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No. 59/1 REVIEW OF CANADA'S ECONOMY IN 1958

by

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and Commerce, December 29, 1958.

As 1958 draws to a close, there are many signs of renewed economic growth in the free world and particularly in North America. At different stages within the past two years, most areas of the world have encountered some easing in the tempo of economic activity. This interruption was relatively more pronounced in the United States than elsewhere. Business conditions in that country underwent a relatively sharp, but short, set-back during the period from late summer 1957 to the spring of 1958. Although the subsequent recovery has been rapid, over-all output for 1958, as a whole, has been below the level of the preceding year. The adverse effects upon the rest of the world, of reduced activity in the United States have been less consequential than might have been expected. During this period, imports into the United States declined less than either exports or industrial production. Partly as a result of this decline in the trade balance of the United States and also reflecting the high level of foreign investment and aid, reserves of the non-dollar trading areas have increased substantially. Notwithstanding improved international liquidity, reduced activity in the United States and moderately lower factory output in a number of other industrial countries has been reflected in a decline in world trade from the 1957 level.

As a major supplier to the United States and other manufacturing countries, Canada could not escape the adverse effects of this world-wide decline in production. Material-producing industries, in particular, encountered a fall-off in demand for their products. Nor were these effects confined to export shipments. They have also exerted a dampening influence upon business investment which has been accentuated because of the fact that much of the build-up in productive capacity in recent years has been concentrated in export-oriented industries.

Considering the severity of the impact of these adverse influences from abroad, the pace of economic activity in Canada has been remarkably strong. Weaknesses in some areas of demand

have been offset by increasing strength in others and business conditions have in general remained favourable. The downward trend in overall production and employment, in evidence in the closing months of 1957, was checked early in 1958. Despite Canada's sensitivity to world market influences, the extent of contraction in the Canadian economy was of much smaller dimensions than in the United States.

On the basis of nine-month figures, it now appears that Canada's Gross National Product for 1958 will exceed \$32,000 millions, 2 per cent above the figure for 1957. Prices on average have increased by almost the same percentage. Overall production in volume terms has equalled the level of the preceding year. Employment also has held up well and by the last quarter, jobholders numbered about the same as a year ago. Industrial employment has been running moderately lower but this has been offset by a further filling out in service occupations. The labour force has grown at a slower rate this year, reflecting a level of immigration less than half that of 1957. Unemployment has been higher but the percentage increase from the same date a year ago has been narrowing sharply.

Foreign Trade

Despite conditions of ample supply in world-commodity markets, Canada's sales abroad have not followed the downward trend of world trade at large. Total exports in 1958 have remained at about the same level as in the preceding year. Substantially increased sales have been achieved for several commodities. Prominent among these is wheat, exports of which reached 316 million bushels in the crop year 1957-58 - up from 267 million bushels in the preceding year. Sales in commercial markets accounted for a good part of this increase. The improved protein quality of the 1957 and 1958 crops has been an important factor contributing to higher sales. Shipments made to Colombo Plan countries under long-term credit and aid arrangements have further added to the total movement. Barley also has been exported in larger quantities during the past year, most of the increase going to the United Kingdom. Canadian beef has been moving into the United States market in substantially increased volume to supplement drought depleted supplies in that country. The annual export value of this item has surpassed the \$100 million mark for the first time since 1950. Among Canada's newer exports, sales of uranium have risen more than two-fold since last year to a figure well in excess of one-quarter billion dollars annually. With the delivery of natural gas through the West Coast transmission line, the export value of this item is fast approaching the \$20 million level. Within the category of manufactured goods, deliveries of military aircraft to NATO countries have added more than a \$100 million to exports during the past year. Among Canada's more traditional markets, sales of farm implements to the United States have been substantially higher during 1958. Increases in the value of exports of the foregoing items have roughly offset declines in a number of Canada's principal forest and mineral export commodities. On

the whole, the reduction in exports of industrial materials has been relatively moderate when considered in relation to the decline in industrial activity in the United States.

Imports into Canada, on the basis of figures available to date, are about 10 per cent lower in 1958 than in the preceding year. A more moderate pace of industrial activity in Canada and reduced outlays for plant and equipment have involved widespread declines in imports. Smaller outlays for industrial materials, machinery and related investment goods have accounted for most of the reduction in total purchasing from abroad. Some consumer good imports have declined also, particularly cotton and woollen products and North American-type cars and parts. Geographically, nearly all of the reduction in total imports is accounted for by the fall-off in purchases from the United States. Imports from the United Kingdom, which in 1958 have included substantially larger shipments of automobiles and commercial aircraft, have held about even with the previous year's level. Consequently, Britain's share in Canada's import market has increased from 9 to 10 per cent. Purchases from other major overseas trading areas also have been reasonably well maintained. To this extent, the reduction in Canada's requirements from abroad has not reacted to the detriment of her principal overseas customers.

A sustained level of merchandise exports, and lower imports, have entailed a substantial decline in Canada's merchandise deficit which for the first 10 months of the year stands at \$242 million, compared with \$733 million for the same period in 1957. Most of this reduction has occurred in the commodity deficit with the United States which has declined from \$983 million to \$589 million. On the other hand, Canada's imbalance on non-merchandise items, such as tourist expenditures and interest and dividend payments, has been increasing. For the first nine months of 1958, Canada's deficit with the rest of the world on all current transactions amounted to \$795 million, compared with \$1150 million in the same period of the previous year.

Capital Investment

At mid-year, capital spending plans, both private and public, provided for outlays of \$8.5 billion in 1958. House-building has proceeded more rapidly than anticipated at that time. Capital expenditures of other types appear to have reached and possibly exceeded the level previously indicated. Overall capital outlays for the year may fall but little short of the record \$8,700 millions spent in 1957.

Though little changed in total, there has been a substantial shift in the composition of capital outlays in 1958. Much of the recent build-up in mineral and forest product industries had been completed by the end of 1957 and expenditure of this type has been down substantially. On the other hand,

large outlays have been involved in the late construction stages of the St. Lawrence Seaway and the Trans-Canada gas pipeline system. Power development also has held close to the record pace of last year. Expansion in the fields of trade, finance, and other service industries has continued at an undiminished rate. At the same time, institutional and government building has continued upward in response to the growing need for additional facilities.

Most noteworthy of all has been the spectacular rise in housebuilding. It is estimated that housing starts for the year will approach the 160,000 mark, 30 per cent more than last year and well above the previous record of 138,000 units in 1955. Close to 150,000 dwelling units have been completed. A much increased carryover of unfinished houses at year-end will give an important lift to employment during the winter. The current upsurge in housing activity began in the latter part of 1957. At that time, minimum requirements for loans obtained under the National Housing Act were relaxed and large federal sums were made available for mortgage purposes. An important factor contributing to the sustained high level of housebuilding throughout 1958 has been the improved availability of mortgage funds from private sources.

Because of the changed make-up of overall capital expenditures in 1958, the programme has had a somewhat altered physical impact upon the economy. With less expansion in material-processing industries, outlays for machinery and equipment have been lower. Although much of the impact of this reduction has fallen upon imports, it has resulted also in a lower level of activity in machinery-producing industries. On the other hand, there has been a considerable increase in construction work, particularly building construction. This type of investment has a relatively low import content and, accordingly, the demand-creating effects of the greater volume of work have been felt primarily in domestic industries. The additional demand for labour and materials arising from the increase in building construction has, in fact, been one of the principal stimulating forces in the economy during 1958.

Incomes and Consumer Expenditure

Another factor having an important sustaining effect upon general activity during the past year has been the high level of consumer spending supported by rising personal incomes. Of the principal forms of income, social security payments and other types of government transfers to individuals contributed more than any other category to the increase in current purchasing power. On the basis of nine-month figures, payments of this type have been running more than one-fifth higher this year compared with last. Farm income has shown a similar percentage gain mainly as a result of substantially larger livestock marketings. Certain categories of investment income also have increased quite sharply. The percentage rise in employee

earnings, on the other hand, has been of more moderate proportions. Slightly lower employment together with a moderating upward trend in wage rates have resulted in a 2 per cent increase in labour income. Personal income, in total, increased by about 5 per cent between 1957 and 1958. Personal direct tax payments have been lower so that income left at the disposal of individuals has risen by about 6 per cent. Per capita income in real terms has maintained an upward trend.

Consumer spending in 1958 has increased by about 4 per cent from the level of the previous year, reflecting mainly higher outlays for food and other soft goods, services, and certain durable lines. Of the major consumer items, automobiles is the only one to show a significant decline. While spending more, Canadians have also been saving more. As a proportion of disposable income, personal savings have increased from 7 per cent in 1957 to about 9 per cent in the current year, much of this in liquid form. This is one of the highest ratios on record for a peacetime year. The financial position of consumers, on average, has been strengthening while living standards have been maintained.

Industrial Conditions

The changing pattern of market demands during the past year has resulted in quite divergent conditions among Canadian industries. Many consumer lines, construction, and related material-producing industries have had a good year - in some cases a record one. On the other hand, most durable goods producers and export processing industries have experienced set-backs. In aggregate terms, shipments from domestic sources have declined less than imports, but in some manufacturing lines import competition has been felt keenly.

Among the consumer-based industries, the food-processing group has had an unusually busy year as a result of rising domestic demand and increased marketings of livestock and other farm products. In fish products industries, the tremendous sock-eye salmon catch in B.C. was the highlight of the year; however, landings on the East Coast have been down. In the clothing and textile trades, a high level of purchasing at retail has been accompanied by a quite substantial drawing down of stocks, and output in the industry has declined temporarily. In the case of cotton and woollen fabrics, imports have shown about the same percentage fall as domestic shipments, indicating that most domestic producers have been holding their own against foreign competition. In synthetic lines, however, domestic manufacturers have witnessed a further diminution in their share of a somewhat smaller market. Leather goods manufacturers, on the other hand, have maintained a fairly steady volume of business. Automobile producers have been affected by a moderate decline in total sales in the Canadian market and also by quite substantial inroads on the part of European-type cars. In the first nine months of 1958, automobile and

truck production fell off by about 18 per cent; however, output has picked up in the last quarter. Household appliance producers, on the other hand, have enjoyed a stronger market this year and in all major lines (except refrigerators) have held their own against foreign competition.

A number of Canada's principal material-producing industries have had a lower level of output in 1958 because of declining export demand. These include pulp and paper, nickel, asbestos, petroleum and iron ore. For certain other items, such as copper, lead and zinc, output in tonnage terms has been maintained, but lower prices have meant substantially reduced dollar sales and profits to producers. The market for lumber products, on the other hand, has improved in 1958, mainly in response to the upsurge in domestic housing but also reflecting larger shipments to the United States. Some mineral industries also have done better. Gold production is up moderately. More natural gas has been needed to provide for expanding domestic and foreign outlets, and uranium output has moved up to the level provided for under-existing contractual arrangements. While the Canadian market has absorbed substantially less steel this year, most of this reduction has fallen on imports. Although operations in the primary iron and steel industry were affected for a time by a strike shut-down, otherwise the operating rate has been considerably higher in Canada than in the United States. In chemical industries, total shipments have increased moderately despite a decline in exports of fertilizers and plastics.

Conditions in Canada's major equipment industries reflect the decline in business investment and no significant increase in new orders has yet occurred. An important exception is the farm implement industry which has raised its level of operations during 1958 mainly as a result of increased sales in the United States market and higher farm incomes in Canada.

Prospects for the Coming Year

Of the industries which had previously suffered a decline, most have experienced some degree of improvement by year-end. In aggregate terms the pick-up in production to date has been quite moderate. There is, however, strong indication of a further expansion in market demand. Partly as a reflection of this improvement and also contributing to it, is the fact that inventory liquidation is now coming to an end. In the first part of 1958, the tendency to meet orders by a drawing down of stocks was quite prevalent throughout a broad segment of Canadian industry. Conditions in this respect still vary from one trade to another. On balance, however, it now appears that the full impact of market demands are being reflected in new orders at the producer level. Operating levels are rising in a number of industries and this, in turn, is having a favourable effect upon earnings. In the months immediately ahead, this underlying improvement will be masked by the customary winter slow-down in outside operations, accompanied by a relatively high level of unemployment. Nevertheless,

construction activity is likely to be higher than usual this winter, partly due to the record carryover of unfinished houses and also as a result of the special measures which have been taken to stimulate off-season work.

The strength of further recovery will depend in large part upon external influences. In this regard, recent economic developments in the United States are encouraging. Production, in that country, has already recovered nearly all of the previous decline, and employment, after making allowance for usual seasonal changes, is now moving upward. Moreover, the present upswing appears to be broadly based and prospects of sustained expansion are generally considered to be good. Increased activity in the United States will, in turn, reinforce measures being taken internally in other industrialized countries to stimulate stronger rates of growth. Recent additions to hard currency reserves means that, in a number of these countries, some rise in domestic consumption could occur without strain on foreign balance positions. In these circumstances, some upturn in world demand for industrial material is likely to occur during the coming year. With greatly increased capacity in export industries and expanded reserves of proven resources, Canada is better equipped than ever before to meet increases in requirements from abroad. For the present, many of the commodities of importance in Canada's export trade are in ample supply and this is being reflected currently in export levels. In general, export markets may be expected to strengthen as the year passes.

In recent months, new capital expenditure plans have been appearing in increasing volume. In terms of the actual amount of physical capital being put in place, this rising volume of new work may not for a time fully compensate for the termination of work on large projects now being completed. What is presently known of capital expenditure plans for 1959 indicates that business investment will be up in some sectors but moderately down in total. However, a period of improving business conditions tends to encourage the creation of new expansion programmes and the speeding-up of existing ones. In the current situation, there is likely to be a further filling out of business investment intentions affecting the short as well as the longer term. Meanwhile, outlays for institutional building and public projects are continuing to increase. In aggregate, capital spending in 1959 may be only slightly less than in the current year. A further rise in the proportion of total outlays spent on building construction, as opposed to engineering construction and industrial equipment, appears probable. This means that the domestic content of the programme will remain relatively heavy.

Perhaps the sharpest impetus to demand in the period immediately ahead will come from the consumer. This new punch may be sparked by the resurgence of consumer interest in durable goods, particularly automobiles, sales of which have been lagging in the last two years. Also, the rising volume of housing completions will give further momentum to the upward trend in

purchases of home appliances. New incentives to buy will be reinforced by the improved financial position of consumers and the continuing rise in personal incomes. These conditions augur well for the enterprising retailer.

All in all, the current improvement in economic conditions is proceeding on a sound basis. The upward movement of wage rates has moderated, but employment prospects are improving and purchasing power at the disposal of the wage earner is being maintained. Prices of materials have firmed, but with capacity being ample, have not surged upward. At the same time, output in many industrial establishments is moving closer to the optimum level of plant operation. These developments should help to restrain the upward pressure on prices and also contribute to some recovery in business earnings. The market forces which have been described give promise of a progressive increase in physical demand, yet give little indication of an upsurge of boom proportions. In the continuation of such a balanced improvement lies the hope of achieving prolonged and steady growth.

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