

both higher by over 8 p.c. and non-residential construction by just over 6½ p.c. The spending trend through the year was continuously upward with sharp increases in the spring and final quarters of the year; the hesitancy between the second and third quarters possibly reflected uncertainty regarding changes in the building materials sales tax. The surge at the year-end, which was centred in housing, carried the fourth quarter level to an annual rate 5½ p.c. above the annual average. The over-all advance in business spending on fixed capital matched the increase in GNP and the ratio of capital spending to GNP remained over 17 p.c.

Investment in new housing fluctuated more widely than other components of fixed capital formation in the period 1961-63, and the 8-p.c. increase in 1963 to an average annual level of \$1,705,000,000 concealed some sharp movements within the year. Dwelling unit starts rose moderately in the first three quarters when those for multiple dwelling units offset some decline in single units, but very sharply in the final quarter when the Federal Government's winter house-building incentive program and direct lending by the Central Mortgage and Housing Corporation stimulated house-building activity. At the year-end, the number of units under construction stood at a record high of 96,600—20,000 above the number at the previous year-end; starts for the year totalled 148,600, 14 p.c. higher than for 1962. The value of non-residential construction rose by just over 6½ p.c. to \$2,811,000,000, the sharpest year-to-year gain to emerge in the business expansion period beginning in 1961. During the year the gains were even more notable as the value of work put in place rose by over 11½ p.c. between the fourth quarters of 1962 and of 1963. The strength was centred mainly in the development of such utilities as electric power, railway and urban transit systems, oil and gas pipeline facilities and communications systems. Within manufacturing, which had a slightly smaller construction program than in 1962, the machinery and transportation equipment industries stand out as the two groups with much heavier spending programs than in the previous year.

Investment in machinery and equipment rose by 8½ p.c. in 1963 to almost \$2,979,000,000. Most of the strength occurred in the second half of the year when the seasonally adjusted annual rate was running 12 p.c. above the 1962 average. The increases stemmed mainly from a sharply higher level of investment in farm implements, machinery and equipment; a larger investment program in the manufacturing sector of the economy, particularly in the paper, chemical and transportation equipment industries; and higher outlays by the telephone utilities. Two of these areas reflected to some extent the buoyancy of farm incomes following two good crop years, the high level of overseas demand for Canadian wheat for three years, and sustained strength in the demand for new automobiles for two years.

During 1963 there were a number of special factors operating on economic activity. Measures were introduced by the Federal Government designed to stimulate employment and investment in slow-growth areas and in certain industries. New manufacturing or processing enterprises located in designated areas of slower growth were offered exemption from income tax for three years and the concession of writing off new machinery and equipment in two years and new buildings in five. Accelerated depreciation was extended on certain new facilities for manufacturing and processing enterprises owned by Canadian residents and to companies having a specified minimum degree of Canadian ownership and control. Oil and gas transmission companies were also allowed to deduct from income, for tax purposes, expenditures on drilling for oil, gas or minerals. Another factor was the introduction in June of a 4-p.c. sales tax on certain previously exempt building materials and machinery and equipment; this was to be increased by stages to 11 p.c. in January 1965.

On the other hand, the building up of stocks did not contribute to expansion in 1963. Business inventories showed an accumulation of \$166,000,000, a moderately lower rate than in the previous year. In total, the quarterly pattern revealed virtually no net change in inventories in the first half of the year and a growing rate of accumulation in the second half. The figures at the total level suggest a continuation of the downward drift in the