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Effects on Canada of recent changes in the world economic situation

The following is the text of the opening address by Finance Minister John N. Turner to the Federal-Provincial Conference of First Ministers, which met in Ottawa in the Government Conference Centre on April 9 and 10:

In the last few months, several important developments in the world economic situation have taken place.

First and foremost, the recession in the industrial countries has become more widespread and more serious than had been expected. There has been a veritable parade of revised forecasts, each one predicting lower levels of activity than its predecessor. It is still expected that a recovery will set in during the second half of this year. But the earlier optimism that this recovery would develop into a vigorous expansion in 1976 has been replaced by the general expectation that the OECD (Organization for Economic Co-operation and Development) countries are likely to continue to experience a substantial degree of slack through 1976.

Secondly, with the recession of activity some decline in commodity prices has set in, and the prospects for moderation of price increases have improved. These prospects vary from country to country depending upon the course of domestic cost-determining factors. Indeed, in some of the OECD countries the forces of inflation emanating from domestic cost developments have become more virulent in recent months.

Thirdly, the recession, the break in the acceleration of prices and deliberate policy measures have all combined to produce a lower level of interest-rates around the industrial world.

Finally, while the balance-of-payments deficits of the oil-importing countries burgeoned much as had been expected, it would probably be fair to say that concern over the great oil-deficit problem is somewhat less now than it was some months ago, though it properly remains high. The moderating of concern emanates from three facts: the oil-exporting countries have shown a higher propensity to import goods and services than had been expected; oil imports by consuming countries levelled off dramatically and the international price of oil ceased to rise, so that

there are some signs of an over-supply in the international markets; and, finally, the recycling of oil funds has proceeded with considerable smoothness as official bodies and the private markets have both operated effectively.

I am planning to visit several of the oil-producing countries in the Middle East later this month, to discuss international economic problems with their economic and financial leaders. I do not believe in the economics of confrontation and I believe it is important that the industrial world develop its relationship with these countries, which have a major role to play in the smooth functioning of the international monetary system, in the adjustment of payments balances and in the flow of aid to poorer countries. On my way, I expect to call on the Minister of Finance of France and the Chancellor of the Exchequer in the United Kingdom for further consultations on the world economic and financial prospects. Of course, I have frequent contact with the Secretary of the Treasury of the United States.

Special problems for Canada

The changes in the world economic situation have affected Canada's performance and prospects, and we have developed some trouble of our own.

The slowing-down of the industrial economies has adversely affected our own economic performance, although the slowdown in Canada has not reached the proportions that it has in the United States. Real GNP (gross national product) fell 2.2 per cent in 1974 in the United States; in Canada it rose 3.7 per cent. Last year the United States had four successive quarters of declining real output; in Canada, growth ceased after the first quarter of last year, was zero for the next two quarters and declined only in the fourth quarter.

The real demand for Canadian exports decreased last year. After the middle of the year, housing starts fell off