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A PROGRESS REPORT ON CANADIAN TRADE

An address by Right Hon. C. D. Howe, Minister of Trade and Commerce, on Manufacturers' Day, at the Canadian National Exhibition, Toronto, September 4, 1948.

I am glad indeed to join with those present in giving recognition to Manufacturers' Day at the Canadian National Exhibition. I last attended a similar occasion in 1941, and on that day also opened a small display of Canadian munitions of war. At that time, Canada's industrial expansion was just getting under way. It has been continuing at an accelerating rate ever since. During the war, Canadian investment in plant and in equipment approximated 4.5 billion dollars. I am happy to say that over two-thirds of that investment has now been converted to peacetime production, most of it in the field of manufacture. Another 2 billion dollars was spent in the two years following the end of the war, for expansion and modernization. Out of this year's capital investment programme of well over 3 billion dollars, about one-third is in manufacturing industries. Compared with pre-war, we have doubled our output of manufacturing production, which is now running above wartime peaks. Last year, for the first time in peace, employment, in the manufacturing industries alone, exceeded employment in agriculture.

There has been a tremendous increase in our productive capacity. This has been most notable in our major pre-war manufacturing industries -- motor vehicles, agricultural implements, railway equipment, textiles, and a wide variety of durable consumer and producer goods. Other pre-war industries, then of minor significance, have been expanded out of all proportion to pre-war capacity; examples being aluminum, chemicals, plastics, aircraft and machine tools. Entirely new industries have been created, of which synthetic rubber is an outstanding example. Although our primary iron and steel industry was expanded by 60% during the war, and its production was doubled, primary steel is now our major bottleneck on the materials side, as it is in all other countries.

This expansion has resulted in a great increase in Canada's exports. Compared with pre-war, our exports last year had about trebled, having increased from 900 million dollars in 1939 to almost 2,800 million dollars in 1947. We are now the third exporting country in the world. Canada's $220 per capita of exports last year was more than double the per capita of the United States and of the United Kingdom. Before the war, raw and semi-processed products of our farms, fisheries, forests and mines accounted for about 52% of total exports. In 1947, manufactured products had first place and accounted for a little less than 60% of the total. Exports of fully manufactured goods, excluding agricultural, forest and mineral products, registered the greatest gain, having increased from 200 million dollars pre-war to about 690 million dollars in 1947.

The degree of processing of Canada's primary products and raw materials has increased. In agriculture, for example, our exports of raw products are about two and a half times the 1939 level, whereas agricultural manufactured products have expanded five times. Exports of semi-processed forest products have increased by 250 million dollars, whereas fully manufactured forest products have increased by about 400 million dollars. Mineral ore exports rose by 18 million dollars, whereas processed mineral products expanded by 122 million dollars.

There have been significant changes in our working forces, industrially, occupationally and geographically. The size of our working population has increased greatly, and occupational changes have raised the level of our industrial skill. Population shifts have expanded the industrial working forces in the central provinces, and on the Pacific Coast.

Our new industrial plant and equipment is of the best and the most modern obtainable. Today, Canada's industrial technology and productive efficiency is second to none in the world, a fact that should protect our position in the competitive days ahead.

These are the achievements of our manufacturers, sketched very briefly. They are a remarkable testimonial of the initiative, ingenuity, and strength, of Canadian industry.

I am having an analysis made of the ultimate effect of Canada's current investment programme. We all appreciate that there is a considerable lag between the investment, and the impact of production arising out of that investment, on our statistics. Without having the results of the analysis at hand, I can predict with confidence that Canada's position of shortage in domestic markets will come to an end during 1949. Even so, there is no sign of slackening in Canada's programme of industrial development. This year, the total of private and public investment will exceed three billion dollars, of which two billion dollars is for business investment. It is difficult to appreciate just how much this is. Compared with the rate in 1939, it is more than double. It exceeds by a substantial portion the share of national income which other highly industrialized countries are devoting to enlarging and improving their plant and equipment. On a per capita basis, Canada is spending on capital goods at the rate of $150 for every man, woman and child. In the United States the comparable figure is $130.

Corresponding to the high rate of investment, our national income and employment will reach their highest levels this year. Our gross national product for 1948 will be over 15 billion dollars; 15% higher than last year and three times higher than pre-war.

Obviously, our manufacturers are depending heavily on future exports to other countries. Therefore, the present fundamental shifts in the structure of world industry, trade and finance have an important bearing on the Canadian situation. These changes culminated last year in an acute world shortage of United States dollars. Canada, being dependent on a large volume of exports, was seriously affected; in fact Canada's most important trade problem at the moment is our shortage of United States dollars. In essence, of course, it is our customers' shortage of United States dollars, rather than our own. Although last year our exports were ample to pay for our imports, we were living beyond our means, through our customers' inability to pay in dollars. Having an important stake in the recovery of our customers, last year we financed many of their urgently needed purchases from our reserves. Another reason for doing so was that our own immediate well-being depended upon these outlets for our goods. Our high level of exports, coupled with our heavy domestic investment programme, brought about an unprecedented level of imports from the United States. It became obvious that selling for credit, and paying cash on the barrel-head for what we were buying, could not continue.

Nearly one year has elapsed since the Government announced its emergency exchange programme. What have we been able to achieve so far? The drain on our United States dollar reserves has been stopped. There has been a modest increase in those reserves. This is in spite of an unprecedented capital investment programme for industrial development, which involves a substantial U. S. dollar content.

"How has this been accomplished? Comparing the first seven months' trade this year with last year, total exports of merchandise advanced from 1,585 million dollars to 1,670 million dollars, an increase of about 6%. As far as our U.S. dollar reserves are concerned, the important matter is the shift in our exports to the U.S. During this period, Canada's exports to the U.S. increased by 200 million dollars, while our exports to other countries decreased by 115 million dollars. On the import side, during the first seven months of this year our total imports increased from 1,485 million dollars to 1,505 million dollars. However, imports from the U.S. fell from 1,150 million dollars to 1,045 million dollars, a drop of about 9%. At the same time, our imports from other countries increased from 335 million dollars to 460 million dollars, an increase of 38% showing the good results of our efforts to obtain supplies that do not have to be paid for in dollars. The figures speak for themselves. They reflect the immediate and successful response of industry to the challenge presented by our exchange problem."

Administration of Schedule III of the Emergency Exchange Conservation Act has resulted in a postponement of a number of major private capital investments, largely in the field of office buildings. It has also resulted in postponement of Federal public works, and, to a lesser extent, of Provincial and Municipal public works. Unfortunately, we have very little influence with regard to the latter expenditures. The administration has been successful in replacing a large volume of imports by Canadian products. The restrictive provisions of the Act have been introduced only after consulation with the industries affected, the purpose being to avoid unnecessary interference with industry. These conferences took time, with the result that the full impact of the restrictions are only now being felt. Larger savings in U. S. dollar imports should be recorded during the remainder of this year.

I wish to emphasize that U. S. dollar-saving is only one of the objectives of Schedule III, which is also intended to promote industrial growth in the most constructive possible way. The latter is being accomplished. New industries have been established in Canada that will continue to develop and integrate our economy. In that way, we are obtaining permanent results that will tend to make possible an early lifting of artificial controls. I feel confident that we are effecting a permanent correction of our balance-of-payments difficulty.

Important new discoveries are helping the situation. The Leduc oil fields promise to contribute over 100 million dollars a year in savings of dollar expenditures for petroleum. Development of titanium deposits in Northern Quebec will constitute another important source of U. S. dollars. Major investments for refining petroleum in Canada is a step in the same direction. The production of chemicals within Canada, such as glycerine, glycol and acytelene black; soaps, detergents and other drug and toilet preparations; adhesives, resins and plasticizers; cellulose sponge; extracts and essential oils, etc., are all contributors to the improvement in our balance of payments. Further processing of raw materials such as copper and asbestos will help. A number of our manufacturers are finding it possible to manufacture in Canada products that can be sold in world markets, including the U. S. A few of our branch plants have been able to persuade their parent companies to manufacture in Canada certain items which can be sent to the U. S. and to all other foreign markets.

One of the most encouraging features is the development of our branch plant economy. These branches of U. S. plants are co-operating in working towards independence of imports from their parent companies, so that they may no longer be a drain on our U. S. dollar reserves. This is important, as of projects which have been dealt with under the Exchange Conservation Programme, U. S. branch plant investment in mining amounts to about 34% of the total, and in manufacturing about 46%.

We must all appreciate that Canada will be vulnerable to fluctuations in the world economy for years to come. Rich in natural wealth but small in population, we are, more than other countries, dependent on our exports to absorb the surplus created by large-scale production, and upon imports to round out our economy. Therefore, no effort must be spared to strengthen the position of Canadian products in world markets.

In the past, there has been a tendency to feel that we are not able to produce competitively with the U. S. Today, such an assumption is no longer justified. Canadian manufacturers have proved that Canada can produce goods which compare favourably in quantity and quality with those of any other country. We now have more technical know-how and a more skilled labour force. We have increased our industrial efficiency, and have acquired experience in large-scale production in many fields. We have cheap electricity, plentiful raw materials, efficient labour, excellent transportation facilities. Taking all these factors into account, and adding to them our expanding productive capacity, Canadians have every reason to be confident of their ability to produce goods that can compete with the world.

All things considered, it seems to me that the manufacturers gathered here are justified in viewing the future with restrained optimism. For the first time since the war ended, I have a definite feeling, based on known facts, that we will have a levelling off of our price structure at about present-day costs. Bountiful harvests give promise of more plentiful supplies of food, at lower prices. Supplies of raw materials, with the exception of basic steel, are becoming adequate to meet all requirements. Our export position is sound at the moment, although faced with uncertainties regarding the direction of international developments. The threat of another war cannot be ignored, but even that threat seems less imminent than it did a few months ago. The time is approaching when more emphasis must be placed on salesmanship and on the study of buyers' preferences, but that is a healthy development. Canadian prosperity stands at a level never before attained, and there are no signs of a recession. The splendid exhibits of our manufacturers, now on display in this Exhibition, are a further indication of the strength of the Canadian economy. I wish those gathered here every success in their future undertakings.

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