

Economic developments in Canada, in 1949, may be contrasted with those in the United States, which was then undergoing a mild recession. Business investment in plant and equipment and in residential construction was falling off in the United States in the first half of the year, but the major setback occurred in the inventory sector which shifted from a position of net accumulation to one of fairly heavy liquidation. However, after eliminating the effect of seasonal influences, consumer spending remained relatively stable throughout the year. In Canada, the build-up of physical stocks of business inventories was considerable throughout the first half of 1949, although the rate was moderate for the year as a whole. Moreover, the value of consumer purchases in Canada, after allowing for seasonal factors, rose very sharply between the first and second quarters and remained at a high level for the remainder of the year. These two Canadian developments provided the main source of strength in the economy at a time when fixed investment expenditure in Canada was levelling off. Labour income continued to rise in Canada, though at a less rapid rate than in 1948, while the number of persons without jobs rose only moderately. Reflecting all these developments, the Canadian economy did not experience the decline in national income which accompanied economic developments in the United States in 1949.

The third stage in Canada's post-war development covers the period from mid-1950 to the end of 1952, during which the influences set in motion by the outbreak of war in Korea were dominant. This period was characterized by adjustment of the economy to meet the greatly expanded requirements for defence and a renewal of inflationary pressures which were of a severe but temporary nature. Three fairly clear-cut phases are discernible in this stage of Canada's post-war development, and overlap the divisions of the annual data. Each phase is characterized by a significant difference in the pattern and strength of final demand with the change occurring within the calendar year.

The first phase, covering the period mid-1950 to about mid-1951, was one of heavy abnormal demands for consumer goods and business inventories, based on fears of shortages and expectations of higher prices. In this period, defence expenditures played a limited, though increasingly important role, with the rearmament program mainly in the preparatory stage. Prices rose rapidly.

The second phase began about the middle of 1951, when a reaction to this heavy forward buying apparently set in and inflated consumer and business demands subsided against a background of anti-inflationary measures enacted by the Federal Government. The volume of housing construction also fell off sharply. The major expansionary elements in the economy in this period were a growing volume of requirements for defence, investment in non-residential construction, machinery and equipment and exports. The strong inflationary influences of the immediate post-Korean period began to subside and, by early 1952, the downward trend of prices had become general.

A third pattern is discernible beginning early in 1952, when a strong revival of consumer purchasing and a sharp increase in housing outlays were superimposed on the growing volume of expenditures in other sectors. By the middle of 1952, the volume of consumer purchasing was once again exerting an important expansionary influence based on the increase in 'real' income which had been achieved since the beginning of the year, while housing outlays were continuing to rise. The trend of prices was downward throughout the year.