

previous year. In the case of business inventories, when shortages did not materialize, many firms were caught with excess stocks, a condition which was accentuated by the falling off in consumer demand and, in many lines, building up of stocks gave way quickly to liquidation.

There was, however, no general decline in activity. A growing volume of requirements for defence, for investment and for exports were important supporting factors in the economy. At the beginning of 1952, over-all production and employment levels were about the same as of the previous year. Nevertheless, the changing pattern of demand was bringing about a shift in emphasis away from the consumer and toward an improvement in Canada's industrial and defence potential.

The approximately even balance of market forces prevailing at this time continued well into 1952. However, by the middle of the year a considerable strengthening in consumer demand had taken place. The removal, early in 1952, of the special excise taxes on durables and the suspension of consumer credit regulations gave a spurt to hard goods purchasing. In addition, average personal income, in real terms, was rising significantly. Prices having roughly stabilized, consumers appeared to be showing less resistance to prevailing prices and many buyers, who in the post-Korean buying boom had bought ahead of their current needs, seemed to be returning gradually to the market for replacement needs. This pick-up in consumer demand continued throughout the second half of 1952 but was not such as to cause a resurgence of inflationary pressure. However, it did help to eliminate some of the soft spots that had previously existed and it also contributed toward some firming in over-all activity. Thus, in the second half of 1952, national production and employment levels experienced significant gains. Unemployment, throughout most of 1952 had run above the 1951 level.

Price trends throughout the two-year period reflected, in general, the changing pressures in the market but there were wide variations in the movements of prices of particular commodity groups. The inflationary influences of the post-Korean boom period had their greatest effect on internationally traded commodities. The most pronounced increases occurred in the non-dollar commodities such as rubber, tin, wool and various tropical foods, some of which more than doubled in price over the course of a six to 12 month period. The increases seemed attributable more to influences emanating from the acute international uncertainties of the time and the fear of all-out war than to the more modest needs likely to arise in a period of rearmament. Consequently, once the international situation began to stabilize and speculative forces began to subside, prices of these same commodities fell sharply. In some instances prices receded to, or below, levels prevailing in June 1950 and, subsequently, have fluctuated within a range well below the previous high points. On the other hand, prices of commodities important to Canada's export trade such as grain, wood-products, base metals and other minerals, while initially experiencing less spectacular though substantial gains, have subsequently shown less tendency to decline.

The divergence in price movements between prices of commodities important in foreign trade resulted in considerable fluctuation in Canada's terms of trade. For the year ended June 1951, import prices rose by 19 p.c. compared with a 13 p.c. rise for exports. For the subsequent 15 month period, the import index declined by 18 p.c., whereas export prices declined by only 4 p.c. Consequently, for the entire period from mid-1950 to the end of 1952 the change in the terms of trade has been significantly in Canada's favour.