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REVIEW OF CANADA'S ECONOMY IN 1971 AND OUTLOOK FOR 1972

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Performance of Major Indicators in 1971

Canada's economy has moved forward more strongly in 1971 following a phase of slower growth in 1969 and 1970. National output rose by about 6 per cent, compared to increases of 3 per cent in 1970 and 5 per cent in 1969. This is a faster rate of growth than is expected this year in any of the industrial countries of the Western world, including Japan. Stronger growth in production and sales has been reflected in the labour market and the employment trend has strengthened notably. Nonetheless, some slack has persisted in certain industries and regions and unemployment has continued at unacceptably high levels. The achievement of strong and sustained growth sufficient to reduce unemployment and take up the slack in the economy is the primary aim of Government economic policy at this time.

The increase in Canadian prices in 1971 was again the lowest among the major industrial countries, with the broadest measure of price movements, the GNP price deflator, showing an increase of 3.2 per cent. While the average price rise for the year was relatively moderate, there has been a stronger upward tendency for much of 1971 after the visible slowing of price increases during the preceding year. There has been little indication of deceleration in unit labour costs as average wage-rate increases continued to exceed gains in productivity by a wide margin. In the movement toward higher levels of activity and fuller utilization of resources during the months ahead, upward pressure on prices is likely to remain a matter of serious concern.

There has been an encouraging rise in new job opportunities as the economy gathered renewed momentum. Employment for the year rose more than 2½ per cent, which was twice the rate of increase in 1970. Moreover, employment trends have continued to strengthen as the year progressed and the number with jobs was moving up at an annual rate of 3 per cent in the final quarter. The Canadian labour force in 1971 has grown very rapidly, to a major extent because the youths of the postwar "baby boom" are now entering the labour market at full flood. The increase in jobs, large as it has been, has not been sufficient to reduce unemployment, and the seasonally-adjusted rate of unemployment was about 6½ per cent in the final quarter of 1971.

Strengthening of the Canadian economy in 1971 has taken place under conditions of considerable uncertainty in world trading and financial markets. The economic program announced by President Nixon on August 15 to stimulate domestic growth and redress the persistent U.S. payments imbalance created major difficulties for Canadian industries affected by the new restrictions and added greatly to uncertainty throughout the business world. The adverse effects of the U.S. measures on Canadian industry were mitigated by prompt ameliorative actions, including the enactment and implementation of the Employment Support Act. Then, in December, the Group of Ten reached agreement on the broad lines of a currency realignment designed to restore better underlying balance to international payments, together with the immediate elimination of the U.S. "temporary" restrictions. While other trade issues have still to be resolved, the December arrangements have done much to lift the veil of apprehension which had enveloped the world business community and should open the way to more vigorous economic advances in North American economies and throughout the world.

Major Demand Strengths

The main source of strength in the national economy in 1971 has been the renewed advance of consumer spending, reinforced by a vigorous upsurge in residential building. Higher consumer spending has been spurred by strengthening in personal income and greater availability of consumer credit. The improvement in personal income has been widely based. Gains in employment and continuing large increases in wage-rates have combined to strengthen labour income. Non-wage earnings have also shown improvement -- corporation profits which declined in 1970 have turned upward and there have been increases in farm and other business sectors. *Per capita* disposable income in real terms has risen significantly, exceeding the small increase of the previous year.

Spending on consumer durables made the most impressive gain in recent years. The increase was at least 15 per cent in value terms following a pronounced weakening, a decline of 5½ per cent, last year. A substantial rise in auto sales was a principal factor. New car sales exceeded last year's level by a wide margin, in both years a sizeable proportion of the market being captured by imported overseas models. In addition, there have been major increases in purchases of home appliances and recreational equipment. Trends in purchases of non-durable goods and services have also shown improvement, though less dramatically than in the case of durables.

The year 1971 was a buoyant one for housing. An estimated 235,000 new homes were started, well above last year's total of 191,000 and the previous record of 210,000 in 1969. Continued strong expansion in residential construction has been encouraged by greater availability of mortgage credit and by the provision of additional loan funds by the Federal Government during the course of the year.

Foreign Trade

External trade has provided less stimulus to the Canadian economy in 1971 than in the preceding year. Canada's exports rose 5 per cent in 1971, following an increase of 13 per cent in the preceding year. Meanwhile, stronger demand conditions in Canada brought a sharp resurgence in imports, which were 12 percent higher than in 1970. The sharper rise in imports than in exports has reduced Canada's merchandise-trade surplus from the 1970 record high of \$3 billion to something in excess of \$2 billion. Canada's balance on all current transactions will still show a surplus for calendar year 1971, though small compared with the \$1.1-billion figure realized in 1970.

Canada's sales to the United States, which account for more than two-thirds of total exports, were up 11 per cent, a substantial gain after only a marginal increase in the previous year. This strengthening hinged in considerable part on the recovery in the U.S. economy. It reflected, in particular, a higher level of automotive exports with the boost in transborder shipments of automotive goods that followed settlement of the General Motors strike late in 1970. Large increases have occurred also in exports to the United States of rolling-mill products, petroleum, natural gas, fertilizers, chemicals and lumber.

The trend of sales to overseas markets has moderated in 1971 following the unusually sharp gains of the preceding year. The pace of economic expansion has fallen off in several industrial countries, the result in some measure of policies aimed at containing serious inflationary trends in wages and prices. Uncertainties created for international business by the floating of major currencies, and the new United States economic program has also had a dampening effect on sales. Principal overseas markets for Canadian products which have experienced a slowing in growth include Britain, West Germany, Italy, Sweden, Belgium and the Netherlands, as well as Japan. In some of these countries stocks were being reduced during 1971, particularly in the case of metals such as nickel, copper, aluminum and iron ore, which had been acquired in exceptional volume in the previous year. Exports to state-trading countries were somewhat higher than in 1970, largely as a result of increased grain deliveries under major contract agreements with the U.S.S.R. and China. Apart from state-trading countries, exports to overseas markets declined in 1971.

Industry Conditions

Industrial production has increased moderately, supported by a growing improvement in manufacturing. The auto industry has returned to a high output level following the strike in late 1970 and sparked by stronger North American consumer markets. Increased consumer spending also has contributed to important gains in production of household appliances and recreational equipment. Several non-durable industries have shown strengthening trends, including foods, textiles, knitted goods, chemicals and petroleum products. Principal primary metal, machinery and industrial equipment industries have remained close to their 1970 production levels, with little

indication of an early return to a strongly upward trend. Aircraft and parts manufacture has continued the fairly sharp decline evident in the previous two years.

Mining activity has increased further, though more slowly than in 1970, with the largest gains in crude petroleum, natural gas and coal. Metal mining has increased only slightly, after a very strong rise in 1970. Demand for the major metals has been sluggish, with reduced prices, leading to curtailment of operations by several companies. In the forestry sector the highlight has been the marked upswing in lumber and plywood output in response primarily to the upsurge in residential construction. On the other hand, the pulp-and-paper industry has continued relatively slack, its output lagging behind for the second consecutive year. Although more adversely affected than most pulp-and-paper products, the newsprint industry appears to have picked up moderately toward the end of the year, after operating well below capacity for a considerable period.

Service-producing industries have shown somewhat faster growth than last year. The strongest rise has been achieved in the distributive trades, which, of course, have benefited from the strong stimulus to consumer spending. Community, business, financial, and personal services, and public administration have again moved moderately higher.

Prospects for 1972

Underpinning economic prospects for 1972 is the continuing strength of consumer demand supported by the sustained rise of personal incomes and reinforced by reductions in personal taxes. Additional stimulus will come from the new programs announced by the Minister of Finance in October, providing increased funds for capital purposes and for housing. While a further sharp increase in housing starts is unlikely, the high level of starts in the current year has resulted in a record carry-over of uncompleted houses, ensuring a high rate of completions in the months ahead.

An October survey of capital-spending intentions of large companies indicated an anticipated increase in outlays of 3 per cent in 1972, following upon an increase by those same firms of 10 per cent in 1971. However, since the survey was made, spending plans have probably been bolstered by the stimulative measures contained in the October budget, including a lower corporate-tax rate, by the current uptrend in profits generally and by the salutary effects on the business climate arising from the Group of Ten agreements in December. Thus total private and public investment is likely to be a significant source of growth stimulus in the coming year.

Canada's export prospects for 1972 are buttressed by an expanding U.S. economy, which has been given new impetus by the competitive lift arising from realignment of world currencies. At the same time, the present high exchange-rate applicable to the Canadian dollar relative to the U.S. dollar will make it more difficult for Canadian exporters to maintain their share of the expanding U.S. market.

A slower tempo of business activity in some other major industrial countries may continue for a time to exert a dampening effect on Canadian sales to overseas markets. On the other hand, a more favourable exchange-rate with major overseas customers opens up new opportunities for the alert and enterprising exporter.

To help Canadian exporters penetrate new foreign markets, the Department of Industry, Trade and Commerce has initiated a program which provides for Government funding of half of new-market development costs. Successful exporters are required to pay back the Government contribution at 1 per cent of the value of sales to the new market.

Meanwhile imports are likely to continue to rise sharply, in line with mounting demands in the domestic market. Even a vigorous and sustained effort may not prevent some further diminution in Canada's balance in trade and other current transactions.

The effects in general of these demand influences, together with an improving international environment, provide grounds for optimism concerning the pace of economic advance in Canada during the coming year. As always, much will depend on how Canadians respond to the challenges of the new year. As the economy moves to higher rates of expansion and fuller use of resources, special care will be needed to maintain a strong competitive stance in world markets and to guard against any renewal of the hazards of inflation. Given proper vigilance, Canadians can look forward to sustained improvement in economic conditions in the year ahead.

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