

INTRODUCTION

THE CANADIAN ECONOMY DURING 1958 AND THE FIRST HALF OF 1959

During the course of 1958 the recessionary influences that had adversely affected the level of economic activity in 1957 gave way to expansionary forces and the gross national product gradually resumed its upward course. By the second quarter of the year, economic activity was showing a firmer trend and by the closing quarter recovery had begun to gather momentum. The first half of 1959 brought evidence of further improvement on a broad front.

THE ECONOMY DURING 1958

As a result of conflicting trends in the economy, the gross national product for 1958, estimated at \$32,500,000,000, was only 2 p.c. higher than the estimate for 1957. Since the greater part of this increase represented higher prices, the gross national product in real terms rose less than 1 p.c., the slight gain being accounted for by higher production in the farm sector; non-farm production remained unchanged. The relative stability in the total volume of output in 1958 compares with gains of 9 p.c. in 1955 and 1956, no change in 1957, and an annual average for the years 1947 to 1958 of 4 p.c.

The main downward pressure in the economy came from business investment, with inventories playing a prominent part. Although liquidation of business inventories was arrested during the course of the year, for the year as a whole final demand was met in part out of stocks that were not replenished from current production. This downward pressure was strongly reinforced by a drop in business expenditures for non-residential construction and for machinery and equipment. The curtailment in expenditures by these three components was equivalent to a decline of about \$1,400,000,000 in terms of new production.

However, these downward pressures were more than counteracted by the continued increase in government and consumer expenditures for goods and services and by renewed expansion in housing. Encouraged by an ample supply of mortgage funds, expenditures for residential construction reached an all-time high. The rising trend of personal income was undoubtedly a source of strength in housing as well as in the consumer sector. At the same time, part of the impact of easing demand fell on foreign rather than on domestic sources of supply; imports of goods and services were substantially below the record level of the previous year. Although there were decided shifts in the composition of exports, reflecting mingled weakness and strength in external markets, exports of goods and services remained close to the record level of the previous year.

By shifting from a moderate surplus to a large deficit, the Federal Government played an important sustaining role in the economy during the recession. The deficit, which began to emerge at the end of 1957 and reached its peak in mid-1958, amounted to \$798,000,000 at the end of that year, in contrast to a surplus of \$239,000,000 at the end of the preceding year.* Government expenditures for goods and services rose 4 p.c. and transfer payments 23 p.c., the latter mainly a reflection of larger disbursements from the unemployment insurance fund and legislative changes in social security schemes enacted in 1957. At the same time, recessionary influences reduced government revenues by 4 p.c.

The outstanding development on the income side was the disparity in rates of increase in the major income components. While national income rose only about 3.5 p.c., personal income and personal disposable income rose 6 p.c. and 7 p.c., respectively. The most important single element in this disparity was the greater flow of transfer payments from

* The shift for all governments combined (federal, provincial and municipal) was from a surplus of \$70,000,000 in 1957 to a deficit of \$1,035,000,000 in 1958.