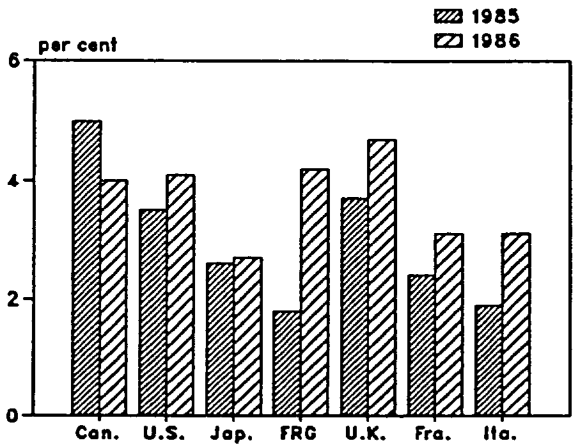
Chart 3
Components of Final Domestic Demand

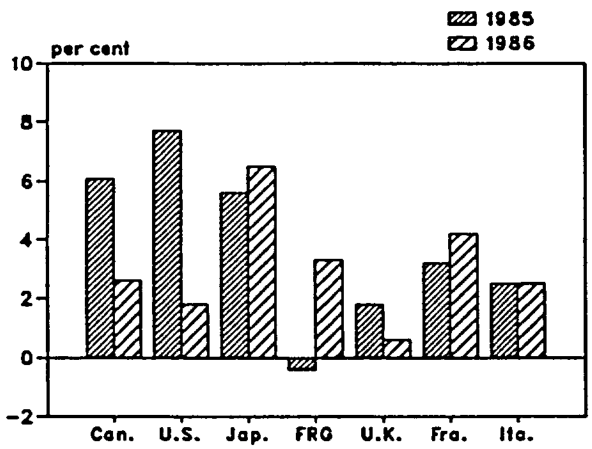
Change in Consumer Expenditure



Consumer expenditure, stimulated by lower world interest rates and real income gains, was the most robust component of final domestic demand among the major OECD countries.

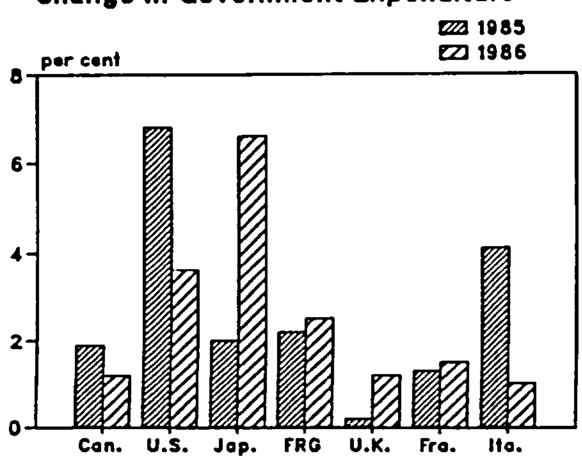
The UK experienced the most rapid growth in 1986, although Canada, FRG and the US also attained growth of over 4 per cent.

Change in Investment



Investment has been relatively sluggish across all the G-7 countries, except perhaps in Japan. In Europe and Japan, currency appreciation has weakened their export sectors and thus investment. On the other hand, those countries where investment could have been stimulated by depreciating currencies (the UK, Canada and the US), all have large energy sectors in which investment has declined substantially in response to lower world oil prices.

Change in Government Expenditure



In 1986, government spending slowed in Canada, the US and Italy, the three G-7 countries with the largest government deficit to GNP ratios.

The rapid increase in spending in Japan in 1986 is attributed to a 'one-shot' increase in the fourth quarter, after which spending is expected to return to earlier levels.