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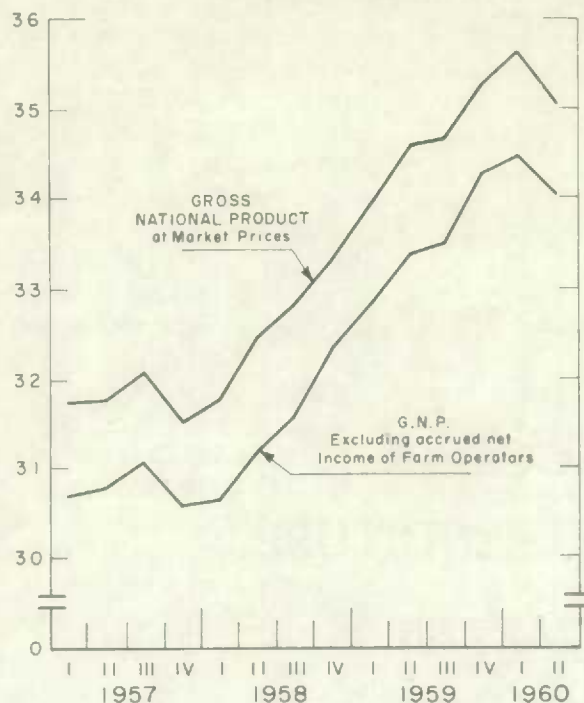
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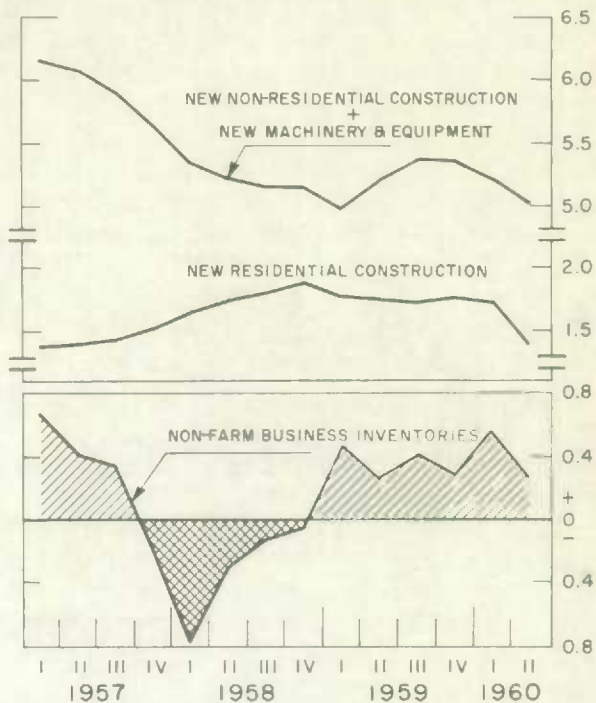
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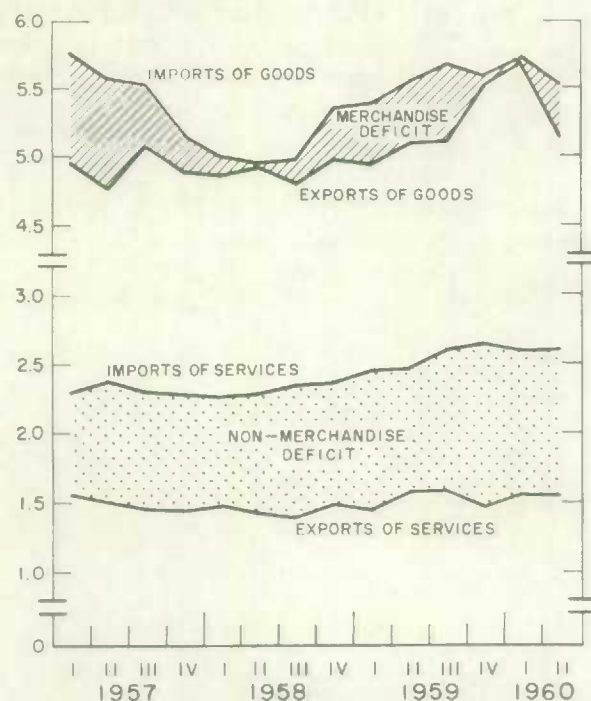
GRDSS NATIONAL PRODUCT DECLINED IN THE SECOND QUARTER, FOLLOWING THE SLOW-DOWN IN THE RATE OF ADVANCE WHICH WAS EVIDENT IN THE FIRST QUARTER OF THE YEAR
BILLIONS OF DOLLARS



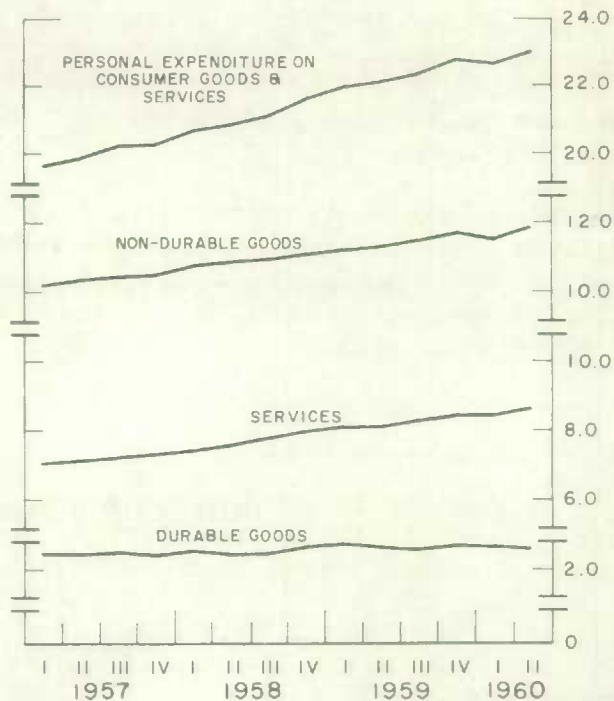
BUSINESS OUTLAYS FOR PLANT AND EQUIPMENT WERE LOWER IN THE QUARTER, AND OUTLAYS FOR NEW HOUSING FELL SHARPLY. THE RATE OF BUSINESS INVENTORY ACCUMULATION EASED
BILLIONS OF DOLLARS



EXPORTS OF GOODS ALSO MOVED DOWN IN THE QUARTER. WITH IMPORTS OF GOODS SHOWING A SMALLER DECLINE, THE DEFICIT ON MERCHANDISE ACCOUNT WIDENED APPRECIABLY
BILLIONS OF DOLLARS



CONSUMER SPENDING MADE A SUBSTANTIAL RECOVERY, FOLLOWING THE WEAKNESS WHICH HAD DEVELOPED IN THE FIRST QUARTER
BILLIONS OF DOLLARS



(IN ALL CHARTS DATA ARE SEASONALLY ADJUSTED AT ANNUAL RATES)

INTRODUCTORY REVIEW

The Gross National Product, seasonally adjusted, declined by about one and one-half per cent in the second quarter of 1960, following the slowing down in the rate of advance which was evident in the first quarter of the year. With final product prices substantially unchanged, the decline represented for the most part a drop in the physical volume of output from the level of the preceding quarter. The decline marks the first interruption in the upward course of the economy since the final quarter of 1957 when the value (and volume) of output also showed a small drop. ^{1/}

The reversal in the trend of output in the second quarter was associated with a sizable fall-off in total final purchases of goods and services (see Table over-leaf) which had shown signs of easing in the first quarter. Much of this decline was centred in external demand for exports of goods and services, which fell by 8 per cent, seasonally adjusted; exports to both the United States and other countries were affected. Final domestic demand was also somewhat lower; further declines occurred in business outlays for plant and equipment, while outlays for new housing fell sharply. These downward tendencies were partly, though not completely, offset by a substantial recovery in consumer spending following the weak first quarter. Finally, the rate of business inventory accumulation eased markedly during the quarter, representing a downward shift in terms of new demands on production of close to \$300 million.

While these changes in the major categories of total demand have tended to accumulate in a downward direction in the second quarter, it should be noted that some moderating influences have recently emerged. Merchandise exports recovered strongly in July and were back up to the average levels of the first quarter. (The economies of western Europe have continued buoyant and business conditions in the United States are currently at a very high level). Non-residential building permits were higher in the second quarter, following declines in the first quarter of the year. Thus, the recent tendencies which have appeared in the export figures and in non-residential construction may be somewhat modified when later information becomes available.

The developments in the second quarter have inter-acted to yield a level of production which was about 1 per cent above the same period one year ago in value terms, but about 1 per cent below the same period one year ago in terms of the physical volume of production. Prices over the twelve months have risen by somewhat under 2 per cent.

^{1/} In 1957, price increases obscured the fact that the volume of output began moving downward in the second quarter, recovering briefly in the third, then falling further in the fourth quarter.

Quarter to Quarter Changes in Final Purchases
(Seasonally Adjusted at Annual Rates)
(\$ millions)

	1Q'56 to 2Q'56	2Q'56 to 3Q'56	3Q'56 to 4Q'56	4Q'56 to 1Q'57	1Q'57 to 2Q'57	2Q'57 to 3Q'57	3Q'57 to 4Q'57	4Q'57 to 1Q'58	1Q'58 to 2Q'58	2Q'58 to 3Q'58	3Q'58 to 4Q'58	4Q'58 to 1Q'59	1Q'59 to 2Q'59	2Q'59 to 3Q'59	3Q'59 to 4Q'59	4Q'59 to 1Q'60	1Q'60 to 2Q'60
Personal																	
Exp.....	444	364	280	268	276	284	44	432	164	256	576	300	88	280	476	-104	376
Gov't Exp.	44	404	76	-64	124	120	-28	184	84	168	88	4	276	-168	-88	228	-20
Res. Con..	8	-60	-88	-80	12	48	96	136	96	52	84	-120	-8	-28	28	-40	-312
Non-Res.																	
Constr....	308	172	144	192	76	16	-56	-216	-8	-60	-100	-132	-	8	64	-60	-60
Mach. and																	
Equip....	220	160	120	208	-168	-180	-212	-64	-112	-16	100	-40	228	144	-68	-84	-136
Exports...	284	-60	40	56	-252	264	-164	8	-4	-168	284	-96	276	8	328	248	-544
Total																	
Final																	
Purchases	1,308	980	572	580	68	552	-320	480	220	232	1,032	-84	860	244	740	188	-696
(Final																	
Domestic																	
Demand).. (1,024)(1,040)(532) (524) (320)(288) (-156) (472) (224) (400) (748) (12) (584) (236) (412) (-60)(-152)																	

Quarter to Quarter Changes in Other Selected Items

"Shift" in																	
Non-Farm																	
Bus. Inv.	-436	-220	484	-268	-276	-52	-560	-584	476	180	72	512	-180	128	-104	300	-316
Imports...	208	56	188	104	-128	-100	-392	-184	-12	92	360	124	176	292	-64	96	-196
G.N.P.																	
(ex. farm).	532	812	760	452	80	284	-484	44	532	416	744	508	520	168	764	212	-462

	1Q 1960 1Q 1959	2Q 1960 2Q 1959	First 6 Mos. 1960 First 6 Mos. 1959
Value of Gross National Product.....	6.0 %	0.7 %	3.2 %
Price of Gross National Product 1/...	2.0 %	1.7 %	1.8 %
Volume of Gross National Product.....	4.1 %	-1.0 %	1.4 %

1/ The price comparisons shown above are based on a set of fixed weight price indexes (1955 = 100), and not upon the implicit price deflators which can be derived by dividing the value series by the volume series. The implicit deflators are weighted by changes in the expenditure pattern over time, and do not permit accurate measurements of price change. A specially constructed set of fixed weight price indexes has therefore been used for purposes of depicting price changes in the above table.

Accompanying these changes in the major demand categories in the second quarter have been associated changes in the composition and direction of the income flows. National income, which had advanced only fractionally in the first quarter, declined by 1 1/2 per cent in the second quarter, on a seasonally adjusted basis. The decline reflected a sharp and widespread drop in corporation profits, and lower returns from other forms of investment income and unincorporated business operations. The flow of income to the business sector was thus substantially reduced in the second quarter.

Turning to the personal account, labour income, which had risen uninterruptedly from quarter to quarter since early in 1958, showed virtually no change in the second quarter of 1960; declines in major goods-producing industries were offset, broadly, by advances in the services sector. Accompanying this stability in labour income, declines occurred in most other forms of personal income in the quarter with the major exception of transfer payments, which rose slightly. On balance, total personal income showed a fractional decline in the quarter, amounting to about one-half of one per cent. This decline in personal income was accompanied by an increase in direct personal tax collections, so that personal disposable income was down to a somewhat greater extent, by about 1 1/2 per cent. With consumer buying higher, the rate of personal saving fell sharply, to 3.9 per cent of personal disposable income. The second quarter decline brought the level of disposable income to a point approximately equal to that of the second quarter one year earlier. Thus, disposable income has shown little change over the past twelve months. This retardation in the rate of growth of both personal and disposable income over the past year appears to be a factor of some significance in the development of recent trends in consumer spending. The latter has risen only moderately in 1960, although it moved forward in the second quarter despite the fall-off in disposable income.

Despite reduced business and personal incomes, the flow of revenues to the government sector continued upward in the second quarter. Direct personal tax collections were higher by 10 per cent, partly reflecting the payment in April of tax arrears on income for the year 1959. At the same time, indirect taxes, seasonally adjusted, were also slightly higher in the second quarter, reflecting for the most part gains in Federal excise taxes. Direct taxes on corporations (on an accrual basis) fell off during the quarter, reflecting the sharp drop in corporation profits. Over all, however, the revenues of the government sector are estimated to have risen by about 2 per cent during the quarter, and were running at an annual rate approximately \$1 billion (or 9 per cent) above the level of the second quarter

of 1959. About half of this increase was in the Federal sector. At the same time, Federal expenditures have shown little change over the past year, so that the deficit has narrowed by the full extent of the increase in revenues. In the provincial-municipal government sectors, expenditures have tended to rise along with revenues and the deficit has shown only a moderate improvement.

The table below shows the percentage changes in some of the main income categories from the first half of 1959 to the first half of 1960, compared with those which occurred in the same period one year earlier.

Changes in Major Components of Income
(Seasonally Adjusted at Annual Rates)

Selected Personal and Business Income Components	Percent Change First Half 1958 to First Half 1959	Percent Change First Half 1959 to First Half 1960
1. National Income	7.5	2.4
2. Personal Income	6.7	3.1
3. Disposable Income	6.2	1.8
4. Wages and Salaries	7.7	4.3
5. Corporate Profits before Taxes	21.7	-2.3
6. Net Income of Non-Farm Unincorpor- ated Business	4.0	-4.2

Production and Employment

The movement of production by industry in the second quarter reflected the changes in the major categories of demand outlined above. On a seasonally adjusted basis, the volume of total real output is estimated to have declined by close to 1 1/2 per cent. The decline was wholly attributable to the goods-producing industries in which production was down nearly 3 per cent; output in the service-producing industries made a small advance.

The contraction in manufacturing production of about 3 per cent in the second quarter was widespread by industry but more pronounced in the durable sector (5 per cent) than in the non-durable groups (1 1/2 per cent). Production expanded fractionally in one of the major durable groups, namely non-ferrous metal products; in all others, output contracted, the declines ranging from 4 per cent in wood products and 5 per cent in transportation equipment to 7 per cent in iron and steel, electrical apparatus and supplies and non-metallic mineral products. Among individual durable goods industries showing a sharp contraction in output were iron castings, gypsum products and telecommunications equipment; the loss in output in each of these industries exceeded 20 per cent. The fall in output of 15 per cent in concrete products and of 14 per cent in primary iron and steel was also relatively large. In agricultural implements, heating and cooking apparatus, refrigerators and appliances, motor vehicles, motor vehicle parts and wire and wire goods the decline in production was somewhat in excess of the average for durable manufactures as a whole.

The changes in output in the non-durable manufacturing industries were for the most part also in a downward direction, though the declines were generally small. A

modest gain in output occurred in products of petroleum and coal and fractional increases in foods and in the miscellaneous group. In most other non-durable goods industries production fell off a little. Exceptions were textiles and tobacco, where output fell 5 per cent and the rubber industry, where there was a sharp contraction, amounting to 17 per cent.

A 1 1/2 per cent drop in mining production, seasonally adjusted, in the second quarter was the outcome of conflicting trends among and within the component groups. In fuel mining a sharp advance in output of natural gas (23 per cent) and a significant gain in output of crude petroleum (7 per cent) more than offset the continuing decline in coal mining, raising production of fuels by 6 per cent. Reflecting a substantial improvement in production of asbestos, output in non-metal mining was up 3 per cent. Production in metal mining fell 8 per cent, reflecting the sharp cut-backs in operations in the uranium mines and a small decline in output of copper; production of other major metals and minerals was higher, the largest gains being in iron ore and nickel (13 and 6 per cent). Quarrying, the remaining component of the mining industry, showed a drop in output of 6 per cent in the second quarter.

The volume of activity in the construction industry continued to decline in the second quarter. Output was down about 7 per cent, reflecting the drop in expenditures for housing and the easing in activity in other construction. Likewise in forestry, the rate of decline was substantial and higher than in the previous quarter.

In the other industries and in most of the service-producing industries, output continued to advance in the second quarter, with the overall gain amounting to about 1 per cent.

Despite the drop in production in the second quarter, the first six months of 1960 compares favourably with the same period a year ago for production as a whole as well as for almost all the major industrial groups. The two exceptions are construction and agriculture. Conspicuously large gains occurred in forestry and public utilities. A small decline in farm output reflects lower production of livestock and poultry, largely offset by expanded output of most other farm products. The gain of about 1 1/2 per cent in overall output on the six months basis reflects advances of about equal magnitude in both the service-producing industries and the goods-producing industries.

The decline in total production in the second quarter, seasonally adjusted, was accompanied by an increase in the total number of persons with jobs of about 0.5 per cent, and of nearly 1 per cent in the non-farm sector. It was also accompanied by somewhat shorter hours of work in some industries. However, the number of persons without jobs and seeking work averaged 6.5 per cent of the labour force in the second quarter, compared with 5.9 per cent in the first quarter. (All of these comparisons are on a seasonally adjusted basis).

Comparing the first six months of this year with the same period of the previous year, the number of persons with jobs was higher by about 2 per cent in total and by more than 3 per cent in the non-farm sector.

Personal Expenditure on Consumer Goods and Services

Personal expenditure resumed its upward course in the second quarter, following the hesitation evident in the first. At a seasonally adjusted annual rate of \$23.1 billion, consumer expenditure was more than 1 1/2 per cent higher than in the

preceding quarter. Since there was little evidence of any marked overall change in consumer prices, most of the increase in spending represented a gain in real consumption. The notable feature of the quarter was that the expansion in spending was not supported by enhanced demand for durable goods but rather reflected recovery in non-durable markets and further growth in spending for services.

The second quarter's advance in spending for non-durables of more than 2 per cent was the outcome of gains in almost all non-durable lines. Particularly notable is the more than 3 per cent increase in purchases of clothing following the decline in the first quarter. Expenditures on food also rose a little following the previous quarter's decline, but all of the increase was due to price increases. The rise in spending on tobacco products and on auto parts and accessories was also well in excess of the average for non-durables as a whole.

The 2 per cent drop in purchases of durables is largely attributable to household durables although purchases of cars were also off slightly. All categories of household durables were affected, the sharpest decline being in sales of radios and electrical appliances which were off 7 per cent in value terms. Factory shipments of most major appliances in the second quarter were lower than a year ago by: 16 per cent for washers; 5 per cent for dryers; 11 per cent for electric stoves; 12 per cent for radios; 28 per cent for television sets. The contraction in spending on durables may be related in part to the much reduced level of activity in housing. In a situation of declining sales there was a fairly general tendency for prices to shade downward so that the volume of purchases was slightly higher than the value figures indicate.

Expenditures on services continued their upward trend in the second quarter. The gain of 2 per cent reflects in part changes in the adjustment for net expenditure abroad. Excluding this, the increase is 1 1/2 per cent. Most of the major categories showed gains. As in the past, the rise in spending on services reflected some element of price increase.

When the first half of 1960 is compared with the corresponding period of the previous year, the gain in consumer spending amounts to 4 per cent. In most of the durable categories, the year-over-year comparison is unfavourable. Thus the increase in spending was concentrated in the non-durable and service categories, particularly the latter. It may be noted that the over-the-year increase in consumer spending in volume terms is somewhat below the average for the post-war years, and that this development has been associated with a smaller than average rise in real disposable income.

Consumer Expenditure
Per Cent Change

	<u>6 Mos. 1959</u> <u>6 Mos. 1958</u>	<u>6 Mos. 1960</u> <u>6 Mos. 1959</u>
Food	2.7	2.9
Clothing	4.2	1.8
Other	5.6	7.3
Total Non-Durable Goods	4.1	4.3
Appliances and Radios	7.1	-3.0
Home Furnishings and Furniture	3.0	-0.8
Autos (New and used)	14.1	-2.2
Other	5.3	0.9
Total Durable Goods	9.4	-1.6
Total All Goods	5.1	3.1
Total Services	7.8	5.6
Total Personal Expenditure (Goods & Services)	6.1	4.0

Business Gross Fixed Capital Formation

Gross fixed capital formation in the second quarter is estimated to have been running at a seasonally adjusted annual rate of \$6.4 billion, some 7 per cent lower than in the first quarter. This decline is largely attributable to a steep decline in expenditures for housing but there was also some curtailment in outlays for plant and equipment.

Expenditures for residential construction are estimated to have fallen about 18 per cent between the first and second quarters of 1960. This trend in housing is related in part to the stringency in mortgage markets in the early months of 1960, particularly as it affected lending under the National Housing Act. Altogether, National Housing Act loans were made for only 10,943 dwellings in the first six months of 1960, compared to 28,968 dwellings in the same period one year earlier. In the second quarter of 1960, total housing starts, seasonally adjusted, declined by 10 per cent, while total completions fell by 21 per cent, seasonally adjusted. After Central Mortgage and Housing Corporation direct loans again became available in April, starts increased in June and July. However, there was a decline in starts in August, despite further easing in the availability of mortgage money. ^{1/}

Business outlays for plant and equipment were also off between the first and second quarters, by close to 4 per cent. Non-residential construction expenditure declined by 2 per cent, and outlays for machinery and equipment by 5 per cent. Evidence of a drop in purchases of machinery and equipment is to be found in domestic shipments as well as in imports of such goods, both of which were down by 5 per cent in the second quarter. A wide variety of machinery and equipment items were so affected.

In the first six months of 1960, business outlays for plant and equipment were running fairly close to the rate for the corresponding period of 1959, but somewhat below last year's annual rate. The short-fall from last year's annual rate is evident in outlays for both non-residential construction and machinery and equipment, but particularly in the latter. The mid-year review of investment intentions in 1960 indicated an increase of about 6 per cent in business expenditures for plant and equipment (excluding housing). Performance thus far in the year does not confirm these expectations.

Investment in Business Inventories

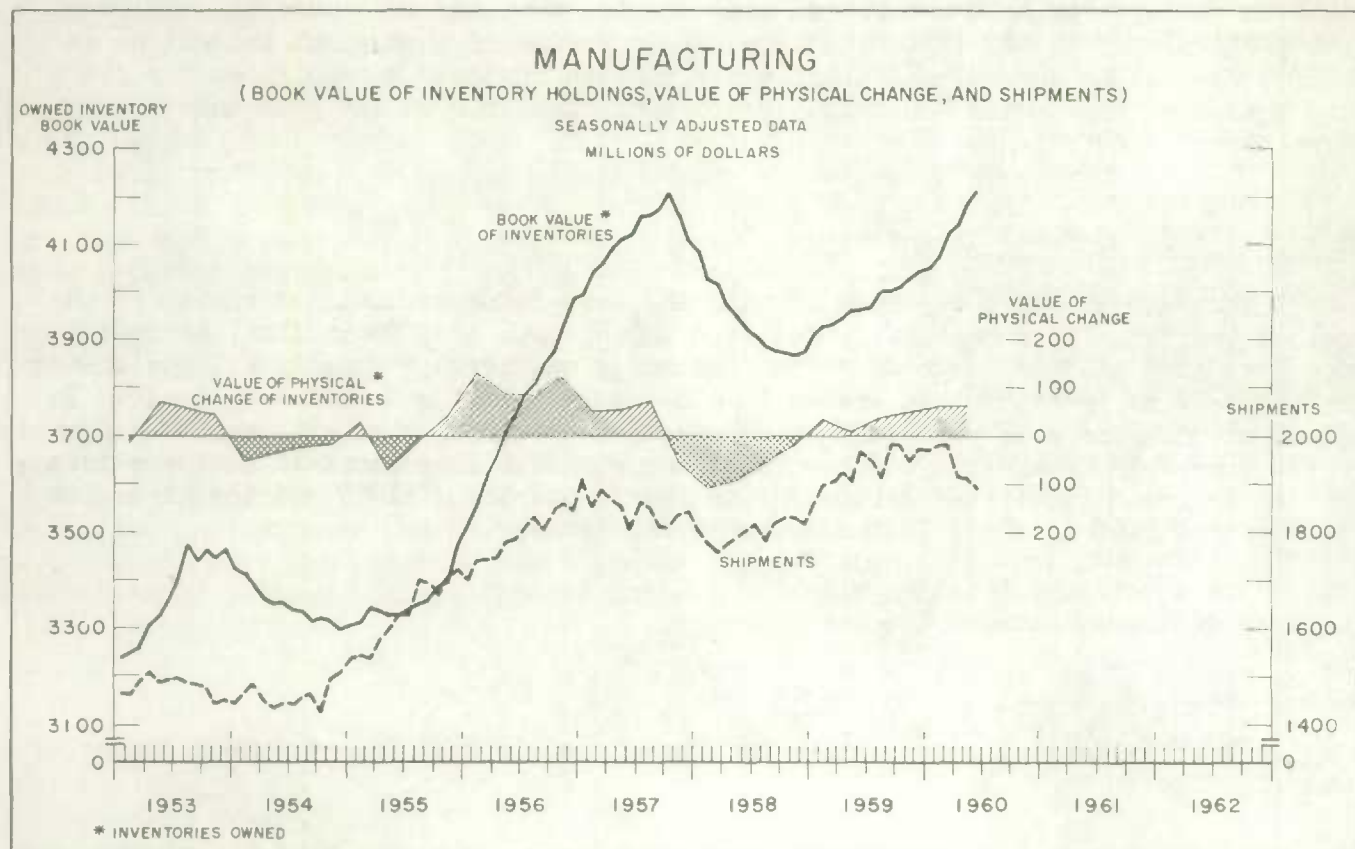
The rate at which business inventories were being accumulated abated in the second quarter. At a seasonally adjusted annual rate of \$280 million, accumulation was less than half as large as in the preceding quarter. Virtually all the change in the rate of investment in stocks took place in retail and wholesale trade. In manufacturing the rate of accumulation remained about the same although the emphasis shifted sharply toward the durable goods industries. Investment in business inventories by broad industrial groups in the fourth quarter of 1959 and the first two quarters of 1960 is shown in the accompanying table.

^{1/} Monthly data on starts refer to those in municipalities of 5,000 persons, or over.

Change in Business Inventories
(Seasonally Adjusted at Annual Rates)
(millions of dollars)

	<u>4Q 1959</u>	<u>1Q 1960</u>	<u>2Q 1960</u>
Manufacturing	208	256	268
Durables	168	84	252
Non-Durables	40	172	16
Retail Trade	40	228	-4
Motor Vehicle Dealers	-112	92	128
Other	152	136	-132
Wholesale Trade	52	104	16
Other Industries	-4	8	-
Total	<u>296</u>	<u>596</u>	<u>280</u>

Manufacturers re-stocked at about the same rate as in the first quarter but the industrial pattern of stock-building changed. In the second quarter, unlike the first, the major part of the accumulation took place in the durable goods lines. All the durable goods industries, with the exception of transportation equipment, added to their inventories, the most pronounced build-up being in iron and steel. The non-ferrous metal and non-metallic minerals industries shifted from liquidation in the first quarter to accumulation in the second and in the former industry the shift was decidedly pronounced. Stocks were drawn down moderately in most of the non-durable lines.



Manufacturers' shipments, seasonally adjusted, have been on a declining trend since March. New orders declined in both the first and second quarters. At the same time, the book value of inventories owned has continued to rise in line with the trend which began early in 1959 (see Chart). The ratio of stocks to shipments in manufacturing rose sharply in the second quarter, to the highest level since early 1958.

In a situation of selective improvement in retail sales, retail trade dealers shifted from a fairly high rate of accumulation in the first quarter to slight liquidation in the second. This overall result was the outcome of a considerably reduced rate of build-up in the durable trades and a shift to liquidation in the non-durable trades. The rate of accumulation in the stocks of motor vehicle dealers was higher than in the first quarter. In most other durable trades stocks were drawn down, the liquidation being most pronounced in lumber and building materials, hardware, and farm implements. The shift to liquidation of stocks of non-durables took place largely in the miscellaneous trades and in apparel stores.

In wholesale trade the rate of accumulation fell sharply, the durable trades shifting from accumulation to liquidation and the non-durable trades sharply reducing their rate of accumulation.

Exports and Imports of Goods and Services.

Exports of goods and services, which had advanced sharply in the fourth quarter of 1959 and made further gains in the first quarter of 1960, receded in the second quarter. At a seasonally adjusted annual rate of \$6.7 billions, they were down 7.5 per cent between the two quarters. At the same time, imports of goods and services declined moderately and at a seasonally adjusted annual rate of \$8.1 billions were about 2 1/2 per cent lower than in the first quarter. The consequence of these movements was a widening of the deficit on current international transactions from about \$1.1 billion to \$1.4 billion, in contrast to the narrowing that had been a feature of the trade imbalance in the two preceding quarters.

Movements in the merchandise account are primarily responsible for the recent widening of the deficit. Merchandise exports fell about 9.5 per cent, largely as a result of a steep decline in sales of agricultural products and non-ferrous metal products. Commodity imports also fell, but only by about 4 per cent. On the basis of two months' commodity detail available, it appears that the bulk of the decline in imports in the second quarter took place in iron and its products, associated in part with the fall-off in machinery and equipment investment.

The very substantial improvement in merchandise exports in the first half of 1960 reflected an especially strong first quarter. As has been noted, exports declined between the first and second quarters, seasonally adjusted, and were also lower on a year-to-year basis. The year-to-year drop of 3 per cent partly reflects the effect of developments in the second quarter of 1959, when merchandise exports showed an unusually sharp rise in June of that year. As has been pointed out previously, the July 1960 figures recovered strongly and were 8.7 per cent above a year ago. The accompanying tables show for leading commodities and leading countries the pattern of change between the two quarters.

Domestic Exports
(Percent Change)

<u>Leading Commodities</u>	<u>1Q 1960</u> <u>1Q 1959</u>	<u>2Q 1960</u> <u>2Q 1959</u>	<u>Half Year 1960</u> <u>Half Year 1959</u>
Newsprint Paper	16.9	- 1.1	6.5
Wheat	-0.9	-30.6	-18.0
Lumber and Timber	18.3	- 4.5	4.9
Wood Pulp	9.8	1.3	5.4
Uranium Ore	7.0	-21.7	- 7.5
Aluminum and Products	75.6	9.0	37.0
Nickel	88.1	- 4.0	31.8
Copper and Products	134.5	20.4	62.0
Fish and Fishing Products	-13.8	- 6.0	- 9.7
Farm Machinery and Implements	-16.2	-29.7	-23.4
Total Domestic Exports	<u>22.9</u>	<u>- 2.9</u>	<u>8.4</u>
<u>Leading Countries</u>			
United States	18.3	-10.1	2.1
United Kingdom	29.3	13.6	20.6
European Common Market	36.8	19.7	27.7
Other	<u>28.7</u>	<u>1.7</u>	<u>13.5</u>
Total Domestic Exports	<u>22.9</u>	<u>- 2.9</u>	<u>8.4</u>

In the half-yearly comparison the overall increase in commodity exports of more than 8 per cent reflects conspicuously large gains in sales of aluminum, nickel and copper and substantial losses in sales of farm implements and machinery, wheat, fishery products, and uranium ores and concentrates. Considering trade in terms of leading countries, the pattern in the first half-year comparison was one of sharply expanded sales to the United Kingdom and countries of the European Common Market, and a somewhat higher level of sales to the United States.

Commodity imports, by contrast, show a fairly stable pattern between the two years. The slight increase of just over 2 per cent in the half-year occurred in the first quarter. With only 5 months' commodity detail available, automobiles and some other consumer goods and some industrial materials and equipment appear to account for the rise. Increases of 16 per cent in cotton products, 10 per cent in electrical apparatus, 9 per cent in automobiles, trucks and parts, and 7 per cent in machinery (other than agricultural), more than offset a drop of 9 per cent in imports of crude petroleum and 5 per cent in farm implements.

The exchange value of the Canadian dollar declined in the second quarter, by about 2 1/2 per cent. Thus the price of imports of goods and services rose in the quarter. This in turn was reflected in an increase in the price component of gross available supply. ^{1/} However, the price index of Gross National Product, which is

^{1/} Gross National Product (domestic production), plus imports.

adjusted for the effect of changing import prices, remained relatively unchanged. The price of exports also rose slightly in the quarter. With import prices up more sharply, there was, on balance, a slight deterioration in the terms of trade.

Changes in Income Components

National income, seasonally adjusted, declined by 1 1/2 per cent in the second quarter of 1960; labour income remained unchanged, corporation profits showed a sharp drop, and lower returns were recorded for other forms of investment income and unincorporated business operations. Net income of non-farm unincorporated business enterprises showed little change as a decline in the construction industry was offset by higher returns in retail trade, but net income of farm operators from farming operations was reduced in line with lower levels of livestock production. Rents, interest and miscellaneous investment income showed a small decline, reflecting a fall-off in the trading profits of government enterprises and lower returns from interest on investments.

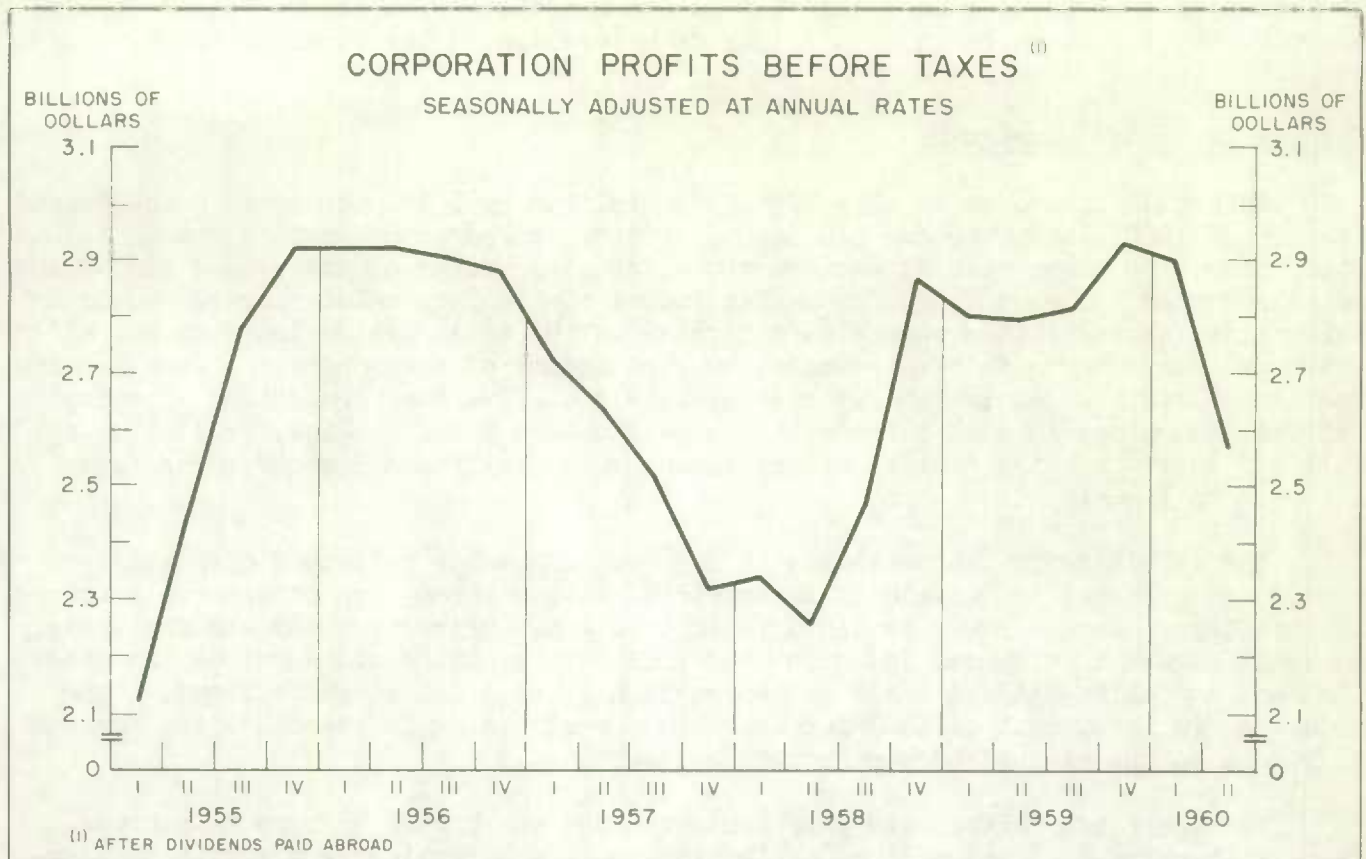
The stability in labour income in the second quarter reflected offsetting movements in income in individual industries. Labour income was considerably lower in forestry, somewhat lower in mining, construction, agriculture and manufacturing, somewhat higher in finance, insurance and real estate, trade and services and about the same in public utilities and transportation storage and communications. Some reduction in the length of the work week was a restraining influence on the advance of income in the mining and manufacturing industries.

For the first half of the year labour income was higher by more than 4 per cent, with gains in almost all major industries. Construction is a significant exception; income was down slightly. The largest gain (10 per cent) occurred in forestry, reflecting the distinct improvement in employment in this industry. The service industries continued to record relatively large gains and in trade the rise was also above average. In mining and manufacturing the gains were comparatively small. The factors affecting income in these industries are set out in the accompanying table.

Percentage Change - First Half 1960 over First Half 1959

	Employment	Hours Worked Per Week	Average Hourly Earnings	Labour Income
Manufacturing	- 0.1	- 0.8	3.7	3.2
Mining	- 1.4	0.7	2.5	1.7

The decline of 11 per cent in seasonally adjusted corporation profits (excluding dividends paid abroad) in the second quarter of 1960 was one of the sharpest on record. Manufacturing profits declined by 11 per cent, associated with a drop of 3 per cent in manufacturing production during the quarter. Declines of over 20 per cent occurred in iron and steel products, electrical apparatus and supplies and wood products, with smaller losses in chemicals, textiles and printing, publishing and allied industries. Profits in foods and beverages, rubber, and paper sub-groups remained relatively unchanged from the previous quarter.



Other major industries in which sharp declines were registered during the quarter were transportation, storage and communication (-25 per cent), and wholesale trade (-22 per cent). Profits in retail trade, and finance, insurance and real estate were somewhat higher during the quarter.

The second quarter fall in total corporation profits is the first major setback in this area since the recovery which began in 1958, following almost two years of steady decline. Taking the first six months of 1960 together, corporation profits are now about 2 per cent below the average for the first half of the year 1959.

TABLE 1. NATIONAL INCOME AND GROSS NATIONAL PRODUCT, BY QUARTERS, 1959-1960
(millions of dollars)

	1959				Year	1960	
	I	II	III	IV		I	II
1. Wages, Salaries, and Supplementary Labour Income...	4,171	4,437	4,571	4,538	17,717	4,382	4,596
2. Military Pay and Allowances	118	129	127	122	496	119	129
3. Corporation Profits before Taxes ¹	568	810	780	678	2,836	595	731
4. Rent, Interest, and Miscellaneous Investment Income	513	504	517	560	2,094	521	529
5. Accrued Net Income of Farm Operators from Farm Production ²	-29	151	920	66	1,108	-12	90
6. Net Income of Non-Farm Unincorporated Business ³ ...	453	552	543	602	2,150	440	520
7. Inventory Valuation Adjustment ⁴	-33	-42	-42	-3	-120	-34	-28
8. NET NATIONAL INCOME AT FACTOR COST	5,761	6,541	7,416	6,563	26,281	6,011	6,567
9. Indirect Taxes less Subsidies	1,000	1,056	1,079	1,085	4,220	1,069	1,117
10. Capital Consumption Allowances and Miscellaneous Valuation Adjustments	962	1,070	1,036	1,063	4,131	1,017	1,094
11. Residual Error of Estimate	-120	-103	80	104	-39	-40	-151
12. GROSS NATIONAL PRODUCT AT MARKET PRICES	7,603	8,564	9,611	8,815	34,593	8,057	8,627
13. (Gross National Product at Market Prices excluding Accrued Net Income of Farm Operators)	(7,632)	(8,413)	(8,691)	(8,749)	(33,485)	(8,069)	(8,537)

1. Excludes dividends paid to non-residents.

2. Includes change in farm inventories as shown in line 11, Table 4. An adjustment has been made to take account of the accrued earnings of farm operators arising out of the operations of the Canadian Wheat Board.

3. Includes net income of independent professional practitioners.

4. See footnote 5, Table 2.

TABLE 2. GROSS NATIONAL EXPENDITURE, BY QUARTERS, 1959-1960
(millions of dollars)

	1959				Year	1960	
	I	II	III	IV		I	II
1. Personal Expenditure on Consumer Goods and Services	5,163	5,523	5,442	6,133	22,261	5,339	5,789
2. Government Expenditure on Goods and Services ^{1,2} ...	1,444	1,556	1,818	1,619	6,437	1,494	1,551
3. Business Gross Fixed Capital Formation ³	1,341	1,899	1,946	1,775	6,961	1,414	1,714
4. New Residential Construction	322	462	480	479	1,743	337	351
5. New Non-Residential Construction	471	646	783	692	2,592	474	624
6. New Machinery and Equipment ⁴	548	791	683	604	2,626	603	739
7. Value of Physical Change in Inventories ⁵	-68	-80	774	-326	300	66	-122
8. Non-Farm Business Inventories	262	-13	60	46	355	357	-38
9. Farm Inventories and Grain in Commercial Channels	-330	-67	714	-372	-55	-291	-84
10. Exports of Goods and Services	1,347	1,727	1,779	1,804	6,657	1,590	1,699
11. Deduct: Imports of Goods and Services	-1,745	-2,164	-2,067	-2,086	-8,062	-1,885	-2,155
12. Residual Error of Estimate	121	103	-81	-104	39	39	151
13. GROSS NATIONAL EXPENDITURE AT MARKET PRICES	7,603	8,564	9,611	8,815	34,593	8,057	8,627

1. Includes outlays on new durable assets such as building and highway construction by governments, other than government business enterprises. Also includes net purchases of government commodity agencies.

2. Includes defence expenditures of:

(millions of dollars)

1959					1960	
I	II	III	IV	Year	I	II
457	356	371	376	1,560	434	349

3. Includes capital expenditures by private and government business enterprises, private non-commercial institutions, and outlays on new residential construction by individuals and business investors.

4. The 1959 annual figure is \$150 million higher than that shown in "Private and Public Investment in Canada, Outlook 1960", Table 9, to take account of later available information. This adjustment is included in the quarterly distribution of expenditures on new machinery and equipment.

5. The book value of inventories is deflated to remove the effect of price changes and the derived "physical" change is then valued at average prices of the current period to obtain the value of physical change. The difference between this value of physical change and the change in book value is called the inventory valuation adjustment. (See line 7, Table 1).

TABLE 3. SOURCES OF PERSONAL INCOME, BY QUARTERS, 1959-1960
(millions of dollars)

	1959				Year	1960	
	I	II	III	IV		I	II
1. Wages, Salaries, and Supplementary Labour Income..	4,171	4,437	4,571	4,538	17,717	4,382	4,596
2. Deduct: Employer and Employee Contributions to Social Insurance and Government Pension Funds ...	-162	-157	-164	-181	-664	-190	-182
3. Military Pay and Allowances	118	129	127	122	496	119	129
4. Net Income Received by Farm Operators from Farm Production ¹	-10	175	908	43	1,116	5	95
5. Net Income of Non-Farm Unincorporated Business ...	453	552	543	602	2,150	440	520
6. Interest, Dividends, and Net Rental Income of Persons ²	529	577	574	620	2,300	582	602
Transfer Payments to Persons:							
7. From Government (Excluding Interest)	824	689	636	636	2,785	881	744
8. Charitable Contributions by Corporations	8	11	11	10	40	9	10
9. PERSONAL INCOME	5,931	6,413	7,206	6,390	25,940	6,228	6,514

1. This item differs from line 5 of Table 1 in that it excludes the adjustment which has been made to take account of the accrued net earnings arising out of the operations of the Canadian Wheat Board.

2. Includes all government debt interest paid to persons.

TABLE 4. DISPOSITION OF PERSONAL INCOME, BY QUARTERS, 1959-1960
(millions of dollars)

	1959				Year	1960	
	I	II	III	IV		I	II
1. Personal Direct Taxes:	480	531	525	552	2,088	552	640
2. Income Taxes	375	447	454	471	1,747	429	548
3. Succession Duties	35	30	30	35	130	46	40
4. Miscellaneous	70	54	41	46	211	77	52
5. Personal Expenditure on Consumer Goods and Services:	5,163	5,523	5,442	6,133	22,261	5,339	5,789
6. Non-Durable Goods	2,570	2,711	2,789	3,330	11,400	2,656	2,861
7. Durable Goods	584	763	624	687	2,658	582	750
8. Services ¹	2,009	2,049	2,029	2,116	8,203	2,101	2,178
9. Personal Net Saving:	288	359	1,239	-295	1,591	337	85
10. Personal Saving Excluding Change in Farm Inventories	595	405	569	89	1,658	573	196
11. Value of Physical Change in Farm Inventories ...	-307	-46	670	-384	- 67	-236	-111
12. PERSONAL INCOME	5,931	6,413	7,206	6,390	25,940	6,228	6,514
13. (Personal Disposable Income) ²	(5,451)	(5,882)	(6,681)	(5,838)	(23,852)	(5,676)	(5,874)

1. Includes net expenditure abroad.

2. Personal Income less Total Personal Direct Taxes.

TABLE 5. NATIONAL INCOME AND GROSS NATIONAL PRODUCT, BY QUARTERS, 1959-1960
SEASONALLY ADJUSTED AT ANNUAL RATES
 (millions of dollars)

	1959				Year	1960	
	I	II	III	IV		I	II
1. Wages, Salaries, and Supplementary Labour Income...	17,372	17,640	17,756	18,100	17,717	18,244	18,268
2. Military Pay and Allowances	500	508	488	488	496	504	508
3. Corporation Profits before Taxes ¹	2,800	2,796	2,816	2,932	2,836	2,900	2,568
4. Rent, Interest, and Miscellaneous Investment Income	2,112	2,056	2,088	2,120	2,094	2,192	2,140
5. Accrued Net Income of Farm Operators from Farm Production ²	1,136	1,188	1,108	1,000	1,108	1,140	1,024
6. Net Income of Non-Farm Unincorporated Business ³ ...	2,140	2,156	2,128	2,176	2,150	2,060	2,056
7. Inventory Valuation Adjustment	-132	-168	-168	-12	-120	-136	-112
8. NET NATIONAL INCOME AT FACTOR COST	25,928	26,176	26,216	26,804	26,281	26,904	26,452
9. Indirect Taxes less Subsidies	4,076	4,188	4,268	4,348	4,220	4,344	4,440
10. Capital Consumption Allowances and Miscellaneous Valuation Adjustments	4,008	4,152	4,132	4,232	4,131	4,268	4,268
11. Residual Error of Estimate	-56	12	-	-112	- 39	108	-112
12. GROSS NATIONAL PRODUCT AT MARKET PRICES	33,956	34,528	34,616	35,272	34,593	35,624	35,048
13. (Gross National Product at Market Prices excluding accrued Net Income of Farm Operators)	(32,820)	(33,340)	(33,508)	(34,272)	(33,485)	(34,484)	(34,024)

1. Excludes dividends paid to non-residents.
2. Includes an arbitrary smoothing of crop production and standard seasonal adjustments for withdrawals of grain from farm stocks and the change in livestock items. Because of the arbitrary elements, too precise an interpretation should not be given the seasonally adjusted figures of accrued net income of farm operators.
3. Includes net income of independent professional practitioners.

TABLE 6. GROSS NATIONAL EXPENDITURE, BY QUARTERS, 1959-1960
SEASONALLY ADJUSTED AT ANNUAL RATES
 (millions of dollars)

	1959				Year	1960	
	I	II	III	IV		I	II
1. Personal Expenditure on Consumer Goods and Services	21,936	22,024	22,304	22,780	22,261	22,676	23,052
2. Government Expenditure on Goods and Services ¹	6,336	6,612	6,444	6,356	6,437	6,584	6,564
3. Business Gross Fixed Capital Formation ²	6,728	6,948	7,072	7,096	6,961	6,912	6,404
4. New Residential Construction	1,756	1,748	1,720	1,748	1,743	1,708	1,396
5. New Non-Residential Construction	2,572	2,572	2,580	2,644	2,592	2,584	2,524
6. New Machinery and Equipment ³	2,400	2,628	2,772	2,704	2,626	2,620	2,484
7. Value of Physical Change in Inventories	332	296	412	160	300	636	336
8. Non-Farm Business Inventories	452	272	400	296	355	596	280
9. Farm Inventories and Grain in Commercial Channels ⁴	-120	24	12	-136	-55	40	56
10. Exports of Goods and Services	6,364	6,640	6,648	6,976	6,657	7,224	6,680
11. Deduct: Imports of Goods and Services	-7,800	-7,976	-8,268	-8,204	-8,062	-8,300	-8,104
12. Residual Error of Estimate	60	-16	4	108	39	-108	116
13. GROSS NATIONAL EXPENDITURE AT MARKET PRICES	33,956	34,528	34,616	35,272	34,593	35,624	35,048

1. Includes outlays on new durable assets such as building and highway construction by governments, other than government business enterprises. Also includes net purchases of government commodity agencies.
2. Includes capital expenditure by private and government business enterprises, private non-commercial institutions, and outlays on new residential construction by individuals and business investors.
3. The 1959 annual figure is \$150 million higher than that shown in "Private and Public Investment in Canada, Outlook, 1960", Table 9, to take account of later available information. This adjustment is included in the quarterly distribution of expenditures on new machinery and equipment.

(millions of dollars)

	1959					1960	
	I	II	III	IV	Year	I	II
4. <u>Detail: Farm Inventories -</u>							
Value of grain crop production	920	924	924	924	923	968	972
Depletion of farm stocks of grain..	-1,108	-832	-1,024	-1,080	-1,011	-876	-976
Change in livestock inventories ...	60	-4	56	-28	21	68	-68
Grain in Commercial Channels	8	-64	56	48	12	-120	128

In the seasonally adjusted series, the value of grain crop production in each quarter is taken as one-fourth of the estimated value of crop production for the year as a whole (see Footnote 2, Table 5). All other items in the farm inventories series are seasonally adjusted by standard techniques.

TABLE 7. SOURCES OF PERSONAL INCOME, BY QUARTERS, 1959-1960
SEASONALLY ADJUSTED AT ANNUAL RATES
(millions of dollars)

	1959				Year	1960	
	I	II	III	IV		I	II
1. Wages, Salaries, and Supplementary Labour Income..	17,372	17,640	17,756	18,100	17,717	18,244	18,268
2. Deduct: Employer and Employee Contributions to Social Insurance and Government Pension Funds ...	-640	-640	-652	-724	-664	-748	-760
3. Military Pay and Allowances	500	508	488	488	496	504	508
4. Net Income Received by Farm Operators from Farm Production ¹	1,128	1,248	1,120	968	1,116	1,112	1,004
5. Net Income of Non-Farm Unincorporated Business ...	2,140	2,156	2,128	2,176	2,150	2,060	2,056
6. Interest, Dividends, and Net Rental Income of Persons ²	2,212	2,248	2,356	2,384	2,300	2,432	2,384
Transfer Payments to Persons:							
7. From Government (Excluding Interest)	2,672	2,860	2,788	2,680	2,785	2,952	2,980
8. Charitable Contributions by Corporations	40	40	40	40	40	40	40
9. PERSONAL INCOME	25,424	26,060	26,024	26,252	25,940	26,596	26,480

1. This item differs from line 5, Table 5 in that it excludes the adjustment which has been made to take account of the accrued net earnings arising out of the operations of the Canadian Wheat Board.

2. Includes all government debt interest paid to persons.

TABLE 8. DISPOSITION OF PERSONAL INCOME, BY QUARTERS, 1959-1960
SEASONALLY ADJUSTED AT ANNUAL RATES
(millions of dollars)

	1959				Year	1960	
	I	II	III	IV		I	II
1. Personal Direct Taxes:	1,956	2,044	2,148	2,204	2,088	2,268	2,488
2. Income Taxes	1,616	1,700	1,820	1,852	1,747	1,844	2,088
3. Succession Duties	140	120	120	140	130	184	160
4. Miscellaneous	200	224	208	212	211	240	240
5. Personal Expenditure on Consumer Goods and Services:	21,936	22,024	22,304	22,780	22,261	22,676	23,052
6. Non-Durable Goods	11,156	11,288	11,456	11,700	11,400	11,576	11,828
7. Durable Goods	2,708	2,664	2,584	2,676	2,658	2,668	2,616
8. Services ¹	8,072	8,072	8,264	8,404	8,203	8,432	8,608
9. Personal Net Saving	1,532	1,992	1,572	1,268	1,591	1,652	940
10. PERSONAL INCOME	25,424	26,060	26,024	26,252	25,940	26,596	26,480
11. (Personal Disposable Income) ²	(23,468)	(24,016)	(23,876)	(24,048)	(23,852)	(24,328)	(23,992)

1. Includes net expenditure abroad.

2. Personal Income less Total Personal Direct Taxes.

TABLE 9. GROSS NATIONAL EXPENDITURE IN CONSTANT (1949) DOLLARS, BY QUARTERS, 1959-1960
 UNADJUSTED FOR SEASONALITY^{1,2}
 (millions of dollars)

	1959				Year	1960	
	I	II	III	IV		I	II
1. Personal Expenditure on Consumer Goods and Services	3,970	4,273	4,197	4,723	17,163	4,057	4,419
2. Non-Durable Goods	2,197	2,335	2,383	2,811	9,726	2,258	2,439
3. Durable Goods	493	640	540	586	2,259	488	628
4. Services	1,280	1,298	1,274	1,326	5,178	1,311	1,352
5. Government Expenditure on Goods and Services ..	908	969	1,154	1,000	4,031	905	934
6. Business Gross Fixed Capital Formation	895	1,258	1,285	1,163	4,601	920	1,109
7. New Residential Construction	219	307	317	316	1,159	222	228
8. New Non-Residential Construction	308	422	511	447	1,688	301	399
9. New Machinery and Equipment ³	368	529	457	400	1,754	397	482
10. Change in Inventories	-156	-161	928	-407	204	-56	-196
11. Non-Farm Business Inventories	214	-2	44	25	281	282	-18
12. Farm Inventories and Grain in Commercial Channels	-370	-159	884	-432	-77	-338	-178
13. Exports of Goods and Services	1,140	1,448	1,464	1,505	5,557	1,321	1,386
14. Deduct: Imports of Goods and Services	-1,468	-1,824	-1,752	-1,777	-6,821	-1,577	-1,782
15. Residual Error of Estimate	86	74	-58	-74	28	28	107
16. GROSS NATIONAL EXPENDITURE IN CONSTANT (1949) DOLLARS	5,375	6,037	7,218	6,133	24,763	5,598	5,977

1. See footnotes, Table 2.

2. The implicit price deflators of the components of Gross National Expenditure which can be derived by dividing the value figures in Table 2 by the volume figures in Table 9 are not suitable as indicators of quarter-to-quarter price movements. This is because they are currently weighted, and are therefore affected by compositional shifts which occur within the components of the Gross National Expenditure on a quarter-to-quarter basis. Year-over-year comparisons are less subject to the problem of shifting weights at the component levels of Gross National Expenditure.

3. The 1959 figures reflect the \$150 million adjustment in current dollars made to take account of later available information - see footnote 4, Table 2.

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