



STATEMENTS AND SPEECHES

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No. 52/57 CANADA'S ECONOMY IN 1952

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The Canadian people as a whole have continued in 1952 to enjoy a condition of prosperity marked by strong export demand for staple products, substantial investment in defence and resource-development projects, generally favourable conditions as regards employment and income, and, following the successful salvage of wheat left unharvested last winter, by the production of a record grain crop.

Defence programmes continued to play a major role in the main trading areas of the Western world. Increases in defence production and in the armed forces occurred in most countries. Nevertheless, the extent of inflationary pressure was substantially less than in 1951, and decreases in wholesale and consumer prices occurred in many countries. At the same time, balance of payments problems continued as a major obstacle to the achievement of more stable international trading relations.

In Canada, market forces have been in fairly even balance during the year. Further expansion in the defence programme and increases in both investment and exports have been achieved without adverse effects. The fairly even tempo of activity during 1952 was in sharp contrast to conditions in the two previous years.

The general reduction of inflationary pressures permitted some modification in tax and credit policies introduced earlier, and the cessation of deferred depreciation has recently been announced.

Defence Preparedness

The Canadian defence production programme is now approaching the end of its second year. The first year was one of preparation, of designing and constructing plants and equipment, of determining types of military goods to be produced, of undertaking developmental work, and of placing some of the most important contracts. At the same time there were purchases of many miscellaneous items for which no special facilities were required. The current year may be regarded as one in which many of the specialized facilities have been put into place and the production of various complicated items commenced. Large scale production of complex equipment should characterize next year, while minor programmes will tend to fall off.

A significant indication of the progress of defence procurement is the changed position of Canada-United States mutual procurement. During 1951, the value of Canadian Government defence orders placed in the United States was nearly two and one half times as large as corresponding United States orders placed in Canada. In 1952, on the other hand, the situation altered so radically that the total for the two years should be approximately in balance. This development has taken place for several reasons. The United States has become increasingly aware of Canadian facilities, while Canada has been able to depend more fully upon its own sources of supply and, in some cases, to reduce or cancel orders already placed in the United States. During the first year, in particular, the United States was the only available source for U.S.-type equipment. An illustration of Canada's increasing capacity to supply its own needs is the decision to use the "Orenda" engine produced by A.V. Roe (Canada) Ltd. to replace the U.S. J-47 in the F-86 "Sabre" fighters.

Canada's defence programme is one of preparedness, and the international situation suggests that the need for such a programme may continue for a considerable time. The creation of basic capacity for rapid increase of output in the event of an emergency is therefore an essential objective. Government measures used for ensuring that the necessary capacity should be put in place include capital assistance, special capital-cost allowances or accelerated depreciation, and priorities on essential materials.

Much of the key plant and equipment is now operating. An outstanding example is the plant making "Orenda" jet engines, which was opened in September 1952. Rapid progress is likewise being made in setting up capacity for producing such "Orenda" components as fuel systems, combustion chambers, light metal castings, and turbine blading. In shipbuilding, Canada is now able to produce the propulsion machinery for its own escort vessels. Under the weapons programme, new facilities have been created for the manufacture of various U.S.-type products. In the electronics field, also, Canada is keeping abreast of the rapidly changing situation, and now possesses capacity to turn out such things as "walkie-talkies," gunfire-control equipment, and subminiature tubes.

Aircraft constitute the largest single programme. The output of F-86 fighters is progressing very favourably. In the case of the CF-100, there have been various technical problems connected with the development of a new plane and with the creation of the necessary plant and tooling. Deliveries are now going forward on the main contract, and satisfactory progress is shown in other phases of the aircraft programme. Other hard-goods programmes are not so large, but here too production is going ahead or is in advanced stages of preparation.

From now on it is likely that the miscellaneous programmes and defence construction projects will tend to play a lesser role, but it is expected that the output of hard-goods such as aircraft, ships, guns, ammunition and electronics will continue to be very significant even after March, 1954. As long as the international situation remains uneasy, it will be necessary to keep up to date in all the fields where technological changes make for rapid obsolescence.

Linked closely with the government defence-production effort is the extensive work on strategic resources development which is being carried out by private industry. In 1952, this latter investment was roughly of the same order as the outlay on defence procurement. About two-thirds of it went into developing resources of energy, especially hydro-electric power. At the same time, capital outlays in the petroleum and natural-gas industries are becoming increasingly important. The rest of the investment in strategic resources development is going largely into metals, wood products and heavy chemicals. The Canadian chemical industry is experiencing the largest expansion in its history.

As a result of these efforts, Canada is emerging as a country with very important capacity for defence production and is, at the same time, becoming daily stronger as a supplier of basic strategic resources. We are making good progress towards the goal of defence preparedness -- effective rearmament within a strengthening economy.

Capital Investment

Canada's total investment programme in 1952, including outlays for defence installations, the development of strategic resources, and all other purposes combined, is expected to reach \$5.2 billion. Even after allowance for higher costs, this represents an increase of about eight per cent over the volume of work realized in 1951.

Within this total programme there has been a continuing shift toward expansion of basic industrial capacity with less emphasis on the consumer goods and service sectors. Between 1949 and 1951 total outlays in industries which may be considered as basic to Canada's preparedness programme have risen by 40 per cent, and a further 20 per cent increase is indicated in 1952. On the other hand, physical investment in light manufacturing, trade and service has declined. Housing activity also declined after 1950, but there was an upturn in housing starts in the latter part of 1952.

Following 1950, with but a limited volume of resources available for capital expansion purposes, government measures were designed to check too rapid expansion in less essential investment. Many of the less essential projects which would have been undertaken in more normal circumstances have, however, been only postponed and may be expected to proceed as physical and financial resources become available. This accumulation of projects will provide an important support to general activity in the period ahead.

Foreign Trade

The high level of demand in foreign markets has led to substantial expansion in exports of Canadian products. The value of commodity exports for 1952 will reach about \$4.1 billion, the highest level in history. With only minor changes in export-price levels, most of the increase in the value of exports resulted from an increase in unit volume. During the first nine months of 1952 the actual volume of exports was more than twelve per cent higher than during the same period of 1951. The largest items in these increases were among such

traditional export products as wheat and other grain, newsprint, and base metals, together with such manufactured products as automobiles and farm implements.

The value of imports has been running somewhat below the levels of 1951. A very important factor in this development has been the significant decline in import prices. This decline resulted mainly from the fall in commodity prices from the speculative peaks reached in the early months of 1951, and partly also from appreciation in the Canadian dollar, which further reduced import values expressed in terms of Canadian currency. As regards the volume of imports, it may be added that, during 1951, an important part of our expanded imports was used for building up inventories, but in 1952 inventory policy in connection with a number of commodities has been more cautious. On the other hand, increased imports of iron and steel products roughly offset the decline in volume of other products, leaving total import volume about the same as in 1951.

Expansion in the volume of exports, accompanied by declining prices of many imported products, resulted in a change in the trade balance from a deficit in 1951 to a surplus in 1952. Resulting demand for Canadian currency in foreign countries contributed, with other causes, to a further appreciation of the Canadian dollar which began late in 1951.

The pattern of Canadian trade with main trading areas has shown a marked change since 1950. In former years, Canada had an export surplus with the United Kingdom and Europe and an import surplus with the United States. In 1939, the United States supplied 66 per cent of our imports while taking 41.6 per cent of our exports. In 1950 these figures were nearly balanced, and the United States supplied 67.1 per cent of our imports while taking 65 per cent of our exports. The subsequent increase in imports has come largely from the United States, while the expansion in our exports going largely to the United Kingdom, Western Europe and Latin America has been reflected in a decline in the proportion marketed in the United States. From January to September 1952 we obtained 73.9 per cent of our imports from the United States, while of our total exports, 53.5 per cent went to that country.

During the year 1952, the value of trade with the United States has undergone little change. Exports of such essential materials as wheat and base metals to overseas markets have shown substantial further increase. On the other side, the domestic requirements of defence and heavy industry in certain overseas countries, particularly the United Kingdom, have been among the influences standing in the way of an equivalent increase in their exports to us.

Conference of Commonwealth Prime Ministers

There has been widespread and increasing recognition, in Canada as elsewhere, of the need for international policies directed towards the liberalization of trade, restoration of sterling convertibility, and strengthening of the economies concerned. These and related matters were among the principal subjects of discussion during the Commonwealth economic conference held in London early in December 1952, in which Canada took an active part.

Published reports of this conference show a gratifying wide measure of agreement on the need for progressive steps towards these objectives and the procedure necessary to bring them about. Extent and timing of the programme will depend largely upon the internal policies of sterling countries, the co-operation of other trading nations, and the international financial support available. The specific measures that may be taken by various countries, after due international consultations, to carry out these policies will undoubtedly be important to Canada.

Meanwhile efforts are continuously being made to maintain and strengthen the Canadian trade position abroad. More than one hundred trade commissioners are actively promoting two-way trade in their respective territories. Canada recently participated in a trade conference held under the auspices of the General Agreement on Tariffs and Trade at Geneva, and just before the end of 1952 concluded a new most-favoured-nation agreement with Egypt. Preparations are well under way for the Canadian International Trade Fair, to be held in Toronto in June 1953, and results to date indicate that it is likely to be well patronized by exhibitors and buyers. To improve relations with Latin America, a goodwill trade mission representing agriculture, industry, and government, is scheduled to leave Canada early in January for an extensive visit to nine countries.

Industrial production in 1952

It will be apparent from preceding paragraphs that demands for defence needs, for investment and for exports during 1952 were significantly greater in each case than in the preceding year. Activity in industries producing for all these markets was affected accordingly. On the other hand, the caution displayed by domestic consumers in the last half of 1951 continued into the early months of 1952. Business sentiment was also cautious, and, in contrast to much of 1951, some reductions in inventories occurred. These factors contributed to lower levels of output in certain industries when compared with the extremely high levels of 1951.

Reflecting these diverse influences, the index of industrial production during the first five months of 1952 ran between two and three per cent below the corresponding months of 1951. These declines were associated primarily with decreases in a few specific industries. There was some resulting unemployment, primarily concentrated in urban areas in Ontario and Quebec. During the latter half of the year, however, conditions in these sectors showed marked improvement.

In the field of consumer durables, sales during the early post war years reached record levels because of substantial accumulated demand, large holdings of liquid assets and high current incomes. High production levels materially reduced the extent of the backlog of demand, and this condition play no small part in the decline in sales which followed the introduction of consumer-credit controls and higher excise taxes. Since the spring of 1952, however, a renewed increase of sales has permitted inventories of most consumer durables to be reduced, and the production of automobiles and some other items has once again reached high levels.

During recent years, the consumption of textiles and clothing has shown a downward trend in Canada both in total and on a per capita basis. Following the outbreak of war in Korea, there was an upsurge of activity which continued for about nine months. Retail sales at that time did not, however, reach expectations, and substantial increases in inventories developed at all levels in the industry. Some reduction in employment and production and a tendency to shorter working hours developed and continued well into 1952. Recovery in retail sales of women's and family clothing, however, began early in the year, and by the summer months the inventories of many textile products had been reduced to more satisfactory levels.

Housing construction also experienced a decline in activity during the last half of 1951 and the early part of 1952, although for the construction industry as a whole this decrease was offset by expansion in defence and other construction. Higher costs, carrying charges on mortgages, and municipal taxes were all factors contributing to a lower rate of housing starts. During the summer months, however, increases in the number of housing starts began to reappear, and it is likely that housing starts for 1952 as a whole will exceed those of 1951.

All in all, it is expected that the volume of national output for 1952 will exceed even the high levels of 1951, with most of the increase developing in the latter half of the year.

Prices and incomes

There have been sizeable reductions in many international commodity prices since they reached peak levels in the first quarter of 1951. Initial decreases occurred in the prices of commodities which Canada imports, including rubber, tin and wool, but during 1952 declines spread to such Canadian export products as lumber, shingles, and some base metals such as lead and zinc. The rise in the value of the Canadian dollar tended to carry further the already substantial decline in the domestic price of various imported products. By September the price index of imported products was running 19 per cent below the level for the year 1951 as a whole, while the price index of Canadian exports was about $3\frac{1}{2}$ per cent below the 1951 level.

There have been decreases in some agricultural prices. Increases in hog production began to have some softening effect on pork prices after the higher levels reached in July 1951. In January 1952 pork prices dropped sharply to support levels where they have remained. Beef prices also dropped sharply at the end of February as a result of the outbreak of foot and mouth disease in Saskatchewan, and the resulting United States embargo on certain imports from Canada. The embargo is expected to end early in 1953, and it no longer applies to hay. The Government has given continuing attention throughout the year to the problem of markets and prices for dressed meats.

These developments contributed to a downward trend in wholesale prices, and there have also been some decreases in the cost of living index. By October, the consumer price index had declined roughly two per cent

below the peak reached in January.

In agriculture, high levels of income will again be reached. Although adverse weather conditions in the fall of 1951 delayed harvesting, favourable conditions in the spring of 1952 permitted recovery of substantial amounts. This fortunate development was followed by the production of the largest Canadian wheat crop on record, and the movement of grain to foreign markets has been very heavy. Farmers have generally co-operated in holding back cattle from market, and price supports on high grade beef and pork have prevented more serious income losses to farmers.

With high levels of employment and rising wage rates, labour income has reached record levels. In July, labour income for the first time exceeded \$900 million in a single month. For the full year it will be close to \$10³/₄ billion. In the light of recent decreases in consumer prices, this has resulted in an increase in the purchasing power of the general public in terms of actual goods and services. As we go into 1953, this high level of purchasing power will provide an important element of strength to consumer expenditure and the Canadian economy as a whole.

Prospects for 1953

While economic events during the coming year are subject to developments in the field of international relations, present prospects show little indication of any major change in 1953 from the generally favourable conditions that have prevailed in 1952.

Production for defence purposes will continue as a significant factor in the economy. Strategic resource development may absorb even more resources than in 1952. Total capital expenditure will continue at a high level.

Prospects in the export field are more difficult to predict. During the first nine months of 1952, Canada's exports to countries other than the United States showed an increase of 34 per cent over the like period in 1951. Because of exchange difficulties, it would not be surprising if sales to some overseas countries were not fully maintained at the exceedingly high levels realized in 1952. At the same time, present prospects would appear to indicate the continuation of a firm market in the United States, our largest customer. On the whole, foreign demand is likely to remain firm for most of Canada's leading export items such as wheat, newsprint, base metals, and other raw and processed materials required to support the generally rising level of industrial production in other western nations.

While there could be soft spots, prospective demands for defence, for capital expansion, and for exports, when taken in conjunction with the present strengthening in the domestic consumer market, suggest the maintenance in 1953 of a generally high level of activity and continued moderate upward movement in incomes and employment.