

ada's principal trading partner, increased in value by close to one-quarter, or about the same as in 1973. Again this increase reflected higher prices only. In volume terms, Canadian exports to the United States declined, one of the few times that this has occurred in the post-Second World War period. The fall-off in this key market clearly reflects the current recession in the United States and especially the weak United States market for new cars and houses.

Overseas markets have shown a larger percentage rise in Canadian export purchases than the United States, although economic slowdowns in several of the major industrial countries have meant that the actual volume has risen only slightly, if at all. Exports to Latin America have shown the largest increase on a percentage basis, followed by quite substantial gains in the value of exports to the European Economic Community, Japan, and Commonwealth markets outside Britain. Canadian exports to Britain rose at a slower pace than those to any of our other principal markets.

Most valuable exports

Commodities contributing most to higher export values in the past year included wheat, copper, crude petroleum, natural gas, woodpulp newsprint, fertilizers, petroleum and coal products and aluminum. Increases in the volume of exports were shown for such commodities as woodpulp, but most notably for machinery and equipment.

Continuing economic growth in Canada, although at a moderating pace, has sustained high import demand. The value of imports rose about one-third in 1974 to about \$31 billion, reflecting a moderate increase in import volume and in import prices. There has been a major upward shift in the value of imports from oil-producing countries because of the tripling in oil prices that has taken place since late in 1973.

The faster rise in imports than in exports has meant a decline in Canada's merchandise trade surplus to less than \$1 billion in 1974, compared to a surplus of over \$2 billion in 1973. Due to the smaller trade surplus and a small increase in the "invisibles" deficit, Canada's current account payments deficit with other countries has

widened in 1974 to a total of somewhat under \$2 billion from a total of less than one-half billion in the preceding year. This deficit is modest, however, compared with the huge imbalances incurred by most OECD countries in 1974.

Industrial trends

Despite a levelling out in business trends following the opening few months of the year, production of goods and services in 1974 was again higher than in the previous year. The volume of industrial production was up between 3 and 4 per cent over 1973 levels, although this was a reduction from the annual increases of about 8 per cent in each of the two preceding years. An important element in the slower output rise was the extensive loss of production due to industrial disputes.

Earlier in the year, the industrial economy operated close to capacity. However, as the year progressed there were indications of increasing slackness in several major industrial sectors, with layoffs and reduced hours of work in evidence in the late fall than has been usual in the past two or three years.

Transportation-equipment industries remained close to the very high tempo of activity reached in 1973. Motor vehicle production fell only a little short of last year's 1.6 million units. While output of passenger cars was down slightly for the year, commercial vehicles showed a significant increase. There were also higher levels of production in the railway rolling stock and shipbuilding industries.

Continuing strength in business capital investment bolstered activity in Canada's industrial and electrical-equipment industries and in machinery manufacture. These sectors have shown solid increases in 1974 and were sustaining high levels of activity as the year drew to a close.

Owing to very high demand for steel in domestic and international markets primary steel production has again advanced and reached a record level of almost 15 million tons for the year. Aluminum production also showed a significant gain over 1973 levels.

In the non-durable sector of manufacturing, there were important increases in production of chemicals, leather, fertilizers and petroleum and coal products.

Primary and resource industries have shown mixed trends over the past year. In general, market demands continued to be strong for pulp and paper products, and the industry operated at a higher rate of capacity than in 1973. The lumber and plywood sectors, on the other hand, have experienced slackening demand and falling prices for their products. Metal mining and processing industries (other than steel and aluminum), which were under great pressure of demand last year, have also seen a falling-off in orders and a down-turn in prices as a result of the economic slowdown in several major industrial countries.

Economic prospects in 1975

It is evident that the rate of economic growth in Canada has lost some of its earlier momentum in recent months following an extended period of rapid advance. At the same time, there are clear indications of considerable resilience in important domestic market demand sectors which may be expected to support continuing real growth in 1975, although at a somewhat slower pace than in 1974. The Canadian economic performance is expected to continue to be superior to that of our principal trading partners as it has been in the past year.

International factors

The principal threat to the growth of production and employment in Canada in 1975 comes from abroad. No matter what may be done by Canadian governments to stimulate domestic demand, Canada, with its heavy dependence on sales to world markets, cannot fully escape the effects of an international recession.

The current expectations are that a widespread recovery in economic growth will not occur in Canada's major trading partners until well into 1975. Any major external stimulus to the Canadian economy will be similarly delayed.

The slack in world industrial economies suggests less intense upward pressure on world prices in the coming year. Other factors indicating a modest slowing in inflation are the apparent elimination of most material shortages, a reasonable likelihood of better harvests and the possibility of better productivity performance once world economies resume growth. These factors,