

The behaviour of inventories was of importance in the sequence of expansion, recession and recovery. In 1958 the liquidation of business inventories amounted to \$300,000,000 in contrast to approximately the same amount of accumulation in 1957 and the heavy accumulation of \$800,000,000 in 1956. The rate of accumulation began to fall in the latter part of 1956; liquidation set in at the end of 1957 and continued at a high rate in the first half of 1958. By the second half of the year stocks were being built up on a modest scale, thereby adding to the demands on current production.

Total inventories were reduced by \$400,000,000 in 1958 as a result of some reduction of stocks on farms and of grain in commercial channels, in addition to the liquidation of business inventories already mentioned. Most of the drawing down of stocks was concentrated in manufacturing industries and by the year-end manufacturers in general had reduced the ratios of stocks to shipments well below those prevailing at the end of 1956 and 1957, and close to the low levels of year-end 1955. At the same time, there was a slight accumulation of stocks in trade as a whole but, by the year-end, the rise in retail and wholesale sales had reduced the ratio of stocks to sales below those of a year earlier.

Despite weakness in external markets for some important export products, exports of goods and services, valued at \$6,300,000,000 in 1958, were only 2 p.c. below the record established in the previous year. In 1958, even more than in 1957, the trends among individual commodity exports diverged widely within a virtually unchanged total. Two new resource products—uranium and natural gas—were conspicuous among the group showing rising export values; others were wheat and flour, cattle and aircraft. The declining group included such traditional export products as pulp and paper, copper, nickel, lead, zinc and asbestos, as well as two new resource products—iron ore and petroleum. The quarter-to-quarter changes in exports showed no clear pattern.

Typically responsive to changes in the level of economic activity and in the level of investment in particular, imports of goods and services fell to \$7,400,000,000 in 1958, a decline of 6 p.c. The major part of the drop was in commodity imports and was concentrated in the groups that had risen most sharply in 1955 and 1956. When classified on a functional basis\* imports of investment goods are shown to have fallen 15 p.c. and imports of industrial materials 8 p.c. Reflecting the strength of demand in the personal sector, imports of consumer goods rose 4 p.c. The sharp contraction in the deficit on commodity trade, accompanied by a growing gap in the deficit on service items, brought a reduction in the over-all deficit on current international account from \$1,400,000,000 in 1957 to \$1,100,000,000 in 1958. However, the annual rate was running considerably above this figure in the second half of the year.

#### INCOME FLOWS

Reflecting the effect of recessionary influences, corporate profits† fell for the second year in succession and at an estimated \$2,500,000,000 in 1958 were 3 p.c. lower than in 1957 and 15 p.c. lower than in 1956. The trends in corporate earnings by industry varied widely. In general, earnings declined in industries oriented toward the external market or the domestic market for durable goods. On the other hand, some consumer soft goods industries and most service-connected industries experienced higher corporate earnings. The quarterly pattern of corporate profits showed the fluctuations typical of this component. After a series of declines, corporate profits stabilized in the second quarter of 1958 and rose at a sharply accelerating rate in the second half of the year. The more favourable experience of the closing quarter of the year was widespread.

The relatively large rise in personal income was, as already mentioned, to a large extent a result of the rise in transfer payments. However, the increases in the incomes earned in productive activity were also important. Labour income rose to \$16,400,000,000 in 1958, about 3 p.c. higher than in 1957, most of this increase being attributable to a further advance in wage rates. Gains occurred in most service-producing industries; in general, they were quite substantial, reflecting the further expansion of employment in

\* Source: Imports by Source and End-Use, *Statistical Summary of the Bank of Canada*, April, 1959.

† Before taxes and after dividends paid abroad, which is the figure included in National Income.