

p.c., were strongly reinforced by a 29-p.c. or \$533,000,000-increase in capital expenditure, with four fifths of the increase occurring at the provincial-municipal level. Provincial-municipal expenditures on goods and services rose sharply by approximately 13 p.c.; federal outlays on goods and services rose by over 7 p.c., accounted for by an increase of almost 14 p.c. in non-defence goods and services and a decrease of 1 p.c. in defence goods and services. Transfer payments to persons (excluding interest on the public debt) showed an increase of 9 p.c. The Federal Government recorded an increase of 3 p.c. but the increase at the provincial-municipal level was 15 p.c. The substantial increase by the provincial-municipal governments was caused by larger grants to hospitals and educational institutions.

Price Movements.—Over the past two years there was a moderate rise in the rate of over-all price increase. With prices advancing by nearly 3 p.c. between 1964 and 1965, the increase of 9.7 p.c. in the value of GNP was reduced to a gain of 6.6 p.c. when expressed in real terms.

In 1965 the price component of personal expenditure advanced by 2 p.c. compared with 1.6 p.c. in the preceding year. Prices associated with business gross fixed capital formation exhibited approximately the same rate of increase in both years, while prices for both exports and imports showed a smaller increase in 1965 than in 1964. Within personal expenditure, the components showed somewhat diverse movements. Durable goods prices declined fractionally compared with a 1-p.c. decline in 1964, the prices of new automobiles and appliances decreased by approximately 0.5 p.c. and the prices of furniture increased by 2 p.c. Food prices, increasing by about 2½ p.c. largely as the result of much higher meat prices brought about by short supply conditions in the United States, dominated the movement of non-durable goods prices. Prices of non-food commodities continued to increase by slightly less than 1 p.c. Prices of services rose by close to 3 p.c., reflecting advances of 3½ p.c. or more in all major components other than rents and communication-related services, both of which increased by about 0.5 p.c.

Prices associated with residential building showed somewhat lower increases than in 1964. This appeared to be associated with building material prices; the price index of lumber and its products increased by over 8 p.c. in 1964 but only 5 p.c. in 1965 and the prices of roofing materials increased by about 6 p.c. in 1964 but fell by 3 p.c. in 1965. The labour component of both the residential and non-residential price indexes increased by somewhat more in 1965 than the 4½-p.c. increase recorded in 1964. Shifting expenditure patterns affected machinery and equipment prices in both years; had a fixed pattern been used to estimate price changes, the increases in the prices of machinery and equipment would have been 3.3 p.c. in 1964 and 2.9 p.c. in 1965.

Within merchandise exports, price changes were somewhat diverse. The drop in the price of wheat early in 1965 was largely responsible for a 1½-p.c. price decline in the food, feed, beverages and tobacco group. Both the crude materials, inedible and the end-products, inedible groups increased by a little over 1 p.c. and the fabricated materials, inedible group gained 2 p.c. Within the latter group, the price of newsprint showed only a fractional change, while certain metal prices, responding to world market conditions, increased significantly.

The movement of merchandise import prices was again dominated by changes in the price of sugar, which declined by more than 50 p.c. relative to 1964. The fractional increase in the over-all import price index resulted from moderate increases in the crude materials, inedible and the end-products, inedible groups, an increase of approximately 3 p.c. in the fabricated materials group, and a decrease of over 16 p.c. in the food, feed, beverages and tobacco group.

Income Flows.—Wages, salaries and supplementary labour income totalled \$26,000,000,000 in 1965 and was 11 p.c. higher than in 1964. Labour income originating in the goods-producing industries advanced more rapidly than the service-producing group. The rise in labour income resulted in part from the continued sharp increase in employment in non-agricultural industries, where expanded job opportunities more than