

activity in 1961. Manufacturers' stocks were being depleted at an increasing rate until the fourth quarter when the movement was sharply reversed. The last quarter's accumulation spread through every stage of fabrication and this build-up was accompanied by rising new orders and a mounting backlog of unfilled orders. Despite this fourth quarter build-up, however, the ratio of stocks to sales at year-end was the lowest since the end of 1955. The build-up of inventories in wholesale and retail trade was also most pronounced in the closing quarter of the year, particularly at the wholesale level where a sharp turnaround occurred. In both groups the quarterly pattern was to a large extent a reflection of partially offsetting movements in stocks of durable and non-durable goods.

Canada's exports of goods and services rose to \$7,600,000,000 in 1961, an increase of nearly 8 p.c. over the level of 1960. At the same time, imports of goods and services rose by 4 p.c. Thus, the contraction in the deficit on international current account from \$1,100,000,000 to \$900,000,000 (on the National Accounts basis) was one of the notable developments of the year; the deficit in 1961 was the smallest in any year since 1955. Among the factors raising the value of Canadian trade was the change in the exchange rate of the Canadian dollar. The improvement in the deficit was wholly attributable to the emergence of a surplus in merchandise trade, the first in many years; the deficit on invisible transactions continued to rise to reach the highest level on record, partly because of the unusually high level of dividends paid abroad in the first quarter of the year.

Merchandise exports followed a rising trend through the year and for the year as a whole were \$5,900,000,000, 9 p.c. higher than in 1960, most of this rise being in volume. Among the influences fostering the growth in exports was the recovery in the United States from a mild and short-lived recession and the large sales of wheat to Communist China and Eastern Europe. Exports were also notably higher to Japan, Latin America and some countries in Western Europe. Exports to Britain were unchanged, while exports to other countries of the Sterling Area declined slightly. The rise in wheat exports accounted for about half the total increase in exports in 1961. Other important contributors were such commodities as nickel, forest products, petroleum and natural gas, cattle and aircraft. Partially offsetting these increases were reduced sales of such major commodities as uranium, iron ore, copper and aluminum.

Merchandise imports, estimated at \$5,700,000,000, were up about 3 p.c. in 1961, most of the increase being accounted for by the rise in prices of imports. The record value in 1961 compares with a previous peak of \$5,600,000,000 in 1956, when import prices were considerably lower. The advance in imports was concentrated in the second half of the year and reflects the renewal of expansionary influences at that time. The gain in imports was widely distributed by commodities. Preliminary data indicate increased imports of many industrial materials and machinery and equipment items and, toward the end of the year, increased purchases of some grain and other agricultural products to help make good the loss in production in Western Canada. Imports of some other types of consumer goods were also higher at the end of the year.

Turning to consider the service account, receipts from services rose by nearly 4 p.c. and payments for services rose by nearly 6 p.c. The major factor on the side of payments was a more than 15-p.c. rise in the outflow of interest and dividends, a large part of which was concentrated in the first quarter of the year. On the receipts side, there was a considerable rise in income from tourism and travel expenditures, partially offset by changes in other items.

Government expenditures on goods and services exerted an expansionary influence on the economy in 1961. At an estimated level of \$7,200,000,000, they were 7.5 p.c. higher than in 1960. The highest rate of increase was in Federal Government outlays for purposes other than defence—14.7 p.c.—but defence expenditure was also up significantly. The substantial rise in non-defence outlays reflected higher wage and salary payments, increased public investment outlays, and the accumulation of inventories held by the Agricultural