

the Group of Ten reached agreement on the broad lines of a currency realignment designed to restore better underlying balance to international payments together with the immediate elimination of the U.S. "temporary" restrictions. While other trade issues have still to be resolved, the December arrangements have done much to lift the veil of apprehension which had enveloped the world business community and should open the way to more vigorous economic advances in North American economies and throughout the world.

#### MAJOR DEMAND STRENGTHS

The main source of strength in the national economy in 1971 has been the renewed advance of consumer-spending, reinforced by a vigorous upsurge in residential building. Higher consumer-spending has been spurred by strengthening in personal income and greater availability of consumer credit. The improvement in personal income has been widely based. Gains in employment and continuing large increases in wage rates have combined to strengthen labour income. Non-wage earnings have also shown improvement - corporation profits which declined in 1970 have turned upward and there have been increases in farm and other business sectors. *Per capita* disposable income in real terms has risen significantly, exceeding the small increase of the previous year.

Spending on consumer durables made the most impressive gain in recent years. The increase was at least 15 per cent in value terms following a pronounced weakening, a decline of 5.5 per cent, last year. A substantial rise in auto sales was a principal factor. New-car sales exceeded last year's level by a wide margin, in both years a sizable proportion of the market being captured by imported overseas models. In addition, there have been major increases in purchases of home appliances and recreational equipment. Trends in purchases of non-durable goods and services have also shown improvement, though less dramatically than in the case of durables.

1971 was a buoyant year for housing. An estimated 235,000 new homes were started, well above last year's total of 191,000 and the previous record of 210,000 in 1969. Continued strong expansion in residential construction has been encouraged by greater availability of mortgage credit and by the provision of additional loan funds by the Federal Government during the course of the year.

#### FOREIGN TRADE

External trade has provided less stimulus to the Canadian economy in 1971 than in the preceding year. Canada's exports rose 5 per cent in 1971, following an increase of 13 per cent in the preceding year. Meanwhile, stronger demand conditions in

Canada brought a sharp resurgence in imports, which were 12 percent higher than in 1970. The sharper rise in imports than in exports has reduced Canada's merchandise trade surplus from the 1970 record high of \$3 billion to something in excess of \$2 billion. Canada's balance on all current transactions will still show a surplus for calendar year 1971, though small compared with the \$1.1-billion figure realized in 1970.

Canada's sales to the United States, which account for more than 2/3 of total exports, were up 11 per cent, a substantial gain after only a marginal increase in the previous year. This strengthening hinged in considerable part on the recovery in the U.S. economy. It reflected, in particular, a higher level of automotive exports with the boost in trans-border shipments of automotive goods that followed settlement of the General Motors strike late in 1970. Large increases have occurred also in exports to the United States of rolling mill products, petroleum, natural gas, fertilizers, chemicals and lumber.

The trend of sales to overseas markets has moderated in 1971, following the unusually sharp gains of the preceding year. The pace of economic expansion has fallen off in several industrial countries, the result in some measure of policies aimed at containing serious inflationary trends in wages and prices. Uncertainties created for international business by the floating of major currencies, and the new United States economic program, have also had a dampening effect on sales. Principal overseas markets for Canadian products which have experienced a slowing in growth include Britain, West Germany, Italy, Sweden, Belgium and the Netherlands, as well as Japan. In some of these countries stocks were being reduced during 1971, particularly in the case of metals such as nickel, copper, aluminum and iron ore, which had been acquired in exceptional volume in the previous year. Exports to state-trading countries were somewhat higher than in 1970, largely as a result of increased grain deliveries under major contract agreements with the U.S.S.R. and China. Apart from state-trading countries, exports to overseas markets declined in 1971.

#### INDUSTRY CONDITIONS

Industrial production has increased moderately supported by a growing improvement in manufacturing. The auto industry has returned to a high-output level following the strike in late 1970 and sparked by stronger North American consumer markets. Increased consumer-spending also has contributed to important gains in production of household appliances and recreational equipment. Several non-durable industries have shown strengthening trends, including foods, textiles, knitted goods, chemicals and petroleum products. Principal primary metal, machinery, and industrial equipment industries have remained