

During 1965 the deficit in Canada's external account jumped to \$1,141,000,000 from \$412,000,000 in 1964 (on a National Accounts basis). The change of \$729,000,000 resulted from a fall of \$599,000,000 in the surplus on merchandise trade as the increased demand for imports outpaced the growth in export sales, and a further deterioration of \$130,000,000 in non-merchandise trade; about 80 p.c. of the latter can be ascribed to higher deficits in the interest and dividend account and the freight and shipping account.

Export gains were made in live animals, crude materials such as metal ores, fabricated materials including pulp and paper and metals, and such products as machinery and transportation (cars, trucks and parts) and communication equipment. After showing little gain in the first part of the year compared with the latter half of 1964, exports climbed 8 p.c. in the second half of the year.

Domestic exports (on a Trade of Canada basis) were \$429,000,000 higher in 1965 than in 1964, a gain of \$568,000,000 in United States markets offsetting declines of \$25,000,000 and \$114,000,000 in United Kingdom and other markets. Fabricated materials and end-products contributed 43 p.c. and 36 p.c. of the gains made in the United States. A drop of \$214,000,000 in the category "food, feed, beverages and tobacco" accounted for the over-all decline in exports to markets outside the United States and the United Kingdom. Whereas shipments of wheat and flour under the first major contract with the Soviet Union were important throughout the first half of 1964, shipments on the second large contract began late in the third quarter of 1965.

Import statistics indicate strength in Canadian demand for imported fabricated chemicals, metal and metal products, machinery, transportation and communication equipment, and other equipment such as laboratory requirements and computers.

**The Government Sector.**—Total revenues of governments combined (excluding intergovernmental transfers) increased by \$1,676,000,000 to \$16,373,000,000, an 11½-p.c. advance over the 1964 total of \$14,697,000,000. Expenditures increased less sharply, by 9½ p.c. above the 1964 total, to \$16,127,000,000, resulting in a surplus of \$246,000,000 (on a National Accounts basis) compared to a small deficit of \$21,000,000 in 1964. The improvement in the over-all position was entirely at the federal level; because the increase in revenues was at a greater rate than the increase in expenditures, the surplus rose to \$568,000,000 from \$296,000,000 in 1964, making this the second consecutive year to record a federal surplus. The deficit at the provincial-municipal level of \$322,000,000 was little changed from 1964.

All components of government revenue increased over the year, reflecting the continued buoyancy and expansion of activity in the economy. The largest increases occurred in revenues from indirect taxes and personal direct taxes.

Total indirect tax revenue rose by approximately 12 p.c., with the Federal Government and the provincial-municipal governments sharing almost equally in the absolute increase. The major part of the gain at the federal level was in excise taxes, which increased 19 p.c. compared with 14 p.c. for all federal indirect taxes; this was in part a reflection of the final stage of the imposition of the higher excise tax on production equipment and building materials. Provincial revenues from gasoline and sales taxes rose by 11 p.c. and 16 p.c., respectively, partially caused by some upward revision in rates. The gain in property taxes, due to both increased rates and bases, accounted for most of the rise at the municipal level. Total corporate and personal direct taxes reached a level of \$6,076,000,000, an increase of 12 p.c. over 1964. Reflecting the sustained improvement in employment conditions and rising incomes, total revenue from federal and provincial personal income taxes was 13½ p.c. higher than in 1964, even after allowing for a reduction of about 10 p.c. in the federal personal income tax rates from July 1, 1965. The provincial share of personal income taxes increased markedly during the year, a reflection of the increased abatement under the terms of the Federal-Provincial Fiscal Arrangements Act.

Total expenditures of all levels of government (excluding intergovernmental transfers) advanced by approximately 10 p.c. or \$1,400,000,000 in 1965, most of the gain occurring at the provincial-municipal level. Outlays on goods and services, which increased by 11