

Since the beginning of the year, there has been little change in official holdings of gold and U.S. dollars and the deficit on current transactions has been met by a continuing net inflow of capital funds. In recent months, a decline in this inflow has been evident, arising from reduced sales of new issues in the United States. There has also been a decline in the external value of the Canadian dollar, to a premium of less than 2 per cent on the U.S. dollar.

#### Prospects for the Coming Year

At year-end the economic situation in Canada is one of high activity but increasing slack in a number of industries. Total employment has moved upward and production has been sustained throughout most of 1957, but both are seemingly edging downward at the end of the year. The trend of overall sales has not been commensurate with the substantial rise in productive capacities. For the months immediately ahead, there is little indication of any basic change in this situation. On the one hand there are strong underlying supports in the economy. At the same time there is little evidence of forces which would quickly generate new strength in the traditionally dynamic areas of exports and investment.

In view of the currently uncertain trend of activity in the United States, and with a number of other countries beset with underlying foreign exchange problems, there is little likelihood of significant strengthening in world commodity markets. Despite these conditions, there are several items which will probably be exported in larger quantities next year, uranium being the notable example. Such increases will probably be sufficient to offset declines elsewhere. Consequently, the overall trend of exports, though subject to temporary fluctuations, should be fairly well maintained.

What is presently known of capital expenditure plans suggests a moderately lower volume of business investment in the coming year. The principal declines will occur in material-processing industries and some forms of transportation, while increases are in prospect for some service and utility groups. In addition, there are indications of a rise in residential and institutional building and also of more work to be done by way of local improvements. On the basis of these preliminary indications, the overall volume of construction in 1958 should be as large as in the previous year. On the other hand, outlays for machinery and equipment should be lower. This had already been reflected in reduced orders and lower activity in a number of equipment industries. However, because of the large import content in Canada's equipment requirements, the full impact of reduced investment of this type does not fall on domestic industries.

In the market situation ahead, consumer demand will be an important sustaining influence. Consumer income, traditionally less vulnerable than most other indicators to contractionary