

Among Canada's forest and mineral exports, items showing major gains include pulp and paper, nickel, aluminum, lead, zinc, potash, oil and natural gas. Iron-ore and lumber exports have about held to the record levels achieved last year. Among agricultural products, returns from the sale of animal products and seeds have increased markedly.

#### RECIPIENT COUNTRIES

Sales to Canada's principal export markets have followed quite divergent trends in the period from 1964 to 1965. Shipments to the United States have continued the strong upward trend of preceding years and, on the basis of figures so far available, are up 12 per cent last year to this. Exports to three of Canada's principal overseas markets, i.e. Britain, Japan and Germany, are down moderately. In the British market, the import surcharge along with other restrictive measures, designed to reduce demand and correct external imbalance, have significantly dampened purchases from Canada and other suppliers alike. In Japan and Germany, slower industrial growth has had a more than proportionate effect on purchases of materials from Canada. On the other hand, sales in a number of smaller overseas countries have shown sizeable gains. As a result, exports to all non-communist overseas markets are little changed this year compared with last.

#### SHARP INCREASE IN IMPORTS

Imports into Canada have continued to rise sharply in 1965 in response to strong demand in all major sectors of activity. Figures for the first nine months of the year show imports up 12 per cent from the same period of 1964. Most of this increase consists of machinery and equipment and automotive products, but substantial increases have also occurred over a wide range of consumer goods and in some production materials, particularly iron and steel. For some items the rise in imports has been accentuated by the overflow of demand to foreign sources in circumstances of full utilization of Canadian capacity.

The sharper increase in imports than in exports during the past year has greatly reduced Canada's surplus on merchandise trade. In addition, the deficit of non-merchandise transactions has increased. In consequence, Canada's deficit on current transactions has risen to an annual rate of about \$1 billion, compared to \$433 million in 1964. Financing in both short and long-term forms has been adequate to cover the current account deficit and, in addition, adds moderately to foreign exchange reserves. As announced earlier...in connection with the financial arrangements between Canada and the United States, it is expected that this build-up in reserves will be followed by a moderate reduction in the coming year.

#### GOOD PROSPECTS FOR 1966

As the new year begins Canada's external market environment is, on the whole, encouraging. Prospects for a sustained advance in the United States economy gives promise of further expansion of sales in that market. Also, the likelihood of renewed growth at closer-to-normal levels in Japan and in certain of the larger economies of Western Europe, will enhance market opportunities in these areas and give stimulus

to world trade at large. The new wheat contracts with Russia and Communist China presage a substantially-increased wheat movement in 1966. In Britain, the position of sterling has been stabilized, but the continuation of special measures to strengthen the external-payments position will limit opportunities for sales expansion for the time being. External market prospects are, perhaps, less encouraging in the raw material and food-producing areas of the world, which comprise most of the less-developed countries. Price weakness in a number of commodity markets has had a fairly widespread adverse effect on foreign-exchange earnings in these countries. How to strengthen their position continues to constitute one of the most difficult problems in the world economic community. Meanwhile, Canada's own expanding aid programme will help to sustain the flow of Canadian trade with the developing areas of the world.

#### INCREASED CAPITAL OUTLAYS

Within the Canadian economy growth trends remain strong. Nor are there signs of erosion in the underlying forces contributing to expansion. A further major increase in capital spending is indicated for the coming year. A recent survey of 1966 investment plans of large companies indicates anticipated outlays for the group 13 percent above actual outlays in 1965. On this evidence, capital-spending intentions for the business community as a whole are likely to be up 10 to 15 per cent next year. On the other hand, the recent surge in housing activity appears to be moderating to some extent. Institutions and public bodies, while planning larger programmes, are not expected to maintain the high 1965 rate of growth. Thus, the increase in the total programme now taking shape is not likely to match the actual increases realized in the past two years. However, the expansion will no doubt be large enough to exert continuing pressure on productive resources in the construction trades and other capital goods industries.

Domestic demand is further reinforced by the continuing strong advance in consumer spending, especially in the durable goods sector. The steady growth of personal incomes over the past several years has done much to fortify consumer confidence, and the buoyancy of consumer demand seems likely to continue in 1966.

#### TIGHTER SPECULATION

Against this background of rising demand in both foreign and domestic markets, economic activity in Canada should continue to move steadily forward. However, with less slack presently available in the economy, it would be difficult to maintain 6 to 6.5 percent real output advance of the past two years. To achieve optimum growth on a sustainable basis in present circumstances of fuller utilization of resources, greater attention must be directed toward the more effective use of resources and manpower and to selective measures designed to absorb the remaining pockets of slack. In taking such measures, it is important not to add to demand pressures in the more active sectors of the economy. Speculative excesses must be avoided if we are to sustain continuous economic growth.