

### Section 3.—Index Numbers of Security Prices.

Security prices have long been utilized in statistical measurements related to economic phenomena. They are extremely sensitive to changing business conditions, although this valuable characteristic is sometimes overshadowed by the fact that their movements may be greatly influenced by speculative interest very remotely associated with underlying economic conditions. Thus in 1928 and 1929, common stock prices advanced far beyond levels indicated by business profits and prospects.

The behaviour of Canadian common stock prices has been quite different from that of commodity prices since pre-War years. There was no advance in security markets during the Great War paralleling the pronounced inflation in commodity values. Between 1926 and 1929, however, when commodity prices were declining gradually, common stocks more than doubled in price. Both sets of prices recorded a sharp drop between 1929 and 1933, and both have shown recovery subsequently. This has been much more pronounced in the case of security prices.

**Investors Index Numbers of Common Stocks.**—International events appeared to be the dominating force behind major security price movements in 1938 and, as successive crises were weathered, swift declines were followed by equally sharp rallies. There were two outstanding political crises in 1938 and these were both clearly reflected in security price indexes, the first occurring prior to the union of Germany and Austria on Apr. 1, and the second during the Sudeten dispute in September. Except for these two periods Canadian stock exchange prices pursued a much steadier course than in 1937. The Bureau's general index of 95 common stocks entered 1938 on a rising tide, continuing the advance inaugurated in the third week of October, 1937. It was not until October, 1938, however, that the general index moved above corresponding 1937 levels. At the end of the year it was 6.5 p.c. higher than the 1937 close.

Opening at 102.2, the daily index for 95 common stocks rose rapidly to a 'plateau' between 106 and 110, where it remained for almost two and a half months. The first major decline then commenced, and by the end of March the index had been swept down to a 1938 low of 87.9. Following this period an irregular rally set in which reached its greatest momentum during the latter part of June and early July, carrying the index back close to 108 on July 19. This advance was terminated by increasing European tension which was not eased until the Munich Accord was signed on Sept. 29. Indexes immediately rebounded from the low levels then ruling and the daily general index reached a 1938 high of 112.8 on Nov. 12. This gain was not all held and at the year's close the index had receded to 108.7. Practically all gains during the year were confined to the industrial section, and special mention might be made of the rapidly advancing prices of shares included in machinery and equipment, building materials, and industrial mines sub-group indexes. This was particularly noticeable during the latter half of the year and reflected to a considerable extent the impetus given by rearmament programs. Food and beverage sub-groups registered a considerable net gain for the year, while the textile index showed the only recession in the industrial section.

Among the utilities the telephone and telegraph sub-group, influenced largely by Bell Telephone, was the only one to register an advance during 1938. Transportation and power groups showed weakness, the former recording a new low for the past 25 years.