

BUSINESS HIGHLIGHTS OF 1949

Address by MR. GRAHAM TOWERS, Governor
of the Bank of Canada to
The Canadian Exporters' Association
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In thinking of what I might say today, it occurred to me that I could suitably begin with some remarks on Canada's Domestic Business situation. I am sure there is no danger that speakers at your Association meetings will overlook the subject of export trade or of external developments which may affect that trade. However, the domestic market is also an important and growing factor in the fortunes of many if not most of your members, and some consideration of it may therefore be useful on this occasion.

I realize it is customary for various authorities at this time of the year to review at considerable length the business events of the preceding twelve months. Scores of articles in newspapers and periodicals bear witness to this fact. For that reason, I do not propose to make detailed remarks about the state of business last year, but to refer only to a few of the main features.

Everyone will remember that early in the year there was some fear that the pace attained in 1948 would not continue. These fears were particularly strong in the United States, and in fact in that country there was a noticeable decline in activity during the first seven months of 1949, mainly associated with a sharp contraction of buying for inventory. Recovery set in after July, but on the average most indicators of United States economic activity will have been lower for 1949 than for 1948. In Canada, on the other hand, almost all indices of production and sales compared favourably in dollar totals and in terms of physical volume with the figures of the year before. It is probable that for 1949 as a whole the volume of Canadian production will show a slight but worth while increase - dollar totals will, of course, be up somewhat more because our average price level was higher than in 1948.

While I am on the subject of price levels, I may say that the inflationary pressures which had been so strong all during the war and post-war period ceased their upward thrust last year. The index of wholesale prices at the year-end is likely to be slightly lower than in December, 1948, although the decline in Canada has been noticeably less than in the United States. The cost of living index will probably show no marked change.

The overall picture then is one of a country which enjoyed a very high level of output - the highest in our history - with resources of men, materials and machinery about in balance with requirements so that we had a comparatively stable price level. With acute shortages of labour pretty well overcome, unemployment increased somewhat from the extraordinarily low level of 1948. Nevertheless, while the overall figures conceal some difficult situations in particular localities and industries, the general employment situation was good by any peace-time standards of comparison.

It is not easy to assign specific reasons for the continued expansion of most lines of Canadian business in the face of the decline - relatively moderate though it may have been - in the United States. As an illustration of the contrast, I may refer to retail sales in Canada, which showed a year-to-year increase in dollar value of more than 6 per cent during the first ten months of 1949, whereas comparable figures in the United States reveal a decrease of 1 per cent. Another striking difference has been in the field of bank loans, where the effect of changes in the rate of inventory accumulation are particularly apparent. In the United States the total loans of commercial banks declined by 1 per cent during the first

ten months of 1949, while the total Canadian loans of our chartered banks increased by 10 per cent during the same period.

The contrast in experience during 1949 can be attributed partly to the longer continuance in Canada of backlogs of demand which had been accumulated during wartime. One factor which delayed the working off of these backlogs in Canada was the extent of our assistance to overseas countries, particularly in 1946 and 1947, and the subsequent limitations on imports which this has involved. Moreover, the whole process of post-war decontrol was more gradual in Canada than in the United States, and this had the effect of spreading the resultant upward pressure on prices more evenly over the three years 1946 to 1948. In the United States the effect of the release of these forces was felt mainly in 1946 and 1947.

Important factors contributing to the 1949 contrast may well have been the marked reduction in income taxes which took place in Canada during 1949, as well as the repayment of a very substantial amount of refundable taxes, and large payments to wheat farmers from proceeds of sales in earlier years.

The factors which I have just mentioned in accounting for the difference in business experience between Canada and the United States in 1949 are largely of a temporary character. However there have been other longer-run influences at work as well. I refer to the resource discoveries of the past few years in various parts of Canada. The resource developments which are now in sight seem sufficient to place Canada in a favoured position relative to other countries for some years ahead.

Leaving aside comparisons with others, and coming back to the purely Canadian scene, it is obvious that the continuance of new capital investment on a very high scale contributed greatly to the generally successful results of the year. Residential housing was up - so was investment in the major public utility programmes and in various forms of capital expenditure by governments as well as oil and other resource development. These increases more than offset a net decline in investment in plant and machinery by manufacturing and other business concerns. An indication of the activity in the capital development field is found in new financing undertaken by provinces, municipalities and business enterprises. Net new issues of bonds and stocks by borrowers in the categories to which I have just referred were approximately \$650 millions in 1949 as compared with \$510 millions in 1948. The bond market was most receptive to new issues throughout the year, and I believe that distribution took place on a broad scale; in other words, that there was not undue dependence on institutional buyers.

Another major factor in Canadian business activity is our export trade. Here the actual dollar total of shipments in 1949 will probably be within 2 per cent of the record level of 1948. However, the fact that our export prices averaged several per cent higher than in 1948 means there was a somewhat greater decline in physical volume of export shipments than the dollar figures would indicate. Moreover, the totals conceal important changes in particular categories of exports. The members of your Association are well aware that in a wide range of manufactured goods sales are no longer possible to many

countries because of increasingly severe import restrictions. In some cases, this has caused the loss of markets built up over a long period of years, and is a most unfortunate development.

I wish I could say something optimistic in regard to the recovery of these markets in the near future, but it is quite impossible for me to speak in that sense. So long as these customers have difficulty in securing enough dollars to pay for their requirements of essential food stuffs and raw materials, they are certain to give low priority to most fully manufactured goods. I do not wish it to be thought that I am taking a defeatist attitude. The struggle continues to bring the world back to a more even keel and to reach the goal of freely functioning multilateral trade, minus the cramping restrictions of the post-war period. The post-war loans, the creation of the International Monetary Fund and International Bank, the Marshall Plan and the United Nations programme for technical assistance (President Truman's Point Four) are worthy pages in the story of post-war reconstruction. But the struggle will continue for a long time to come.

Meanwhile we can take some encouragement from the record of our exports to the United States. The total dollar value of shipments to that market in 1949 may well have exceeded the extraordinarily high level of 1948, in spite of the fact that United States business activity declined somewhat in the early part of the year. During 1949, and particularly since the devaluations of last September, there have been some interesting cases of Canadian firms developing new lines, or considerably expanding old lines, of exports of manufactured

goods to the American market. Whether this will develop into a general movement on an important scale only time will tell, but even a minute share of the American market could make a big contribution to the prosperity of individual firms, and to Canada's balance of payments position.

Much will depend on the adaptability and the initiative of Canadian businessmen, and here we should look to the example of firms which refused to be dismayed by the hurdles and the uncertainties which have traditionally characterized the American market. When they have investigated the United States market on the spot for themselves, and have made aggressive efforts to sell, extremely good results have often followed.

Much will also depend on the maintenance of high levels of activity in the United States, and willingness in that country to remove obstacles to the entry of foreign goods. On both these points, it seems to me, the events of 1949 give cause for encouragement.

The mildness and brevity of the recession in the United States was, I believe, one of the most welcome features of 1949, for the rest of the world as well as for Americans. This result suggests that the forces tending to check recession in the United States may be somewhat stronger than had previously been thought. I am referring principally to the attitudes of consumers and business men in the face of economic adjustments, although the effect of actual and potential governmental measures may also have been a factor. In any case, whatever the immediate or underlying causes, the performance of the United States economy in 1949 must be considered relatively encouraging.

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Another major development of 1949, in my opinion, has been the indications of growing concern on the part of the American administration and public about the effects of the United States tariff and its customs administration. It is easy for Canadians to see that the so-called dollar problem, and all the international political problems which are bound up with it, cannot be solved - at any rate in a way that will be satisfactory to the United States as well as to the rest of the world - unless foreign producers get a more even break in the American market. We must realize, however, that American acceptance of this proposition, and action upon it, require a high degree of political maturity and courage. Therefore it is encouraging to learn that helpful changes are gradually becoming apparent in the case of customs administration. I am told that a perceptible shift in administrative attitudes and practices is taking place.

No review of the highlights of 1949 would be complete without reference to the almost world-wide devaluation of currencies which took place in September. In contemplating these events, I call to mind some remarks made by Montague Norman on an earlier occasion when wide changes in exchange rates had taken place. He said something to the effect that the forces at work were so vast, the economic and political outlook so obscure, that no man could predict the course of events. Having in mind that these remarks were made late in 1931, or perhaps early in 1932, I think you will agree that they were justified, although some newspapers of the day were inclined to be critical on the grounds that men in such positions as Governor of the Bank of England

should know what the future held. While the situation today differs in many of its important elements from that of 1931 and 1932, predictions are equally risky.

You will recall that when sterling and many other currencies were devalued in 1931, dollar prices were still falling disastrously. In consequence, devaluation did not put sterling prices up. Indeed the U.K. cost of living index declined soon after September 1931, and remained below the level of that month for about four years. At the same time the United Kingdom's terms of trade, that is, the prices she got for her exports, compared with the prices paid for imports, were moving greatly in the United Kingdom's favour. So far, there is no indication of a similar development on this occasion.

The position and prospects of the United Kingdom are so important from the Canadian point of view - indeed from the point of view of the whole world - that I make no apology for spending a few moments on the subject. The present position cannot be understood without reference to the contribution made by the United Kingdom to a number of other countries since the end of the war. Outright gifts, including contributions to UNRRA and other relief organizations, and supplies made available in occupied areas, have amounted to \$1.6 billion. Loans and other recoverable aid, including net loans to other ERP countries under the Intra-European Payments Agreement, have totalled nearly \$2.2 billion. Liabilities incurred during the war in the form of sterling balances were added to substantially in the early post-war period, but since the end of 1945 have been repaid to the extent of about \$1.8 billion. There has also been a substantial export of capital in other forms, mainly to sterling area countries. All

of these transactions involved directly or indirectly the provision of goods and services or dollars to other countries by the people of the United Kingdom. Of course these contributions to others would not have been possible if the United Kingdom had not itself been receiving very substantial assistance, mainly from the United States and Canada.

The assistance so far given by the United Kingdom to others has, in the main, represented a contribution to world recovery and political stability. Nevertheless, provision of this aid has over-strained the United Kingdom's productive resources, heavily burdened as they already were with commitments involved in the cold war. Moreover the provision of aid on this scale has had unfortunate effects on sterling area price levels. Countries which possessed, or which have been provided with, ample supplies of sterling have in the main been expected to spend that money in the sterling area and to restrict dollar purchases as much as possible. One result has been - and here I quote from the Foreign Exchange Control Board's Report to the Minister of Finance, dated March 1, 1949:-

'Trade with the group of countries concerned does not move entirely on the basis of competitive price and quality. The tendency for trade within the protected area to take place at a higher level of prices than that prevailing for similar commodities in outside countries cannot fail . . . to make it more profitable for the individual producer in the countries concerned to sell within the area than in dollar countries. And a general consequence of the developments outlined is to raise the price

'and cost structure of the countries inside the area and so reduce their capacity to export to dollar markets.'

This was one of the factors which produced devaluation. It is now the task of the United Kingdom to prevent the process repeating itself, a task which the United Kingdom can hardly accomplish without cooperation from this side of the Atlantic.

Our best form of cooperation, from every point of view, is for Canadians to buy more goods from the United Kingdom, and from overseas countries generally, which are having difficulty in financing their purchases from us. Canadian imports from the rest of the world outside the Western Hemisphere rose from \$440 million in 1947 to \$610 million in 1948. Partly because of the situation which preceded the September devaluations, progress was less marked in 1949, but there is now a fresh opportunity to see what can be accomplished in this field. Certainly those of us who are interested in overseas export trade should support efforts such as those of the Dollar - Sterling Trade Board, to help overseas producers break into the Canadian market or expand their existing business with Canada.

In bringing my remarks to a conclusion, I realize that I have made no predictions in regard to the future. It seems to me that it is wiser not to do so. But I can say this: If in 1944 or thereabouts there had been full realization of the scope and depth of post-war problems; if it had been assumed that the world was to be divided into two cold warring camps, and that we faced not simply reconstruction but a remaking of important trading areas of the globe,

then I believe that people appraising Canada's prospects in the post-war period might well have taken a most apprehensive attitude in view of our great dependence on international trade. In the event, our affairs have gone quite well. We have shown a surprising resilience and adaptability - surprising to other countries at least, if not to ourselves. We have been, and must continue to be, affected by developments elsewhere, but the performance of Canadian business to date is a hopeful omen for the future.