

Encouraging progress continued to be made in exports of other manufactured goods as well. Sales of machinery and equipment and finished consumer goods, apart from automobiles, are up by 25 per cent in 1967. Among major resource-based exports, substantial gains have been realized in oil and gas, base metals, potash and sulphur. Large forward sales of uranium to the United Kingdom and Japan have brought a flow of confidence and renewed activity to this important, export-oriented industry.

IMPORTS UP

Imports also have risen strongly in the past year, reflecting, as in the case of exports, expanded cross-border trade in automotive products, and in addition, a continuing firm domestic market for consumer goods. Merchandise imports have increased a little less than exports, thus giving a somewhat higher surplus on merchandise trade.

Meanwhile, Canada's deficit on non-merchandise international transactions is appreciably lower in 1967. This is mainly the result of a substantially-improved balance on tourism produced by the upsurge in tourist activity associated with Expo 67 and other centennial attractions. 1967 will see a surplus of \$350 to \$400 million from tourism, as opposed to the 1966 deficit of \$60 million.

Thus the position on all current transactions, both goods and services, has improved markedly in the past year. The evidence available suggests that the 1966 current-account deficit of \$1,137 million has been reduced by at least a quarter.

UPWARD PRICE TREND

There are, however, other less salutary developments in the economy which, unless checked, could reverse this favourable trend in our payments position and undermine the very basis of our current prosperity.

Despite slower growth in total demand and output during the past year, there has been little apparent slackening in the upward pressure of costs on prices. To date, manufactured goods prices are up by 2 per cent, consumer prices by 3.5 per cent and the price component of the gross national product by 4.5 per cent. The upward movement of unit costs is reflected not only in higher prices but also in lower profits. Total corporate profits are down 6 per cent so far this year, compared with last and, as a proportion of the gross national product, are now at their lowest point in the postwar period....

The present inflationary dilemma stems in part from lagging productivity. The difficulty has been compounded in the current situation by continuing demands for higher incomes and benefits in both the private and public sectors, out of line with productivity trends. In manufacturing, for example, average earnings during the past year have increased by almost 7 per cent, while output per man-hour has risen by only 2 per cent. Also, in the public sector, new expenditure programmes have been growing faster than national output....

The Federal Government is taking resolute action to meet this situation. The Minister of Finance has announced fiscal objectives which, in essence,

will reduce substantially the growth of government demands upon the economy and at the same time relieve pressures in the financial market. These measures are a necessary first step toward better balance in the economy....

OUTLOOK FOR 1968

External demand conditions are likely to show considerable improvement in the year ahead. The tempo of industrial activity in the United States, following the slowdown, early in 1967, is already picking up momentum. The devaluation of the pound sterling will entail temporary dislocation in some markets, but should result eventually in a strengthened economy in Britain and greater financial stability internationally. The expectation of renewed advance in the West German economy should give new momentum to Western Europe. The Japanese economy, meanwhile, continues its strong upward course.

Faster growth in the industrial nations should, in turn, strengthen world commodity markets, with consequent benefit to the food and basic material producing areas of the world. Higher export returns in these areas, coupled with Canada's expanding aid programmes, will lead to new opportunities for trade with the developing countries.

Against this background of improving world demand in 1968, the implementation of the first phase of tariff reductions under the Kennedy Round trade agreements will further enhance export opportunities in the coming year.

Canada must look to these broadened market horizons for the stimulus needed to move the economy forward to new heights of achievement. To make the most of these new opportunities will require ingenuity, initiative and perseverance on the part of Canadian exporters, and appropriate restraint with respect to income demands on the part of all groups in the community. More than anything else, international competitiveness holds the key to this new store-house of opportunity.

RESTRAINT NEEDED

It is especially important therefore, in seeking ways to foster growth, to avoid courses of action which impair our ability to compete in world markets. Too much stimulation of domestic demand, for example, would unduly divert our energies and resources from export pursuits and otherwise impede the necessary adaptation to a more open trading world. This is why it is so important for governments and individuals alike to restrain their demands upon the economy....

It is with these considerations in mind that we in the Department of Trade and Commerce have set the 1968 export target at \$12.3 billion. This target calls for an increase in exports greater even than that achieved in 1967. Exports of automotive products are likely to show much smaller growth than the huge increase resulting from the initial beneficial impact of rationalization. The 1968 target, therefore, calls for substantially greater gains in other export categories. Next year's objective presents an exacting challenge. Yet it is a challenge which must be met if the economy is to move forward at a pace commensurate with its potentialities....