

and business on capital account, including changes in inventories, and to non-residents (exports). Imports of goods and services, including payments of interest and dividends to non-residents, are deducted since the purpose is to measure only Canadian production.

21.1.1 Economic growth in 1975

Gross national product in 1975 was \$161.1 billion, an increase of 11.4% from the level of the previous year; however, this growth includes an increase in prices of over 10.8%. The recession that began in 1974 bottomed out early in 1975, but because the subsequent recovery proved to be relatively weak, the total level of real output in the economy increased by a mere 0.6%. The performances of individual expenditure aggregates reflected the basic recessionary character of the year. Investment in residential construction and exports of goods and services both declined in real terms. There was a dramatic swing in inventories of almost \$2.6 billion, and personal expenditure on consumer goods and services recorded its smallest real growth since 1970. There was a modest increase in the current dollar value of exports, but this was outweighed by a substantial increase in imports, and the balance of trade in goods and services worsened by \$3.3 billion. The slight increase in real gross national expenditure was accompanied by a significant deceleration in prices, but the overall gross national expenditure implicit price index nevertheless increased by 10.8%.

21.1.2 Consumer outlays

Current dollar expenditure on consumer goods and services grew by 15.8% in 1975, but this represents an increase of only 4.9% in real terms. For the year, the largest real increase in percentage terms was in expenditure on semi-durable goods, which grew by 7.3%; this increase was accompanied by a relatively modest price increase of 6.1%. Expenditure on durables was also fairly strong, growing by 17% in current dollars and 7.1% in real terms, as spending on new and used automobiles grew by 21.3%. Spending on services and non-durable goods increased by 16.4% and 15.3%, respectively, in current dollars, but by only 4.8% and 2.7% in real terms; there were price increases of over 11% during the year in both of these expenditure categories.

21.1.3 Investment

Total gross fixed capital formation grew to \$39.2 billion, an increase of 16.8%; this is a considerable slowdown from the increases of the previous two years, and in real terms capital formation grew by only 2.5%. The weakness was concentrated in residential construction which declined by 7.4% in real terms as a result of a precipitous drop in housing starts in late 1974 and early 1975. There was a significant shift in the composition of residential construction during the year, as starts of duplexes and row housing increased by 40%, while single detached housing starts rose by only 1.5% and apartment starts declined by 4.9%. Business investment in plant and equipment grew by 5.0% in constant dollars, as non-residential construction grew by 10% and investment in machinery and equipment, by 1.1%; within non-residential construction, the increase was stronger in engineering (highways, pipelines, utilities) than in building construction.

Investment in inventories swung from an accumulation of \$2.9 billion in 1974 to a decumulation of \$0.3 billion in 1975, all of which took place in business non-farm inventories. There was strong liquidation in both manufacturing and wholesale trade after large accumulations in 1974. Retail trade was virtually flat for the year (close to zero value of physical change) after an accumulation of approximately \$0.3 billion in 1974.

21.1.4 The external sector

The external sector was one of the major sources of weakness in 1975. Exports rose 2.9% while imports were up 10.9%, resulting in a \$3.3 billion deterioration in