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Minister of Trade and Commerce

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**ECONOMIC CONDITIONS IN CANADA**  
**DURING THE YEAR 1946**

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DEPARTMENT OF CHEMISTRY

REPORT

CONDUCTED BY DR. J. H. VAN VLECK

IN CONNECTION WITH THE

RESEARCH OF DR. J. H. VAN VLECK

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BY DR. J. H. VAN VLECK

ECONOMIC CONDITIONS IN CANADA DURING 1946  
COMPARED WITH THE PRECEDING YEAR

Economic records recently made available confirm that the year 1946 was more prosperous than any other period in peace-time. While business operations showed recession from the high levels of the preceding year, an expansion was indicated during the last quarter. The index of the physical volume of business which had been 181.3 in November rose to 186.7 in the last month of the year. The prosperous conditions generated by the war were extended as productive enterprise concentrated upon the meeting of civilian requirements. The year was memorable for marked economic changes. Interest centred on problems of reconstruction and the drastic changes in the objective of economic activity during the period of transition.

The advance in prices in different fields was characteristic of an extension of a prosperous phase of the economic cycle. Commodity prices at wholesale recorded an increase of nearly 5 per cent, while the index of common stock prices averaged more than 16 per cent greater than in 1945. The level maintained in the last four months was lower than in the early part of the year. The index of bond prices rose to a higher position than at any other time in Canadian history. The money supply consisting of deposits subject to cheque, notes and coin in the hands of the public, rose to a new high position at \$7,210 million. The increase over the preceding year was 10.7 per cent.

Production

Pressure for production of all kinds continued to dominate the business situation. The demand rose from a high level of domestic purchasing power, large scale government credit to finance exports abroad and the urgent need for increased housing accommodation at home.

An important stimulant to prosperous economic conditions in the next nine months is the abundant harvest of last autumn. The wheat crop was estimated at 421 million bushels against 306 million in the preceding year and was the greatest since the record production of 557 million bushels in 1942. The total farm value of field crops amounted to about \$1,247 million, representing an increase of more than \$96 million over the preceding year. Food production in Canada was substantial in 1946, crops having been more abundant than in the preceding year, while animal products dropped to a somewhat lower level.

The operations of the mining industry were comparatively active in 1946. The expansion in the output of non-metallics was a feature. Coal production showed an increase of 7.5 per cent in output and 10.5 per cent in value. Structural materials recorded substantial increases, the volume of cement being greater by 34 per cent. Brick and other clay products increased 37 per cent in value to more than \$12 million. Gold production was 4 per cent greater at 2,807,000 fine ounces. The return in mid-year of the Canadian dollar to parity with that of the United States caused a decline of 6 per cent in value from the level of 1945. The demand for base metals was strong, a growing impetus having been given to Canadian operations by the recent advance in prices. The main producers were engaged in building up reserves, an operation largely neglected in wartime. Declines were shown in the output of nickel and copper, while an increase of 5 per cent on the basis of eleven months was recorded in lead.

The flow of manufactured products from Canadian factories in 1946 was sufficient to meet only the more urgent part of the backlog of demand. Industrial progress is an important element in economic development, forming a solid foundation for stability and progress. There was no lack of market demand for goods during the year. Business firms had large backlogs of proposed replacements to plant and equipment which deteriorated during the war. Consumers expenditures, as indicated by expansion in retail sales were at a point greater than at any other time in history. Building materials were still relatively scarce and it will be a considerable time before housing and other construction requirements are again in normal supply. The level of operations, owing to the termination of war contracts, was somewhat lower than in 1945.

The index of employment in manufacturing plants receded about 8.5 per cent. The output of wheat flour was 27.4 million barrels, a gain of 9.2 per cent. The boot and shoe industry produced 31.9 million pairs, the increase in the eleven months having been about 17 per cent. Newsprint production rose 27 per cent to 4,143,000 tons. The increasing importance of Canada's forest resources was reflected in the outstanding gain in the production of newsprint and woodpulp.

#### Transportation

Reflecting the shift in emphasis from war goods and the transition to a peacetime economy, railway traffic was not greatly altered in volume from the preceding year. The carloadings numbered 3,692,000, a gain of nearly 2 per cent over 1945. The weight of the traffic, however, showed a recession of nearly 6 per cent, the amount loaded in 1946 having been about 97.8 million tons. The standing in the preceding year was 103.9 million. The cars loaded in much greater volume carried coal, sand, stone, pulpwood, woodpulp and paper, lumber and petroleum products.

#### Expenditures

The traditional forms of expenditure greatly affecting economic activity in general are construction, purchases of durable goods and the export trade. To these may be added the outlay of the Dominion government, the most important factor in the expansion of the war period.

The new business obtained by the construction industry rose to a higher position in 1946 than in any other year. The total contracts awarded amounted to \$663 million compared with \$409 million in the preceding year. A larger percentage increase was shown in the building permits issued in 58 municipalities. The shortage of housing and other forms of construction mainly occasioned by war will provide a stimulus for the industry over a considerable period. Rehabilitation programs have been delayed due to the limitation of materials and the high cost of construction. The capital expenditure of companies was placed at about \$1 billion for 1946. This outlay indirectly encourages production of consumers' goods.

Employment in the building industry during the year recently ended was 43.4 per cent greater, the index on the base of 1926 having reached 145.7. Important gains were also shown in highway and general construction.

The iron and steel industry contributed heavily to war production and the levels of operations in 1946 reflected the conversion to peacetime activity. The output of steel ingots and castings dropped 19 per cent to 2,334,631 tons, while the percentage decline in the production of pig iron was slightly greater. Toward the later part of the year the operations of the iron and steel industry showed considerable gain and durable goods for the use of consumers as well as producers reached relatively high levels.

The importance of capital formation on a physical basis as a feature of economic activity has long been recognized. While the investment money flow is normally far less than that arising for payment of consumers goods, the wider fluctuation in the former is of greater significance in promoting economic activity. The initial

expenditure on construction and the production of durable goods necessarily leads, in due course, to additional outlay for living necessities.

Although the production of many lines of consumer goods was limited in 1946, the advance in the retail distribution of commodities continued throughout the year. An index of sales, based on five years prior to the war, rose from 187.2 to 213.0, an increase of 14 per cent. The marked advance since the last year of wartime was due mainly to the increase in the quantity of goods purchased, the upward movement in retail prices being of relatively lesser proportions. The home market for consumer goods constitutes the greatest single outlet for Canadian production. The supply of goods being made available to consumers is expanding rapidly. Shortages still exist in many lines but new products are constantly being offered for sale and with no apparent slackening in consumer demand retail sales continue to show steady advances.

The levels of external trade reflect the progress of productive operations. The combination of a large country with immense natural resources and a comparatively small population naturally results in a home market that may absorb only a proportion of the main commodities produced. The loss of trade in war supplies was partially offset by the elimination of competition of former enemy countries. The export trade stimulated by loans to other countries was greater in 1946 than in any other peacetime year. The total was about 28 per cent below the aggregate for 1945 when war and relief shipments were heavy, but far above the annual average for the five pre-war years. As imports recorded a considerable increase during the year, a decline was shown in the active balance of trade. The net exports of non-monetary gold, excluded from the statistics of merchandise trade with other countries, were nearly maintained at about \$89 million.

Dominion government expenditures dropped to a considerably lower level, the gross total expenditures in the period from April to December receding 41.6 per cent to \$1,783 million. Mutual aid payments were discontinued and the demobilization and reconversion expenditures were nearly 62 per cent less than in the same period of 1945. Ordinary expenditures, however, showed a considerable increase.

An element in the continued high level of prosperity is that the war expenditure, having fallen from the high levels reached during the war period, has been partially counterbalanced by other expenditures which, although less insistent, are nevertheless large and backed by purchasing power. The export and internal trade may be cited in this connection, as well as the expenditures on construction and durable goods of different descriptions for civilian requirements.

#### Purchasing Power

The chief measurable flow of money is from producers to consumers in the form of consumer income. As income payments to individuals constitute the principal flow of money, the importance of these payments to the economy is readily realized. Salaries and wages represent, from one viewpoint, the greatest share in the distribution of the value which is produced in commerce and industry, and from another the greatest single factor in the purchasing power which represents consumer demand.

As measured by aggregate weekly payrolls, salaries and wages received in 1946 were slightly greater than in the preceding year. The increase in the average weekly earnings more than counterbalanced the slight recession in general employment. The index of aggregate weekly payrolls on the base of June 1, 1941 averaged 142.6 during the last year against 142.1 in 1945. The average weekly earnings rose from \$32.04 to \$32.47, a gain of 1.3 per cent. General employment as indicated by the returns of co-operating firms, agriculture being excluded, showed a recession of 1.1 per cent. The index on the base of 1926 was 173.2 against 175.1 in 1945. The decline in the working forces engaged in manufacturing was the chief element in the downward fluctuation of the index.

Table 1. - Statistics Illustrating the Economic Situation of Canada  
in 1946, compared with the preceding year.

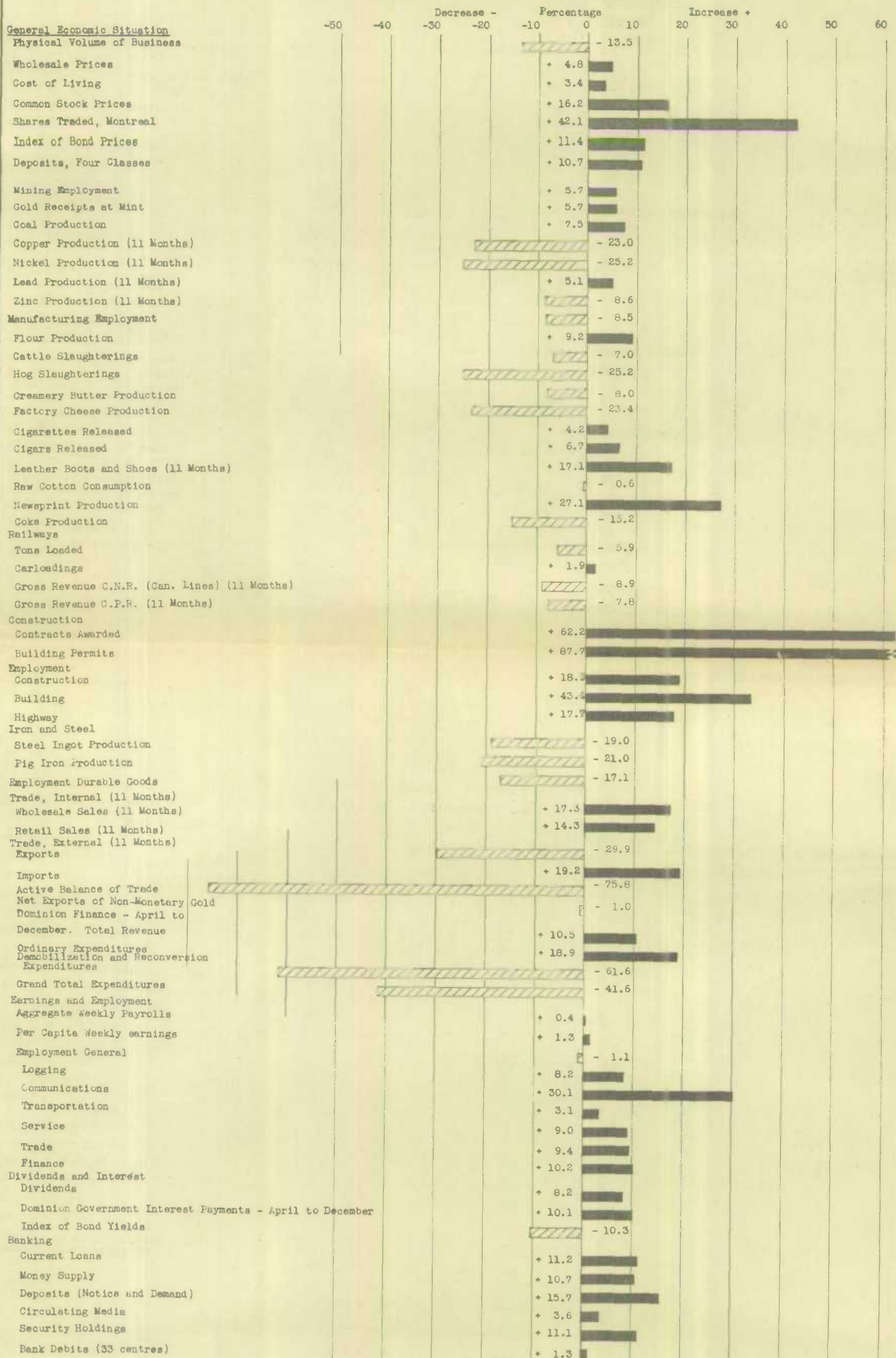
	Unit or Base Period	1 9 4 6	1 9 4 5	Per Cent Increase + Decrease -
<b>GENERAL ECONOMIC SITUATION</b>				
Index of physical Volume of				
Business.....	1935-39=100	183.5	212.5	- 13.6
Wholesale Prices .....	1935-39=100	140.8	134.4	+ 4.8
Cost of Living .....	1935-39=100	123.6	119.5	+ 3.4
Index of Common Stock Prices ....	1935-39=100	115.7	99.6	+ 16.2
Index of Shares Traded, Montreal.	1935-39=100	177.9	125.2	+ 42.1
Index of Bond Prices .....	1935-39=100	117.2	105.2	+ 11.4
Deposits, Four Classes (Dom., Prov., Demand and Notice) .....	\$ '000	5,967,359	5,389,081	+ 10.7
Mining Employment .....	1926=100	155.2	146.9	+ 5.7
Gold Receipts at Mint .....	Fine oz.	2,634,579	2,493,167	+ 5.7
Coal Production .....	Tons	17,750,660	16,506,713	+ 7.5
Copper Production (11 mo.) .....	'000 lb.	341,279	443,025	- 23.0
Nickel Production (11 mo.) .....	'000 lb.	172,678	230,920	- 25.2
Lead Production (11 mo.) .....	'000 lb.	330,896	314,909	+ 5.1
Zinc Production (11 mo.) .....	'000 lb.	437,358	478,653	- 8.6
Manufacturing Employment .....	1926=100	186.2	203.6	- 8.5
Flour Production .....	Bbl.	27,375,239	25,059,218	+ 9.2
Cattle Slaughtering .....	No.	2,419,127	2,601,944	- 7.0
Hog Slaughtering .....	No.	4,253,511	5,683,727	- 25.2
Creamery Butter Production .....	Lb.	270,149,674	293,541,341	- 8.0
Factory Cheese Production .....	Lb.	141,283,159	184,451,829	- 23.4
Cigarettes Released .....	No.	14,866,940,804	14,264,672,756	+ 4.2
Cigars Released .....	No.	220,993,947	207,042,689	+ 6.7
Leather Boots and Shoes (11 mo.)	Pairs	31,850,116	27,210,257	+ 17.1
Raw Cotton Consumption .....	Lb.	155,859,566	156,870,920	- 0.6
Newsprint Production .....	Tons	4,143,392	3,259,208	+ 27.1
Coke Production .....	Short Tons	3,274,117	3,862,451	- 15.2
Railways				
Tons Loaded .....	'000 Tons	97,790	103,897	- 5.9
Carloadings .....	No.	3,691,741	3,624,545	+ 1.9
Gross Revenue C.N.R. (Can. Lines) (11 mo.) .....	\$	320,710,900	351,940,800	- 8.9
Gross Revenue C.P.R. (11 mo.) ..	\$	269,384,441	292,326,341	- 7.8
Construction				
Contracts awarded .....	\$	663,355,100	409,032,700	+ 62.2
Building Permits .. (58 Municipalities) .....	\$	264,028,794	140,649,982	+ 87.7
Employment - (Unadjusted) 1926=100				
Construction .....		129.7	109.1	+ 18.9
Building .....		145.7	101.6	+ 43.4
Highway .....		156.0	132.5	+ 17.7
Iron and Steel				
Steel Ingot Production .....	Short Tons	2,334,631	2,881,323	- 19.0
Pig Iron Production .....	Short Tons	1,403,758	1,777,958	- 21.0
Employment Durable Goods .....	1926=100	192.0	231.5	- 17.1

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THE ECONOMIC SITUATION IN CANADA

in 1946 as compared with the preceding year



Twenty-four items recorded declines, while forty-two showed increases

Dominion Bureau of Statistics

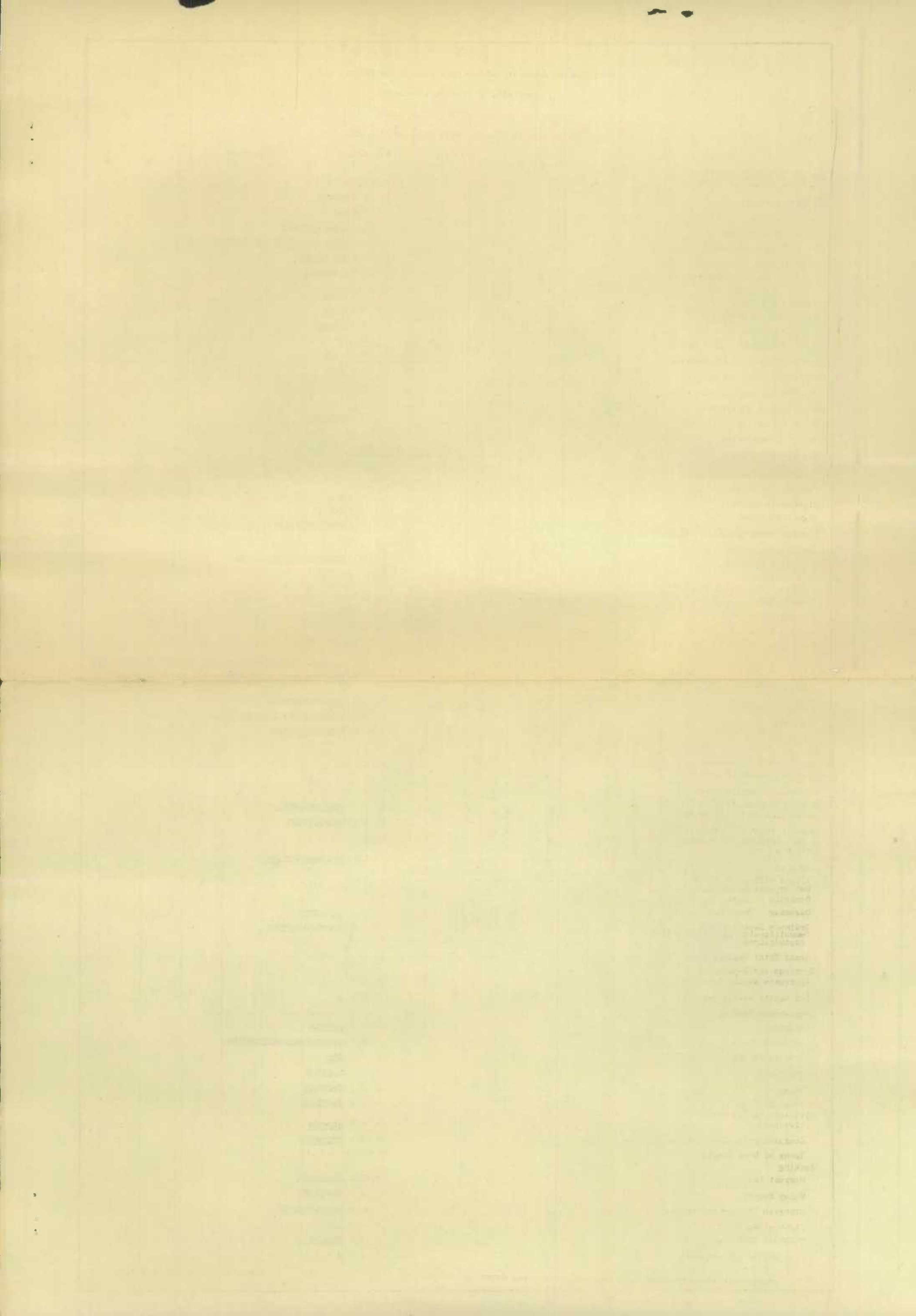




Table 1. - Statistics Illustrating the Economic Situation of Canada in 1946, compared with the preceding year. - Concluded.

	Unit or Base Period	1 9 4 6	1 9 4 5	Per Cent Increase + Decrease -
<b>Trade (11 mo.)</b>				
Wholesale Sales .....	1935-39=100	245.8	209.5	+ 17.3
Retail Sales .....	1935-39=100	206.7	180.9	+ 14.3
Exports .....	\$ '000	2,124,841	3,031,021	- 29.9
Imports .....	\$ '000	1,745,367	1,464,583	+ 19.2
Active Balance of Trade .....	\$ '000	+ 379,474	+ 1,566,438	- 75.8
Net Exports of Non-Monetary Gold ..	\$ '000,000	88.9	89.8	- 1.0
<b>Dominion Finance, April to</b>				
December. Total Revenue .....	\$	2,061,869,667	1,865,679,301	+ 10.5
Ordinary Expenditures .....	\$	854,045,500	718,558,043	+ 18.9
Demobilization and Reconversion Expenditures .....	\$	916,643,305	2,325,432,747	- 61.6
United Nations Mutual Aid .....	\$	-	781,160,830	-
Grand Total Expenditures .....	\$	1,783,211,569	3,052,636,821	- 41.6
<b>Aggregate Weekly Payrolls</b>				
June 1, 1941=100 (Nine Groups) ...		142.6	142.1	+ 0.4
<b>Average Weekly Earnings</b>				
(Nine Groups) .....	\$	32.47	32.04	+ 1.3
<b>Employment General .....</b> 1936=100				
Logging .....		173.2	175.1	- 1.1
Communication .....		267.3	247.0	+ 8.2
Transportation .....		141.9	109.1	+ 30.1
Services .....		128.5	124.6	+ 3.1
Trade .....		224.3	205.7	+ 9.0
Finance .....		191.2	174.7	+ 9.4
Dividends .....	\$	143.8	130.5	+ 10.2
Dividends .....	\$	299,303,016	276,719,259	+ 8.2
<b>Dominion Government Interest</b>				
Payments (April to December) .....	\$	325,944,584	296,170,930	+ 10.1
Index of Bond Yields .....	1935-39=100	85.3	95.1	- 10.3
<b>Banking</b>				
Current Loans .....	\$ '000	1,223,438	1,100,493	+ 11.2
Money Supply .....	\$ '000,000	7,210	6,512	+ 10.7
Deposits (Notice and Demand) .....	\$ '000	5,482,370	4,736,433	+ 15.7
Circulating Media .....	\$ '000,000	1,068.0	1,030.5	+ 3.6
Security Holdings .....	\$ '000	4,287,007	3,857,535	+ 11.1
Bank Debits (33 Centres) .....	\$ '000	69,267,607	68,384,813	+ 1.3

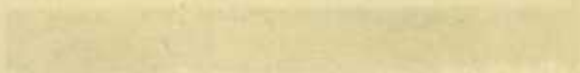
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