

investment will probably draw imported capital goods into the country in greatly increased volume. The direct and indirect effects of sharply higher prices for petroleum and petroleum products will also be significant in adding to Canada's import bill (and, of course, to Canada's export earnings). A partial offset will come in a deceleration in the rate of increase in imports of automotive goods, which in 1973 rose by about \$1 billion. Moreover, some foreign products Canada normally imports in large quantities — e.g., textiles and clothing — may become less competitive and Canadian producers may be called upon to fill gaps in supply. In summary, however, in the light of uncertainties in international markets in 1974, some decline from the level of the very substantial trade surplus in 1973 seems likely.

The persistence of inflation continues to be a major problem, although there is cause for hoping that the peak of the upward pressure on prices may have been passed. An important consideration here is that, with the slowing of growth in industrial countries, there has been some relaxation of the demand and price pressure on industrial materials. In addition, there has been some improvement in world food supplies, which should slow down the rate of price increases in this sector. Weighing heavily on the other side, however, will be the major factor of greatly increased prices of petroleum, petroleum products and other energy resources. Rising unit labour costs, both at home and abroad, could also limit any improvement in general price trends.

The expansion of capital spending for new industrial capacity in Canada may be one of the most important means at our disposal for ultimately securing an abatement in the rate of price increase. The available evidence indicates that the marked strengthening of business-capital spending that was well launched in 1973 will continue and gain momentum in the current year. The results of a field survey of capital-spending intentions carried out late in 1973 showed that major companies in Canada plan to raise their capital outlays by more than one-fifth in 1974. The survey revealed that a substantial upsurge of spending was under way in the manufacturing industry. During the past year, the fact that output was at or close to capacity created strong pressure to broaden production by building additional facilities. This inducement to expand was encouraged by greatly-improved earnings in most companies associated with increased volume of sales and rising prices. Other investment sectors for the most part are expected to remain buoyant in 1974, although there may be some easing from the record rate of residential building reached last year.