

minor adjustments, as a component of gross national expenditure. Capital account transactions between residents and non-residents are included in the financial flow accounts. The main current account aggregates are summarized in Tables 21.29 and 21.30 while a more detailed breakdown of the complete balance of international payments for 1972-73 is presented in Table 21.31.

Summary 1973. The international perspective in which the Canadian balance of payments should be viewed in 1973 was extremely volatile and dominated by developments in the energy field which may have pervasive effects in the future on the level of economic activity throughout the world, international trade and international monetary reform.

Early in 1973 the US dollar came under extreme pressure in foreign exchange markets. To alleviate this situation the US authorities agreed to raise the price of gold 10% to US\$42.22 an ounce; this had an immediate effect on the exchange value of the US dollar, even though formal action to implement the decision was not completed until October 1973. Further speculation against the US dollar continued, however, forcing a closing of exchange markets in Europe and a change in the *modus operandi* of the joint float of major continental European currencies. The Canadian dollar maintained its relationship against the US dollar and therefore declined with the latter in relation to European currencies. Much of this depreciation was recovered later in the year as the US current account improved significantly.

Economic conditions in most of the developed nations were buoyant in 1973 although inflationary tendencies were apparent everywhere. Prices of food and raw materials were particularly susceptible to increases — a factor which, on balance, assisted significantly in the rise in the Canadian trade surplus.

Security of energy supplies also became more of an issue in 1973. In March, the United States relaxed its ceiling on imports of crude petroleum as gasoline shortages became evident in that country. In Canada a licensing system for exports of crude petroleum was introduced in February and authorized levels were reduced below those requested by exporting companies. This was followed in September by the institution of a two-price system for Canadian oil, as a tax of 40 cents a barrel was levied in October and raised to \$1.90 a barrel in December. This tax was linked to international oil prices and in particular those paid for imports into eastern Canada.

These developments were aggravated by the October war in the Middle East which was followed by a reduction in oil shipments and further price increases introduced by all major exporters. The consequences of this major change in availability and price of a product on which modern industry depends will become more apparent in the future. Apart from questions relating to the level of economic activity, there will obviously be major balance of payments adjustment problems for non-oil-producing countries matched by disequilibria in capital accounts as the rapidly increasing foreign exchange reserves of oil producing countries are recycled.

21.4.1 Current account

During 1973 current account transactions with non-residents produced a deficit of \$425 million. This marked a 35% decline from the \$655 million deficit of a year earlier. The contraction in the deficit was attributable to merchandise transactions, on which the surplus widened by \$586 million to \$2,231 million, despite a major reduction in Canada's bilateral trade surplus with the United States. Merchandise exports increased to \$25,500 million in 1973, for a gain of 26% over 1972, the largest growth in any year since 1951. Major price increases for some of Canada's most important export commodities accounted for more than one half of the total rise in the value of Canadian exports. There have been substantial gains in shipments to most of Canada's principal markets, with the more notable being recorded to the United States, Japan, United Kingdom, the Federal Republic of Germany, Italy and Belgium — Luxembourg. The United States market received about 68% of total shipments in 1973 and contributed the same amount to the increase in the value of Canadian exports. On a commodity basis, the largest increases in exports were recorded in the fabricated and crude materials sections. Apart from automotive products, which recorded the largest absolute gain, other important increases were recorded for shipments of crude petroleum, lumber, wheat, crude copper, wood pulp, newsprint, petroleum and coal products, copper and alloys, iron ores and rapeseed.

High economic growth as reflected by a 7.1% increase in gross national product in real terms has meant a continuing strong demand for imports, which increased by 25% to \$23,269