

potential, and in some cases further major increases in output can only be achieved upon the completion of new investment programs designed to provide additional capacity. Overall demand forces, while less uniformly favourable than at the same time a year earlier, are still expected to provide an important continuing stimulus for the Canadian economy. Of particular moment, the economy is expected to benefit from a rising tempo of business spending on new plant and equipment, already in progress during 1973.

Recent international developments suggest that the world environment has become less hospitable to continuing rapid expansion of world production and trade. Even before the curtailment of Arab oil production, there had been in the latter part of 1973 a marked slowing in the pace of advance of most industrial economies. In the majority of these, the loss of momentum was at least in part the result of government measures of restraint directed at checking the threat of excessive inflation. Capacity restraints and shortages of industrial materials also had important effects in limiting production.

But the recent sharp reduction in oil supplies from Arab countries is a new factor unfavourable to a continued high rate of expansion in the industrial world. The reduction of Arab oil shipments has already caused a sizeable dislocation and has led to the introduction of allocation measures in most major industrial countries. Although a partial restoration of the cutback was announced on December 25, the large increases in energy costs, including those announced on December 22 by major Middle Eastern producers, will affect the general competitive position of countries highly dependent on external supply. These developments will influence the demand for and price of some important industrial materials. Further alignments of major currencies are a distinct possibility.

It is now widely believed that there will be minimal growth in the United States economy in 1974. Overseas markets also will be less receptive to trade expansion in 1974 as a result of the economic slowing now under way in several major European countries and Japan. The latter has just announced restrictive budget measures for 1974.

Under these circumstances, the demand for Canadian exports in 1974 may contribute less to expansion than it has in the past year. A relatively stronger pattern in imports is expected to persist in the coming year. Among the factors influencing the import trend, the major rise that now seems in the making in business fixed