

# STATEMENTS AND SPEECHES

INFORMATION DIVISION  
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Statement by the Minister of Trade and  
Commerce and Minister of Defence  
Production, Mr. C.D. Howe.

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## ECONOMIC REVIEW 1955

Even by comparison with previous expansionary eras, 1955 has been a year of remarkable achievement. Not only has it been a period of record activity but production has increased more rapidly than in any other post-war year. It is now estimated that the Gross National Product exceeded the previous year's mark by 10 per cent. The rise in the physical volume of production was almost as great, prices having risen but slightly. The sharpest year-to-year rise in physical output hitherto achieved within the past decade amounted to 6 per cent. Employment also has shown the largest increase in years, and in the last half of 1955 has been 3 per cent above the level of the corresponding period of the previous year. Unemployment has receded sharply. By and large the slack which had appeared in some industries during 1954 has disappeared.

### Industrial Conditions

The improvement has been widely diffused. Secondary manufacturing industries have experienced a substantial recovery from the relatively depressed conditions of 1954. Textiles, electrical machinery, household appliances and some industrial equipment lines are operating well above last year's levels, although most of these industries remain below their earlier peaks. Though handicapped by strikes, output of motor vehicles has almost reached the record volume of 481,000 units produced in 1953. Passenger car production has set a new record. Production of farm implements and a few other machinery lines has remained low, although there is evidence of some improvement in recent months.

The extent of the pick-up in durable goods industries as a whole is illustrated by the trend of operations in primary iron and steel. A year ago, Canada's steel mills were operating at less than 70 per cent of capacity. Production rose sharply in the early part of 1955 and at the present time full capacity is booked for several months ahead. Production in 1955 was roughly 4.4 million tons of steel ingot, about 42 per cent more than in the previous year and 10 per cent above the previous record in 1953. On the other hand, for the greater part of 1955, imports of steel were substantially below the level of recent years, with the result that the total supply of steel did not keep pace with demand. Operations in a number of industries are presently handicapped for lack of this basic material. Although a tight supply situation in the United States and Europe limits the extent to which imports can be increased, there has been a noticeable pick-up in import shipments in the last few months.

Unlike steel, the output of most other material processing industries underwent little or no decline during the 1954 adjustment period. Production in these and related industries was running close to capacity even at the beginning of the current upswing. In response to the renewed upsurge in world demand during 1955, new production records have been set in such industries as pulp and paper, lumber, nickel, aluminum, petroleum and chemicals. In spite of the large increases in capacity in many of these industries, pressure for additional output has continued to mount.

but have nevertheless experienced an unusually active year. With increased crop, dairy and livestock production, food processing industries have had a busy year. More goods are being transported. Retail trade, financial institutions and other forms of servicing benefitted from the rise in production and incomes.

Through the first part of the year total imports rose about in proportion to the overall pick-up in production. Most of the increase in imported merchandise during this period was comprised of motor vehicles and parts, aircraft and parts, textile fabrics, natural rubber, and other such items not directly competitive with domestically produced goods. Consequently, in such lines as textile fabrics, household durables and electrical machinery, Canadian producers in general retained an undiminished share of an expanding market. This situation prevailed until about July. Subsequently, however, the increase in imports has accelerated and in the three month period, August to October, purchases from abroad were 30 per cent above the level of one year previous. It is significant that in overall terms (the details are not yet available) purchasing from abroad is once again out-pacing domestic production.

#### Foreign Trade

Export trade has probably played a more important role in the current upturn than in any previous post-war year. In the period 1945 to 1953, Canada's industrial growth was sparked to a very large extent by internal influences such as the huge demand backlogs for consumers and producers goods and, later, the post-Korean defence build-up. Although export markets were generally buoyant during this period, only in the two years following Korea was there any increase in the physical volume of exports. In fact, throughout this whole period virtually all of the rise in national output was absorbed domestically.

On the basis of 10-month figures, it now appears that merchandise exports will approximate \$4350 million for the full year, 12 per cent higher than in 1954. In volume terms, the increase amounts to 10 per cent, which raises this year's level to the highest peace-time volume of exports on record.

Nearly all the increase in exports is accounted for by larger shipments of forest, mineral and bulk chemical products partly the result of the coming into production of extensive new capacity. Canada's exports of iron ore are now approaching the \$100 million mark. Oil and uranium are now moving in quantity to foreign markets. Sales of agricultural products, fishery products and secondary manufactures have remained about unchanged.

A notable feature of Canada's trade in 1955 has been the substantial rise in sales to the United Kingdom and other Commonwealth countries. Exports to this area in the first 10 months of the year increased by 27 per cent from the same period in 1954 and account for close to half of the overall rise in Canada's foreign sales. This larger volume of exports to the Sterling Area reflects the rising level of production achieved in recent years and the improvement in the economic and financial position of overseas countries generally. These conditions have permitted extensive relaxation

during the past few years of restrictions against dollar goods which, in turn, has facilitated Canadian sales in these markets. Within the past year, there has been a deterioration in the balance of payments position of the United Kingdom, but this situation is being met without the reimposition of additional import controls. Hence, Canada's trade with the United Kingdom is not likely to be seriously affected.

Rising economic activity in the United States has, of course, brought about an increase in Canadian exports to that country. In the earlier part of 1954, lower sales of farm products, particularly coarse grains, partially offset the rise in shipments of forest and mineral products. The advantageous effects of the economic upswing in the United States became more apparent as the year progressed, and in recent months this market has accounted for the major portion of the increase in total Canadian exports. The great bulk of the production coming from newly created capacity in mineral and forest product industries is being marketed in the United States.

Imports have risen even more rapidly than exports. While the increase in exports has been about equally divided between Sterling countries and the United States, more than four-fifths of the increase in imports in 1955 has come from the United States. Purchases from the United Kingdom have held at about the 1954 level, while those from other Sterling countries are moderately higher. Strikes in British transport industries and the buoyancy of the United Kingdom home market and of other non-dollar markets are two factors which have had an adverse effect on the flow of British goods to Canada. Recently there have been indications of a pick-up in the volume of imports from the United Kingdom.

#### Capital Investment

Even at the beginning of the year capital investment plans, covering all types of plant and equipment and housing, called for a sizeable increase from the level of outlays in 1954. As markets strengthened and pressure for more output developed, investment programs were revised upward. A preliminary estimate indicates that total capital outlays for the year have exceeded the \$6 billion mark, compared with \$5.5 billion in 1954 and \$5.8 billion in 1953, the previous peak year.

Much of the increase is attributable to substantial higher outlays for home building, which now comprises almost one-quarter of total capital investment. It is estimated that 126,000 new dwelling units have been completed in 1955, up from 102,000 in 1954, the previous record. In addition, there is a much larger carry-over of unfinished dwellings at the end of the year.

Mineral and forest products industries expanded more rapidly in response to the pressure of demand. So did a number of utilities. There was an increase from 1954 in spending for institutional buildings and for government investment projects.

Most of the increase in capital outlays during 1955 has been spent on new construction of one kind or another, which has meant an exceptionally busy year for contractors and suppliers. Outlays for machinery and equipment

which had declined in 1954, increased sharply as from the beginning of 1954.

### Canada as a Source of Production Materials

To a large extent, the expansion now underway in Canada stems from the increasing world dependence on Canada as a source of industrial materials. This growing dependence has accounted for the rise in exports, the high level of activity in natural resource industries and for a major portion of the expansion in capital facilities.

Growth based so largely on expansion of capacity for the production of materials destined mainly for the export market may raise questions about the trend of Canada's industrial development. It is relevant to observe that for the last 15 to 20 years expansion in material exporting industries, particularly mineral and forest products, has, in fact, fallen behind the general rate of industrial expansion in Canada. For example, from pre-war to date, output in these export industries has a little more than doubled. Over the same period, output in all other types of manufacturing has increased by about two and one-half times, while production in durable manufacturing alone has tripled. The fuel and energy group of industries has also achieved a tripling in its output during this period.

Consequently, the current shift toward export industries does not necessarily mean a one-sided development of the Canadian economy. In fact, expansion in export industries is very likely to be associated with continuing growth in secondary manufacturing and tertiary industry. This comes about because any growth in the overall Canadian market, irrespective of the cause of that growth, broadens the range of goods that can be economically produced here in Canada. It would seem, therefore, that rising exports of materials are favourable to the further growth and diversification of the Canadian economy.

Nor should it be overlooked that, within the international community of which Canada is a part, the mineral and forest resources which we possess in abundance are becoming increasingly scarce in the highly populated industrialized nations. In this situation, products based on these resources cannot help but continue to bulk large in Canada's export trade.

### Incomes and Consumption

Notwithstanding the strong pull on resources exerted by export and investment demands, the Canadian consumer fared exceptionally well during the past year. On the one hand, rising incomes accompanied by stable prices enhanced the buying power of his earnings. On the other hand, rising production in consumer industries and larger imports of consumer items substantially increased the volume and variety of goods and services available. This generally plentiful supply, in turn, contributed to the stability of prices. The result has been an improvement in living standards seldom surpassed in peace-time circumstances.

Nearly all groups participated in this year's income rise. In the case of wage-earning groups, a very

moderate increase in hourly earnings (2 to 3 per cent on the average for the year), with a longer work week and larger numbers employed, combined to give a year to year increase of 7 or 8 per cent in total labour income. In spite of existing surpluses of farm products, the farming community has done reasonably well compared with the previous year. Good crops have been harvested and livestock and dairy production has increased. Even though grain farmers still hold most of this year's crop, and in spite of the decline in farm prices, cash farm income has held almost even with last year. If one takes into account also the larger volume of farm stocks of grain, the position of the farming community is considerably improved. Investment income is up substantially. The reduction in income taxes, effective last July 1, increased the portion of personal incomes retained by individuals.

For the year as a whole total personal income, after deduction of direct taxes, increased by about 9 per cent. Consumer prices having remained unchanged, buying power on a per capita basis rose by something like 6 per cent within the brief space of one year. Even though personal saving has increased, per capita spending on consumer goods and services is also up significantly, more in fact than in any other single post-war year.

#### The Year Ahead

The general level of activity in Canada was already rising at the beginning of 1955 and the upward trend accelerated in ensuing quarters. At the end of 1955, most key indicators of economic activity are still pointing upward. The current direction of overall activity by itself, however, is not a very trustworthy guide to the future. An upswing in economic activity, especially at the rapid pace experienced in recent months, may itself, in certain circumstances, presage an early reaction. What then is the nature of the influences which underly the current expansion? The evidence at hand is, on the whole, reassuring.

Considering the recent tempo of activity, the surprising thing is the degree to which the economy has thus far been free of those strains and excesses which eventually lead to deterioration. Some materials are in short supply, credit is tightening and interest rates have risen. These factors, however, are simply a reflection of current market strength. In present circumstances they are not likely to dampen expansion but they may, on the other hand, provide a necessary means of regulating its pace. Except in the case of some materials, prices have remained fairly stable. Accordingly, buying habits have not been subject to the disruptions which stem from rising prices. Stable living costs have had a tempering effect on the upward trend of wage rates. At least to the end of the third quarter there has been no overall build-up of business inventories. In other words there is little to suggest that the present high rate of production is borrowing on future markets.

Nor is there evidence of any significant adverse change in the international economic climate. While the exact course of the United States economy is always difficult to predict, there is no sign of slackening, either in the United States or elsewhere, in the strong demand for industrial materials which has been a key factor in increased Canadian exports and in expansion generally during the past year.

the case of wheat, exporting countries continue to hold large unsold supplies. Good crops have been harvested in Europe, limiting the volume of supplies required in Canada's largest market. Even so there is a good possibility that markets will be available for a normal Canadian crop during the current crop year. The deterioration in the balance of payments position of the United Kingdom appears on the way to being met successfully without any serious repercussions as far as Canada's trade is concerned. Elsewhere in overseas markets, the means for payment for dollar goods, as reflected in hard currency holdings, has continued to improve.

Neither domestic or external economic prospects seem likely to halt the upward trend of capital spending which has been underway during 1955. Comprehensive information on 1956 investment plans is not yet available. However, development in industries dependent on Canada's natural resources seems still to be gathering momentum and it is quite possible that this factor will spark still another year of unprecedented expansion. The way is now clear for all-out construction of at least one major gas pipe line. Work on the St. Lawrence Seaway is increasing. Preliminary indicators point to considerably larger capital outlays in mining, mineral, forest and chemical processing and in a number of utilities. The much larger carry-over of uncompleted houses suggests a high level of residential construction at least during the early part of the year. In fact there is presently little evidence of significant decline in any major sector of investment. It is quite possible, therefore, that the aggregate program will be considerably higher. A tight order position on steel, stretching well into the year, tends to confirm this conclusion. It is quite possible in fact that availability of materials and other supply factors will be an important limiting factor on the size of the 1956 capital program. Both new construction and machinery and equipment are likely to participate in the overall increase.

In these circumstances it seems reasonable to conclude that Canada's present expansion still has some way to go. The evidence at hand gives no indication of any general slackening and seems to point to the continuation for some time to come of all-out operations throughout at least the major portion of Canadian industry. Whether or not speculative excesses and other dislocating influences will enter the situation to cause an eventual reaction would seem to depend very largely on the future attitudes and decisions of individual consumers and businessmen. Nevertheless, in its progress to date, the current economic upswing seems solidly based. Given appropriate restraint on the part of all groups in the economic community, prospects for a relatively prolonged period of economic expansion appear bright indeed.

#### Defence Production

Defence procurement continued at a high level in 1955, expenditures being approximately equal to those of the previous year. This stability in the general level of activity may be attributed largely to programs launched in earlier years, which offset a drop in the value of new orders placed in 1955. At the same time, the striking increase in the Canadian gross national product during the year has meant that the overall impact of the defence procurement program on the economy has been slightly reduced.

Defence construction activity was up in 1955 over the previous year. The highlights of this program were the substantial amount of the construction work at Camp Gagetown and the construction requirements of the Mid-Canada line. For the latter a successful summer airlift was completed and arrangements were made for a winter airlift.

The growing ability of Canadian industry to meet the needs of the current defence program has resulted in a substantial reduction in new orders being placed abroad. However, during the year defence expenditures in the United States and the United Kingdom, on orders placed in earlier years, have continued at about the 1954 level. The United States' defence orders in Canada increased in 1955, with purchases of aircraft and parts, picrite, light machine guns, spare parts for radars, and contracts for the overhaul and maintenance of electronic, communication and power generating equipment.

A further decline in expenditures for capital assistance during the year reflects the improved ability of Canadian industry to meet defence production requirements with existing or privately financed facilities.

Once again, no government regulations were needed during the year to obtain the essential materials for the defence program, although some shortages of steel, cement, copper and aluminum were encountered.

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