

mainly from food prices, which were 8.0% higher in the year, the largest rate of increase in over a decade. This was reflected in a jump in the implicit price index for non-durable goods from a 1.7% increase in 1971 to a 5.1% increase in 1972. In other categories, the most important price acceleration occurred in semi-durables, from 1.9% to 2.7%. In durable goods, an accelerated rise in the price of furniture was largely offset by a moderation in the rate of increase of car prices.

Prices of exports which had risen marginally in 1971 rose by 2.9% in 1972. The majority of components of the merchandise price index accelerated, with particularly sharp rises in prices of food and lumber products. Most metals, on the other hand, showed price deceleration. The service component, which has a lower weight in the over-all price index, rose by a strong 6.0%. The price rise in the import index of 2.6% remained moderate, due in large part to price moderation in the United States following the adoption of price control measures.

The implicit price for current government expenditure rose 7.4% over the year, higher than the 5.8% 1971 increase. The increase of the wage component of 9.0% contributed most to this price rise. Higher retroactive payments in 1972 included in this item resulted in an acceleration in the price rise compared to 1971; however, strike effects in the second quarter offset the impact of these wage settlements.

The implicit price index for business gross fixed capital formation rose 5.0%, but this upward pressure on prices was concentrated in construction prices as the machinery and equipment component, reflecting its high import content, rose a modest 2.5%, a lesser rate than in 1971.

With continued strong demand, residential construction prices rose 7.7%, an acceleration from the 6.1% increase in 1971, while non-residential construction prices, where there was relatively weak demand, advanced 6.1%, the same as 1971. Labour prices rose at decelerated rates compared to 1971, so that the main impetus behind the surge in prices was due to higher material costs. The 15.2% increase in lumber prices boosted residential material prices to the highest level of the decade.

21.1.9 The government sector

Total expenditure of all levels of government combined (excluding intergovernmental transfers) rose by 13.0% in 1972, which was about the same rate as in the previous year. Increased outlays on goods and services contributed the largest amount to the increase and reflected mainly higher wage and salary payments, including substantial retroactive amounts. Current outlays rose at about the same rate as in 1971. Increases in capital outlays, which were considerably smaller in 1972 than in 1971, were of similar magnitude at the federal and provincial levels.

The other major increase in expenditures occurred in transfer payments to persons. The rise, the highest in some years, was concentrated at the federal level. Unemployment insurance benefits paid were more than double those in 1972 under the effect of the introduction of new unemployment insurance legislation and the continuing high levels of unemployment. Other factors in the rise of federal transfers to persons were higher old age security pension rates and the introduction of the Local Initiatives Program. The increase at the provincial level was the lowest in some years as the rate of increase in grants to post-secondary educational institutions slowed and property tax credits replaced cash basic shelter grants within the income tax system.

Total revenues rose by just under 11.0% in 1972, about the same as the 1971 rate of increase. Returns from personal direct taxes and indirect taxes contributed about equally to the increase. The increase in personal direct taxes was slightly lower than in the previous year, reflecting tax rate cuts made at both the federal and provincial levels. Indirect taxes rose much more sharply than in the previous year, reflecting higher sales and some increased rates. All other revenue categories showed gains with the exception of other current transfers from persons, which declined, due mainly to the elimination of hospital and medical care premiums for the aged in Ontario.

With expenditures rising more sharply than revenues, the government sector, on a national accounts basis and including the Canada and Quebec Pension Plans, moved from a surplus of \$100 million in 1971 to a deficit of \$634 million in 1972. The deficits of the federal, provincial and local governments all widened during the year. The surplus of the Canada and Quebec Pension Plans rose from \$1,278 million to \$1,374 million, an increase similar to those of recent years.