component was largely due to the sharp increase in retail energy prices as Canada moved toward the world price level, while the housing component was strongly influenced by the sharp increase in mortgage rates. Part of the reason for the slower decline in the inflation rate for the CPI vis-à-vis that for the ISPI might be traced to the CPI's higher content of regulated prices, which tend to respond more slowly to changes in the conditions of demand and supply than do market-determined prices. For a more detailed explanation of this point, see *The behaviour of regulated prices in the consumer price index,* Karen Wilson, Current Economic Analysis, Statistics Canada 13-004, August 1981. A comparison of regulated and non-regulated prices is presented in Chart 23.1.

In 1983 the inflation rate for the CPI fell to 5.8%, bringing it more closely into line with that for the ISPI. Despite the economic recovery in 1983, inflation continued to ease as many commodities remained in a state of oversupply. The combination of conservation measures by consumers and increased worldwide investment in energy exploration helped to keep oil prices weak. Furthermore, many of the lesser-developed countries were increasing the supply of commodities on world markets in order to finance their large foreign debt burdens. In addition to soft commodity prices, unit labour costs were held down by union wage concessions made during the 1981-82 recession. The high level of unemployment during this recession made job security rather than increases in pay a greater concern to workers. A notable example was in the auto industry.

23.3.2 Business sector

Growing financial burden. The apparent lack of progress on the inflation front in consumer prices in the early 1980s may have contributed to the persistent concern about inflation on the part of the financial markets. In addition the Bank of Canada remained concerned about the inflation problem so that the growth of money supply was tightly controlled. Thus interest rates remained high, particularly in the summer of 1981, despite an easing in the rate of inflation for industry selling prices. Because of the high real rates of interest, borrowing became a heavy burden. That is, slower growth in business revenues resulting from a slackening in industrial prices and a lower volume of sales made it more difficult for many firms to service the interest on their debts. This is borne out by Chart 23.1 which plots the ratio of total interest payments by firms to their net income. The chart also illustrates the increasing burden that high interest rates put on corporations. The weakening financial position of many Canadian corporations forced them to adopt some strict cost-cutting measures, some of which involved scaling back capital spending programs.

Decline in investment. Because of the progress made by most of the industrialized countries in slowing the rate of inflation, the worldwide *speculative* demand for commodities slowed markedly in 1981 and 1982 with many commodity prices actually falling substantially. This is illustrated by the raw materials price index in Table 23.9. Non-ferrous metal prices with declines of 18.5% in 1981 and 15.1% in 1982, and wood prices with a decline of 7.6% in 1982, were notably weak. Furthermore, the combination of a global recession, conservation measures by consumers and increased worldwide investment in energy exploration contributed to a world oil glut. Thus the previously held expectations in early 1980 of energy prices rising from 15% to 20% a year throughout the decade were revised dramatically downward in 1982 to expectations of flat or declining prices. Since much of the investment in the natural resource sectors of the economy was undertaken on the assumption that prices would continue climbing sharply, the capital spending plans of natural resource firms were drastically reduced. Because of the weakness in commodity prices and the high real rates of interest, business investment which had helped to carry the economy from 1979 to the end of 1981 faltered badly in 1982. Real spending on non-residential construction fell 7.2% while spending on machinery and equipment fell 10.9% for the year.

Business investment continued to decline in 1983 despite the emergence of a global economic recovery. Real expenditure on non-residential construction fell a further 16.2% while real machinery and equipment investment dropped by 8.8%. The continued weak outlook for oil and other commodity prices, particularly metals, helped to depress business investment. In addition the severity of the previous recession left many businessmen more concerned with restoring their balance sheets than with expanding their output. High levels of unused plant capacity also provided little incentive for new investment.

23.3.3 Household sector

Consumer spending and employment. As a result of the sharp decline in capital spending, those sectors of the economy which had been sources of strength became major sources of weakness. In addition the decline in investment further weakened the already weak sectors of the economy. Layoffs in the construction and manufacturing sectors particularly (Table 23.10) had an impact on growth in consumer expenditure which, due to the steady decline in real wage rates, had been heavily dependent on employment as a source of growth. For 1982 as a whole the level of employment declined for the first time since 1958. As Table 23.10 shows, employment declined in all major industry groups. At the same time, the average monthly unemployment rate for all persons of 15 years and over who were in the labour force