

The strength in demand in 1965 for new capital spread to all major industrial groupings but was particularly pronounced in industries manufacturing chemicals and transportation equipment, in the paper and allied industries, in electric power and transportation utilities, and in financial and commercial services, the latter increase being partly related to preparations for Expo 67. New construction project outlays ran about one third higher in 1965 in manufacturing, electric power, gas and water utilities and in the private commercial and institutional service industries, and increased purchases of machinery and equipment were particularly heavy for railways and urban transit systems. During the past two years the distribution of capital spending has shifted to give greater emphasis to manufacturing than was evident at the commencement of the current expansion; in 1965, manufacturers' outlays were double those of 1961.

The value of residential building amounted to \$2,100,000,000, the gain of 5 p.c. over 1964 largely representing increased prices. Housing expenditures rose 2½ p.c. in the first half of 1965 over the latter half of 1964 but changed little in the second half of 1965 when the tightened supply of mortgage money contributed to a slowing down in the number of apartments started. Housing starts in 1965 were virtually unchanged at 166,600 and completions increased slightly to 153,000; the number of dwellings under construction was higher and stood at a record 120,000 at the year-end. The housing market was assisted by CMHC direct loans which helped to offset the decline in both conventional and NHA lending by institutions. Mortgage approvals in the last quarter of 1965 were considerably lower than the previous year's level. During 1965, as a result of the heavy construction program, pressures developed on construction wage and material costs. Costs rose by about 6 p.c. compared with an increase of about 4 p.c. in 1964.

Business capital spending plans for 1966, published in *Private and Public Investment in Canada, Outlook 1966*, indicate a substantial increase in investment; thus the sector is expected to add to domestic demand and cost pressures. However, some Federal Government budgetary measures, announced in late March, were aimed at restraining the expenditures on capital.

The tempo of investment in business inventories accelerated in 1965, amounting to \$905,000,000 compared with \$516,000,000 in 1964. Although this was by far the largest stock accumulation during the current economic expansion, the accumulation in relation to the levels of production does not appear to be unduly high. Investment in manufacturing and retail trade was the major force of expansion, contributing about 50 p.c. and 28 p.c., respectively, of the total accumulation. The quarterly pattern revealed that, after a substantial accumulation in the first quarter of the year, there was some slowing down in the rate of accumulation in the remainder of the year. The substantial build-up in the first quarter reflected, in part, unusually heavy restocking of automobiles in dealers' hands as a result of a sizable involuntary depletion in the previous quarter caused by strikes in the automobile industry.

The strongest influence in the 1965 accumulation was provided by the investment in manufacturers' durable goods, with significant increases in the stocks of primary metal, metal fabricating, machinery, transportation, and electrical goods-producing industries. Among non-durables, the increase in chemicals was notable but an offsetting movement in the stocks of other non-durable goods-producing industries left on balance a very small accumulation. The ratio of stock-to-shipments throughout the year remained below the average of the current expansion and slipped noticeably at the year-end. Almost all the increase in the rate of accumulation in the stocks of wholesale trade was accounted for by the durable lines, particularly in the industrial and transportation machinery and equipment group. The movements in the non-durables were mixed, leaving a very small accumulation. The stock-to-sales ratio for the year as a whole was below the average of the current expansion. A considerable amount of accumulation was concentrated in the holdings of retail traders. Modest increases in stocks were registered in non-durable goods, but there was a sharp accumulation in durable goods, concentrated mainly in the hands of motor vehicle dealers. The stock-to-sales ratio throughout the year was above the average of the current expansion.