quarterly fluctuations in real aggregate spending from 1979 to 1983. In late 1979 to early 1980 as money supply growth slowed and interest rates rose sharply, the Canadian economy went into a recession. Pulling the economy down were the credit-sensitive sectors, notably residential construction, consumer durables and merchandise exports. Business fixed investment also faltered somewhat in the second quarter of 1980. In the spring of 1980 as the full effects of the recession were felt, interest rates plunged. Then the money supply increased sharply from June to November 1980. Although the combination of the sharp drop in interest rates and the increase in the money supply enabled the economy to recover by the third quarter of 1980, inflation appeared to be increasing again. Accordingly from late 1980 to mid-1982 both the Federal Reserve Board and the Bank of Canada further restricted monetary growth and North American interest rates climbed to historically high levels. The high interest rates of late 1980 and all of 1981 in turn caused the Canadian economy to relapse into recession in the second half of 1981. This recession proved to be deeper, more widespread and longer than all of the post-World War II recessions, as economic activity declined for six consecutive quarters from the third quarter of 1981 to the fourth quarter of 1982. The 1981-82 recession was the steepest by any standard since the Great Depression years of the 1930s.

In fact the six quarters of the 1981-82 recession lasted two quarters longer than any previous post-war recession. The 6.6% peak-to-trough decline in real gross national expenditure for the 1981-82 recession was much deeper than the 3.1% drop in the 1953-54 recession which had been the deepest previous post-war decline. In addition the sharp drop in the diffusion index in the 1981-82 period (Chart 23.1) indicates that this recession was more widely spread among Canadian industries than previous post-war recessions. The diffusion index shown in the chart measures the percentage of industries in the economy that are expanding. A discussion of other recessions is provided in *The business cycle in Canada 1950-1981*, Philip Cross, Current Economic Analysis, Statistics Canada 13-004, March 1982.

Apart from Canada, the global economy was experiencing a similarly severe recession. Accordingly in the summer of 1982 the Federal Reserve Board allowed the growth of the money supply to accelerate sharply. The US measure of M1 grew by 13.9% from June 1982 to June 1983 in contrast to a 5.4% rate in the previous year. The Bank of Canada took similar action, letting the Canadian money supply grow by 8.6% in the six-month period from August 1982 to February 1983. The action of accelerating money growth coupled with the weak demand for funds because of the recession contributed to a sharp drop in North American interest rates. For instance the Canadian prime lending rate, the rate that banks charge their most credit-worthy customers, fell from 18.25% in June 1982 to 12.5% by the end of 1982. The drop in interest rates gave a strong boost to the credit-sensitive sectors of the economy such as consumer durables and residential construction. In addition the American economy rebounded strongly in 1983 which enabled Canadian exports to increase sharply. The strength of these sectors helped lead the Canadian economy out of recession and into recovery in 1983.

23.3 Sectoral breakdown

23.3.1 Prices

Industry selling price index. The more restrictive monetary and fiscal policies of the late 1970s and early 1980s contributed to a marked reduction in the overall inflation rate but the progress was initially more noticeable at the producer level than at the consumer level. The rate of increase in the industry selling price index (ISPI) declined steadily from 14.5% in 1979 to 3.5% in 1983 (Table 23.7). The inflation rate eased substantially for the primary metals, wood and paper components of the ISPI. Just as prices in these industries benefited most from the speculation associated with the increase in inflationary expectations during the 1970s, so too they suffered most as a result of the emergence of the steep recession in 1981-82 and the associated easing inflationary expectations. The rate of increase in food prices steadily decelerated as a result of bumper crop yields in North America and a global recession which suppressed demand. In addition, the strong performance of the North American currencies in 1981 and 1982 vis-à-vis the European and Japanese currencies also served to restrain export demand for food. Energy prices were somewhat out of gear with the trend in other prices as the petroleum and coal component of the ISPI increased by 36.4% in 1981 and 15% in 1982. Despite a softening in world oil prices, the federal-provincial energy price agreement in 1981 allowed Canadian energy prices to advance more rapidly toward world levels and they increased substantially in 1981 and 1982.

Consumer price index. In contrast to the ISPI, the inflation rate for the consumer price index (CPI) eased much more slowly (Table 23.8), rising from an annual growth rate of 10.2% in 1980 to 12.5% in 1981 and then easing to 10.8% in 1982. In the last two quarters of 1982, however, there was a pronounced deceleration in the inflation rate for the CPI. The transportation component of the CPI which rose 18.4% in 1981 and 14.1% in 1982, and the housing component which rose 12.4% in 1981 and 12.5% in 1982, were largely responsible for keeping the increase in the CPI at a relatively high rate in 1981 and 1982. The strong advance in the transportation