

restrained growth in the economy. Most of the weakness in the growth of the economy has originated in sluggish consumer and government demand, and these components again curtailed the advance of real GNP in 1979. Higher business expenditure for plant and equipment and inventories accounted for most of the increase in GNP in 1979.

Real personal expenditure on goods and services advanced only 2.3% in 1979, a continuation of the moderation that began in 1977 and one of the lowest annual increases in consumer spending in the last two decades. Consumer spending rose moderately through most of 1978 and the first half of 1979 in response to the stimulus of personal income tax cuts and the temporary reduction of sales tax rates in most provinces. With the expiry of these programs, demand slumped sharply as consumers restrained their stocks of durable and semi-durable goods to levels more consistent with the growth of disposable incomes.

The growth of total gross fixed capital formation was restrained to 5.0% in volume by continuing restraint in government capital expenditures and a further reduction in residential construction. Residential construction declined 7.4% in 1979, a worsening from the rates of decline in the previous two years. Business expenditure on plant and equipment rose 10.4%, a continuation of the recovery that began in mid-1978 following several years of weakness. A major part of the upturn originated in the mining and manufacturing industries, coincidental with the strong profit growth and high rates of demand in these areas. Firms continued to adjust capacity with higher purchases of machinery and equipment, up 10.6%. There was also a notable recovery of non-residential construction expenditure in 1979.

In volume terms, inventory accumulation was \$2,069 million in 1979, with virtually all of the increase in non-farm business stocks. The rapid build-up throughout the year largely resulted from the downturn of exports and consumer demand. Inventory accumulation rose markedly for durable goods at all levels. Most of the accumulation originated in the transportation equipment and wood industries in manufacturing, and in motor vehicles and industrial machinery and equipment in trade.

The growth of real merchandise exports slowed noticeably to 2.6%, in line with the pronounced slowdown in the US economy. Merchandise imports continued to expand rapidly, and as a result real net merchandise exports fell \$1,573 million, a sharp reversal from the strength net merchandise exports lent to GNP in the previous two years.

Corporation profits before taxes rose an estimated 33.1%, the second strongest gain in the past two years. The strong recovery of corporate profits began with the decline in the international value of the Canadian dollar in 1977 and continued into 1978 largely on the basis of higher profits in export-oriented industries. The 1979 increase was more diffuse, as profits for domestically-oriented firms also rose strongly.

Wages, salaries and supplementary labour income advanced 10.9%, slightly more than the gains in the previous two years. Most of this upturn reflected continuing strong advances in employment, as average earnings continued to grow moderately despite the high rate of inflation and the expiry of wage and price controls.

Total personal income advanced 11.6% while personal disposable income rose 11.9%. With nominal personal expenditure recording a similar increase, the personal savings rate was virtually unchanged for the third consecutive year at 10.3%.

Total revenues of all levels of government combined increased 13.0%, a much sharper rate of increase than in the previous two years. Increases were particularly notable in revenues from personal and corporate direct taxes and indirect taxes. Total government expenditures rose 8.5% as the rate of increase in outlays on goods and services and transfer payments to persons slowed noticeably. As a result of revenues rising more rapidly than expenditures, the deficit of the government sector, on a national accounts basis, fell from \$8.9 billion in 1978 to \$5.8 billion in 1979.

23.2 Industrial growth and change, 1949-79

In the three decades since 1949 there have been many changes in industrial output and industrial structure. In 1949 the output of the domestic economy (gross domestic product at factor cost in current dollars) was \$15.3 billion; by 1979 this had increased more than 15 times to \$240.0 billion. Most of this change in output was due to changes