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No. 58/1 REVIEW OF CANADA'S ECONOMY IN 1957

by

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CANADA'S ECONOMY IN 1957

In the year now ending, Canadians have been witnessing the culmination of a surge of expansion centered in material-producing industries and extending to all segments of the economy. The current phase of this expansion began in 1955, in response to world-wide pressure for more materials to provide for the rising levels of industrial production throughout the world. Substantial additions to capacity are now in operation or are nearing completion in all major resource industries. In some instances this new capacity will provide primarily for domestic needs. A major portion, however, is directed toward export markets. This industrial build-up has been the dominant stimulus underlying the high level of economic activity during the last few years.

With this expansion still at its height, international commodity markets have turned softer partly because of expanding world capacities and partly because of a levelling off in demand. In the United States, industrial output has been declining since the beginning of the year. The upward trend of output in Western Europe has slackened perceptibly in the last two years. In the United Kingdom, as in some other European countries, the intensification of measures to restrict internal demand has adversely affected imports of materials. In response to these changing influences weakness appeared in some commodities in 1956 and subsequently has spread to most of the agricultural, forest and mineral products important in Canada's export trade. As a consequence, the overall trend of Canada's exports has levelled off which, in turn, has had a dampening effect upon new expansion in resource fields. In addition, housing construction during 1957 has been below the unusually high levels of the two preceding years. Despite these adverse influences overall capital expenditure has continued to increase in 1957. However, the

rate of increase has been slower and the volume of new work coming forward has been declining. This change in trend, appearing at a time when additions to manpower and other productive resources have been unusually large, has had a moderating effect upon the tempo of general business activity.

Production and Employment

Gross National Product (which represents the total value of all goods and services produced) has increased by 3 or 4 per cent this year compared to last. Nearly all of this increase is a reflection of higher prices. Overall physical output, except for the decline in crop production, has remained about stable since the fourth quarter of 1956. However, divergent output trends have prevailed in the major industrial sectors.

Activity in the principal services lines (which account for about one-half of total employment) has continued to expand. Easier labour market conditions have permitted further rounding out in these industries which, in preceding years, had been restricted by man-power shortages.

On the other hand, mining and manufacturing output, taken as a whole, have been declining since early in the year. Although the demand for mineral and forest products has weakened during 1957, output of many of the major commodities in this group will be higher on the basis of a full year-over-year comparison. Elsewhere in manufacturing, industries showing increased output for 1957 include food and beverages, clothing and leather footwear, chemicals, business, electrical and industrial machinery, primary iron and steel and railway transportation items. In some of these industries, however, activity has fallen off in recent months. Conditions affecting construction material producers have differed. Many of the items used mainly for housing have been in over supply since the early part of the year. Despite a slightly expanded domestic market, output of primary textiles has declined in the face of rising imports for each of the principal types of fabric. Sales and production of both automobiles and commercial vehicles are somewhat below last year's levels, but demand for European-type cars has continued upward. Household appliance producers have had a relatively poor year. Fewer housing completions and more stringent consumer credit conditions have adversely affected the market for these items. Although domestic producers have, in general, held their own against imports, production of all major appliance items (except freezers) is down. Operations in the farm implement industry have remained at a relatively low level, reflecting the below average crop in the West and lower farm incomes.

Total employment has averaged about 2½ per cent higher this year compared to last although this margin of increase has narrowed in recent months. Despite this rise in the number of persons with jobs, unemployment also has increased. The November level of persons without jobs and seeking work amounted to 5 per cent of the labour force; double the proportion one year ago.

More manpower has become available in 1957 than in any previous post-war year, Canada's labour force having increased by more than 200,000 persons. Approximately 280,000 immigrants entered Canada during 1957 compared with 165,000 in 1956 and 194,000 in 1951, the previous post-war high. More than one-half of this number represents employable persons, the rest consisting of dependents. The great bulk of these new Canadians arrived during the spring and summer months, and despite softer labour market conditions nearly all were quickly absorbed into jobs.

Incomes and Consumption

Personal incomes, in aggregate, continued upward during 1957. Despite shorter working hours, increased employment and higher wage rates have given a further substantial boost to employee earnings. Total labour income, though now levelling off, rose by 9 per cent in the first three-quarters of this year, compared to last. Interest, dividends and other forms of personal investment income increased by about the same percentage. Earnings in the professions and in small businesses generally have been sustained. Social security payments, which normally reflect population changes, have been bolstered by higher pension rates. Alone of the principal forms of personal income, returns to farmers have been lower during the past year. However, improved market prospects for wheat and rising production of animal products may soon reverse this trend. Meanwhile advances on farm-stored grain will give support to the cash position of Western farmers.

Overall personal income in the first nine months of 1957 has increased by nearly 7 per cent compared with last year. Consumer prices between these two periods rose by more than 3 per cent. Accordingly, real purchasing power was higher by about 3 per cent and on a per capita basis almost held even. Most of this change was reflected in spending on consumer items, particularly services, food and other soft goods. Outlays for durable items, as a group, changed little compared with the previous year. Consumer credit, which had risen markedly in preceding years, showed little further increase during 1957. Personal saving in all forms rose moderately.

Capital Investment

On the basis of intentions at mid-year, capital outlays planned for 1957, both private and public, amounted to \$8.8 billion, 11 per cent above the 1956 figure. Housebuilding has proceeded more rapidly than anticipated at that time. Non-residential construction appears to have gone ahead about as planned. On the other hand acquisition of new machinery and equipment has not held up to the levels indicated earlier. It now appears that overall capital expenditure may fall a little short of mid-year intentions. Investment costs have increased about 2½ per cent between the two years.

Investment outlays during the past year, as in 1956, have been unusually large in resource industries and related developments. These expenditures have been directed toward the creation of extensive new capacity in such fields as oil and natural gas, pulp and paper, chemicals, non-ferrous metals, uranium, electric power and various forms of transportation and communication. An unusually large number of expansion projects were started in 1955 and 1956 and many of these, if not already completed, are in a relatively advanced stage. Meanwhile the amount of new work started during 1957 has been less than in either the two preceding years and the carry-over of uncompleted work at the present time is below that of a year ago.

Residential construction has been lower in 1957 than in either of the two preceding years. Housebuilding activity was at a relatively low level in the first part of 1957 following a substantial decline in starts during the preceding year. Subsequently, the volume of housing starts has risen sharply, and by the last quarter is close to the average 1955 level. For 1957 as a whole, it is estimated that close to 120,000 new housing units have been started, compared with 126,000 in the previous year. The present carry-over of uncompleted houses is at least as high as a year ago.

Foreign Trade

World trade has not expanded as rapidly in 1957 as in the two preceding years. Trade in highly manufactured products has continued to mount. However, world markets for most raw and processed materials have softened. In addition, measures adopted by the United States to dispose of agricultural surpluses have adversely affected sales of other countries exporting farm products. In these circumstances, Canada has not experienced as good a trade year as have other more industrialized countries.

On the basis of ten-month figures, the overall value of Canada's merchandise exports has changed little from the \$4.86 billion level of last year. However, sharp ups-and-downs have occurred in certain commodities. Receipts from the sale of wheat, which had increased sharply in 1956, have declined this year though remaining above the 1955 value. Market prospects have been improving recently. Several of the larger wheat-producing countries have smaller crops this year. In addition, the United States had discontinued certain of the more damaging practices previously used to dispose of surplus wheat. Other items showing relatively large declines during the past year include lumber, which was adversely affected by less residential construction in the United States, and in the early part of the year by high ocean freight rates; copper, which has declined substantially in price; and aircraft, following completion of certain orders. Newsprint exports, although higher in the early part of the year, have recently declined moderately as a result of slightly lower consumption in the United States and liquidation of excessive stocks. All base metals are in much easier supply in the international market, nickel being the only item in this group to show higher sales. Oil exports have increased by about

40 per cent this year compared to last, following the completion of additional transmission outlets. During the present year, however, North American consumption of petroleum products has levelled off and, with the re-opening of the Suez Canal, crude petroleum has moved into surplus supply. Since early in the year, therefore, the quantity of Canadian oil moving into the United States market has declined. Exports of uranium ore have increased three-fold in the past year and a further substantial rise is in sight for 1958. On the other hand, the upward trend in iron ore shipments has been limited by a decline in North American steel production. Other items showing significant increases during 1957 include oilseeds, live beef, primary steel and some types of machinery.

Total imports, as in the case of exports, have remained about the same in the first ten months of this year, compared to last, but recently have been declining. In 1956, excessive demand pressures in Canada caused a sharp upsurge in imports, particularly for investment goods, such as machinery and equipment and steel. With business investment now levelling off and with Canadian factories no longer pressed to capacity, imports of these items are declining. Also less American-type automobile products have been purchased in the current year.

The geographic pattern of Canada's trade has undergone moderate though significant changes. Exports to the United States have shown a firmer trend than have imports, and Canada's merchandise deficit with that country, though still running in excess of \$1.1 billion annually, is about \$100 million less than in the previous year. On the other hand, trade with the United Kingdom and the rest of the Commonwealth has moved in the opposite direction, exports being down and imports up. The rise in imports from Britain (8 per cent on a ten-month basis) has consisted principally of automobiles, pipe and other rolling mill products, electrical and industrial equipment and woollens. Trade with Canada's next best customers, Germany and Japan, has continued to increase in both directions. The larger volume of exports to Germany has consisted in part of aluminum, oilseeds, barley and iron ore, and to Japan of pig iron, scrap iron, oilseeds, barley and non-ferrous metals. In addition, markets for Canadian goods have expanded in several other West European and Latin American countries. Items imported from these various sources in larger quantities include European-type automobiles, industrial equipment and a variety of finished consumer items.

Canada's imbalance on commodity trade, though little changed in 1957 to date, has been declining during the latter part of the year. On the other hand, the deficit on non-merchandise items has increased. For the first three-quarters of the year, the overall deficit on current transactions amounted to \$1,117 million, compared with \$1,002 million in the same period a year ago.

Since the beginning of the year, there has been little change in official holdings of gold and U.S. dollars and the deficit on current transactions has been met by a continuing net inflow of capital funds. In recent months, a decline in this inflow has been evident, arising from reduced sales of new issues in the United States. There has also been a decline in the external value of the Canadian dollar, to a premium of less than 2 per cent on the U.S. dollar.

Prospects for the Coming Year

At year-end the economic situation in Canada is one of high activity but increasing slack in a number of industries. Total employment has moved upward and production has been sustained throughout most of 1957, but both are seemingly edging downward at the end of the year. The trend of overall sales has not been commensurate with the substantial rise in productive capacities. For the months immediately ahead, there is little indication of any basic change in this situation. On the one hand there are strong underlying supports in the economy. At the same time there is little evidence of forces which would quickly generate new strength in the traditionally dynamic areas of exports and investment.

In view of the currently uncertain trend of activity in the United States, and with a number of other countries beset with underlying foreign exchange problems, there is little likelihood of significant strengthening in world commodity markets. Despite these conditions, there are several items which will probably be exported in larger quantities next year, uranium being the notable example. Such increases will probably be sufficient to offset declines elsewhere. Consequently, the overall trend of exports, though subject to temporary fluctuations, should be fairly well maintained.

What is presently known of capital expenditure plans suggests a moderately lower volume of business investment in the coming year. The principal declines will occur in material-processing industries and some forms of transportation, while increases are in prospect for some service and utility groups. In addition, there are indications of a rise in residential and institutional building and also of more work to be done by way of local improvements. On the basis of these preliminary indications, the overall volume of construction in 1958 should be as large as in the previous year. On the other hand, outlays for machinery and equipment should be lower. This had already been reflected in reduced orders and lower activity in a number of equipment industries. However, because of the large import content in Canada's equipment requirements, the full impact of reduced investment of this type does not fall on domestic industries.

In the market situation ahead, consumer demand will be an important sustaining influence. Consumer income, traditionally less vulnerable than most other indicators to contractionary

influences, has been given additional support by way of higher social security payments and lower taxes.

Periods of economic adjustment are usually characterized by greater business caution in the matter of purchasing and inventory policies, which temporarily accentuates contractionary tendencies. Despite the existence of strong sustaining factors, the present situation may prove no exception in this regard. In such periods, however, it is important to keep constantly in mind the more fundamental considerations which underlie current economic trends.

As previously indicated, the present pause in expansion comes about as a result of the fact that Canada is approaching a phase of development in which, for the time being, less resources are required for the build-up of basic industries. There would appear to be no dearth of uses to which these resources can be diverted. A tremendous volume of new capital facilities is needed to supplement and round out the basic expansion which has taken place. In fact the greater availability of investment resources provides an opportunity to get ahead with public improvements which have been lagging in recent years. Apart from these institutional requirements, the potential needs of consumers are virtually inexhaustible.

It would be a mistake, however, to assume that this redirection of resources will take place automatically without effort or strain. Intensified business planning and aggressive salesmanship may be necessary to convert the latent buying power which exists in the economy into new markets for goods and services. In this way, available resources would be put to use and transformed into higher living standards for Canadians at large.

A number of new federal measures already implemented or proposed will facilitate this transition. Such measures include: More mortgage funds for would-be home-owners and relaxation of minimum requirements for loans under the National Housing Act, re-assessment of tax-sharing and other financial relationships with the provinces, financial aid to power development in the Maritimes, advances on farm-stored grain to Western grain producers, a more comprehensive system of supports to farm producers, extension of unemployment insurance benefits, increased pension rates, and reduced taxes. Each of these measures, in addition to meeting the specific need for which it is designed, serves the general purpose of supporting the financial position of individual Canadians.

Such action on the part of the Federal Government will facilitate but will not in itself accomplish the adjustments necessary for the renewal of sound economic growth. This will require insight, initiative and adaptability on the part of all groups in the community.