebuilding was achieved when construction activity was fairly buoyant in most other sectors and without any significant rise in building costs. At year-end the number of housing units under construction numbered 80,000, or 12,000 more than a year earlier. This heavy carryover promises a continuation of a high volume of residential construction in 1956, particularly for the first part of the year.

While housebuilding activity considerably exceeded expectations most other types of construction fell somewhat short of builders' intentions. This may have been partly due to delays in getting projects underway and partly to the tight materials situation.

There is every indication that this high level of construction activity will continue through the present year. Preliminary returns from the survey of investment intentions indicate that Canadian business, governments, institutions and housebuilders plan, in total, further substantial increases in their construction spending in 1956. The 1956 program will probably call for a continuation of the high level of activity in residential, commercial and institutional building and an increased emphasis on industrial and engineering types of construction. Such a construction program will place substantially increased demands on the construction industry and on suppliers of building materials. Increased activity and careful planning by these industries will be necessary if this program is to be accomplished.

Capital expenditures include, in addition to construction outlays, those for the acquisition of producers' machinery and equipment. It would appear that spending for this purpose in 1955 was a little greater than had been anticipated and that capital spending in total for the year will probably exceed \$6 billion. The indications for 1956 are that purchases of machinery and equipment will also be above those of last year, particularly in the cases of industrial and mining machinery, and will likely approximate the high levels reached in the period of rearmament of 1952 and 1953. Given adequate supplies, capital expenditures in 1956 may exceed those made in 1955 by a significant margin. Overall figures and details of investment plans of Canadian industry and other groups should be available shortly, when Mr. Howe tables in Parliament the White Paper on the Investment Outlook.

All major regions of Canada are likely to participate in the expanding investment program anticipated for 1956. There are major resources development projects in almost every region, from new pulp mills in British Columbia to base metals and fisheries developments on the Atlantic coast, from oil, natural gas and other mining developments in the Prairie Region to new hydro and secondary industrial developments in the Province of Quebec. In Ontario the expansion is on a very broad front. Heavy industries, such as steel, plan to spend many millions of dollars on expansion projects and so do some fabricating industries including steel pipe and machinery-building, not to mention scheduled major power and transportation developments and a number of large projects being undertaken in the commercial, institutional and public sectors.

I gather that you are particularly interested in the progress in sight for two major development projects: The St. Lawrence Seaway and the Trans-Canada Pipe Lines.

With respect to the Seaway, a considerable speed-up in construction work is expected for 1956. Some 30 contracts have been awarded, involving about \$60 million, and much of this work will be carried out this year. A number of new contracts are expected to be let in the near future, including a \$37 million contract for the building of the Soulanges-Beauharnois section of the Seaway.

As far as the Trans-Canada Pipe Line is concerned, perhaps the most important question that Canadians generally and people in Ontario particularly are asking is: When can we expect western natural gas to reach Toronto and Montreal? Mr. Howe answered this question recently when he said that the "best estimate, made after rather careful study of all the factors, would be the autumn of 1958. The pipe for the western section of the line has been ordered." Mr. Howe expressed the hope "that construction can commence on the western end as early this spring as weather will permit". In a major project like building the trans-Canada pipe line, as well as the supplementary gathering, a cleaning and distribution facilities, some difficulties must be expected, particularly with respect to the financing of the project and in developing markets. As these difficulties are overcome, the sheer physical dimensions of the project, involving as they do something like a billion dollars, will make it necessary to spread out the work over a period of two or three years.

Summing up, with demand in most sectors of the Canadian economy continuing to be fairly strong, we can expect another record year of overall economic activity. I would not be surprised to see Canada's gross national product rise by another billion this year, given fair crops. In being generally optimistic about Canada's future for the coming year, we should remember that, as the year proceeds, we may again encounter some of the difficulties that have receded in importance in the last 12 months.

As Canadian industry continues to expand its capacity, it is likely to overtake demand which at present is particularly buoyant. Hence we must expect increasing competition, not only from our foreign suppliers but also from domestic producers. This continuing challenge, which is pushed into the background in a period of rapid growth, reappears regularly when the economy is less buoyant. The objective of increasing efficiency and remaining competitive is one which Canadian industry wants to keep continuously in mind. It is perhaps not good enough to think of it only in times when the going is tough and forget about it when business is brisk.

There are other uncertainties. As 1955 was drawing to a close, our friends in the United States were fairly optimistic about their economic outlook for 1956. But we are now finding some doubt expressed about the rate of expansion the U.S. economy might experience this year, largely because of three adverse factors: a decline in motor car sales, a drop in housing starts, and a set-back in the stockmarket.

The forces of expansion in the Canadian economy seem to be somewhat stronger than those operating in the American economy, on the basis of reports we have been getting lately from U.S. experts. Hence, economic activity in Canada may rise during this year even though there may be some slackening in the U.S. economy. But the fact remains that sooner or later we may feel the impact of a pause in the expansion in the States, particularly if that pause is of longish duration.

If such a situation were to develop, Canadians might do well to try to see things in perspective. If we are able to make rapid economic progress in our stride as we have done in 1955, we should be equally able to see the difficulties we may be encountering as what they are: as roadblocks in the way of further economic expansion with which we probably can cope, in concert with other like-minded nations, and not as major calamities.

S/A