

The free exchange rate for the Canadian dollar has had no effect on trade that can be isolated statistically, coming after an upturn in foreign demand and when the indirect effects of rearmament were strengthening that demand. The higher rates do mean relatively cheaper imports and lower export prices than otherwise would have obtained, but in most cases this effect has been obscured by rises in international prices.

The value of Canada's foreign trade in 1950 reached record levels, with the value of imports increased considerably over 1949 and exports slightly higher. Overseas exports declined but those to United States rose sharply. Closer trade balances were experienced with both the United States and the Sterling Area. With the inflow of foreign capital, reserves of United States dollars showed a substantial increase.

The sharp rise in the world prices of raw materials that accompanied these developments was felt in Canada through export demands and import requirements. Domestic demand in turn was stimulated by rising incomes, intensifying the inflationary pressure in the economy. The cost-of-living index on a 1935-39 base rose from 161.0 in January, 1950, to 172.5 in January, 1951, while the wholesale price index on the same base rose from 199.9 to 233.8 in this period.

The final effect of the various developments can be summarized in terms of the gross national product, the value of all goods and services produced in Canada. This value is estimated at \$17,700,000,000 for 1950, an increase of about 8 p.c. over the previous year. About half of this increase was due to increased volume of output and the other half to higher prices. Demand strengthened in all the expenditure sectors: the value of consumer purchases was greater by over 6 p.c. than in 1949, government purchases over 9 p.c., gross home investment 27 p.c. and exports of goods and services nearly 5 p.c. Imports of goods and services purchased out of these expenditures increased in value by about 17 p.c. and in fact exceeded the value of the corresponding export item by some \$300,000,000, the first such excess in several years. Among the various claimants on the gross national product, only agriculture suffered a decline in net income from 1949, amounting to nearly 6 p.c., largely the result of low grades from frost damage to the western grain crop. The net income of other unincorporated business increased by over 5 p.c., the net income of salary- and wage-earners by over 6 p.c. and investment income by over 20 p.c.

### **Economic Aspects of Defence Preparedness**

During 1950, contracts for military equipment, supplies and construction projects to the value of \$629,000,000 were placed by the Canadian Commercial Corporation on behalf of the Department of National Defence. This is in addition to approximately \$31,000,000 spent on married quarters and similar projects for the services by Central Mortgage and Housing Corporation. The acceleration of the preparedness program is illustrated by the fact that first quarter contracts for defence materials amounted to \$56,000,000, second quarter \$88,000,000, third quarter \$132,000,000 and fourth quarter \$318,000,000. Further increases are in sight for 1951.

A new crown company, Defence Construction Limited, was established to take over all defence construction projects and so free the Canadian Commercial Corporation of this part of its growing burden. The new company has an arrangement with Central Mortgage and Housing Corporation by which the latter provides engineering and other services required for carrying out the federal defence construction program.