

INTRODUCTION

THE CANADIAN ECONOMY IN 1954*

The Canadian economy was subject to a variety of adjustments in 1954, certain adverse events being largely counterbalanced by continuing expansionary influences and long-term elements of growth. The adverse factors consisted of a very poor wheat harvest, a moderately reduced defence expenditure, lower investment outlays for new machinery and equipment, a cessation of inventory expansion, a lower volume of exports (chiefly of wheat) and a lower level of consumer purchases of durable goods. These were counterbalanced to a large extent by continued gains in labour income and other forms of personal income, which in turn led to expansion of personal expenditures on consumer goods and services. There occurred also a renewed upsurge in new residential construction: Imports were lower, implying that some of the reduction in demand was counterbalanced by lower imports, rather than by reduced domestic output. On balance, the nation's output of goods and services in 1954 was 2 p.c. below that of 1953, and amounted to \$24 billion. If allowances are made for the crop failure, the Gross National Product (excluding accrued net income of farm operators) was \$22.9 billion as compared with \$22.8 billion in 1953. Prices were generally steady throughout the year.

While activity in general was at a reduced level during the winter and early spring months, there occurred at mid-year a gradual renewal of expansion, culminating in a particularly rapid fourth-quarter increase. The aggregate level of business activity, as measured by Gross National Product (other than accrued net income of farm operators), in the fourth quarter of 1954, once again exceeded the previous peak in the third quarter of 1953.

These events were paralleled by somewhat similar developments in the United States, but certain differences should be noted. The agricultural sector is of considerably greater relative importance in Canada's economy and thus the poor 1954 crop had a large weight in the decline observed in Canada. The United States decline began one quarter sooner and lasted one quarter longer than the Canadian and may have been somewhat more severe.† The following paragraphs review briefly the major influences underlying economic developments in 1954. One of the most significant of these was the sharp liquidation of business inventories which began in 1954, following the substantial build-up of the previous year. The change from positive to negative inventory accumulation amounted to \$0.6 billion. This reversal was related to developments during the period when inventories were being accumulated to meet growing defence requirements and the expansion in economic activity generally. As many of these expansive forces levelled off and supplies became easier, inventory holdings in certain lines became excessive and substantial liquidations followed. Thus, production of some manufactured goods was cut back in 1954 and current requirements were met out of inventory stocks.

* Prepared in the Research and Development Division, Dominion Bureau of Statistics.

† It is difficult to compare the extent of the decline in the two countries, not only because of differences in timing but also because of conceptual differences in the measures of total output. An approximate comparison is afforded by the two estimates of Gross National Expenditure (exclusive of accrued net income of farm operators, and in the Canadian data, exclusive of residual error). According to this definition, the decline in the United States from the second quarter of 1953 to the third quarter of 1954, amounted to 4 p.c., and the Canadian data from the third quarter of 1953 to the second quarter of 1954 showed a reduction of 3 p.c.