

Foreign Performance

A key feature of the current expansion has been our strong performance in foreign markets. Figures for the first 10 months of 1962 show merchandise exports 9 per cent higher this year compared with last. This follows upon a similar increase between 1960 and 1961. In other words, within the space of two years, Canada's annual sales abroad have risen from \$5.4 billion to something in excess of \$6.3 billion, an increase of more than one-sixth. Items figuring prominently in this year's increase include iron ore, aluminum, petroleum and natural gas, lumber, woodpulp and a number of manufactured products. The continuing growth in exports of highly-manufactured products, such as machinery and equipment, and finished consumer goods, is a particularly significant aspect of recent trade developments. Exports of this kind have increased by more than one-quarter over the last two years.

Strong demand conditions in Canada have resulted in higher imports, which in the first ten months of the year are up 12 per cent. Much of this increase reflects the rise in prices of goods purchased abroad, associated with the change in exchange rate. This means that a relatively small part of the recent growth of real demand in Canada has been supplied from abroad. It is also in sharp contrast to previous periods of strong expansion, when increased domestic demand gave rise to a major upsurge in the volume of imports. In the current situation, a much larger proportion of the rise in domestic purchases is being supplied from Canadian sources.

Underpinning Canada's accelerated growth has been the broad programme of federal measures designed to speed industrial development, and in particular, to strengthen the competitive ability of the Canadian producer. A central feature of this programme has been the action taken to bring the exchange value of the Canadian dollar into line with present needs for economic development. After running at a premium on the U.S. dollar for a number of years, the Canadian dollar was brought to a discount in 1961, and, in May 1962, was pegged at 92½ cents in terms of U.S. currency.

In the prevailing conditions of intensive international competition, an exchange-rate shift of this magnitude provides an important lift to the wide range of industries competing with foreign goods, both domestically and abroad. Moreover, the establishment of a fixed exchange rate removes much of the uncertainty as to future returns which, under conditions of a fluctuating rate, acts as a deterrent to the development of new lines of production in internationally competitive fields.

Reserve Build-up

The resiliency of the economy, and the effectiveness of measures taken by the Government to counteract exchange difficulties that developed last summer, are exemplified by the rapid buildup of our reserves. These stood at \$2.5 billion at the end of December compared with \$1.1 billion on June 24. Furthermore, of the \$1.05 billion obtained by Canada in standby credits from various international sources, only \$300 million is still outstanding to the International Monetary Fund.