

financial relations with the United Kingdom and the United States, fluctuations in gross income and, consequently, even more in net income reach relatively huge proportions at either extreme of the business cycle.

### Subsection 2.—Review of Canadian Trade Since Confederation

Since 1867 when the provinces of Canada were federated, two countries, the United States and the United Kingdom, have played a dominant role in Canadian trade. Trade with the United Kingdom was a normal outgrowth of the mother country-colony relationship that existed prior to Confederation. The United Kingdom had supplied the original Canadian provinces with the bulk of their requirements and British goods continued to hold first place in the markets of the new Dominion for some years. Throughout the period the reverse flow of Canadian exports to the United Kingdom consisted mainly of lumber, cattle, cheese, furs and fish with the volume of trade showing a slow but gradual increase over the period 1868-90.

In the latter part of the nineteenth century radical changes began to appear in the direction and composition of Canadian trade. In 1883, the rapidly expanding republic to the south replaced the United Kingdom as the principal source of Canadian imports, and by 1896 over one-half of Canadian imports were of United States origin. Since that time United States dominance in the Canadian market has been maintained.

While the United Kingdom share of Canadian import trade was diminishing, its purchase of Canadian goods rapidly increased. Between 1886 and 1896 Canadian exports to United Kingdom nearly doubled, and in another ten years had doubled again. The increase was due largely to wheat, the production of which had become, by 1906, the major Canadian export industry. The percentage of exports flowing to the United States remained relatively constant, increasing roughly in proportion to the general increase in Canadian export trade.

The importance of these two countries in Canadian trade is indicated in Table 6 at p. 889, which provides data of imports and exports for representative years from 1886 to the present time.

**Commodity Trade.**—Before the War of 1914-18, Canadian export trade consisted almost entirely of lumber, fish, furs and agricultural and mineral products. The growth of the wheat industry at the beginning of this century was the greatest single dynamic during that period. Between 1896 and 1914, total Canadian exports jumped from \$110,000,000 to over \$431,000,000, with the value of 1914 wheat and flour exports in the neighbourhood of \$140,000,000.

Imports during that period showed an even greater rate of expansion. In the decade immediately preceding the War, the requirements of a growing industrial organization and the rapid settlement of the West led to large increases in the imports of iron and steel products, machinery and coal, in addition to the consumer goods requirements of an expanding and relatively prosperous economy. The rapid increase in import volume was complemented by an inflow of capital, principally from the United Kingdom.

The War of 1914-18 spurred the already rapidly growing manufacturing industries and, for the first time, iron and steel products and other types of manufactured goods began to appear in volume in the list of exports. These manufactured goods consisted principally of ammunition and similar less complex types