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ECONOMIC CONDITIONS IN CANADA DURING 1942, COMPARED WITH THE PRECEDING YEAR

The intensification of the war effort occasioned marked economic changes during 1942. The alterations were due partly to inevitable industrial dislocations in war time but even more largely to the extensive war-time program to which the Dominion was committed.

A majority of the factors indicating the trend of economic activity recorded advances over the high levels of 1941. The index of the physical volume of business, a most comprehensive measure of productive operations, advanced more than 22 p.c. The major portion of the expansion was concentrated in manufacturing. The index of production rose from 175 to 243, a gain of no less than 38.5 p.c. In the same comparison, the index of the labour force in manufacturing plants rose from 168 to 207, a gain of nearly 23 p.c. The expansion in manufacturing operations took place mainly in the commodities required for war operations. The output of pig iron, for example, rose 29 p.c. to 1,975,000 tons. The production of factory cheese at nearly 200 million pounds was more than 36 p.c. greater than in 1941. The release of cigarettes rose to a new high point at 10,240 million, the gain over 1941 having been about 19 p.c.

The electric power industry recorded a greater output than in any other year, the consumption of firm power having been 37 billion k.w.h., a gain of 11 p.c. Mineral production was uneven, the decline in gold production having been more than counterbalanced by advances in other lines. The new business obtained by the construction industry was at a lower level than in 1941, when contracts were placed for many war plants and for military establishments.

For the purpose of conserving the higher grade materials, more urgently needed for the war program, restrictions were placed on building activities other than the erection of essential war construction or of inexpensive housing in crowded areas. All projects other than of minor value are licensed by the Controller. The residential shortage in communities congested through war activities is being relieved in part by the operations of Wartime Housing Limited. Private enterprise is also assured of fullest governmental co-operation in planned housing projects. The movement of raw material and the shipment of finished products in the direction of ultimate markets resulted in a marked expansion in the handling of railway freight. The number of tons carried one mile on the two principal railways during the first eleven months was 46 billion against 42 billion in 1941, a gain of 10 p.c. The gain in the gross revenue of the Canadian National Railway was 26 p.c. to $299 million, while the corresponding increase for the Canadian Pacific was 18.5 p.c. to $234 million.

The demands made upon railway transportation during the last three years have already greatly exceeded the operations of the first world war. War transportation consists not only in the movement of the armed forces and of vast quantities of munitions and supplies, but also in the carriage of raw materials and semi-finished products. The traffic during the year was estimated at 91.5 million tons, a new maximum for any like period in history. The gain over 1939 was 28.7 million tons or nearly 46 p.c.

Owing partially to favourable weather conditions, the field crops produced a greater harvest than in any other year. Owing to the heavy demand for pork products and cheese and other food required for shipments to Britain, the cash sales of the farmer rose to a high point in the year recently ended. Furnishing the United Nations and the domestic market with large supplies of food is the vital function of agriculture. The records for last year indicate that the farmer is meeting the challenge. The achievements of the war period are due to the hearty co-operation of producers, despite the scarcity of experienced farm hands. The most valuable food products for Britain at the present time are those which may be concentrated, easily transported and are available in quantity close at hand. The undertaking to supply 600 million pounds of bacon and pork in the year ended October last was completed and other war commitments for food were met in full. It is now clear that some further increase in hog production will be necessary if the desired supplies for export and domestic needs are to be furnished. It is estimated that commercial marketings of 8 million hogs will be adequate to meet British requirements of 675 million pounds of bacon and pork products in the present contract period and at the same time meet domestic demand.

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The extent of our productive facilities devoted to the war effort is indicated by an output of munitions and supplies at the rate of $2,600 million in 1942. Contracts and commitments placed by the Department of Munitions and Supply now exceed $6,000,000,000, and deliveries have amounted to about three billion in addition to a billion expended on plants, machinery and defense projects. War shipments of metals, foodstuffs, timber and other supplies were valued at an additional $1.5 billion.

In some respects the shift to war economy has had a beneficial effect. The national income as computed by the Dominion Bureau of Statistics rose nearly 67 p.c. from $4.6 billion in 1939 to about $7.5 billion last year. War waged under the conditions prevailing in Canada is a major impetus in raising the income of the people at large. An important influence was the marked expansion in the production of capital goods and war supplies. The export trade has risen to a new maximum. Heavy borrowing of loanable funds by the Dominion Government has also had a generating influence, while the money supply in the form of bank deposits and notes showed a marked gain.

War production is schedule to reach its maximum in the near future, but the success of offensive operations greatly depends upon the supply of munitions and equipment. The output of mechanical transport in 1942 was nearly double that of the preceding year, amounting to $400 million. The shipbuilding expansion was from $91 million to about $260 million, employing more than 50,000 persons compared with 4,000 in the first quarter of 1940. The value of aircraft production increased 158 p.c. over the preceding year. With factory floor space of 3.5 million square feet, employing 55,000 persons, the output is about 400 planes per month. Large quantities of small arms, shells and bombs and armoured vehicles, including tanks, were also manufactured. The construction of ten new plants, six of them major projects, was planned for the enlargement of the chemical and explosives industry.

It is estimated that income payments to individuals in Canada rose about 70 p.c. in 1942 over 1938, the last full year of peacetime. With the marked gain in purchasing power in the hands of the public and the considerable curtailment in consumers' goods available for distribution, governmental control was needed to counteract inflationary tendencies. The supply of consumers' goods, markedly curtailed in the last half of 1942 by the shortage of raw materials and the lack of working forces, will be even more serious from now until the end of the war. While recent income tax deductions from salaries and wages are having an adverse effect on the volume of trade, the increase in employment and the higher rate of wages paid in munition factories are counterbalancing factors.

Despite the diversión of an increasing proportion of consumers' incomes to finance the war and the restrictions on the production of many lines of consumer goods, the underlying trend of retail trading continued strong. Shortly after the war commenced consumers used a portion of their income to make substantial purchases of durable and semi-durable goods in anticipation of future needs. Latterly, an increasing proportion of the expanded consumer income has gone into savings. Consequently retailers' stocks of some lines are still ample and for a time will be available to meet future needs as new supplies become more limited. Total sales during 1942 were nearly 14 p.c. above the preceding year.

The working forces showed further expansion in 1942 but the advance was at a slower pace than in the earlier years of the war period, owing to the absorption of personnel into the armed forces. The industrial distribution of the labour force continued to show important changes with a growing concentration of employees in manufacturing plants, particularly in heavy industry. With the increasing labour stringency and shortages of raw materials, contraction was recorded in the number of employees engaged in the production of consumers' goods. This movement will doubtless continue, being hastened by governmental regulations made in the interest of labour conservation.

The chartered banks played an important role in facilitating the economic expansion occasioned by war operations. Operating accounts rose to much higher levels and an excellent standard of liquidity was maintained. Demand deposits increased 75 p.c. in the 3 years ended last December, the sum of the four main classes of deposits recording an increase of 32 p.c. Notice deposits have shown considerable fluctuation, demonstrating that amounts withdrawn for investment in Victory bonds normally flow back into personal savings as government war funds are expended.

The ordinary revenues of the Dominion Government at $1,530 million in the first nine months of the present fiscal year rose more than 59 p.c. over the same period of the preceding year. War expenditure on Canadian account more than doubled, while credits on account of the United Kingdom War Financing Act in force for the present fiscal year only were one billion dollars.

Participation in the war has confronted Canada with economic problems of unprecedented magnitude and urgency. The profound dislocation of international economic intercourse affected areas far removed from the scene of conflict. The highly mechanized character of modern warfare presented enormously increased demands upon the productive system. Material equipment is playing a more vital and decisive part in present war operations than in any other major conflict. The challenge may only be met by the hearty co-operation of Canadian enterprises and individuals in general.

Statistics Illustrating the Economic Situation of Canada in 1942, compared with the preceding year.

	Unit or Base Period	1942	1941	Per Cent Increase + Decrease -
General Economic Situation				
Index of Physical Volume of Business	1935-9=100	201.7	165.0	+ 22.2
Index of Industrial Production	1935-9=100	227.2	179.4	+ 28.1
War Contracts Placed, D.M.S.(11 mos.)	$000	1,152,209	1,095,416	+ 5.2
Wholesale Prices	1926=100	95.7	89.9	+ 6.5
Cost of Living	1935-9=100	117.0	111.8	+ 4.7
Index of Common Stock Prices	1935-9=100	64.2	67.5	- 4.9
Index of Bond Yields	1935-9=100	99.3	100.6	- 1.3
Bank Debits	$000	45,526,254	39,242,957	+ 16.0
Production and General Business				
Farm Products -				
Index of Grain Marketings	1935-9=100	105.0	178.4	- 41.1
Index of Livestock Marketings	1935-9=100	100.4	106.1	- 5.4
Index of Cold Storage Holdings	1935-9=100	142.4	135.5	+ 5.1
Mineral Production	1935-9=100	219.0	214.7	+ 2.0
Gold Receipts at Mint	Fine Ozs.	4,594,487	5,081,480	- 9.6
Coal Production	Tons	18,691,020	17,933,271	+ 4.2
Manufacturing Production	1935-9=100	242.6	175.2	+ 38.5
Flour Production	Bbls.	20,760,396	20,471,347	+ 1.4
Cattle Slaughterings	No.	1,636,960	1,722,767	- 5.0
Hog Slaughterings	No.	6,195,850	6,273,851	- 1.2
Creamery Butter Production	Lbs.	283,905,770	285,218,093	- 0.5
Factory Cheese Production	Lbs.	199,984,818	146,714,497	+ 36.3
Cigarettes released	No.	10,239,799,529	8,581,740,500	+ 19.3
Cigars released	No.	200,800,319	191,440,709	+ 4.9
Leather Boots and Shoes (11 mos.)	Pairs	25,814,982	25,681,943	+ 0.5
Raw Cotton Consumption	Lbs.	198,938,609	198,388,697	+ 0.3
Paper and Lumber -				
Newsprint Production	Tons	3,177,094	3,425,865	- 7.3
Iron and Steel -				
Steel Ingot Production	Short Ton	3,123,864	2,701,313	+ 15.6
Pig Iron Production	Short Ton	1,975,015	1,528,053	+ 29.3
Coke Production	Short Ton	3,274,129	3,154,496	+ 3.8
Construction -				
Contracts awarded	$	281,594,100	393,991,300	- 28.5
Building Permits (58 Municipalities)	$	76,289,604	99,897,086	- 23.6
Consomption of Firm Power	000 K.W.H.	37,109,976	33,445,360	+ 11.0
Internal Trade -				
Wholesale Sales (11 mos.' average)	1935-9=100	156.1	141.9	+ 10.0
Retail Sales (11 mos.' average)	1935-9=100	149.0	135.9	+ 9.6
Railways - Tons carried 1 mile - 2 Rlys (11 mos.)	000,000 tons	46,313	42,111	+ 10.0
Carloadings	No.	3,387,151	3,203,687	+ 5.7
Gross Revenue C.N.R. 11 months (Canadian Lines	$	299,127,300	237,280,000	+ 26.1
Gross Revenue C.P.R. 11 months	$	234,038,000	200,943,000	+ 16.5
Employment				
General Index	1926=100	173.7	152.3	+ 14.1
Manufacturing		206.5	168.4	+ 22.6
Logging		195.3	187.8	+ 4.0
Mining		171.3	176.6	- 3.0
Construction		130.3	126.6	+ 2.9
Building		157.9	139.5	+ 13.2
Highway		144.9	158.2	- 8.4
Trade		156.1	156.5	- 0.3
Banking - (12 months' average)				
Deposits, Four Classes	$000	3,329,638	3,025,896	+ 10.0
Currents Loans	$000	1,074,704	1,090,765	- 1.5
Circulating Media	$000,000	576.8	439.2	+ 31.3
Cash and Cheque Payments (12 mos.) Total	$000,000	61,701	51,200	+ 20.5
Dominion Finance - April to December				
Total Revenues	$	1,630,218,736	1,022,943,857	+ 59.4
Ordinary Expenditures	$	396,014,032	294,407,890	+ 34.5
War Expenditures	$	1,643,164,254	852,695,844	+ 92.7
United Kingdom War Financing	$	1,000,000,000	----	--
National Income	$000,000	7,500	6,500	+ 15.3

Fifteen items recorded declines, while thirty-eight showed increases.

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THE ECONOMIC SITUATION IN CANADA

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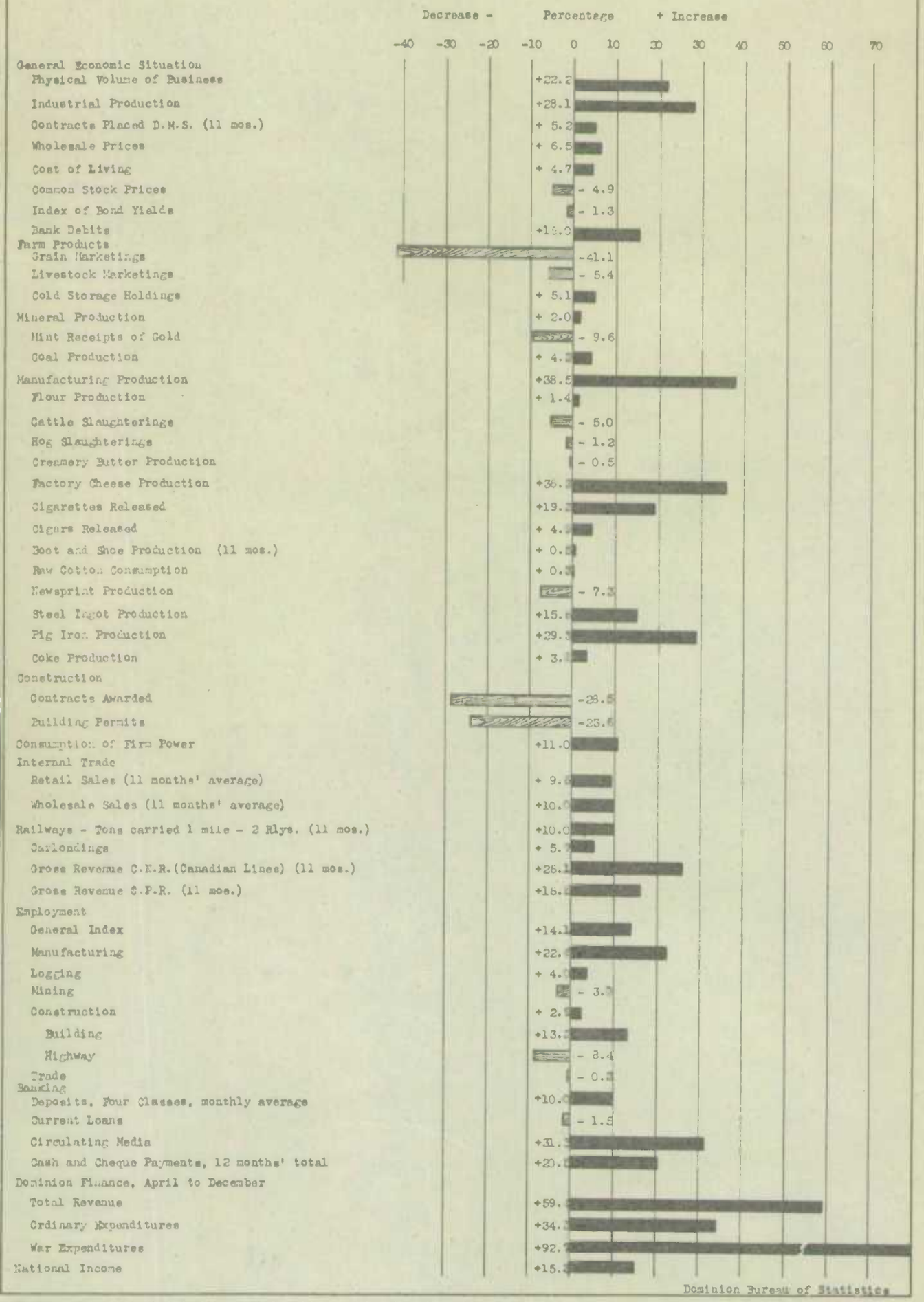
as compared with the preceding year.



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