

by a relatively modest price increase of 5.9 per cent. Expenditure on durables was also fairly strong, growing 14.8 per cent in current dollars and 5.7 per cent in real terms, as spending on new and used automobiles rose 20.6 per cent. Spending on services and non-durable goods increased 14.7 per cent and 15.6 per cent, respectively, in current dollars, but by only 2.2 per cent and 2.8 per cent in real terms. There were large price increases during the year in both of these categories.

Capital formation

Total gross fixed-capital formation grew to \$37.3 billion, an increase of 13.5 per cent. This is a considerable slowdown from the increases of the previous two years. In real terms, capital formation grew only 1.6 per cent. The weakness was concentrated in residential construction, which declined by 10.7 per cent in real terms as a result of a precipitous drop in housing starts in late 1974 and early 1975. There was a significant shift in the composition of residential construction during the year, as starts on duplexes and row housing increased 40 per cent, while single detached housing starts rose only 1.5 per cent and apartment starts declined 4.9 per cent. Business investment in plant and equipment grew 4.7 per cent and investment in machinery and equipment 2.5 per cent. Within non-residential construction, the increase was stronger in engineering (construction of highways, pipelines, utilities, etc.) than in building construction.

Investment in inventories swung from an accumulation of \$2.7 billion in 1974 to a decline of \$0.8 billion in 1975, all of which took place in business non-farm inventories. There was strong liquidation in both manufacturing and

wholesale trade after accumulations in 1974, and in both sectors the run-down was largely in durable goods. Retail trade was virtually flat for the year (close to zero value of physical change) after an accumulation of approximately \$0.2 billion in 1974.

External sector

The external sector was one of the major sources of weakness in 1975. Exports rose 3.0 per cent, while imports were up 11.0 per cent, resulting in a \$3.3-billion deterioration in the trade balance to a record deficit of \$5.5 billion. The customary deficit on service transactions worsened by \$1.0 billion, but the change in merchandise trade from a surplus of \$1.5 billion in 1974 to a deficit of \$0.8 billion accounted for about 70 per cent of the swing in the trade balance. The increase in exports was due to a very large increase in natural-gas exports, plus substantial increases in iron ore, coal, agricultural and industrial machinery, and motor vehicles and parts, while the rise in imports was accounted for by increases in energy goods, notably petroleum, and by strong increases in machinery and equipment and motor vehicles and parts. On the service account, the deterioration resulted from a larger travel deficit and higher interest and dividend payments abroad.

Total revenue of all levels of government (excluding intergovernment transfers) rose 7.7 per cent in 1975, the lowest rate of increase in several years. All major tax categories showed considerably lower rates of growth than in 1974, reflecting both lower tax-rates and the slowdown in business activity. On the other hand, total government expenditures continued the strong growth of the previous year, although at a slightly lower rate, and increased 20.0 per cent. Outlays on goods and services rose about 16 per cent, as wage and salary payments, which account for over 50 per cent of total government expenditure on goods and services, increased about 18 per cent. Transfer payments to persons grew 23 per cent, with higher unemployment benefits an important factor in the increase. Thus, with expenditure rising more rapidly than revenues, the government sector as a whole registered a deficit, on a national accounts

basis, or \$4.6 billion in 1975 – the first large deficit since the early 1960s.

Labour income

Labour income rose 14.0 per cent in 1975 compared to an increase of 16.9 per cent in 1974. A major factor in the lower rate of growth was the effect of larger lay-offs and more man-days lost in industrial disputes. There were only marginal increases in employment during 1975, and most of the increase in labour income reflected higher average earnings. Wages and salaries in the goods-producing industries increased 10.0 per cent compared to 14.0 per cent in 1975, as the industries in this group were particularly affected by strikes and layoffs. Wages and salaries in the service-producing industries rose 16.3 per cent after a 17.7 per cent increase the year before, with a slower rate of employment growth the major reason for the deceleration.

Corporation profits before taxes fell 2.9 per cent in 1975, the first decline since 1970, and the second in 15 years. It followed four years of substantial increases. Profits in both mining and manufacturing decreased, while profits in trade were virtually unchanged and finance profits increased substantially.

Accrued net income of farm operators was unchanged over the year, with an 8 per cent increase in gross income being offset by higher operating costs. The value of grain production was up about 10 per cent, owing mainly to larger crop-production, but the value of livestock production declined marginally. Net income of non-farm unincorporated business was up 9 per cent, the largest increases occurring in retail trade and community and personal services.

The shares of the GNP held by labour income and profits followed their normal cyclical patterns and reflected the marginal increase in real output in 1975, as labour's share rose to 56.0 per cent from 53.9 per cent the year before and profits' share fell to 11.5 per cent from 13.0 per cent. Farm income's share of the GNP fell slightly, while that of non-farm unincorporated business was unchanged.

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