

Competition for export sales will become keener in markets abroad. Sophistication of product will increase. Our export prospects will depend on productivity, research and development, and specialization....

Currently, for the nation as a whole, we are enjoying a high level of prosperity. In fact, since early 1961, the Canadian economy has been expanding at an unprecedented rate. This growth has been broadly diffused and well balanced. In particular, the traditionally weaker sectors of industry have made substantial progress. Never before has secondary manufacturing played such a leading role in spearheading national growth....

RECORD EXPORTS

Canada's exports in 1966 have been growing at a truly remarkable rate, registering a 17 percent gain over the corresponding 1965 figure in the first seven months of this year. More recently, transportation difficulties at home and abroad as well as economic difficulties in the United Kingdom may slow down this rapid rate of increase in the latter part of 1966. However, there is good reason to expect that the value of Canada's merchandise exports for 1966 as a whole will reach the \$10 billion level - a new record. This would be about 70 percent higher than our export total, as recently as 1961, of less than \$6 billion. It would also represent an average gain in our exports of over 11 per cent a year during each of the past five years - a figure well ahead of the strong growth in the domestic demand for Canadian goods and services.

This ability to expand our exports enabled us to have a more rapid growth-rate than would otherwise have been possible. Coming at a time when domestic demand for our production was rising rapidly, it enabled us to meet the growing foreign-exchange requirements of our sharply expanding economy. Thus, this surge in exports has been particularly opportune, because Canada's merchandise exports on balance have matched the gains in our imports during the period since 1961. The rapid increase in imports has come about as a result of burgeoning consumer demand stemming from rising incomes augmented by an especially sharp increase in the demand for capital goods.

Since 1961, total outlays on business construction and machinery and equipment have virtually doubled. In spite of these internal demand pressures, we were able to realize a modest trade surplus in 1965 and we expect that the situation may also hold for this year.

EXPORT PATTERNS CHANGE

While there is no question that the rapid growth of the United States economy has been especially important in sustaining strong growth in our exports, it is also true that much of our improved export performance has been due to developments which reflect basic changes in our traditional export patterns.

A case in point is the U.S.-Canadian automotive trade pact, which permits manufacturers free cross-border movement of new motor vehicles and parts. This is encouraging the rationalization of the Can-

adian automotive industry on a more efficient basis and has already contributed to a major increase in total Canadian production of automobiles.

The arrangement is already achieving positive results by way of expanding the role of the Canadian automotive industry in the North American market. Canada is on the way to becoming a net exporter of finished automobiles to the United States. This surplus in our exchange of finished automobiles will help offset our continuing large deficit in parts.

HIGH LEVEL OF GRAIN EXPORTS

Canada's record exports of wheat and flour have also bolstered our trade position in a major way. During the 12-month period ending July 31, 1966, Canada's exports of wheat and flour totalled close to 600 million bushels - the highest level in the history of grain marketing in Canada. Much of the extra impetus in this trade has come from sales of wheat to the Soviet Union, Eastern Europe and mainland China. The importance of these new markets can be gauged by the fact that, during the three-year period 1963-5, Canada was able to achieve sales of \$1.25 billion in these non-traditional markets.

Nevertheless, important as some of these new developments are in our basic trade position, we should be deluding ourselves if we did not acknowledge the basic fact that, over the long haul, it is Canada's ability to price her goods competitively in foreign markets that will be the key to our continuing economic growth and prosperity. If the current "Kennedy round" is successful, and economic barriers to world trade come down still further, thereby providing us with greater opportunities, this factor of competitiveness will become more important than ever.

WAGE-COST PERIL

Over the course of our expansion since 1961 and until recently, unit-wage costs in Canadian manufacturing have about kept pace with those in the United States and, in general, our price and cost performance during the past five years has compared favourably with most Western industrialized countries. However, over the past several months, a more basic and potentially ominous inflationary tendency has tended to emerge from the fact that increases in costs are currently outstripping productivity gains by an uncomfortably wide margin. In 1966, for the first time in the Sixties, it appears that the general price level in Canada is rising as fast or possibly faster than in most Western European countries. Should these tendencies persist, there could be a serious erosion in Canada's competitive position in international markets....

It behoves your industry, as well as all others in our country, to remain competitive by every means at your command. Some of the answer can be found in increased exporting. A recent study by the federal Department of Industry indicates tremendous demand for aerospace products the world over in the next decade, and larger production runs should result in lower unit costs.

The Department of Trade and Commerce wishes to offer you all possible assistance in your trade promotion objectives in order that you may share to the fullest these future markets....