OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

CANADA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

OCTOBER 1971

BASIC STATISTICS OF CANADA

THE LAND

Area (thousand sq. km.)	9 976
Agricultural area (% of the total area)	7.6
Population of major cities including their metropolitan areas (1969):	
Montreal	2 553 000
Toronto	2 316 000

THE PEOPLE

Population (Apr. 1971)	21 641 000
Number of inhabitants per sq. km.	2
Population, annual net natural increase (average 1962-69)	263 500
Net rate of annual increase per 1 000 inhabitants (average 1962-69)	13.5
Civilian labour force (Dec. 1970)	8 329 000
Employment in agriculture (Dec. 1970)	449 000
Immigration (annual average 1962-69)	149 000
Average annual increase in civilian labour force (1962-69, %)	2.8

PRODUCTION

GNP in 1970 (millions of Canadian dollars)	84 468
GNP per head (Canadian dollars)	3 900
Gross fixed investment (private and public) per head (Canadian dollars)	840
Gross fixed investment (private and public) as % of GNP	21.3
Origin of Gross Domestic Product (1969 % of total):	
Agriculture, forestry and fishing	5.2
Mining and quarrying	3.8
Manufacturing	24.5
Construction	6.1
Public administration	7.4
Other	53.1

THE GOVERNMENT

Government current expenditure on goods and services (average 1962-70, % of GNP)	16.7
Government gross fixed capital formation (average 1962-70, % of GNP)	4.2
Federal Government current revenue (average 1962-70, % of GNP)	16.8
Federal direct and guaranteed debt % of current expenditure (average 1962-70, %)	219.4

Composition of Parliament (Number of seats):

	House of Commons	Senate
Liberals	154	83
Conservatives	73	14
Ralliement Creditiste	—	—
Social Credit	13	—
New Democratie	24	—
Independents	1	—
Vacant	...	5

Last election: June 1968

FOREIGN TRADE

Exports:	
Exports of goods and services as % of GNP (average 1962-70)	22.2
Main exports, 1970 (% of commodity exports):	
Wheat	4.1
Newsprint	6.6
Lumber	4.0
Woodpulp	4.6
Non-ferrous metals and alloys	9.3
Ores and concentrates	3.0
Motor vehicles and parts	21.4
Other manufactured goods	16.1
Main customers, 1970 (% of commodity exports):	
United States	65.1
United Kingdom	8.9
European Economic Community	7.1

Imports:	
Imports of goods and services as % of GNP (average 1962-70)	23.0
Main imports, 1970 (% of commodity imports):	
Industrial materials	22.7
Motor vehicles and parts	24.0
Producers' equipment	22.6
Consumer goods	18.2
Main suppliers, 1970 (% of commodity imports):	
United States	71.1
United Kingdom	5.3
European Economic Community	5.8

THE CURRENCY

Monetary unit: Canadian dollar

The Canadian dollar has been floating freely since 31st May 1970 and, in October 1971, was about 7½ per cent above its former fixed rate of US $ 0.925

NOTE An international comparison of certain basic economic and demographic statistics is given in an annex table.

OECD ECONOMIC SURVEYS

CANADA

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD) was set up under a Convention signed in Paris on 14th December, 1960, which provides that the OECD shall promote policies designed :

- *to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy ;*
- *to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development ;*
- *to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

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The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

The annual review of Canada by the OECD Economic and Development Review Committee took place on 14th October 1971.

The present Survey has been updated subsequently.

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INTRODUCTION

The Canadian economy reached a turning point in the autumn of 1970, since when there has been a revival of economic activity with expanding rates of growth in demand, output and employment. Price increases had decelerated fairly early in 1970, mainly as a consequence of reduced demand, with some abatement on the cost side. Recently, however, the price rise has again speeded up somewhat, and although cost increases have decelerated, they are still not compatible with reasonable price stability. The external current account changed in 1970 from a deficit to a record post-war surplus, and the surplus, although diminishing, has continued into the second half of 1971. This, together with continued, though reduced, capital inflows produced a large increase in official reserves in 1970 and some further build-up in 1971. The exchange rate, floating freely since May 1970, had risen 8 per cent above its old fixed parity by October 1971.

Relaxation of fiscal and monetary restraint began in the spring of 1970, and fiscal policy has since been used in a particularly flexible fashion. Economic policy continues to be aimed at steady growth, an absorption of slack and reasonable price stability. However, there is now some uncertainty about the speed with which these objectives can be realized as a consequence of the likely net impact on the Canadian economy of the US measures of August 15[1]. While policies aimed at stimulating growth and moderating price increases in the US economy are complementary to Canadian economic policy, the near-term outlook for certain industries may have been adversely affected by some features of the US programme. Just how serious these consequences might be for the actual outcome is unclear as a result of uncertainty about the duration of the import surtax and the precise form and impact of the Job Development Credit and DISC proposals.

Subject to these qualifications, Canadian real growth should be roughly in line with the expansion of potential over 1971 as a whole, with more strength developing in the latter part of the year and during 1972. Unemployment should continue to decline, but the authorities remain concerned about the threat presented by the continuing rapid rise in costs, and price pressures will probably be somewhat stronger in 1971 and 1972 than they were last year. Current foreign transactions are expected to remain in surplus in 1971, but at a level somewhat lower than last year. This, plus possible renewed net capital inflows, may maintain the foreign exchange rate at a relatively high level, thus presenting policy makers with additional difficulties in their efforts to expand employment opportunities and promote development of a more balanced industrial structure.

1 For a discussion of the effects of the US measures, and certain selective fiscal relief action taken by the Canadian Government, see pages 48 and 50/51.

The first chapter of this Survey discusses recent economic developments, including trends in demand and output, employment, costs and prices and the balance of payments. The second chapter describes recent fiscal, monetary and incomes policies. Chapter III analyses past and current trends in the Canadian balance of international payments and considers prospects for the trade, current and capital accounts in the 1970's. The final section discusses the economic outlook, and offers some policy conclusions.

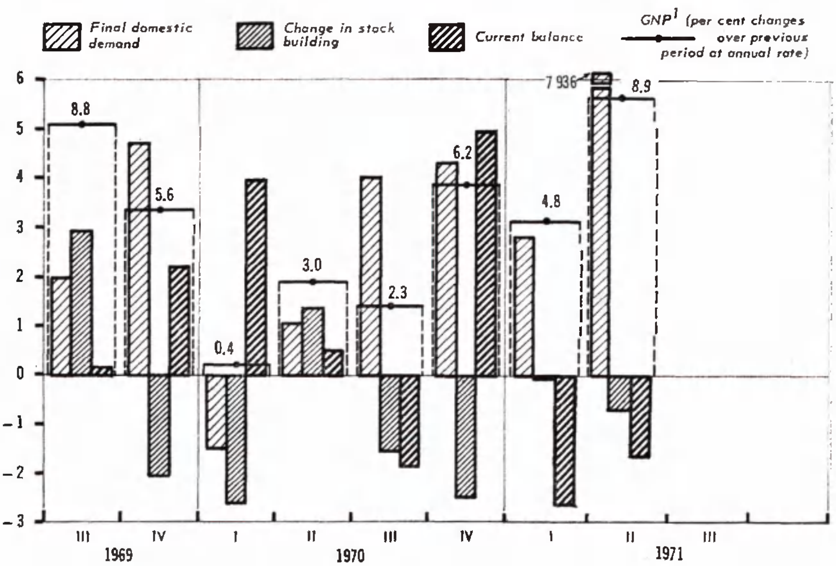
I THE ECONOMIC SITUATION

Output and demand[1]

Real GNP, which had grown at an annual rate of about 5 per cent in both 1968 and 1969, fell back in response to earlier policy restriction to a 3.3 per cent rate of increase in 1970 (Table 1), about two-thirds resulting from an exceptionally strong improvement in the current foreign balance.

Chart 1 **GNP and Main Components**

Quarterly changes, seasonally adjusted at annual rates, C$ million at 1961 prices



1 Including residual error of estimate. The sum of the ordinates of components differs from the GNP ordinate by this item.

Source : National Income and Expenditure Accounts, Statistics Canada.

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1 Unless otherwise specified, all figures used in this report are, where applicable, seasonally adjusted annual rates.

Table 1 Changes in Demand and Output

Percentage changes, seasonally adjusted annual rates

	1967	1968	1969	1970	1970 Q1 / 1969 Q4	1970 Q2 / 1970 Q1	1970 Q3 / 1970 Q2	1970 Q4 / 1970 Q3	1971 Q1 / 1970 Q4	1971 Q2 / 1971 Q1
CONSTANT (1961) PRICES:										
Personal expenditure	4.7	4.5	5.6	2.0	–7.5	3.2	5.3	6.6	5.3	12.7
Government current expenditure	4.1	3.8	3.2	9.6	30.3	6.0	–0.8	10.0	8.4	5.2
Government fixed investment	4.7	0.9	–1.7	3.4	2.7	6.0	5.9	7.2	1.9	20.7
Non-residential business fixed investment	–0.4	–3.9	4.0	4.5	–5.2	3.0	21.3	–3.6	–4.3	19.9
Residential construction	1.3	13.5	12.2	–10.9	–17.8	–35.8	11.3	50.5	14.5	16.5
Final domestic demand	3.7	3.3	5.0	2.9	–2.4	1.7	6.7	7.1	4.6	12.9
Inventory investment[1]	(–1.6)	(0.5)	(0.5)	(–1.4)	(–4.2)	(2.2)	(–2.4)	(–3.9)	(3.5)	(–1.1)
Total domestic demand	2.1	3.8	5.4	1.5	–6.4	4.0	4.1	3.0	8.4	11.7
Exports of goods and services	10.5	12.1	8.0	9.9	29.2	–2.4	–6.3	1.5	22.4	4.1
Imports of goods and services	4.7	9.4	11.2	–0.1	2.0	–5.4	4.6	–25.3	45.4	14.4
Foreign balance[1]	(1.1)	(0.5)	(–0.9)	(2.6)	(6.4)	(0.8)	(–3.0)	(7.9)	(–4.1)	(–2.5)
GNP[2]	3.5	4.9	5.1	3.3	0.4	3.0	2.3	6.2	4.8	8.9
Residual error of estimate[1]	(0.2)	(0.6)	(0.5)	(–0.8)	(0.5)	(–1.7)	(1.2)	(–4.7)	(0.9)	(—)
CURRENT PRICES:										
GNP	7.0	8.6	10.0	7.5	8.5	5.6	5.7	6.7	8.1	14.1
Implicit price deflator	3.4	3.5	4.7	4.1	7.9	2.4	3.4	0.6	3.0	4.8

1 Changes expressed as a percentage of GNP in the previous period at annual rates. These three items and the rate of change of final domestic demand broadly equal the rate of change of GNP.

2 Including residual error of estimate.

Source: Statistics Canada.

Table 2 Government Current Expenditure on Goods and Services
National accounts basis

	1970		Per cent changes			Per cent changes seasonally adjusted at annual rate		
	current C$ million	% share in total	1968	1969	1970	1970 I	1970 II	1971 I
Total	15 802	100.0	11.2	12.5	15.5	17.5	11.7	15.2
Federal	4 511	28.5	6.1	13.2	5.1	15.1	–17.4	27.7
Provincial	3 747	23.7	13.8	6.9	37.0	31.7	54.0	9.8
Local	5 586	35.3	15.1	15.7	14.2	14.0	15.7	11.8
Hospitals	1 958	12.4	10.0	11.5	11.3	10.8	9.4	10.2

Source: Statistics Canada National Income and Expenditure Accounts, quarterly.

Domestic demand was generally quite weak (Chart 1), particularly in the first half of the year. Both residential construction and stockbuilding declined, and the rise in private consumption was relatively weak. But government purchases of goods and services were buoyant (Table 2) and business fixed investment held up well.

The impact of the general weakness of demand on productive activity in 1970 was aggravated by a tendency to meet what demand there was by drawing down existing stocks. This tendency was particularly strong in the agricultural sector as the result of the earlier inventory build-up and a government programme aimed at reducing stocks of grain in commercial channels. But production, except in the service sector where activity held up quite well throughout the year, and in construction, which was subject to special influences, also remained less than buoyant in other sectors (Table 3). Later in the year the agricultural sector showed some signs of recovery, and there was also an improvement in the output of non-durable manufactures.

While stockbuilding remained weak in the second half of 1970 (partly as a result of a continuing run-down of agricultural stocks and partly as a consequence of the effect of the General Motors strike on stocks of motor vehicles and parts), final domestic demand recovered sharply (Chart 2). This recovery, which was clearly evident in both private consumption and private gross fixed investment, seems however to have had little effect on imports which, in fact, declined more steeply in the fourth quarter of the year than might have been expected form the effect of the General Motors strike alone. Two principal factors seem to have been behind the marked upturn of activity. Firstly, domestic demand, which had been depressed earlier in the year by 1969's restrictive policies, was given an upward push by the monetary and fiscal ease which developed after the first quarter of 1970[1]. Secondly, gross fixed investment, which was depressed by a strike in the construction industry in the second quarter of 1970, picked up quickly when the strike was settled. Residential construction had actually declined severely in the first half, and contributed markedly to the recovery in the second half as policy measures specifically aimed at stimulating activity in this area were added to the normal reaction to the strike settlement. The size of the jump in non-residential fixed investment activity in the third quarter is somewhat puzzling and, indeed, some uncertainty attaches to the behaviour of this sector for the year as a whole[2]. The acceleration of private consumption expenditure, while not spectacular, was steady over the year as consumer confidence recovered.

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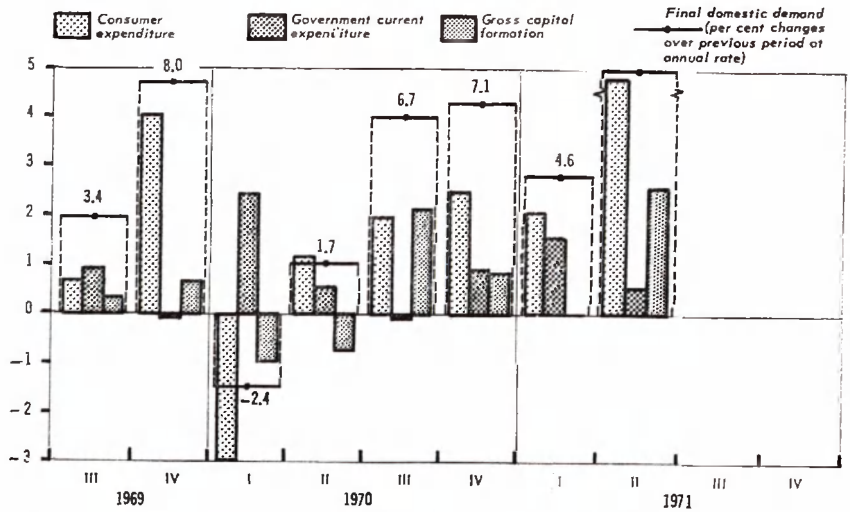
1 Monetary and fiscal developments are discussed in greater detail in Chapter II.

2 Partly because of an overestimation of the effects of the strike in the construction industry, a very large and unusual discrepancy between the national account investment figures and the corresponding figures from investment surveys appeared through the first three quarters. " Benchmark " revisions for the year as a whole were incorporated in the publication of the fourth quarter national accounts. Considerable uncertainty about the accuracy of the figures remains, however, because some usually corroborating evidence is lacking. Corporate profits, for example, declined by 9½ per cent in 1970, dropping most markedly in the fourth quarter. Moreover, if the level of activity in the construction sector in the second quarter was in fact seriously underestimated, important implications for employment and wage bill estimates both in that sector and in the national totals are involved in the revisions. The revisions do not seem to reflect these implications and, thus, leave considerable doubt about what the actual developments in the national accounts as a whole (not merely in business fixed investment) really were in 1970.

Chart 2 **Final Domestic Demand and Components**
Quarterly changes, seasonally adjusted at annual rates, C$ million at 1961 prices



Source **: National Income and Expenditure Accounts, Statistics Canada.**

The growing strength of the economy since the third quarter of 1970 can be seen in some of the more recent statistics. Real GNP has been increasing at an annual rate of about 5 per cent in the fourth quarter of 1970 and the first quarter of 1971 combined (compared to a rate of only 2¼ per cent in the previous six months). In the second quarter of 1971 there was a sharp acceleration of domestic demand, reaching a rate of almost 12 per cent, but part of this was met by imports rather than by domestic production. Housing was an important component of the stronger demand situation, and consumption accelerated to an annual rate of about 13 per cent. Expenditures by all levels of government were also high in the first half year, but have decelerated since the fourth quarter of 1970. The elements of strength in the Canadian situation early in 1971 seem to have been reinforced in the second quarter by a rise in non-residential investment[1] and there was also a broadly-based recovery in industrial activity.

Labour force, employment and productivity

The relatively slow advance of real GNP in the first three quarters of 1970 inevitably had its counterpart in a low rate of growth of total employment and, since the labour force continued to expand rapidly (Table 4), unem-

1 Second quarter information is based on preliminary national accounts data. However, the investment strength shown by these data does not appear to be supported by other indicators.

Table 3 Real Domestic Product and Industrial Production
Percentage changes, seasonally adjusted annual rates

	1968	1969	1970	1969		1970				1971			1961 weight in per cent of total index
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Real domestic product	5.1	4.6	2.4	0.3	6.3	2.3	1.8	1.3	3.0	4.5	7.3		100.000
of which:													
Real domestic product excluding agriculture	5.1	4.6	2.7	1.0	5.7	4.3	0.7	1.5	1.5	4.2	6.7		95.475
Goods	6.3	4.5	1.6	–2.4	7.3	5.4	–3.3	–3.4	3.7	5.1	2.9		39.708
Services	4.1	4.7	3.6	3.7	4.2	3.7	4.2	4.1	—	3.6	9.5		55.767
Industrial production	6.8	4.7	2.1	–2.1	7.9	7.2	–1.6	–3.0	0.7	5.7	1.4	8.5	32.415
of which:													
Manufacturing	6.7	5.2	–0.9	–0.2	3.1	0.9	–1.6	–7.3	–3.8	8.9	2.4	6.7	24.943
Non-durables	5.3	5.2	1.4	6.8	1.6	0.3	1.3	–6.1	10.2	–5.6	3.5	5.3	13.933
Durables	8.0	5.2	–3.0	–6.9	5.1	1.0	–4.2	–8.4	–16.2	27.6	1.5	8.1	11.010

Source: Bank of Canada Statistical Summary.

Table 4 Labour Force, Employment and Unemployment
Percentage changes, seasonally adjusted annual rates

	1968	1969	1970	1969				1970				1971		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Civilian working-age population[1]	2.8	2.6	2.6	2.6	2.5	2.7	2.5	2.6	2.6	2.6	2.4	2.6	2.4	2.5
Labour force	2.9	3.1	2.6	4.8	2.5	–1.6	1.5	3.1	6.7	2.6	1.6	3.3	0.6	5.1
Total employment	2.1	3.2	1.3	6.5	1.6	–2.0	0.8	3.1	2.1	–0.1	2.1	4.8	–0.6	5.2
Non-agricultural employment	2.5	3.6	1.7	5.5	2.6	–1.3	1.0	3.0	3.3	0.3	1.9	3.9	0.9	5.6
Unemployment rate	4.8	4.7	5.9	4.4	4.7	4.8	4.9	5.0	6.0	6.7	6.5	6.1	6.5	6.6

1 Not seasonally adjusted.
Source: Bank of Canada Statistical Summary.

Table 5 **Total and Regional Unemployment in Canada**
Years and seasonally adjusted quarters

	1969	1970	1969		1970				1971		
			Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Canada	4.7	5.9	4.8	4.9	5.0	6.0	6.7	6.5	6.1	6.5	6.6
Atlantic provinces	7.6	7.6	8.1	7.5	7.1	7.2	8.5	7.9	7.2	8.3	9.7
Quebec	6.9	7.9	7.1	7.2	6.8	8.0	8.7	8.5	8.2	8.2	8.7
Ontario	3.1	4.3	3.0	3.4	3.6	4.2	4.7	4.9	5.3	5.5	5.1
Prairie provinces	2.9	4.4	2.8	3.4	3.7	4.6	4.8	5.1	4.3	4.3	5.0
British Columbia	5.0	7.7	4.9	5.4	5.8	8.1	9.0	8.3	7.2	7.2	7.1

Source: Canadian Statistical Review, Statistics Canada.

ployment increased from about 5 per cent early in the year to 6.8 per cent in September. After the third quarter, acceleration of activity tended to reduce the unemployment rate somewhat, but more recently, unemployment has again risen, to a level of 6.7 per cent in October 1971. Rapid employment growth has been more than offset by extreme increases in the supply of labour, particularly in the age group under 25. Regional disparities in unemployment remain considerable, with October 1971 rates of 9¾ in the Atlantic Provinces, 8½ in the Quebec, 6¼ in British Columbia, 5½ in Ontario and about 5¾ in the Prairie Provinces (Table 5).

Total productivity per employee grew slightly more in 1970 than in 1969, despite weak performance in the agricultural and manufacturing sectors and large losses due to strikes (Table 6). Time lost in work stoppages was of about the same order of magnitude as in 1969[1]; that is, at a record level for the last two decades. Increasing strike activity has undoubtedly had the indirect effect of raising the level of unemployment, perhaps by as much as ½ percentage point, in recent years. In line with its normal cyclical behaviour during upturns, productivity has strengthened considerably since the third quarter of 1970.

Demand pressure, costs and prices

The overall pressure of demand decreased further in 1970. The ratio of actual to potential output, (defining potential as the output at 4 per cent unemployment) dipped much more sharply than in 1968/69 (Chart 3)[2]. In general, unused capacity seems to be much higher in terms of unemployed labour than in terms of excess capital stock, a reflection of the weakness of business fixed investment over the past several years (Table 7). In 1970, such investment, if one fully accepts the revised figures, was only 5 per cent higher than in 1966.

The large and changing pattern of regional unemployment differentials reduces the value of the global unemployment rate as an indicator of demand pressure and, thus, makes it difficult to assess how much the rate can be reduced without creating excessive pressures in certain areas. With the present regional labour market pattern, however, it would appear that a reduction of unemployment in the less developed areas to levels of say 4-5 per cent could easily lead to severe demand, cost and price pressures in other regions. Apart from this regional problem, there is the additional difficulty of a changing labour market structure leading to changes in the meaning of any overall unemployment rate as a measure of labour market tightness and its implications for wage pressures. In particular, a much larger proportion of the unemployed today are young people whose unemployment presumably exerts less downward pressure on average wages than does that of

1 Time lost in work stoppages corresponds to some 31 000 man-years for both 1969 and 1970.

2 The ratio of actual to potential output is at best only an approximate indicator of the extent of pressure on resources, and conclusions drawn from it must be qualified in a number of ways. For a fuller discussion of the difficulties involved in interpreting this measure of demand pressure, see pp. 14-15 of the OECD Economic Survey of Canada, May 1970.

Table 6 **Labour Compensation, Productivity, Unit Labour Costs and Unit Corporate Profits**
Percentage changes, seasonally adjusted annual rates

	1968	1969	1970	1969 Q3	1969 Q4	1970 Q1	1970 Q2	1970 Q3	1970 Q4	1971 Q1	1971 Q2	1971 Q3
Labour compensation per employee	6.7	8.6	7.4	12.4	11.5	8.0	–0.5	7.7	8.6	1.9	13.3	
Total productivity per employee[1]	2.7	1.8	2.0	10.9	6.4	–3.1	—	3.5	4.6	–0.8	9.6	
Manufacturing productivity per employee[2]	7.7	2.6	1.1	3.0	1.1	3.6	3.6	–12.8	9.7	6.8	–0.6	
Labour compensation per unit of total output[1]	3.8	6.7	5.3	1.4	4.8	11.4	–0.4	4.1	3.9	2.7	3.4	
Corporate profits per unit of total output[1]	4.7	0.4	–9.2	–29.1	–4.7	7.8	–18.4	7.8	–42.8	27.7	25.4	

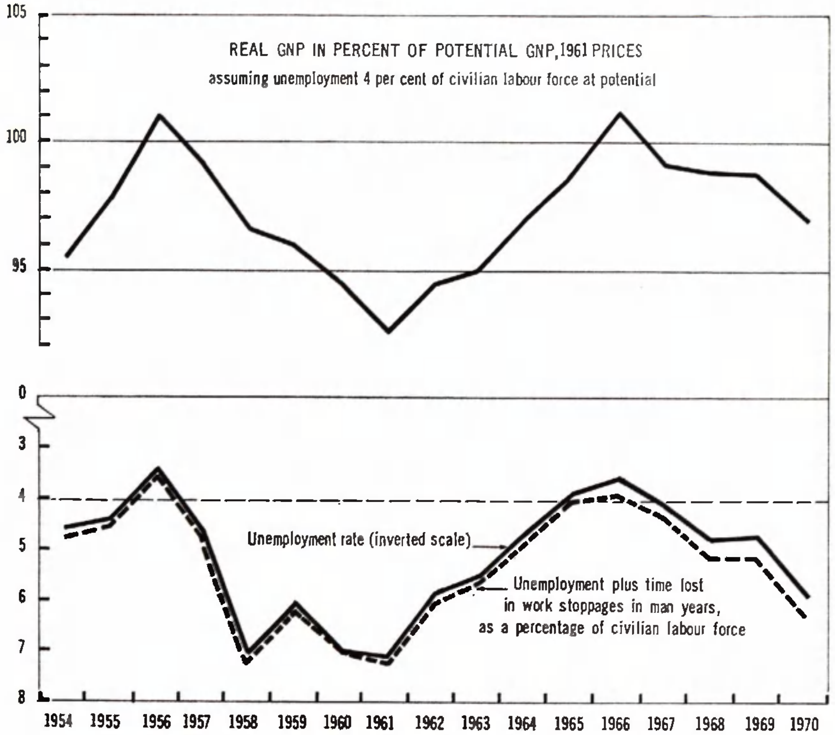
1 The output measure used is volume GNP.
2 Not strictly comparable with total productivity.
Sources: Bank of Canada Statistical Summary; OECD Secretariat.

Table 7 **Revision of Business Investment Figures for 1969 and 1970 at 1961 Prices**

	1966 C$ million	Total per cent change 1969/1966		Per cent changes, seasonally adjusted at annual rates 1970 3 quarters/1969 year	
		unrevised	revised	unrevised	revised
Non-residential construction	3 952	–6.8	–5.4	–6.9	6.0
Machinery and equipment	4 615	1.6	3.7	–9.1	4.4
Total	8 467	–1.1	0.7	–8.1	5.1

NOTE Revisions in 1970 include changes in seasonal adjustment for the first three quarters, between the publications of national accounts for the third and fourth quarters of 1970.
Source: Statistics Canada National Income and Expenditure Accounts, quarterly.

Chart 3 **Indicators of Demand Pressure**

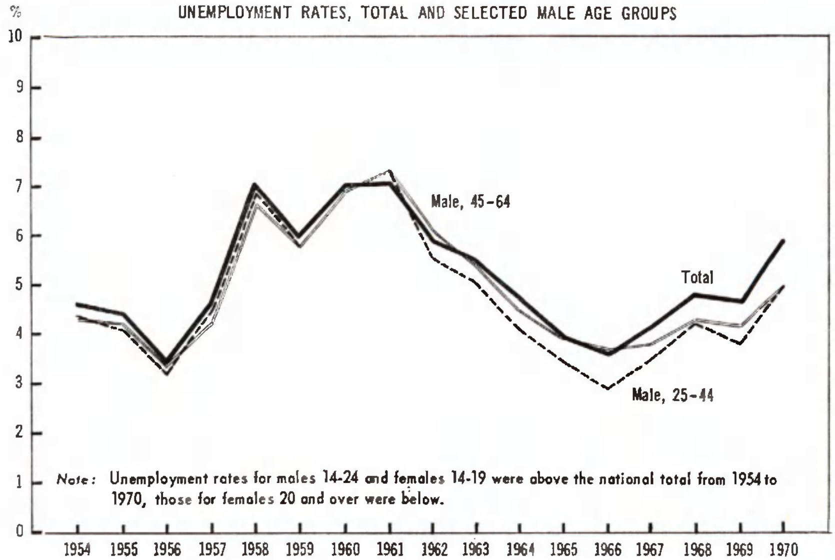


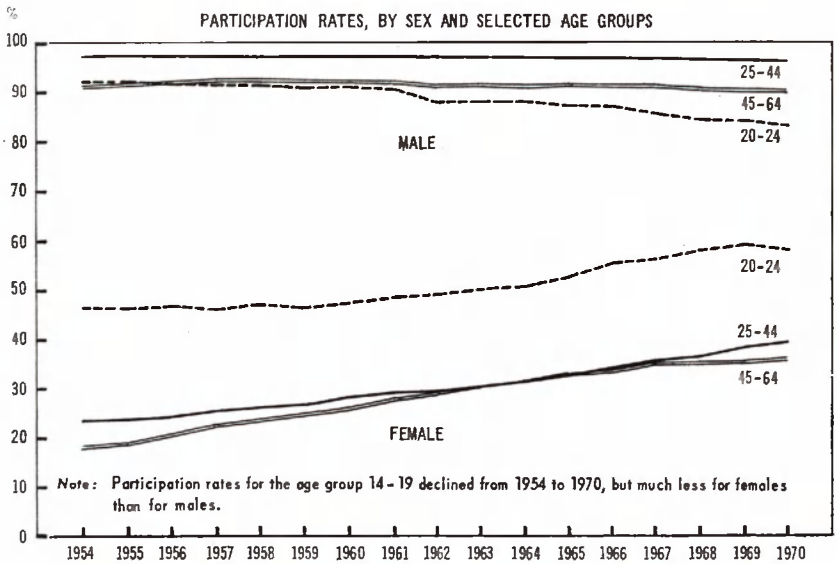
Source : Economic Council of Canada, Canadian Statistical Review (Statistics Canada) and OECD Secretariat.

males in the prime age groups. Before 1962, it made little difference whether one used the overall rate of unemployment or the rate for adult males (age 25 and over) to measure the degree of labour market pressure. But Chart 4 indicates that this situation has clearly changed; last year the overall rate stood one full percentage point higher than the rate among adult males. This phenomenon must have played at least some part in reducing the depressing effect on costs of the relatively high rates of unemployment which have been experienced in the past two years. And it suggests that the implications for costs and prices of a 3 per cent unemployment target may be different today from what they were seven years ago when such a target was established by the Economic Council in its first annual review.

Measured by broad aggregates, price increases were distinctly lower in 1970 than in 1969. Many series decelerated or actually declined after the first quarter. The GNP deflator was still up 4.1 per cent (Table 8), but this was chiefly due to an 8 per cent rise in the first quarter. The price rise decelerated sharply thereafter in response to a sharp drop in food prices and a lagged response to easier demand conditions, aided by the price restraint

Chart 4 **Structure of Unemployment 1954-1970**





Source : Canadian Economic White Paper for 1971.

programme negotiated by the Prices and Incomes Commission and price reviews conducted by that agency. The sharp increase in the exchange value of the fluctuating Canadian dollar also reduced the impact of foreign inflation on domestic prices. By the fourth quarter, the GNP deflator grew

Table 8 Prices
Percentage changes

	1963	1964	1965	1966	1967	1968	1969	1970	1971 I / 1970 I	1961 Weights *Per cent of total index*
Price deflators (seas. adj.)										
GNP	1.9	2.4	3.5	4.6	3.4	3.5	4.7	4.1	2.8	
Private consumption	1.6	1.3	2.1	3.3	3.4	3.9	4.1	3.3	2.2	
Exports of goods and services	1.3	2.3	1.5	2.9	1.8	1.3	2.3	3.3	–1.8	
Imports of goods and services	1.7	1.1	0.2	1.7	2.0	2.1	2.7	2.1	2.0	
Price indices (not seas. adj.)										
Consumer prices	1.8	1.7	2.5	3.7	3.6	4.1	4.5	3.3	1.9	100
Food	3.2	1.6	2.6	6.4	1.3	3.3	4.2	2.3	–1.7	27
Non-food	1.2	1.9	2.4	2.8	4.4	4.4	4.6	3.8	3.3	73
Non-food goods	0.8	1.1	1.1	2.0	3.7	3.7	2.7	2.1	5.9	43
Services excluding shelter	2.0	3.7	6.2	4.4	6.2	4.4	6.9	5.0	1.9	13
Shelter	1.8	2.5	2.6	3.1	4.7	6.0	6.8	6.5	3.9	18
Wholesale prices (1935-39 weights)	1.9	0.3	2.0	3.6	1.8	2.1	4.6	1.5	–0.4	
Export prices (1968 weights)	n.a.	n.a.	n.a.	n.a.	n.a.	2.4	2.5	2.7	–1.3	
Import prices (1968 weights)	n.a.	n.a.	n.a.	n.a.	n.a.	2.4	2.3	2.2	0.5	

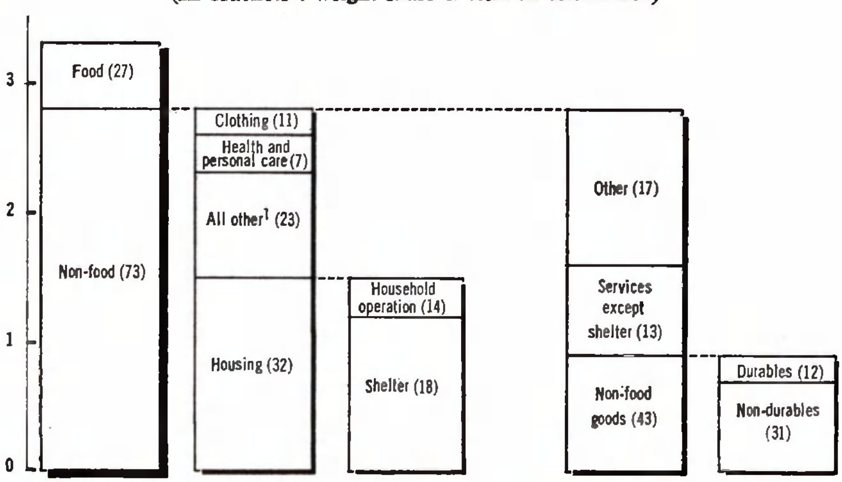
Source: Bank of Canada Statistical Summary and Statistics Canada National Income and Expenditure Accounts.

at only a 0.6 per cent annual rate. But by the second quarter of 1971, the annual rate of increase had picked up to 4.8 per cent. Although the quarterly figures may have been influenced by short-term irregularities, they do at least suggest that the deceleration in prices has ended.

Year over year, the consumer price index (CPI) rose 3.3 per cent in 1970, but from December to December the advance was limited to 1½ per cent. Increases in non-food prices accounted for 2.8 percentage points of the year-on-year increase (Chart 5). Non-food goods contributed only 0.9 percentage points, but service prices, notably rents, rose rapidly. After rising about 3½ per cent in the first and second quarters (annual rate, not seasonally adjusted), the total CPI levelled off towards the autumn and fell slightly in the last quarter. Food prices fell sharply, largely as a result of a price war between Canadian chain stores (Chart 6), but have turned up again since January. The total CPI in October 1971 was 3½ per cent above its year-earlier level.

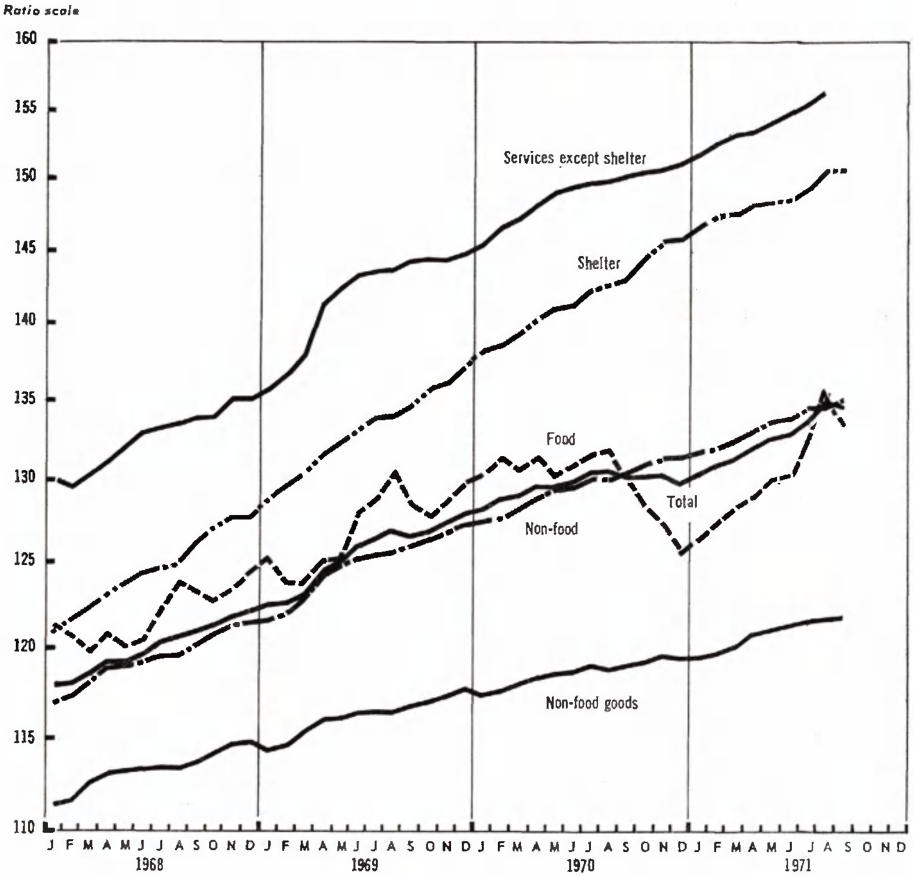
On the wholesale level, the 1970 index rose by 1½ per cent year on year, but fell by 0.8 per cent from December 1969 to December 1970 because of a steady decline from April onwards. High increases in some subindices, like iron and non-ferrous metals, were offset by a fall in the price of wood products as a consequence of declining building activity in North America. Moderate behaviour of prices of lumber and lumber products was also responsible for a very slow growth of the index of thirty industrial materials which actually declined after March last year. Both indices resumed stronger growth in 1971 and the index of wholesale prices in general started climbing again. In October 1971, the wholesale price index was 3.1 per cent above its December 1970 level (2.4 per cent above October of last year). Rises were most pronounced in wood products and in chemical and animal products.

Chart 5 **Percentage Point Contributions to the Rise in the Consumer Price Index in 1970**
(In brackets : weight share of item in total index)



1 Transportation, recreation and reading, tobacco and alcohol.
Source : Canadian Statistical Review, Statistics Canada.

Chart 6 **Consumer Price Index, 1961 = 100**



Source : Bank of Canada Statistical Summary.

In contrast to the relatively favourable 1970 price performance, there were few distinct signs of a deceleration of costs. Increases in labour compensation per worker showed a decline in the second quarter, but after this grew again at a rate of about 8 per cent. Base rates in major wage settlements (excluding construction) went up by 8.4 per cent in 1970 as against 7.6 per cent in 1969. In the first three quarters of 1971, however, such settlements were again running at a rate of almost 8 per cent. Average hourly earnings in manufacturing in June 1971 were 10 per cent higher than 12 months earlier, and 5.4 per cent (actual rate) above the December 1970 level. Recent wage claims, especially in the construction industry, have remained sufficiently high to be clearly incompatible with long-run price stability.

Looking back over the experience of the past two years, it appears that the authorities have managed to bring price and, to a lesser extent, cost increases under better control, while still maintaining a certain measure of economic advance. A weaker demand situation has, however, led to higher unemployment rates and sharply depressed profit margins throughout 1970 (down 9½ per cent for the year). To what extent the improved price performance can be sustained is uncertain given the continuing strong increase in various types of incomes. In consequence, inflationary dangers from the cost side are still disquieting. Another aspect of the recent price slowdown is that some part of it might have been due to the efforts of the Prices and Incomes Commission and this may represent only a deferral, not a foregoing, of certain price increases, although no sign of such behaviour has as yet appeared. For these reasons, pent-up cost increases may be waiting to be rolled forward into prices as soon as the demand situation permits. Moreover, a repetition of last year's moderating influence on domestic prices of the strengthening of the Canadian dollar is unlikely.

The balance of payments

The first current account surplus since 1952 made its appearance in 1970 and its size (C$ 1.1 billion) represented a post-war record (Table 9). The huge swing from 1969's deficit of C$ ¾ billion was the result of an exceptional C$ 2.1 billion increase in the surplus on merchandise trade — primarily due to export growth — slightly offset by the usual deterioration (C$ 0.1 billion) on invisibles. The net long-term capital inflow fell to about one-third the 1969 level and was the smallest one since 1963 (Table 10). Net outflows of short-term capital continued, but at a sharply reduced rate. The resulting total net inflow of capital was the smallest annual inflow in many years (Chart 7). As the counterpart of this inflow and of the high current surplus, official reserves (excluding the SDR allocation) rose by about C$ 1½ billion, mostly in the first half of the year before the Canadian dollar was allowed to float.

The large increase in the trade surplus resulted from a strong rise in exports and a slight decline in imports. Cyclical weakness of domestic demand; recuperation early in the year of 1969's strike losses in exports of metals and minerals; strong foreign demand for Canadian natural resources and an upsurge in agricultural exports were the main factors behind the strong trade balance. Moreover, the General Motors strike weakened automotive imports more than exports. The effect of the appreciation of the Canadian dollar after May 1970 is difficult to evaluate. By the end of the year, there had been some improvement in Canada's terms of trade, but it is uncertain how much, if any, is permanent. The impact on trade volume may have been generally small so far.

Although shipments to the United States rose by only 3½ per cent last year, total merchandise exports grew 13.1 per cent. The US share in total Canadian exports fell sharply from 1969's exceptional level of 71.1 per cent (Table 11). Overseas exports increased 36¾ per cent, partly because of the

Table 9 **Balance of Payments — Current Account**
C$ million

	1966	1967	1968	1969	1970	1969[1] I	1969[1] II	1970[1] I	1970[1] II	1971[1] I
Merchandise exports	10 326	11 338	13 537	14 868	16 840	14 548	15 188	16 894	16 786	17 602
Merchandise imports	10 102	10 772	12 162	14 007	13 833	13 888	14 126	14 350	13 316	15 058
Trade balance	224	566	1 375	861	3 007	660	1 062	2 544	3 470	2 544
Gold production for export	127	112	120	108	96	118	98	102	90	92
Travel	–60	423	–30	–218	–226	–546	110	–582	130	–558
Interest and dividends	–822	–916	–906	–915	–997	–804	–1 026	–1 010	–984	–882
Freight and shipping	–65	–31	–40	–61	37	–48	–74	42	32	34
Inheritances and migrants' funds	70	116	161	162	190	146	178	174	186	214
All other current transactions	–636	–769	–787	–853	–974	–934	–772	–876	–1 052	–1 004
Non-merchandise balance	–1 386	–1 065	–1 482	–1 777	–1 874	–2 068	–1 468	–2 150	–1 598	–2 104
Current balance	–1 162	–499	–107	–916	133	–1 408	–424	394	1 872	440

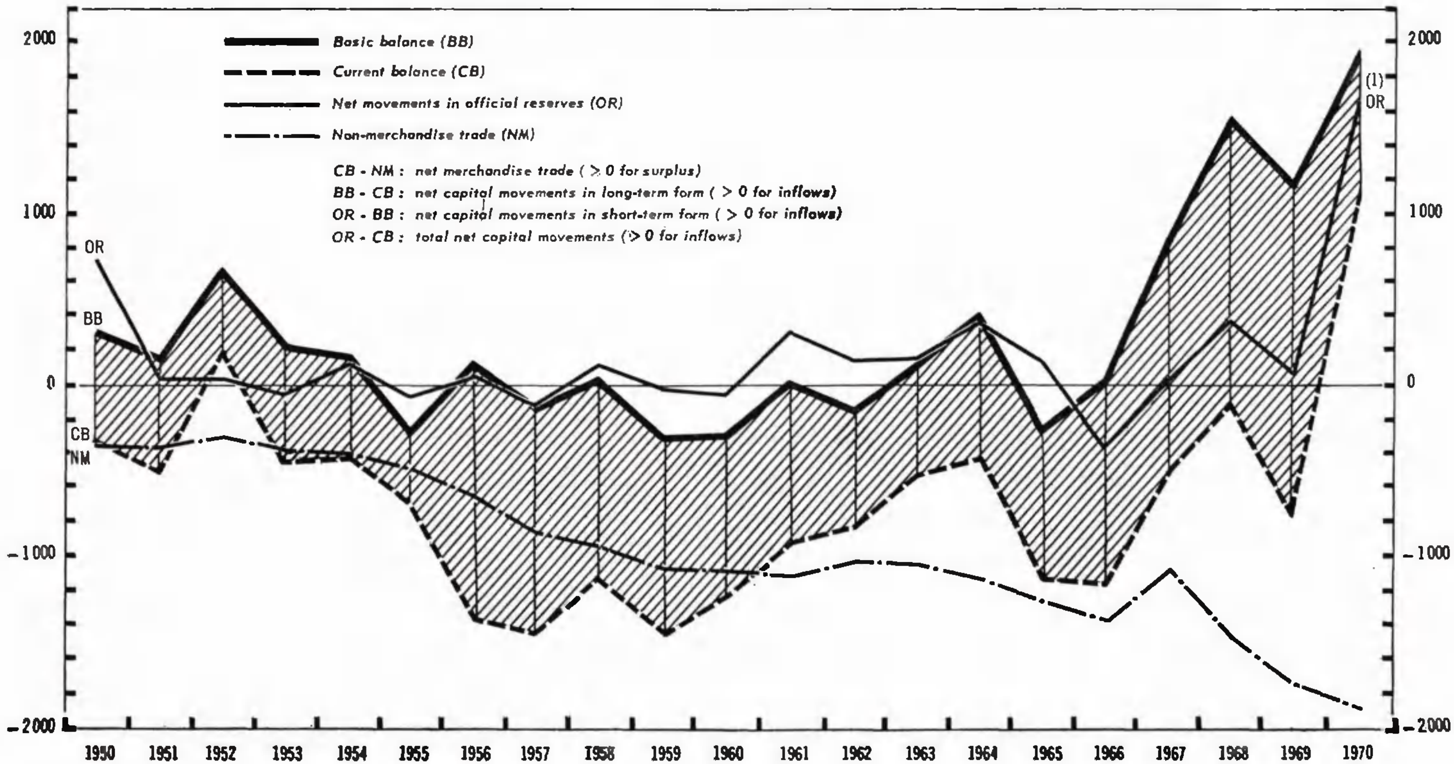
1 Half years at seasonally adjusted annual rates.
Source: Quarterly estimates of the Canadian Balance of International Payments (Statistics Canada).

Table 10 **Balance of Payments — Capital Account**
C$ million

		1966	1967	1968	1969	1970	1969		1970		1971
							I	II	I	II	I
A	Current balance (seas. adj.)[1]						–471	–445	428	705	485
	Current balance (not seas. adj.)	–1 162	–499	–107	–916	1 133	–704	–212	197	936	220
B	Long-term capital	1 167	1 347	1 654	2 105	805	1 034	1 071	605	200	310
	Direct investment	785	566	365	350	555	253	97	184	341	245
	Canadian stocks, net	–83	48	179	263	–82	234	29	–44	–38	–56
	Canadian bonds, net	809	857	1 354	1 441	632	757	684	329	303	185
	New issues	1 408	1 270	1 850	1 877	1 154	985	892	674	480	647
	Retirements	–495	–350	–426	–438	–483	–239	–199	–325	–158	–408
	Trade in outstanding bonds	–104	–57	–70	2	–39	11	–9	–20	–19	–54
	Foreign securities	–401	–432	–467	102	61	–60	162	191	–130	103
	Other long-term capital	57	308	223	–51	–361	–150	99	–55	–306	–167
C	Short-term capital	–364	–828	–1 198	–1 124	–408	–422	–702	373	–781	–475
D	Net official monetary assets (A + B + C + allocation of special drawing rights)	–359	20	349	65	1 663	–92	157	1 308	355	174
	Special drawing rights	—	—	—	—	133	—	—	133	—	119

1 Half-yearly rates.
Source: Quarterly estimates of the Canadian Balance of International Payments (Statistics Canada).

Chart 7 **Canadian Foreign Trade and Payments 1950-1970**
C$ million, yearly



1 Including C $ 133 million SDR allocated on lst January, 1970.

Source : The Canadian Balance of International Payments (Statistics Canada).

peak levels of activity occurring in some European countries and in Japan[1]. Almost three quarters of the rise in the Canadian dollar value of exports resulted from very high increases in exports of many agricultural products (wheat, barley, rapeseed, etc.), partly due to poor harvests in a number of countries, and natural resource products (coal, nickel, iron, steel, copper, etc.). Other merchandise exports were relatively weak. Exports of motor vehicles and parts were only ½ per cent above 1969, but this may have been largely due to the demand slump in North America in the first quarter and to the General Motors strike in the fourth. Exports of woodpulp, newsprint, lumber, etc., either grew slowly or declined. Excluding automotive trade and wheat (one-quarter of total exports in 1970), exports grew 15.9 per cent, more than in any year in the last decade.

Total imports fell 1.2 per cent below their 1969 level. The general sluggishness which resulted from cyclical weakness was accentuated by the General Motors strike. Imports of motor vehicles and parts declined 10 per cent. Excluding automotive trade (24 per cent of total imports in 1970), imports rose by 1.7 per cent. Chemicals, electronic computers and office machines, certain fabricated textile materials and coffee were in strong demand; while imports of non-farm machinery and parts, crude petroleum and printed matter advanced weakly. Imports of aircraft, communication equipment, farm machinery and tractors declined.

Production of gold for export declined further in 1970 and the deficit in the non-merchandise balance rose by C$ 0.1 billion to C$ 1.9 billion. The net outflow on travel exceeded slightly the already exceptionally high level of 1969 as the larger travel deficit with the overseas countries was only partly offset by a somewhat larger surplus with the United States. The deficit on interest and dividends increased to C$ 1 billion, with both receipts and payments rising strongly. Freight and shipping swung sharply (C$ 0.1 billion) into surplus, but this swing was offset by a rise in net outpayments on all other transactions, half of which was net transfers, mostly official contributions.

A C$ 1½ billion decline in net sales of Canadian securities and a C$ 0.3 billion increase in the deficit on other long-term capital were the principal factors responsible for the marked reduction in net long-term capital inflows (Table 10). In answer to an official request to Canadian borrowers to seek accomodation in Canadian capital markets before going abroad for funds, net new issues abroad of provincial and municipal bonds fell C$ 650 million from their 1969 level. New corporate bond issues abroad also declined slightly in 1970 from their 1969 level (Table 12). In the first half of 1971, the proportion of bond financing done abroad, which had already fallen in 1970, was further reduced. Weakness in North American stock markets resulted in a decline in the inflow resulting from new issues of corporate

1 Overseas export gains were (with 1970 per cent share in total exports in brackets):

		Per cent change in 1970
United Kingdom	(8.9)	34.8
EEC	(7.1)	40.9
Asia excluding mainland China	(6.8)	31.8
Latin America	(3.4)	27.7
EFTA	(1.9)	42.3
State Trading Countries	(1.8)	93.0

Table 11 Export Values by Area of Destination
C$ million

Customs basis	All Exports: All commodities	All Exports: Excl. automotive trade	All Exports: Excl. automotive trade & wheat	United States: All commodities	United States: Excl. automotive trade	United States: Excl. automotive trade & wheat	United Kingdom: All commodities	United Kingdom: Excl. automotive trade	United Kingdom: Excl. automotive trade & wheat	All other countries: All commodities	All other countries: Excl. automotive trade	All other countries: Excl. automotive trade & wheat
				Annual growth in per cent								
1960	4.8	4.5	5.8	-4.6	-4.4	-4.5	16.5	16.4	23.0	22.4	21.3	32.4
1961	9.5	9.9	5.7	5.9	5.8	5.8	-0.2	-0.1	-0.8	23.6	25.8	10.0
1962	7.7	7.6	9.9	16.5	16.4	16.6	-0.2	-0.2	-0.3	-4.2	-4.8	-1.5
1963	10.0	9.5	7.3	4.5	3.8	3.8	10.3	10.2	9.8	21.8	21.9	16.5
1964	18.8	17.8	15.7	13.3	11.9	12.2	18.8	18.7	24.5	29.3	28.6	20.4
1965	5.6	3.5	7.2	13.4	10.7	10.8	-1.8	-1.9	-1.4	-4.1	-5.9	3.1
1966	17.8	10.9	9.0	23.9	12.3	12.3	-4.5	-4.5	-5.1	16.1	15.7	8.0
1967	10.6	3.7	8.4	17.6	6.4	6.4	4.1	4.2	6.7	-1.7	-1.7	14.9
1968	19.1	12.9	14.8	25.6	17.4	17.4	4.1	4.1	6.3	8.9	7.3	11.7
1969	9.7	4.0	6.4	15.0	7.5	7.5	-9.2	-9.6	-8.8	1.1	1.5	10.4
1970	13.1	17.1	15.9	3.5	5.4	5.4	34.8	35.2	38.0	37.3	38.7	36.8
	C$ million			*Per cent in relevant total*								
1960	5 390	5 323	4 850	56.4	56.9	62.1	17.2	17.3	15.8	26.5	25.7	22.1
1961	5 903	5 849	5 125	54.5	54.8	62.2	15.6	15.8	14.8	29.8	29.5	23.0
1962	6 357	6 291	5 632	59.0	59.3	66.0	14.5	14.6	13.4	26.6	26.1	20.6
1963	6 990	6 890	6 041	56.0	56.2	63.9	14.5	14.7	13.8	29.4	29.0	22.4
1964	8 303	8 113	6 989	53.4	53.4	61.9	14.5	14.8	14.8	32.0	31.7	23.3
1965	8 767	8 399	7 493	57.4	57.1	64.0	13.5	14.1	13.6	29.1	28.8	22.4
1966	10 325	9 315	8 171	60.4	57.8	65.9	11.0	12.1	12.0	28.7	30.1	22.2
1967	11 420	9 658	8 855	64.2	59.3	64.7	10.3	12.2	11.8	25.5	28.5	23.5
1968	13 605	10 906	10 164	67.7	61.7	66.2	6.8	11.2	10.9	23.3	27.1	22.9
1969	14 931	11 341	10 815	71.1	63.8	66.9	7.5	9.8	9.4	21.5	26.4	23.7
1970	16 887	13 280	12 533	65.1	57.4	60.8	8.9	11.3	11.2	26.1	31.3	28.0

Source: Bank of Canada Statistical Summary.

stocks. The deficit on other long-term capital reflects strongly rising export credits to Latin American and Middle Eastern countries, outpayments on inter-governmental loans and miscellaneous other factors. Direct foreign investment in Canada remained strong (Table 12), increasing by C$ 50 million over its 1969 level. As Canadian direct investment abroad dimished by about three times this amount in 1970, there was a higher net inflow than in 1969, the increase constituting the only counterbalancing item in the list of generally declining long-term capital inflows.

Net short-term capital outflows were C$ 0.7 billion below the 1969 level. After a first-quarter outflow of C$ 0.2 billion, there was an exceptional inflow of almost C$ 0.6 billion in the second quarter, reflecting upward speculation on the Canadian dollar. Following the floating, net outflows of short-term capital resumed in the second half of the year, totalling almost C$ 1 billion. Residents' holdings of foreign bank balances and other short-term funds abroad[1] were reduced by C$ 0.6 billion after the first quarter of 1970, mainly in the third quarter. They were then rebuilt, however, in the same amount early in 1971. The basic tendency to increase foreign currency deposits was reinforced by short-term interest rate differentials between the United Stades and Canada after April 1970. Another consequence of low short-term domestic interest rates was a C$ 73 million reduction throughout the year of non-resident holdings of Canadian treasury bills. Most of this outflow went to countries other than the United States. On the other hand, net short term capital inflows occurred on finance company paper and other short-term instruments (except other finance company obligations which showed a C$ 0.2 billion swing to a C$ 0.1 billion outflow).

In consequence of the exceptional current account strength towards the end of 1969 and in 1970, and of higher prevailing interest rates in Canada than in the United States in the early part of 1970, monthly increases in official reserves[2] became higher and higher from January onwards and reached US $ ¼ billion in both April and May (not seasonally adjusted). In addition, commitments through foreign forward purchases of Canadian dollars (US $ 360 million before the end of May) were running high. The authorities reacted by permitting the Canadian dollar to float. Largely because of maturing forward commitments, the inflows continued strongly until August 1970. After a slight drop in September, they again began rising, but more slowly; official reserves stood at US $ 5.1 billion in October 1971, compared to US $ 3.1 billion in December 1969 and US $ 4.8 billion in January 1971[3]. Preliminary indications suggest that Canada has been relatively unaffected by the heavy outflows from the United States in the summer of 1971. The appreciation of the foreign exchange rate, compared with the earlier fixed parity, was 4 per cent in June 1970; it reached 6.4 per cent in September, but fell back to 5.8 per cent in October. In the first quarter of 1971, the rate steadily gained strength and came very close to parity with its United States counterpart over most of the period since February/March.

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1 Excluding official reserves.

2 Excluding the first allocation of SDR's amounting to US $ 133 million on 1st January 1970.

3 Including the second allocation of SDR's on 1st January 1971 (US $ 117 million).

Table 12 Selected Long-Term Capital Items 1950-1970
Years and yearly averages, C$ million

	1950-54	1955-59	1960-64	1965-69	1966	1967	1968	1969	1970
Direct investment in Canada	356	528	457	665	790	691	590	720	770
New issues of corporate stocks	27	57	25	79	57	57	67	212	65
New issues of bonds	295	549	737	1 524	1 408	1 270	1 850	1 877	1 154
Provinces and municipalities	201	289	320	831	625	935	976	1 240	590
Corporations	78	227	329	611	751	315	586	597	538
Foreign securities	11	–8	–17	–257	–401	–432	–467	102	61

Source: The Canadian Balance of International Payments, Statistics Canada.

The problem of adjusting long-term capital flows to a changing situation on current account is discussed in Chapter III, in connection with an examination of certain long-term balance of payments trends and an assessment of prospects for the 1970's.

II RECENT DEVELOPMENTS IN ECONOMIC POLICY

After the first quarter of 1970, as inflationary pressures receded, the emphasis of both fiscal and monetary policy was gradually shifted from restriction to an effort to stimulate expansion so as to absorb unused capacity and reduce the rate of unemployment. But the change in policy has necessarily had to be gradual in view of the strength of the continued upward push of costs. At the same time, the floating of the foreign exchange rate, while introducing some additional freedom in the formulation of an appropriate policy mix, did not — and was not expected to — free policy from the problem of taking into account both domestic and international policy needs. In an open economy, such as Canada's, the exchange rate is an important price, the determination of which must influence the selection and mix of policies designed to achieve expansion.

Fiscal policy

In the last two years the Canadian authorities have adopted a relatively flexible approach to fiscal policy, with frequent budgetary changes tailored to the shifting requirements of the economy (Table 13). The federal budget for fiscal year 1970/71[1], tabled in March 1970[2], already represented a shift towards moderate ease. This tendency was supplemented several times during the year in order to increase the economic stimulus. Non-budgetary items played an important part in expanding expenditures (Table 14). In June, payments to the provinces were increased by about C$ 300 million, and plans contained in the March budget for consumer credit controls were abandoned as the success in reducing price increases, coupled with the additional restraint provided by the exchange rate appreciation, made such an approach seem unnecessary at that time.

The June measures were followed by some further fiscal action later in the summer, including increased outlays to the provinces, a summer employment programme for students, and an expanded social assistance programme. In August, the capital budget of the Central Mortgage and Housing Corporation was raised for both 1970 and 1971 in order to finance another 15 000 units of low cost housing, and in October a special programme was launched to finance capital projects in regions of slower economic growth, and there was a further increase in transfer payments to provinces.

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1 Starting 1st April.
2 See last Economic Survey on Canada, pp. 24-26, for a discussion of its contents.

Table 13 **The Federal Budget for Fiscal Years 1967-1971 National Accounts Basis**
C $ million

	1967/68	1968/69	1969/70	1970/71	1971/72[1]
REVENUE:					
Direct taxes, persons	4 494	5 323	6 790	7 535	8 485
Direct taxes, corporations	1 843	2 208	2 257	2 115	2 235
Indirect taxes	3 682	3 835	4 024	4 075	4 400
Other revenue	1 185	1 258	1 522	1 750	1 930
Total revenue	11 204	12 624	14 593	15 475	17 050
EXPENDITURE:					
Goods and services	3 643	3 929	4 398	4 540	5 030
(defence)	(1 816)	(1 824)	(1 843)	(1 865)	(1 870)
(other)	(1 827)	(2 105)	(2 555)	(2 675)	(3 160)
Transfers to persons	3 018	3 387	3 702	4 200	4 710
Interest on public debt	1 270	1 442	1 675	1 880	2 030
Other expenditure	1 275	1 301	1 358	1 555	1 705
Transfers to other levels of Government	2 137	2 525	2 807	3 675	4 225
Total expenditure	11 343	12 584	13 940	15 850	17 700
DEFICIT OR SURPLUS	-139	40	653	-375	-650
Deficit or surplus budgetary basis	-795	-576	393	-418	-750
Non-budget. cash requirement (—) or availability (excluding foreign exchange transactions)	-606	-316	-180	-764	-1 680
Total cash requirement (—)	-1 404	-892	213	-1 182	-2 430

1 Forecast after tax changes.
Source: Canadian submission to the EDRC in March 1971 and Canadian Budget Speech, 18th June 1971.

A December supplementary budget added a number of further expansionary measures, the impact falling mainly in fiscal 1971/72. The main features of the December budget were a 10 per cent increase in unemployment insurance benefits, additional funds for capital improvement projects in areas of high unemployment and for the development of certain infrastructure programmes, a further increase in the capital budget of the CMHC, and the creation of a C$ 150 million (later increased to C$ 160 million) loan fund to be distributed to the provinces on the basis of unemployment levels and to be used for job-creating capital projects. In addition, several steps were taken to stimulate investment in the private business sector through a system of capital-incentive grants for certain areas and industries and a capital cost allowance supplement.

In the June 1971 Budget, a number of further measures were announced, many of which were related to the process of tax reform and were to take effect over a number of years. The proposed tax-reforms[1], while important

1 The highlights of the tax-reform legislation, intended to come into effect in 1972, consist of a combination of increased exemptions for individuals and changes in their rate schedule, a change in the definition of taxable income, now including capital gains, some major changes in the treatment of corporations and their shareholders, and a change in the treatment of natural resource industries.

Table 14 Net Changes in Federal Position, Budgetary and Other

Fiscal years 1970/71 and 1971/72

	Fiscal year 1969/1970[1]	Fiscal year 1970/1971[1]						Fiscal year 1971/1972[1]	
	Total	Change from past fiscal year to March 1970	March 1970 Total	Change from March to December 1970	December 1970 Total	Change from December 1970 to March 1971	March 1971 Total	Change from past fiscal year to June 1971	June 1971 Total
Total revenue, national accounts basis	14 593	(1 027)	15 620	(80)	15 700	(–225)	15 475	(1 575)	17 050
Total expenditure, national accounts basis	13 940	(1 550)	15 490	(780)	16 270	(–420)	15 850	(1 850)	17 700
Surplus or deficit (—), national accounts basis	653	(–523)	130	(–700)	–570	(195)	–375	(–275)	–650
Surplus or deficit (—), budgetary basis	393	(–143)	250	(–570)	–320	(–98)	–418	(–332)	–750
Non-budgetary cash requirement (—) or availability[2]	–180	(–595)	–775	(–475)	–1 250	(486)	–764	(–916)	–1 680
Total cash requirement (—) or availability[3,4]	213	(–738)	–525	(–1 045)	–1 570	(388)	–1 182	(–1 248)	–2 430

1 Starting 1st April.
2 Excluding foreign exchange transactions.
3 Total of two foregoing items.
4 Figures for fiscal 1969/70 from revision in March 1971.

Source: Canadian Ministry of Finance.

in terms of their likely effects on the distribution of the existing tax burden, are not intended to increase the amount of revenue generated by the federal tax system. Apart from the tax-reform package still before Parliament, the main features of the June budget were as follows:

1 Removal of the 3 per cent surtax on personal incomes and on corporation profits, effective 1st July 1971;
2 Elimination, after 1st July, of taxes on persons with taxable income of less than C$ 500;
3 Exemption, retroactive to 1st January 1971, from tax of the guaranteed income supplement received by needy pensioners.
4 In addition to the above income-tax measures, there were some changes in sales and excise taxes, as well as a number of amendments to the customs tariff.

The demand impact of the various fiscal actions described above is difficult to estimate both with respect to its strength and timing. Generally, however, one can expect an increase in the spending by other levels of government and by the private sector as a result of these changes. Tentative estimates of the total economic effect of the June 1971 Budget, including the rise in non-budgetary expenditures, would suggest an addition of about C$ 3 billion to nominal GNP in a full year, the main impact probably being felt in 1972 when it would constitute, in absolute terms, perhaps a quarter of GNP growth. This effect is similar in size to that of the budget outcome of the previous fiscal year, thus continuing the reversal of the restrictive budget stance in 1969/70 when there was a contractionary fiscal impact of about C$ ½ billion on annual GNP growth[1, 2].

Monetary policy

Parallel with the shift toward fiscal ease, monetary restraint began to be relaxed after March 1970. During the second quarter, the use of government balances to buy foreign exchange reinforced monetary expansion. For a short period beginning in July, the Bank acted to moderate somewhat the strong rise in the money supply. Another shift to restraint on the free cash

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1 Fiscal policy changes can also be looked at in terms of the so-called high-employment budget. The Economic Council of Canada has estimated the high-employment surplus for all levels of government at about 3 per cent of potential GNP in 1969, with some subsequent decline to around 2¼ per cent by end-1970. The most recent fiscal developments would tend further to reduce this figure. The high-employment budgetary concept must, however, be qualified by the many necessarily tenuous assumptions on which it has to be based. Furthermore, it does not take into account developments in federal non-budgetary expenditures, such as funds for housing and various loan programmes, which have increased sharply in recent years relative to the budgetary side of the accounts.

2 On 14th October, after the EDRC examination of Canada, some further fiscal measures were taken to reinforce the economic expansion underway. These included a series of expenditure measures, a 7 per cent cut in corporate taxes effective July 1971 until end-1972, and a 3 per cent reduction of federal personal income taxes for the same period. The economic impact of the new expenditures and tax reductions will be perhaps of the order of C $ 1-1½ billion in a full year, taking into account multiplier effects.

reserve position of the chartered banks occurred from mid-November to January 1971, after which monetary expansion again became very strong.

Bank Rate was lowered in seven steps from the July 1969 peak of 8 per cent to $4\frac{3}{4}$ per cent in October 1971. These reductions usually followed easing rates abroad — especially in the United States. Canadian short-term interest rates declined very sharply all through 1970 and to March 1971 (Chart 8). They then levelled off and started rising around mid-1971. Long-term rates have come down more slowly, perhaps partly because of efforts on the part of borrowers to consolidate short-term debt incurred in times of monetary tightness. Yields on government bonds of 10 years maturity and over were still at almost 8 per cent in October 1970, but then dropped sharply to $6\frac{3}{4}$ per cent by March 1971.

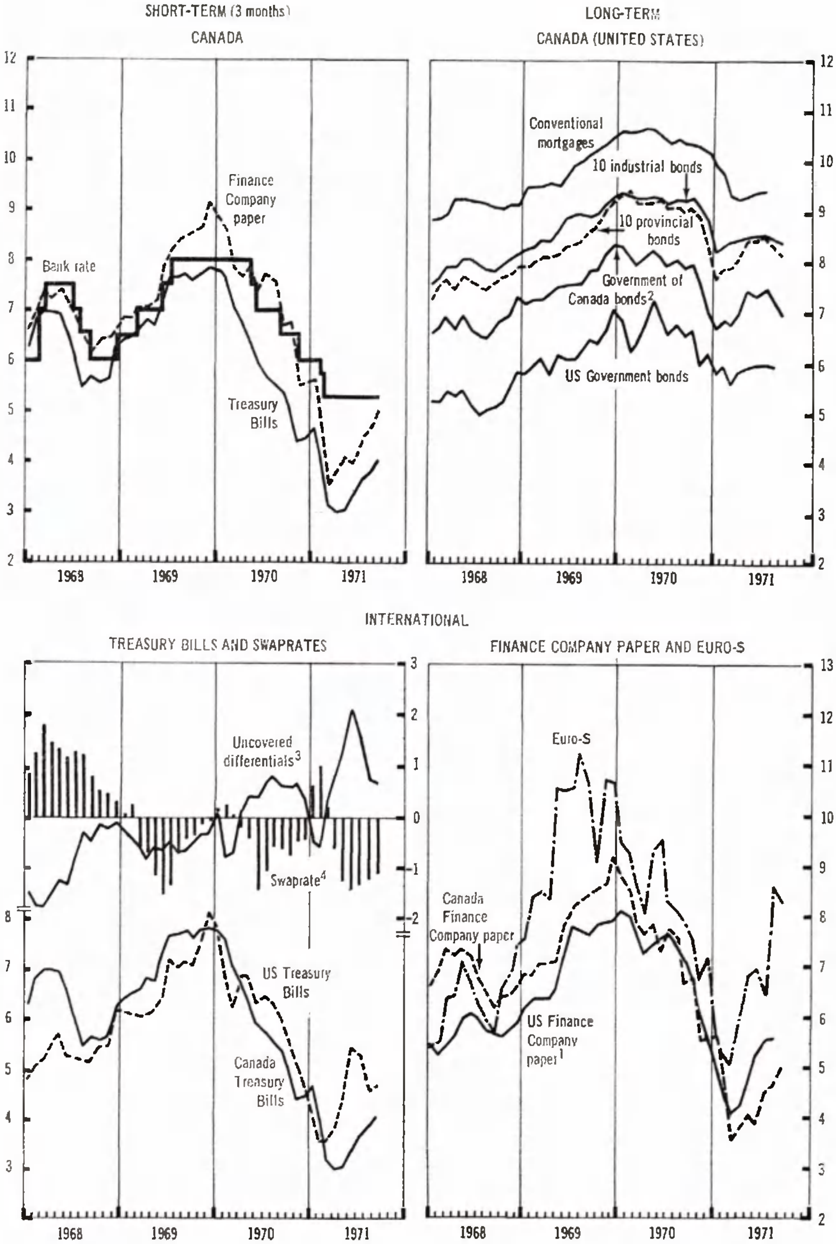
After this, long-term rates rose again until July, but declined subsequently to below 7 per cent in October. Provincial and industrial bonds have reacted even more slowly, and as usual, mortgage rates have lagged behind. The Bank of Canada's request that the chartered banks should not compete for large Canadian dollar term deposits with high interest rates continued in force until late in 1970 when it was withdrawn in the light of easier monetary conditions.

After a period of relative stability from December 1969 to March 1970 (Table 15), the total major assets of chartered banks resumed their strong growth as a consequence of easing monetary policy. The ensuing reconstitution of the banks' liquidity positions was aided by a relatively slower rate of expansion of total loans. After expanding at an annual rate of 3.4 per cent from September 1969 to March 1970, the privately held money supply grew at a rate of 17.1 per cent from end-March to end-June, partly due to the large inflows of foreign exchange. The Bank of Canada then acted to moderate monetary expansion in the third quarter, but the fourth quarter saw a new acceleration. Bond market expectations were optimistic and non-personal term and notice deposits of the chartered banks swelled. Money supply (privately held) expanded at an annual rate of 16.0 per cent between September and December 1970, and, despite restrictive moves of the monetary authorities around year-end, was growing at an annual rate of 16.5 per cent between December 1970 and September 1971. The banks' liquidity ratio continued to rise in the second half of 1970 and stayed near 31 per cent from January to May 1971, with some subsequent decline.

Total loans outstanding increased only slightly in 1970 and the components changed little in the first half-year. In the second half and in the first three quarters of 1971, unsecured personal loans grew strongly and business loans also turned up. Demand for funds on the part of the government was very strong in 1970, because of a large negative shift in the federal total cash position and because of the large amounts needed for foreign exchange transactions, especially in the first half-year.

In the past two years, there has been little conflict between external and domestic objectives of monetary policy. A relatively easy monetary stance has, of course, been appropriate given the present need for a gradual expansion of the economy. In addition, depressing Canadian short-term interest rates relative to those prevailing in the United States has encouraged short-term capital outflows, thus providing some counter-balance to the general strength of the external accounts. Such short-term outflows have served to

Chart 8 **Bond Yields and other Interest Rates**
Monthly, annual rates in per cent



1 3-6 months.
2 10 years and over.
3 United States rates minus Canadian rates for 3-month treasury bills.
4 90-day forward rate minus spot rate, in per cent of spot rate, at annual rate.
Source : Bank of Canada Statistical Summary and US Federal Reserve Bulletin.

Table 15 Selected Monetary Indicators

	Dec. 1970 C$ million	Per cent changes, seasonally adjusted at annual rates										
		12 months ending			3 months ending							
		Dec. 1968	Dec. 1969	Dec. 1970	Dec. 1969	March 1970	June 1970	Sept. 1970	Dec. 1970	March 1971	June 1971	Sept. 1971
Chartered Bank Assets												
Total major assets	29 870	14.1	5.1	9.3	4.9	–0.1	11.7	7.1	19.4	16.4	26.1	16.1
Total loans	17 633	12.0	14.3	1.3	8.6	–3.5	–8.4	15.3	3.4	8.8	17.4	20.3
of which:												
General loans	15 770	10.9	13.5	5.2	5.7	1.1	–4.0	16.5	8.5	17.6	14.2	21.9
of which:												
Business loans	9 069	9.6	14.1	2.9	8.8	1.2	–2.1	10.2	2.8	15.2	9.4	26.2
Unsecured personal loans	4 662	23.0	13.1	12.1	3.1	3.3	1.4	26.1	19.7	18.4	24.0	31.5
Currency and Chartered Bank Liabilities:												
Currency and demand deposits	9 388	6.4	3.8	5.4	3.3	2.5	3.4	3.3	12.6	17.6	25.7	11.7
Personal savings deposits	16 710	15.6	10.6	10.6	9.3	8.6	11.0	10.6	12.3	16.4	6.5	9.4
Currency and deposits privately held	30 732	13.1	3.7	10.9	3.4	3.4	17.1	7.9	16.0	18.3	15.8	15.5
Currency and total deposits	31 696	13.5	5.5	10.0	5.6	0.4	11.2	7.8	21.4	19.6	22.9	12.6
Ratio of more liquid to total major assets[1]		31.4	25.9	30.2	25.9	25.6	28.9	28.8	30.2	30.6	30.3	29.9

1 Last Wednesday of period, not seasonally adjusted.

Source: Bank of Canada.

check further appreciation of the Canadian foreign exchange rate which late in 1970 had already reached a level which was creating certain difficulties for the export sector. However, due to the special arrangements between the US and Canada, which are meant to prevent Canadian financial markets from serving as a pass-through for capital leaving the US for other destinations[1], certain types of capital outflows to overseas countries had to be limited.

Yields on United States 3-month treasury bills declined all through 1970 and up to February 1971 as strongly as did those in Canada. Uncovered differentials favoured Canada in the first quarter of 1970 but turned in favour of the United States over the remainder of the year. Excepting January and February 1971, the rates on US Treasury bills have been above those on corresponding Canadian bills, with a steady increase in the differential. On finance company paper, uncovered differentials were usually small in 1970 and shifted in favour of Canada early this year, with a reversal after February. In forward exchange markets, the Canadian dollar tended to move so as to offset the uncovered differential in Treasury bills after 1969 (Chart 8).

The easing up of monetary policy in 1970 has provided support for the economic upswing under way, and the continued high rates of monetary growth experienced in the first half of this year will tend to make for continuing strength in demand and output throughout 1972. Lower interest costs and easier credit availability will tend to maintain a high level of residential construction, and business investment is likely to be stimulated by these same factors as well as by increased consumer spending. There is, of course, also the danger that a high degree of monetary stimulus, if it becomes prolonged, will begin to spill over into higher prices. As the economy moves closer to its potential, a more stable and moderate monetary expansion would be desirable.

Prices and incomes policy

The exact impact of the restraint programme[2] of the Prices and Incomes Commission on prices is not easy to assess, but it seems probable that the activities of the Commission have had a dampening effect generally on pricing practices both in the private and public sector. The Commission has, however, had considerably less success in dealing with cost — basically wage — pressures. In June 1970, it proposed a wage yardstick, with a number of exceptions, of a 6 per cent annual rate of increase per employee for the second half of the year. The guideline was based on a calculated long-term average productivity growth of 2½ to 3 per cent a year and an assumed annual rate of increase in consumer prices of some 3 to 3½ per cent. The labour unions were generally opposed to an approach which sought to set wage standards for all sectors on the basis of average national productivity.

The Prices and Incomes Commission reviewed the results of the 1970 price restraint programme in a series of meetings with business representatives

1 For a discussion of these arrangements see OECD Economic Survey of Canada, March 1969, pp. 17-18.

2 See last Economic Survey, pp. 32/33.

late in that year. The discussions highlighted the fact that while a number of price increases might have been deferred, limited, or reduced in size, as a consequence of the Commission's activities, cost increases remained strong and were not covered by price increases on the part of many firms. Nevertheless, a large number of firms felt that demand conditions would not for some time be sufficiently strong to support substantial price increases in the near future. Under these circumstances, and since it had not been possible to reach agreement on the income side, it was felt that formal criteria for price restraint should not be continued beyond 1970.

Consequently, the price restraint programme and the related wage guidelines expired, and the Commission indicated that in 1971 it would neither comment on whether particular price increases met specific criteria nor assess pay increases in the light of specific guidelines. The Commission's role in 1971 would be limited to:

1. further active surveillance of important changes in prices, costs and profits, and the publication of reports on cases of particular public interest,
2. advice on what future action might be required to moderate the rise in costs and to prevent a resurgence of price increases,
3. completion of the Commission's research programme and publication of its final report.

From the point of view of present wage and price developments, the construction industry is a crucial sector. Wage costs have risen extremely rapidly in recent years, and a large number of contracts came up for renegotiation in 1970. Claims already made are still very much out of line with what could be met without rekindling inflation, and there is a danger that a continuation of excessive settlements will serve as support for inflated wage claims in other sectors. The difficulty of devising an effective restraint programme in this industry arises from the fact that collective bargaining in construction is handled through a multitude of special local agreements. Interest in the possibility of conducting negotiations on a province-wide basis has begun to spread among both employers' organisations and unions. Such a move would be of some help since it would make clearer, both to the public and to the authorities, what is actually developing as negotiations proceed. Nevertheless, even were such a practice accepted, it would be unlikely to provide much of a curb on wage increases in the short run. Developments in this sector will therefore have to be followed closely in order to avoid a new take-off of construction wages which could become a pace-setter elsewhere in the economy. On the demand side it is important to avoid a bunching of construction activity in particular years[1], and some longer-term investment planning could play a role in avoiding extreme building fluctuations both in the private and public sector.

1 A case in point is the construction boom preceding the 1967 World Exposition in Montreal.

III FOREIGN TRADE AND PAYMENTS

Chart 7 and Table 16 indicate the behaviour of the major components of the Canadian balance of payments since 1950. Throughout most of the period to date, the basic balance had fluctuated closely around equilibrium; but there have been a number of important changes in the contributions of the merchandise, invisibles and capital accounts to the behaviour of the aggregate. There has also been a spectacular improvement of the current account in the past two years — an improvement which cannot be explained completely by the cyclical weakness of imports and the various special factors affecting exports.

Generally, the current account was weak in the 1950's, deteriorating from the first to the second half of the decade. During the early and middle part of the 1950's, Canada's payments position was primarily influenced by the combined effects of strong domestic investment and policies of economic restraint. In this period there were large imports of capital goods, financed by correspondingly large inflows of foreign capital. By the late 1950's, the Canadian investment boom had ended, but a tight monetary policy maintained a substantial capital inflow, thereby producing upward pressure on the floating exchange rate. The latter discouraged exports and attracted imports, both of which were also affected by rising labour costs. The current account improved in the sixties, mainly reflecting exchange rate depreciation after 1960 and later the effects of the automotive agreement with the US. Another period of high capital investment again brought on substantial deficits around the middle of the decade. But more recently there has been a very marked improvement in the current account; 1970 showed a C$ 1.1 billion surplus — the first surplus recorded since 1952.

The sections below examine in greater detail the main factors behind the movements of the major components of the Canadian balance of payments since 1950 and attempt to provide a view of the decade ahead and some of the special problems which may arise.

The improvement of the current account

It is clear from Chart 7 and Table 16 that the improving current account position since the second half of the 1950's has not been due to developments in the invisibles account. Indeed, the deficit on services increased persistently (Chart 9), with few exceptions such as the Centennial Year of 1967 when the travel balance was abnormally raised by half a billion dollars. The principal factors contributing to the growth of the invisibles deficit have been rising interest and dividend payments and an increase in " other " current payments including those for business services. In contrast, receipts on the travel account have grown fairly rapidly since the 1950's, as more tourists have been attracted to Canada. Nevertheless, the travel account, after reaching approximate balance by the mid-sixties and an actual surplus in 1967, has again deteriorated in recent years. A deficit on freight and shipping persisted throughout most of the period surveyed, but a gradual improvement can be seen in this account in more recent years. As a proportion of GNP the invisibles deficit

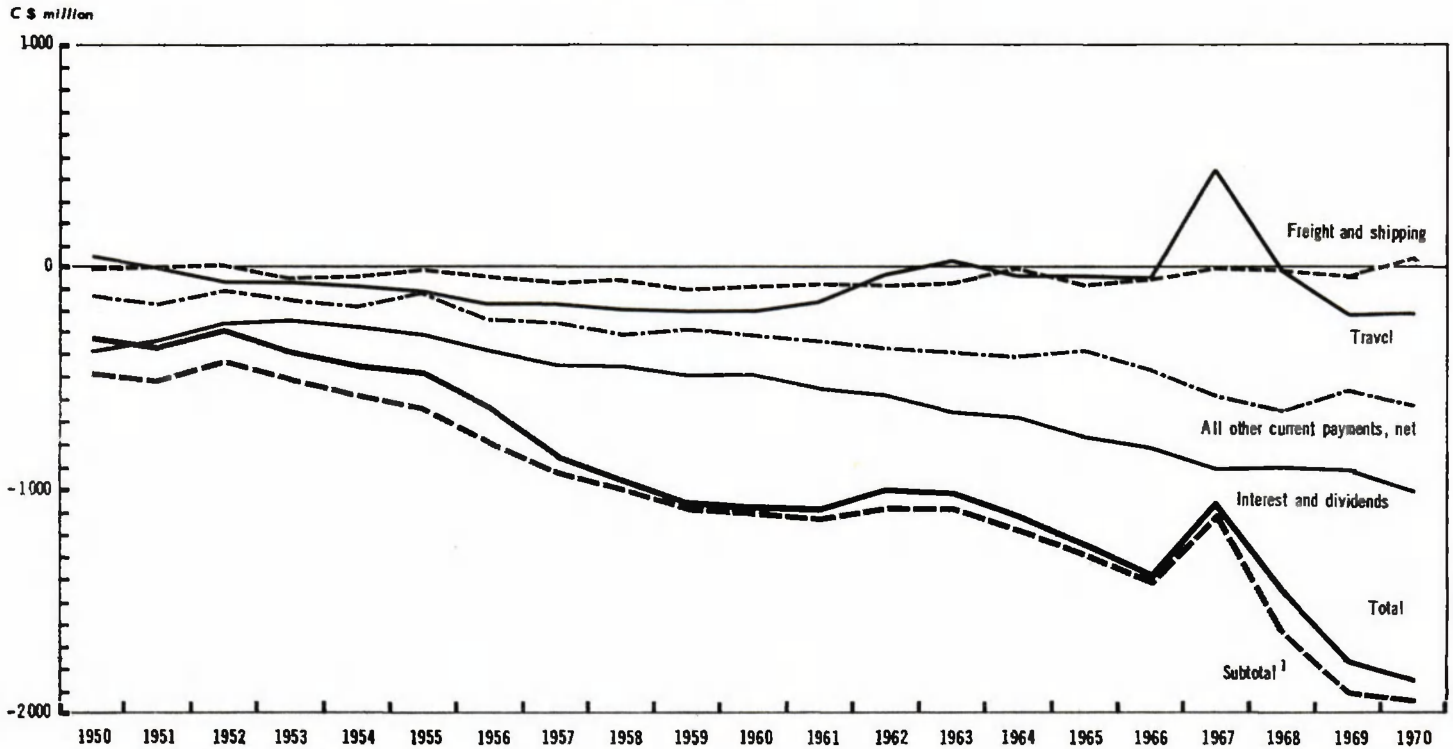
Table 16 **Canadian Balance of Payments, 1950-1970**
Yearly averages

Net figures, C$ million	1950-52	1953-60	1961-62	1963-64	1965-66	1967-69	1970
Merchandise	114	–290	179	602	171	934	3 007
Services and unilateral transfers	–328	–740	–1 058	–1 075	–1 317	–1 441[1]	–1 874
Current account	–215	–1 030	879	473	–1 146	–507	1 133
Long-term capital	577	967	809	729	1 016	1 705	805
Basic balance	362	63	–70	256	–131	1 198	1 938
Short-term capital	–91	69	293	–2	31	–1 053	–408
Official settlements	272	6	223	255	100	145	1 663[2]

1 Excluding the extra 1967 gain on travel account, the corresponding average might have been around C$ 1.6 billion.
2 Including the first allocation of SDR's on 1st January 1970 (C$ 133 million).

Source: The Canadian Balance of Payments, Statistics Canada.

Chart 9 **Balances on Selected Current Account Items Excluding Trade, 1950-1970**



1 Excluding gold production available for export, official contributions, and inheritances and migrants' funds
Source : The Canadian Balance of Payments, Statistics Canada.

rose from 1¼ per cent in 1952 to almost 3 per cent in 1959/60. Since that time it has fallen back to about 2¼ per cent in each year during 1963-70 (apart from 1967).

The strengthening of the current account has resulted from a substantial improvement in the merchandise balance. In part, the recent strength of Canada's trade position reflects a number of cyclical and special factors (see p. 20). Nevertheless, the cyclical component seems unlikely to account for more than about C$ ½ billion and the impact of special factors for perhaps another C$ ½ billion of the improvement. Thus, the " underlying " 1970 trade surplus may have been of the order of almost C$ 2 billion and the " underlying " current account position one of approximate balance, or perhaps small surplus. If these estimates are approximately correct, Canada would seem to have attained one of her long-standing aims.

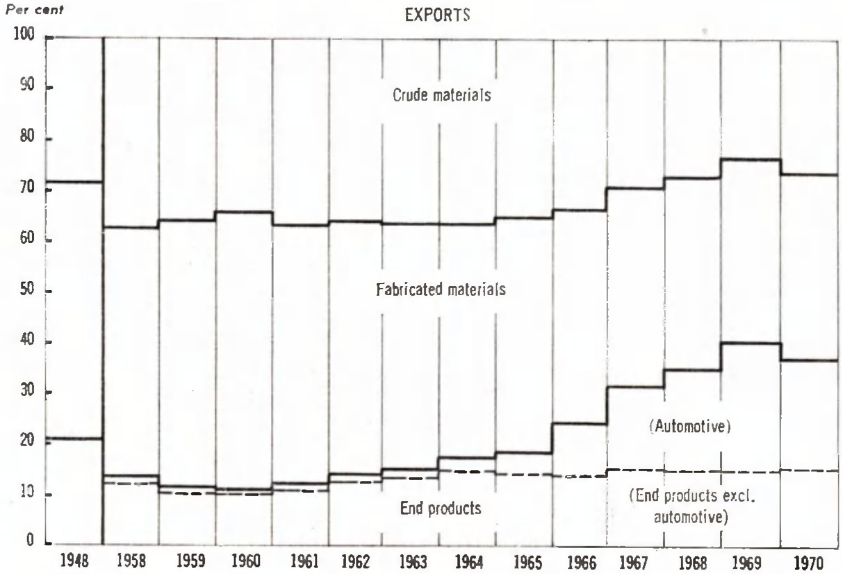
Among the key factors behind the improved trade position in the 1960's relative to the previous decade are the US-Canadian automotive agreement; the mid-1962 devaluation of the Canadian dollar; strong economic growth in the United States (until 1969-70), Europe and Japan; and large agricultural exports (particularly expanded exports to state-trading countries). While the degree of permanence of these factors varies[1], they are not entirely temporary. In addition, part of the spectacular 1970 trade improvement was due to other influences of a more long-term nature, notably an expansion of energy exports and increasing shipments of mineral ores and metals, plus a generally improving ability of Canadian industry to compete with imported products as well as to penetrate foreign markets.

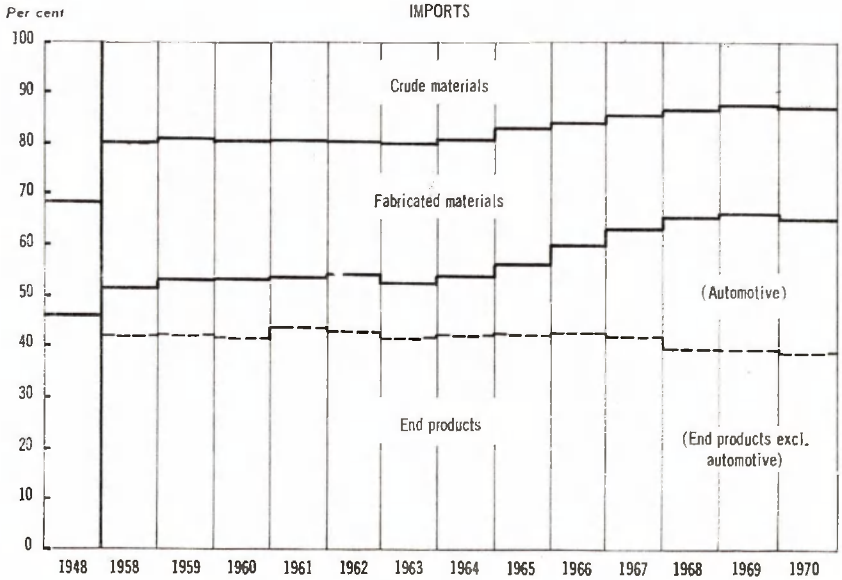
The automotive trade agreement between Canada and the United States has been a particularly important element in the behaviour of the current account in recent years. During the fifties and early sixties, there was a steady widening of the gap between Canada's purchases from and production for the North American auto market. To rectify this situation, the 1965 auto agreement, in addition to wide duty exemptions for the exchange of motor vehicles and parts between the two countries[2], included various safeguards to assure Canada a more satisfactory future share of production and to protect the smaller Canadian industries during an unspecified adjustment period. The result of the agreement was a very substantial increase in automotive trade between the United States and Canada (Charts 10 to 12). Between 1964 and and 1969, Canadian imports of motor vehicles and parts rose to 4½ times their initial value (reaching C$ 3.7 billion); exports increased from virtually nothing to C$ 3.6 billion in 1969. The share of automotive imports in total imports rose from an average of about 10 per cent for the 1959-1964 period to about 26 per cent in 1969. The share in total exports soared from roughly one per cent to 24 per cent in the same period. The large deficit on automotive trade was lowered from C$ 800 million in 1965 to C$ 130 million in 1969; this shift has however been accompanied by associated increased imports

1 The Canadian dollar has already appreciated and economic growth in the United States has been a less favourable factor in recent years; demand for agricultural products, especially from state trading countries, is relatively unpredictable; the agreements with the United States are of extended, but probably not permanent duration and much of the impact has already been felt.

2 Canada alone extended the privileges under the agreement to all countries.

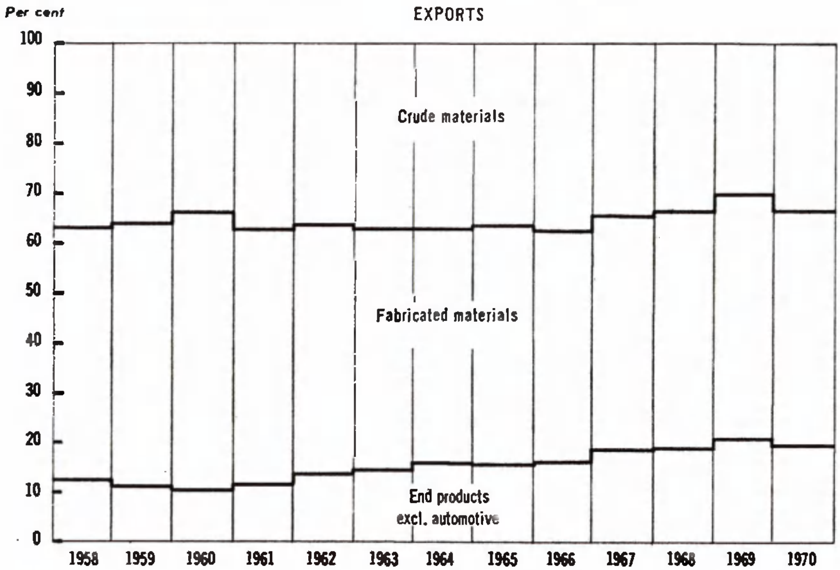
Chart 10 **Canadian Total Exports and Imports by State of Fabrication**
Per cent shares of C $ million values, 1948 and 1958-1970

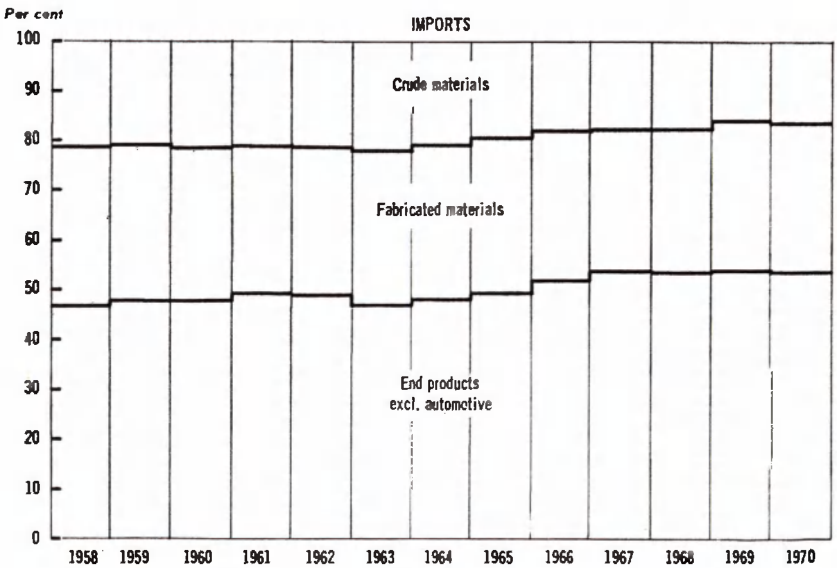




Source : **Canadian Statistical Review and Bank of Canada Statistical Summary.**

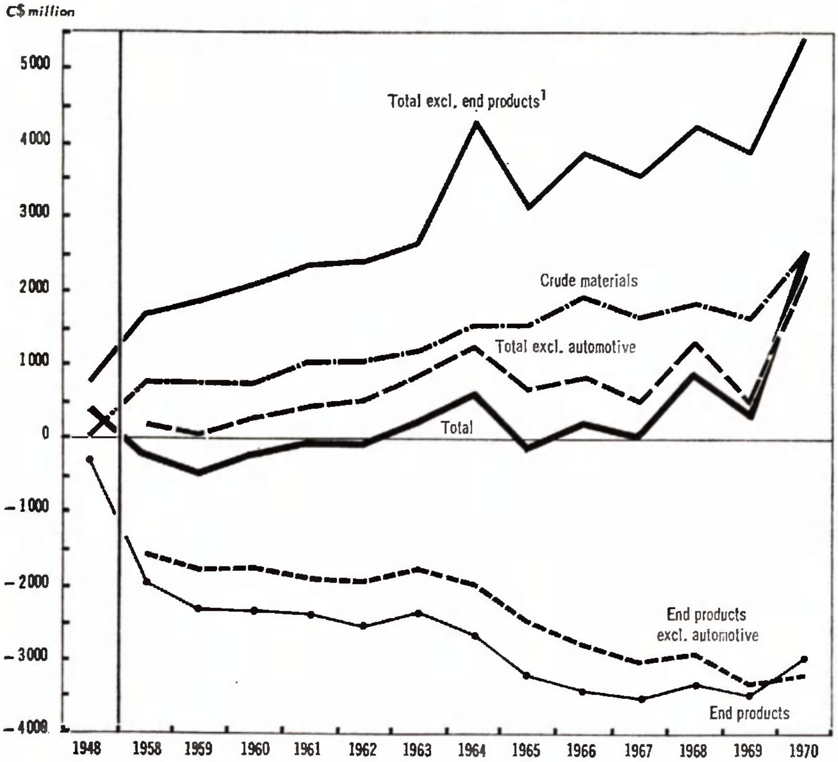
Chart 11 **Canadian Non-Automotive Exports and Imports by Stage of Fabrication**
Per cent shares of C $ million values, 1958-1970





Source : Canadian Statistical Review and Bank of Canada Statistical Summary.

Chart 12 **Canadian Trade balance by Stage of Fabrication**
Current C $ million, 1948 and 1958-1970



1 Crude plus fabricated materials.
Source : Canadian Statistical Review, Statistics Canada.

of machinery and equipment from the United States, and by higher interest, dividend and service payments. The General Motors strike distorted automotive trade in the fourth quarter of 1970, and the C$ 260 million surplus of 1970 is, therefore, probably exceptional. But while the automotive pact has contributed to the Canadian trade turnabout during the 1960's, its most important effect has been to reduce the previous large discrepancies between the Canadian and US industries in terms of productivity, prices and wages.

The changes which have taken place in the automotive sector have served to stabilise the otherwise growing Canadian deficit on end-product trade since 1965 (Charts 10, 11 and 12). The surplus on crude and fabricated materials, on the other hand, rose over the period and, since 1961, has exceeded the deficit on total end products.

Thus, it seems clear that, while undergoing a number of compositional changes in the past twenty years, the Canadian balance of payments has shown a tendency to strengthen since the second half of the 1950's. Some improvement can be discerned in certain of the invisibles items, such as travel and freight and shipping. But essentially it has been the remarkable growth in the trade surplus in the past ten years which has produced the present position of strength. Relative cyclical conditions and various special factors have contributed to the improvement in the most recent period, but there are also more basic factors at work which may, if stable conditions re-emerge in world trade and payments, tend to maintain approximate balance or even a continued surplus on current account in the next few years. Before discussing balance of payments prospects, however, it may be useful to examine some of the key developments of the capital account and the Canadian exchange rate since 1950.

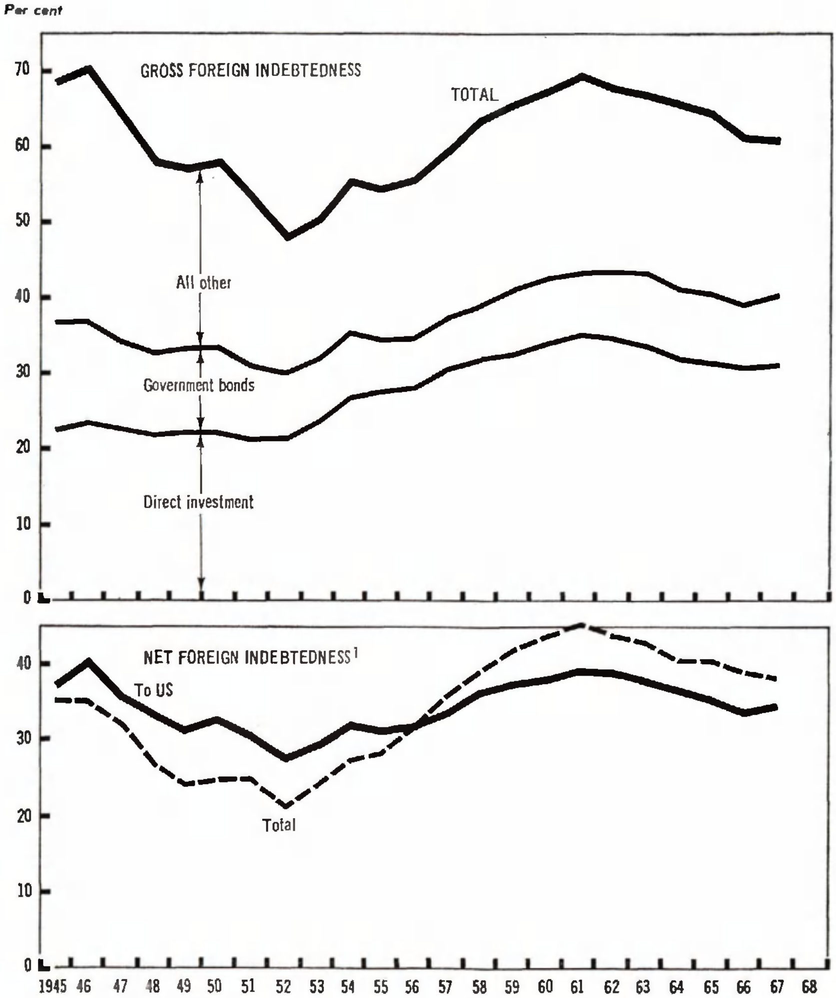
Capital account and the exchange rate

While Canada has a relatively high rate of national saving in relation to GNP, it has drawn on additional resources from abroad in all but two years since 1950 (i.e., 1952 and 1970). The financial needs resulting from a high rate of capital investment have often been exacerbated by a tendency for Canadian savings to " leak out " of the country, particularly to the United States, searching investment outlets of greater size and diversification than can be found at home, thus enlarging the need for capital imports[1]. Both the private and the public sectors have frequently resorted to foreign sources of capital, but the years since 1967 have primarily been marked by increases in public borrowing (Table 12). Net foreign indebtedness rose from less than C$ 5 billion in 1950 to nearly C$ 17 billion by 1960, and more than C$ 28 billion last year. While net foreign indebtedness as a percentage of GNP declined in the sixties (Chart 13), the effect of increasing debt and rising interest rates on debt servicing costs has been an important element in the deterioration of the invisibles balance. In addition to inflows from foreign borrowing — whether for reasons of lower cost or greater availability or both — there has been a substantial and continuous inflow of direct investment capital, primarily from the United States. Such direct investment inflows averaged C$ 0.7 billion annually over the past five years (excluding retained and reinvested earnings of foreign companies operating in Canada). Not surprisingly, problems of foreign ownership and control of important industries have become topics of political discussion which are presently being reviewed by the Canadian Government.

Despite the rising rate of long-term capital inflows over the period 1950-1970 (Table 12), the basic balance, except for the years of high surpluses in 1952 (Korean boom) and after 1966, has deviated less than C$ ½ billion on either side of zero and the average over the period is very close to zero (Chart 7). In all those years, the current account deficit seems to have been financed rather smoothly by long-term capital inflows. From 1965 onwards, net long-term inflows increased sharply as a result of very large new bond issues abroad, especially on the part of the provinces and municipalities (Table 12). However,

1 Some capital imports may simply represent a reflow of funds placed abroad by Canadians — foreign financial markets filling the function of a financial intermediary. Often the flows cancel out. Present statistics do not allow them to be traced systematically; nor do the statistics identify who ultimately finances whom and through what instruments.

Chart 13 **Canadian International Indebtedness, 1945-1967**
Per cent of GNP



1 Excluding Canadian capital invested abroad.
Source : The Canadian Balance of Payments (Statistics Canada).

up to 1966, the investments supported by such borrowing gave rise to a level of imports sufficiently high to keep the basic balance around zero. But after 1967, adjustment of the net flow of capital has lagged behind the improving current account position, and large basic surpluses have resulted (Chart 7).

Tight monetary policy, reducing the availability of funds and raising their cost, made borrowers turn to foreign sources: provinces and municipalities generally covered their large borrowing needs abroad, and corporations also turned to foreign sources of funds after 1966 (Table 12). The unusually large negative errors and omissions item since 1967[1], however, makes it difficult to interpret flows both in the current and capital accounts. Net long-term inflows were strongly reduced in 1970, partly because the public authorities succeeded in persuading borrowers to try to raise funds in Canada before turning abroad. Following a new upturn of long-term borrowing from the United States, further efforts to discourage Canadian borrowers from seeking foreign funds were made in the spring of 1971.

The behaviour of the Canadian exchange rate over the past twenty years both reflects and has affected the behaviour of the various balance of payments components. In this period, Canada has adhered to a fixed exchange rate in less than nine years (Chart 14). As a consequence of earlier large speculative inflows of foreign capital, the Canadian dollar was permitted to float in October 1950. At that time, an appreciation from a 10 per cent discount to parity with the United States dollar was expected. In the event, the scatter of the monthly rate over the years 1952-1960, never exceeding a band of 3 cents,, was normally distributed around an average of 97½ Canadian cents per United States dollar. In the same period, annual changes in official reserves never exceeded C$ 0.1 billion, the basic account was never very far from balance and net movements of short-term capital were small and stabilising. Restrictive economic policies in the late fifties tended, however, to maintain the exchange rate at a higher level than was appropriate on domestic grounds, and after a period of direct official intervention in the foreign exchange market beginning in 1960, the Canadian dollar was formally devalued in 1962 to a parity of 108.1 Canadian cents per United States dollar.

In the following 97 months to May 1970, the market rate was above par in 82 months; and of the remaining fifteen, at least four are explained by short-lived exchange crises — in May and June 1962 following the devaluation, and in the first quarter of 1968 during a short period of uncertainty about Canadian exemptions from United States restrictions on capital outflows. The stock of official reserves stabilised in the vicinity of C$ 3 billion so that, with trade value rising, the number of months of imports which the stock could finance (about 3½ months in May 1970) declined through the sixties. Even after the heavy inflow of foreign exchange between September 1969 and May 1970, which raised the level of reserves to C$ 4.1 billion, the number of months of imports which the reserves could finance was below that of the early sixties. As a result of the inflow of reserves in late 1969 and the first half of 1970 — a situation which differed somewhat from that in 1950 because it was at least as much a consequence of the strong and unusual current account as it was of high net capital inflows — the Canadian government freed the Canadian dollar from its fixed parity at the end of May 1970. The exchange rate quickly strengthened and has since late in 1970 fluctuated narrowly, slightly below par with the US dollar.

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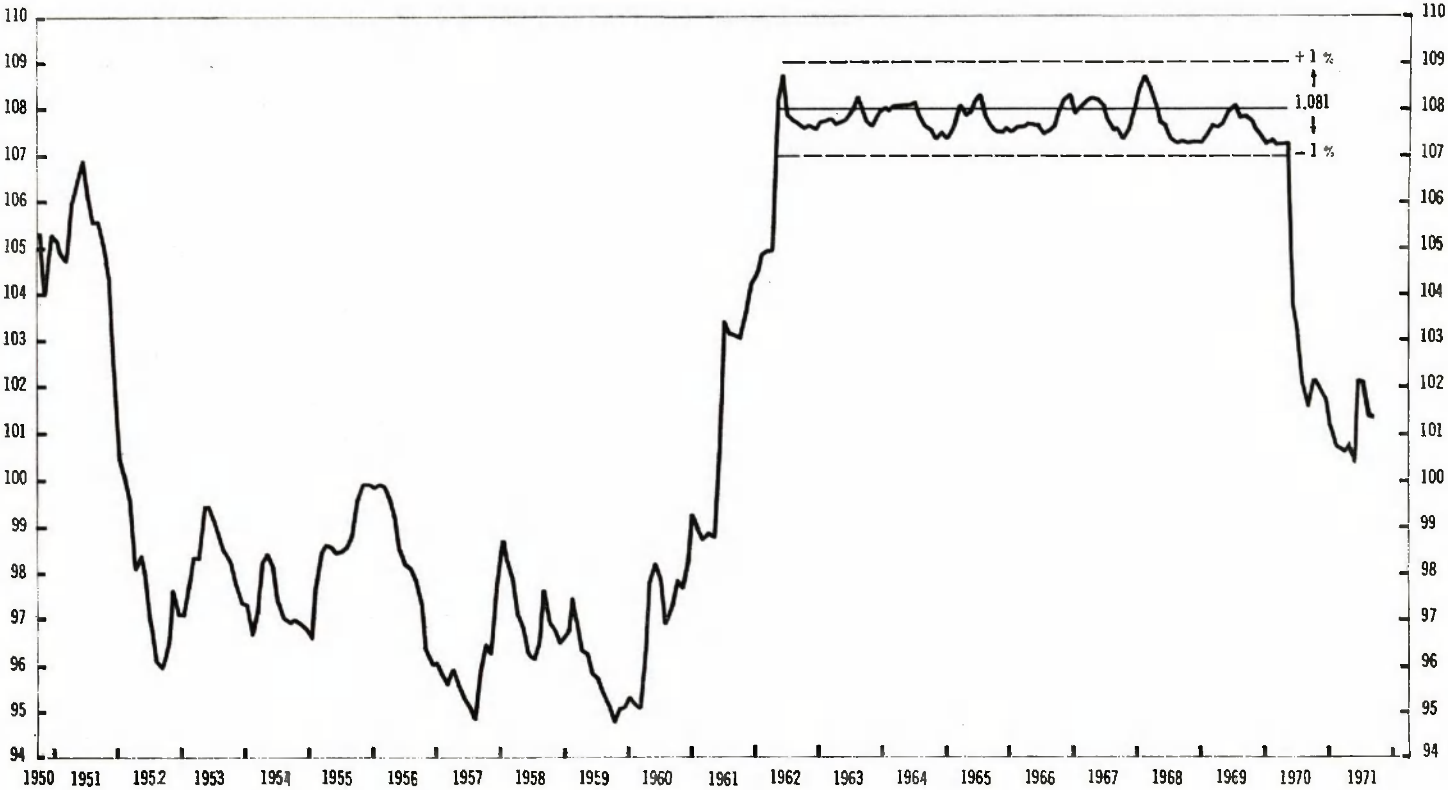
1 In official balance of payments publications, they are normally attributed to the balancing item in short-term capital flows.

Chart 14 **Monthly Spot Rates, Noon Averages 1950-1971**
Canadian cents per US $



NOTE Prior to October 1950, spot rates were set officially, under the foreign exchange control in force from 16.9.1939 to 30.9.1950.
Source : Bank of Canada Statistical Summary.

Balance of payments prospects

The future development of the Canadian current account will, of course, depend upon a number of factors including the behaviour of the Canadian exchange rate, relative price performance, the strength of foreign demand, and the effects of the measures taken by the United States on 15th August, 1971[1]. There may be some further gains in end-product exports and in automotive trade, although the gains in the latter sector are not likely to be so marked as in recent years[2]. But the recent 10 per cent tax on non-quota, dutiable imports by the US makes the outlook in this area rather uncertain, much depending on how long the surcharge remains in effect. Even in the absence of measures tending to discriminate against exports of processed products, the main source of strength in the seventies may well be exports of primary products. The factors which contributed to growing demand for such products in the sixties (economic growth in Europe, Japan, and, except for some recent temporary set-back, the United States) may continue. Moreover, the United States is now relying more heavily on Canadian resources — especially in the field of energy — both because of the proximity of Canada to the US market and because of uncertainties about the reliability of supplies from other resource-rich countries. Prospects for exports of metals and minerals are likely to remain buoyant, and there is the possibility of the development of new markets, such as mainland China. Rising foreign demand for primary products is, therefore, likely to maintain a satisfactory merchandise trade position, despite the increase in imports of capital goods usually associated with intensive development of natural resources and related infrastructure (construction, transportation, etc.). The long-term deterioration of the invisibles account may continue, but with its pace moderated as a result of reduced borrowing from abroad. The current account would, therefore, seem likely to remain relatively strong compared to its behaviour over the last two decades; the " underlying " position is already one of approximate balance or of small surplus.

The development of such a surplus appears appropriate in a situation of a continuing world shortage of capital. The demand for savings remains high in the industrially advanced countries, and the developing world has heavy needs for additional resources from abroad. It is, therefore, desirable

1 The United States economic programme, announced by President Nixon on 15th August 1971, consisted of the following measures :

- *(a)* the imposition of a 10 per cent tax on all dutiable imports except for goods subject to quota and some other exemptions (the tax applies to about 25 per cent of Canadian exports to the United States);
- *(b)* the temporary suspension of the convertibility of the United States dollar into gold;
- *(c)* a 10 per cent tax credit on purchases of new machinery and equipment produced in the United States;
- *(d)* repeal of the 7 per cent excise tax on automobiles;
- *(e)* increase in personal income tax exemptions effective 1st January 1972;
- *(f)* reduction of federal expenditures; and
- *(g)* a 90-day freeze on prices, wages and dividends.

2 See pp. 40-43 for details on automotive trade and the US-Canada automotive agreement.

that Canada, with one of the highest per capita incomes in the world, should maintain a high saving ratio to accommodate its own investment needs and to contribute to the transfer of real resources to the less developed world. At the same time, it has to be recognised that Canada's own investment needs will remain substantial if the country is fully to employ its own rapidly growing labour force and to take advantage of its huge resource potential. In this respect, Canada is itself a developing country, and the achievement of its own potentials may at times still require a certain amount of flexibility with respect to the extent Canada makes use of and contributes to the process of international resource transfers.

Apart from the question of resource allocation, however, there is the difficulty of achieving a sufficiently quick adjustment of the capital account to the change which has already occurred in the current account position. Even if the current account should be in balance or surplus — with domestic savings thus large enough in terms of real resources to finance domestic investment — it is possible that resort to foreign sources of funds will continue.

(*i*) The structure of domestic savings may not match the capital needs of provinces and business firms.

(*ii*) Canadian borrowers might be relctant to give up established positions in large and flexible financial markets, mainly in the United States, at least before they are assured of the adequacy and permanence of the domestic market.

(*iii*) The desire of domestic portfolio managers to maintain an adequate degree of diversification in their accounts may well set a limit on the placement of security issues in Canada alone.

(*iv*) The attraction of Canadian natural resources to industry and individual investors abroad may entail autonomous inflows of capital related to direct investment.

It is therefore important that efforts continue to be made to ensure that the domestic capital market will be able to cope with changing domestic needs, improving the possibilities for capital exports and avoiding large capital inflows. The need to reduce or reverse the net capital inflow in line with the strengthening of the current account is underlined by the fact that net inflows of capital entailing overall balance of payments surpluses would put upward pressure on the Canadian exchange rate. A high exchange rate might have adverse employment implications, particularly in manufacturing industries, working against the Government's policy of trying to expand employment opportunities and create a more balanced industrial and regional structure in Canada.

Certain measures recently proposed or adopted should help to improve the domestic capital market. The recently-introduced tax reform legislation referred to earlier (page 29, footnote 1) should help in this respect. For example, the 10 per cent limitation on foreign assets of pension funds and retirement savings plans will have an important influence in channelling the funds of these large intermediaries to Canadian firms. Also, the form of the dividend tax credit creates an additional incentive for Canadians to invest in shares of Canadian corporations. In addition, adoption by Parliament of the

Canada Development Corporation Act should, over time, work in the same direction[1]. Possibilities may also exist to improve the process of financial intermediation in Canada.

IV ECONOMIC OUTLOOK AND POLICY CONCLUSIONS

Prospects

The present expansionary stance of economic policy, which dates from the first half of 1970, should provide support for the Canadian economy in 1971 and into 1972. External demand is not expected to be a net source of stimulus this year, and the measures taken by the United States in mid-August create considerable uncertainty as to the behaviour of this sector. The new US tax on imports will affect about C$ 2½ billion of Canadian exports, and it is expected that this measure will have an unfavourable impact on certain key sectors of the Canadian economy. To support employment in Canada by mitigating the disruptive effects on those industries particularly hard hit by the US surcharge, the Canadian government proposed on 7th September a programme for making assistance grants. The new US measures will likely speed up recovery in the United States and, to the extent this happens, it should add strength to the performance of Canadian exports and production over the longer term. While questions remain about the time path of the Canadian business recovery and about the net effects of recent external events and of the impact of the international situation as it develops, conditions appear sufficiently favourable for a continuation of the expansion now underway.

The volume growth of GNP might stay distinctly above potential in the second half of this year and through 1972. Assuming a labour force growth of about the same order as last year, and somewhat more productivity growth than in 1970, the unemployment rate should come down gradually. Bringing down the unemployment rate may, however, be difficult, should the growth of the labour force continue at its recent, exceptionally high, rate.

Private consumption is expected to continue its strong recovery from the second half of 1970, stimulated by the fact that savings were high at that time, and by rising consumer incomes. A decline in the saving rate from last year's high level should appear this year and is likely to become more pronounced in 1972. The strengthening of consumer spending will probably be reinforced by personal income tax reforms introduced along with the June Budget.

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1 The Canada Development Corporation will be initially established with government funds, but will later sell shares to Canadian investors so as to reduce the government's share holdings and permit wider private Canadian participation in the growth and development of Canada. The purposes of the Corporation, then, are twofold:

(a) to help develop and maintain strong Canadian-controlled and Canadian-managed corporations in the private sector of the economy;

(b) to give Canadians greater opportunities to invest and participate in the economic development of Canada.

Government current expenditure is forecast to slow down in the first half of 1972, but might regain strength later on. Government fixed investment is expected to progress at a distinctly higher rate than the 3½ per cent increase experienced in 1970. The high level of housing starts and continuing strong lending activity, especially under the National Housing Act, suggest that residential construction will continue to be buoyant. The removal of the prolonged uncertainty over the contents of the tax reform legislation, recent tax cuts and recovering profits may have a stimulating influence on business spending[1]. However, there is now some uncertainty about the speed of recovery of business capital outlays as a consequence of the likely net impact on the Canadian economy of the US measures of 15th August[2].

Exports should continue to benefit from large grain shipments. Exports of metals and minerals are also expected to remain strong. Despite relatively good price performance, the rise in exports of manufactures may be moderate in 1971, if the value of the Canadian dollar remains high. In 1972, lagged effects of the US measures might create serious problems in some areas of this sector, should these remain in force over an extended period. About one-quarter of the value of exports to the United States is expected to be subject to the import tax, the remainder being non-dutiable, under quotas or exempt under the automotive agreement. With respect to autos, there will, in fact, be some strengthening of Canada's competitive position vis-à-vis other automotive exporters to the United States, who will be subject to the tax. Imports, stimulated by increasing domestic activity and by a projected rise in stockbuilding, should grow somewhat faster than exports. The surplus on current account is expected to continue, but is likely to decline over the period. Should unusual weakness develop, whether as a result of the US measures or other factors, this might be moderated if there was an accompanying tendency for the Canadian dollar to float downward.

The GNP deflator is forecast to rise by about 4 per cent next year, in line with the expected increase in unit labour costs. The CPI, ex-food, has remained relatively stable, but may tend to rise somewhat faster as the economic recovery continues. Labour productivity could grow by 3 per cent between 1970 and 1971, with the increase in unit labour costs perhaps not exceeding 4 per cent.

Conclusions

Despite the strong upturn under way, an expansionary economic policy still appears appropriate given the existing amount of slack in the Canadian economy, although the recent degree of monetary ease needs to be moderated. At the same time, it is evident that upward pressures on the cost side remain excessive, and the outlook for their course in the near future is not entirely comforting. True, past experience suggests that rapid rates of growth in

1 In the annual investment survey held last April and May capital spending intentions for 1971 were 11 per cent above the outcome in 1970, despite a fall anticipated for the manufacturing sector.

2 The preliminary October survey of intentions for capital outlays in 1972 showed a rise of only 3 per cent over the most recent comparable estimate for 1971.

conditions of high unemployment do not necessarily cause prices to accelerate. But the present situation differs from earlier cyclical experience in a number of ways, with far stronger inflationary expectations. As a result, continuing high wage settlements and some release of pent-up cost increases might revive inflation, even before reasonably full resource utilisation, at least by past standards, has been attained. Thus, while it is desirable to attain higher levels of manpower utilisation, a careful watch will have to be kept on price and wage developments.

Upward cost pressures now appear to be considerably stronger for any given rate of unemployment than was the case ten or fifteen years ago (see discussion of the changing labour market structure in Chapter I). Policies on the supply side can be of considerable assistance in containing wage and price pressures, but such policies are of an essentially long-term nature, and cannot easily bring solace in the next 2-3 years. Curbing incomes and prices by compulsory action — if other attempts on the cost side are of no avail — would be one possible approach towards solving the unemployment-inflation dilemma. However, such controls are not without important costs of their own. Their short-term application leads to postponement rather than renouncement of wage and price increases, and any long-term imposition of controls risks causing distortions and inefficiencies in the economic system. Moreover, experience to date suggests that such controls tend to break down as time runs on. Nevertheless, there are few easy choices in economic policy today; under certain conditions, temporary price and incomes controls, despite their shortcomings, could be deemed preferable to a situation where either unemployment or inflation, or both, threaten to remain permanently at unacceptably high levels.

The current external account has improved significantly in recent years. Although this can partly be ascribed to temporary factors (see p. 20) and the surplus is likely to decline in 1971 and 1972, the current account in the years ahead will probably remain stronger than in the past, provided there is a re-emergence of stable conditions in world trade and payments. This would seem to be an appropriate development, given the high levels of income and industrialisation reached in Canada. But a marked strengthening of the current account requires that policies — particularly those relating to the capital market — be adjusted to the new situation. It is possible that incentives for capital inflows will remain strong, because of US direct investment in natural resource industries and because Canadian capital markets, while highly developed, cannot evolve rapidly enough to meet changing circumstances. In such a case, overall surpluses would put upward pressure on the exchange rate and this, in turn, might hamper the development of manufacturing industries and complicate the problem of reducing sectoral and regional disparities. It would therefore seem important that continuing efforts are made to ensure that the domestic capital market will be able to cope with changing domestic needs, avoiding large capital inflows, and improving the possibilities for capital exports.

The need has been recognised to promote a more balanced pattern of development throughout Canada, and to reduce regional disparities. Such a development would also improve the effectiveness of general demand management policies in regulating overall conditions. The current upswing should create a favourable environment for the Government's programmes to stimulate economic expansion in the less prosperous regions, often overlapping provincial boundaries, and to reduce regional unemployment differentials. Past experience has shown that manpower policies can make a significant contribution to the alleviation of the regional problem through training and retraining programmes in areas of comparatively high unemployment and by measures to improve the geographic mobility of the labour force. Regionally differentiated industrial development programmes are also required, such as the current efforts of the Department of Regional Economic Expansion, which are designed to encourage the expansion of comparatively labour-intensive industries in regions of high unemployment. If regional unemployment rates were more nearly equalised and other important market imperfections were reduced, general policies of demand management could more safely be used to attain high levels of activity throughout Canada, without creating excessive pressures in some regions. As recent experimentation by the Canadian authorities indicates, demand management policies can themselves be regionally differentiated to some extent, especially on the fiscal side, and further developments in this direction appear desirable. In a federal state such as Canada, which is also open to strong external influences, it is particularly important that the Government should dispose of a considerable variety of flexible instruments if it is to perform its economic policy function adequately.

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STATISTICAL ANNEX

Table A Gross National
Annual figures and annual
C $

	Personal consumption expenditure	Government current expenditure on goods and services	Government fixed capital formation	Business fixed	
				Total	Residential construction
					Current
1963	28 364	7 149	1 983	7 539	1 960
1964	30 647	7 684	2 022	9 151	2 384
1965	33 134	8 307	2 443	10 808	2 635
1966	36 057	9 820	2 845	12 560	2 609
1967	38 998	10 934	2 969	12 715	2 809
1968	42 360	12 158	2 995	12 814	3 254
1969	46 531	13 680	3 052	14 190	3 843
1970	48 995	15 802	3 252	14 709	3 537
1969 : 1st quarter	45 256	12 996	3 012	13 792	3 780
2nd quarter	46 032	13 368	3 012	14 080	3 948
3rd quarter	46 648	14 068	3 068	14 300	3 888
4th quarter	48 188	14 288	3 116	14 588	3 756
1970 : 1st quarter	48 008	15 024	3 172	14 420	3 620
2nd quarter	48 580	15 708	3 204	14 200	3 280
3rd quarter	49 312	15 968	3 276	14 892	3 408
4th quarter	50 080	16 508	3 356	15 324	3 840
1971 : 1st quarter	50 956	17 144	3 436	15 432	4 008
2nd quarter	53 148	17 708	3 644	16 300	4 188
					1961
1963	27 551	6 726	1 873	7 271	1 918
1964	29 372	6 980	1 862	8 575	2 230
1965	31 113	7 126	2 108	9 689	2 346
1966	32 771	7 900	2 326	10 756	2 189
1967	34 309	8 225	2 436	10 755	2 218
1968	35 853	8 539	2 458	10 719	2 518
1969	37 847	8 816	2 417	11 351	2 826
1970	38 610	9 661	2 500	11 425	2 518
1969 : 1st quarter	37 384	8 804	2 380	11 212	2 808
2nd quarter	37 552	8 656	2 440	11 276	2 880
3rd quarter	37 720	8 904	2 420	11 376	2 856
4th quarter	38 732	8 900	2 428	11 540	2 760
1970 : 1st quarter	37 984	9 508	2 444	11 292	2 628
2nd quarter	38 280	9 648	2 480	11 080	2 352
3rd quarter	38 776	9 628	2 516	11 576	2 416
4th quarter	39 400	9 860	2 560	11 752	2 676
1971 : 1st quarter	39 912	10 060	2 572	11 744	2 768
2nd quarter	41 120	10 188	2 696	12 268	2 876

Source : National Accounts, Income and Expenditure (DBS).

Product and Expenditure
rates, seasonally adjusted
million

capital formation: Non-residential construction	capital formation: Machinery and equipment	Value of physical change in inventories	Exports of goods and services	Imports of goods and services	Residual error	Gross national product at market prices
prices						
2 700	2 879	592	9 102	9 562	298	45 465
3 233	3 534	469	10 540	10 915	185	49 783
3 860	4 313	1 172	11 223	12 343	153	54 897
4 648	5 303	1 230	13 088	14 260	81	61 421
4 533	5 373	408	14 713	15 235	220	65 722
4 542	5 018	741	16 719	17 010	611	71 388
4 773	5 574	1 043	18 468	19 435	1 031	78 560
5 253	5 919	122	20 969	19 833	452	84 468
4 688	5 324	1 180	18 312	19 144	1 040	76 444
4 664	5 468	848	18 048	19 120	1 184	77 452
4 776	5 636	1 348	18 104	19 396	1 200	79 340
4 964	5 868	796	19 408	20 080	700	81 004
5 092	5 708	432	21 132	20 320	816	82 684
5 120	5 800	692	21 096	20 140	484	83 824
5 304	6 180	216	20 780	20 200	744	84 988
5 496	5 988	–852	20 868	18 672	–236	86 376
5 404	6 020	–4	21 752	20 596	–52	88 068
5 696	6 416	–160	21 960	21 544	–44	91 012
prices						
2 619	2 734	576	8 712	9 001	288	43 996
3 100	3 245	393	9 856	10 163	175	47 050
3 496	3 847	1 095	10 348	11 470	140	50 149
3 952	4 615	1 146	11 714	13 034	71	53 650
3 834	4 703	312	12 941	13 652	191	55 517
3 782	4 419	611	14 507	14 931	503	58 259
3 738	4 787	910	15 672	16 608	809	61 214
3 947	4 960	42	17 226	16 599	345	63 210
3 772	4 632	1 028	15 704	16 656	828	60 684
3 688	4 708	548	15 296	16 444	932	60 256
3 712	4 808	1 284	15 340	16 440	932	61 536
3 780	5 000	780	16 348	16 892	544	62 380
3 856	4 808	132	17 428	16 976	628	62 440
3 880	4 848	472	17 324	16 744	368	62 908
3 980	5 180	92	17 044	16 932	564	63 264
4 072	5 004	–528	17 108	15 744	–180	64 228
3 976	5 000	36	17 996	17 288	–40	64 992
4 120	5 272	–148	18 176	17 880	–32	66 388

Table B **Industrial Production,**
Seasonally

	1964	1965	1966	1967	1968
1 *Indices of industrial production (1963 = 100):*					
All industries	110.0	119.4	127.8	130.9	139.8
Mining	112.9	119.0	123.4	126.8	135.9
Manufacturing	109.5	119.5	128.1	131.1	139.8
Durables	111.8	125.3	136.3	140.5	151.7
Non-durables	107.5	114.1	120.8	122.9	129.4
2 *New residential construction (thousands, annual rates):*					
Starts	165.7	166.6	134.5	164.1	196.9
Completions	151.0	153.0	162.2	149.2	171.0
Under construction	107.7	119.9	88.6	102.7	126.6
3 *Employment and unemployment:*					
Civilian labour force (thousands, monthly averages)	6 933	7 141	7 420	7 694	7 919
Non-agricultural employment (thousands, monthly averages)	5 979	6 268	6 609	6 820	6 992
Employment indices (1961 = 100):					
Mining	98.8	105.1	106.9	109.1	109.8
Manufacturing	111.1	117.2	123.5	123.1	122.1
Durables	116.7	126.0	134.9	133.9	131.7
Non-durables	106.6	110.1	114.3	114.5	114.4
Public utilities	101.5	103.9	106.7	110.9	109.5
Unemployment (thousands)	324	280	267	315	382
Unemployment (percentage of civilian labour force)	4.7	3.9	3.6	4.1	4.8
Average weekly hours worked in manufacturing	41.0	41.0	40.8	40.3	40.3
4 *Retail sales ($ million, monthly averages):*	1 613	1 746	1 891	2 017	2 147
5 *Orders and inventories in manufacturing ($ million):*					
New orders (monthly averages)	2 601	2 867	3 181	3 241	3 503
Unfilled orders (end of period[1])	2 625	3 104	3 968	3 908	3 943
Total inventories (end of period)	5 345	6 005	6 707	6 919	7 230

1 3-month averages for quarters.

Sources: OECD, Main Economic Indicators; Canadian Statistical Review and Bank of Canada Statistical Summary.

Employment and other Business Indicators
adjusted

1969	1970	1969 III	1969 IV	1970 I	1970 II	1970 III	1970 IV	1971 I	1971 II	1971 III
146.4	149.6	145.0	147.9	150.5	149.8	148.7	148.9	151.0	151.6	
134.5	155.9	126.0	138.1	152.6	150.9	157.8	162.9	158.1	159.4	
147.2	145.9	146.5	147.7	148.0	147.4	144.7	143.3	146.4	147.3	
159.6	154.8	157.1	159.0	159.5	157.7	154.4	147.7	156.4	157.0	
136.2	138.1	137.2	137.8	137.9	138.3	136.2	139.5	137.5	138.8	
210.4	190.5	204.0	177.0	167.8	139.0	191.4	256.0	203.8	225.5	
195.8	175.8	196.0	196.1	179.8	174.0	187.6	164.4	180.3	183.3	
137.4	148.2	139.3	132.6	132.4	120.2	120.0	143.4	150.2	159.4	
8 162	8 374	8 155	8 186	8 249	8 384	8 438	8 472	8 542	8 555	8 682
7 245	7 368	7 241	7 259	7 312	7 372	7 377	7 412	7 483	7 499	7 602
107.9	115.7	101.5	109.8	113.3	115.7	117.5	116.6	115.5	116.1	
125.2	122.8	124.9	125.5	124.7	123.1	122.3	121.0	121.6	122.5	
136.7	132.8	135.6	137.4	136.1	133.4	132.3	129.2	130.9	132.0	
115.9	114.7	116.0	115.9	115.5	115.0	113.9	114.4	114.1	115 4	
111.9	112.6	112.1	111.9	112.5	111.4	112.3	114.1	115.2	114.2	
382	495	389	405	409	504	559	551	527	553	577
4.7	5.9	4.8	4.9	5.0	6.0	6.7	6.5	6.1	6.5	6.6
40.0	39.7	40.0	39.6	39.8	39.8	39.6	39.5	39.0	39.4	
2 282	2 316	2 280	2 318	2 297	2 303	2 332	2 327	2 376	2 523	
3 797	3 759	3 856	3 830	3 766	3 806	3 814	3 690	3 942	3 957	
4 394	4 250	4 242	4 373	4 437	4 344	4 386	4 303	4 401	4 521	
7 788	7 940	7 589	7 769	7 892	7 909	7 951	7 924	7 895	7 846	

Table C Prices,

	1964	1965	1966	1967	1968
1 *Prices (1963 = 100):*					
Consumer prices, all items	101.8	104.3	108.2	112.0	116.6
of which: Food	101.6	104.2	109.9	111.6	116.6
Non-food	101.9	104.4	107.3	112.2	116.6
Wholesale prices, all items	100.3	102.4	106.1	108.0	110.3
of which: Raw materials and semi-manufactures	99.5	101.9	107.0	108.5	109.8
Manufactured goods	100.9	102.8	105.8	107.9	110.8
Farm products	98.5	105.7	112.4	111.7	109.1
2 *Wages and profits (seasonally adjusted):*					
Hourly earnings in manufacturing (1963 = 100)	104	109	115	123	132
Corporate profits before tax ($ million, annual rates)	6 043	6 574	6 913	6 774	7 442
3 *Banking ($ million, end of period):*					
Chartered banks:					
Canadian dollar deposits	16 697	18 594	20 016	22 663	26 379
of which: Personal savings deposits	8 935	9 725	10 248	11 760	13 622
Liquid assets	5 359	5 615	6 003	6 818	7 954
Liquid asset ratio (per cent)	32.3	29.7	29.8	29.8	30.2
Holdings of Govt. of Canada direct and guaranteed securities	2 439	2 355	2 324	2 888	3 429
Total loans	9 410	11 278	12 427	14 168	16 061
Currency outside banks	2 183	2 351	2 491	2 736	2 988
4 *Interest rates (per cent, end of period):*					
3-month Treasury bill yield	3.82	4.54	4.96	5.95	6.24
Yield of long-term Govt. bonds	5.03	5.40	5.76	6.54	7.27
5 *Miscellaneous:*					
National Housing Act Mortgage Loans ($ million)	770	812	765	1 041	1 288
Industrial share prices (1963 = 100)	122	135	129	136	139
Security issues, net ($ million)	2 432	1 864	3 204	4 133	4 206
of which: Govt. provincial and municipal	1 897	945	2 325	3 131	3 445
Corporate and " other " bonds	831	1 378	1 045	948	856
Corporation stocks	323	437	565	447	555

Sources : OECD, Main Economic Indicators ; Canadian Statistical Review and Bank of Canada Statistical Summary

1969	1970	1969		1970				1971		
		III	IV	I	II	III	IV	I	II	III
122.0	126.0	123.1	123.8	125.0	126.1	126.7	126.5	127.1	128.9	130.8
121.4	123.9	123.3	122.9	124.4	124.6	124.8	121.7	122.0	124.1	127.7
122.3	127.1	122.9	124.2	125.3	126.8	127.7	128.9	129.7	131.3	132.4
115.5	117.1	115.7	116.2	118.1	117.7	116.4	116.2	117.0	118.0	119.3
114.6	116.8	115.5	115.6	119.5	118.4	115.6	113.8	113.6	112.9	112.8
116.0	117.4	115.9	116.6	117.5	117.5	117.0	117.5	118.8	120.6	122.6
114.7	114.9	116.4	113.5	118.1	116.7	114.1	110.4	109.5	110.6	111.3
143	155	144	147	150	153	156	159	164	168	
7 852	7 364	7 576	7 588	7 740	7 412	7 596	6 708	7 216	7 800	
27 336	29 888	26 588	27 336	26 956	27 819	28 042	29 888	30 785	32 673	
15 030	16 615	15 154	15 030	15 583	16 010	16 533	16 615	17 231	17 636	
7 217	9 204	7 441	7 217	7 402	8 068	8 480	9 204	9 529	9 983	
26.2	30.3	27.8	26.2	27.0	28.5	29.6	30.3	30.5	30.2	
2 977	3 889	3 076	2 977	2 931	3 179	3 388	3 889	4 171	4 530	
17 961	18 549	17 505	17 961	17 797	17 747	17 859	18 549	18 780	19 652	
3 279	3 483	3 133	3 279	3 142	3 259	3 344	3 483	3 396	3 591	3 705
7.81	4.44	7.77	7.81	7.00	5.94	5.39	4.44	3.02	3.37	4.06
8.33	6.99	7.81	8.33	7.93	8.09	7.88	6.99	6.76	7.30	6.97
1 250	1 758	303	382	201	359	636	560	351	608	
153	141	146	153	156	138	131	138	147	149	147
3 284	5 608	513	1 592	886	993	1 266	2 463	1 703	1 408	
2 414	3 500	180	1 494	466	226	889	1 920	864	691	
983	1 674	276	181	324	356	285	709	622	722	
988	345	193	163	200	55	51	39	39	69	

Table D Balance of Payments, 1963-70

OECD Basis

US $ million

	1963	1964	1965	1966	1967	1968	1969	1970
Current account :								
Exports	7 002	8 113	8 603	10 134	11 045	13 143	14 449	16 904
Imports	6 241	7 130	8 159	9 541	10 149	11 708	13 461	13 727
Trade balance	761	983	444	593	896	1 435	988	3 177
Services, net	–1 090	–1 205[1]	–1 333[1]	–1 518	–1 209	–1 491[1]	–1 755	–1 963
Balance on goods and services	–329	–222	–889	–925	–313	–56	–767	1 214
Private transfers, net	–94	–89	–56	—	19	100	49	83
Official transfers, net	–60	–64	–86	–154	–169	–123	–134	–194
Current account balance	–483	–375	–1 031	–1 079	–463	–80	–852	1 103
Capital account :								
Current account (not seasonally adjusted)								
Long-term capital	590	777[1]	819[1]	985	1 249	1 452[1]	1 955	860
(*a*) Private	210	298	643	873	482	..	..	..
(*b*) Official	380	479	176	112	767	..	..	..
Basic balance	107	402	–212	–94	786	1 372	1 103	1 963
Short-term non-monetary capital and unrecorded	137	219	–29	214	–465	–855	–554	–269
Balance on non-monetary transactions	244	621	–241	120	321	517	549	1 694
Private monetary institutions short-term capital	–115	–249	413	–423	–312	–305	–495	–86
Assets	–466	–681	610	–205	–554	–751	–2 103	–1 370
Liabilities	351	432	–197	–218	242	446	1 608	1 284
Balance on official settlements	129	372	172	–303	9	212	54	1 608
Use of IMF credit	–79	–59	—	—	—	—	—	—
Special transactions	—	–35[2]	–35[2]	—	—	–35	—	—
Miscellaneous official accounts	3	–2	11	–31	4	151	6	–159
Allocation of SDR's	—	—	—	—	—	—	—	124
Change in reserves (+ = increase)	52	276	148	–334	13	328	60	1 573
(*a*) Gold	108	209	125	–105	–31	–152	9	–81
(*b*) Currency assets	–56	–130	–133	–325	60	709	–221	1 280
(*c*) Reserve positions in the IMF	—	197	156	96	–16	–227	272	192
(*d*) Special Drawings Rights	—	—	—	—	—	—	—	182

NOTE Detail may not add due to rounding.

1 Data are adjusted to include debt obligations payable by the United Kingdom, but waived.

2 See footnote 1.

Sources : The Canadian Balance of International Payments, Canadian submission to the OECD and Secretariat adjustments

INTERNATIONAL COMPARISONS

Basic Statistics : International Comparisons

Item	Period	Unit	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland
Population	End of 1969	Thousands	7 384	9 660	21 260	4 906	4 707[1]	50 526	61 195	8 842	204.0	2 927
Net average annual increase	1959 to 1969	%	0.49	0.57	1.84	0.72	0.65	1.06	1.05	0.65	1.60	0.30
Employment Total civilian	1969	Thousands	3 017	3 683	7 780	2 294	2 116	19 967	26 337	(3 662)	78[2]	1 061
Agriculture		% of total	19.1	5.2	8.2	11.9	24.5	15.1	9.6	(48.2)	18.8[2]	28.4
Industry[7]		% of total	39.9	44.8	32.3	38.5	34.6	40.6	49.1	(22.5)	37.3[2]	29.7
Other		% of total	41.0	50.0	59.5	49.6	40.9	44.3	41.3	(29.3)	43.9[2]	41.9
Production GNP per head	1970	$[8]	1 940	2 670	3 550	3 200	2 180	2 920	3 020	950[18]	2 290	1 320
GDP by sector: Agriculture	1969	% of total	7.0	5.3	5.9[9]	8.9	14.7	6.0[11]	3.0[11]	20.3	..	19.7[2]
Industry		% of total	46.8	41.6	38.5[9]	40.1	41.3	48.1[11]	53.9[11]	28.2	..	34.0[2]
Other		% of total	46.2	53.2	55.6[9]	51.0	44.0	45.9[11]	42.5[11]	51.5	..	46.3[2]
GNP[15] annual volume growth	1970	%	7.1	5.5	3.3	3.2	7.4	6.0	4.9	8.1	7.9	1.4
	1965 to 1970	%	5.1	4.5	4.5	4.0	4.8	5.8	4.5	7.0	2.1	4.0
Indicators of living standards	1969											
Private consumption per head		$	970	1 470	2 050	1 770	1 060	1 680	1 390	640	1 190	830
Expenditure on education		% of GNP[9]	4.40	5.57	5.65[17]	6.00[2]	6.30[18]	4.81	3.00[19]	2.40[2]	4.80	4.20
Dwellings completed, per 1 000 inhabitants		Number	6.6	5.6[21]	9.3	10.1	7.9	8.5	8.2	14.7	7.2	4.3
Passenger cars[22], per 1 000 inhabitants		Number	152	205	311	210	137	231	215	15	185[18]	130
Television sets[18], per 1 000 inhabitants		Number	154	196	294	249	198	184	246	5	160	155
Telephones[18], per 1 000 inhabitants		Number	169	190	425	311	215	149	185	87	330	94
Doctors[18], per 1 000 inhabitants		Number	1.60	1.55	1.14[2]	1.41[2]	0.93	1.22[2]	1.50	1.49	..	1.09
Gross fixed investment[23] Total	1965-69 average	% of GNP	24.8	21.5	23.7[24]	22.8	25.0	25.3	25.4	25.9	29.7	20.9
Machinery and equipment		% of GNP	12.5	8.9	9.6	11.3	8.8	11.0	11.1	10.2	8.2	9.2
Residential construction		% of GNP	4.3	5.4	3.8	4.4	5.5	6.6	5.7	6.4	6.3	4.1
Other construction		% of GNP	8.0	7.1	10.4	7.0	10.6	7.7	8.6[29]	9.6	15.2	7.6
Gross saving	1965-69 average	% of GNP	26.6[25]	22.9	23.9[25]	19.5	27.8	25.9	26.7[25]	21.0	..	18.6[25]
Public sector[30] Total current revenue	1969	% of GNP	37.5[2]	34.2	35.2[2]	37.1	35.9	38.1	37.9	26.9	33.9[2]	30.7[2]
Wages/Prices Hourly earnings[32]	Annual increase 1964 to 69	%	8.1[33]	7.9	6.6[34]	11.2[35]	9.1	8.2[36]	6.5	10.8	11.7[37]	8.6[34]
Consumer prices		%	3.4	3.5	3.7	6.5	5.3	3.8	2.6	2.5	11.5	4.6
GNP deflator		%	3.6	3.8	3.9	6.4	5.9	3.9	2.6	2.7	12.0	4.6
Foreign trade Imports[46]		$ million[8]	3 550	10 000	15 800[2]	4 410	2 420	21 880	32 220	1 930	180	1 550
		% of GNP	28.5	43.9	25.3	31.6	26.5	15.7	21.0	23.0	46.1	45.4
Exports[46]		$ million[8]	3 590	10 190	15 490[2]	4 070	2 430	21 040	36 100	1 090	180	1 330
		% of GNP	28.8	44.7	24.8	29.1	26.6	15.1	23.6	12.9	47.2	39.1
Balance of payments Current balance	1966-70 average	% of GNP	–0.5	1.7[21]	–0.3	–2.6	–1.2	–0.4	1.0	–3.6	–5.7	–2.9
Official reserves[47], end-1970: per cent of a year's imports[48]		%	49.5	25.1[21]	35.2	11.1	18.2	26.0	45.6	19.9[18]	34.6	44.3
Change	August 1970 - August 1971	$ million	554	699[21]	376	52	167	2 915	6 469	53	16	142
Net flow of resources to developing countries[50]		% of GNP	0.67	1.23	0.77	0.60	— [51]	1.24	0.80	— [52]	— [51]	— [51]
Export performance[53] Growth of markets[54]	1969 to 1970	%	19.4	16.9	11.5	17.0	16.9	18.9	16.3	18.4	..	13.6
	1960 to 1970 (average)	%	11.1	11.2	13.4	9.9	10.2	9.1	10.5	11.2	..	7.5
Gains or losses of market shares[55]	1969 to 1970	%	–1.0	–1.7[21]	3.5	–5.8	–0.7	0.5	–0.1	–2.3	..	2.6
	1960 to 1970 (average)	%	–1.6	1.0[21]	–2.0	–1.3	–1.6	0.8	0.9	0.9	..	0.9

Item	Period	Unit	Italy	Japan	Luxembourg	Netherlands	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia[4]
Population	End of 1969	Thousands	54 302	102 930	338.5	12 958	3 867	9 514[2]	33 250	8 014	6 184	34 828	55 643[3]	204 351	20 462
Net average annual increase	1959 to 1969	%	0.82	1.04	0.79	1.27	0.81	0.85[5]	0.97	0.71	1.53	2.53	0.65[6]	1.31	1.12
Employment Total civilian	1969	Thousands	18 678	50 400	140	4 510	1 474	3 109	12 243	3 821	(2 740)	(13 519)	24 904	77 902	3 706
Agriculture		% of total	21.5	18.8	11.6	7.5	14.7	31.5	30.7	8.8	(7.3)	(72.1)	2.9	4.6	6.7
Industry[7]		% of total	43.1	35.0	45.7	41.3	36.8	35.5	37.1	40.4	(51.9)	(11.6)	46.8	(33.7)	46.8
Other		% of total	35.4	46.2	42.7	51.2	48.5	33.0	32.2	50.8	(40.8)	(16.3)	50.3	(61.7)	46.5
Production GNP per head	1970	$[8]	1 700	1 910	2 940	2 400	2 900	660	970	3 820	3 260	350	2 150	4 850	518[2]
GDP by sector: Agriculture	1969	% of total	11.3	8.7[12]	6.2[9]	7.0	6.5	17.7	15.0	5.9[9, 11]	6.4[10]	32.2[12]	3.0[14]	2.9[11]	19.5[2]
Industry		% of total	38.9	39.1[12, 13]	50.9[9]	41.6	38.6	42.8	35.3	45.2[9, 11]	49.6[10]	27.4[12]	45.8[14]	35.8[11]	42.5[2]
Other		% of total	49.8	52.2[12, 13]	42.9[9]	51.4	54.9	39.7	49.6	48.9[9, 11]	44.0[10]	40.5[12]	51.3[14]	61.3[11]	38.0[2]
GNP[15] annual volume growth	1970	%	5.1	10.9	2.9	6.0	3.6	6.4	6.3	4.8	4.4	4.8	2.1	–0.4	..
	1965 to 1970	%	6.0	12.1	3.4	5.2	4.4	6.2	6.4	3.9	3.7	6.8	2.1	3.3	..
Indicators of living standards	1969														
Private consumption per head		$	960	840	1 300[9]	1 220	1 410	430	600	1 790[2]	1 740		1 230	2 850	275[2]
Expenditure on education		% of GNP[9]	5.80[2]	4.54[17]	5.00[18]	6.71	5.81	1.44[17]	2.14[2]	7.80[2]	6.30	3.70	4.15[17]	5.10	4.59
Dwellings completed, per 1 000 inhabitants		Number	5.2	11.9	..	8.6	8.6	4.3	8.2	13.7	9.5	3.3	6.9	7.7	6.4
Passenger cars[22], per 1 000 inhabitants		Number	166	68	250	179	183	42	61	277	209	4	207	426	28[18]
Television sets[18], per 1 000 inhabitants		Number	150	208	154	207	194	29	162.	296	164	0	279	409	64[2]
Telephones[18], per 1 000 inhabitants		Number	143	171	290	226	271	69	113	497	437	13	232	543	31[2]
Doctors[18], per 1 000 inhabitants		Number	1.79[22]	1.09[9]	1.01	1.18	1.35	0.83[2]	1.30	1.24	1.31	0.36[2]	1.18[2]	1.64	1.10[2]
Gross fixed investment[23] Total	1965-69 average	% of GNP	19.4	35.5	25.5	27.1	29.2	19.3	24.8	24.0	27.2	17.1	18.5	16.7[26]	..
Machinery and equipment		% of GNP	7.4	29.0[27]	7.4	12.6	15.1	7.1	12.9	8.2	9.3	..	9.0	7.1[26]	..
Residential construction		% of GNP	6.4	6.5	18.1[28]	5.3	4.6	4.5	4.4	6.1	6.9	3.6	3.6	3.5	..
Other construction		% of GNP	5.7	— [27]	— [28]	9.2	9.5	7.8	7.7	9.7	11.0	..	5.9	6.1	..
Gross saving	1965-69 average	% of GNP	23.2	37.9	28.1[25]	27.1	28.1	..	22.8	23.9[25]	28.3	..	18.3	18.4	..
Public sector[30] Total current revenue	1969	% of GNP	33.3	21.2	36.0[9]	41.9	43.4	..	22.4	48.1[2, 31]	28.1	..	39.0	31.5	32.6[2]
Wages/Prices Hourly earnings[32]	Annual increase 1964 to 69	%	5.7[38]	12.9[39]	..	8.8[40]	8.3[41]	8.4[33]	13.7[42]	8.6[43]	5.0[44]	..	6.0[45]	4.8[34]	..
Consumer prices		%	2.8	5.2	2.8	5.0	3.7	5.8	6.5	4.0	3.4	7.4	4.3	3.4	14.9
GNP deflator		%	2.9	4.5	2.4	5.1	3.9	4.3	6.1	4.3	3.9	4.4	4.3	3.3	..
Foreign trade Imports[46]		$ million[8]	14 890	16 690	600[2]	13 540	4 070	1 620	4 870	6 080[2]	6 280	..	24 790	53 560	1 991[9]
		% of GNP	18.2	10.0	77.2[2]	48.0	41.8	28.2	16.9	23.8	33.4	..	22.7	5.6	21.0[9]
Exports[46]		$ million[8]	16 810	19 080	640[2]	13 640	4 170	1 400	3 910	5 920[2]	7 120	..	26 720	55 510	1 875[9]
		% of GNP	20.5	11.4	81.8[2]	48.3	42.8	24.4	13.6	23.1	37.8	..	24.4	5.9	19.7[9]
Balance of payments Current balance	1966-70 average	% of GNP	2.5	0.9	—	–0.6	–0.5	2.5	–1.2	–0.6	1.6	–1.5	0.2	0.1	..
Official reserves[47], end-1970: per cent of a year's imports[48]		%	35.5	25.6	—	24.2	21.8	96.2	38.2	10.9	72.7	48.5	13.0	36.3	6.4
Change	August 1970 - August 1971	$ million	2 208	8 547	—	561	392	216	968[49]	316	2 037	272	2 054	–3 668	–62
Net flow of resources to developing countries[50]		% of GNP	0.78	0.93	— [51]	1.42	0.59	1.02	— [52]	0.73	0.66	— [52]	1.06	0.61	— [52]
Export performance[53] Growth of markets[54]	1969 to 1970	%	16.6	12.6	—	18.3	17.3	14.6	15.8	17.2	17.3	18.1	16.3	13.5	..
	1960 to 1970 (average)	%	10.5	9.7	—	10.7	9.8	10.7	10.2	10.1	10.8	4.7	9.5	9.5	..
Gains or losses of market shares[55]	1969 to 1970	%	–4.2	8.2	—	–0.2	–5.8	0.4	9.8	2.0	–6.6	–8.5	–4.9	0.1	..
	1960 to 1970 (average)	%	3.2	7.8	—	0.5	1.3	1.0	2.7	–0.1	–0.2	1.3	–3.2	–1.8	..

1 Does not include total net migration between Finland and the other Nordic countries.
2 1968.
3 30-6-1969.
4 National source.
5 1958-1968.
6 30-6-59 - 30-6-69.
7 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
8 At current prices and exchange rates.
9 1967.
10 The estimates for GDP by sector for Switzerland have been published in "la Vie économique", November 1969.
11 GDP at market prices.
12 Net domestic product.
13 Electricity, gas and water works included in "other activities".
14 Including stock appreciation.
15 At constant (1963) prices.
16 1962-1967.
17 1965.
18 1969.
19 1966.
20 1964.
21 Including Luxembourg.
22 1970.
23 At constant (1963) prices.
24 Excluding transfer costs of land and existing assets.
25 1964-1968.
26 Government and government enterprise expenditure on machinery and equipment is included in government current expenditure.
27 "Other construction" included under "machinery and equipment". Work in progress on heavy equipment and ships for the domestic market are included in fixed asset formation.
28 "Other construction" included in "residential construction".
29 Including transfer costs of land.
30 General government.
31 Including depreciation.
32 Industry.
33 Monthly.
34 Manufacturing.
35 Including bonuses.
36 Hourly rates in manufacturing.
37 Hourly wages rates, unskilled workers.
38 Hourly rates in manufacturing, excluding family allowances.
39 Monthly earnings in manufacturing. Cash payments including bonuses, regular workers.
40 Hourly rates in industry, males.
41 Males.
42 Excluding family allowances.
43 Mining and manufacturing, males.
44 Hourly rates.
45 Hourly rates in manufacturing, males.
46 Goods and services, including factor income, 1969.
47 Including reserve position in the IMF and special drawing rights.
48 Imports of goods in 1970.
49 June 1970-June 1971.
50 1970. According to the DAC definition. Including flows to multilateral agencies and grants by voluntary agencies.
51 Not Development Assistance Committee members.
52 Considered as a developing country for purposes of DAC reporting.
53 Values, percentage change. Figures are subject to many limiting factors. For an explanation see OECD Economic Outlook, simple definition, December 1970, pp. 65 and 69.
54 The growth which would have occurred in a country's exports if it had exactly maintained its share in total OECD exports to each of 19 broad geographical zones.
55 The difference between the growth rates of markets and exports.

NOTE Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries, except Yugoslavia (for special national sources see above): OECD: Labour Force Statistics Main Economic Indicators, National Accounts, Balance of Payments, Observer, DAC and Statistics of Foreign Trade (Series A). Office Statistique des Communautés Européennes, Statistiques de base de la Communauté. IMF, International Financial Statistics.

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