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Recent Economic Developments in Canada,
November 1963 - February 1964

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Summary

By almost every measure of current conditions--production, employment, exports, housing starts, capital outlays--the Canadian economy is operating close to "boom" levels.[1/] Price movements have nevertheless moderated after an abrupt rise last spring, and interest rates have remained low relative to the strength of domestic demand. In December, seasonally adjusted unemployment fell below 5 per cent for the first time since mid-1957. Recent indications are that the hiatus in new issues of Canadian securities in New York is coming to an end. Meanwhile Canadian exports remain strong and the Canadian dollar has been hovering just above par.

Production and employment continue strong

Almost without exception, measures of domestic economic activity display continued strength. The seasonally adjusted index of industrial production (1949=100), which broke out of the summer doldrums to reach an all-time high of 197.7 in September 1963, had climbed a further 6.5 points by November. More than average gains were registered by the mining, utilities, and durable manufacturing sectors. Starts of new dwelling units in December increased almost 80 per cent above their reasonably satisfactory level of the preceding month. Reflecting greater volume (as compared to the previous year) in all months of 1963 except August, shipments of Canadian-made motor vehicles increased 23.1 per cent for the year as a whole, with the December 1963 figure of 70,177 units comparing particularly favorably with the 51,607 units shipped in December 1962.

1/ Canadian economic developments earlier in 1963 are reviewed in "Recent Economic Developments in Canada, September-November 1963," dated December 9, 1963.

The seasonally adjusted rate of unemployment in December, at 4.9 per cent of the labor force, fell below 5 per cent for the first time since mid-1957. It has declined each month since reaching its recent high of 6.0 per cent during the short-lived economic setback of June-July 1963. Since May, the total civilian labor force has increased moderately, from 6.67 million to 6.84 million.

Investment prospects are favorable

Business outlays for new plant and equipment have of late been showing their first real advance since the investment boom of 1955-57, and were about 5 per cent higher in 1963 than in 1961. Over the same period, total fixed investment, including residential construction and government capital outlays, is estimated to have risen around 12 per cent. In the business sector, the whole of the advance since 1961 has occurred in machinery and equipment, rather than in construction, owing in part to the ending of the build-up stage in such projects as the Western pipelines and in part to the relatively large portion of investment directed to equipment-using areas of manufacturing, notably pulp and paper, steel and chemicals.

House-building and social-capital expenditures (especially technical-school construction), which have been the strongest investment sectors during the past two years, are likely to exert something of a drag in the period immediately ahead, but prospective investment elsewhere in the economy promises to exert a more than offsetting influence. The scheduled "twinning" of the Welland Canal, recent progress in negotiations connected with mammoth power developments in British Columbia and Quebec-Labrador, as well as a number of other resources-oriented investment plans provide a degree of underlying strength, while the many industries currently operating rather close to effective capacity may be expected to step up their capital outlays.

Foreign trade exceeds 1962 record

The export sector continued as a main source of economic stimulus. With each month rising above the corresponding year-ago level, total exports in 1963 exceeded the 1962 level by 10 per cent. The increase came mainly in the form of a 9 per cent rise in the volume of shipments, while export prices rose only about 1 per cent, and was highlighted by larger exports of wheat, lumber, and iron ore.

For the year as a whole, imports rose a more moderate 4.9 per cent, though the year-over-year rise in the fourth quarter is estimated at 15.5 per cent, somewhat more than in exports. Mainly because of grain movement to the U.S.S.R., the export surplus realized on shipments to destinations other than the U.S.A. and the U.K. rose to $475.7 million, as compared with $270.8 million the previous year. For the third year in succession, Canada enjoyed a merchandise trade surplus that, at $412.6 million, was the largest attained since 1952.

Table 1. Canada: Foreign Trade, December 1963[a/] with comparisons
(in millions of Canadian dollars)

	December		October--December		January--December	
	1962	1963	1962	1963	1962	1963
Total Exports						
United Kingdom	79.2	75.5	252.3	264.8	919.9	1,014.9
Other C'wealth & Pref.	29.1	37.7	101.2	104.5	335.6	399.1
United States	279.0	326.1	977.8	1,019.0	3,744.7	3,913.2
Others	118.8	214.1	395.0	591.4	1,347.5	1,652.8
Totals	506.1	653.5	1,726.3	1,979.7	6,347.7	6,980.0
Imports						
United Kingdom	34.9	47.8	131.1	145.3	563.1	527.5
Other C'wealth & Pref.	21.0	35.9	88.4	128.0	318.5	405.8
United States	296.9	372.2	1,042.8	1,189.4	4,299.5	4,457.0
Others	84.6	107.2	299.2	340.6	1,076.7	1,177.1
Totals	437.4	563.1	1,561.5	1,803.3	6,257.8	6,567.4

a/ Export values are final; import values for 1963 are estimates. Figures may not add due to rounding.

Price movements continue moderate

The consumer price index for January 1964 was 134.2 (1949=100), unchanged from its December level though 1.7 per cent above that of January 1963. For the year as a whole, and continuing to reflect the impact of devaluation of the Canadian dollar, import prices registered an average increase of 4 per cent, but domestic farm prices have tended to fall since July, with livestock prices notably declining between November and December. The general index of wholesale prices, which had climbed abruptly by 1.5 per cent between April and June, rose less than 4/10 of 1 per cent between July 1963 and January 1964.

Domestic money and capital markets relatively quiet

Conditions in Canadian money and capital markets have been rather quiet since November, particularly in comparison with the pace of the preceding five months. Rates on short-term Treasury bills tended to rise somewhat in December and early January but, on average, Government bond yields moved within an extremely narrow range. (See Table 2). So far as bond yields other than those on Government of Canada securities are concerned, the McLeod, Young, Weir index has moved narrowly within a range of 5.51-5.57 between the end of September and the end of January.

Table 2. Canada: Market Yields on Selected Government Securities, Selected Dates, April 1963 - February 1964
(per cent per annum)

Dates		Treasury Bills 3 mos.	Treasury Bills 6 mos.	Bonds Sept. 1965	Bonds June 1967-68	Bonds Jan. 1975-78	Bonds Oct. 1979	Bonds Sept. '96 March '98
April	3	3.60	3.73	4.51	4.45	5.07	5.01	5.01
June	12	3.19	3.30	4.07	4.07	4.88	4.84	4.90
September	11	3.78	3.98	4.60	4.48	5.27	5.22	5.14
October	2	3.61	3.76	4.09	4.33	5.02	4.97	5.02
	16	3.54	3.69	4.00	4.29	5.03	4.98	5.04
November	6	3.63	3.79	4.08	4.37	5.08	5.03	5.01
December	4	3.68	3.81	4.18	4.34	5.12	5.07	5.02
	11	3.66	3.78	4.19	4.34	5.12	5.08	5.01
	18	3.71	3.88	4.26	4.37	5.15	5.09	5.02
	24	3.78	3.99	4.26	4.42	5.18	5.13	5.02
	31	3.74	3.93	4.20	4.42	5.16	5.11	5.02
January	8	3.80	3.96	4.31	4.43	5.17	5.11	5.01
	15	3.77	3.95	4.26	4.47	5.18	5.13	5.01
	22	3.74	3.92	4.25	4.50	5.18	5.11	5.01
	29	3.77	3.94	4.33	4.51	5.19	5.11	5.01
February	5	3.77	3.93	4.30	4.51	5.21	5.14	5.02
	12	3.78	3.95	4.22	4.43	5.16	5.11	5.03

Excessive liquidity immobilized in Government bank balances

The relative ease in Canadian financial markets has been accentuated by injections of liquidity associated with the current export surplus. In considerable degree, the excessive liquidity has tended to be immobilized in Government deposit balances at the Bank of Canada and the chartered banks, which were below $400 million as of October 2 but have exceeded the unusually high figure of one billion dollars almost continuously since late November. By contrast, between the end of October 1963 and February 5, 1964, general loans of chartered banks actually registered a small decline.

Incentive for arbitrage inflows remains moderate

Since early October, the premium on the three-months forward Canadian dollar has fluctuated narrowly around the spot rate. (See Table 3). The net covered incentive in favor of flows to Canada on Treasury bills, which was briefly eliminated early in November but had climbed to .28 per cent per annum in late December, has since settled around more moderate levels. (See Table 3). Similarly, between early January and mid-February, the net covered incentive in favor of Canada on prime finance company paper narrowed from .325 per cent per annum to .15 per cent.

So far as longer-term securities are concerned, two underlying factors have been tending to widen somewhat the spread between Canadian and comparable U. S. market yields on Canadian securities: Canadian efforts to discourage foreign ownership in Canadian industries, and U. S. efforts to reduce Canadian borrowing in New York.

Third-quarter balance of payments estimates present mixed picture

On the basis of improvement in the trade balance and in the net position on travel expenditures, the Canadian balance of payments shifted to an $8 million dollar surplus on current account in the third quarter of 1963. The virtual cessation of new security issues in New York, consequent upon the U. S. interest-equalization tax proposal of mid-July, however, together with an estimated outflow of $95 million in short-term capital, brought a decline of $145 million in official reserves of gold and foreign exchange. (See Table 4).

Table 3. Canadian-U.S. Arbitrage Computations, July 1963-February 1964
(per cent per annum)

Week of	3-Month Treasury Bill: Cdn. Bills N. Y.	U.S. Bills N. Y.	Spread in fav. Canada (uncov.)	Prem. on 3 mos. fwd. Cdn. dollar	Net Covered Differ'l in favor Canada	3-mos. Prime Finance Co. Paper: Canadian Paper Cdn. $	Canadian Paper Fully Hedged	U. S. Paper	Net Covered Differ'l in fav. Canada
July 3	3.17	3.01	+0.16	+0.10	+.26	3.625	3.625	3.375	+0.250
Sept. 12	3.67	3.34	+0.33	-0.14	+.19	4.25	3.90	3.625	+0.275
Oct. 31	3.47	3.45	+ .02	--	+.02	4.00	3.875	3.75	+0.125
Nov. 7	3.50	3.51	- .01	--	-.01	4.00	3.90	3.75	+0.150
21	3.57	3.48	+ .09	--	+.09	4.13	4.00	3.75	+0.250
Dec. 27	3.71	3.50	+ .21	+ .07	+.28	4.25	4.20	3.875	+0.325
Jan. 3	3.66	3.51	+ .15	+ .07	+.22	4.25	4.20	3.875	+0.325
Feb. 14	3.68	3.51	+ .17	- .04	+.13	4.00	3.90	3.75	+0.150

Table 4. Canada: Balance of International Payments, Annual 1959-62 and Quarterly 1962-63
(in millions of Canadian dollars)

	1959 Total	1960 Total	1961 Total	1962 Total	1962 1st. Qtr.	1962 2nd. Qtr.	1962 3rd. Qtr.	1963 1st. Qtr.	1963 2nd. Qtr.	1963 3rd. Qtr.
CURRENT ACCOUNT										
Merchandise										
Exports	5150	5392	5889	6364	1395	1620	1628	1482	1776	1801
Imports	5572	5540	5716	6209	1402	1665	1559	1413	1700	1666
Balance	-422	-148	+173	+155	-7	-45	+69	+69	+76	+135
Travel (Net)	-207	-207	-160	-50	-84	-52	+94	-67	-26	+113
Int. & Divs. (Net)	-489	-480	-561	-570	-146	-153	-119	-151	-137	-134
Non-merch. (Bal.)	-1082	-1095	-1155	-1003	-326	-317	-103	-313	-263	-127
Curr. Acct. Bal.	-1504	-1243	-982	-848	-333	-362	-34	-244	-187	+8
CAPITAL ACCOUNT										
Direct Invest. in Can.	+550	+638	+515	+525	+110	+80	+145	+70	+40	+45
Transacs. in Cdn. Secs.	+650	+245	+339	+345	-36	+83	+45	+323	+203	+31
Other Long Term	-52	+14	-72	-182	-50	-186	+56	-17	-40	-48
Total Long Term	+1148	+897	+782	+688	+24	-23	+246	+376	+203	+28
Short Term	+345	+307	+490	+316	-65	-249	+474	-66	+95	-95
Change in Off. Reserves	-70	-39	+229	+537	-364	+114	+686	+66	+111	-145
Special Transactions	+59	--	+61	-381	-10	-748	--	--	--	+86

The dearth of new issues continued through year-end. In January, there was a private U. S. placement of $14 million collateral trust notes of Laurentide Financial Corporation Ltd., and evidence accumulated that other substantial new issues were in prospect.

Canadian foreign-exchange position weakens slightly

The Canadian dollar, which had reached a high of 92.93 U. S. cents soon after the announcement of the wheat contract with the Soviet Union in mid-September and had fluctuated narrowly around 92.80 throughout most of October and November, fell steadily during December, closing the year barely above par. From the beginning of January to mid-February, it fluctuated within a narrow range of 92.54-92.63 U. S. cents.

Official holdings of gold and foreign exchange, which had declined abruptly as a result of Canadian and U. S. investment tax proposals in, respectively, June and July, recovered a portion of the lost ground in the two-and-a-half months following the announcement of the Soviet wheat contract. They eased moderately in December 1963 and January 1964 but, at $2582.4 million on January 31, remained higher than their end-July figure of $2501 million. On February 14, following the U. S. drawing of $125 million from the International Monetary Fund, Canada repaid $60 million to the Fund on its outstanding drawing of $196 million.