From the evidence at hand, it appears that we have had a decline in production in the first quarter and we may have a further decline in the second. We anticipate some turn-around in the second half, but we think the recovery in the second half and into 1976 may be sporadic and sluggish.

Exports will not pick up until the U.S. economy gets into its recovery phase. We may well find, however, as I have suggested, that the rise in our costs will restrain the recovery of our exports and give trouble to our import-competing industries as well. We are anticipating that the deficit in the current account of our balance of payments will increase substantially in 1975. The terms of trade that have been moving in our favour will move against us as the prices of the goods we export rise less rapidly than the prices of the goods we import.

The financing of the current-account deficit will require the net import of a substantial amount of capital. Last year our net capital imports were just under $2 billion. This year we shall probably require an inflow of significantly more than twice that amount. As you know, I recently withdrew the request to Canadian borrowers to explore fully the availability of funds in the Canadian capital market before floating issues outside of Canada. Parliament has also approved an extension of the exemption from withholding tax of interest on government bonds. The exemption will now apply to government securities issued before 1979. I should like to take this occasion to remove any confusion that may exist as to the policy of the Government of Canada regarding the foreign sources from which Canadian borrowers may seek to obtain capital. It is the policy of the Government not to express any preference among the foreign sources of capital flowing to this country.

The current-account deficit and the associated import of capital means that we shall be making a larger net drawing of real goods and services from the rest of the world. I recognize that a higher Canadian deficit is helpful in the broad picture of the adjustment of world payments balances. I should prefer, of course, if the net increase in our use of foreign goods and services were also a net increase in supply flowing onto Canadian markets and not just a substitution of foreign supply for domestic. Our inflation problem would be relieved by a net increase in supply available on our markets. Our employment problem would be relieved if the foreign-source supply did not replace domestic output.

If we can keep our capital-investment programs rolling ahead, we shall have better success in taking full advantage of the higher net inflow of goods and money. Capital investment will improve