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## ECONOMIC AND FINANCIAL REVIEW OF 1956

In his annual report to the Minister of Finance, the Governor of the Bank of Canada, J.E. Coyne, made a review of significant trends in the Canadian economy in 1956 and reported on general financial developments during the year.

The report read, in part, as follows:-

By the latter part of 1955 the Canadian economy had recovered completely from the mild recession of 1954 and was once again operating at virtually full capacity. During 1956 demand continued to grow rapidly and, after allowance for normal seasonal movements, employment and output rose continuously. For the year as a whole output in physical terms was about 7 per cent greater than in 1955.

Compared with the average annual increase in physical output of about 4 per cent from 1947 to 1955 the growth of 7 per cent from 1955 to 1956 was very substantial. In part this was due to the fact that the 1956 grain crop was even larger than the above-average crop in 1955. In part it was due to some under-employment of resources in the early months of 1955. However, most of the extra increase in output was possible only because many persons who formerly had not been seeking work, as for example many married women and retired people, were drawn into employment by an exceptionally strong demand for manpower.

The main cause of the strain on the country's physical resources was an unprecedented increase in business investment in plant and equipment. The total of such new fixed assets

put in place was about 25 per cent larger in physical volume than in 1955 and there is every indication that business investment would have increased even more if additional materials and manpower had been available.

Behind this increase in business investment lay a rapid growth in the rate of development of Canada's natural resources. Through 1955 and 1956 demand from abroad for many of our primary commodities--particularly forest products and minerals--was very strong. At the same time the demands on most of our energy sources--notably crude oil, natural gas, and hydro-electric power--were growing rapidly. The tempo of resource development activity, already high, increased dramatically and investment expenditure on projects associated with resource development was about 60 per cent larger than it was in 1955. About one-half of the 1956 total of business investment in fixed assets was in the secondary and service industries. Investment in these fields increased by about 20 per cent.

The high rate of business investment in fixed assets stimulated demand elsewhere in the economy. Personal incomes rose rapidly and demand for almost all consumer goods and services was strong. Consumer expenditures on durable goods rose by 10 per cent, and on non-durable goods and on services by 7 per cent each. Business inventories rose appreciably. Expenditures for housing construction continued at the very high rate achieved in the latter part of 1955 (although in the latter

(Over)

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part of the year the rate of new housing starts was declining). Government expenditures on goods and services increased, particularly capital expenditures by provincial governments.

Even with the unusually large increase in employment the supply of goods and services produced in Canada fell far short of the demand, and the economy was obliged to rely increasingly upon the use of foreign resources. Imports of goods and services rose by nearly 20 per cent, much more than the increase in exports, and our net use of goods and services from abroad increased by \$700 million to \$1,400 million. The larger current deficit in our international transactions was financed by a larger inflow of foreign capital. During the year the net inflow of capital into Canada tended to increase even more rapidly than the import deficit and the exchange value of the Canadian dollar rose by about 4 per cent.

#### CONTINUOUS PRICE RISE

The general level of prices in Canada rose continuously through 1956. In the aggregate, the prices of all goods and services used by the economy were about 4 per cent higher at the end of the year than at the end of 1955. This increase came about despite the restraining influence exerted by the movement in the exchange rate on the price of imported goods, which showed no increase over the year, and despite a declining price trend that developed in world markets during 1956 for several important Canadian primary commodities. Thus, to a much greater extent than in any recent year, the movement in the overall price level was in response to internal rather than external demand pressures. Prices of manufactured goods rose steadily during 1956. Price increases in the investment sector, where demand was particularly strong, were greater than elsewhere; average plant and equipment prices rose 6 per cent in the course of the year and were 10 per cent higher at year-end than in mid-1955. The period of relative price stability at the consumer level, which had prevailed in Canada since the end of the upsurge following the outbreak of the Korean War, ended in May 1956. Prices of nearly all goods and services used by consumers increased and the consumer price index rose by 3 per cent in the last seven months of the year.

The increasing variety and frequency of price increases in 1956 was impressive evidence of the pressure under which the economy was working. In an economy operating under a system of direct controls and rationing, physical shortages of goods are the main outward sign that the economy is overloaded. In an economy operating under a flexible price system, however, if demand exceeds supply at one price level, prices move up to the point where supply and demand come into balance. Under a flexible price system price increases

rather than physical shortages are the natural sign of strain.

Widespread price increases during 1956 reflected the emergence of the supply of manpower as the underlying physical shortage in the economy. In view of the pronounced seasonal variation in employment that exists in our climate the full extent of the demands on our manpower resources is most clearly revealed during the summer and autumn months. During this period of 1956 unemployment fell to 1.7 per cent of the labour force, and of those who were unemployed nearly one-half were out of work less than one month. At the same time there were widespread reports of labour shortages, and the number of job vacancies recorded was far higher than in recent years.

There were unusually large differences between developments in Canada and in the United States in 1956. Total demand in the United States was high and rising, but the pressure on resources appears to have been considerably less than in Canada. The percentage growth in total physical output in the United States was about one-third of that in Canada and the increase in prices in the United States was somewhat less than in Canada. Much of the difference is traceable to the investment area. Although the proportion of total output devoted to private investment in fixed capital in Canada was already one-third higher than in the United States in 1955, the percentage increase in private capital investment from 1955 to 1956 was more than twice as great in Canada. At the same time the rate of expenditure on consumer durable goods increased in Canada by 10 per cent while in the United States it fell by 5 per cent. In 1956 Canada was a net importer of goods and capital on a large scale while the United States was a net exporter.

#### PHYSICAL STRAINS REFLECTED

The physical strains under which the Canadian economy operated in 1956 were naturally reflected in the financial sphere. On the physical side there was a strong demand for things such as business plant, equipment and inventories, community facilities, and consumer durable goods which are not usually paid for entirely out of current income. The financial counterpart of this situation was a rapid increase in the amount of money that people wanted to borrow. Among those competing to borrow the funds available were hydro-electric utilities, telephone companies, uranium and other mines, petroleum and pipe line companies, pulp and paper, iron and steel, cement and many other manufacturing companies, retail stores, finance companies, house builders, provincial and municipal governments and school boards as well as many thousands of individuals. In some cases those who needed funds for capital expansion obtained them by selling financial assets, as for example bonds which they had previously acquired.



## VOCATIONAL TRAINING FOR ESKIMOS

A new and unprecedented plan for the vocational training of Eskimos has been launched by the Department of Northern Affairs. Thirty Eskimos, all from the Western Arctic, are now at Leduc, Alberta, where they will follow a three-month course. Once the men are trained they will assume responsible jobs on the Distant Early Warning Line as members of the team manning Canada's first line of defence.

The Eskimos will be trained in the operation and maintenance of heavy equipment such as trucks, tractors, rotary snowplows, and bulldozers. They will learn how to repair both diesel and gasoline engines. Many Eskimos are mechanically inclined, and those selected for the course are men who show particular promise. A few have already operated heavy machinery, and all of them are looking forward to their training with enthusiasm. Since the Eskimos' native tongue is not English and some of the trainees are not proficient in the language, instruction in basic English will be an important part of the curriculum.

Selection of the Eskimo trainees was the job of Northern Service Officers of the Department of Northern Affairs, who live permanently in the Arctic. To adapt the curriculum to the

needs of the Eskimos, the course has been set by the Department's Vocational Training Co-ordinator. He and the NSO's are co-operating with the Eskimos' future employer on the DEW Line, the Federal Electric Corporation. Since they are urgently needed, the students will go directly to their jobs as soon as they graduate.

In arranging to accommodate and train the Eskimos, Northern Affairs officials were assisted by representatives of the Alberta Department of Education. Private industry is supplying the instructors and training equipment for the technical phase of the programme.

The present course is part of a long-term plan to prepare Eskimos for new employment opportunities in the North. The plan is of particular importance because game is becoming scarce in some districts, and many Eskimos must leave trapping and hunting for wage employment. Without vocational training they would be confined to unskilled jobs, and could not take full advantage of the new opportunities. Plans are under way for additional courses in Eastern and Western Canada to train 120 Eskimos--making a total of 150--within the next twelve months.

**FISHERIES MEETINGS:** Important fisheries meetings in Tokyo this month were attended by a number of Canadian, American and Japanese delegates. The meetings were held by the International North Pacific Fisheries Commission, which was formed by a tri-partite Treaty between Canada, Japan and the United States in 1953 for the conservation of stocks of fish on the high seas of the North Pacific Ocean. The Treaty covers an ocean area of thirty-two million square miles. Approximately one-third of the world's supply of fish is taken in the area by the nations signatory to the tri-partite Treaty and other bordering nations, including China and the U.S.S.R.

During 1955 and 1956 the Commission has undertaken a research programme of record size in the area extending northward from the latitude of San Francisco to near the Bering Strait at the entrance to the Arctic Ocean and across to the Asiatic shores. Twenty ocean-going research vessels occupied stations throughout this vast and stormy expanse in 1956. Principle subject of research at present is a determination of whether or not salmon from Asian streams mingle in the sea with salmon from the streams of North America. If the Commission finds that salmon from the two continents mix on common feeding grounds in mid-ocean it must draw dividing lines based on scientific research which will most equitably divide the stocks.

The Tokyo meetings were divided into two

series. During the week which began March 11 representatives of the three countries discussed the status of the salmon, herring and halibut fisheries along the Pacific coast of Alaska, British Columbia and the United States. Japan has agreed in the Treaty to abstain from fishing these stocks, on the condition that the United States and Canada maintain a maximum sustainable annual harvest from them, coupled with a full research programme and adequate enforcement of conservation measures. The committee studied reports dealing with this complex and important question and advised the Commission on the need for further studies. Beginning in 1958 the Commission must decide annually if stocks of fish protected under the abstention clause of the Treaty continue to qualify, or if the abstention should be lifted.

During the week of March 18, the Commission's Committee on Biology and Research met to plan and co-ordinate details of the 1957 research programme. Oceanographic research vessels connected with this programme are already departing for North Pacific waters. They will be followed by vessels studying distribution of salmon throughout their range and later by other vessels engaged in mid-ocean tagging of salmon, for later recovery in their home areas.

Canada's delegation was led by George R. Clark, Deputy Minister of Fisheries and Chairman of the Commission.



## CANADIAN TRAVELLERS SPEND MORE

Expenditures by residents of the United States and other countries in Canada, and travel expenditures by residents of Canada in other countries reached record levels in 1956, surpassing the previous heights reached in 1955, according to the first Dominion Bureau of Statistics estimates of 1956 international travel expenditures. For the sixth successive year, however, Canadian travellers spent more in other countries than foreign travellers spent in Canada.

Estimated expenditures by foreign visitors to Canada in 1956 totalled \$335,000,000, up 2.1 per cent from \$328,000,000 in 1955, while Canadian travellers spent an estimated \$497,000,000, some 10.7 per cent greater than the preceding year's \$449,000,000. As a result, the debit balance on travel account with all countries increased by one-third to \$162,000,000 from \$121,000,000.

Residents of the United States travelling in Canada spent an estimated record total of \$308,000,000 in the year compared to 1955's total of \$303,000,000. At the same time, Canadian travel expenditures in the United States climbed to \$391,000,000 from \$363,000,000, causing a debit balance (fifth in succession) of \$83,000,000 versus \$60,000,000.

Visitors from other countries with record expenditures of \$27,000,000 compared to \$25,000,000 a year earlier were outspent by Canadian travellers in their countries with expenditures estimated at \$106,000,000 versus \$86,000,000. This resulted in a substantially increased debit balance on travel account with overseas countries of \$79,000,000 compared to \$61,000,000.

The increase in receipts from travel in Canada by residents of the United States can be attributed to the automobile classification. On the basis of preliminary data it would appear that expenditures made by this group in 1956 were approximately \$7,000,000 higher than in the previous year.

Aggregate expenditures of the non-automobile traffic declined in much the same proportion as the volume of traffic, indicating little change in the amount spent per visit, if taken as a group. The decline in expendi-

tures in this group was between 1 per cent and 2 per cent.

Most of the increase in the amount spent by Canadians travelling in the United States can be traced to the automobile classification. Canadians returning by automobile spent \$197,000,000 in other countries in the year, an increase of some \$19,000,000 or nearly 11 per cent over 1955.

Aggregate expenditures of Canadians returning by non-automobile transportation advanced more moderately than the automobile classification. Although the number of re-entries by rail, bus, boat and plane was 1 per cent higher than in the previous year, expenditures of this group advanced nearly 5 per cent, due mainly to higher averages per visit from some classifications.

A record number of people crossed the Canada-United States border in the year, total crossings numbering 54,743,200, up some 1,705,958 or 3 per cent from 1955's previous peak. Traffic was comprised of 27,666,500 persons residing in other countries and 27,076,700 residents of Canada returning from visits to other countries.

A new record was established in the number of Canadians visiting other countries during 1956. The number of re-entries by Canadians returning from the United States increased to 27,100,000 from 24,800,000, a gain of more than 9 per cent. Canadians returning direct from visits to overseas countries increased over 20 per cent, a trend similar to that experienced in the previous year when the increase over 1954 also amounted to 20 per cent.

Purchases declared under the \$100 customs exemption privilege for Canadians returning from the United States amounted to nearly \$73,000,000 in the year, an increase of \$3,600,000 or 5 per cent over 1955's total. In 1955 the increase also amounted to some 5 per cent compared to the preceding year. In 1954, nearly 21 per cent of the expenditures by Canadians in the United States were for merchandise declared under the customs exemption, but in both 1955 and 1956 these expenditures declined to 19 per cent of the total.

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**B C ROAD BUILDING:** British Columbia in 1956 had the busiest road building year in its history. Contractors completed some 160 miles of new highway and started on 205 miles, provincial authorities report.

Evidence of provincial construction activity are new stretches of highway on Vancouver Island, the Fraser Canyon and Cariboo, the Kamloops area, the Southern Trans-Provincial and Northern Trans-Provincial. Two new by-passes on the Southern Trans-Provincial

Christina Lake to Kinnaird and Salmo to Creston were begun.

Work began also on the 22 mile Elko-Rooseville section on Highway 93 from the United States. Good progress was made on the new link from Terrace to Kitimat, joining British Columbia's newest city to the highway system. The new highway from Horseshoe Bay to Squamish pushed on, and work continued on the Upper Levels Highway from Horseshoe Bay to West Vancouver.



AT TUNIS CEREMONY: Canada was represented by Mr. Léon Mayrand, Canadian Ambassador in Madrid, at Ceremonies in Tunis on March 20, marking the first anniversary of Tunisian independence. Mr. Mayrand was the first official Canadian Representative to visit the new State of Tunisia.

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MORE AT WORK: At February 16, 1957, an estimated 5,362,000 persons in Canada had jobs, 146,000 more than in February 1956, according to a news release issued jointly by the Department of Labour and the Dominion Bureau of Statistics. The number of persons without jobs and seeking work, an estimated 323,000, was 5.7 per cent of the labour force, compared with 5.6 per cent last year and 7 per cent in February 1955. Registrations for employment at National Employment Service offices at 575,000, amounted to 10.1 per cent of the labour force compared with 9.3 per cent a year earlier and 11.4 per cent in February 1955.

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HOUSING LOANS: The Bank of Canada has announced that the chartered banks have agreed in principle to approve new housing loans in 1957 in a total amount of not less than \$150 million, or approximately 15,000 units.

Insured housing loans were approved by the chartered banks during 1956 for approximately 16,000 units, involving the sum of approximately \$160 million. Actual disbursements by the banks on mortgage loans during 1956 amount to \$235 million, including disbursements made on loans which had been approved in the previous year.

The new agreement relates to a minimum amount only. It is, of course, open to banks to undertake more insured housing loans if they wish to do so.

In recent months most banks had greatly slowed down their rate of approvals of housing loans owing to uncertainty as to whether they would have a growth in their total resources sufficient to enable them to finance an increase in the total outstanding amount of housing loans on their books. The Bank of Canada assured the chartered banks that as a group their total resources could be expected to increase during 1957 by an amount at least great enough to take care of their disbursements on mortgage loans, including those on loans approved prior to 1957 as well as on loans which would be approved this year in accordance with the above programme. It should not be necessary for the banks to dispose of other assets in order to maintain a flow of funds for insured housing loans.

The representatives of the Bank of Canada and of the chartered banks also held a preliminary discussion in general terms of the suggestion made in the Annual Report of the Governor of the Bank of Canada that it might

be worth having some study and discussion of a gradual approach to a steadier (and over the years a larger) participation by the banks in the field of mortgage loans and other long-term investments, particularly having regard to the growth in the volume of personal savings deposits held with the Banks. This matter had recently been discussed by the Governor with senior officials of the banks individually, but this was the first occasion on which a collective discussion has been held. It was agreed that this matter was one which called for further study and discussion by all concerned. Participation by the banks in the specific programme regarding mortgage loans in 1957 does not imply either concurrence or disagreement by any bank with the longer run proposals outlined in the Governor's Annual Report.

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CANADA'S FIRST: A hospital for the treatment of mentally ill children will be set up at Thistletown in Metropolitan Toronto, on a 92-acre site which has just been acquired from Toronto's Hospital for Sick Children, Health Minister Dr. M. Phillips announced recently in the Legislature.

This new hospital will be Canada's first research centre for mentally ill children in Canada, and Dr. Phillips says the programme to be developed there will be unique in North America.

Purchase of the property, which was used as a summer convalescent home by the Hospital for Sick Children, was made possible largely because of the effectiveness of the anti-polio vaccine programme in the Province. Since the latter went into operation, the number of polio cases among children has been drastically reduced in Ontario, and the authorities of the Hospital for Sick Children are going to use the proceeds of the sale to provide certain needed extensions at the Hospital.

The Thistletown location is considered ideal by Health Department authorities because it is close to the University of Toronto, and this will facilitate the programme of research and observation. Moreover the establishment needs little renovation to be adapted to its new purpose.

Dr. Phillips pointed out that the new centre is designed strictly for mentally ill, or psychotic children, and not for mentally defective or mentally retarded children. He also expressed the hope that the stay of the patients would not be too long.

"There is a good chance," said the Health Minister, "that, as our research programme develops, more than 70 per cent will be cured within a year and returned to active life. It is possible that we will be able to cure almost all psychotic children."

The Thistletown Hospital was constructed in 1928 and has a capacity of 115 beds.



## ECONOMIC AND FINANCIAL REVIEW OF 1956

(Continued from P. 2)

The growth in the demand for credit was accompanied by a considerable increase in the flow of loanable funds. With wages, profits and other forms of income rising, many individuals and groups were saving more, and these larger savings were flowing through various channels (including the banks) to provide more funds to those who wanted to borrow them. The excess of receipts over payments in the Government of Canada's accounts was also supplying funds to the capital market through the redemption of Government of Canada securities. However, these increases in saving were considerably outpaced by the growth of demand and, as competition for the loanable funds available became increasingly vigorous, interest rates rose.

This development in the market for borrowed money came about not because of any contraction in the supply of funds--the supply did in fact increase substantially--but because of a more rapid increase in the demand. Borrowers collectively succeeded in borrowing considerably more money in 1956 than they did in 1955. Borrowers other than the Government of Canada were able to raise through net new issues of securities in the Canadian market about \$1,750 million compared with \$1,300 million in 1955. In addition they sold net new issues of \$500 million in foreign markets in 1956 compared with a small net retirement in 1955. The scale of borrowing from all major sources was such that the total debt of businesses, individuals and public bodies other than the Government of Canada appears to have increased by about 15 per cent.

The growth in the competition for loanable funds reflected the fact that the supply of goods and services available was not large enough to accommodate everyone's spending plans. In 1956 the amount of resources that savers were willing to give up, though greater than in 1955 or any earlier year, tended to be less than the amount of resources that investors wanted to borrow. Since the economy was already expanding at very close to its overall physical capacity no significant further addition to the supply of goods and services available could come from domestic production. Even with large net imports of foreign resources and heavy net borrowing from foreign savers the balance was not restored.

In the circumstances of 1956, and in view of its statutory responsibilities, the central bank had no alternative but to restrain monetary and credit expansion since it was clear that any significant increase in the money supply would have added to inflationary pressures. Monetary restraint helps to contain an inflationary situation by permitting the basic lack of balance between what savers want to save and what others want to invest to work itself out in part through competition for

loanable funds. The competition for funds causes temporary increases in interest rates which encourage saving and discourage excessive capital expenditure. If credit is expanded and interest rates are not permitted to increase, the underlying competition for the physical resources to carry out investment projects expresses itself entirely in greater price competition for the limited supplies of goods. As between these alternatives it is rarely if ever seriously argued that price inflation is in the national interest. Inflation operates to redistribute real income in favour of the economically stronger elements in the community at the expense of those who have less bargaining power. An inflated level of demand makes many operations seem temporarily to be more profitable than they really are, and it thereby encourages expansion of these operations at a rate which is excessive and cannot be sustained. Economic distortions of this kind are not obvious when they are taking place but they show up sooner or later and necessitate painful readjustments. Inflation tends to leave exporters at a disadvantage in selling abroad and to leave industry producing for the domestic market at a disadvantage in competing with imports. It is not an accident that periods of inflationary prosperity are usually followed by periods of dislocation in production and employment. One of the main purposes of efforts to contain inflation is to avoid this aftermath.

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**SENIOR APPOINTMENTS:** Several senior appointments in the Public Service have been announced.

Mr. A.D.P. Heeney, at present Canadian Ambassador in Washington, has been appointed Chairman of the Civil Service Commission effective May 1, consequent upon the retirement of Mr. S.G. Nelson, which was announced some weeks ago.

Mr. Norman Robertson, who has been for some years Canadian High Commissioner in London, is to become Canadian Ambassador in Washington on May 1.

Mr. Alexandre J. Boudreau is resigning from the Civil Service Commission, effective on August 1, to become Consul General for Canada at Boston. He will take up his duties in Boston immediately after Labour Day and will spend a short time with the Department of External Affairs in Ottawa in preparation for his duties there.

Mr. Paul Pelletier, who has been Assistant Secretary to the Cabinet, and recently Secretary to the Royal Commission on Broadcasting, has been appointed a member of the Civil Service Commission, effective August 1.

Mr. Jean Fournier, at present Canadian Consul General in Boston, will return to Ottawa at the beginning of September and will serve for a tour of duty, on loan from the Department of External Affairs, as Assistant Secretary to the Cabinet.