

demand for goods and services increased at the same rate, although, within goods, the relative strength of demand for durable goods was more pronounced, particularly for automobiles where sales continued to increase strongly for the fourth successive year.

Business investment in inventories, although easing off in each quarter, totalled \$905,000,000 for the year, appreciably higher than in 1964. However, the level of inventories and the over-all rate of accumulation when viewed against the levels of production did not appear to be unduly high.

The pressures on Canadian production of the vigorous expansion in domestic demand were somewhat moderated as part of the demand was met by a sharp increase in imports, particularly toward the latter part of the year. The deficit on current account transactions with non-residents increased to \$1,100,000,000 in 1965 from \$400,000,000, mainly as a result of a substantially lower growth in exports of goods combined with continued large increases in merchandise imports. Exports of goods continued to rise although at a less rapid pace than in 1964; the export gains were notable, however (allowing for the substantial decline in wheat sales), particularly in non-ferrous metals and automobiles and parts.

In response to the high level of demand, labour income rose rapidly throughout the year to average 11 p.c. above 1964, an increase attributable to expanded employment opportunities and to wage-rate increases in excess of those experienced in the previous year. Profits moved rather unevenly through the year to a new high, 8 p.c. above 1964; however, the fractional declines in the first and fourth quarters were in contrast to the uninterrupted gains recorded from the beginning of 1962.

As already noted, some acceleration of price increases was observed in 1965, as well as a broadening of the areas over which these increases were being experienced. In the consumer field, price increases in food and services were most significant, and price increases in construction appeared to be appreciably higher in non-residential work. At the same time, certain reductions should be noted in the selling prices of the motor vehicle industry, petroleum refineries and sugar refineries.

The robustness of the Canadian economy has gone hand in hand with increasing employment and gains in productivity, and against a background of economic expansion in the United States unprecedented in the postwar period.

Components of Demand.—Total consumer expenditure on goods and services reached \$32,100,000,000 in 1965, an increase of 8 p.c. over its 1964 value. The purchasing power to sustain this level came primarily from an 11-p.c. increase in labour income, while consumer debt outstanding continued to expand at about the same rate as in previous years. A 2-p.c. rise in consumer prices cut into the real gains for the period. The price rise was most pronounced in the service sector which registered an almost 3-p.c. increase for the year. A like increase in food prices was largely responsible for the advance in non-durable goods prices. New and used car prices declined about 1 p.c. while total durable goods prices declined fractionally.

The 1965 advance in total consumer expenditure, which was at a rate fractionally stronger than in the preceding year, was shared by all components. Outlays on both goods and services increased 8 p.c., the increase on services being a continuation of the pronounced rate of advance recorded in 1964. The value of durable goods purchased increased steadily as prices edged downward. Sales of new and used cars rose over 14 p.c. compared with the 12-p.c. gain shown in strike-affected 1964. Most of the major components of durable goods increased, particularly furniture and appliances and radios. Purchases of non-durable goods rose more than 7 p.c., with notable increases in several of the components—food expenditures increased almost 6 p.c., clothing 6½ p.c., and tobacco and alcoholic beverages 8 p.c. and 9 p.c., respectively.

Capital expenditures in 1965 were \$10,400,000,000, an amount 14½ p.c. higher than in 1964. Non-residential construction and machinery and equipment outlays rose 18 p.c. and 17 p.c., respectively, and housing rose less sharply, by 5 p.c. The pace of investment in business plant and equipment quickened noticeably in the second half of the year.