rapidly. By the fourth quarter, the slowdown had spread in varying degrees to all the main categories of real domestic demand with the exception of business investment. We were also plagued last year with serious loss of output owing to work stoppages arising from industrial disputes.

The current account of our balance of payments deteriorated by nearly $1.5 billion last year. The surplus on trade account alone declined by some $1.25 billion. The deterioration of the trade account was even larger in constant dollar terms, since the prices of our exports rose much more rapidly than those of our imports.

Employment grew strongly through most of last year. The unemployment rate first fell but then stabilized in mid-year. Towards the end of the year, the decreases in output began to affect the growth of employment and the unemployment rate moved up.

Prices, wages and profits

Increases in prices in Canada in 1974 were a good deal larger than in the previous year, and prices of final goods and services accelerated through most of the year. Although world commodity prices decreased in the second half, the impact of these decreases on final-goods prices in Canada only began to appear at year-end. World oil prices increased tremendously in 1974, and the increases were large in Canada, even though our policies cushioned the impact of the world changes. Increases in most farm-gate and imported food prices continued in 1974 at very high levels, reflecting particularly the disappointing 1974 harvests in North America and elsewhere. The dominant factor in the change in Canada's price experience in 1974, however, was the rapid increase in domestic costs, reflecting sharp increases in the prices of labour and other "inputs", as well as the poor productivity performance associated with the flattening and, later, decline, in output.

Up to the end of the third quarter, both wages and profits per unit of real output continued up strongly. But in the fourth quarter the situation changed. Profits per unit of output tumbled by 6.7 per cent. Wages and salaries per unit of output, on the other hand, continued to advance. To my mind, this continued surge of wages and salaries and the sagging of profits epitomize the problems of the Canadian economy in the period ahead.

Let me be a little more specific on this question. If one considers the data on wage settlements, one is struck by the fact that, whereas in the early 1970s the increases in our settlements were, on the average, below those of the United States, for the last three years the increases in our settlements have been higher. The margin is now very wide. Indeed, the increases in settlements for the first year of new contracts, at about 20 per cent, are roughly twice the size of those in the United States. The increases in average hourly earnings are also now running about twice those of the United States. Our increases in labour costs per unit of output for the economy as a whole are not only high (17.3 per cent in the fourth quarter last year), but in the latter part of last year began to run very much ahead of those in the United States. In the manufacturing industries, our absolute levels of average hourly earnings pulled above those in the United States in the course of last year, and are rising much more rapidly than in the United States. In the non-manufacturing industries, increases in wage settlements tend to run even higher than in the manufacturing industries. Settlements for government employees, for teachers and for other service employees exert an upward pull on settlements in the goods-producing industries. These stark facts should warn us of the danger we face of a very serious loss of competitive position that threatens our export industries and our domestic import-competing industries.

U.S. economic prospects

Looking ahead, the prospects for the U.S. economy are, of course, of particular concern to us. The policy position in the United States has been unclear and even yet leaves some important questions unanswered. Monetary policy has been eased – certainly interest-rates came down quite sharply, though there has recently been some reversal of that decline. A more stimulative fiscal package has now been patched together by the Congress and the Administration. The extent of the expenditure side of that package is not yet evident, however. Most observers expect the rate of growth of output in the United States to pick up in the second half of this year, but even so there will be a substantial decline in real output this year. Unemployment will remain high. A characteristic of the U.S. recession has been a substantial working-down of inventories. The rebuilding of inventories will be a feature of their recovery. The more difficult question to assess is the strength of fixed capital investment in the U.S. recovery. The general view now is that capital investment, including housing, will strengthen and add force to the recovery, especially in 1976, but that, in spite of this fact, output will still be well below potential at the end of 1976. The pick-up of employment and the decline in unemployment will be sluggish because of renewal of expansion is typically characterized at the beginning by an increase of productivity rather more than of employment. Accordingly, unemployment rates will remain high in 1976. Rates of price-increase may well fall appreciably in the United States over the next two years. This will be the more likely if the United States manages to continue to keep its domestic cost-increases within reasonable bounds.

Nature of Canadian recovery

For Canada, our problem will be to turn the economy around and to achieve a recovery of real growth. To do this, we shall have to achieve some moderation of the inflation. A good response to our quest for a national consensus on price and incomes, about which I shall speak later, would be of great benefit to the Canadian economy in terms of prices, growth and employment.

Canada was among the first of the industrial countries to adjust its policies in response to the softening of the economy. The stimulus that we provided in the November Budget and that derives from the adjustment of monetary policy last fall is at work in the economy now. The automatic stabilizers, such as higher Unemployment Insurance Commission payments and lower tax receipts brought into play by the decline of activity and of profits, are also having their cushioning effects.

As of this moment, without making any allowance for new policy initiatives, it seems unlikely that, on average, our national production this year will be appreciably higher than last year. From the evidence at hand, it appears that we have had a decline in production in the first quarter and we

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