
tradeable goods sector. Reflecting the strong pace of output growth, there were large gains in employment, leading to a decline in the unemployment rate to 6.3 percent in April.

Inflation is rising, although inflationary pressures are still relatively modest. While the CPI accelerated to an annual rate of 5.3 percent in the first quarter in 1987, rising energy prices largely accounted for the higher inflation rate. Excluding the volatile food and energy components, the CPI in April rose 4.1 percent on a year over year basis. Wage gains remain subdued although interest rates have been under recent upward pressures. After a fairly steady decline since 1985, the external value of the US dollar stabilized during the second half of 1986. Since the end of the year the US dollar has fallen 7.9 percent against a trade-weighted basket of foreign currencies.

Canada/United States Relations

Canada and the United States have the most complex and extensive relationship of any two countries in the world. They are partners in the largest bilateral trading relationship in the world. They are also allies in the defence of North America and of Europe, having established the basis for defence cooperation in the Ogdensburg Declaration of August 18, 1940. The Defence Policy review currently under way is premised on a continuing strong commitment by Canada to NORAD and NATO.

The visit to Ottawa of President Reagan on April 5 and 6, 1987 served to reaffirm the commitment of both countries to the resolution of issues of common interest, particularly in the area of the environment (transborder air pollution, notably acid rain). It was also the occasion for an acknowledgement of our common security concerns and desire for the achievement of progress in the Geneva arms control and disarmament negotiations. In addition, it served to identify the South African situation and international agriculture reform as matters both countries wished to see addressed at the Economic Summit in Venice.