TRADE SURPLUS RECORD

In 1968, as in the preceding year, the main impetus in the Canadian economy emanated from the growth of sales in foreign markets. Exports in 1968 are up by $2 billion, or 18 per cent. Imports have also increased, but by a lesser amount. Canada's surplus on merchandise trade has risen from $5 billion in 1967 to well over $1 billion in 1968 – by far the largest trade surplus ever realized in a peacetime year.

Foreign tourist receipts have approximated the $1-billion level and the balance on tourism compares favourably with the achievement of preceding years, with the exception of 1967, Canada's centennial year. While Canada's deficit on all service transactions is much higher in 1968 than in the preceding year, this increase has been more than offset by the improvement on merchandise trade. Thus, Canada's position on all current transactions with the rest of the world is now closer to balance than at any time in the past 15 years.

OVERSEAS MARKETS

The dominant factor underpinning the sharp growth of Canada's exports in 1968 has been the accelerated tempo of business in the United States. Sales to this market have increased by a spectacular $1.75 billion, or 25 per cent, in the space of one year. In Canada's largest overseas market, Britain, a general policy of demand restraint has limited sales expansion opportunities but exports to this market have nevertheless shown a moderate advance. Exports to Japan, now our third largest market, are up moderately in 1968 following a spectacular 45 percent growth in 1967. Among other overseas markets, major gains have been achieved during the past year in Australia, West Germany and Belgium-Luxembourg.

Automotive products account for nearly two-fifths of the increase in Canada's exports and an even larger proportion of the rise in imports. Good export increases have also been achieved for copper, nickel, aluminum, iron ore, lumber, woodpulp, petroleum and natural gas, machinery of various kinds and aircraft. Wheat sales, on the other hand, are lower in 1968.

1969 FORECAST

Looking ahead to 1969, external market conditions may not be as favourable as in the year past. In the United States in particular, demand pressures are expected to ease somewhat and this would entail less spectacular growth in sales to this market. In Britain and also in France, the recent intensification of restraint programmes directed in particular toward improvement in external-payments positions will dampen, for the time being, new sales expansion opportunities. On the other hand, prospects are good in a number of countries, particularly Japan, where recent strengthening in the external-payments position will permit a more expansive demand policy, and West Germany, where foreign sellers will benefit from steadily expanding demand coupled with lower levies on imports.

All things considered, a further growth in exports in the range of 5 to 10 per cent appears to be a realistic expectation for the coming year. The further Kennedy Round cuts to be made on January 1 by the United States on a broad range of products of interest to Canada will be helpful.

From within the Canadian economy, it is evident that new growth impetus will be provided by the rising trend of capital investment. A recent survey of investment intentions of large companies indicates that capital spending in the business sector will rise by something like 8 per cent in 1969, compared with 2 per cent in 1968. House-building activity also continues to point upward. In the consumer sector, a firm trend of personal incomes will provide underpinning for sustained growth of spending on consumer goods and services.

It is quite possible that any slowing down in export growth will be offset by stronger domestic demands, with the result that an active tempo of business activity will be sustained. How close the economy comes to realizing its full growth-potential will depend on how Canadians respond to the exacting challenges ahead.

UPWARD PRICE TREND

One worrisome feature of our current economic performance is the persistent upward movement of costs and prices. The price component of the gross national product increased by 3.9 per cent in 1967 and has increased only slightly less this year. Consumer prices rose by 3.5 per cent in 1967 and in 1968 are up by more than 4 per cent. This degree of price-increase places cumulative strains on the economy. It creates inequities in the distribution of income, particularly for those on fixed money incomes, it disrupts the investment process by adversely affecting savings and it erodes our competitiveness in international markets which, for a trading nation, such as Canada, is basic for sound growth and sustained prosperity. To date, the rise in prices has not prevented a good performance in foreign markets. However, in achieving this good showing, prices of Canada's exports in recent years have risen less than domestic prices generally. Clearly there is a limit to the amount by which domestic costs and prices can rise before they start to impinge our exports.

If increases in the general price level are to be held in check, income returns must be in line with the improvement in national productivity. Widespread efforts to achieve gains over and beyond the improvement in national productivity serve simply to erode the value of the dollar and disrupt the economy, and in the end, are self-defeating. Real income gains for the whole community come only through the more effective use of the nation's resources. It is by directing our efforts to real, as opposed to illusory, gains that Canadians will make the most of the promosing opportunities which lie ahead....