

Government spending at all levels on goods and services on a national accounts basis provided a major stimulus to the Canadian economy in 1970, rising by more than 15 per cent. The effects of this stimulus seem likely to carry forward into 1971.

The external economic climate for 1971 cannot be expected to be as buoyant as that experienced throughout most of 1970. However, there are elements of strength which permit the expectation of a further moderate expansion in Canada's merchandise exports. In particular, 1971 appears likely to witness the resumption of more vigorous economic growth in the United States. Within this general framework there would appear to be definite grounds for optimism for Canadian exports in the following areas:

Lumber sales, especially in view of a major resurgence in U.S. housing activity;

prospects are for a banner year in the U.S. automotive industry based on pent-up demand stemming from major production tie-ups on both sides of the border and the move to easier credit conditions;

some recovery in currently lagging newsprint sales;

major strength in Canadian oil and gas sales to the United States market;

iron and steel shipments should benefit both from major pipeline activity and stockpiling as a hedge against the possibility of a strike affecting U.S. steel production later in the year;

as regards overseas markets, demand seems likely to be good for wheat, barley, rapeseed and coal.

At the same time, the outlook for Canadian exports is also affected by a number of restraining factors:

Overseas markets, particularly Britain, the EEC and Japan, are not expected to be as buoyant in 1971 as in 1970.

Production of aluminum ingot in Britain late in December 1970 is expected to have an immediate impact on the world aluminum market and in particular there will be a much-reduced flow of ingot from Canada to Britain.

The exceptional stimulus to total exports provided by primary metals was partly a "catch-up" and cannot be expected to be repeated in 1971, particularly in view of the softening of some export prices.

The downtrend in United States defence spending is expected to continue, with notable effects on aircraft sales, communications and the like.

The appreciated Canadian dollar, resulting from the general strength of Canada's external position, has added to the intensity of the