

Continuing expansion in capital facilities contributed to the growth in national output. In the last two years, outlays for capital goods accounted for about 22 p.c. of national expenditure. While part of this expenditure was needed to offset the depreciation in the existing stock of capital, a major portion represents a net expansion of productive facilities.

Further examination of the forces operating in the Canadian economy during the past two years is prefaced by a brief review of market trends during the period.

Market Trends in 1951-52.—The acute demand pressures which developed in the latter half of 1950 had reached a peak early in 1951 that can be attributed only to a very limited degree to rearmament and to directly related needs. At this time, programs for expanded defence establishments were still in the preparatory stage and therefore exerted little direct impact on western economies. The boom conditions which developed in this period appear to have reflected the public reactions to new fears of war and to projected rearmament. Consumers and businessmen alike, pre-occupied with sharply rising prices and anticipating shortages, stocked up goods well in excess of current needs. By the first quarter of 1951, retail sales in Canada had reached a level 20 p.c. in value and 10 p.c. in unit volume above the same period a year earlier. Moreover, from mid-1950 to mid-1951 the value of business inventories increased by about \$1,750,000,000 or close to 30 p.c. Part of this increase was simply a reflection of higher prices but there was also a substantial rise in the physical volume of goods held. For the year ended mid-1951, higher purchases by consumers and business stock-piling absorbed the major portion of the increase in the supply of goods and services available in the Canadian market, including that originating from higher domestic output and from a larger volume of imports.

During this period, speculative forces were sustained by a continuing deterioration in the international picture. A second wave of precautionary buying had developed late in 1950 following the setback suffered by United Nations Forces in Korea when China entered the conflict. Moreover, as the situation darkened rearmament goals kept rising. It was early in 1951 before the general magnitude of United States rearmament objectives for the next few years became known. In Canada, the defence program of \$1,000,000,000 annually, contemplated in the autumn of 1950 was raised to \$1,700,000,000 some months later.

A reaction to these inflated market demands commenced in the second quarter of 1951. While the change in the market atmosphere was international in character, anti-inflationary measures enacted by the Federal Government contributed to the easing of demand pressures. Some materials and goods remained in tight supply, particularly those needed directly in defence and supporting activity. Nevertheless, it was now becoming apparent that North American defence objectives could be attained without the degree of dislocation in the civilian economy at first envisaged. As a result, public concern over shortages began to disappear and precautionary buying quickly subsided. In so far as many persons had stocked up in anticipation of future needs, particularly in the case of durables and to some extent clothing, there followed a period of slack demand in various consumer-goods lines and in some industrial centres of Ontario and Quebec. By the last quarter of 1951, over-all retail sales in volume terms were running below those of the