

for the consumer price index has continued to rise and at latest report at the beginning of June stood at a record of 121.6 (1949 = 100), 3.2 per cent higher than a year earlier. In the wholesale price index, also, many of the components have continued to edge upwards, but the effect of these increases has been offset by reductions in a growing number of items, notably steel scrap and some non-ferrous metals, with the result that the over-all index has remained fairly stable throughout the first half of the year.

Further evidence of inflationary pressure is to be found in Canada's balance of merchandise trade with other countries. The strong demand for materials and equipment has continued to raise the level of imports which, in the first five months, were valued at \$2,457 millions, \$102 millions more than in the same period of 1956, with the major increases occurring in such capital goods as pipes, tubes and fittings, engines and boilers, and machinery. In the same comparison, Canada's merchandise exports rose by only \$61 millions to \$1,936 millions as a result mainly of higher shipments of petroleum, seeds, aluminum and uranium. In two important commodities, wheat and lumber, exports were noticeably lower than a year earlier, largely in consequence of reduced shipments to the United Kingdom. The deficit in Canada's balance of merchandise trade thus amounted to \$521 millions in the first five months of the year, \$41 millions more than in the corresponding period of 1956.

As was the case last year, this mounting trade deficit and the almost equally large deficit arising from non-merchandise transactions have been counter-balanced by the inflow of long-term capital from abroad. The movement of funds from non-resident concerns to their Canadian subsidiaries appears to have fallen somewhat, the inflow of \$100 millions in the first quarter being \$21 millions less than a year earlier. But with interest rates in Canada continuing to be significantly higher than in the United States, there has been a strong inducement for Canadian borrowers to turn to the New York market for capital funds. Net sales of new issues of Canadian securities abroad in the first quarter of the year amounted to \$205 millions, the largest quarterly figure yet recorded. Preliminary evidence suggests that in the second quarter, also, Canadian borrowings in the New York market were in large volume. The conversion of heavy blocks of foreign exchange, representing proceeds from the sale of security issued in New York, has been instrumental in raising the exchange value of the Canadian dollar to a premium of more than 5 per cent in terms of United States funds.

One effect of the strength of the Canadian dollar on the exchange market has been to lower the domestic price of imported goods below what they would otherwise have been and

thereby to hold down the rise in Canadian costs and prices generally. But it has also affected adversely the earnings of Canadian exporters selling at prices determined in foreign markets. In some instances, notably copper, lead and zinc, and exchange rate has aggravated the effects of a sharp drop in prices on world markets.

RETAIL TRADE

At home, demand for most products has been buoyant. Retail trade was 6.6 per cent higher than last year in the first five months' comparison, with the western provinces showing exceptionally large increases ranging from 14.4 per cent in Saskatchewan to 8 per cent in British Columbia. Above-average gains were recorded by grocery and variety stores, shoe stores, fuel dealers and motor vehicle dealers and service stations. At the other end of the scale, the decline in housing construction resulted in a 5.3 per cent drop in sales by lumber and building material dealers, while the turnover of furniture and appliance stores was only moderately above a year earlier. But the outstanding feature of retail trade was the dramatic rise in sales by motor vehicle dealers in the Prairie Provinces which were nearly a quarter again as large as in the corresponding period of 1956, and which contributed to a nationwide gain for such outlets of 7 per cent.

That sales by motor vehicle dealers should compare so favourably with last year is of considerable interest since they are the second largest single component of retail trade, and they are susceptible to relatively large fluctuations. A comparison of the first five months is to some extent misleading, however, for the increase was concentrated in the first quarter of the year. Not only are January, February and March low-volume months in the demand for passenger cars compared with the late spring and summer, but the comparison with a year earlier is distorted by the fact that in the winter of 1955-56 a strike halted output of one of the major producers. In April dealers' sales were only 2 per cent above a year earlier, while in May there was a decline of 10.2 per cent. At the manufacturing level, the number of passenger cars shipped to domestic dealers in April and May was down 13.2 per cent from the corresponding months of 1956 while June shipments also are believed to have been in lower volume.

Other industries producing consumer durables, such as refrigerators, washing machines and television sets, have reduced their output in the face of a decline in factory shipments and relatively high inventories. As already noted, lumber production has also been lower than a year earlier as a result of reduced demand in overseas markets, while other industries, such as gypsum and clay products, have been adversely affected by the housing situation. For the most part, however, the strength