



# STATEMENTS AND SPEECHES

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## REVIEW OF CANADA'S ECONOMY IN 1959

by

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and Commerce, December 28, 1959.

This December marks not only the end of a year but also the end of a decade. For the Canadian economy it has been a decade of substantial growth and the period ends, as it began, on a strong expansionary trend. However, the prevailing conditions are quite different from ten years ago. In 1950 and the immediately ensuing years, the key stimulus to growth came from defence preparations and related demands emerging from the Korean crisis and the N.A.T.O. defence effort. At that time, shortages and fears of shortages were prevalent, excessive demand pressures created strains in some segments of the economy and prices rose sharply. By contrast the current expansion is anchored to the more solid foundations of constructive peace-time pursuits.

The growing needs of the Canadian people, whether for public facilities or for goods and services, have given the dominant push to the present upward surge of productive activity. During the past year, as the economy continued to move out of the 1957-58 recession, operating levels in most industries have moved closer to capacity and the productive resources of the economy generally have been more fully employed. At the same time, in no area of production has demand become excessive, price changes have been moderate and the general level of prices has increased only slightly. A strong rate of growth has been experienced without dislocation or strain.

### Production and Employment

Canada's Gross National Product in 1959 has increased by 7 per cent from the level of the preceding year. Prices have risen on the average by 2 per cent. This means that total national output, in physical volume terms, is up by about 5 per cent. Agricultural production in 1959 has been affected by below-average harvests of grains

and some other crops, but most other industries have experienced substantial gains. Industrial production has increased by 8 per cent.

Expanding production has, in turn, meant more jobs. Total employment has been nearly 3 per cent higher on the average in 1959 than in the preceding year. The long-term decline in farm employment has continued, but non-farm job-holders increased by  $3\frac{1}{2}$  per cent.. New job opportunities have kept ahead of the expanding labour force and unemployment has declined. Considered as a proportion of the labour force, the number of jobless persons in Canada fell from 6.6 per cent in 1958 to 5.6 per cent in 1959. By November, unemployment was 18 per cent below the level of a year ago.

### Incomes and Consumption

The improved tempo of economic activity has been reflected in higher returns to all major income groups. Higher operating levels in industry have contributed to a sharp recovery in corporate profits, together with a further increase in wage and salary scales. Increased rates of pay, together with more and steadier employment, have raised labour income by 8 per cent this year compared with last. All major categories of investment income have increased. Government payments to individuals have shown a further slight increase, following on the substantial rise of the preceding year. Despite lower prices for some commodities and below-average harvests, cash returns to farmers have been well sustained. Personal income in total, after deducting direct tax payments, increased by 6 or 7 per cent between 1958 and 1959.

This strong income trend has provided the basis for a quite substantial rise in consumer spending. Durable goods, in particular, have surged ahead with automobile sales up 15 per cent and most of the major household appliances also showing substantial gains. Spending on each of the major categories of soft goods, and on services, has shown at least a moderate rise. Consumer spending in total is up by 6 per cent. With consumer prices having risen little more than 1 per cent, per capita spending in real terms has increased 2 to 3 per cent, a better than average gain.

While spending more, Canadians have also been saving more. As a proportion of disposable income, savings in 1959 have reached the unusually high ratio of 8 per cent. Thus the financial position of the Canadian consumer remains strong, while living standards have improved.

### Investment

Capital spending, both private and public, has risen slightly in 1959. Commercial, institutional and public investment has comprised an increased proportion of the total program. In basic industries, such as mineral products and fuel and power, the build-up of new capacity, though not as

great as in preceding years, continued on a substantial scale. Capital spending in manufacturing amounted to \$1.1 billion. Housebuilding has been maintained at a high level, but is lower than in 1958 when the volume of residential construction far surpassed that in any preceding year. It is estimated that housing starts for this year will reach the 140,000-mark, compared with 165,000 in 1958, while completions will approximate last year's record of 147,000 units.

Though only slightly higher for 1959 as a whole, the trend of total capital spending has been moving upward since the beginning of the year. New orders in capital-goods industries are rising and employment in construction has increased. The recent pick-up in housing starts, following the resumption of the loans-to-builders program during the fall months, and the continuation of the winter works program should provide a significant boost to construction activity during the winter.

#### Foreign Trade

Canada's exports in 1959 have moved upward with the general recovery in world conditions, after having been maintained in the preceding year despite a lower level of trade in the world at large. On the basis of figures available to date, the total value of exports in 1959 will approximate \$5.2 billion, an increase of about 5 per cent compared with the previous year and the highest figure ever recorded. The principal increases appear in wood, mineral and metal products, including lumber, woodpulp, newsprint, iron ore, uranium, iron and steel and asbestos. Among more highly manufactured products, farm implements and beverages have shown notable gains. Sales of wheat have held close to the high level of the preceding calendar year. Restraining elements in the upward trend of total exports have come from the tapering off in last year's heavy flow of beef to the United States and the completion in 1958 of non-recurring contracts for military aircraft to NATO countries.

Looking at Canada's exports by broad market areas, the principal increase in sales has been to the United States. Despite the dampening effect of the steel strike upon industrial activity during the latter part of the year, exports to this market for the year as a whole have increased by 11 per cent. Sales to the United Kingdom have remained steady and those to the rest of the Commonwealth have declined slightly. Shipments to all other countries combined are down, but if aircraft are excluded the trend is roughly unchanged. Within the total, however, sales to Japan have risen by about one-third from a level of \$105 million in 1958.

Canada's foreign purchases have risen in response to the improvement in economic conditions domestically. On the basis of 10-month figures, total imports have increased by 9½ per cent compared with 1958, but remain below the level reached in the preceding year. The increase from last year

to this is spread over a wide range of consumer, capital and producer goods, with higher purchases of automotive goods and farm implements particularly prominent in the total. However, certain important basic materials, such as coal and petroleum products, have lagged behind the general upward trend. To some extent, this is a result of temporary influences, but it also reflects a lessening dependence upon foreign sources for this type of product. Geographically, purchases from each of the major trading areas have risen, but in percentage terms the increase is greater for the United Kingdom and other overseas sources combined than for the United States. Consequently, Britain's share in Canada's import market has continued to expand and presently stands at 10.4 per cent, compared with 9.3 per cent in 1957. Over the same two-year period, the United States share has declined from 71.1 per cent to 68.3 per cent.

Because of the sharper rise in total imports than in exports, Canada's imbalance on merchandise trade is presently higher than in 1958, but remains below the levels reached in the two preceding years. Most of the rise in the merchandise deficit this year compared with last appears in the form of a lower surplus with overseas countries. The deficit with the United States has changed but slightly. Canada's imbalance on non-merchandise items, such as tourist expenditures and interest and dividend payments, has continued to increase. For the first nine months of 1959, Canada's deficit with the rest of the world on all current transactions amounted to \$1119 million, compared with \$788 million in 1958 and the record of \$1171 million reached in 1957.

This deficit on current account has been covered by an inflow of capital funds. Even with the high volume of domestic saving, Canada's expansion continues to proceed at a pace involving extensive reliance upon foreign resources. The premium on the Canadian dollar has been higher, on the average, than in the preceding year.

### Industry conditions

The general economic improvement during the past year has been accompanied by widespread increases in activity throughout all major sectors of Canadian industry. Within the home market, shipments for domestic producers have, for the most part, kept pace with imports, although there have been notable exceptions, particularly in certain consumer goods lines where import competition has been intense.

Recovery in material-producing industries has been led by primary iron and steel, which has experienced the dual stimulus of rising consumption and restricted North American supply resulting from the shut-down of United States mills. The Canadian industry has been operating at full capacity for some months and production has risen nearly

two-fifths in the current year. Iron ore output and exports have also increased by about 40 per cent. Non-ferrous metal producers have, for the most part, witnessed a general improvement in market conditions despite adverse influences affecting certain items. The uranium industry has had a year of high operations but now faces a period of adjustment.

Within the fuel group, petroleum production and refining have increased moderately in response to rising domestic consumption and larger exports, following the removal of American restrictions against Canadian oil. A continuing expansion in distributive outlets has been accompanied by a substantial increase in the production of natural gas. On the other hand, operations in the coal industry have continued downward in the face of strong competition from other fuels. Lumber products had experienced an early recovery in 1958, which continued into the current year. Despite the moderating trend in housebuilding in both Canada and the United States and the late summer work stoppage in British Columbia mills, total production in 1959 has held to about last year's level. Canada's newsprint industry tended to lag behind the general recovery in its early stages but, with the continuing rise in North American consumption, has subsequently been moving steadily ahead. By October, operations in the industry had risen to 90 per cent of capacity while production in the year to date is up by 4 per cent.

Woodpulp output has shown a stronger year-to-year advance, reflecting principally the strong demand for kraft pulps. Chemicals production, which had continued to advance during the 1957-58 business contraction, has remained roughly unchanged during most of 1959. Early-year weakness in paints and fertilizers has offset gains in other products. With construction work at a record level, building material producers have had an unusually active year.

Consumer-based industries, though in some cases facing stiff competition from imports, have had the benefit of a stronger trend of consumer spending. In the case of automobiles, from last year to this, the proportion of European-type cars in the Canadian market has increased from 20 to 25 per cent. Nevertheless domestic production of passenger cars ran well ahead of last year's level until the recent shut-downs caused by shortages of parts from the United States. To mid-December, production is slightly up compared with the 1958 position. In the commercial vehicle field, where imports are relatively small, output is up by 15 per cent. In most electric appliance lines there has been a pronounced increase in both production and sales.

Imports of some items, such as refrigerators and freezers, have fallen sharply mainly as a result of curtailed production in the United States. Textile, clothing and

leather footwear trades have experienced a moderate rise in business volume, but in all major categories except woollens, imports have increased more than domestic shipments. Operations in the food and beverage industries continued to expand during the past year with the sharpest increases occurring in meat packing and soft drinks production.

Among Canada's equipment-producing industries, output of farm implements moved up substantially to continue the recovery which started in 1957. Sales rose sharply in both the domestic and American markets. More recently, production in industrial and business machinery lines has shown improvement following the upturn in business investment. On the other hand, activity in railway equipment industries has been at a relatively low level. Output of heavy electrical apparatus has declined for the second consecutive year, but the commencement of several new expansion projects in the electric power field suggests an early improvement in the order position of this industry.

Meanwhile, activity in the service trades has been expanding steadily, and it is here that the principal increase in employment has taken place.

#### Prospects for the Coming Year

After moving sharply ahead in the early part of the year, the tempo of economic activity in Canada slackened somewhat in the summer months. Subsequently, the pace of advance has again quickened, and key economic indicators are presently pointing toward further expansion.

The international economic climate at this time appears particularly favourable. There is general expectation that the American economy will move ahead with renewed vigour, providing the steel strike is not resumed. In other industrial countries, business activity continues to advance after a year of steady expansion. The balance of payments positions of these countries have strengthened and their reserves have increased substantially. The world's main trading currencies are now convertible and discrimination against dollar area exports is being progressively eliminated. Import restrictions are being relaxed and removed. Moreover, with the vulnerability to balance of payments difficulties greatly reduced, the growth of internal consumption and investment levels in many foreign countries is no longer subject to the same limitations as previously. Meanwhile, under-developed countries have benefited from a moderate improvement in world commodity markets. These developments have already resulted in a considerable increase in the level of international trade.

In the early stages of this world expansion, the major material-consuming countries, such as the United States, relied to a large extent upon available domestic capacity to

provide for their mounting requirements of industrial materials. However, further growth of production in industrial countries is likely to be accompanied by increasing reliance upon Canadian as well as other outside sources of supply. The level of Canadian exports is already rising and continuation of this trend would exert a dual stimulus within the economy. On the one hand, it would bring into use recently-created capacity in Canada's export industries. Secondly, it would generate new interest in industrial expansion and thereby reinforce the rising trend of capital investment now underway.

What is presently known of investment plans for 1960 suggests that capital outlays by the business community will increase considerably. A stepped-up rate of expansion is indicated in the commercial sector, in manufacturing and possibly in some utilities also. The level of outlays in other fields of investment will depend in large part upon the physical and financial resources which they are able to command. For example, the reduced availability of mortgage funds has already brought about a decline in the level of private house building, but the recently-announced increase in the maximum rate on loans insured under the National Housing Act will facilitate the flow of money to this area. There is now clear indication that total investment, both private and public, will be up in the coming year.

Prospective growth in both exports and investment will help to sustain the current upward trend of personal incomes and contribute to further strengthening in other market sectors. The consumer market in particular gives promise of continuing buoyancy in the period ahead.

These considerations suggest that total demands upon the economy are likely to continue to increase, resulting in a further expansion of output and employment. While productive resources have become more fully utilized over the past year, there is still a considerable amount of available capacity in most industries. In addition, manpower and plant capacity are growing steadily. In these circumstances, it would appear that a production increase of considerable dimensions could take place without giving rise to excessive pressure upon productive capacities. At the same time, it is important that demands be kept within the scope of available resources. If this objective is achieved, Canadians can look forward with confidence to the continuation of sound economic growth.