

The gratifying progress which took place in the Canadian economy in 1959 cannot be divorced from the perspective of certain significant developments outside our borders. The environment of the free world economy, particularly in the industrialized countries, was one of general improvement and expansion. The United Kingdom and Western Europe achieved significant progress to which hard work, self-discipline and financial statesmanship made an impressive contribution. Recovery abroad was characterized by control of inflation, currency stability and a striking improvement in reserve positions which made possible a greater degree of currency convertibility and the removal of most financial discriminations against imports from dollar countries.

The strengthened international financial structure, developments in European trading arrangements, and the improved outlook in the free world economy hold significant implications for Canada, as a trading nation and as a nation chronically short of capital. The world economy today is not only steadily expanding; it is increasingly competitive.

#### U.S. Economy

Events in the United States have, of course, an important bearing on our Canadian experience. On the whole, the United States economy has displayed great vigour in 1959. Production, income, spending, capital investment and other indices have all exceeded previous peaks. Expansion has been accompanied by certain financial problems in the United States, just as it has in Canada and is beginning to in Europe. But there is no evidence in the United States, just as there is none in Canada, that these developments are interfering with the process of economic growth. The deterioration in the United States balance of payments position, from a short-term viewpoint, has not been altogether unhealthy or unconstructive. Indeed, the flow of gold and dollars to other countries encouraged and underpinned the welcome moves to currency convertibility and the reduction of discrimination. Nevertheless, any long-continued drain on American gold reserves of the degree witnessed in 1959 would raise some serious implications.

The rate of progress was interrupted in the second half of the year by the steel strike which had adverse effects on production and employment. However, it is reassuring to find the consensus among qualified observers in the United States is that economic expansion there has already resumed and that 1960 will be a year of substantial further growth.

The recovery in Canada, which began in mid-1958, moved forward strongly throughout 1959. Gross National Product, seasonally adjusted, reached an annual level of \$34,724 million in the third quarter of 1959, a new and impressive record for the most comprehensive indicator of business activity. Economic growth has been measured largely in the real terms of productivity and a sound dollar. If the economy paused briefly in the third quarter partly in response to the uncertainties engendered by the steel strike, it