

Government expenditures contributed to the maintenance of economic activity. At all three levels of government they rose by almost 7 per cent despite some decline in defence expenditures. Transfer payments especially rose rapidly and for the latter half of the year they were an important element in sustaining and increasing personal income and consumer demand. The largest elements in this increase were the greatly increased payments from the Unemployment Insurance Fund, larger payments to the aged, the blind and the disabled, larger veterans' allowances and pensions, and increased family allowances.

In 1956, and again in 1957, a substantial part of our investment programme was financed from abroad. The deficit on current account in 1957 amounted to \$1.4 billion. This deficit was financed to some extent by direct U.S. investment in Canada but sales of securities, as in the previous year, were the major source of external capital. A good part of the rapid rise in imports which took place in 1956 and early 1957 was the result of heavy imports of machinery, equipment and industrial materials connected with our capital programme. The importation of these items helped us to escape some of the pressures connected with the high level of domestic investment. The converse of this situation is that the decline in investment in machinery and equipment has fallen to a very considerable extent on imports which have shrunk markedly in the last few months.

I have reviewed the main changes in the strength of the underlying economic forces during 1957. The reduction of the pressures and demands which characterized 1956 led to a mood of greater caution with regard to new capital ventures and was reflected in a declining rate of increase in job opportunities. Despite these conditions, there were more people at work in each month of 1957 than in the comparable month a year earlier. The increases over the preceding year became smaller as the year progressed and in January, February and March of 1958 employment was slightly lower than a year earlier. However, by April 1958 employment was again higher than a year earlier.

To some extent the pressures generated in 1956 did not have their full effect on prices until 1957. Thus, the consumer price index, which began to rise in mid-1956, continued upward until last October, and experienced another short period of increase in the first four months of this year. Wholesale prices, on the other hand, reached a peak in January 1957, declined 1.4 per cent during the succeeding ten months, and have risen again moderately since November. The rise in consumer prices offset about half the increase in average wage rates so that advance in real income during the year was about 2 per cent.