

curtailment of Central Mortgage and Housing loans to builders at the end of 1958; starts for the first six months were decidedly lower than in the same period of 1958 and the value of residential construction was moderately lower. Thus, despite the renewed strength in expenditures for non-residential construction and machinery and equipment, gross fixed capital formation in the first half of the year was at approximately the same level as a year earlier.

The importance of the upsurge of economic activity in the United States to Canada's external trade was apparent from the fact that exports increased even though sales to most overseas markets were lower in the first half of the year; by the end of the second quarter, total sales and sales to the United States had reached new high levels. Improvement was fairly general among the commodity groups but the increases were most pronounced in such minerals as uranium, iron ore, and asbestos, such forest products as lumber, wood pulp, plywood and veneers, and in farm machinery. At the same time, declines occurred in such farm products as wheat, other grains and cattle, in such metals and minerals as nickel, copper and petroleum, and in aircraft and some chemicals. In the previous year, special non-recurring factors had raised the level of exports of some Canadian products, for example wheat and military aircraft. Despite the improvement in sales, many export industries continued to operate at less than capacity.

The general improvement in economic activity in Canada, particularly the recovery in business investment in fixed capital and in inventories, raised the demand for imports. Increases were distributed among industrial materials, consumer goods and some industrial equipment, the last-named being especially apparent in the second quarter.

For the first half of the year merchandise exports were up 2 p.c. and merchandise imports 10 p.c. compared with the same period of 1958, with the result that the deficit on merchandise trade increased from \$140,000,000 to \$355,000,000. Meanwhile, the deficit on non-merchandise transactions also continued upward to reach a total of \$837,000,000, larger than in any half-year since 1957.

By contrast with the first half of 1958 when a substantial part of final demand was being met out of stocks rather than out of current production, the building up of stocks in the first half of 1959 made new demands on the nation's output. The shift from liquidation of business inventories in the one period to accumulation in the other represented about an additional \$800,000,000 in terms of current production. Business inventories figured more prominently in recovery in the first quarter than in the second.

Supported by the advance in personal incomes, consumer expenditure rose moderately in the first half of the year and by the second quarter had reached an annual rate of \$22,092,000,000, 5 p.c. higher than the level of 1958. While the increase in spending was fairly widely distributed, the major part of it was devoted to the purchase of durable goods. Unusually high rates of personal saving continued to be a feature of consumer behaviour in the first half of 1959. In real terms, per capita consumption was 3 p.c. higher and purchases of durables 5 p.c. higher than in the same period of 1958.

Considering developments on the income side, corporate profits in the first half of the year, remaining at the high level to which they had returned by the closing quarter of 1958, were more than 20 p.c. higher than in the same period a year earlier. Labour income continued to rise, reflecting the improvement in the employment situation and higher average earnings. The 8-p.c. advance compared with a year earlier was the outcome of fairly substantial gains in almost all industries. As a result of reduced employment in mining, the wage bill in this industry was only a little higher. Unlike the year 1958 when a relatively large part of the increase in personal income came in the form of transfer payments from government, in the first half of 1959 transfer payments and incomes earned in productive activity rose at about the same rate. Personal income rose 7.5 p.c.

The pattern of production emerging in the first half of the year reflected recovery in the goods-producing industries. Output increased in both the durable and non-durable segments of manufacturing, despite declines in some individual industries, bringing the total index for June up 3.5 p.c. from the preceding December and 10 p.c. above its recession