As a result of this rapid growth, the demand for goods and services has increasingly strained our productive capacity, building inflationary pressures. In June 1989, the Consumer Price Index (CPI) inflation rate rose above 5 percent for the first time since 1984, and has since stayed at or near that level. This rise in inflation occurred at a time when strong appreciation of the Canadian dollar made imports cheaper. Without this appreciation, and without a tight monetary policy as well, prices would have risen still faster, testifying to the strength of underlying inflationary pressures.

The CPI understates underlying inflationary pressures. To get a sense of these forces, indicators like the growth in unit labour costs must be examined. These numbers suggest that there is considerable risk to Canada's competitive position. Unit labour costs accelerated to 6.3 percent last year and to 6.9 percent by the fourth quarter. In the United States, by comparison, the increase in unit labour costs was below 5 percent, and it was even lower in Japan and the F.R.G. Higher labour costs ultimately mean declining competitiveness, less economic growth, fewer jobs and lower incomes for Canadians. Monetary and fiscal policies, therefore, have been designed to dissipate these inflationary pressures.