The external economic climate is somewhat less buoyant now than a year ago. In the United States, demand pressures have lessened and the growth-rate in the economy has slowed perceptibly with the implementation of policies designed to stem the persistent upward movement of prices. In Western Europe also, there are indications that overall economic growth is losing some of its recent vigour, partly as a result of official measures of restraint. In Britain, demand restraint continues to be a key feature of national policy but the improvement now taking place in the balance of payments could open the way for expanded sales of Canadian products in that market. Across the Pacific, the strongly-expanding Japanese economy provides the basis for the further growth of exports to Canada's second-largest overseas customer.

Conditions in world product markets vary from situations of substantial surplus to acute shortage. For a number of Canada's major farm, forest and mineral products, firm or firming demand conditions prevail. If serious interruption to the production and movement of supplies to market can be avoided, growth of Canada's resource exports could show significant acceleration in the year ahead.

Notwithstanding these important elements of strength, the 1969 gain of $1.25 billion in total exports will be difficult to match in the face of easier demand conditions in the United States and slower growth in the world at large. Canadian exporters will be vying with competitors around the world for a reduced total volume of new business. In these circumstances of intensified world competition, it becomes increasingly important to stop the erosion of Canada's competitiveness resulting from the continuing upward movement in costs and prices.

Between 1968 and 1969, industry selling prices in Canada rose 3.4 per cent, while consumer prices and the price component of the gross national product each rose by about 4.5 per cent. Similar inflationary conditions have been prevalent in other industrialized countries. However, a superior price performance is of crucial importance to Canada. Simply to hold even on prices with our competitors will not permit Canadian producers to capture the increased share of world markets necessary to employ Canada's rapidly-growing labour force and absorb other available productive resources.

To some extent, price increases in Canada are a reflection of higher prices paid for imports and received for exports. It would not be practical for a trading nation such as Canada to try to insulate entirely its domestic price level from increases occurring in international product markets. It is critically important, however, to minimize price increases generated from within the domestic economy -- increases resulting primarily from widespred pressures for income returns which are out of line with the overall productive performance of the economy.

In the past year, productivity in Canadian industry has continued to improve. In manufacturing,output per person employed has been increasing at a rate close to the postwar average of 3.7 per cent. However, most income-rate increases have exceeded the improvement in national productivity by a considerable margin, the inevitable consequence being upward cost pressures and rising prices. This internally-generated inflation constitutes a serious obstacle to trade and industrial growth and to better economic performance generally.