

Energy Program and the Canada-Alberta energy agreement is a major factor in keeping the inflation rate at such a high level. Another contributing factor is the large increase in average labour compensation. Base rate non-COLA wage settlements averaged  $13\frac{1}{2}$  per cent in 1981, up from the  $11\frac{1}{2}$  per cent increase in 1980. In the first quarter of 1982, wage settlements were down to an average of  $12\frac{3}{4}$  per cent, from a peak of  $14\frac{1}{4}$  per cent in the second quarter of 1981. Canada's rate of inflation and average wage settlements were about 5 percentage points higher than in the U.S. in the first quarter of 1982.

- Interest rates, which peaked in the third quarter of 1981, have since dropped significantly. The Bank Rate reached a high of 21.24 per cent in August and has since declined to a range of 15 per cent. Various types of interest rates have not, however, dropped by the same margin and interest rates still remain at very high levels. High Canadian interest rates reflect deeply entrenched inflationary expectations and high U.S. interest rates. Activity in credit markets appear to be showing more signs of adjusting to the high interest rates being experienced. In the first quarter of 1982, credit extended to businesses declined at an annual rate of 5 per cent in marked contrast to the over-40-per cent growth recorded in 1981. Growth in consumer credit outstanding and mortgage loans also continues to be sluggish. Although short-term interest rates have generally been higher in Canada compared to the U.S. the external value of the Canadian dollar has been on the decline since the beginning of 1982.
  
- The current account deficit increased sharply to  $\$6\frac{1}{2}$  billion in 1981 from \$2 billion in 1980 in response to a large deterioration in the terms of trade and a significant increase in net interest payments. There was a large outflow of direct investment as a result of take-overs of foreign businesses. This was financed by net new issues of Canadian securities sold abroad and short-term foreign borrowing. Canada's merchandise trade surplus increased significantly to \$13.7 billion at an annual rate in the first quarter of 1982 from \$11 billion in the fourth quarter of 1981.