

TO Mr. Schmidt

FROM Governor Eccles

Tuesday, February 20, 1951

REMARKS:

I would appreciate it if you or Miss Harris will give me a brief digest of the significant parts of the attached report of the Bank of Canada dealing with the inflationary developments in Canada during the past year and what, if anything, has been done about them in the monetary and credit field as covered by the report.

M.S.E.

*Attached hereto is the digest which
you requested.*

EMS

GOVERNOR ECCLES' OFFICE

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 21, 1951

To Mr. Schmidt

Subject: Digest of Annual Report of

From Miss Harris
CHH

the Bank of Canada for the year 1950

1. Recent inflationary developments in Canada

The Canadian economic situation had been in reasonable over-all balance in 1949 and there was no appreciable movement in average price levels in that year. However, in 1950, to a considerable extent owing to increased international tension, inflationary forces were again communicated to Canada chiefly through the impact of inflationary economic developments in the United States.

The rise in general wholesale and retail price levels during 1950, indicated in the table below, largely reflected an average 10 and 7 per cent increase respectively, in Canadian export and import prices (in terms of Canadian dollars) during the year 1950.

Canadian Price and Earnings Indexes

(1949 average = 100)

	<u>December 1949</u>	<u>Average 1950</u>	<u>December 1950</u>
Wholesale Price Index	100	106	112
Food Products	98	103	108
Manufactures	100	105	111
Cost of Living Index	100	104	106
Average Weekly Earnings in Manufacturing	103	105	111
Gross National Expenditure (in billions of dollars)	16.4		17.7

Total new public and private capital investment rose about 1 per cent in physical volume in 1950. The rise in consumer spending, about 3 per cent in terms of physical volume, was not as marked a factor in Canada as in the United States. The volume of industrial output rose about 8 per cent in 1950, while the volume of agricultural production increased about 12 per cent (after allowing for the lower quality of the 1950 wheat crop).

A rise of some 8 per cent in the physical volume of Canadian imports during 1950 reflected both the increasing level of production in countries other than the United States and the re-alignment of currencies following the devaluations of September 1949. Canadian exports of goods rose only one-half of one per cent in physical terms and, as a result, merchandise trade (but not the total current account

position) was about in balance as against an export surplus of 262 million dollars in 1949.

2. Canadian monetary and credit policies

Bank Rate. Effective October 17, the Bank Rate of the Bank of Canada was increased from 1-1/2 per cent, a rate which had been in effect since 1944, to 2 per cent per annum. The Bank in explanation of its action issued a statement to the effect that the substantially increased defense expenditures, adding to the pressure on the country's resources at a time of virtually full employment, required a revision of the earlier postwar 1-1/2 per cent Rate policy.

It is interesting in this connection to note that the chartered banks' total Canadian loans increased by 507 million dollars in 1950, as compared with an increase of 155 million during 1949.

Monetary Conditions. On balance, the Bank of Canada decreased its holdings of Government of Canada and Provincial Government securities by 67.4 ^{million} billion dollars in 1950, producing a comparable decrease in cash reserves of the banks. The net result of all Bank of Canada operations including its dealings in gold and foreign currencies during the year was that chartered bank cash reserves increased by 56 million dollars, an increase insufficient to permit the chartered banks to maintain their customary cash ratio in the face of a large increase in deposit liabilities.

Thus, despite the net sale by the banks of Government bonds, the banks' average cash ratio declined from 10.3 per cent on December 31, ¹⁹⁴⁹ to 10.1 per cent on December 30, 1950.

Security Markets. The Government did not raise any new money by way of the issue of marketable bonds during 1950. Of the Government issues outstanding, non-resident investors provided the major source of demand for those sold by the banking system and by the life insurance companies.

Theoretical yields on Government securities of one year maturity rose from 1.69 per cent at the end of 1949 to 2.17 per cent at the end of 1950; similar yields on issues of a five-year maturity rose from 2.18 to 2.60 per cent during this time.

Large new security offerings of provinces, municipalities and corporations were well absorbed by the market with yields remaining relatively unchanged, until near the end of the year when, yields on the private issues, too, showed some rising tendency.

To: Mr. Schmidt

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General Recommendations of the Bank of Canada. Fiscal and monetary measures plus increased savings, on a sufficient scale to bring total demand and supply into approximate balance, are essential pre-requisites for stability. However, if defense expenditures became so great that they cannot feasibly be financed on a pay-as-you-go basis or if public understanding and support for such financing cannot be commanded, it may "become necessary to make increasingly general use of direct controls in order to back up fiscal and monetary measures."