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BUDGET REINS TO BE TIGHTENED

In a recent statement to the House of Commons, Finance Minister Mitchell Sharp outlined Canada's economic position and said that the Government's aim was to reduce the budget deficit in the next fiscal year. "We shall aim to produce at least a balance on the Federal Government's revenues and expenditures in terms of our national economic accounts," Mr. Sharp said. "Such action is necessary to exercise the fiscal restraint on the economy required to check the inflationary price and cost increases now taking place."

Part of the Minister's speech follows:

...This problem of managing our prosperity and of dealing with the pockets of poverty that unfortunately still remain is a very difficult one. We have never encountered anything like this before, nor has any other country. We are moving out now onto unexplored territory. When I was in Rio, I discussed these problems with the ministers of finance of other similarly fortunate countries and I found they echoed my words.

This year our grain crop has fallen short of the bumper crops of recent years but is adequate to meet our export commitments and expected demands. Industrial production has increased moderately. Business investment expenditures in the second quarter of the year were down slightly, as expected, both on construction and equipment. Urban housing starts were high in May and June but, as is well known, declined in July and August. Consumer expenditures on durable goods increased strongly in the second quarter of the year. Our balance of payments and exchange position during the summer has remained relatively strong, reflecting the favourable influence of Expo and the centennial year on our tourist trade.

The total of all demands on the economy, including those of governments, has continued to increase just about as anticipated.

Total employment has increased modestly during the summer, and the seasonally adjusted figure of unemployment after reaching 4.4 per cent in June declined to 4.1 per cent in August. In the budget speech I indicated - I was very frank about it - that some temporary increase in unemployment was possible this year in view of our rapidly-growing labour force and the slower growth-rate this year in production. My predictions in this respect were mostly accurate except that I really expected that unemployment might rise even more than it has.

The undesirable rate of increases in prices and costs, to which I referred on June 1, has continued. The need for restraint has not lessened. I shall have more to say about this in a few minutes.

On the whole I should still expect the gross national product this year to increase by 7 per cent or a bit more, around the upper end of the range I mentioned in June. I said at the time that, if the figures were higher than 6 2/3 per cent, it would probably be accompanied by a further undesirable increase in prices, and that has proven to be the case.

CAPITAL MARKET

The most notable developments of recent months have probably been those in the capital market. Despite a continuing expansion in the money supply, rates of interest have increased further both in Canada and the United States. Indeed, this has been a world-wide experience....At Rio de Janeiro last week I found that these high interest rates were one of the main preoccupations of nearly all the many