



# Statements and Speeches

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No. 73/30

## REVIEW OF CANADA'S ECONOMY IN 1973 AND OUTLOOK FOR 1974

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### REVIEW OF 1973

**Highlights in 1973** For the third year in succession, the Canadian economy in 1973 expanded at above its average longer-term growth-rate. The gross national product (GNP) increased about 14 per cent, to a total of approximately \$117 billion, and in real terms output increased by close to 7 per cent. This expansion in real production was the highest for any year since the mid-Sixties, and was among the highest of the industrialized countries in the world.

This growth reflected strength in the major sectors of the economy. Business spending on new plant and equipment picked up substantially after several years of comparatively modest increases. Housing starts reached a new record level. Consumer markets remained generally buoyant. Exports rose faster than they have at any time in the last two decades. This was accompanied by one of the largest gains of employment in recent years and a decline in the rate of unemployment.

But a less encouraging aspect of 1973 was the increasing momentum of price-increases. While price-increases in Canada were somewhat less than in most other industrialized countries, they have exceeded recent experience in Canada. In part, inflation of costs and prices in 1973 reflected the scarcities of many industrial materials caused by rapid economic growth proceeding almost simultaneously in most of the major industrialized countries. In addition, temporary world scarcity of feed grains and food products arose when crop failures in some major producing countries coincided with rising consumer demand. Major currency realignments during the year contributed to rising prices of imports into Canada. Particularly in the later months of the year, the costs of petroleum fuels rose as Arab states in the Middle East announced cutbacks in oil production and major increases in well-head prices. Higher prices for oil were in turn imposed by other major oil-exporting countries.

**Employment gains** The sharp increases in economic activity were accompanied by one of the largest gains in employment for any year in Canada's recent

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history, about 5 percent over the previous year, reaching an average St employment for the year of about 8.7 million.

This gain was shared by all regions and all groups — by adults and by young people, by men and by women. The increase in employment for women was the most impressive, making up nearly half the total increase in employment and marking a continuation of the long-term rise in the participation of women in the labour force. But the labour force as a whole continued to grow at a rate well above the average for other industrialized countries.

Despite this exceptional growth in the labour force, the rate of unemployment declined appreciably in 1973. The average unemployment rate fell from an average of 6.3 per cent in 1972 to an estimated 5.7 per cent in 1973.

Large increases in  
consumer spending

Consumer markets remained generally buoyant in 1973, extending to three years the period of large increases in consumer spending. Continuing support came from the strong advance in personal disposable income generated by rising economic activity and gains in employment.

Consumer expenditures rose to an estimated \$68 billion for the year, up by about 14 per cent from 1972. The strongest sector was consumer durables, where expenditures increased by nearly 20 per cent, faster even than the rapid pace of expansion in the previous year. Highlighting the trend, passenger-car sales showed a major gain, moving up to around one million units for the first time. Increases have also been substantial in other sectors of consumer spending.

Strengthening trend  
in investment

The strengthening of capital investment provided an important thrust to economic expansion during the year. It is anticipated that total capital spending by both government and business for the year will have risen by about 15 per cent over 1972 to over \$25 billion, and may even attain \$26 billion.

Housing construction was the major element of strength, with increased expenditures of more than 20 per cent. Housing starts reached a new record level of over 250,000 units. The level of housing investment in the third quarter of 1973 represented a higher proportion of GNP than in any period in the past decade.

Business expenditures on new machinery and equipment also increased strongly, and at a rate not much lower than that of housing. This came after several years of comparatively modest increases.

Strong growth in trade

For much of the past year, the world environment was very favourable to a rapid growth in Canada's commodity trade. A strong demand for Canadian exports was stimulated by high rates of economic expansion in most of Canada's principal trading partners and their need to rebuild inventories. Reinforced by major price increases for some of Canada's most important export products, the total value of exports rose to over \$24 billion, an increase of more than 20 per cent in 1973, a larger increase than in any year since 1951. Stimulated by an exceptional demand for food and industrial materials, Canadian export prices rose sharply and accounted for perhaps half the total rise in the value of Canadian exports. This still left the increase of exports in real terms well above the long-term growth pattern.

Export sales were higher to nearly all Canada's principal markets, led by major gains in automotive goods, lumber, crude petroleum, copper and wheat. The value of shipments to the United States, reflecting strong economic growth there, was up about 20 per cent, accounting for nearly two-thirds of the overall rise in Canadian exports. Overseas sales rose rapidly, accounting for a much larger part of the total increase in exports than in the preceding year. The sharpest gain was in exports to Japan, amounting to an increase of more than two-thirds over their 1972 level. The year 1973 saw Japan ascend to the rank of Canada's second-largest trading partner. Exports to the six original members of the EEC were up very substantially, showing an increase of about one-quarter. While sales to Britain showed a smaller rise than this, sales to other Commonwealth countries rose close to one-third. There have been large increases as well in exports to China and the U.S.S.R., mainly reflecting a large jump in their grain purchases from Canada.

High economic growth has meant a continuing strong demand for imports, which increased about 20 per cent in the past year. Among the commodities imported in substantially larger amounts were automotive goods, industrial machinery, crude petroleum, aircraft and food.

The stronger pace of exports in absolute terms contributed to an improvement in Canada's merchandise trade surplus, which rose to over \$1.75 billion. This was despite a major reduction in Canada's bilateral-trade surplus with the United States. Nevertheless, Canada recorded a current-account deficit in 1973, not much different from the \$600-million deficit of the previous year.

A feature of the year was the relatively sharp movements of major currencies, which in general rose in relation to the Canadian and American dollars earlier in 1973. In the latter part of the year, a fall in major European monetary units and the Japanese *yen* moved world currencies part way back towards the position at the beginning of the year.

Major expansion in industrial production

The volume of industrial production showed a major expansion in 1973, with an increase of 8.5 per cent over 1972 levels. Almost every division of manufacturing showed increased real output. The primary and resource industries showed a particularly marked increase in production.

The transportation-equipment industries rose particularly strongly in 1973. Once more the automotive sector reached a new record in production, turning out over 1.6 million vehicles. At the same time, output of auto parts and accessories increased substantially. Many industries active in supplying construction materials and capital equipment have also moved up to higher production levels. Operations in the steel industry have advanced strongly to near capacity, while order-books have continued to lengthen. Meanwhile, there has been a substantial upswing in the manufacture of industrial machinery, lumber and cement, and in other divisions of the building-products industry. Increases in consumer incomes and the high level of housing construction have meant a continuing strong upward trend in the output of household appliances, furniture, recreational equipment and textiles.

Increases in metal mining and processing were spurred by a major upsurge in world demand and buttressed by the availability of new capacity. With world demands for energy resources higher than ever and the impact of the Middle East oil crisis, there has been a strong impetus to raise petroleum, natural gas and electric energy production in Canada. The pulp-and-paper industry, also, has been under marked pressure to expand output in the face of rising world demand and operated at about full capacity, except for a period in late summer when output was adversely affected by strikes of pulp-and-paper and railway employees.

#### CANADA'S ECONOMIC OUTLOOK FOR 1974

The outlook is for a somewhat less aggressive tempo of economic activity in Canada in 1974. Nevertheless, in terms of real GNP growth, Canada's prospects suggest that it could again rank near the top among major industrial countries in 1974. During most of the past year, the economy has operated at close to its full

potential, and in some cases further major increases in output can only be achieved upon the completion of new investment programs designed to provide additional capacity. Overall demand forces, while less uniformly favourable than at the same time a year earlier, are still expected to provide an important continuing stimulus for the Canadian economy. Of particular moment, the economy is expected to benefit from a rising tempo of business spending on new plant and equipment, already in progress during 1973.

Recent international developments suggest that the world environment has become less hospitable to continuing rapid expansion of world production and trade. Even before the curtailment of Arab oil production, there had been in the latter part of 1973 a marked slowing in the pace of advance of most industrial economies. In the majority of these, the loss of momentum was at least in part the result of government measures of restraint directed at checking the threat of excessive inflation. Capacity restraints and shortages of industrial materials also had important effects in limiting production.

But the recent sharp reduction in oil supplies from Arab countries is a new factor unfavourable to a continued high rate of expansion in the industrial world. The reduction of Arab oil shipments has already caused a sizeable dislocation and has led to the introduction of allocation measures in most major industrial countries. Although a partial restoration of the cutback was announced on December 25, the large increases in energy costs, including those announced on December 22 by major Middle Eastern producers, will affect the general competitive position of countries highly dependent on external supply. These developments will influence the demand for and price of some important industrial materials. Further alignments of major currencies are a distinct possibility.

It is now widely believed that there will be minimal growth in the United States economy in 1974. Overseas markets also will be less receptive to trade expansion in 1974 as a result of the economic slowing now under way in several major European countries and Japan. The latter has just announced restrictive budget measures for 1974.

Under these circumstances, the demand for Canadian exports in 1974 may contribute less to expansion than it has in the past year. A relatively stronger pattern in imports is expected to persist in the coming year. Among the factors influencing the import trend, the major rise that now seems in the making in business fixed

investment will probably draw imported capital goods into the country in greatly increased volume. The direct and indirect effects of sharply higher prices for petroleum and petroleum products will also be significant in adding to Canada's import bill (and, of course, to Canada's export earnings). A partial offset will come in a deceleration in the rate of increase in imports of automotive goods, which in 1973 rose by about \$1 billion. Moreover, some foreign products Canada normally imports in large quantities — e.g., textiles and clothing — may become less competitive and Canadian producers may be called upon to fill gaps in supply. In summary, however, in the light of uncertainties in international markets in 1974, some decline from the level of the very substantial trade surplus in 1973 seems likely.

The persistence of inflation continues to be a major problem, although there is cause for hoping that the peak of the upward pressure on prices may have been passed. An important consideration here is that, with the slowing of growth in industrial countries, there has been some relaxation of the demand and price pressure on industrial materials. In addition, there has been some improvement in world food supplies, which should slow down the rate of price increases in this sector. Weighing heavily on the other side, however, will be the major factor of greatly increased prices of petroleum, petroleum products and other energy resources. Rising unit labour costs, both at home and abroad, could also limit any improvement in general price trends.

The expansion of capital spending for new industrial capacity in Canada may be one of the most important means at our disposal for ultimately securing an abatement in the rate of price increase. The available evidence indicates that the marked strengthening of business-capital spending that was well launched in 1973 will continue and gain momentum in the current year. The results of a field survey of capital-spending intentions carried out late in 1973 showed that major companies in Canada plan to raise their capital outlays by more than one-fifth in 1974. The survey revealed that a substantial upsurge of spending was under way in the manufacturing industry. During the past year, the fact that output was at or close to capacity created strong pressure to broaden production by building additional facilities. This inducement to expand was encouraged by greatly-improved earnings in most companies associated with increased volume of sales and rising prices. Other investment sectors for the most part are expected to remain buoyant in 1974, although there may be some easing from the record rate of residential building reached last year.

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Given major impetus by the Middle East oil crisis, exploration and development in the energy-resources field is expected to be a principal area of capital-spending growth in 1974 and in the years lying further ahead. Investment in electric-power facilities, oil and gas wells, in pipelines and in petrochemicals, already on a rising trend during 1973, should show an accelerating upward tempo from now on.

The upward thrust of consumer spending appears to be easing after providing major growth stimulus during the past three years. At the same time, consumer interest is likely to continue at a high level based on the anticipation of a continuing rise in disposable income as a result of further gains in both employment and average earnings. The consumer position will also be buttressed by a substantial boost in government transfer payments resulting from the broadening of income-support measures.

In summary, then, it seems that Canada in 1974 may move into a period in which trends in the key economic sectors are more mixed than they have been for some time. As a consequence, the pace of general economic advance is expected to be somewhat less than the hectic pace of the recent past. Yet the relative position of Canadians among major industrial countries is most favourable, given our much superior resource base.