

Economic Performance in Relation to Goals

In its *Second Annual Review** published in December 1965, the Council appraised Canada's progress toward the attainment of these basic goals. After considering many factors, the Council's main conclusion was that the Canadian economy moved toward consistently higher standards of performance over the first half of this decade. However, by 1965, following a strong and sustained over-all expansion, some questions arose regarding the possible emergence of imbalances, pressures and distortions which might undermine the economy's capacity for maintaining these standards of performance into the future. In this perspective the Council appraised certain special areas of concern:—

Investment.—In its *First Annual Review*, the Council indicated that, to attain potential output by 1970, the volume of total business fixed investment would have to increase at an average rate of about 10 p.c. a year. In 1963-65 this investment increased by some 16 p.c. a year—a rate of increase which is not sustainable on a long-term basis to 1970 and beyond, the Council observed. During 1965, concerns developed about the possibility of severe pressures, especially in the construction industry where shortages of skilled workers appeared along with scattered evidence of strains on capacity. Some cost and price pressures also emerged. The Council saw a need for a somewhat slower rate of advance in construction activity, supported by more vigorous and effective efforts to enlarge the manpower resources and capacity of the construction industry. This underlined the more general need for an appropriate and effective means of facilitating adequate mobility, training and retraining of manpower—a conclusion that had a broader application than in the construction industry alone.

Labour Market Conditions.—There was increasing evidence in 1965 of shortages of manpower in a widening range of occupations and skills and in a growing number of localities. One of the dangers of this kind of situation is that if the shortages become severe before the over-all level of unemployment has been reduced to a satisfactory low level they will spawn cost and price pressures that will be transmitted to other parts of the economy. It was for this reason that the Council in 1964 emphasized the urgent need for improved labour-market and manpower policies. The Council said its view was reinforced by developments in 1965, when the economy appeared to have begun to encounter certain elements of severe labour shortages while the over-all rate of unemployment, although substantially reduced from earlier years, was still around 4 p.c.

Prices.—The Government in 1965 asked the Economic Council to examine the relationships between prices, costs, productivity and incomes in the context of sustained high standards of performance in the economy. The Council expected to report on these issues in 1966. Meanwhile, in its *Second Annual Review*, the Council observed that price increases in Canada in 1965 were slightly above the average annual rates of increase in 1953-63, which the Council had indicated should be the average standard of performance within which price increases should be contained over the 1963-70 period as a whole. However, the Council said that a careful appraisal of the available information regarding the nature and patterns of the 1965 changes suggested little evidence that a broad and widely dispersed acceleration of price increases or accentuation of price pressures was then under way. However, it added that price and cost developments warranted much closer scrutiny and appraisal under conditions in which the economy was operating closer to its current potential.

Exports and Imports.—Canadian export performance improved significantly in 1960-65. The most dramatic and encouraging improvement was in exports of highly manufactured products. These increased in volume by an average of 26 p.c. a year over the 1960-65 period, compared with a rate of 7 p.c. in 1955-60 and an annual rate of only 2 p.c. in 1950-55. However, considering exports as a whole and in longer perspective, the Council judged Canadian export performance to be not entirely encouraging when

* Economic Council of Canada, *Second Annual Review: Towards Sustained and Balanced Growth*. Queen's Printer, Ottawa. December 1965.