

These, in turn strengthen the position of Canadian products in both domestic and foreign markets and thereby contribute to expanded sales and more employment. Thus the steady improvement in productivity in recent years has contributed importantly to Canada's sustained expansion.

CAPITAL EXPANSION

A new wave of capital expansion occurred during 1964. Following the resource boom of the mid-fifties, business-capital outlays declined sharply. While there was considerable modernization of, and addition to, capital facilities in subsequent years, the trend of capital expenditure was only moderately upward in the period 1958 to 1963. By early 1964, the overhang of idle capacity, which for some years had exerted a dampening influence on capital spending, had been substantially reduced and operating rates in most industries had moved much closer to capacity levels. These altered circumstances brought new interest and urgency in getting ahead with capital-expansion programmes. By mid-year, business investment plans for 1964 involved outlays 18 percent above actual expenditures in 1963 and the latest indications are that these programmes, for the most part, have been realized.

House-building activity also has been sharply higher in 1964. It is estimated that no fewer than 165,000 housing units were started during the year and 150,000 units were completed, the total value of work put in place rising by about one-fifth from 1963 to 1964. Extension of the winter-housing bonus for a second season and a larger carryover of unfinished houses at year-end is giving a strong start to residential building in the coming year.

INTERNATIONAL MARKETS

Perhaps the most notable feature of Canada's economic development in 1964 has been the remarkable performance in international markets. In the first ten months of the year, the value of merchandise exports rose 21 per cent from the same period in 1963, and for the full year is likely to equal, or even exceed, \$8.2 billion, compared with \$7 billion in 1963. Huge new contracts for Canada's traditionally most prominent export, wheat, together with an ample supply boosted shipments far beyond any previous movement. Even excluding wheat, the near \$1-billion increase in the value of all other exports is the largest advance ever achieved in one year. Items showing substantial gains in 1964, in addition to wheat, include pulp and paper, iron ore, base metals, aircraft and automotive products. Canada's trade performance in 1964 was also notable for the further broadening in the range of products penetrating foreign markets, particularly in the field of manufactured goods. For example, exports of end products, consisting primarily of a great variety of machinery and equipment and finished consumer goods, rose by more than one-third in the past year and have about doubled in the past three years. The rise in sales of equipment and related products has been greatly facilitated by the availability of long-term credit for capital-goods exports, by defence-production sharing arrangements and by larger foreign-aid programmes.

Exports to each of Canada's principal foreign market areas have increased in 1964. Sales to the United States have risen less than total exports but are nevertheless up by a healthy 12 per cent on the basis of a ten-month comparison. Exports to the United Kingdom are up by 18 per cent, to the European Economic Community by nearly one-quarter and to Japan by 14 per cent. Special wheat sales to the U.S.S.R. in the 1963-64 crop year raised this country to the rank of a major overseas customer.

Merchandise imports into Canada also have risen sharply (16 per cent on the basis of a nine-month comparison), mainly in response to increased demands for machinery and equipment and consumer goods. Nevertheless, the growth in imports has not fully kept pace with exports and the merchandise trade surplus has shown a further significant expansion.

On the other hand, in the area of non-merchandise current transactions, expenditures have risen more than receipts, reflecting mainly the further increase in interest and dividend payments and the reversal in the tourist position. A new upsurge in spending by Canadians abroad somewhat exceeded the continuing growth in tourist receipts.

Canada's balance on all current transactions showed a deficit of \$280 million in the first nine months of 1964 compared with a deficit of \$436 million in the same period over a year ago.

EXTERNAL ECONOMIC ENVIRONMENT

As Canada enters 1965, the external economic environment is generally favourable, though disturbing elements are also present. World production and trade continue to move ahead. In the United States, there is widespread expectation of sustained expansion in 1965, though possibly at a lower rate of advance. In Britain, the emergence of severe strain in the balance of payments has been accompanied by a slowing of economic expansion and has necessitated the implementation of special corrective measures, including a surcharge of 15 per cent on all imports other than food and basic materials. Also, in some other industrial countries, the upward trend of economic activity has moderated. Nevertheless, the consensus is that economic activity in the free world at large will continue to expand in 1965 but somewhat less rapidly than in the past year.

Sustained expansion in the trading world should provide the basis for further gains in Canada's export sales in most product categories and market areas. The trend of total exports, however, will be subject to restraining influences. In the case of wheat, for example, sales are likely to be well below the extraordinary level of 1964. However, existing contractual arrangements with state-trading countries and the prospect of sustained shipments to regular commercial markets should mean an above-average export year. The British import surcharge constitutes another dampening influence. This surcharge covers items amounting, in value terms, to about \$280 million in 1964, i.e., a little less than one-quarter of Canada's exports to Britain. Sizeable losses in business will undoubtedly be encountered in some product lines, although these losses may be offset in part by gains in those categories free of the surcharge.

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