

Government expenditures on goods and services, including capital goods, increased more than 16 p.c. over 1965. Increased outlays on salaries and wages were an important part of the over-all change. In this area, retroactive wage payments together with increased salary rates to the Armed Forces and to the public service at the various levels of government, some of which involved adjustments over a period of years, accounted for most of the rise. Entirely as a result of Canada and Quebec pension plan contributions, the surplus, on a national accounts basis, for all levels of government combined increased somewhat in 1966. Exclusive of these contributions, the federal surplus narrowed by about \$440,000,000 and the provincial-municipal deficit widened by about \$240,000,000.

Consumer spending was about 9 p.c. higher in 1966; with personal disposable income increasing by 9½ p.c., personal net savings rose. Prices of consumer goods increased by 3½ p.c. as compared with a rise of 2 p.c. in 1965. Durable goods spending as a whole rose by 4 p.c. but there was no increase over 1965 in spending on automobiles in contrast to marked increases in each of the four preceding years. Outlays on non-durable goods and services increased by 9½ p.c. and 9 p.c., respectively.

Demand for Canadian goods on world markets increased by 16 p.c. over 1965, in contrast to a growth of 6½ p.c. in 1965 over 1964. Exports of wheat to countries such as the Soviet Union and Mainland China, together with a large gain in exports of automobile products mainly to the United States, accounted for about one half of a \$1,600,000,000 gain in merchandise exports. Imports rose 15 p.c. The Jan. 1, 1965 Canada-United States Automotive Agreement resulted in a swelling in imports of automotive products but the historically unfavourable trade balance on these products narrowed in 1966 by over \$100,000,000. Investment outlays caused a further significant increase in imports of machinery and equipment. Although the surplus on merchandise transactions increased by about \$100,000,000, this improvement was offset by a larger deficit on non-merchandise current transactions, resulting in a widening of the current account deficit by \$72,000,000, on a national accounts basis.

On the income side, the salient features of 1966 were an increase in labour income of nearly 13 p.c. that was one of the largest year-to-year gains since 1951, a 34-p.c. rise in farm income resulting from a record western grain crop, and a fractional decline in corporation profits following increases in this component over the past five successive years.

On the labour supply side, a sizable increase in immigration and increasing participation rates coupled with a decline in agricultural employment, caused the non-agricultural labour force to increase by 5 p.c. Non-agricultural employment rose by 5½ p.c. and the unemployment rate for Canada was 3.6 p.c. compared with 3.9 p.c. in 1965. Work stoppages resulting from industrial disputes caused a loss of close to 5,000,000 man-working days, more than double that of 1965. In response to such factors as the tight employment market and wage demands, wage rates rose sharply and greatly outpaced productivity gains which, in 1966, were much reduced from the 2½-p.c. and 3-p.c. gains of recent years. The result was a notable rise in unit labour costs.

The aggregate price increase, as measured by the implicit price index of gross national expenditure, was 4.6 p.c. in 1966 compared with 2.9 p.c. in 1965. Prices of personal expenditure, government expenditure and exports all increased at significantly higher rates in 1966 than in the preceding four years. Price increases for imports, although higher than in 1964 and 1965, were lower than in 1962 and 1963 when the effects of devaluation were evident. In business gross fixed capital formation, the rate of increase was slightly lower than in 1964 and 1965, when sales taxes on production machinery and on building materials were increased.

Considering the components of personal expenditure, there was a strong increase in the price of food, most of it accounted for by meats and dairy products. In services, there was more of an increase in the price of rents than had been noted in recent years. Prices associated with household services and education showed increases above 10 p.c. but communication showed little price change. New car prices declined over 1 p.c. but