

STATEMENTS AND SPEECHES

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No. 53/51 REVIEW OF CANADA'S ECONOMY IN 1953

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

	Page
General Survey	2
Industrial output	
Crops	
Total Production	
Employment	
Incomes, money and real	
Main impetus from consumer demands	
The Consumer Market	2
Increase in consumer buying	
Food, clothing, cars, appliances	
and television	
Increase of income and credit	
High rate of savings in general	
Capital Expenditure	3
Defence Expenditures	4
Foreign Trade	5
International Trade Relations	6
Conditions in Major Industries	7
Prospects for 1954	8

The year 1953 has been another period of record achievement in the Canadian economy. Industrial output has increased substantially. Crops, particularly grains, are again exceptionally good though somewhat below last year's record. Even with some decline in agriculture total production in the economy has risen by about five per cent from last year's level. This is roughly the same increase as that achieved in each of the three preceding years.

This rise in production has been accompanied by a further increase in employment. The civilian labour force, augmented by large numbers of new immigrants, has continued to increase in 1953. Non-agricultural employment is moderately higher but numbers employed in agriculture have continued to decline. As the year progressed, total employment has not quite kept pace with the rise in the labour force. On the whole, however, there has been no scarcity of jobs; and unemployment, though a little higher than a year ago has remained at a low level.

Reflecting the overall expansion in output, incomes have increased significantly during the year. The principal exception has been in agriculture, which has been affected by lower production and also by declines in the prices of some commodities. Nevertheless, farm income in 1953, though below the unusually high levels of 1951-52, remains well above that of preceding years. Wage and salary earnings have continued to increase. Total labour income in the first nine months of 1953 was ten per cent above the corresponding period in 1952. Average weekly earnings at the present time are running about six per cent ahead of a year ago. In addition, most other income groups have achieved gains over the past year.

Not only have money incomes on the average been higher in 1953, but people have been able to buy a little more with each income dollar. Prices of consumer goods and services have averaged about one per cent lower this year than last. Rising money incomes and slightly declining prices together have provided the basis for a rise in living standards which became apparent in 1952 and has continued this year. In 1952, real per capita consumption in Canada rose by 2½ per cent over that of the previous year, the first significant gain since 1947. A greater increase has occurred in 1953.

In the period prior to mid-1952, much of the increase in production and employment could be traced to defence expenditure and to intensified world demand for strategic materials. Since that time, however, the main impetus has come from increased demands for consumer goods and services.

The Consumer Market

The increase in consumer buying has been widely spread throughout all the main consumer groups, including soft as well as hard goods. Food consumption, for example, has risen by 12 per cent in a two-year period. In 1953 meats in particular, and especially beef and veal, were consumed in much greater quantities, reflecting, in part, the considerable reduction in price. Clothing sales, despite unusually mild weather conditions, have

been higher in volume terms this year than ever before. Among the consumer goods which have experienced unusual buoyancy were automobiles and household appliances. Sales of passenger cars in the first nine months of 1953 exceeded by a considerable margin those of any comparable previous period. Major appliances also experienced a very strong sales position, particularly in the early part of the year. Television has mushroomed into a major industry in Canada during the year, and 1953 sales are now expected to run close to 350,000 sets. This upsurge in the purchase of durable goods in the past 18 months reflects not only the strong consumer income level but also a substantial increase in instalment buying. Since the suspension of consumer credit regulations in May 1952, total credit outstanding has increased more than 50 per cent.

The continuing increase in current incomes has meant that consumers have not had to dip into savings to maintain this high volume of spending. Individuals appear to be increasing their rate of savings which, on the average, presently amounts to eight or nine cents out of each dollar currently earned. This rate on the basis of past experience may be considered as high. A particular example of individual saving is presented by the sales of Canadian savings bonds up to the end of November 1952, which were $2\frac{1}{2}$ times as great as in the corresponding months of the previous year, and set a new record for the eight savings bonds series. One out of every eleven of the population was a subscriber, and the average subscription was well above that of last year.

Capital Expenditure

An important influence contributing to Canada's current prosperity is the still increasing rate of capital expenditure. Total capital outlays in 1953 are now estimated at \$5.6 billion, nine per cent above those of the previous year. With prices but little higher, this represents a further significant increase in actual new physical assets put in place. As regards the type of physical investment, construction has shown a slightly stronger trend than have purchases of machinery and equipment. Resource development outlays and expansion of basic material capacity have continued to make up a large part of the investment programme. Most of the increases in the 1953 programme were, however, the result of larger expenditures on housing, commercial and institutional construction, consumer goods manufacturing capacity and other types of investment which had been curtailed during the period of the defence build-up. Approximately 100,000 housing units were started in 1953 compared with 86,000 in 1952 and 95,000 in 1950, the previous record.

The limited evidence now available points to the continuation of a high level of investment spending. It is true that a number of large-scale projects have recently been completed or are now nearing completion. As a result, capital outlays in basic material processing industries are likely to be lower in 1953. At the same time major new developments are in sight. It now seems quite possible that outlays for development of new sources of hydro-electric power, oil, natural gas, and other minerals, will be higher than ever in 1954. There are also indications that expansion of secondary and service sectors is still on the uptrend. These circumstances would appear to indicate further change in the composition of investment during the

coming year but probably no significant decline in total outlays.

Defence Expenditures

Defence procurement, in terms of deliveries of end items and work performed, was somewhat higher in 1953 than in 1952. As far as new orders in value terms are concerned, the program, taken as a whole, has passed the peak and shows signs of levelling off. There is, however, considerable variation in the individual parts of the program. In such fields as aircraft, electronics, and shipbuilding continuing orders are being placed and substantial deliveries have yet to be made. In others, while there is still a considerable amount of work in hand, the level of new orders has decreased. Most of the key facilities needed for greater defence production had been established by the end of the year. Capital assistance in 1953 was considerably less than in 1952, and few new projects of major significance were authorized during the year.

Highlights of the individual production programs included full-scale production of the "CF-100" twin-engined all-weather jet fighter, together with the development of a new version, and continued large deliveries of the "F-86 Sabre" jet, including planes which since July have been powered by the all-Canadian "Orenda" engine. Another feature of the aircraft program was the beginning of full-scale deliveries of the "T-33" jet trainer for the R.C.A.F. Deliveries of the "Harvard" trainer and the "Beaver" light general-purpose aircraft continued steadily during the year, and preparations for producing the "T-34" trainer for the United States Air Force were well advanced. The shipbuilding program saw the project for reconverting 20 Bangor minesweepers almost completed, and the production of escort vessels substantially advanced, as well as the reconversion of frigates. The reconverted destroyer "Algonquin" was accepted by the Royal Canadian Navy in March.

The output of guns and other weapons increased during the year, one factor being a substantial increase in output of the 3" 50-calibre twin naval guns and mountings. Under the ammunition programme, many items were produced, and Canada's basic capacity was further expanded. Under the electronics programme, the procurement of a wide variety of complex equipment continued. Considerable progress was made in supplying equipment for the radar defence screen of this continent. The most important individual feature of the mechanical transport programme continued to be the satisfactory delivery of Centurion tanks from the United Kingdom. The peak of activity in defence construction had been passed with the completion of several major projects in 1952, and activity in this field was somewhat lower in 1953.

Most of the new facilities required for a large-scale defence programme were established by the end of 1953. Canada is now able not only to maintain a larger production of defence items, but also to depend less on foreign suppliers. As already mentioned, "Orenda" engines from the new plant at Toronto are now used in the "F-86" instead of jet engines imported from the United States. Other items which replaced United States supplies when they came into production in 1953 included miniature electronic tubes and automatic pilots for aircraft.

The supply of essential materials in the free world improved so much during 1953 that it was possible to abandon all Canadian domestic controls on their use. The International Materials Conference, of which Canada was a member, disbanded all its commodity committees by the end of September. This meant that Canada no longer needed to control any materials in order to ensure adequate supplies. On the domestic front, defence industries were able to obtain all their requirements. It was, however, necessary to maintain a small group in the Department of Defence Production to deal with controls, partly to assist Canadian defence contractors to meet difficulties over supply from domestic sources, and partly because controls were still in effect in the United States at the end of the year. Canadian firms, which require materials from the United States under the Defense Materials System, are still assisted by the Department in obtaining their requirements. The arrangements are similar to those which operated formerly with regard to Canada's requirements under the U.S. Controlled Materials Plan.

Procurement between Canada and the United States continued to be an important factor in purchasing by the Department of Defence Production, although the Department was less dependent on U.S. sources than before. Mutual procurement was carried out under the joint "Statement of Principles for Economic Co-operation", which was signed by Canada and the United States on October 26, 1950. In October 1953, joint discussions were held in Washington with the Secretary of the Treasury, the Secretary of Commerce, the Director of Defense Mobilization, and the Deputy Secretary for Defense. At that time, various aspects of defence production problems were discussed, and the Statement of Principles was reaffirmed.

Foreign Trade

A number of developments in the world market situation have had an important bearing on Canada's trade position in 1953. World supplies of basic materials have eased somewhat and prices for some items have been lower than in 1952. International markets have, on the whole, become more competitive. At the same time a further expansion of employment and income levels in the United States has provided a growing market in that country for foreign goods. Output trends in the greater part of the non-dollar trading world have been fairly stable but with some notable exceptions, such as Germany and Japan, where significant increases have occurred. While discriminatory import regulations have continued in effect in most of these countries, important steps have been taken in some countries toward a lessening of these restrictions and in the case of South Africa they have been completely removed. Hard currency reserves of non-dollar countries, taken as a whole, have shown a further increase during the year but this has been accompanied by a continuing shift to non-dollar sources of supply. Some Latin-American countries have experienced intensified exchange difficulties which have had an adverse effect on Canada's exports.

Our exports in 1953 have been running very moderately below those of the previous year. With prices slightly lower, export volume is relatively unchanged.

The value of exports to the United States is up by about six per cent on the basis of figures for the first 10 months. Commodities showing increases include aluminum, copper, lumber, newsprint, barley and pork products. Even

though the United States embargo on Canadian animal products was removed early in the year, very little beef has been sold in that market up to the present - a condition associated presumably with the substantially lower prices and the sharp increase in consumption, within Canada itself.

Total sales to overseas markets, which increased substantially in 1952, are down considerably this year. High stock positions for some items, together with increased availability of supplies from non-dollar sources, resulted in lower exports to the United Kingdom and some other European countries. Canadian exports seem also to have been affected by the slowing down of activity in certain European countries and by the tendency of these countries to use their improved balances for increasing reserves rather than imports. Another sustaining factor in Canada's export trade has been the continued increase in sales to Japan which, in recent years, has become an important market for Canadian goods.

Perhaps the most striking feature of Canada's trade in 1953 has been the continued rise in imports which, in the first ten months of the year, were up twelve per cent in value and fourteen per cent in volume. This record volume of imports has occurred in spite of reduced dependence on foreign sources of supply for such materials as oil, coal and steel. It reflects both the strong consumer demand and the further expansion in Canadian capital investment. Other factors contributing to this rise in imports have been easier supply conditions, improved delivery dates, and more competitive selling of manufactured goods in the international market.

Moderately lower exports and increased imports have resulted in a change from a positive merchandise trade balance in 1952 to a negative balance in 1953. This has been the principal factor contributing to the change from an international current account surplus of \$151 million in 1952 to a deficit amounting to \$386 million in the first 9 months of 1953. In the exchange market, however, this deficit on current account has tended to be offset by continued capital inflow, so that the Canadian dollar has been maintained at a premium over the American dollar. In comparing different areas, Canada's current account surplus with the Sterling Area and other overseas countries has been reduced substantially, while the deficit in dealings with the United States has increased.

International Trade Relations

The eighth session of the Contracting Parties to GATT was held in Geneva from September 17 to October 24, 1953. Perhaps its most important achievement was the decision to extend for eighteen months, until July 1, 1955, the firm binding of the important and extensive tariff concessions previously negotiated. Several countries made known their plans to liberalize their dollar import restrictions, notably the United Kingdom, Belgium, Netherlands, and the Union of South Africa. The possible accession of Japan to GATT was discussed, and that country was invited to participate in the meetings and work of the Contracting Parties. Arrangements were made for a comprehensive review of the General Agreement which has been tentatively scheduled to begin in October

1954 depending on the progress of studies now under way in major trading countries.

Economic and trade developments in the United States continue to have an important bearing on Canadian interests. Among recent developments of this sort may be mentioned the appointment of the Randall Commission to study all aspects of foreign economic policy and to make recommendations early in 1954. Also important to Canadian interests are the United States Tariff Commission hearings on groundfish fillets, lead and zinc, mustard seed, and oats (following which the Canadian government recently consented to impose temporary restrictions on exports of oats to the United States). Other important developments have been certain amendments which have been made in United States customs procedures, (though not as yet covering the entire field which has been under discussion), and revisions in the Mutual Security Act to permit the sale of agricultural products for blocked currencies.

Conditions in Major Industries

The continuation of generally firm demands during the past year has been reflected in high levels of activity in major Canadian industries. Moreover, since mid-1952, there has been a more even balance in industrial conditions than prevailed previously.

For the third successive year, unusually large grain crops were harvested. The wheat and barley crops were the second largest on record, and the oat crop was well above average.

Exports of the five major grains, wheat, oats, barley, rye and flaxseed and their products totalled nearly 600 million bushels during the crop year ending July 31, 1953. This was an all-time record for Canadian grain clearances.

Canada ratified the new International Wheat Agreement, which is effective for three years, commencing August 1, 1953. The Agreement provides for a minimum price of \$1.55 a bushel and a maximum price of \$2.05, basis in store Fort William/Port Arthur or Vancouver. Canada has an export quota of 163,230,882 bushels for the 1953-54 crop year.

The wood products industry has, on the whole, enjoyed a prosperous year. Reduced sales of lumber to the United Kingdom have been offset by increased markets in the United States and Canada. The moderate increase in the use of newsprint on this continent has more than made up for the decline in overseas demand. The pulp market which experienced considerable softness early in the year, has subsequently shown much improvement. Although prices of some metals have been lower than in 1952, overall mineral production has increased significantly, two notable exceptions to the general trend being gold and coal. The construction and related materials industries have established new records. In response to buoyant consumer demand and generally high equipment requirements, output has increased in most finished manufactured goods industries.

Reflecting these conditions, industrial output, as measured by the index of industrial production, rose by nine per cent in the first eight months of 1953 compared to the same period in the previous year. In recent months this margin of increase has narrowed; but this was to some extent the

result of the upsurge in activity during the latter part of 1952. Nevertheless, conditions in some manufacturing industries are not presently as buoyant as they were earlier in the year.

In some industries notably appliances, textiles, clothing and some machinery lines, a larger proportion of the increased demand has been met through imports and accordingly domestic industry has not had the benefit of the rise in final purchases. In a number of lines, during the early part of the year, both production and imports tended to run ahead of sales. As a result there has been an accumulation of inventories which, for the time being, is having a retarding effect on production levels.

In the farm implements industry also activity has run counter to the general trend. Even with the bumper crops harvested in 1952 and again this year, sales of farm equipment in the North American market have moved in line with the moderate decline in farm incomes. The downward trend of production in the industry has been accentuated by lower shipments to other foreign markets and also by a high inventory position. It should be borne in mind, however, that the decline this year is from the near record level of output achieved in 1952; and apart from fluctuations based largely on changing crop conditions, longer-run prospects in this industry are reasonably good.

These industry situations illustrate the type of adjustment which cannot be avoided in a free enterprise economy even in conditions of general prosperity. To a large extent the current difficulties reflect a transition to more competitive markets, both domestically and internationally. They should not, however, be taken as indicating any decline in the general level of demand.

Prospects for the Coming Year

Looking to the year ahead there seems to be little indication of any serious interruption in the generally prosperous conditions now prevailing. In the United States there have been numerous predictions of a moderate decline in activity in 1954. The basis for these expectations has been explained in terms of lower defence outlays, reduced capital spending, inventory liquidation, a decline in housing, softening in the automobile market and a number of other reasons. Without trying to evaluate the significance of each of these factors it is, perhaps, worth emphasizing that in the United States as elsewhere there appears to be a significant absence of conditions normally characteristic of a pre-recession boom. By and large, speculative excesses have been absent since 1951. Commodity prices have been following a steady to slightly downward trend and business sentiment, seemingly influenced by off-stated reminders of the dangers of a post-defence let-down, has remained on the cautious side. In such circumstances, there is little tendency for businesses to become over-extended and vulnerable.

The present situation would appear to be one in which adjustments could occur in one or in several sectors without any danger of these multiplying into a general collapse.

- 7 -

In these circumstances any adjustments in the United States economy in the months ahead are not likely to be of sufficient magnitude to seriously curtail sales of Canada's major export items to that country. If we can assume also that no new obstacles to the entry of Canadian materials are created, the United States should continue to provide a receptive market for Canadian goods. Even so, it is doubtful whether Canada's sales to the United States will keep pace with the sales of United States producers in Canada.

With some notable exceptions such as Japan, Canadian exports to overseas markets have declined considerably in 1953. The circumstances which have contributed to the decline in sales of basic materials are not likely to be repeated in the year ahead. In fact with the continued increase in the dollar reserve position of the non-dollar world, some pick-up in sales of basic materials is possible. On the other hand grain sales are almost certain to fall short of the record shipments achieved in the last two years. Nevertheless, in spite of increased world supplies, requirements of importing countries remain large and there is good reason to expect that Canada will obtain a fair proportion of this market.

Sales prospects are probably firmer at home than in export markets. As previously indicated, it is likely that capital spending will remain high. Government expenditure for defence and for other purposes should continue to act as a stabilizing influence. In these circumstances the trend of personal incomes should be at least sustained. Given a stable price level, this would continue to support a high level of spending on consumer goods and services even though a levelling in the rate of expansion of consumer credit might reduce the buoyancy in the durable goods market. As previously indicated, inventories are now high in a few specific lines. These are, however, exceptions, since total business inventories have not quite kept pace with the total volume of business sales.

These considerations suggest the continuation of generally stable market conditions in the period ahead. At the same time some industries are encountering difficulties and for this reason expansionary trends in the Canadian economy in the year now ahead may be less pronounced than in the past three years.

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