Looking ahead, the prospects for the U.S. economy are, of course, of particular concern to us. The policy position in the United States has been unclear and even yet leaves some important questions unanswered. Monetary policy has been eased -- certainly interest-rates came down quite sharply, though there has recently been some reversal of that decline. A more stimulative fiscal package has now been patched together by the Congress and the Administration. The extent of the expenditure side of that package is not yet evident, however. Most observers expect the rate of growth of output in the United States to pick up in the second half of this year, but, even so, there will be a substantial decline in real output this year. Unemployment will remain high. A characteristic of the U.S. recession has been a substantial working-down of inventories. The rebuilding of inventories will be a feature of their recovery. The more difficult question to assess is the strength of fixed-capital investment in the U.S. recovery. The general view now is that capital investment, including housing, will strengthen and add force to the recovery, especially in 1976, but that, in spite of this fact, output will still be well below potential at the end of 1976. The pick-up of employment and the decline in unemployment will be sluggish, because a renewal of expansion is typically characterized at the beginning by an increase of productivity rather more than of employment. Accordingly, unemployment rates will remain high in 1976. Rates of price increase may well fall appreciably in the United States over the next two years. This will be the more likely if the United States manages to continue to keep its domestic cost increases within reasonable bonds.

For Canada, our problem will be to turn the economy around and to achieve a recovery of real growth. To do this, we shall have to achieve some moderation of the inflation. A good response to our quest for a national consensus on price and incomes, about which I shall speak later, would be of great benefit to the Canadian economy in terms of prices, growth and employment.

Canada was among the first of the industrial countries to adjust its policies in response to the softening of the economy. The stimulus that we provided in the November Budget and that derived from the adjustment of monetary policy last fall is at work in the economy now. The automatic stabilizers, such as higher Unemployment Insurance Commission payments and lower tax receipts brought into play by the decline of activity and of profits, are also having their cushioning effects.

As of this moment, without making any allowance for new policy initiatives, it seems unlikely that, on average, our national production this year will be appreciably higher than last year.