

first quarter, a substantial gain of close to \$1,400,000,000 in the second quarter partly as a result of a build-up of automobile stocks associated with a sharp drop in new car sales, a decline to \$600,000,000 in the third quarter partly as a result of strike effects and partly because of a drawing down of new car inventories, and an only fractional increase in the fourth quarter. For the year as a whole, investment in inventories at the manufacturing level accounted for about 60 p.c. of the total accumulation. The major part took place in the durable goods producing industries, about 40 p.c. of which was concentrated in transportation industries. In the non-durable goods producing industries the movement was mixed, leaving on balance a relatively small accumulation. Compared with 1965, the 1966 rate of increase was higher in non-durable goods industries and was concentrated mainly in the food and the rubber industries; among durables, although the rate of increase in transportation industries was significant, that in the primary metal, metal fabricating and machinery industries dropped substantially. For manufacturing as a whole, the average stock-to-shipments ratio for 1966 was higher than the average for 1965.

Moderate increases were recorded in the stocks of wholesale and retail traders in 1966. About 70 p.c. of the increase in the stocks of wholesale traders resulted from a general increase in the stocks of durable goods. Compared with 1965, the increases in the stocks of wholesalers were lower in durables and higher in non-durables. The average stock-to-sales ratio for the year was above the average of the current expansion. A considerable amount of accumulation was concentrated in the holdings of retail traders in 1966. There was a significant increase in the stocks of all non-durable goods, particularly of food, and there were modest increases in the stocks of durable goods. Compared with 1965, the durables were built up at a much reduced rate, tempered by a drawing down of stocks of motor vehicle dealers in the third quarter of 1966; the rate of accumulation in non-durables was virtually unchanged. The average stock-to-sales ratio for the year was above the average of the current expansion.

During 1966, the deficit in Canada's external account increased by \$72,000,000 on a national accounts basis. This resulted from a rise of \$106,000,000 in the surplus on merchandise trade—as increased export sales outpaced the climb in import demand—offset by a deterioration of \$178,000,000 in non-merchandise trade. Much of the latter may be ascribed to higher deficits in the interest and dividend account and to miscellaneous services (business services, government expenditures, etc.) account, and also to larger official contributions. Merchandise exports increased by \$1,581,000,000. Important export gains were made by food, feed, beverages and tobacco (mainly wheat), crude metals and non-metallic minerals, pulp and paper, fabricated metals, machinery and, notably, transportation equipment. Imports rose \$1,475,000,000, the increase being highlighted by imports of machinery required for investment purposes, other equipment and tools such as measuring and laboratory equipment, computers, other office machinery and equipment, and, notably, transportation equipment. Decreases in the trade surplus with Britain, other sterling area countries and other OECD countries in Europe were more than offset by a smaller trade deficit with the United States and by a substantial improvement in the surplus with other countries, resulting in a \$106,000,000 increase in the merchandise trade surplus between 1965 and 1966.

**The Government Sector.**—Total revenues of all levels of government combined (excluding inter-government transfers) reached \$18,800,000,000 in 1966, an increase of \$2,400,000,000 or almost 15 p.c. over 1965. Approximately 30 p.c. of this increase came from receipts resulting from the inception of the Canada and Quebec pension plans in January 1966. Federal receipts exclusive of the pension plan increased 8 p.c. compared with a 9½-p.c. increase in 1965, and provincial-municipal receipts increased over 13 p.c. in both years. Expenditures by the various levels of government were up more sharply than non-pension plan receipts—14 p.c. at the federal level compared with 6½ p.c. in 1965, and 15½ p.c. at the provincial-municipal level compared with 13 p.c. in 1965. The effect of these various flows was to increase the surplus for all levels of government combined by a marginal \$34,000,000; this increase was entirely attributable to the receipts from the