

will continue every effort to move in this direction as rapidly as circumstances permit.

I know that you don't expect me to make any predictions regarding the level of our exchange reserves. The most important factor will, of course, be the level of our foreign trade, and in this field we will continue to be highly influenced by the rate of economic activity and the policies adopted in our major export markets.

The persistent lack of balance in trade between the sterling and dollar areas continues to be the underlying problem of world trade. The difficulties arising out of this imbalance inevitably have a pronounced effect upon our trade. Undoubtedly this situation requires us to make some readjustments.

In order to maintain our exports at the highest possible level we in Canada are continuing every effort to achieve a better balance in trade with the United Kingdom and other overseas countries by constructive methods of promoting imports from them. There is in this country a rich, diversified market receptive to British goods. The recent devaluation of the pound sterling should provide new incentives for United Kingdom producers to seek out dollar markets, and there is increasing evidence they are doing so. On our part, I feel we should do everything we can to facilitate their efforts. Here I want to pay tribute to the group of prominent Canadian businessmen, headed by Mr. J.S. Duncan, who are contributing so effectively to the important work being done by the Dollar Sterling Trade Board. A complete solution cannot be expected over night. We must endeavour to reach the position where the United Kingdom and other overseas countries, by expanding their dollar earnings, will be in a better position to pay for the goods they would like to buy in this country.

You are familiar, of course, with the recent cuts in British purchases and their effect on the immediate outlook for our exports to overseas markets. On the other hand, there is reason to expect that our exports to dollar markets, which now constitute our largest outlet, will be well maintained during the coming year. These trends will be reflected in our foreign exchange position. In this connection it is worth noting that exchange reserves showed rather marked fluctuations in the course of 1949. The upward movement which carried our reserves from \$998 million to \$1,067 million at the end of March reversed itself in the second quarter, declining to \$973 million by July 31. From this level they improved at an increasing rate and reached \$1,117 million by the end of the year. In part these movements were the result of seasonal influences, but I mention them because they are indicative of the swings, both upwards and downwards, which may be expected to occur in an economy in which foreign trade plays so large a part.

Despite our share of problems and uncertainties, and I have no desire to minimize them, nor do I think they should be over-emphasized--there are a great many reasons why Canada can look to the future with confidence. Ours is a young and growing economy. The unprecedented pace of industrial expansion and investment since the end of the war is beginning to bear fruit in terms of increased output and efficiency. This increased diversification allows us to produce more of the things we used to import and at the same time expand our exports.