

visible, suggesting that a number of industries were encountering capacity constraints in plant and equipment and shortages of certain materials and specific labour skills.

Inflation was particularly severe in 1973 especially in the case of basic commodities such as raw materials and food products. The price increases were mostly due to world-wide demand pressures together with shortages of supply, particularly in the agricultural sector. The situation was exacerbated in the final quarter of the year by the international energy crisis which was accompanied by very sharp increases in crude oil prices posted by all producing countries. Though the impact of this major development on the Canadian economy appears to have been small in 1973 the future repercussions on the world economy are a matter of considerable concern.

Gross national product (GNP) at market prices rose by \$15,409 million, or 14.9% to reach a level of \$118,902 million. This was the largest percentage gain registered since the early 1950s, when expansion was associated with rapidly rising prices during the Korean war period. The 7.6% rise in the over-all implicit price index in 1973 was one of the highest on record, far exceeding the rise of 4.8% in 1972 and of 3.1% in 1971. However, the growth in GNP of 6.8% in real terms, that is after removing that part of the increase which reflected higher prices rather than greater output, was well above that experienced in any year since 1966 when it was 6.9%. By comparison, real growth amounted to 5.8% in 1972 and to 5.6% in 1971.

As in the previous two years, consumer outlays, especially on automobiles and other durable goods, and housing construction continued to provide a major impetus to expansion. In 1973 sharp increases in business fixed investment in non-residential structures and in machinery and equipment gave an additional important boost to the economy. The rate of increase of 17.6% in the latter categories occurred after six years of relatively low outlays. There were indications that the fast pace of business fixed investment in plant and equipment would continue in 1974. On the other hand, the rate of non-farm inventory investment for the year as a whole showed only a modest increase. The external sector continued to display buoyancy with both exports and imports of goods and services posting large gains. Economic growth was mirrored on the income side by sharp rises in all components but most spectacularly in corporation profits and in farm income.

Within the year the pace of activity was uneven. There was widespread demand strength in the opening quarter which showed an exceptional 3.0% rise in real growth on the heels of a strong 2.5% rise in the closing quarter of 1972. The initial burst of activity, which put the economy at a much higher level than the average performance in 1972, was followed by two quarters of relatively slow growth, partly caused by developing supply constraints and by the disruptive effects of a railway strike and other labour disputes in the third quarter. The sharp rebound in the fourth quarter, which showed a 2.6% increase in real growth, was general and included a substantial build-up of non-farm inventories at wholesale and retail trade levels apparently related to the resumption of rail shipments following the strike.

21.1.2 Consumer demand

In line with very strong increases in personal disposable income and in consumer credit outstanding, consumer outlays on goods and services registered an unusually large gain for the second consecutive year. Personal expenditure rose \$8,757 million, or 14.5% and accounted for almost 57% of the rise in GNP. In real terms, the rise of 8.0%, which surpassed rises of 6.9% and 5.3% in 1972 and 1971, respectively, was much higher than any recorded since 1955. Growth in consumer spending outpaced the rise in personal disposable income resulting in a decline in the savings ratio (personal saving as a proportion of personal disposable income) from 8.3% in 1972 to 7.4% in 1973. This ratio, however, remained very high by historical standards.

The 18% increase in personal expenditure on durable goods was very broadly based. About one third of the \$1,656 million increase consisted of greater expenditures on new automobiles. The over-all strength of demand for the latter, evident in the previous two years, continued into the first quarter of 1973, showing an acceleration in spending from 11% growth in the fourth quarter of 1972 to 14% in the first quarter of 1973. These outlays declined over the rest of the year. Expenditure on durable goods other than automobiles rose by 18%. In particular there were strong gains in outlays on furniture and home appliances reflecting the concurrent boom in the housing sector. A modest 1.3% rate of price increase for the durable goods category as a whole resulted in a volume gain of 16.8%, up from 14.7% in the previous year.