

level. Also, various equipment- and material-producing industries have been adversely affected by the slower tempo of investment spending over the past two years.

Among the principal domestic sectors of demand, new expansive stimulus in 1968 has come mainly from housing and from consumer spending. Notwithstanding the high cost of mortgage money, about 15 percent more houses have been started this year compared to last and the value of residential construction is up substantially. Meanwhile, consumer spending has more than kept pace with growth in the economy, reflecting the continuing strong upward movement of personal incomes and sustained consumer buying interest, particularly for durables and services.

In 1968, as in the preceding year, the main impetus in the Canadian economy emanated from the growth of sales in foreign markets. Exports in 1968 are up by \$2 billion, or 18 per cent. Imports have also increased, but by a lesser amount. Canada's surplus on merchandise trade has risen from \$0.5 billion in 1967 to well over \$1 billion in 1968, by far the largest trade surplus ever realized in a peacetime year.

Foreign tourist receipts have approximated the billion-dollar level and the balance on tourism compares favourably with the achievement of preceding years, with the exception of 1967, Canada's centennial year. While Canada's deficit on all service transactions is much higher in 1968 than in the preceding year, this increase has been more than offset by the improvement on merchandise trade. Thus, Canada's position on all current transactions with the rest of the world is now closer to balance than at any time in the past 15 years.

The dominant factor underpinning the sharp growth of Canada's exports in 1968 has been the accelerated tempo of business in the United States. Sales to this market have increased by a spectacular \$1.75 billion, or 25 per cent, in the space of one year. In Canada's largest overseas market, Britain, a general policy of demand restraint has limited sales expansion opportunities, but exports to this market have nevertheless shown a moderate advance. Exports to Japan, now our third-largest market, are up moderately in 1968 following a spectacular 45 percent growth in 1967. Among other overseas markets, major gains have been achieved during the past year in Australia, West Germany and Belgium-Luxembourg.

Automotive products account for nearly two-fifths of the increase in Canada's exports and an even larger proportion of the rise in imports. Good export increases have also been achieved for copper, nickel, aluminum, iron ore, lumber, woodpulp, petroleum and natural gas, machinery of various kinds and aircraft. Wheat sales, on the other hand, are lower in 1968.

Looking ahead to 1969, external market conditions may not be as favourable as in the year past. In the United States in particular, demand pressures are expected to ease somewhat and this would entail less spectacular growth in sales to this market. In Britain and also in France, the recent intensification of restraint programmes, directed in particular toward improvement in external payments positions, will dampen for the time being new sales expansion opportunities. On the other hand, prospects are good in a number of countries, particularly Japan, where recent strengthening in the external-payments position will permit a more expansive demand policy, and West Germany, where foreign sellers will benefit from steadily expanding demand coupled with lower levies on imports.