

GOVERNMENT



OF CANADA

## STATEMENTS AND SPEECHES

INFORMATION DIVISION

DEPARTMENT OF EXTERNAL AFFAIRS

OTTAWA - CANADA

No. 59/33

### THE CANADIAN INDUSTRIAL OUTLOOK

An address by Mr. John H. English, Deputy Minister of Trade and Commerce, at the Eleventh Annual Conference of the Provincial Governments' Trade and Industry Council, Halifax, Nova Scotia, on September 30, 1959.

My subject today is: "The Canadian Industrial Outlook". In line with procedure in previous years, I propose to describe the present position of the Canadian economy and to examine some of the major influences determining present trends in the economy as a whole and in particular industries.

As all of you are well aware, economic activity in Canada picked up markedly during the past year. This upward trend started gathering momentum in the closing months of 1958. By early 1959, the more comprehensive measures of general activity had surpassed previous maximum levels and subsequently the tempo of business activity has steadily strengthened. In the second quarter, Canada's Gross National Product reached a level 7.5 per cent above the same period of the preceding year. Much the greater part of this increase reflected higher physical output. The general level of prices appears to have increased by less than 2 per cent. By mid-year the index of industrial production was 7 per cent higher than a year ago and manufacturing output considered separately was up by about the same percentage.

The labour market also has been strengthening. Total employment in August was nearly 3 per cent higher than in the same month last year and non-agricultural employment was up by 4 per cent. Since the labour force itself has shown renewed expansion in the summer months, the decline in unemployment has not been fully commensurate with the increase in jobholders. Nevertheless, unemployment continues to run well below last year's level, and in August amounted to 3.7 per cent of the labour force, compared with 4.5 per cent in the same month of 1958.

The current expansion to date has been sparked largely by increased consumer buying, a high volume of housing and renewed accumulating of business inventories.

Even during the recent business slowdown, the overall flow of incomes to individuals continued to move upward, supported in large part by higher government payments. Since late 1958, personal incomes have been further reinforced by a substantial pick-up in employee earnings, which have increased by 8 per cent during the past year. This growing volume of purchasing power at the disposal of individuals has provided the basis for the current strength in the consumer market. Durable goods in particular have forged ahead this year. Figures available to date show sales of passenger cars up by 15 per cent and major home appliances by a similar amount. In the first half of the year, total consumer outlays showed a substantial 6.5 per cent rise over the same period of 1958. With consumer prices up only 1 per cent, this represents the first significant advance in per capita spending in real terms since 1956.

Meanwhile, house-building activity, though still at an unusually high level, has receded somewhat from the record volume of last autumn. With mortgage credit more difficult to obtain, housing starts have not maintained last year's rate. Nevertheless, the resumption of the small home loans programme, allowing for the advance of mortgage funds up to a maximum of fifteen loans for each builder, is providing a boost to housing in the closing months of the year.

Other forms of private capital spending are now on the up-grade. Outlays for both non-residential construction and for machinery and equipment have been moving upward in recent months. In the industrial field in particular, new expansion projects are going forward at an increasing rate. On the basis of the mid-year survey of investment intentions, private capital outlays will be about the same in 1959 as in the preceding year. However, realization of these plans would involve a growing volume of capital expansion as the year goes on.

The post-recession rebound in corporate profits has no doubt been an important factor contributing to new interest in expansion. By the second quarter, corporate earnings had increased by more than 20 per cent within the space of one year and were within a few per cent of the previous record level.

As with investment, the level of total exports has tended to lag behind the improvement in business conditions generally. In 1958, the coming into prominence of new exports, such as uranium, and the exceptional level of shipments achieved for certain commodities, such as wheat, beef and aircraft, helped to sustain Canada's foreign sales despite a decline in world trade generally. The effects of these special factors had diminished by the end of the year. In addition, the prevalence of extensive new industrial capacity in major consuming countries, particularly the United States, tended for a time to delay the impact of world

recovery as far as material requirements from Canada were concerned. Nevertheless, in the last few months exports have been moving ahead and, for the year to date, are at record levels.

### Individual Industries

Having looked briefly at some of the broader trends and influences now dominant in the Canadian economy, it might, at this point, be of interest to consider more specifically what is happening in individual industries.

The upswing in Canadian industry to date has been paced in no small way by the rising level of output in motor vehicles and steel.

Canada's motor vehicle industry has forged ahead despite the continuing popularity of European-type cars in this market. Since last year, the proportion of European cars in the Canadian market has increased from 16 to 24 per cent. Nevertheless, passenger car production in Canada has risen by 10 per cent in the same period and commercial vehicles have shown an even better performance. While the problem of forecasting automobile sales frequently confounds even the experts, one cannot help but be impressed by the favourable signs which continue to persist in the industry. Notable among these is the growing public interest aroused by the introduction of the new "compact" North American models. In the immediate future, however, the Canadian industry may face a shortage of component supplies from the United States, unless the steel strike in that country is settled soon.

Meanwhile, Canada's iron and steel industry has experienced the dual stimulus of rising consumption and prospective scarcity resulting from the shut-down of American mills. Operating rates in the Canadian industry have been close to 90 per cent of capacity since early in the year, and production to date is one-fifth higher than in the comparable period of 1958.

Most other secondary manufacturing industries have achieved at least some improvement in production and sales.

Output of the major household durables, including refrigerators and freezers, washing machines, clothes dryers and stoves are up quite substantially, although the present decline in housing completions may limit further increases. On the other hand, television sales remain well below the earlier build-up period, reflecting the relatively static position with respect to new transmitting outlets and the slow development of the replacement market. Radios have been moving across counters in much larger volume this year, but a major portion of the new demand has been met from imports.

Higher retail purchases of clothing and footwear and generally improved inventory positions have contributed to a significant betterment in the principal segments of the textile and leather industries. At the same time, the share of the market supplied from abroad continues to increase.

Food processing operations have continued to expand, reflecting the steady growth in domestic consumption and the generally ample supply of livestock, dairy and field products. Canada's rapidly growing chemical industry, which in terms of overall output continued its advance even during the recent recession, is showing further expansion in the current year.

Among the equipment producing industries, agricultural implement sales, responding to increased demand in both Canada and the United States, have continued the improvement which first became evident last year. Conditions in other machinery industries have been less favourable. Shipments of railway rolling stock, which declined by 20 per cent in 1958, have receded further in the first half of the current year. Although some pick-up in orders has occurred, the industry faces a further dislocating influence as railroads approach the completion of their major dieselization programme in 1960. Domestic shipments of industrial machinery and heavy electric equipment have been falling since 1957, but the presently increasing tempo of industrial expansion gives promise of a reversal in this trend. A continuing high rate of expansion in commercial and service establishments has resulted in a reasonably firm trend of activity among business equipment manufacturers. In equipment industries generally, domestic producers seem to be holding their own against competition from abroad. Moreover, in recent months there have been encouraging indications of new progress in foreign markets, which is evidenced by the placement with Canadian companies of large orders from the United States in the highly competitive fields of transport aircraft and electrical equipment. On this same theme, considerable success is being achieved by way of production sharing on North America defence contracts.

### Forest Industries

The forest-based industries in Canada have experienced substantially improved conditions over the past year.

For wood products, the trend has been exceptionally favourable, reflecting the high level of building activity in North America. In the second quarter of 1959, production was more than 10 per cent above a year earlier. The upsurge of house-building in North America since 1957 first had the effect of reducing large inventories of both producers and consumers. Since mid-1958, production, total shipments and particularly exports to the United States have been high and firm. This brought operations in the interior of British Columbia to record rates, reversed the decline in activity in Eastern Canada and on the

Pacific Coast has substantially offset the decline in overseas shipments. Lumber exports in volume terms rose to the highest levels since 1955. The exceptional buoyancy of the United States market was tempered by the continued reduction in overseas shipments, especially to the United Kingdom. Recently the market picture has been changing. In the United Kingdom, housing starts have risen sharply and, with the lowest stocks on record, purchases have increased substantially. At the same time, housing starts have declined noticeably in North America. This has already been reflected in reduced production and shipments in the United States. Meanwhile, Canadian operations were, for a time, drastically reduced by the work stoppage in the British Columbia coastal region.

The pulp and paper industry by mid-year was operating some 8 per cent above the level of the year before. However, being heavily influenced by the newsprint sector, the build-up during this period was hesitant and uneven. The pulp export market, in which bleached chemical grades predominate, has shown a strong steady recovery, following a moderate decline. This reflects principally the strong secular growth in world demand for bleached kraft pulps. Newsprint and related pulp operations in Canada had a less buoyant and quite irregular trend until the second quarter of 1959. By April, advertising lineage and consumption of newsprint in the United States had recovered by 10 per cent from the low point one year earlier. At the same time, shipments from American producers had risen 20 per cent from the low in the summer of 1958. However, until the end of the first quarter, Canadian producers were affected by the major newspaper strike in New York and its aftermath. This situation was accentuated by further reductions in publishers' stocks and continuing competition from new producers in the southern United States. But a sharp pick-up in the second quarter brought the rate of Canadian shipments to the United States 10 per cent above the low point of a year before.

### Mineral Industries

The mineral industries in Canada have shown a substantial recovery over the last year, although there has been considerable variation between sectors and commodities. By mid-1959, mining as a whole reached a level of output 10 per cent above the year before. The fuel and non-metallic sectors have shown the greatest increase in production, and the metals have fully recovered from the impact of the nickel-copper strike in the last quarter of 1958. Export values for minerals since March have risen sharply above the low levels of last winter and about 10 per cent over the pre-strike levels of 1958.

The modest showing of metal mining reflects the levelling of growth in the uranium sector, the continuing ample world capacity position in the case of copper, the uncertain

market outlook for nickel arising from the steel strike, the final cancellation of stockpiling contracts with the United States Government and impending new production in Cuba, the imposition of quotas on imports of lead and zinc into the United States, and finally the intensified competition in international aluminum markets. In aluminum, the intensity of competition, particularly from new capacity in the United States, became very evident in the first quarter of 1959. A further reduction in output and exports following the completion of a major contract in late 1958. This contrasted with a strong recovery in United States consumption and production. By mid-year, a sharp pick-up in Canadian exports reflected the continuing growth of demand, with nearly all the available smelter capacity in the United States already in operation.

Gold production has maintained its steady course with minor reductions in by-products of base metal mines being offset by increases in straight gold operations. Iron ore production, reflecting the recovery in North American steel output, has shown a striking increase in the 1959 season over the previous year. Total shipments in the first half year were 70 per cent higher, with exports to the United States more than double those of 1958. A long steel strike in the United States will undoubtedly affect operations, although some shipments are being re-directed and stocks are being held in readiness for resumption of normal shipping patterns. The output of structural minerals and other non-metallics has grown substantially along with the recovering in North American building.

Production of carbon fuels has increased over the year about 10 per cent at the mine stage and 15 per cent in processing, with coal again giving some ground to oil and gas.

Natural gas production continued its rapid development, with 1959 running one-third ahead of the previous year. Sales in the East have been nearly doubled, following completion of the pipeline late in 1958. This, of course, backed out imports from the United States. In the West, sales also continued their growth as did exports via pipeline in the Vancouver area.

Crude petroleum output increased considerably during the last 12 months, as refinery demand rose and, more recently, as exports to the American Puget Sound area picked up. The latter has particularly helped improve the flow from Alberta, where the previous decline had been greater than in Saskatchewan. Imports of crude and particularly refined products have increased at the same time. Refinery operations in North America spurred on by excess capacity and intensified retail competition, have been above current consumption rates. The consequent increase in stocks has accentuated competition and led to "gas price wars" and such developments as the increased sale of American refined products to Southern Ontario independent distributors.

An important aspect of the current expansion in goods-producing industries generally has been the tendency for production to move well ahead of employment. Scarcely one-quarter of the rise in jobholders during the past year has taken place in goods-producing industries. Service industries have played an important role in the general expansion, having accounted for the remaining three-quarters of the increase in total employment.

The foregoing review of current trends in Canada's principal industries serves to point up the widespread nature of the economic upswing now underway. Even in those sectors which have not to date participated in the general expansion, there is promise of improvement. While the upswing thus far has been based in large part upon domestic market growth, continuation in this trend will depend to an increasing extent upon the existence of a favourable international climate. In this regard current prospects are encouraging.

#### Upward Trend in World Trade

By June 1959, industrial production in the United States had increased 23 per cent from the April 1958 low. Though presently interrupted by strikes in steel and elsewhere, there is a general expectation that the upward trend will be resumed once the major disputes are resolved. Expansion in the United States has been accompanied by a rising volume of purchases from the rest of the world and the continuation of a substantial outflow of aid and investment funds. In the early part of 1959, the United States deficit on current and capital account was even larger than in the same period of the preceding year. In other words, trade and credit transactions with the rest of the world have continued to add substantially to the buying power in the hands of other trading nations.

In the United Kingdom, the expansion to date has been quite moderate, industrial output having increased by about 5 per cent from a year ago. Nevertheless, unemployment has receded from last winter's high point and there are other indications that the tempo of activity is now accelerating. In West Germany, a strong rate of expansion has been resumed with industrial production up 8 per cent over the past year. Other Western European countries also have achieved good gains. Japan has made an impressive recovery after a relatively serious adjustment, industrial production having risen 10 to 15 per cent.

The less developed areas of the world have not to this point experienced a comparable degree of recovery. Economic progress in these countries is conditioned in large part by the earnings realized from the export of agricultural products and raw materials. World commodity markets have experienced only limited and uneven recovery from the general decline of recent years and conditions vary sharply from one area to another. The economic climate in the southern Commonwealth countries has

improved materially with the strengthening in prices of wool and some other products. Import restrictions have been relaxed and market opportunities for Canadian goods are better than for some years. On the other hand, continued weakness in prices of such items as coffee and sugar has placed further strain upon economies heavily dependent on these commodities. Nevertheless the present rate of expansion in industrial countries, with the growing consumption of food and raw materials entailed, should exert a pervasive strengthening influence upon international commodity markets. Increased earnings from commodity exports, accompanied by a rising volume of investment funds from the financial centres of the world, may soon provide the basis for a quickened pace of development in under-developed areas. More rapid progress in these countries would, in turn, mean expanded markets for the manufactured products of the industrialized countries. In the circumstances described, one could reasonably conclude that a new round of growth in world production and trade is already well underway.

As previously indicated, this upturn in world trade is already being reflected in Canada's export totals, although strikes both in Canada and the United States are, for the present, restricting shipments of some important items, such as lumber, iron ore and nickel. Continuation of this upward trend would exert a dual stimulus within the economy. In the first place, it would bring into use much of the newly created capacity in Canada's expanded export industries. Secondly, it would generate new interest in resource expansion and thereby reinforce the rising trend of capital investment already underway. These new demands, added to the already mounting volume of consumer requirements, give promise of a continued high level of business activity and probably a further boost in the pace of economic expansion.

In many ways, boom times smooth the path toward industrial expansion. They not only open up new business opportunities but also provide a favourable climate for new undertakings to take root. At times such as these the work of the industrial development officer, though seemingly more rewarding, is nevertheless onerous. In fact, the need for careful scrutiny of new ventures is perhaps greatest in a period of mounting prosperity. There is a common tendency at such times to view prospects through rose-tinted glasses. Many a venture, which looks promising in this light, may not stand up in periods of less buoyant market conditions. It rests with those responsible for fostering our industrial expansion to distinguish between these summer "annuals" and the more hardy perennials. In their early stages of development, this distinction is often difficult to make.

There is a further consideration which presently enhances the need for careful selection of new lines of development. We may now be approaching another period in which the available supply



of physical and financial resources are limited in relation to the demands upon them. It is therefore important that the resources available be put to the best possible use. The promotion of an unsound business not only leads to eventual failure but at the same time may deprive more worthy undertakings of the means to get established. For these reasons it is important to encourage the careful study of all new projects with a view to concentrating our efforts in those fields which offer the greatest opportunities in the long term. The Industrial Development Branch of my Department is endeavouring to contribute to this objective in providing more complete information on the size of the Canadian market for various products now supplied from abroad. This, of course, is but one of the many market aspects which must be carefully explored if industrial development is to proceed on a sound basis.

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