cent. The cycle of investment expansion which began in 1979 is expected to continue through 1980 with a further increase of more than 7½ per cent in real terms. Other domestic sectors will show no change or will show a decline in 1980.

● (2040)

Government expenditures on goods and services will continue to be affected by policies of expenditure restraint. Residential construction is likely to decline as high interest rates and a large stock of completed but unoccupied new dwellings restrict the number of new starts. A major uncertainty in the outlook for 1980 is the likely pattern of inventories as businessmen shade down their sales expectation in response to lower output growth.

In sum, the world economy is going through a difficult period of adjustment as higher international oil prices are absorbed and as the always painful process of winding down inflation is pursued. As a result of certain important underlying strengths, the Canadian economy should be able to avoid a slowdown as severe as that which appears in store in the United States, but we cannot expect to insulate ourselves fully from that slowdown. This is especially the case given the substantial deficit which already exists on the current account of our balance of payments, and given the size of the federal government deficit which already exists.

Having provided this general overview in an effort to bring the House of Commons up to date on current economic indicators, I would like to say a word or two about the most immediate and visible problem that is confronting the Canadian economy in respect of high interest rates. I refer to the impact of high mortgage interest rates on the estimated 350,000 home owners who will be renegotiating the terms of their mortgage this year. Unquestionably, these people face substantial, unanticipated increases in their monthly mortgage payments.

In assessing the situation, however, it is important to bear a number of facts in mind. It is estimated that less than 10 per cent of these households will confront housing costs in excess of 30 per cent of their incomes upon renewal of their mortgages. This 30 per cent figure is frequently used by lenders and insurers in judging the mortgage payments a household can reasonably be expected to carry.

Given the growth in incomes, the majority of those renegotiating their mortgage will in fact face housing costs that, as a proportion of income, are lower than they were when the terms of the original mortgage were negotiated. Of the less than 10 per cent confronting shelter cost greater than 30 per cent, the majority will be able to rely on a number of means already available or being developed by private lending institutions to ease the transition to higher mortgage costs and help keep their cash outlays within reasonable limits.

I have already indicated in the House of Commons that it was the intention of the government to take steps which would assist those limited number of mortgage holders who are unable to carry the normal proportion of costs to income. My colleague, the minister responsible for CMHC, will be meeting with representatives from the lending institutions to review the general situation. We believe that lending institutions which are involved in this particular sector of the economy are equally concerned in assisting home owners to meet this particular crisis. We know that at the present time certain of these institutions are making special adjustments in order to meet the current situation.

We hope that through a discussion between the minister responsible for CMHC and the lending institutions we may be able to identify further areas in which assistance can be developed. If these discussions demonstrate that new arrangements are required in the limited number of cases to which I have referred, then the government will be able and willing to take action to assist, particularly, to avoid the risk of foreclosure for any of those mortgage holders who are facing this current critical situation.

Some hon. Members: Hear, hear!

Some hon. Members: Oh, oh!

Mr. MacEachen: Members opposite ought to get their economic policy together. They expressed indignation at mention of the deficit as if it ought not to exist at all. When an analysis reveals that maybe a big financial program is not necessary, hon. members also then express their indignation. One is related to the other. At some time they might be able in the course of this Parliament to develop some consistency.

I want to tell hon. members opposite that it is the judgment of this government that any broad measure of assistance aimed at providing relief to what is, in the vast majority of cases, a short-term cash flow problem, would raise serious questions of equity with respect to those Canadians who are hurt in other ways by high interest rates and inflation. If we move with a big expenditure program now which we cannot afford in this housing sector, then in terms of equity we would be obliged to move in other directions as well. It would be a costly undertaking on the part of the government which would result in a more difficult situation, and which would make more difficult the attainment of an over-all reduction in inflation and interest rates. The gradual reduction of inflation and interest rates is the only viable solution to this problem in the long term. In that connection, I am sure hon. members have noticed and have welcomed, just as I have, the increasing evidence of a downturn in general interest rates, both in the United States and Canada.

An hon. Member: A quarter of a point.

Mr. MacEachen: Yes. It is a development. The decrease in the bank rate and the subsequent decrease in the prime rate of the banks is a welcome development. A continuation in that trend is the only viable solution to this particular problem.

I wanted to give the House my assessment tonight very early in my tenure as Minister of Finance of the situation that exists in the world and in Canada. I do not think it escapes any of us that we are facing a difficult situation in Canada and in the world as a whole. I am confident, however, that Canada, as a