

income. The continued weak investment climate in Canada in 1983 contributed to further declines of 17.4% in crude material and machinery and 2.9% in equipment imports in current dollar terms.

**Travel deficit.** Almost all of the decline in the current account surplus was due to an increase in the non-merchandise trade deficit. In particular, the travel deficit increased by almost \$1 billion. Strength in the Canadian dollar against the overseas currencies served to encourage travel abroad and at the same time discouraged overseas visitors from coming to Canada. Of the increase in the travel deficit, \$600 million was due to an increase in the deficit with countries other than the United States.

### 23.4 Regional economies

**Resource-based regions.** Macro-economic conditions had a major impact on the pattern of regional economic activity in the early 1980s. The high level of inflationary expectations which encouraged the speculative demand for commodities tended to benefit those parts of the country most dependent on natural resources. Alberta with its energy resources and British Columbia with its forestry and mining industries did relatively better in 1980 (Tables 23.16 - 23.18) than other parts of the country. For instance, in 1980, the rate of growth in employment (Table 23.16), business fixed investment (Table 23.17), and retail trade (Table 23.18) was generally strongest in Alberta and British Columbia.

**Capital spending and employment.** Since investment in the natural resource industries stimulates investment in manufacturing, growth in capital spending was relatively strong in Ontario in 1980 and 1981. However, this strength in investment did not encourage employment growth to the same extent as it appeared to do in Alberta and British Columbia. The weaker employment growth in Ontario also contributed to its weaker rate of growth in retail trade. In Quebec, despite rich natural resources, economic activity lagged behind that of Alberta, British Columbia and Ontario. This weaker relative performance in Quebec was part of a trend that had been developing since 1977.

The strength in commodity prices, particularly of oil, improved the economic outlook for the Atlantic region. In 1980 some favourable oil and gas test results in the Hibernia area helped to make investment in the Atlantic region more attractive. This was translated into increased capital spending in 1981 and 1982 and helped to make the Atlantic provinces the only ones

which did not experience a decline in current dollar business investment in 1982. However the increase in capital spending did not appear to benefit employment to the same extent. The 3.2% decline in employment in the Atlantic region in 1982 was surpassed only by the declines of 5.2% in British Columbia and Quebec.

**Effects of decelerating inflation.** As inflationary expectations and commodity prices began to ease in 1981, some of the natural resource industries began to weaken, notably mining and forestry. This development was magnified in 1982 as the inflation rate decelerated substantially. Consequently, British Columbia suffered the most of all provinces in 1982 with the largest decline in capital spending. It was tied with Quebec for the dubious distinction of having the largest decline in employment and was the only province to record a decline in current dollar retail sales. Since the 1981-82 recession took a heavy toll on the consumer durable goods industry, the Quebec and Ontario economies suffered severe damage. The combination of the global recession in 1981-82 and a bumper North American food crop caused many farm prices to fall substantially. Manitoba and Saskatchewan, which depend most heavily on agriculture, were seriously hurt by the recession. In fact, after British Columbia, the biggest declines in fixed investment spending occurred in Saskatchewan and Manitoba. Alberta was not immune to the recession either. The energy industry slumped in 1982 in the face of a world oil glut. As a result, capital spending in current dollar terms as well as employment declined in Alberta. However, the declines were relatively smaller than in most other parts of the country.

**Prospects.** The developments in 1981-82 would probably affect the pattern of regional economic activity over the next few years. The world oil glut, for instance, has caused many analysts to change their price outlook. Expectations of 15% to 20% annual increases in oil prices have been toned down drastically. This in turn has affected the outlook for other commodity prices. Consequently, as the economy recovered in 1983, the provinces most dependent on natural resources as a source of income did not rebound as much as the other provinces. In Alberta and British Columbia, for instance, in contrast to the other provinces, employment continued to decline. Similarly, these were the only provinces to show a decline in current dollar business investment in 1983. Quebec and Saskatchewan enjoyed the highest growth in employment in the first year of recovery, while Saskatchewan and Manitoba experienced the strongest growth in capital formation.