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REVIEW OF CANADA'S ECONOMY IN 1970 AND OUTLOOK FOR 1971

A Statement by the Honourable Jean-Luc Pepin,
Minister of Industry, Trade and Commerce,
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Economic growth in Canada slowed in 1970. The gross national product in real terms rose by about 3 per cent, a somewhat greater advance than was realized in the United States and Britain but smaller than in most other industrial countries. At the same time, Canada's exports surged ahead, rising by $2 billion in the one year to reach almost $17 billion. Canada's surplus on merchandise trade in 1970 far exceeded that of any previous year.

One salutory aspect of the reduced momentum in the Canadian economy was the dampening effect it had on inflation. The rate of advance in Canadian prices was significantly less in 1970 than in either of the two preceding years. The price component of the gross national product, for example, rose by about 3.5 per cent in 1970, compared to 4.75 per cent in 1969. However, there is continuing upward pressure from the cost side which has yet to be adequately contained. Nevertheless, Canada's price performance did compare favourably with the experience this year of other industrialized countries of the world. Most OECD countries will have witnessed a rise in their general price level of at least 5 per cent in 1970 -- more than double the average rate in the early 1960s.

As the year 1970 draws to a close, there are increasing signs in the Canadian economy of lessening inflationary strain and of renewed growth momentum. The effects of earlier expansionary fiscal and monetary measures are beginning to show in the underlying trends of employment and unemployment. Further expansionary impetus has been added by recent budgetary measures. These measures were of a "selective" nature designed to stimulate those sectors of the Canadian economy where stimulation is needed most and to provide relief from economic hardships, without at the same time upsetting the hard-won improvement in price performance now under way.

The outstanding feature of Canada's economic performance in 1970 has been the spectacular increase in Canada's merchandise-trade balance. This has come about as a result of buoyancy in Canadian merchandise exports (up more than 14 per cent) coupled with virtually no change in the level of imports.

On the basis of nearly complete data for 1970, Canada appears headed for a merchandise-trade surplus approaching the $3-billion mark. This is an amount almost four times as large as the export surplus achieved in 1969 and more than twice as large as the previous record high surplus of about $1.25 billion recorded in 1968. The unprecedented rise in Canada's merchandise-trade surplus was an important element in cushioning the economy from the effects of the marked slow-down in domestic demand.

Another noteworthy result of the record-breaking achievement in external trade is that Canada will record its first surplus in current payment transactions with other countries since 1952. Moreover, the surplus in the 1970 current account could approximate $1 billion.

The achievement of a record export surplus in 1970 is all the more remarkable since it was accomplished largely as a result of gains in Canadian exports to overseas countries, where the value of exports were almost two-fifths higher in 1970 than in 1969.

Among the factors contributing to this buoyancy were:

(1) The exceptional strength in the economics of EEC countries and Japan thus far in 1970, which has greatly stimulated demand.

(2) The catching-up of strike-delayed Canadian exports of nickel, copper and iron and steel products.

(3) The resumption of large-volume deliveries of wheat to state-trading countries (especially the Soviet Union) in recent months, coupled with unusually large shipments of barley and rapeseed.

(4) The greater Canadian export penetration in a number of smaller overseas markets.

These developments have overshadowed greatly the marked slow-down in Canadian exports to the United States in 1970, where the annual gain in sales may show an increase of only about 4 per cent from comparable 1969 levels. In all of 1970, the gain in Canadian exports to the United States may account for less than one-fifth of the total increase in Canadian exports. By contrast, the United States accounted for seven-eighths of the advance in the total value of Canadian merchandise exports in the period 1965 to 1969 inclusive. The changed picture in 1970 was a reflection mainly of general economic conditions in the United States, together with a marked slow-down in automotive sales in the United States, accentuated in recent months by the strike at General Motors. The upward change in the Canadian dollar, which so far appears to have affected Canadian secondary manufactured exports to the United States more than overseas shipments, was also a significant factor.

The much sharper rise in Canada's exports to overseas markets than to the United States has increased the share of Canada's exports going to overseas countries from 29 per cent in 1969 to 35 per cent in 1970, while the share going to the United States has declined correspondingly from 71 per cent to 65 per cent.

In sharp contrast to the stimulus provided by the external sector, there was distinct hesitancy both in consumer-spending and capital-investment trends in Canada throughout most of 1970. The strong growth of incomes that had been a highlight of the second half of the sixties slowed down considerably in 1970, with disposable income per person increasing very slightly in real terms compared to the previous year.

The slow-down in consumer spending appears to have been the most pronounced in the durable and semi-durable goods categories this year. Consumer outlays on durables will probably show a decline in 1970 compared with a 7.5 percent advance in 1969, no doubt reflecting in large part the reduction in housing activity. Production declines have occurred for major household appliances, household furnishings, radio and TV receivers.

Passenger-car sales in Canada have declined sharply also. Nonetheless, prior to the General Motors strike beginning in mid-September, factory levels of motor-vehicle production were maintained at the record high rate of the preceding year. The sourcing in Canada of an important part of small-car production for the North American market, for which demand has been better sustained, contributed to continuing high activity in the Canadian automotive industry during the first three quarters.

As regards capital investment, there appears to have been an appreciable cut-back in the actual level of spending by business firms in 1970 from the level indicated on the basis of the mid-1970 capital-investment survey.

The flattening-out of business investment and weakness in housing were responsible for a difficult and uncertain year for the construction industry. The industry continued to be faced with major increases in wage demands and there were widespread strikes in the building trades and consequent delays in construction schedules.

With two key elements of domestic demand showing little buoyancy in 1970, there was only a modest increase in total industrial output and industrial performance was more uneven in 1970 than in most recent years. Among important industrial sectors that continued to show strong advances were mining, primary metal manufacturers, services and energy-producing industries.

Mineral-production gains were impressive, led by iron ore, nickel, copper, petroleum fuels, asbestos and coal. Higher output of iron ore and base metals was in part a reflection of successful efforts to catch up on production losses due to strikes in the preceding year. On the "down" side, conditions of over-supply have persisted in world markets for potash, sulphur and uranium.

Some major manufacturing industries continued to expand production, although total manufacturing output rose very little, if at all, following a moderate increase in 1969. Primary steel production advanced strongly to a new high and prospects are favourable for a continuing high trend in 1971, with strong stimulus expected from major oil and natural-gas pipeline projects under development. Machinery industries, other than farm implements, had another good year, though the rate of increase was less than in 1969. Growth also continued in important non-durable manufacturing sectors such as food, beverages, tobacco and chemicals.

Several other important manufacturing industries experienced a slowing in demand, contributing to layoffs and a rise in idle plant capacity. Among these were aircraft, farm machinery, shipbuilding, boots and shoes, cotton yearn and cloth, synthetic textiles, knitted goods and clothing.

Forest industries have not been able to maintain the vigour of growth reached in 1969. Output of pulp-and-paper mills has slowed and newsprint production was down slightly. Lumber and plywood levels were reduced, with weaker demand, in which a major part was played by the drop in housing construction in Canada and the United States. In the later months of 1970, housing trends have sharply improved in both countries, with attendant improvement in the prospects for lumber and plywood producers during the coming year.

As 1970 draws to a close, there is evidence of new thrust in several important demand sectors, reinforced by the stimulus afforded by more expansionary fiscal and monetary policies.

Stronger demand trends are now apparent in housing in the consumer sector and in business capital spending.

A marked improvement is indicated in the housing sector. Housing starts in both October and November 1970 were running at a seasonally-adjusted annual rate of 269,000 units. With large volumes of CMHC-financed units reinforcing the strength in privately-financed starts, total housebuilding activity in Canada should continue at this unusually high level for a number of months. Total investment activity in housing could run up to one-fifth higher in value in 1971 compared to 1970.

In 1971, consumer spending seems likely to be a much stronger element in the economy than was the case in 1970. The saving-rate of the Canadian consumer has been unusually high during the past year and a return to a more normal savings pattern would suggest a stronger market for consumer goods generally. The increase in housing starts now under way will encourage consumer demand for home appliances and home furnishings. With easier credit conditions and settlement of the major 1970 strike, higher automotive sales are also in prospect.

There is also reason for optimism regarding renewed growth of activity in business-capital spending in 1971, following four years of relatively flat or declining spending activity in this sector. The delays encountered in the realization of intended capital-expansion programs in 1970 caused by work stoppages and the squeeze on corporate liquidity and profits appear to have resulted in a considerable carry-over of work into 1971. The available evidence suggests a relatively strong forward thrust in this key sector.

A recent survey of capital-spending intentions indicates that the 200 largest companies in Canada plan an 11 percent increase in capital spending in 1971. The main strength is expected to come from significant increases in oil and gas pipelines, mining and electric-power industries, with more moderate spending increases expected for the manufacturing sector. The evidence at hand suggests a generally sustained expansion of business facilities in 1971, which should contribute importantly to the forward impetus of the economy without placing excessive demand pressures on capital-goods-producing industries and other investment resources.

Government spending at all levels on goods and services on a national accounts basis provided a major stimulus to the Canadian economy in 1970, rising by more than 15 per cent. The effects of this stimulus seem likely to carry forward into 1971.

The external economic climate for 1971 cannot be expected to be as buoyant as that experienced throughout most of 1970. However, there are elements of strength which permit the expectation of a further moderate expansion in Canada's merchandise exports. In particular, 1971 appears likely to witness the resumption of more vigorous economic growth in the United States. Within this general framework there would appear to be definite grounds for optimism for Canadian exports in the following areas:

Lumber sales, especially in view of a major resurgence in U.S. housing activity;

prospects are for a banner year in the U.S. automotive industry based on pent-up demand stemming from major production tie-ups on both sides of the border and the move to easier credit conditions;

some recovery in currently lagging newsprint sales;

major strength in Canadian oil and gas sales to the United States market;

iron and steel shipments should benefit both from major pipeline activity and stockpiling as a hedge against the possibility of a strike affecting U.S. steel production later in the year;

as regards overseas markets, demand seems likely to be good for wheat, barley, rapeseed and coal.

At the same time, the outlook for Canadian exports is also affected by a number of restraining factors:

Overseas markets, particularly Britain, the EEC and Japan, are not expected to be as buoyant in 1971 as in 1970.

Production of aluminum ingot in Britain late in December 1970 is expected to have an immediate impact on the world aluminum market and in particular there will be a much-reduced flow of ingot from Canada to Britain.

The exceptional stimulus to total exports provided by primary metals was partly a "catch-up" and cannot be expected to be repeated in 1971, particularly in view of the softening of some export prices.

The downtrend in United States defence spending is expected to continue, with notable effects on aircraft sales, communications and the like.

The appreciated Canadian dollar, resulting from the general strength of Canada's external position, has added to the intensity of the foreign competition faced by many secondary manufacturers and other producers operating on relatively narrow profit margins.

On balance, a further moderate increase in Canada's exports can be expected in 1971. At the same time, there is likely to be renewed growth in Canadian imports given the recovery anticipated for domestic demand in the period ahead. While continuation of the unprecedented Canadian merchandise-trade balance of 1970 cannot be expected, the export surplus will probably remain large by historical standards.

The total impact of these demand factors will give new momentum to the Canadian economy in 1971, which in turn should provide a substantial boost to employment opportunities.

A major aim of Government programs and policies is to achieve a sound and sustainable rate of economic growth for Canada with all Canadians sharing in the benefits so derived. It is important that this objective should not be frustrated or denied as a result of our failure to check inflationary trends in costs and prices. While the rate of rise in prices has been substantially reduced, it is clear that our overall cost performance is still far from satisfactory. It is essential to persist in our efforts to meet one of the major economic challenges of our times -- namely, how to achieve and sustain our full growth potential without inflationary strain.

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