tariffs and non-tariff barriers by the United States yields real export increases that are more than sufficient to offset increased real imports that follow from Canadian reduction of tariffs and non-tariff barriers and from increased Canadian final domestic demand. The positive effect on net exports is notably strong through to the mid-1990s after which time, an appreciating Canadian currency diminishes the impact to smaller proportions.

The increased competition from foreign suppliers drives Canadian industry output prices down (see the implicit output deflator). This is reinforced in this case by our direct assumption of improved labour productivity as well as by cyclical productivity gains; by 1992, labour productivity is increased by more than one per cent. Although real wages rise, they increase by less than productivity gains and unit labour costs are reduced to reinforce the commodity price effects of increased competition. Accordingly, final demand prices generally decline, which result is reflected in the Consumer Price Index. (An actual decline is unlikely; rather, we anticipate less rapid growth than in the Base Case.)

The implied increase in disposable income is transmitted to final demand in the form of increased personal consumption. It should be noted that the TIM impact multiplier is comparatively small, and the positive effects on consumption are understated, if anything, in these results. The positive effects of this and increased net exports on industry output and our assumption of an exogenous increase in manufacturing investment to reflect altered production possibilities yields particularly strong positive effects on business investment.