

### 21.1.1 Economic growth in 1977

Gross national product in 1977 was \$207.7 billion, an increase of 9.3% from the level of the previous year; after adjustment for price changes, real GNP grew 2.6% compared with 4.9% in 1976. The major source of strength in 1977 was external demand. Real exports were 7.7% higher than in 1976, and with real imports increasing only 2.0%, real net exports (real exports less real imports) contributed more than one percentage point to the increase in real GNP. Real personal expenditure and real government current expenditure on goods and services both grew at rates well below their long-term averages, real gross fixed capital formation declined, and inventory investment fell substantially.

Wages, salaries, and supplementary labour income grew at about the same rate as total GNP in 1977, increasing 10.0% after a 15.2% rise in 1976. Corporation profits before taxes were up 11.4% compared to 1976, and after-tax profits increased 18.8%. Other non-wage income grew 9.1%, despite a 13.6% decline in accrued net income of farm operators.

Personal disposable income increased 10.5% in 1977 to a level of \$139.3 billion, of which 10.7% was saved. Total personal expenditure rose 10.3%.

In real terms, personal expenditure increased 2.8% in 1977, with the largest percentage increase — 5.2% — in spending on services, reflecting higher net expenditure abroad and a large increase in spending on financial and legal services. Growth in spending on durable goods fell to 2.4% from 5.4% in 1976, with the largest decline in spending on household appliances. Expenditure on semi-durable goods increased 1.0%, as real expenditure on household furnishings was unchanged from 1976 and spending on clothing and footwear declined. Expenditure on non-durables was up only 0.7%, reflecting marginal growth in energy products and food, beverages and tobacco.

Gross fixed capital formation fell 8.6% in real terms in 1977, with all of the decline in business fixed investment. Business investment in residential construction fell 6.0%, and machinery and equipment investment dropped 1.7%. Because non-residential construction increased 3.7%, total business investment in plant and equipment was virtually unchanged from 1976.

After substantial accumulation in 1976, inventory investment swung to slight liquidation in real terms. Most of this swing was concentrated in the non-farm business sector, which grew by \$122 million in 1977 after a very strong \$1,068 million growth in 1976. On an industry basis, wholesalers liquidated inventories by \$105 million in 1976. Retail trade recorded a moderate accumulation of \$60 million in 1977, a decline of \$411 million from \$471 million in 1976. There was an accumulation of \$95 million in manufacturing, approximately the same level as 1976. Farm inventories swung from an accumulation of \$167 million in 1976 to a liquidation of \$208 million in 1977.

The 10.0% rise in real exports of goods in 1977 was primarily the result of strong increases in exports of motor vehicles and parts and fabricated materials. Lumber and wheat exports were also strong in 1977. The weak 1.1% increase in real imports of goods was the result of widespread declines in imports of food, crude and fabricated materials, and industrial machinery, partially offsetting large increases in imports of passenger cars and motor vehicle parts.

The service account continued to deteriorate in 1977, but at a slower rate than in 1976. This was primarily a result of a reduction in the rate of growth of tourism abroad, offsetting accelerating interest and dividend payments to non-residents.

Total revenues of all levels of government combined (excluding intergovernmental transfers) increased 8.6% in 1977, a much slower rate of increase than in 1976. Most of the revenue components showed sharply lower rates of growth in 1977 than in 1976, reflecting the lower rate of growth in incomes.

Total government expenditure rose 11.2% for the year, just somewhat lower than the 1976 rate of 12.4%. Outlays on goods and services increased 10.0%, one of the smallest rates of change in several years, as wage and salary payments, which account for almost 60% of total government expenditure on goods and services, grew by 9.5%, after increases of about 20% in the previous two years. Transfer payments to persons increased 14.7%, a rate similar to that of 1976. With expenditures rising more rapidly