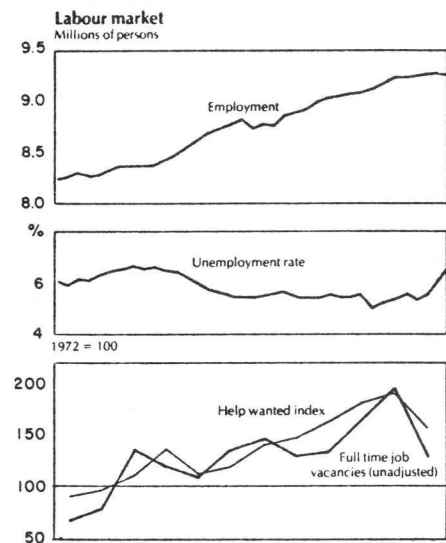


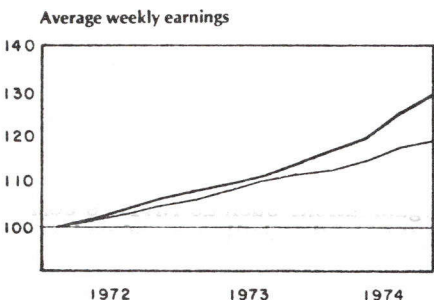
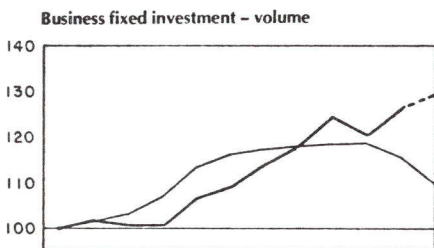
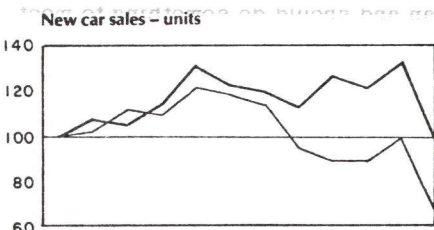
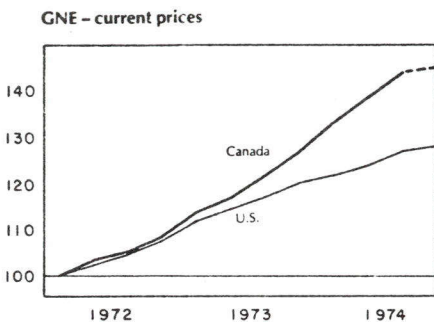
further increases in output in the short-run. Strains also continued to be evident in the job market throughout much of 1974. In addition, production was adversely affected by the heavy incidence of work stoppages, particularly in the spring and early summer. With the weakening of demand that began to appear in some sectors of the economy in the spring, pressures on capacity gradually eased and shortages of men and materials became much less prevalent.



Canada/U.S. comparison

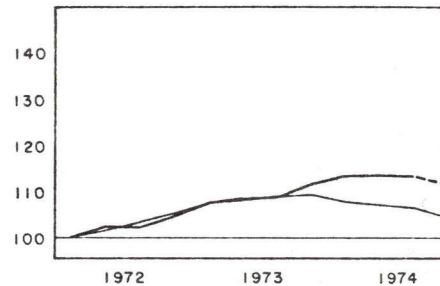
One of the remarkable features of 1974 was the unusual degree of divergence that developed between the Canadian and U.S. economies. Total demand in both nominal and real terms underwent a much earlier and more pronounced easing in the United States than occurred here. U.S. gross national product at current prices was approximately 8 percent higher in 1974 than in the previous year, an increase that was only about half as large as that estimated for Canada. With U.S. prices rising at fairly similar rates to those here, most of the difference in the climate of demand was reflected in the performance of real output. Gross national product, in volume terms, peaked in the last quarter of 1973 in the United States and declined throughout 1974; for the year as a whole it averaged more than 2 percent below its level for 1973 and in the last quarter of 1974 it was running 5 percent lower than it had been a year earlier. This compared with an estimated increase of about 3.5 per

Selected Indicators: Canada-United States
1 Q 1972 = 100, seasonally adjusted

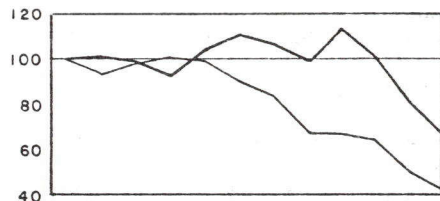


cent on a year-to-year basis in Canada and apparently little net change from year-end to year-end. In both countries employment was remarkably well sustained relative to output through most of 1974, but unemployment began to rise dramatically in the United States towards year-end and in January 1975 the seasonally-adjusted unemployment rate in that country was 8.2 per cent, compared with 6.7 per cent in Canada. Despite the similarities in price performance in Canada and the United States in 1974, some significant signs of divergence on this front were also beginning to appear by year-end. Some underlying U.S. price and cost indicators have recently appeared to be

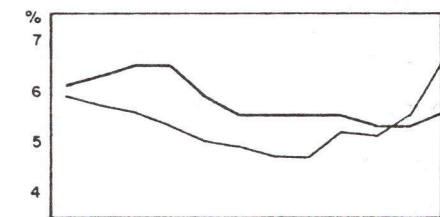
GNE - constant prices



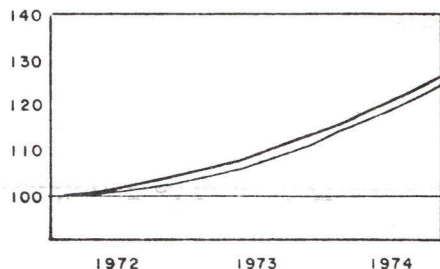
Housing starts - units



Unemployment rate



Consumer price index



much more favourable to a near-term moderation of inflation than is the case for Canada. Although unit labour costs have risen very rapidly in the United States, partly because of an even more adverse productivity performance than experienced in Canada, wage and salary levels have been rising at a much more modest rate there than here. Increases in weekly wages have not registered any very pronounced acceleration in the United States and, from at least mid-year, wage settlements in that country appeared to be running at about half the scale of increases being established in Canada. (From 1974 annual report of the Bank of Canada.)