

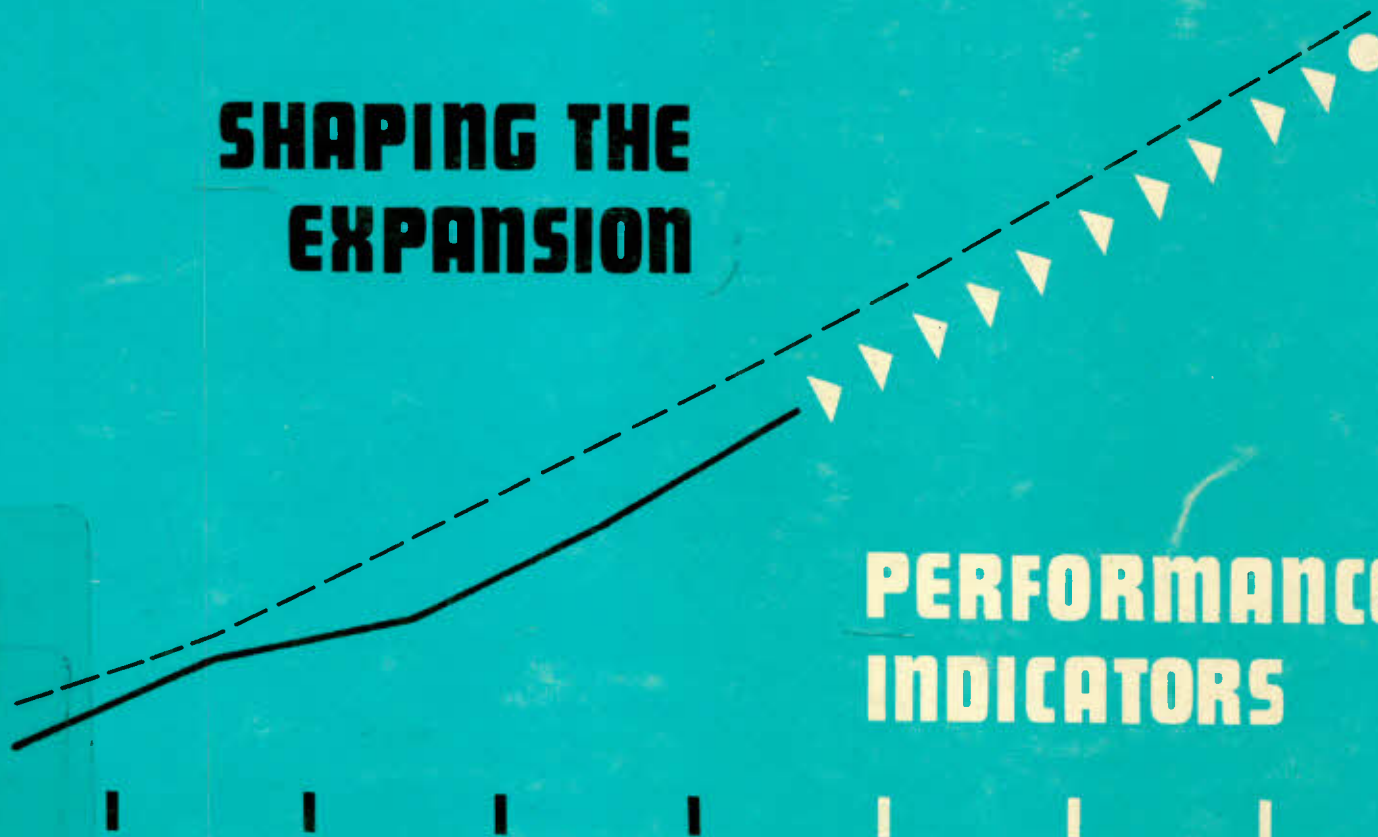


ECONOMIC COUNCIL OF CANADA



SHAPING THE EXPANSION

PERFORMANCE INDICATORS



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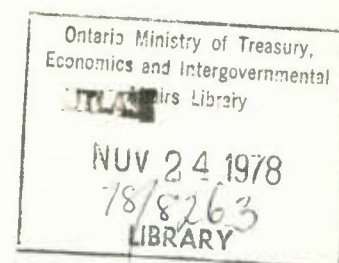
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The Canadian economy has picked up strongly since the beginning of 1971, and it appears that, for 1973 as a whole, ~~the economy will~~ be close to its potential level. The upswing manifested itself in various ways: a sharp increase in residential construction and consumer expenditures, strong gains in income and employment; and, more recently, a lowering of the unemployment rate. The rise in prices, however, has become a source of great concern.

The following pages contain 15 charts that illustrate actual performance in the areas covered by the Economic Council's performance indicators. The charts also show proposed target levels for 1975 (according to the projections we made last year) and for 1976 (according to this year's calculations). They are followed by recommendations to decision-makers in both the private and the public sectors.

André Raynauld
Chairman

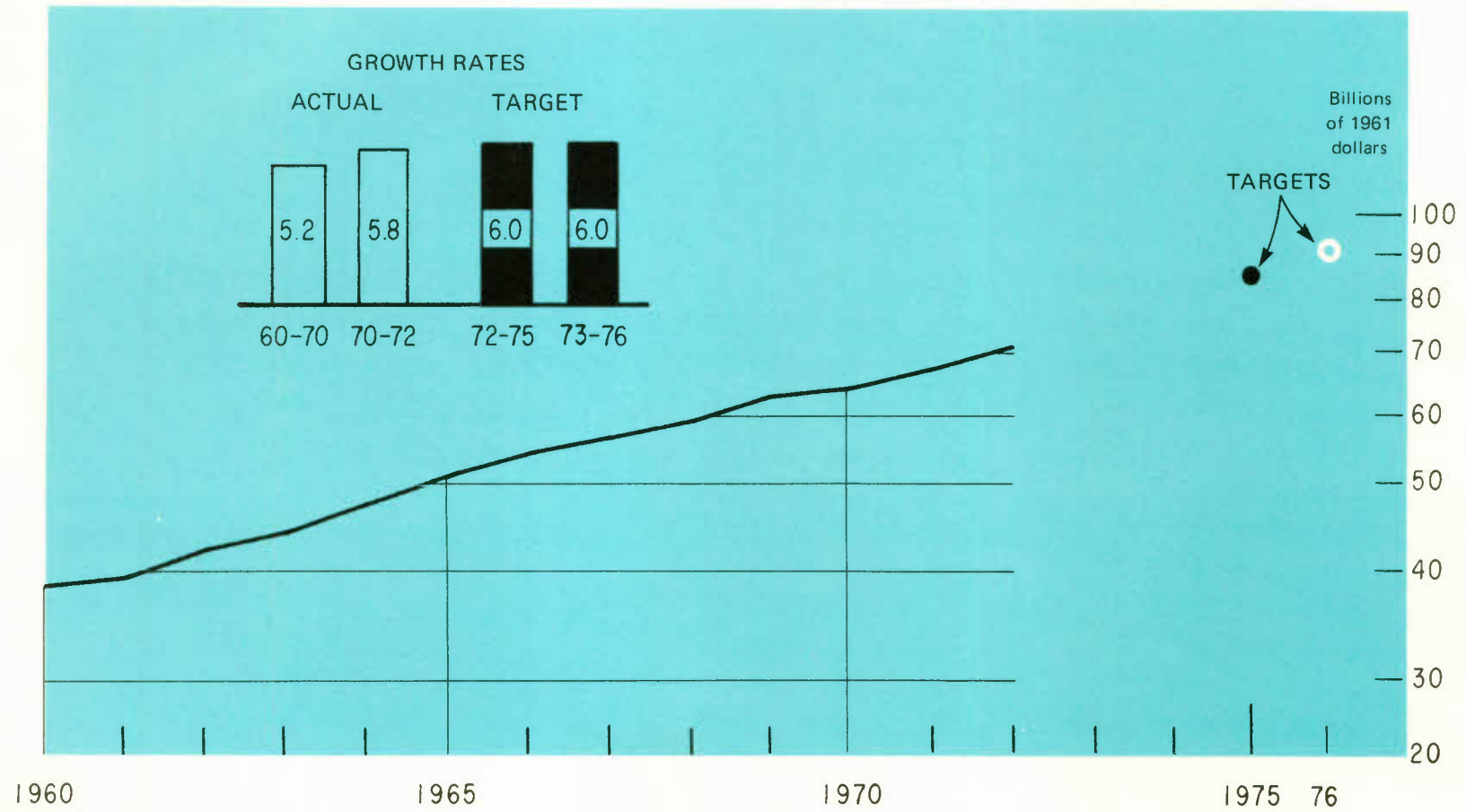
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IN 1972, THE CANADIAN ECONOMY RECORDED A 5.8 PER CENT GROWTH RATE, WHICH WAS SLIGHTLY LOWER THAN OUR GNP INDICATOR FOR THE 1972-75 PERIOD. SINCE GROWTH IS GENERALLY EXPECTED TO REACH A RATE OF 7 PER CENT OR MORE IN 1973, OUR 6 PER CENT TARGET FOR THE THREE-YEAR PERIOD MAY WELL BE ACHIEVED. TO ATTAIN THE TARGET AND CONTAIN INFLATION, HOWEVER, SOME SLOWDOWN WILL BE REQUIRED IN 1974 AND 1975.

GROSS NATIONAL PRODUCT

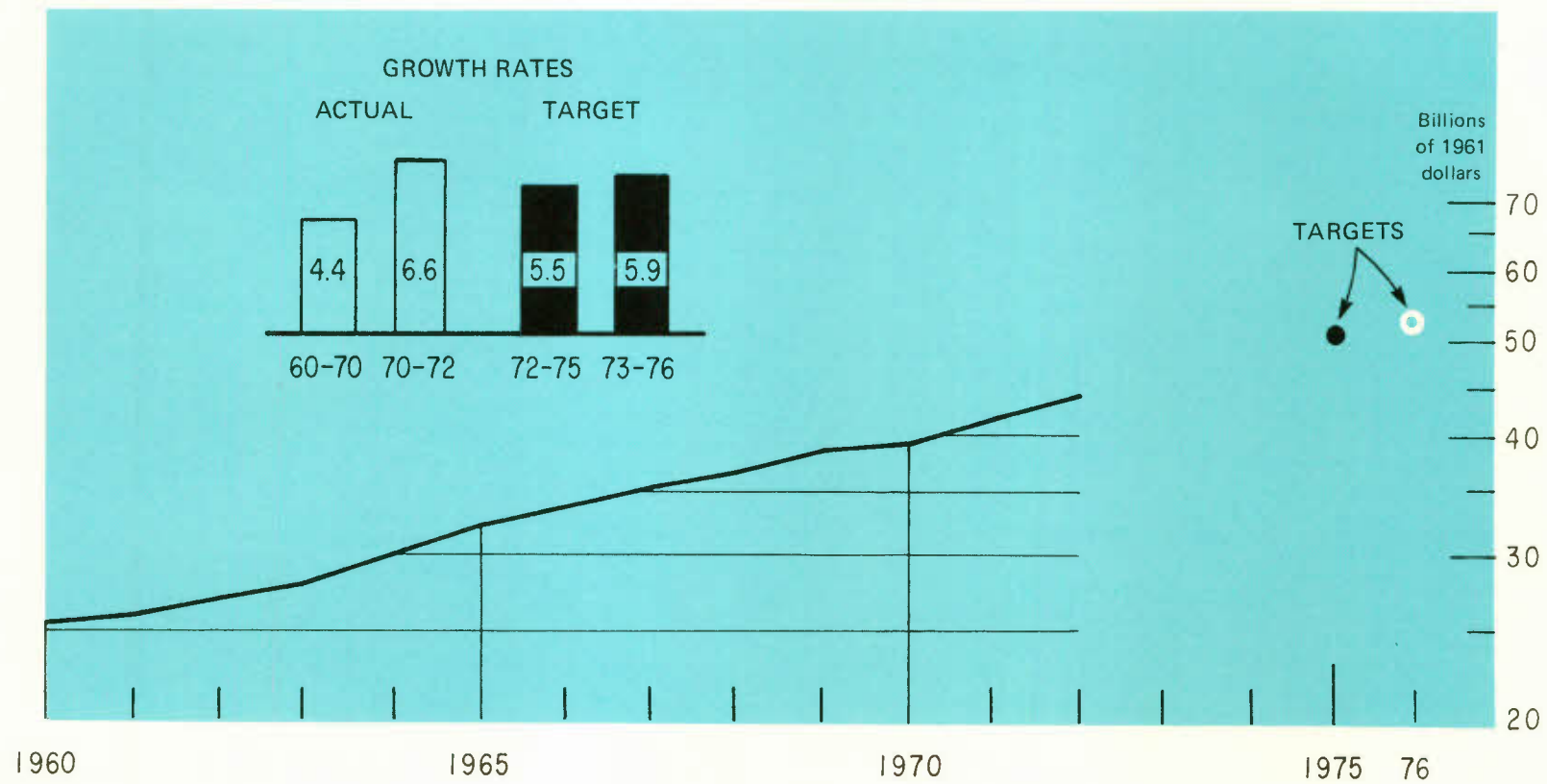
Chart 1



LAST YEAR, CANADIAN CONSUMERS SPENT AT APPROXIMATELY THE SAME RATE AS WE HAD ANTICIPATED AT THIS STAGE OF THE EXPANSION. THEIR REAL DISPOSABLE INCOME, HOWEVER, ROSE MUCH MORE RAPIDLY, SO THAT THE INCREASE IN CONSUMER EXPENDITURES WAS LESS MARKED THAN IT MIGHT HAVE BEEN. THE RAPID RISE IN PERSONAL SAVINGS, AN INDICATION OF THIS DEVELOPMENT, MAY CONSTITUTE AN IMPORTANT RESERVE FOR NEW GAINS IN PERSONAL EXPENDITURES IN 1973 -- AND POSSIBLY BEYOND.

Chart 2

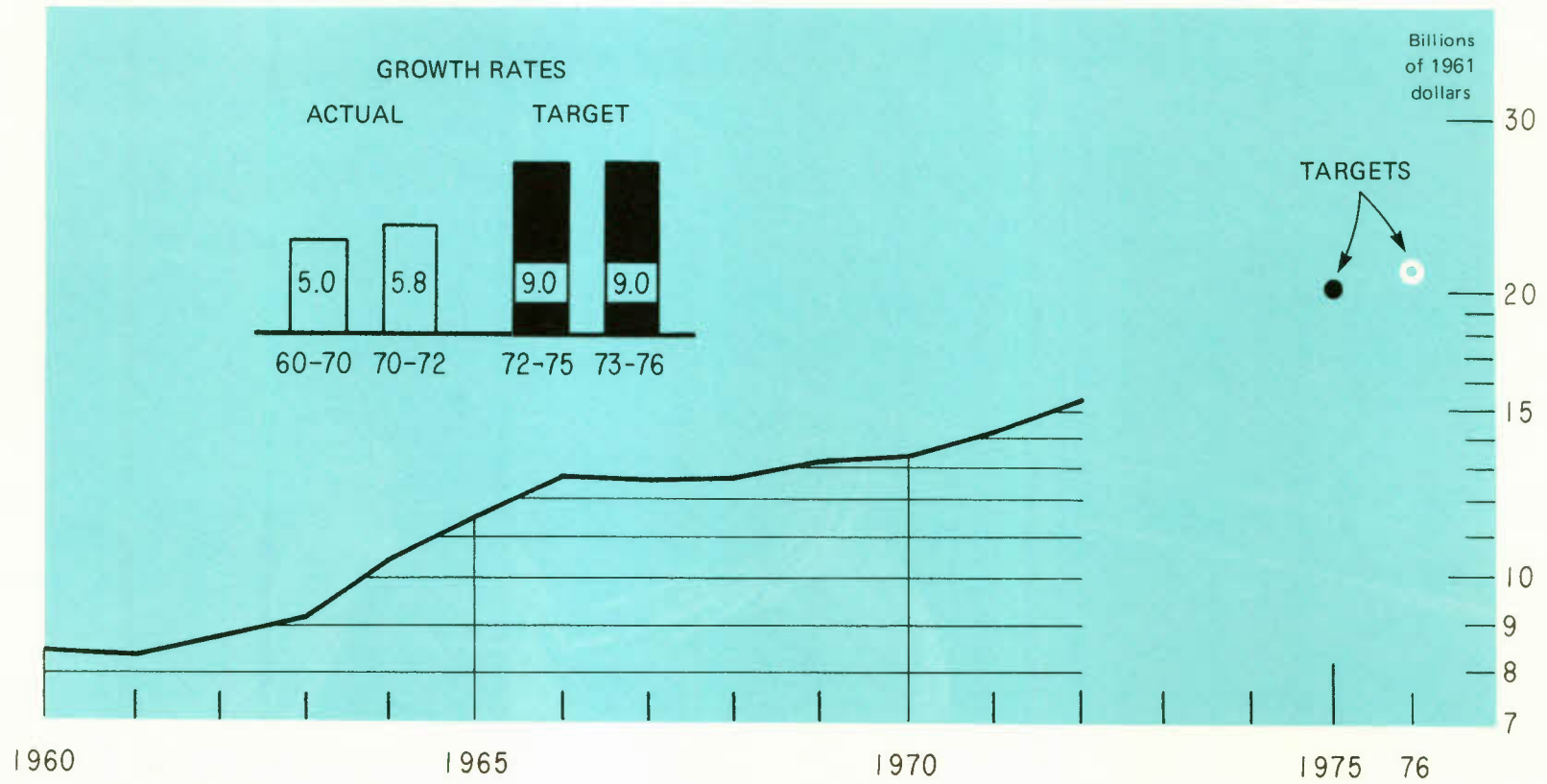
CONSUMER EXPENDITURES



THE 1972 GAIN IN INVESTMENT WAS NOT VERY IMPRESSIVE (3.6 PER CENT). SINCE THE BEGINNING OF 1973, HOWEVER, THE INVESTMENT SECTOR HAS BEEN VERY BUOYANT, AND IT APPEARS QUITE POSSIBLE THAT THE 9 PER CENT TARGET PROPOSED LAST YEAR WILL BE ACHIEVED IN THE YEARS 1973 TO 1976.

TOTAL INVESTMENT

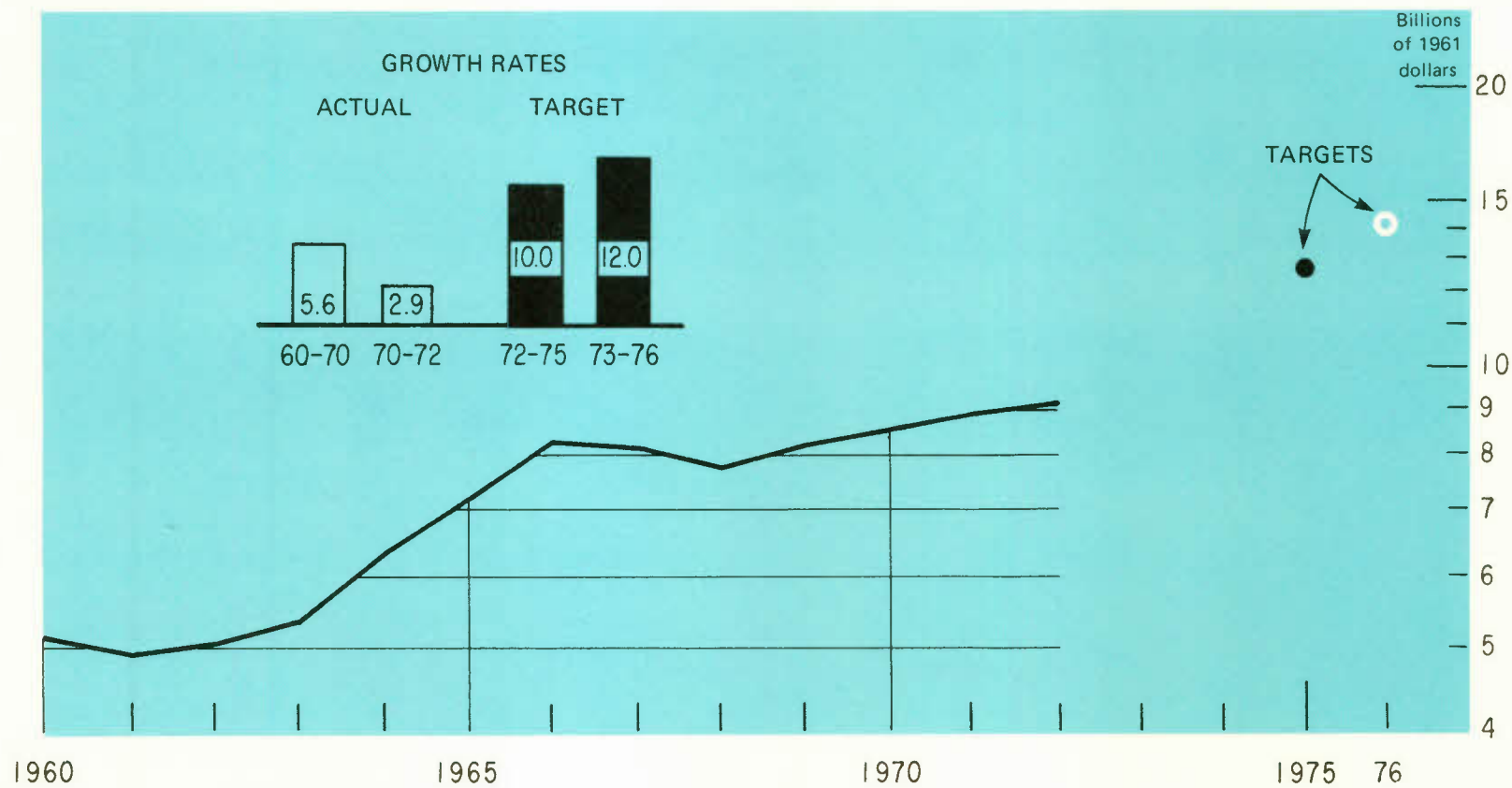
Chart 3



BECAUSE OF AN UNEXPECTED SLOWDOWN IN NONRESIDENTIAL CONSTRUCTION IN 1972, TOTAL BUSINESS INVESTMENT HAS NOT GROWN AS RAPIDLY AS ANTICIPATED. A STRONG ACCELERATION IS EXPECTED IN 1973, AND THE PROPOSED PERFORMANCE FOR THIS CATEGORY OF SPENDING IS 12 PER CENT A YEAR THROUGH 1976. STRONG GAINS OF THIS ORDER APPEAR INCREASINGLY LIKELY.

INVESTMENT IN MACHINERY AND EQUIPMENT AND NONRESIDENTIAL CONSTRUCTION

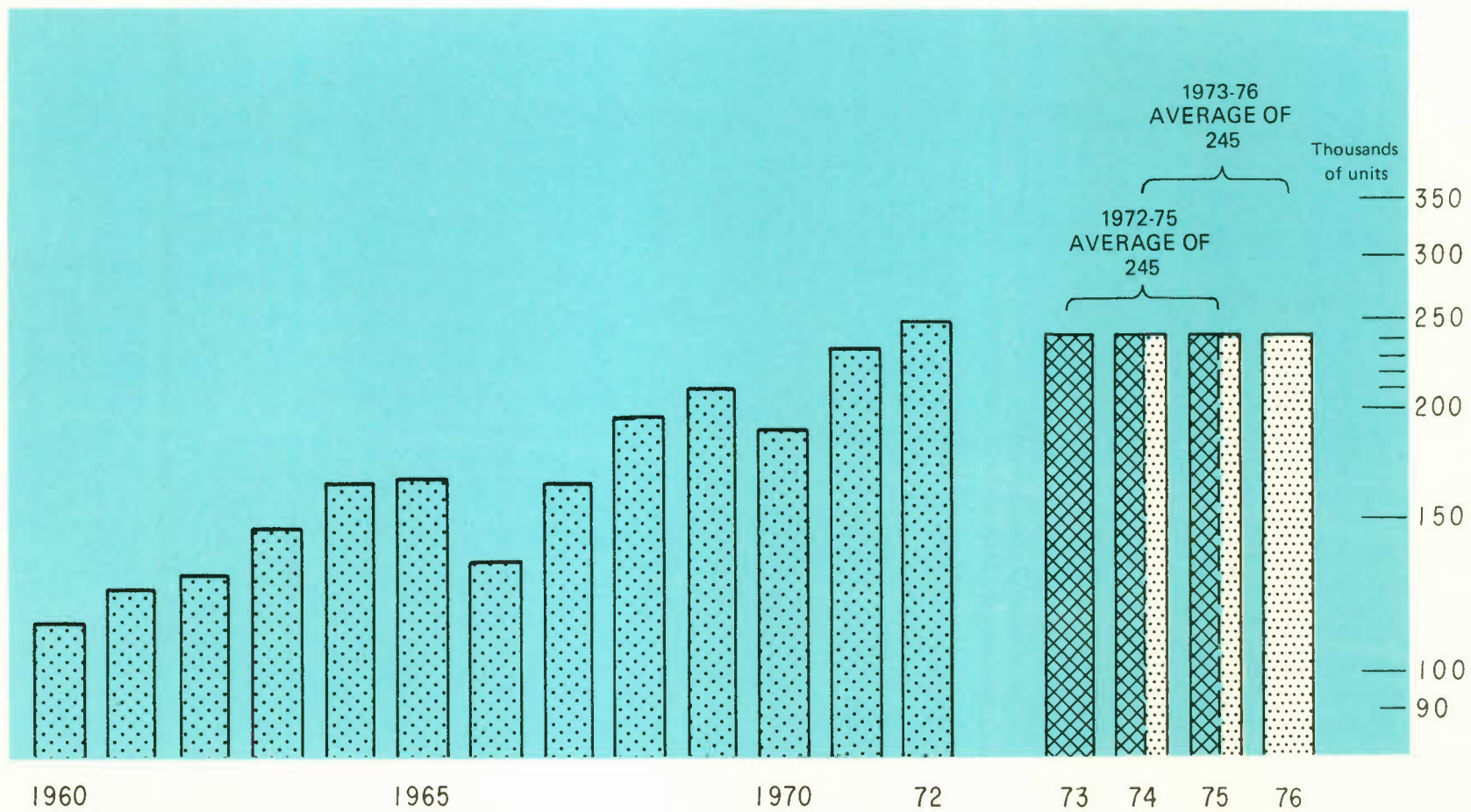
Chart 4



OUR GOALS FOR HOUSING STARTS (CHART 5) AND FOR EXPENDITURES ON RESIDENTIAL CONSTRUCTION (CHART 6) APPEAR QUITE ATTAINABLE. THE PERFORMANCE INDICATOR FOR HOUSING STARTS IS AN ANNUAL AVERAGE OF 245,000 UNITS TO 1976, WITH A GROWTH RATE OF 1.5 PER CENT PER YEAR FOR EXPENDITURES.

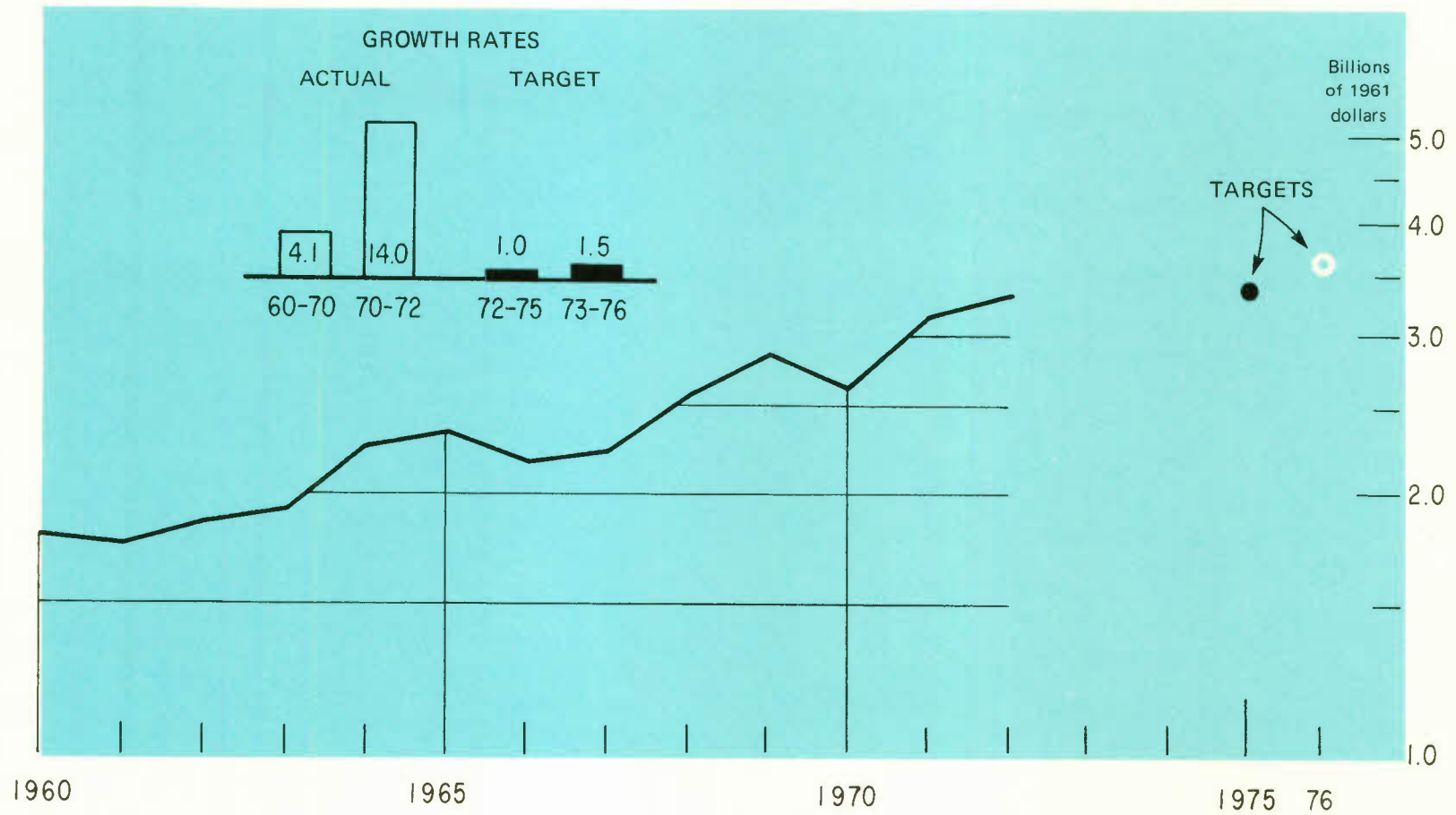
Chart 5

NUMBER OF HOUSING STARTS



HOUSING CONSTRUCTION

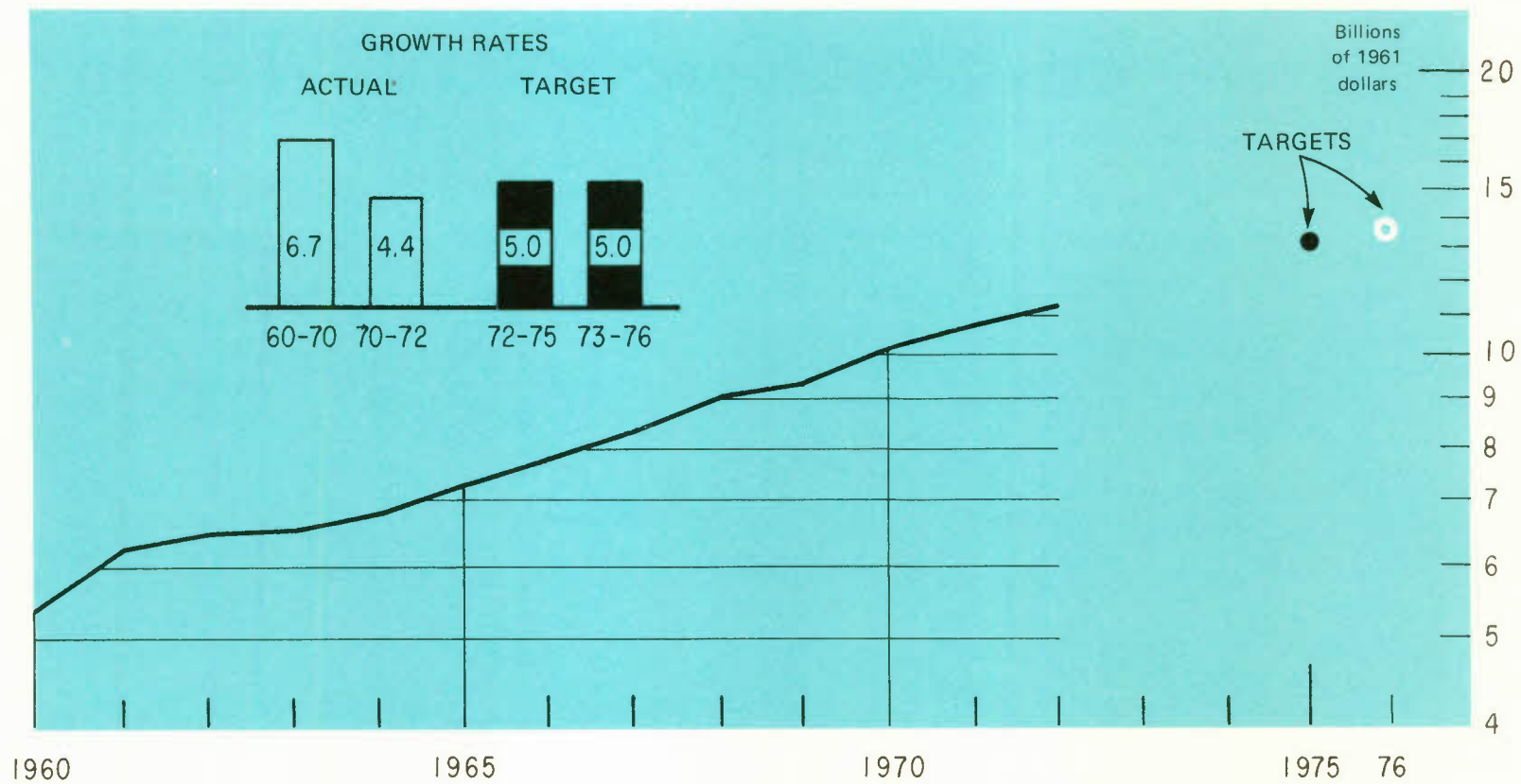
Chart 6



AFTER PICKING UP SHARPLY IN 1970, GOVERNMENT CURRENT EXPENDITURES GREW ALMOST IN LINE WITH THE SUGGESTED TREND RATE IN 1971, BUT SLOWED DOWN SLIGHTLY IN 1972. LOOKING INTO THE FUTURE, ATTAINMENT OF THE PROPOSED TARGET RATE DEPENDS ON WHETHER INCREASES IN FEDERAL SPENDING ARE FORTHCOMING. INCREASES ANNOUNCED IN FEBRUARY 1973 MAY BE ENOUGH FOR THIS PURPOSE. IN SHORT, THE TARGET APPEARS BROADLY APPROPRIATE.

GOVERNMENT CURRENT EXPENDITURES

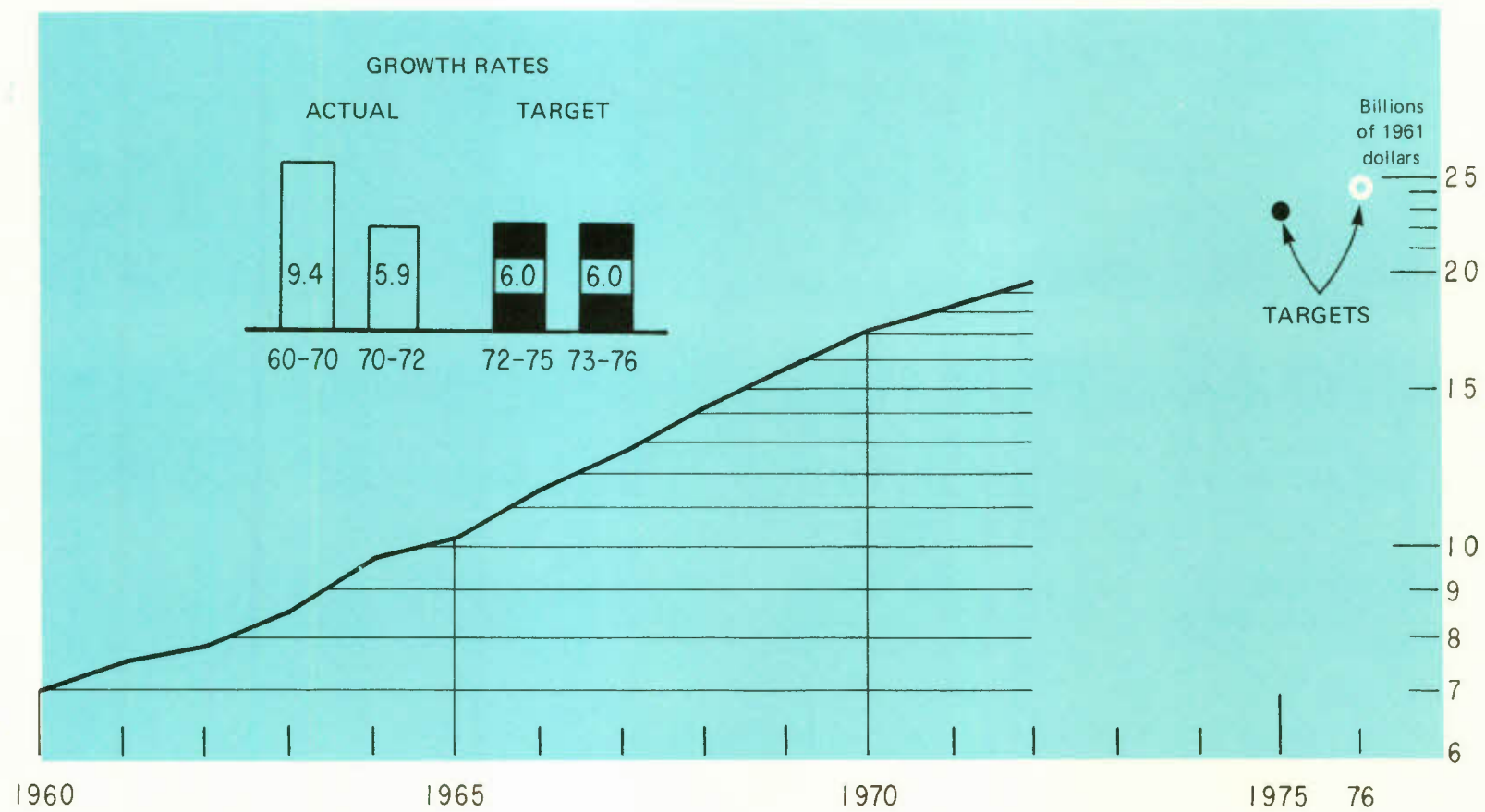
Chart 7



THE 6.7 PER CENT INCREASE REGISTERED IN OUR EXPORTS OF GOODS AND SERVICES IN 1972 WAS A LITTLE ABOVE THE AVERAGE TARGET RATE TO 1975, BUT IT WAS NONETHELESS SOMEWHAT BELOW WHAT WE HAD ANTICIPATED FOR THE SINGLE YEAR 1972. THE SLOWER GROWTH WOULD SEEM TO SUGGEST SOME RELATIVE DETERIORATION IN CANADIAN COMPETITIVENESS ATTRIBUTABLE TO THE EXCHANGE RATE APPRECIATION AND TO THE RELATIVELY HIGHER RATE OF PRICE INCREASE IN 1972 THAN IN THE UNITED STATES. THERE ARE, HOWEVER, OFFSETTING FACTORS, SUCH AS IMPROVEMENT IN CANADA'S COMPETITIVE POSITION VIS-À-VIS OTHER COUNTRIES AND THE HOPED-FOR STIMULATIVE EFFECT OF THE U.S. EXCHANGE DEVALUATION ON U.S. DEMAND AND THUS UPON CANADIAN EXPORTS. AT PRESENT, THE 6 PER CENT INDICATOR IS REASONABLE AND ATTAINABLE.

EXPORT OF GOODS AND SERVICES

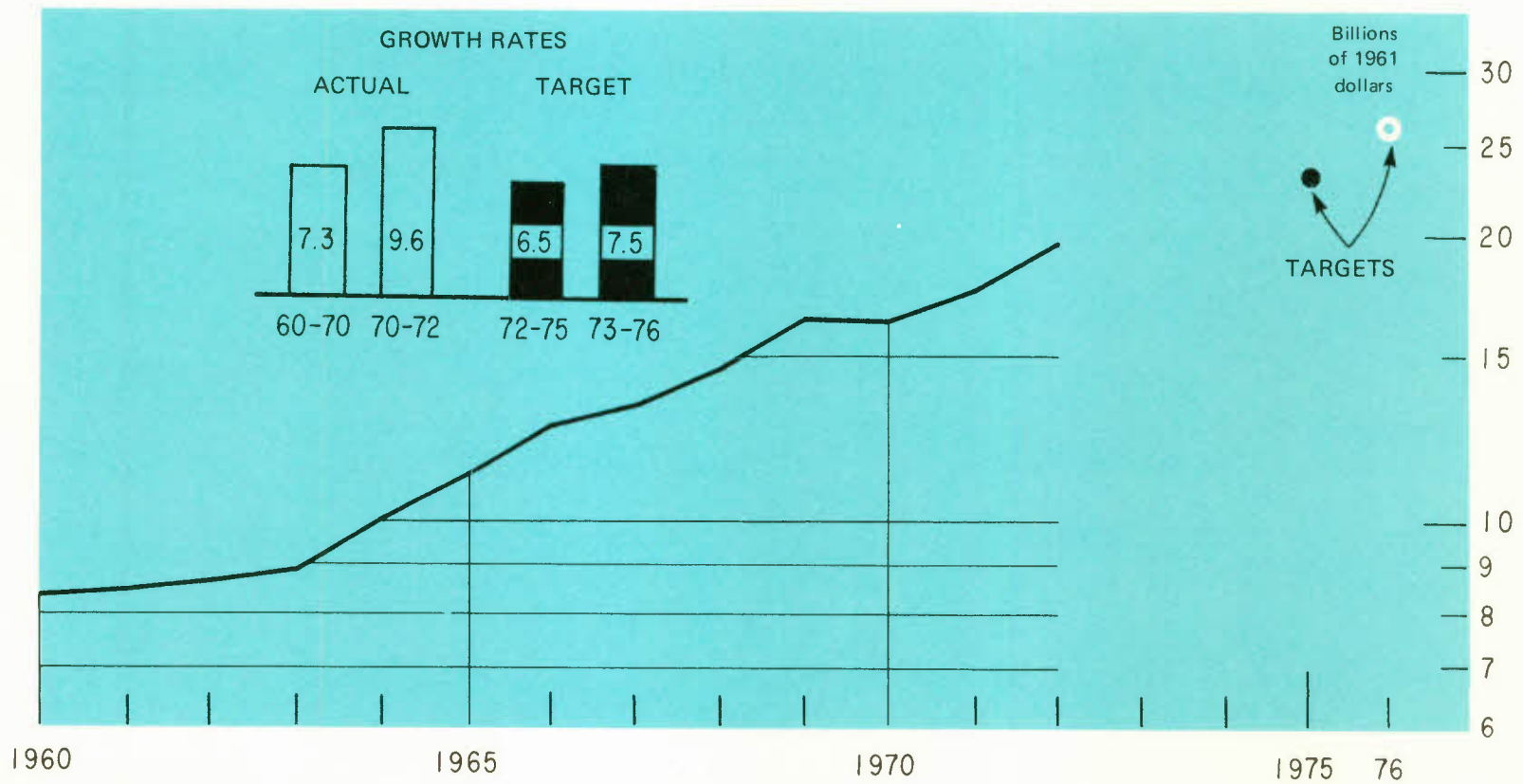
Chart 8



THE COMBINED EFFECTS OF CANADIAN EXCHANGE RATE APPRECIATION VIS-À-VIS THE UNITED STATES AND RECENT HIGHER RATES OF PRICE INCREASE IN CANADA APPEAR TO HAVE FAVOURED FOREIGN SUPPLIERS. STRONG INCREASES IN IMPORTS ARE EXPECTED TO CONTINUE THROUGH 1973, AND THE AVERAGE GROWTH RATE OF 6.5 PER CENT PROPOSED LAST YEAR NOW APPEARS TO BE LOW. TO REFLECT RECENT DEVELOPMENTS, THE IMPORT TARGET HAS THEREFORE BEEN RAISED TO 7.5 PER CENT FOR THE PERIOD 1973-76.

IMPORTS OF GOODS AND SERVICES

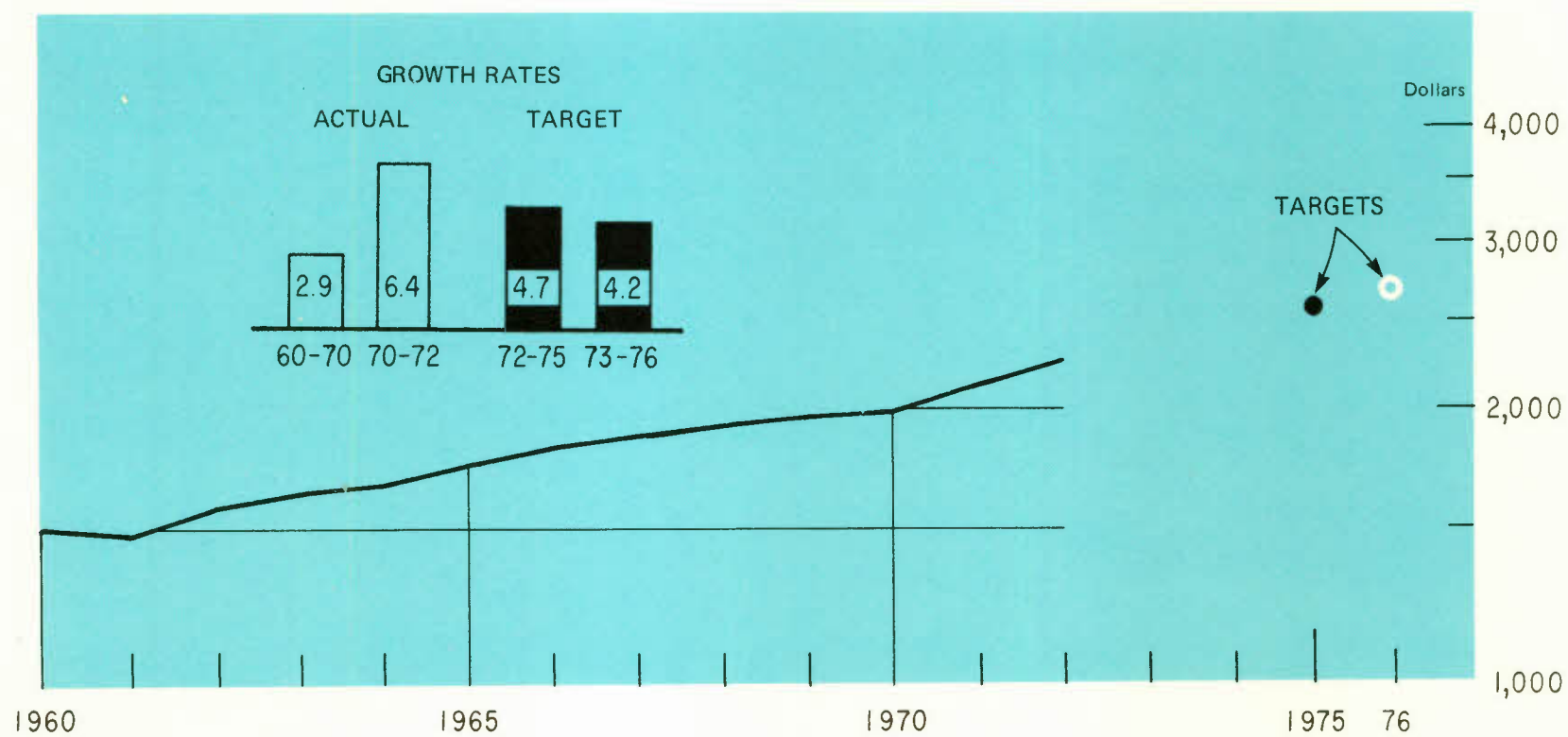
Chart 9



THE INDICATOR FOR REAL DISPOSABLE INCOME PER CAPITA ROSE MORE STRONGLY IN 1972 THAN EXPECTED. RAPIDLY RISING GOVERNMENT TRANSFER PAYMENTS TO PERSONS, A DECELERATING TAX TAKE, AND CYCLICAL EXPANSION HAVE BEEN INSTRUMENTAL IN SUSTAINING THE RISE IN DISPOSABLE INCOME OVER THE LAST TWO YEARS. NOW THAT THE ECONOMIC EXPANSION HAS MATURED, CONTINUING STRONG GAINS ARE UNLIKELY. THE TARGET RATE OF GROWTH IS ACCORDINGLY LOWERED TO 4.2 PER CENT PER YEAR FOR THE PERIOD 1973-76.

Chart 10

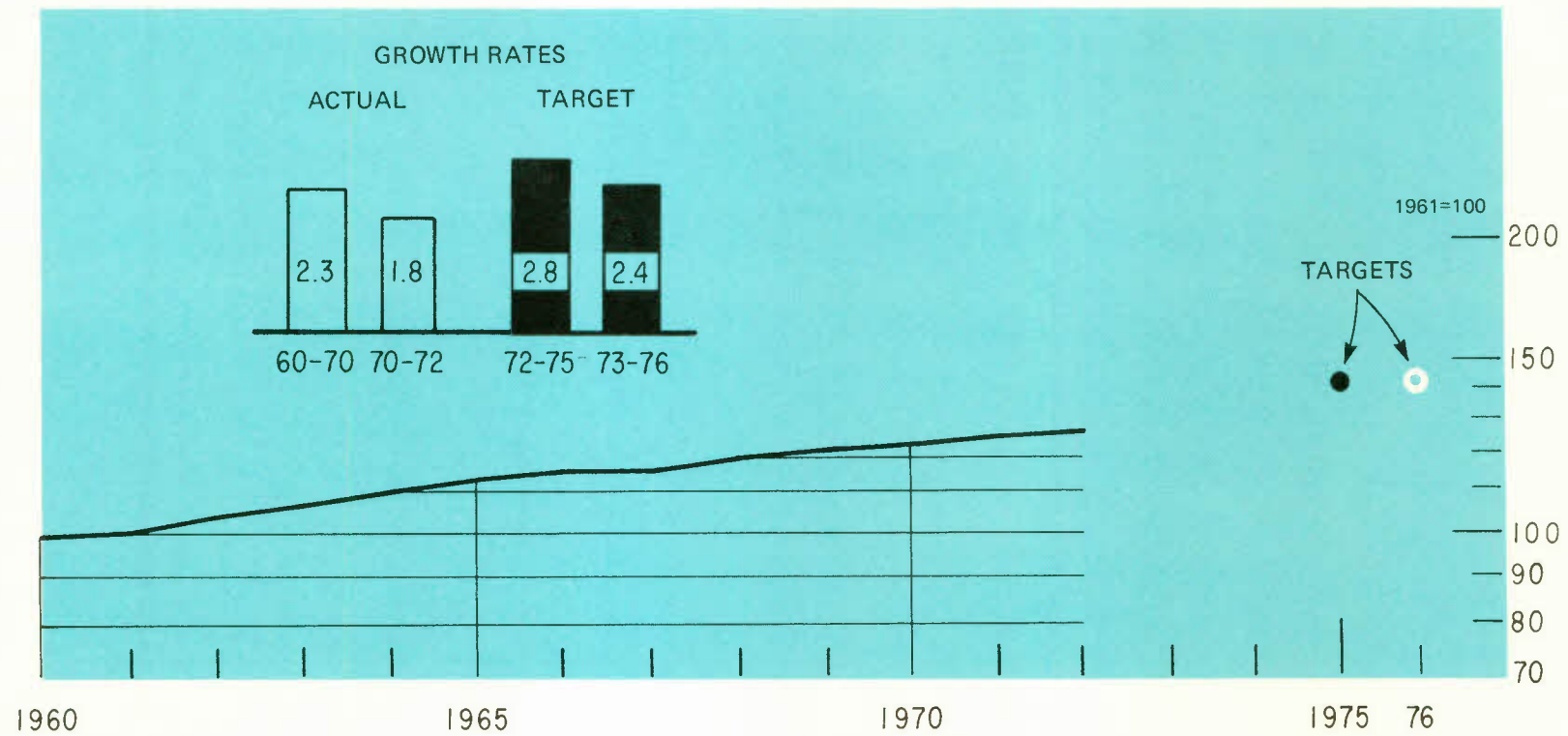
REAL DISPOSABLE INCOME PER CAPITA



THE POOR PERFORMANCE OF THIS INDICATOR IN 1972 MAY BE PARTLY ATTRIBUTABLE TO THE FACT THAT TOTAL CANADIAN OUTPUT GREW MORE SLOWLY THAN EXPECTED. GREATER OUTPUT GAINS IN 1972-73 COULD BRING ABOUT SUBSTANTIAL IMPROVEMENT IN OUTPUT PER PERSON EMPLOYED, BUT ACHIEVEMENT OF THE 2.8 PER CENT TARGET RATE TO 1975 NOW APPEARS TO BE A RATHER FORMIDABLE TASK. AN OBJECTIVE OF 2.4 PER CENT PER ANNUM IS PROPOSED FOR THE PERIOD 1973-76.

TOTAL OUTPUT PER PERSON EMPLOYED

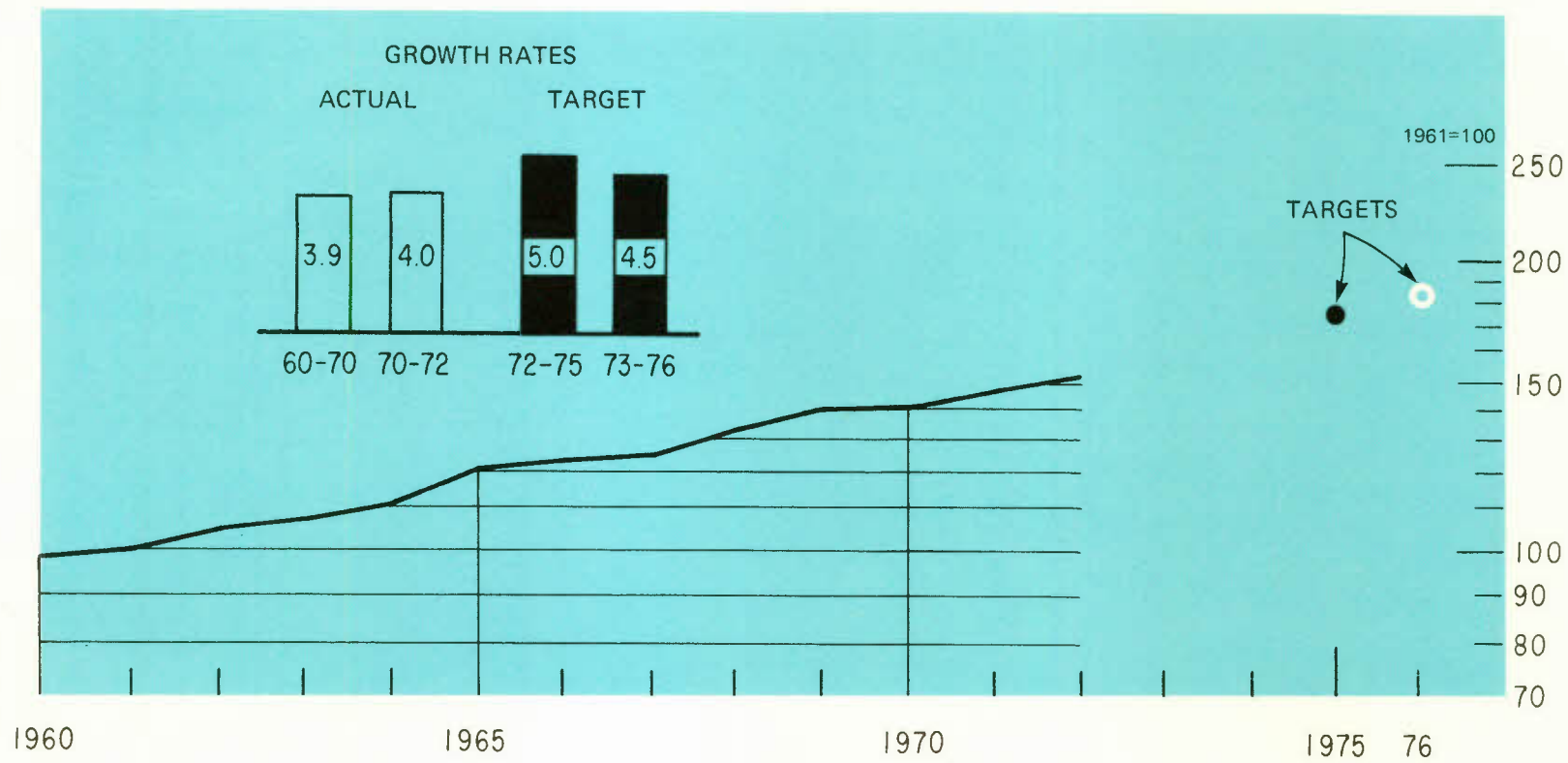
Chart 11



IN THE MANUFACTURING SECTOR, AS IN THE ECONOMY AS A WHOLE,
THE PRODUCTIVITY GROWTH TARGET WAS NOT REACHED IN 1972. FOR
THE PERIOD 1973-76, WE PROPOSE A MODERATELY LOWER RATE THAT
IS CONSISTENT WITH THE REVISED INDICATOR FOR TOTAL OUTPUT
PER PERSON EMPLOYED.

Chart 12

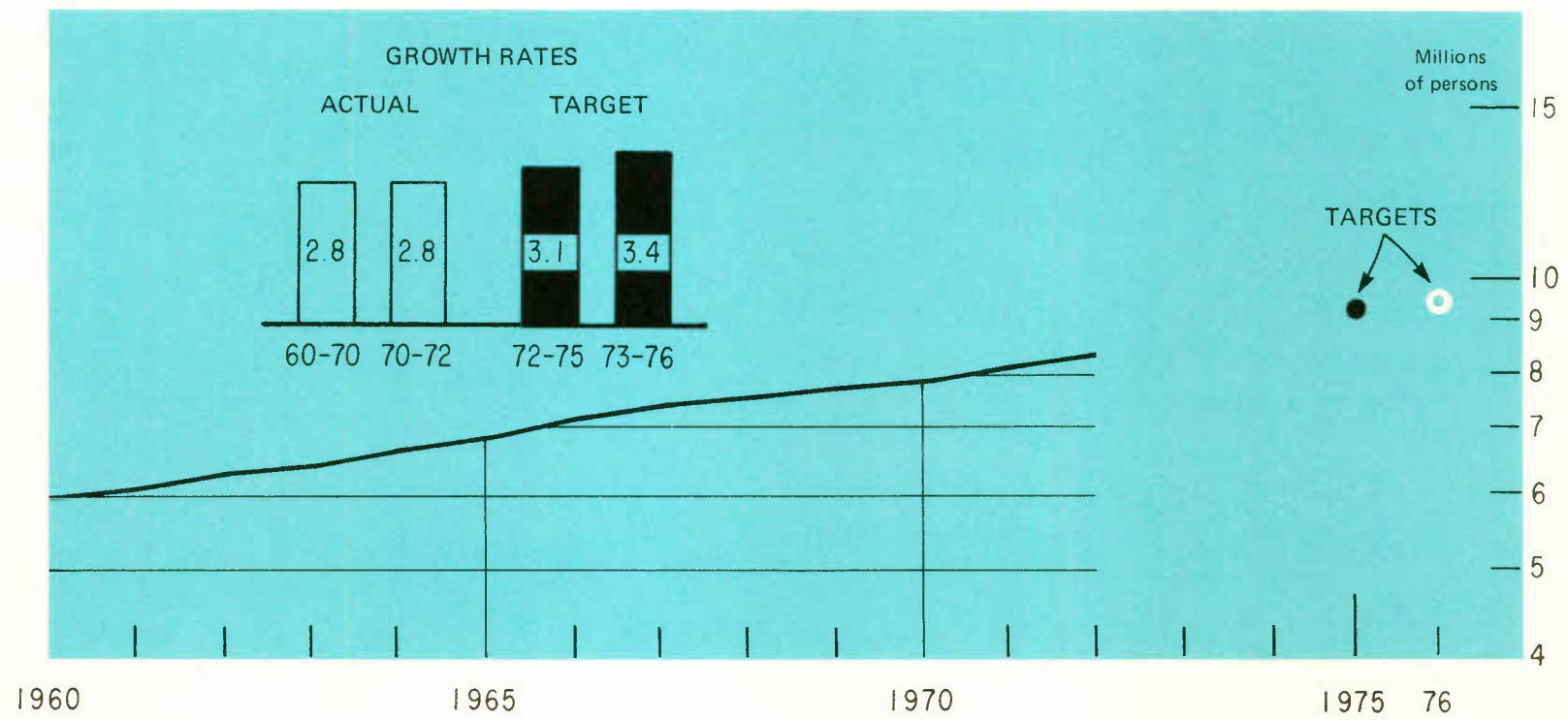
OUTPUT PER PERSON EMPLOYED IN MANUFACTURING



TOTAL EMPLOYMENT ROSE IN 1972 IN LINE WITH THE PROPOSED RATE. SINCE WE HAVE LOWERED OUR PRODUCTIVITY TARGETS TO 1976, HOWEVER, EMPLOYMENT WILL NEED TO INCREASE MORE RAPIDLY THAN ENVISAGED EARLIER (3.4 PER CENT PER YEAR) IF THE SAME OUTPUT TARGET IS TO BE REACHED.

Chart 13

TOTAL EMPLOYMENT

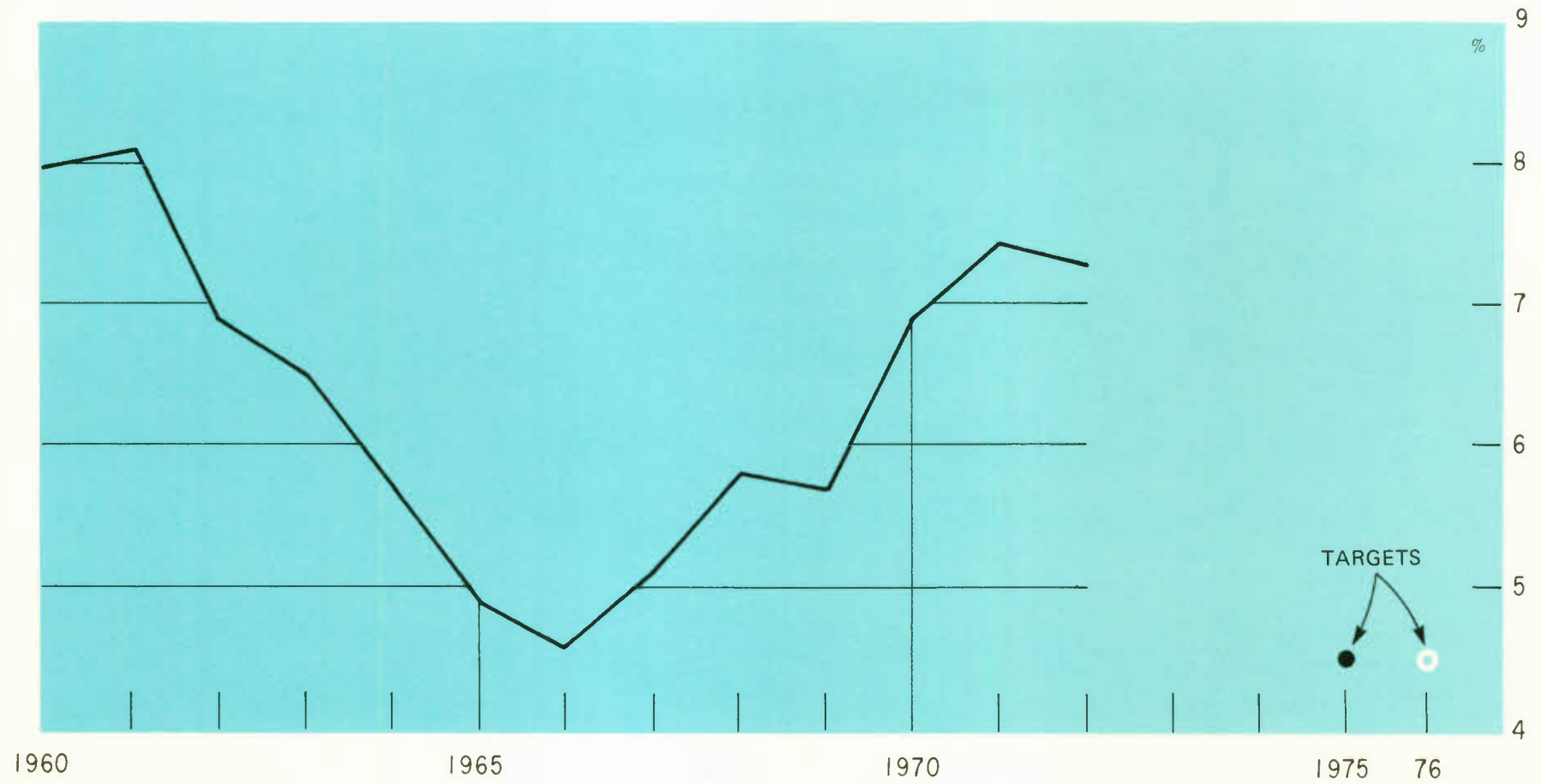


UNDER PRESENT CONDITIONS, THE 1975 UNEMPLOYMENT TARGET OF 4.5 PER CENT IS STILL ATTAINABLE. IF RECENT TRENDS IN LABOUR FORCE GROWTH PERSIST, AND IF EMPLOYMENT CONTINUES TO RISE SOMEWHAT MORE RAPIDLY AS A RESULT OF SLOWER PRODUCTIVITY GROWTH, IT SHOULD BE POSSIBLE TO MAINTAIN THE UNEMPLOYMENT RATE AT 4.5 PER CENT IN 1976.

RATE OF UNEMPLOYMENT

Per cent of labour force

Chart 14



PERFORMANCE INDICATORS, 1972-75 AND 1973-76

(Calculated in 1961 dollars)

	Proposed Average Annual Percentage Change	
	1972-75*	1973-76
PART 1		
Gross National Expenditure.....	6.0	6.0
Consumer Expenditures.....	5.5	5.9
Total Investment.....	9.0	9.0
Investment in Machinery and Equipment and Nonresidential Construction.....	10.0	12.0
Housing Construction.....	5.0	1.5
Government Current Expenditures.....	5.0	5.0
Exports of Goods and Services.....	6.0	6.0
Imports of Goods and Services.....	6.5	7.5
PART 2		
Real Disposable Income Per Capita.....	4.7	4.2
Total Output per Person Employed.....	2.8	2.4
Output per Person Employed in Manufacturing.....	5.0	4.5
Total Employment.....	3.1	3.4
Implicit Price Index of Gross National Expenditure.....	3.0	--
Canadian and Foreign Price Change Differential.....	--	0
Yearly Averages		
Number of Housing Starts (thousands).....	245	245
Rate of Unemployment in 1975 or 1976 (per cent).....	4.5	4.5

*As shown in the Ninth Annual Review of 1972. The target for housing construction, when applied to the 1972 figure for residential construction expenditures, yielded estimates of residential construction in 1973-75 that were inconsistent with the target for housing starts. It has therefore been adjusted downwards to roughly 1 per cent (see Chart 6).

Our analysis of future growth possibilities and our belief that the indicators based on this analysis can be a useful guide to economic decision-making lead us to make the following recommendations:

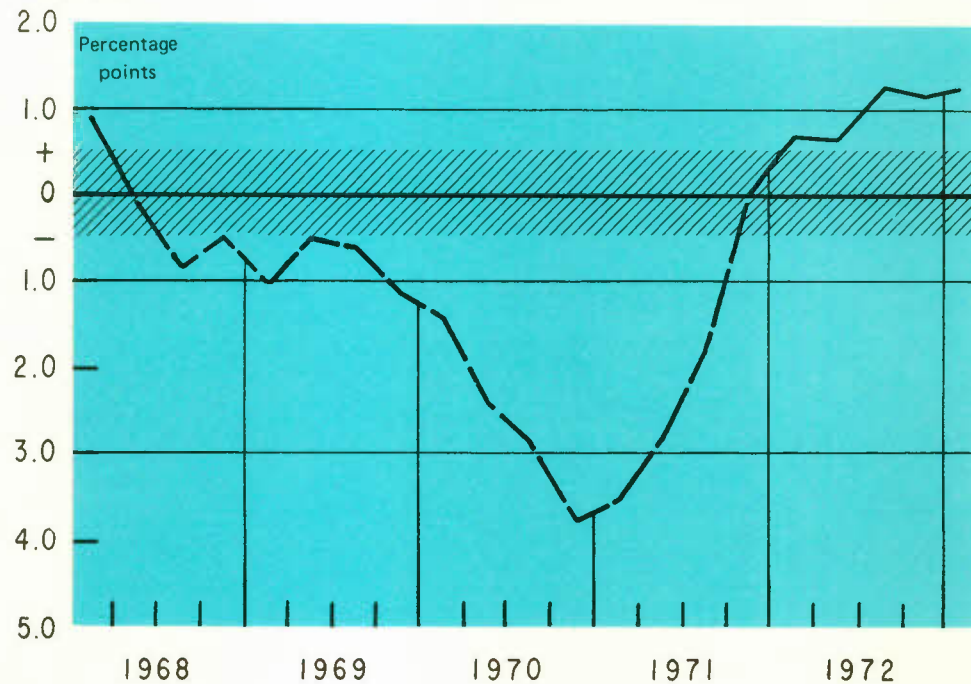
RECOMMENDATION 1

WE RECOMMEND THE ADOPTION OF THE INTERIM PERFORMANCE INDICATORS FOR THE YEARS 1973 TO 1976 SHOWN OPPOSITE, INCLUDING THE NEW RELATIVE PRICE INDICATOR CALLING FOR DOMESTIC PRICES TO REMAIN IN LINE WITH FOREIGN PRICES.

THIS NEW INDICATOR SETS A RELATIVE STANDARD FOR CANADIAN PRICE PERFORMANCE. BECAUSE OF THE CLOSE INTERRELATIONSHIPS BETWEEN CANADIAN AND FOREIGN PRICES, AND THE DIFFICULTIES INVOLVED IN INSULATING THE CANADIAN ECONOMY FROM THE EFFECTS OF INTERNATIONAL PRICE MOVEMENTS, WE BELIEVE CANADIAN PRICE INCREASES CANNOT BE MADE TO DIFFER VERY MUCH FROM THOSE IN OTHER LEADING INDUSTRIAL COUNTRIES.

DIFFERENTIAL RATES OF PRICE CHANGE BETWEEN CANADA AND MAJOR INDUSTRIAL COUNTRIES

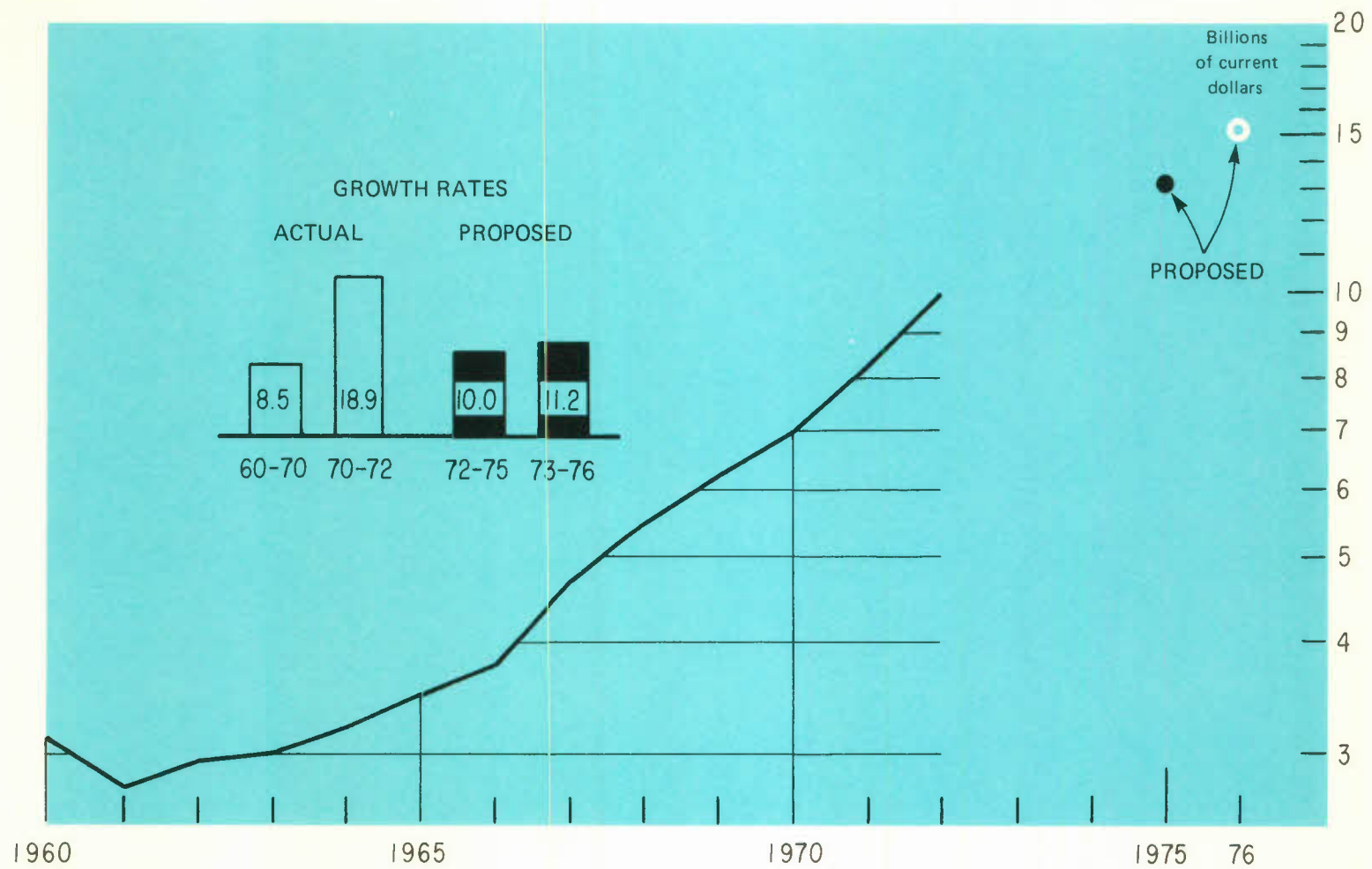
Chart 15



This chart indicates when Canadian prices have risen more (+) or less (-) rapidly than foreign prices (that is, prices in the United States, the United Kingdom, West Germany, France, Japan and Italy). The zero line corresponds to a situation in which Canadian and foreign prices stay exactly in line.

TRANSFERS TO PERSONS

Chart 16



In its Ninth Annual Review, the Council did not propose an indicator for government transfer payments to persons, but noted that current dollar increases of around 10 per cent per annum would be consistent with the achievement of the performance indicators over the period 1972-75. Actual growth rates of government transfers, however, have shown a strong tendency to accelerate, increasing in 1971 and 1972 at roughly double the rate we had envisaged.

RECOMMENDATION 2

WE RECOMMEND THAT THE GROWTH OF GOVERNMENT TRANSFER PAYMENTS TO INDIVIDUALS NOT EXCEED AN AVERAGE YEARLY RATE OF APPROXIMATELY 11 PER CENT DURING THE PERIOD 1973-76.

Attainment of the objectives proposed by the Council would call for the co-operation of governments and for a review of existing institutional arrangements:

RECOMMENDATION 3

WE RECOMMEND THAT THE FEDERAL AND PROVINCIAL GOVERNMENTS ESTABLISH, FOR THEMSELVES AND FOR THE PUBLIC SECTOR AS A WHOLE, ONE OR MORE INDICATORS OF THE DESIRABLE LEVEL OF INCREASE IN PUBLIC EXPENDITURES FOR A THREE-YEAR PERIOD. TO THIS END, WE RECOMMEND THAT THEY ENTRUST THE PREPARATION OF BACKGROUND DOCUMENTS TO THE CONTINUING COMMITTEE OF OFFICIALS ON FISCAL AND ECONOMIC MATTERS OR TO THE ECONOMIC COUNCIL OF CANADA.

RECOMMENDATION 4

WE RECOMMEND THAT THE HOUSE OF COMMONS ASSIGN TO AN APPROPRIATE COMMITTEE THE TASK OF PERIODICALLY REVIEWING THE OVERALL ECONOMIC SITUATION OF THE COUNTRY IN THE LIGHT OF THE PERFORMANCE INDICATORS AND DEBATE THE COMMITTEE'S REPORT.

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Economic Council of Canada

Shaping the

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