

The continuing strength of consumer demand has been caused primarily by the first prolonged post-war increase in per capita real income. Increasing employment levels, together with high and rising wages, have resulted in a continuing rise in labour income. For at least eighteen months the relative movements of wages and prices were such that per capita real income was increasing. Although the rate of increase slowed during the latter half of 1953, real income continued higher than in 1952.

Increases in income have been augmented by the accelerated growth of consumer credit. Net outstanding consumer credit increased sharply commencing in the second quarter of 1952, following removal of the restrictions adopted in 1950 and 1951. Since mid-1952 the increase in total consumer credit has kept pace with the rising value of retail sales, and about one-third of total sales value has been credit-financed. The purchase of consumer durables is, of course, responsible for the bulk of credit buying, with automobiles by far the largest single category affected.

Since early 1952, therefore, effective domestic consumer demand has increased. This rise has been sustained by the continued increase in money incomes and by their improved relationship to the retail price level. Consumer credit is an important supplementary element. During 1953 personal expenditure on consumer goods and services has been absorbing in the neighbourhood of 50 p.c. of final goods and services available in Canada. This compares with 48 p.c. in the second quarter of 1951 and 54 p.c. in 1949. In other words, personal consumption, having given way for a time to the more urgent needs of the defence build-up, is again increasing in relative importance.

Defence.—By the latter half of 1952 the growing domestic market began to replace the defence build-up as the principal stimulus to expansion in the Canadian economy. Preliminary indications are that total defence expenditure for 1953 will be very modestly higher than that for 1952, in contrast to a rise of more than one-half between 1951 and 1952. This levelling-off in the defence program means that it has now taken on the role of a sustaining rather than an expansionary element in the economy.

The nature of defence demands on the country's resources and output has also changed. In 1950, the immediate requirements of the operations in Korea were added to Canada's commitments under the North Atlantic Treaty. This meant not only an increased rate of procurement of end items but also a stepped-up rate of defence construction and of industrial production. A major requirement of such a program was expansion of industrial capacity. Existing facilities had to be adapted and re-tooled, and new facilities constructed not only for defence production but also for the production and processing of raw materials and for producing capital equipment. With little slack in the economy, resources had to be diverted to these ends from other uses. Although some cutting back occurred in non-defence sectors of the economy, the shift in resources was achieved principally by controlling the direction of expansion. Thus, the importance of defence expenditures in the first two years of the defence build-up lay in their stimulus to the expansion of the economy and their influence on the direction of its growth.

Construction of defence installations was well under way by the beginning of 1953, both in Canada and in Europe, and expenditures on this phase of defence have been declining. Capital expenditures on the conversion and expansion of