

INTRODUCTION

Canadian Economic Developments in 1950-51

International Developments

The outstanding event of the twelve months under review was the Korean incident, which began on June 25, 1950. For Canada and other democratic allies this date marks the beginning of a new period, with defence preparation becoming the major economic determinant. Other significant developments were a strengthening of the earlier upturn in activity in United States, an improving outlook for foreign markets generally even before Korea, and a strong inflow of foreign capital, particularly the influx of short-term funds which reached a peak in September. With activity already at a high level in Canada, the combined effect was a resurgence of inflationary pressure. Material shortages began to be felt before the end of 1950, and by early 1951 were growing in number and intensity.

The first half of 1950 was characterized in Canada by a generally sustained level of activity with some upward movement in prices. Employment remained fairly stable on the whole, but unemployment had increased and threatened to become a problem in some areas. Meanwhile the 1949 recession in the United States proved to be essentially a matter of inventory adjustments, and by the end of the first quarter of 1950 the prospects there for industrial production and employment were improving steadily. The Canadian economy had felt little of the effects of that recession, but its termination nevertheless gave renewed assurance of continued or increasing prosperity with relatively little slack in productive capacity.

After the invasion of South Korea, the leading nations of the democratic world intensified their defence preparations. One result was an augmented world demand for several of the basic commodities of which Canada is a major supplier. Canada's own defence program was enlarged and, with the further mounting of international tension, its scope was widened to an extent never before contemplated except in time of all-out war. Defence expenditures are projected at \$5,000,000,000 over the next three years. The actual increase in defence production was not great even well into 1951, but these demands were imposed at a time when activity was high and on an upward trend, and the forward impact of the preparedness program as a whole had a widespread influence in the economy.

Foreign capital continued to finance an important part of Canadian investment, as in other recent years. The inflationary tendency of such an inflow was not serious until speculative funds began to be attracted in the anticipation that an exchange adjustment would become necessary in the near future. This influx during the summer months threatened an unwarranted expansion of bank credit, a result that was avoided only by extensive open-market operations in securities by the Bank of Canada. The flow reached such proportions in September as to require decisive action, so on Sept. 30 the fixed exchange rate for the Canadian dollar was abandoned. The immediate effect was to stop the inflow of speculative funds, or at least to reduce the overall inflow of capital funds to a level compatible with real investment. The Canadian dollar appreciated fairly steadily, and by mid-March of 1951 was quoted at about 95.6 cents United States as against the earlier fixed rate of 90.9 cents.