climbed to 11% in 1982 (Table 23.11), its highest level since the Great Depression years of the 1930s. The decline in real disposable income and its associated harmful effects on consumer confidence contributed to a decline of 2.5% in real personal expenditure for 1982, the first such decline since 1948. The high real rates of interest which encouraged consumers to save and discouraged them from borrowing, together with the high degree of uncertainty created by a sharply rising unemployment rate, prompted many consumers to postpone major purchases. Consequently, real spending on consumer durables fell by 8.2% and on semi-durables by 3.3% in 1982 (Table 23.12). Even real spending on consumer services, which had almost been immune to the ill-effects of previous recessions, fell slightly in 1982. The combination of high real rates of interest and negative growth in real disposable income contributed to a severe decline of 21% in residential construction (Table 23.1).

However, the major sources of weakness in 1981 and 1982 became sources of strength in 1983. The sharp drop in interest rates in the latter part of 1982 provided a strong stimulus to spending on consumer durables (up 10.6%), and residential construction climbed in real terms by 24.4%. Overall, the 3.1% real growth in personal expenditure in 1983 exceeded the decline in 1982. But employment did not recover to the same extent. Growth in employment of 0.8% was insufficient to keep pace with growth in the labour force of 1.9%, so the average monthly unemployment rate in 1983 climbed to 11.9%. The severity of the 1981-82 recession led many firms to be more cost conscious and reluctant to hire new employees.

23.3.4 Government sector

As interest rates rose from 1977 to 1980, the interest charges on the federal debt rose accordingly. In fact, the interest on the debt became an increasingly significant portion of total federal government expenditure. Chart 23.1 reveals that interest payments as a share of total federal government expenditure reached their highest level since the late 1940s, years which were associated with the debts incurred as a result of World War II. With personal tax increases constrained by the declining growth in real wages, and the Bank of Canada's more restrictive policy toward monetary growth, there was little room for growth in government expenditure without increasing the public debt. Consequently the rate of increase in expenditure by all levels of government slowed markedly from the rates of the early 1970s (Table 23.1) and the late 1960s. Between 1980 and 1983, real government expenditure grew by less than 1% in every year but 1981 when growth was 2.5%. This was well below the average annual growth in government expenditure of 5.6% between the years 1960 to 1975. Thus on average over the years 1980 to 1983 government spending did not provide a strong stimulus to economic activity.

23.3.5 International sector

Favourable trade balance. Largely as a result of the steep recession, the Canadian trade balance improved dramatically, with the first surplus in the current account balance since 1973 being recorded in 1982 (Table 23.13). This surplus was also the largest in Canadian history. The main reason for the surplus was a sharper decline in imports than in exports. In real terms imports declined in 1982 by 11.2% as compared to a decline of 1.6% for exports. There were two major factors behind the improvement in the trade balance. First, a steady depreciation in the value of the Canadian dollar relative to the US dollar served to discourage Canadian imports while at the same time encouraging exports. Second, the Canadian economy weakened more than that of the United States, Canada's largest trading partner. Real gross national expenditure declined 6.6% during the 1981-82 recession in Canada as compared to a 3.0% drop in the United States. Hence Canadian imports were affected more severely than were exports.

Merchandise imports. Weakness in merchandise imports was widespread among all import categories (Table 23.14). Although motor vehicle imports fell in line with the decline in personal expenditure on consumer durables, other import categories were considerably weaker. The drop in business fixed investment in 1982 led to sharp declines in both machinery and equipment imports (16.7% in current dollar terms) and crude material imports (29.5% in current dollar terms). This was a complete reversal of the situation in 1980 when investment was buoyant and these import categories increased strongly, 42.8% for crude materials and 19.0% for machinery and equipment.

Merchandise exports. Exports of motor vehicles and parts as well as food were the major sources of strength in total merchandise exports in both 1981 and 1982 (Table 23.15). The 24.7% increase in current dollar exports of motor vehicles and parts in 1982 was largely responsible for limiting the decline in total real merchandise exports to 1.6%.

With the strong economic recovery in the United States in 1983, Canadian exports grew by 6.4% in real terms. Motor vehicle exports continued to flourish in response to the strong growth in disposable income in the United States and a more stable American interest rate environment.

Current account balance. Although the current account balance remained in surplus for 1983, the size of the surplus fell by about $1 billion to $1.7 billion. As the Canadian economy recovered in 1983, real import growth of 8.1% exceeded that of exports. An increase of 28% in current dollar motor vehicle imports contributed to the decline in the current account merchandise trade balance. This increase resulted from the improved interest rate picture in Canada and the rebound in disposable