



STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 54/60

CANADA'S ECONOMY IN 1954

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

<u>CONTENTS</u>	<u>PAGE</u>
<u>General Survey</u>	2
Interruption in upward trend during 1954	
Employment and unemployment	
Personal incomes	
Personal savings and living standards	
<u>Nature of the Recent Business Decline</u>	3
Aftermath of recent abnormal activity	
Inventory recession	
Reduction in defence outlays	
Intensification of international competition	
Farm cash incomes	
Implements and automobiles	
Materials	
Service industries	
<u>Capital Investment</u>	5
Plans and actual outlays	
Carry-over anticipated	
<u>Foreign Trade</u>	5
Wheat and flour sales	
United States influence	
Intensified competition	
Increase in overseas demand	
Balance of trade and exchange rates	
<u>Prospects for 1955</u>	7
Export markets	
Domestic investment	
Foreign and domestic influences on investment	
General prospects	
<u>Defence Production</u>	8
Overall picture	
Aircraft programme	
Shipbuilding, electronics, weapons, and ammunition	
General purchasing	
Capital assistance and new facilities.	

ECONOMIC REVIEW 1954

Canada's economic achievement during 1954, measured in terms of production and income level, appears to have exceeded that of any previous year except 1953. From 1949 to 1953 the national output increased by five or six per cent a year. In 1954 it now appears that the gross national product, whether measured in volume or value (prices having remained nearly stable), will be a little lower than in 1953. The slight decline in physical volume of output is accounted for by the marked reduction in 1954 grain crops. Omitting grains, therefore, the national output appears to have remained about the same.

The recent interruption in the upward trend of the Canadian economy began with a rather general softening in market conditions toward the end of 1953 and, by the end of the first quarter of 1954, the gross national product (seasonally adjusted) had declined by three per cent from the peak level reached in the third quarter of 1953. The trend of national output then held steady through the middle of the year. Recently, however, new signs of strengthening have appeared. Manufacturing output, which experienced the sharpest decline, has almost levelled out.

These events were accompanied by higher unemployment. By December 1953, total employment had moved under the level of one year before and remained below for the ensuing ten months. The margin of decline remained small and at no point exceeded $2\frac{1}{2}$ per cent. By October 1954, employment was again above the level of one year before. Meanwhile Canada's population has continued to grow, as the result of natural increase and immigration, at the rate of some 400,000 a year. While employment has been barely holding its own, the labour force has been increasing. This increase has been less than proportionate to that of the total population. Thus, while the increase in total population over the last year has been approximately three per cent, the increase in the working force has been only about one per cent. Nevertheless, this small increase in the number of available workers when combined with the slight decline in employment over most of the year, resulted in a higher volume of unemployment. For the year as a whole the number of persons reported as out of a job and seeking work has averaged 4.3 per cent of the working force, compared with 2.6 per cent in 1953.

Personal incomes during 1954 have in general shown a stronger trend than either production or employment. The incomes of western farmers have suffered, in comparison with recent years of bumper harvests, from lower grain crops and some decline in prices. For other groups, the incomes of individuals have on the average been higher. In spite of the slight reduction in total employment during the first nine months and shorter hours in some industries, total labour income has been running about two per cent higher than in 1953. Personal investment income, consisting mainly of interest, dividends, and rentals, has also increased. Larger transfer payments, in the form of unemployment insurance benefits, old age pensions, family allowances

and the like, have added to the income flow. Even with farm income included, total personal income accruing to Canadians has not declined. Moreover, personal income tax payments have been lower, thus increasing the proportion of total income retained by individuals. After taking account of population increase, the average income per capita, whether expressed in money or in terms of goods and services, declined but slightly in 1954.

Personal savings have shown some decrease, reflecting primarily the reduction in income of prairie farmers, and there has been some shift towards more liquid types of saving. Per capita expenditure on consumer goods and services during 1954 has remained about the same as in the previous year. So far as average living standards are concerned, the recent adjustment in general business conditions has had no greater effect than to cause a levelling off, following the unusually sharp improvement of the preceding two or three years.

NATURE OF THE RECENT BUSINESS DECLINE

Broadly speaking, the recent business decline in the United States and Canada appears to have developed as an aftermath of the abnormal activity connected with the previous defence build-up and related demands. During the defence build-up, many industries were hard pressed to meet not only the normal requirements of a full employment economy but in addition a mounting volume of defence needs. This situation brought forth new expansion programmes as the production machine geared itself to meet this double load. As the defence programme passed its peak, excessive capacity began to appear in a number of industries. Supplies became easier, and within a short period of time the general concern about having inadequate supplies of raw materials changed to one of apprehension over being caught with excessive inventories. Thus, by the last quarter of 1953, many industries had started to draw down stocks which only a few months previously they had been building up in anticipation of tighter market conditions.

This trend of events, though not characteristic of all industries, was sufficiently widespread to bring about a perceptible slow-down in the placing of orders and in business purchasing, quite apart from any change in final demands. In both the United States and Canada, a major portion of the decline in overall demand from the peak level reached in the summer of 1953 may be called an inventory recession resulting from the fact that businesses had either stopped building up stocks or were drawing down existing stocks to meet current orders.

In the United States, a substantial reduction in the level of outlays for national security also contributed significantly to the decline in overall demand. The effect of this reduction in defence outlays was counteracted to some extent by a continuing federal deficit, which had a sustaining influence on other demands in the United States economy.

The decline in defence procurement in Canada was not as important economically as in the United States. Nevertheless, there were other adverse influences which had some effect on business confidence.

Probably the most important of these was the gradual intensification of international competition in manufactured goods. For the Canadian manufacturer, this meant increased difficulty in selling goods in the foreign market and keener competition from imports in the home market. Industries most affected included textiles, electric appliances, and most types of electrical and industrial equipment. For most of 1954, compared with 1953, Canadian producers increased their share of the domestic market in refrigerators and some other durable goods, but to a limited degree they lost further ground in textiles. In the case of machinery and equipment, the domestic market contracted owing to moderate declines in this form of investment. This contraction resulted in reduced imports, but these constituted a larger share of the domestic market. Exports of many types of machinery and equipment also suffered as a result of more intensive international competition.

Another influence of general importance in the Canadian economy was the decline in the cash income of western farmers. With all available commercial storage filled up, farmers' deliveries were limited by the volume of domestic and export sales, the latter being below the unusually high level of preceding years. With some improvement in wheat sales presently taking place, no further decline in farmers' cash receipts should occur in spite of the disappointing crop of 1954.

Special market difficulties appeared in the farm implement and automobile industries. In North America, the increasing volume of equipment on farms, reflecting high sales in previous years, coupled with a downward trend in farm incomes, brought a sharp contraction in demand during 1953 and 1954. At the same time, export sales in Latin American markets were curtailed by exchange difficulties. Hence, output in the farm implement industry in the present year has been running more than one-third below the level prevailing two years ago. In the automobile industry, the suspension of consumer credit restrictions in May 1952 had been followed by a credit induced wave of buying, which had diminished to more normal proportions by the end of 1953. Purchases of automobiles and most other durables (except television sets) in 1954 have been running ten to fifteen per cent below the abnormally high levels of 1953. Taken as a group, sales of consumer hard goods, though high by long-run standards, have been below the peak levels of a year ago.

While these adverse influences have affected durable and semi-durable manufacturing and directly related fields, such as primary iron and steel, activity in other sectors of the Canadian economy has been well maintained. This is particularly true of the material-processing industries and the production of food and beverages. Demand for metals declined last fall but later recovered. Total mineral output in September was running 13 per cent above that of a year before. Activity in forest industries has been well supported by strong markets both at home and abroad. Sales of agricultural products other than grain, and of fish products, have been well maintained.

Employment in finance, trade and service industries, which together account for about one-third of total employment in Canada, shows a strong expansionary trend and is running about four per cent above the level of one year ago, as contrasted with a decline of six per cent in manufacturing, indicating a pronounced shift in the pattern of Canadian activity.

Capital Investment

There has been no significant change in the rate of expansion of capital facilities. At the beginning of 1954, investment plans called for outlays about three per cent above those realized in 1953 (six per cent higher for construction and three per cent lower for machinery and equipment). A review of intentions at mid-year showed no significant change in this programme. There were declines in manufacturing and agriculture: there were increases in institutions, services and housing. Expenditures in the goods producing industries were expected to be down by seven per cent as against an increase in all other sectors of about the same proportion. This change in the composition of investment continues a trend already evident in 1953.

Estimates of actual capital outlays during the year are not yet available, but there appears to have been some shortfall below earlier anticipations. Unfavourable weather conditions and other delays in getting new projects started have hampered construction activity. Many builders appear to be getting work done at a lower cost than originally estimated, thus reducing their dollar outlay. Since there is no evidence of any widespread cancellation of investment plans, any shortfall in work actually performed this year should be reflected in a larger carry-over into next year.

Foreign Trade

After increasing by 22 per cent between 1949 and 1952, Canada's exports declined by $1\frac{1}{2}$ per cent in physical volume during 1953 and showed a further reduction in 1954. Three major influences have contributed to this downward movement.

Perhaps the most important has been the substantial drop in wheat and flour sales, which declined from 386 million bushels in 1952-53 to 255 million bushels in the subsequent crop year. During the two years prior to mid 1953, the combination of record crops in Canada and lower harvests in other major wheat-producing countries had raised Canadian grain sales to record heights. In 1953-54, there was a substantial increase in world wheat crops, particularly in importing countries, and this improvement in supplies in turn induced importers to withhold purchases in anticipation of lower prices. In recent weeks, however, there has been an increase in orders for Canadian wheat. This development indicates the likelihood of some recovering in sales above the volume realized in the 1953-54 crop year.

The second factor adversely affecting exports was the down-turn in the United States, which started to make its influence visible in Canada's trade figures

by the last quarter of 1953. From then until October 1954, exports to the United States have remained below the levels of a year before. Much of the decrease was accounted for by lower sales of base metals. Although construction activity in the United States continued unabated, Canadian lumber exports to that country also declined for a while, reflecting lower prices. On the other hand, the trend of pulp and paper sales in the United States market has remained firm. With the current firming in the general economic situation and the recent improvement in the base metal market, it is quite possible that the retarding effect of the United States recession on Canadian trade has about run its course.

Intensified international competition among manufacturers is a third factor which has tended to reduce certain types of Canadian exports. As recently as 1952, defence requirements were absorbing much of the industrial capacity of western nations, and in these circumstances Canadian manufacturers were obtaining sizeable orders from abroad. The release from defence orders of industrial capacity in the United States, together with continued expansion in overseas countries, have greatly increased the world supply of secondary manufactured goods. The resulting competitive pressure has increased the difficulties of Canadian exporters of manufactured goods, such as automobiles and industrial equipment.

Meanwhile a more favourable influence has entered the Canadian trade picture in the form of a substantial increase in the overseas demand for raw and processed materials from Canada. During much of 1954, larger Canadian exports of materials were offset in the trade figures by lower sales of wheat. With wheat orders recently improving, the effects of this increased demand for materials should soon become more apparent. This strengthening in overseas demand for Canadian products is the result of several related developments.

Most basic, perhaps, is the marked increase during the past two years in production levels in Europe and Asia, which has been accompanied by a continuing rise in the hard currency reserves of the non-dollar area. These circumstances have permitted a general relaxation of restrictions against imports of dollar goods. The United Kingdom has removed discriminatory restrictions against nearly all bulk materials, such as grains, wood products, and metals, which are of primary importance to Canada. There has been some expansion in the United Kingdom market for such Canadian agricultural and food products as tobacco, salmon, and apples. This move towards relaxation of import controls has been accompanied by similar developments in both European and overseas Commonwealth countries. South Africa and Belgium have been added to the list of countries which have effectively ceased to discriminate against dollar imports. Following last year's Commonwealth meetings, both Australia and New Zealand have increased their allocations for the purchase of goods from the dollar area. The increased exports resulting from these developments cover a fairly wide range of Canadian products, including limited quantities of manufactured goods.

In the first ten months of 1954, the value of Canadian merchandise exports declined by \$274 million, or about eight per cent, from the corresponding period of 1953. Imports also diminished, a little more in fact than exports, but the difference was not sufficient to cause much reduction in the current account deficit. A sustained net inflow of capital has kept the Canadian dollar at a premium in the international exchange market.

Prospects for 1955

So far as export markets are concerned, the signs are now reasonably encouraging. The adverse influences mentioned above, which contributed to the decline in exports during the last two years, are for the most part no longer of consequence. In the United States, there is now clear evidence of at least a temporary strengthening in economic conditions. This should result in some increase in Canadian exports to that important market, reversing the moderate decline which occurred in 1954. The generally prosperous conditions which now prevail in the United Kingdom and other Commonwealth countries and in Western Europe give promise of sustained markets for Canadian products in those overseas countries. Raw materials in particular may be needed in increasing quantities to service the rising volume of industrial production in the resource-deficient countries of the old world. Generally speaking, the present firm trend of production and trade throughout the world will in all probability provide an important stimulus for the Canadian economy.

Within Canada, a high level of investment, particularly new construction, should continue to stimulate production and employment. It will be some time yet before information is assembled on investment intentions for 1955. There is, however, no present indication of any significant abatement in the trend of investment activity. In fact, the large carry-over of unfinished work from 1954, and what is already known of new projects planned for 1955, both suggest the possibility of an increase in the volume of construction work to be carried out in 1955, though there may be some further decline in outlays for machinery and equipment.

To some extent, new opportunities for further investment in Canada will depend upon the continuation of prosperous conditions in foreign markets. Extensive new facilities will also be required, however, to provide for rising demands in this country. To cite but one example, it now seems evident that Canada's resources of oil and natural gas justify eventual net self-sufficiency in fuels. The extent of the development required to reach this end, together with all its ramifications, will constitute a major expansive force in the economy for years to come.

More generally, it should be remembered that in finally deciding on their 1954 investment plans, business men were in the midst of a downturn in economic activity. Having in mind the subsequent improvement in confidence, both in the United States and Canada, and also the improved conditions in other parts of the world, it

seems likely that the present economic climate is at least as favourable to investment as that prevailing a year ago.

Other elements of the domestic market situation seem reasonably steady. Import competition will continue to pose difficulties for some manufacturing industries, but probably to no greater degree than in the year just ended. Inventory liquidation is not likely, in the year ahead, to constitute as much of a drag on activity in manufacturing industries as during 1954. There seems to be little in sight to interrupt the gradual upward trend of personal income. Even allowing for diminishing replacement demand for some durable items, per capita outlays on consumer goods and services are likely to be maintained.

Taking into account both external and domestic influences, it would appear that the upturn which has already begun will continue into 1955. Although there may continue to be some trouble spots, there is good reason to expect a growth in markets at home and abroad commensurate with the rise in the nation's productive capacities.

DEFENCE PRODUCTION

The high level of defence expenditures in 1954 continued to be a sustaining, though not an expansionist factor in the Canadian economy. Defence procurement and construction, in terms of work done during the year, was below the peak level reached in 1953. Sizeable declines were registered in such fields as aircraft and defence construction. The value of orders placed, however, was up substantially over the previous year, but well below the 1951 and 1952 levels. This increase in orders placed in 1954 was due mainly to increased orders for CF-100 and F-86 aircraft and to engineering, tooling, and production contracts for the Bristol "Britannia". Capital assistance expenditures were down significantly in 1954, as most of the necessary key facilities had been established by the beginning of the year. Defence industries were able to obtain their requirements of essential materials and manpower without the need for government controls.

The major activities of the aircraft programme during 1954 have included production on schedule of an advanced mark of the CF-100 all-weather jet fighter and quantity output of the F-86 Sabre single-engine jet interceptor fighter. An improved version of the F-86, the "Sabre VI", came into production. Advanced series of the "Orenda" jet engine, required to power these two fighter aircraft, were produced according to schedule. Deliveries of the T-33 jet trainer to the R.C.A.F. continued satisfactorily. A quantity of T-34 single-engine primary trainers was also delivered to the R.C.A.F., and deliveries of this aircraft to the United States Air Force began. A notable feature of the year was the termination of the "Harvard" trainer programme. Engineering and tooling necessary to convert the Bristol "Britannia" to a military maritime reconnaissance aircraft got well under way during the year, as did tooling for the Grumman S2F carrier-borne anti-submarine aircraft. Aircraft repair and overhaul activities increased in 1954 because of the larger number of aircraft in operation. This repair and overhaul work takes place in many sections of the country.

In the field of shipbuilding, the last ten of the Canadian-designed non-magnetic coastal minesweepers were completed in 1954. Work advanced on the destroyer escort and frigate conversion programmes. The Arctic patrol vessel "Labrador", which is the first specifically designed for operation in northern waters, was accepted by the Navy in July. She has since successfully completed her first Arctic mission, having penetrated the northern ice floes last summer, en route from Halifax to Esquimalt, B.C. The "Labrador" is the first naval vessel to complete this difficult journey. There was a continuing uptrend in the development and production of new electronic devices. This has been necessary in order to keep pace with the expanding use of electronics in the control and guidance of aircraft and ships, as well as for the extension of ground radar warning systems. The production of guns and other weapons continued satisfactorily during the year and deliveries of four major weapons were completed. Development work on new and improved weapons continued, and engineering studies in connection with small arms production have been in progress since international agreement on a standard small arms cartridge was reached early in the year. Ammunition production included various types of cartridges, shells and rockets and the required propellants and explosives.

General purchases during the year covered a wide range of goods needed for clothing, equipping, feeding, maintaining and servicing the Canadian Armed Forces. The volume of orders in this category increased in 1954, because of the greater amount of military items in use and the larger number of personnel in the Armed Services. Expenditures on defence construction in 1954 showed some reduction. The urgent requirements of the R.C.A.F., which had received priority in previous years, neared completion, and the emphasis on defence construction began to shift to army home station development.

Few projects requiring capital assistance were initiated during 1954. The major facilities required for the production of large quantities of a greater variety of defence items had already been established by the beginning of the year. Wherever practical, private industry was encouraged to take over ownership of these facilities with the proviso that their defence potential be protected. Private industry has also been encouraged by accelerated depreciation to create its own facilities necessary to handle defence production. The new facilities that have been created in various ways have resulted in a broadening of Canada's industrial base, particularly in such fields as the production of aircraft engines and instruments and electronic equipment. This expansion has made Canada less dependent on foreign sources for its necessary defence equipment.

S/A