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REVIEW OF CANADA'S ECONOMY IN 1967

AND OUTLOOK FOR 1968

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Canadian exports have continued to grow at a rapid pace in 1967. Despite a general slow-down in the rate of expansion of world trade and production, Canada can expect to meet the objective of \$11.25 billion of exports set by the Department of Trade and Commerce for 1967. Canadian employment and output have also advanced, but at a slower pace. Rising costs continue to exert upward pressure on Canadian prices, and corporate profits have dropped.

This year, growth of world production and trade has slackened following several years of strong advance. An early-year inventory adjustment in the United States, recessionary conditions in Germany and generally sluggish trends of economic activity in other countries of Western Europe and in Britain were major influences contributing to slower world growth. This slow-down has not been universal, however, and strong rates of growth have been maintained in Japan and a number of other countries of importance for Canada's trade.

In Canada, economic activity has continued to expand, but at a reduced pace. Canada's gross national product in 1967 has increased by about 7 per cent over 1966. But more than half of this increase reflects higher prices. National output in real terms has risen by only about 2.5 per cent, or, if the decline in crop production is excluded, by 3 per cent.

Employment on average has been more than 3 percent higher in 1967 than in the preceding year. However, new job opportunities have not fully kept pace with the increase in new job-seekers, whose ranks have been swelled by record numbers of young people coming out of schools and by the highest level of immigration in ten years. Consequently, unemployment is somewhat higher now than a year ago and for the calendar year has averaged just over 4 per cent of the labour force, compared to 3.6 per cent in 1966.

Among the major components of demand, the principal shift in 1967 has occurred in the investment sector. Capital expenditure by the business community showed little, if any, increase in 1967 following increases of 15 to 20 per cent in each of the three preceding years. Housing starts have increased sharply in recent months and the total outlay on housing during the entire calendar year

shows a moderate increase. Capital expenditure in all forms, both private and public, has increased about 4 per cent in 1967, scarcely one-quarter of the advance realized in 1966.

At the same time, additions to business inventories have been much smaller than in 1966, and this in turn has contributed temporarily to a slower tempo of industrial activity while, at the same time, being a factor which will contribute to future demand.

An important positive element of demand strength in 1967 has been the continuing vigorous growth of sales in foreign markets. Merchandise exports have increased by 11 per cent in the first ten months of this year, compared to last, and over the full 12 months are expected to reach the \$11.25-billion centennial target.

This export target was announced in the autumn of 1966 to emphasize the need for sustained export growth and to give a sharper focus to trade-promotion programmes. An appeal was made individually to each exporter and potential exporter in Canada to reassess his export activity with a view to making the maximum contribution to the attainment of this target.

In the spring, trade commissioners from all parts of the world held briefing meetings right across Canada to advise Canadian businessmen of current market developments and opportunities in their territories. In the autumn, regional seminars were conducted in major centres to help familiarize the business community with the implications and opportunities following upon the conclusion of the Kennedy Round of trade negotiations.

The targeted increase of close to \$1 billion in merchandise exports in 1967 has been realized, despite the slackening of demand conditions in major foreign markets. Canada's sales to the United States, for example, are up by 17 per cent. While total United States imports from all countries have increased by only 5 per cent, Canada's share of the U.S. import market has increased rapidly. Canada now supplies more than 26 per cent of all United States imports, compared to 22.5 per cent just two years ago. But exports to Britain show little change for the third consecutive year, and sales to most Western European countries also reflect the softer market conditions in that area. The sharpest percentage gains in export sales in the past year have been realized in those countries experiencing strong domestic expansion, such as Japan, Australia and Italy.

Widely divergent conditions have characterized the market for Canada's major exports in 1967. Above-average wheat crops, particularly in the main importing countries, have brought about a pronounced softening in the world wheat market in the latter part of 1967. Consequently, the value of wheat and flour exports in the past year is well below the record \$1.14 billion level of 1966. The two-million ton contract just negotiated with mainland China should help to strengthen Canadian and world marketing of wheat.

Much the largest single increase in export sales has occurred in automotive products. Continuing rationalization of the Canadian and United States industries, arising from the Automotive Agreement, has been accompanied by a substantial boost in two-way trade. Exports of automotive products in 1967 are more than half as high again as the \$1-billion figure attained in 1966.

Encouraging progress continued to be made in exports of other manufactured goods as well. Sales of machinery and equipment and finished consumer goods, apart from automobiles, are up by 25 per cent in 1967. Among major resource-based exports, substantial gains have been realized in oil and gas, base metals, potash and sulphur. Large forward sales of uranium to Britain and Japan have brought a flow of confidence and renewed activity to this important, export-oriented industry.

Imports also have risen strongly in the past year, reflecting, as in the case of exports, expanded cross-border trade in automotive products, and in addition, a continuing firm domestic market for consumer goods. Merchandise imports have increased a little less than exports, thus giving a somewhat higher surplus on merchandise trade.

Meanwhile, Canada's deficit on non-merchandise international transactions is appreciably lower in 1967. This is mainly the result of a substantially improved balance on tourism produced by the upsurge in tourist activity associated with Expo 67 and other centennial attractions. 1967 will see a surplus of \$350 to \$400 million from tourism, as opposed to the 1966 deficit of \$60 million.

Thus the position on all current transactions, both goods and services, has improved markedly in the past year. The evidence available suggests that the 1966 current-account deficit of \$1,137 million has been reduced by at least one-quarter.

There are, however, other, less salutary, developments in the economy which, unless checked, could reverse this favourable trend in our payments position and undermine the very basis of our current prosperity.

Despite slower growth in total demand and output during the past year, there has been little apparent slackening in the upward pressure of costs on prices. To date, manufactured-goods prices are up by 2 per cent, consumer prices by 3.5 per cent and the price component of the gross national product by 4.5 per cent. The upward movement of unit costs is reflected not only in higher prices but also in lower profits. Total corporate profits are down 6 per cent so far this year compared to last and, as a proportion of the gross national product, are now at their lowest point in the postwar period.

Profits play a major role in the growth process, both as an incentive to expansion and as a major source of financing for new capital investment. Thus the squeeze on profits is no doubt a major factor in the presently hesitant trend of business investment. Information available on business-investment plans for 1968 give no indication of any upturn from the current approximately level course of capital spending. While capital spending is fairly high by historical or international standards, the way must be open for extensive modernization and expansion programmes if Canadian producers are to be able to compete for the emerging opportunities in domestic and foreign markets.

The present inflationary dilemma stems in part from lagging productivity. The difficulty has been compounded in the current situation by continuing demands for higher incomes and benefits in both the private and public sectors, out of line with productivity trends. In manufacturing, for example, average earnings during the past year have increased by almost 7 per cent, while output per man-hour has risen by only 2 per cent. Also, in the public sector, new expenditure

programmes have been growing faster than national output. The additional expenditures made directly by government or financed by government have been met in part by rising revenues, but also in part by increased borrowings. These added demands for funds, superimposed upon an inflation-conscious capital market, have contributed to unusually high interest rates, which in turn have accentuated the upward movement of costs.

The Federal Government is taking resolute action to meet this situation. The Minister of Finance has announced fiscal objectives which, in essence, will reduce substantially the growth of government demands upon the economy and, at the same time, relieve pressures in the financial market. These measures are a necessary first step toward better balance in the economy. Comparable restraint with respect to income returns must be exercised by all groups in the community if the disruptive forces threatening Canada's prosperity are to be contained. Canada's trade and economic prospects for 1968 -- and, indeed, our standard of living -- are inextricably linked with the success achieved in correcting these basic impediments to growth.

External-demand conditions are likely to show considerable improvement in the year ahead. The tempo of industrial activity in the United States, following the slow-down early in 1967, is already picking up momentum. The devaluation of the pound sterling will entail temporary dislocation in some markets but should result eventually in a strengthened economy in Britain and greater financial stability internationally. The expectation of renewed advance in the West German economy should give new momentum to Western Europe. The Japanese economy meanwhile continues its strong upward course.

Faster growth in the industrial nations should, in turn, strengthen world commodity markets, with consequent benefit to the food and basic-material producing areas of the world. Higher export returns in these areas, coupled with Canada's expanding aid programmes, will lead to new opportunities for trade with the developing countries.

Against this background of improving world demand in 1968, the implementation of the first phase of tariff reductions under the Kennedy Round trade agreements will further enhance export opportunities in the coming year.

Canada must look to these broadened market horizons for the stimulus needed to move the economy forward to new heights of achievement. To make the most of these new opportunities will require ingenuity, initiative and perseverance on the part of Canadian exporters, and appropriate restraint with respect to income demands on the part of all groups in the community. More than anything else, international competitiveness holds the key to this new storehouse of opportunity.

It is especially important, therefore, in seeking ways to foster growth, to avoid courses of action which impair our ability to compete in world markets. Too much stimulation of domestic demand, for example, would unduly divert our energies and resources from export pursuits and otherwise impede the necessary adaptation to a more open trading world. This is why it is so important for governments and individuals alike to restrain their demands upon the economy.

Canada now faces a unique opportunity to penetrate new markets and to expand our export base. The successful response to this challenge will

mean not only expanded industries and more jobs but also a more productive economy and a stronger external-payments position.

It is with these considerations in mind that we in the Department of Trade and Commerce have set the 1968 export target at \$12.3 billion. This target calls for an increase in exports greater even than that achieved in 1967. Exports of automotive products are likely to show much smaller growth than the huge increase resulting from the initial beneficial impact of rationalization. The 1968 target, therefore, calls for substantially greater gains in other export categories. Next year's objective presents an exacting challenge. Yet it is a challenge which must be met if the economy is to move forward at a pace commensurate with its potentialities. The target has been accepted by the Export Advisory Council.

The Department of Trade and Commerce is endeavouring in every practical way to facilitate the realization of this objective. Trade-promotion programmes are being constantly adapted to changing market conditions. Again this year every company capable of selling in foreign markets is being asked to re-examine its export programme in relation to the national goal. The Export Advisory Council, established a year ago, is performing a particularly helpful role in scrutinizing the effectiveness of Departmental programmes from the business point of view, and also in creating improved awareness of trade needs and programmes throughout the business community. Export-financing facilities have been extended and further programmes to facilitate export development are under study.

Nor can the momentum toward freer world trade be allowed to subside. Canada, with other trading nations, is examining likely avenues for further improvement of access to international markets, including ways of bringing developing countries to fuller participation in the international trading system. Only through international specialization and closer commercial ties can the nations of the world reap the full benefits made possible by our advancing technology and growing productive capabilities. International trading arrangements must provide scope for the realization of these growing potentialities. At a ministerial meeting of the GATT in November, Canada, with the world's other trading nations, endorsed the objective of further trade liberalization. The member countries established a programme of work on outstanding trade issues designed to identify remaining barriers to trade and to put in hand the necessary preparation for further advance.

As Canada moves into its second century, the basic determinants of our economic environment are evolving with ever-increasing rapidity. Prospects for the year ahead and for ensuing years will depend more than ever upon our efficiency and our powers of adaptation in these ever-changing world conditions.

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