erable success in bringing costs under control. But in other countries the immediate outlook for inflation is much less promising.

The Canadian Economy

It is against this international background, Mr. Speaker, that we must assess the state of the Canadian economy and the risks that we face.

We should begin by recognizing the extent to which our recent economic performance has differed from that of the United States. As I pointed out earlier, the United States is going through its deepest recession of the postwar period, with an absolute decline in real output of over 7½ per cent since the peak at the end of 1973. On the other hand, Canada has experienced an absolute decline in real output since early 1974 of only 2 per cent. While unemployment has risen in Canada, it remains more than two percentage points below that in the United States.

It is difficult to disentangle the factors which have helped to shelter us from the deep American recession. In part, this resulted from the nature of the preceding world-wide expansion. Food and other primary products are very important in Canadian output, and the high world demand and exceptionally high prices for these commodities gave a strong impetus to Canadian incomes. Our position as a major oil producer enabled us to protect ourselves from the full shock of the increase in world oil prices. There has also been a stronger and more sustained increase in business investment in Canada in recent years, an expansion which has been encouraged by our manufacturing incentives. The rapid growth in employment, the increasing number of families with two or more pay-cheques, the indexing of personal income taxes, the increase and indexing of social security benefits—all of these have contributed to the expansion of income and expenditures and the confidence of Canadian consumers.

More recent expansionary policies in Canada have also helped to buttress the economy. Our measures of last November, which preceded the change in U.S. economic policy by several months, provided a significant stimulus. They have been supported by unemployment insurance and other features of our taxation and welfare system which automatically cushion the economy in periods of declining income. Further strong stimulus has been provided by the provincial budgets introduced in the spring. We estimate that their cash requirements will be up by something of the order of $1½ billion this fiscal year. The general stance of monetary policy since the end of last summer has also helped to cushion the temporary weakness of demand. All of these factors and policy initiatives have helped to maintain spending, employment and confidence in Canada at higher levels than in the United States.

[*Translation*]

The fact remains, however, that the world recession has had a dampening effect on economic activity in Canada by restricting the growth of our exports. This is the main reason why our real output, after peaking in the first quarter of 1974, was virtually unchanged in the second and third quarters, and has declined somewhat since. At the same time, the volume of our imports has grown rapidly due to the continued expansion of domestic demand in Canada. While the prices which we received for our exports continued to increase in the first half of 1974 more rapidly than the prices of our imports, more recently the terms of trade have moved against us. As a result of all these factors, the current account deficit reached over $6 billion at annual rates in the first quarter of 1975.

Certain sectors of the Canadian economy have been particularly hard-hit. While automotive sales have held up reasonably well in this country, the severe contraction of demand for North American vehicles in the United States has led to a major reduction in Canadian automotive production for sale in the U.S. market. The sharp decline in U.S. residential construction, which provides the most important single market for Canadian lumber, has severely curtailed demand for exports of wood products—a problem compounded by the decline in our own housing activity. Exports of a number of other primary commodities have also been cut back because of declining foreign demand.

Residential construction has been the major domestic source of weakness in the economy. The record levels of activity reached early in 1974 could not realistically be maintained. It was also to be anticipated that rising interest, land and building costs would lead to some scaling down of new housing starts. The decline, however, was sharper than we foresaw, with the number of starts reaching a low point in March before rebounding in April and May. The fall in residential construction has resulted in a decline in demand for a wide variety of household furnishings and appliances.

Business capital investment has continued to expand as work goes forward on projects that have already been started. But we must face the fact that the current economic slowdown, sharply rising costs and falling profits seriously jeopardize the continued strong growth of new productive capacity needed to increase output, employment and real incomes in the future.

The slowdown of the economy did not begin to have a marked impact on the creation of new jobs until the turn of the year. So far, employment has been relatively well maintained, but the number of Canadians without jobs has risen substantially as a result of the continuing rapid growth of the labour force. We need strong employment growth to get unemployment down. The key to this is a better performance on costs and prices. We have to remain competitive to sell, and sales are the only guarantee of jobs.

● (2020)

[*English*]

Up to now, Canada's price performance has compared reasonably favourably with that of most of the major industrial countries other than Germany. I have already noted that consumer prices in most countries have been rising less rapidly in recent months. The annual rate of change in Canada for the three months ending in May was 7.1 per cent compared with nearly 15 per cent in the three months ended in December. But these comparisons mask the reality of underlying developments in our cost-price structure. Wholesale prices are already moving up more rapidly again. The fact is that we have been building serious cost increases into our economy which threaten to