

Strengthening of the Canadian economy in 1971 has taken place under conditions of considerable uncertainty in world trading and financial markets. The economic program announced by President Nixon on August 15 to stimulate domestic growth and redress the persistent U.S. payments imbalance created major difficulties for Canadian industries affected by the new restrictions and added greatly to uncertainty throughout the business world. The adverse effects of the U.S. measures on Canadian industry were mitigated by prompt ameliorative actions, including the enactment and implementation of the Employment Support Act. Then, in December, the Group of Ten reached agreement on the broad lines of a currency realignment designed to restore better underlying balance to international payments, together with the immediate elimination of the U.S. "temporary" restrictions. While other trade issues have still to be resolved, the December arrangements have done much to lift the veil of apprehension which had enveloped the world business community and should open the way to more vigorous economic advances in North American economies and throughout the world.

Major Demand Strengths

The main source of strength in the national economy in 1971 has been the renewed advance of consumer spending, reinforced by a vigorous upsurge in residential building. Higher consumer spending has been spurred by strengthening in personal income and greater availability of consumer credit. The improvement in personal income has been widely based. Gains in employment and continuing large increases in wage-rates have combined to strengthen labour income. Non-wage earnings have also shown improvement -- corporation profits which declined in 1970 have turned upward and there have been increases in farm and other business sectors. *Per capita* disposable income in real terms has risen significantly, exceeding the small increase of the previous year.

Spending on consumer durables made the most impressive gain in recent years. The increase was at least 15 per cent in value terms following a pronounced weakening, a decline of 5½ per cent, last year. A substantial rise in auto sales was a principal factor. New car sales exceeded last year's level by a wide margin, in both years a sizeable proportion of the market being captured by imported overseas models. In addition, there have been major increases in purchases of home appliances and recreational equipment. Trends in purchases of non-durable goods and services have also shown improvement, though less dramatically than in the case of durables.

The year 1971 was a buoyant one for housing. An estimated 235,000 new homes were started, well above last year's total of 191,000 and the previous record of 210,000 in 1969. Continued strong expansion in residential construction has been encouraged by greater availability of mortgage credit and by the provision of additional loan funds by the Federal Government during the course of the year.