Encouraging progress continued to be made in exports of other manufactured goods as well. Sales of machinery and equipment and finished consumer goods, apart from automobiles, are up by 25 per cent in 1967. Among major resource-based exports, substantial gains have been realized in oil and gas, base metals, potash and sulphur. Large forward sales of uranium to Britain and Japan have brought a flow of confidence and renewed activity to this important, export-oriented industry.

Imports also have risen strongly in the past year, reflecting, as in the case of exports, expanded cross-border trade in automotive products, and in addition, a continuing firm domestic market for consumer goods. Merchandise imports have increased a little less than exports, thus giving a somewhat higher surplus on merchandise trade.

Meanwhile, Canada's deficit on non-merchandise international transactions is appreciably lower in 1967. This is mainly the result of a substantially improved balance on tourism produced by the upsurge in tourist activity associated with Expo 67 and other centennial attractions. 1967 will see a surplus of $350 to $400 million from tourism, as opposed to the 1966 deficit of $60 million.

Thus the position on all current transactions, both goods and services, has improved markedly in the past year. The evidence available suggests that the 1966 current-account deficit of $1,137 million has been reduced by at least one-quarter.

There are, however, other, less salutary, developments in the economy which, unless checked, could reverse this favourable trend in our payments position and undermine the very basis of our current prosperity.

Despite slower growth in total demand and output during the past year, there has been little apparent slackening in the upward pressure of costs on prices. To date, manufactured-goods prices are up by 2 per cent, consumer prices by 3.5 per cent and the price component of the gross national product by 4.5 per cent. The upward movement of unit costs is reflected not only in higher prices but also in lower profits. Total corporate profits are down 6 per cent so far this year compared to last and, as a proportion of the gross national product, are now at their lowest point in the postwar period.

Profits play a major role in the growth process, both as an incentive to expansion and as a major source of financing for new capital investment. Thus the squeeze on profits is no doubt a major factor in the presently hesitant trend of business investment. Information available on business-investment plans for 1968 give no indication of any upturn from the current approximately level course of capital spending. While capital spending is fairly high by historical or international standards, the way must be open for extensive modernization and expansion programmes if Canadian producers are to be able to compete for the emerging opportunities in domestic and foreign markets.

The present inflationary dilemma stems in part from lagging productivity. The difficulty has been compounded in the current situation by continuing demands for higher incomes and benefits in both the private and public sectors, out of line with productivity trends. In manufacturing, for example, average earnings during the past year have increased by almost 7 per cent, while output per man-hour has risen by only 2 per cent. Also, in the public sector, new expenditure