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The Clinton administration's budget was met on Capital Hill with a lot of internal criticism among the Republicans. There is little doubt that the budget as a whole was nothing but a business plan for dreamers. The budget itself illustrated the split personality of Mr. Clinton who claims to have gotten the voter's message while delivering a budget that is indicative of more of the same.

The Clinton budget proposed an actual spending increase of 5.3% for the current year and a 30.4% increase in total spending between now and the year 2000. In the area of the President's discretionary spending, the requested increase in spending for this year is 7%! It is hard to imagine that this type of spending increase is 2.5 times the rate of inflation reported by government for 1994. It is simply amazing how government spending can rise in far greater multiples of inflation on a year over year basis while out of the other side of their mouth comes claims of how wonderful a job they have done in bringing down the deficit and inflation simultaneously. The administration is reflecting a $1.54 trillion budget for the current year and a $1.91 trillion budget for the year 2000, and this, in their mind, is a reduction of $101 billion in spending. Obviously, the administration is being run by people who were educated in new math techniques that must be classified as Top Secret - for we at Princeton cannot make they books add up in the same fashion.

There is little doubt that the Clinton budget was as dead on arrival as every single budget submitted by Reagan to the previous Democratic Congress. The sad part about this entire affair is that what rises to the surface is the true opinion of the American people - that we are all just plain stupid. The Democrats want to have it both ways. The spending spree of the '80s is blamed on Reagan when they never once accepted a single budget from his administration while currently they want to blame the Republican's for starving little children through slashing spending and a Balanced Budget Amendment. It seems as though when the deficit rises it was the fault of Republican policies and when the Republicans want to reduce the spending they are mean-spirited people who eat their children. Nowhere in this rhetoric can one find a single act of self-objectivity.

The real issue here will be the Republicans. Can they truly make a difference in people's lives that is noticeable on all levels? If they can accomplish this goal, then we may have some hope just yet. If not, the 1996 election could see a fragmentation of the vote once again and by 2000 we may even see a third party president take office.

While Gingrich continues to punch holes in the Contract With America, the real issue that will be most significant will most likely emerge as a primary target in the 1996 Presidential Elections - **TAX REFORM!** After the first 100 days have passed and the Contract is completed, the attention will shift to the big issue of a **FLAT TAX.**

The concept behind a **FLAT TAX** rate of 17% is tricky. The concept here is that taxation and its effect within the economy should be neutral. That is to say, complicated tax- deductions are used in an attempt to artificially send capital into areas that the government feels is correct. However, this notion has been seriously compromised by lobbyists over the years. Countless dollars have been poured into tax-shelters covering a wide variety of areas. This has at times falsely created booms in real estate erecting shopping centers, apartment buildings and condos that have gone into default because they were build for tax purposes rather than true economic demand. Tax incentives have also created false demands in airplanes, medical equipment, leases of all types and even boxcars and cattle. All of these false trends have led to vast swings in price through countless booms and busts ever since income tax has been installed back in 1913. The economic problem with these types of ventures is the fact that such investment has contributed to the gradual decline in long-term economic growth by shifting the resources of the nation into areas that contribute little to the national income. This has also had its effect upon employment by steering many workers into areas such as real estate creating bubbles, that when burst, have led to higher than necessary unemployment. At the same time, areas that are not privileged to tax-shelter schemes have been driven offshore in search of tax relief depriving society of a job market that would have offset rising unemployment.

Therefore, a flat tax is something that is a far more complicated issue than merely a windfall for the rich. This neutral effect upon capital that the flat tax seeks to create is in reality a drastic departure in the way business and the economy is run. The economic implications are unquestionably good for the nation as a whole by shifting unproductive capital away from false trends and into areas that actually increase the gross domestic product of the nation. This in turn will produce far more jobs and get business focused upon the business rather than the best tax effective course of action.

The debate, unfortunately, will not be focused upon the national benefits to society as a whole, but the effect upon a rich individual and his net disposable income. This socialistic perspective that colors the view of most Democrats is at the very heart of the problem that has contributed to the decline in the living standard of all Americans since the 1960s.

The socialist debate simply has been unable to look beyond the personal wealth of an individual. They take someone like Henry Ford as see only his assets and ignore the fact that he created an industry that has employed vast numbers of families since the 1920s and helped produce competition that created the single largest corporation in the would - General Motors. As long as Democrats focus ONLY upon how much someone makes rather than upon the economic benefits that individual transfers to society, there will be little hope of reversing the decline in the standard of living for the whole.

Social programs should be geared to **ONLY** providing a safety-net that prevents people from starving. Creating welfare for the purpose of artificially raising the standard or living based upon government transfer payments merely encourages dependency upon the state rather than establishing a self- sufficient productive member of society that would contribute to the gross domestic product instead of reducing it. By arguing that government needs to provide training is a self indictment of the public education system. They should focus upon making it illegal to drop out of school rather than allowing it and then arguing that these people are disadvantaged and need public support. Transfer payments into social programs have little economic benefit to society due to the fact that the income provided those individuals is not enough to allow them to purchase goods beyond the realm of necessities. Their absence in the luxury consumer goods product market, results in the transfer of productive resources from the working class into a marginal sector where its economic benefits to economic growth is minimal. Transfer payments that garnish the income of the working class to any degree reduces the net disposable income of that group causing them to purchase less within the overall consumer goods sector where the bulk of jobs are created.

The theory that government is capable of managing the productive and income resources within society better than society itself has been put to the test worldwide. Those nations that took complete control of its resources produced the lowest living standards and the poorest economic growth internationally - namely Russia and China. In those nations who believed that you could accomplish the same goals by being just a little bit pregnant, the economies have come under severe attack by the capital markets as interest rates have soared and the bonds markets have collapse far worse than what was seen in the United States or Japan. Unless this discredited theory of socialism is repudiated, the long-term outlook for society, the economic and the political process remains in jeopardy.

CANADA & THE DEBT CRISIS

The Canadian situation is poised to turn from bad to worse. The currency is moving in the direction of the next Banana Republic largely due to the political-socialist agenda that has dominated the Canadian environment for decades.

While it is true that the standard of living in Canada has been ranked among the top, it is not true that such a ranking truthfully reflects the overall economic environment within Canada as a nation. The living standard that is so proudly argued by socialists throughout Canada has been created on the back of unsound and seriously misguided economic finance as well as philosophy. The huge debt that continues to escalate within Canada is the sole source for the standard of living. Canada has simply borrowed heavily within the international capital markets for the primary purpose of consumption.

The predominant problem that continues to plague Canada as a nation is the uncompromising position of its labour unions and socialistic political agenda. Nowhere within the debate do you find any words of compromise. The absence of compromise by these groups is now propelling Canada into the economic crisis zone that will be unavoidable as we move into 1996. When the foreign capital decides that enough is enough, then it merely withdraws without negotiation. Only then will Canada see the reality of its "all or nothing" approach to socialism that emerges from an uncompromising position. Serious major restructuring will be forced upon Canada as a nation and the longer it takes, the worse it will be.

The fate of Canada is something that is not debatable. The only question that is valid can be nothing more than **WHEN!** The national debt of Canada was shifted severely short-term in an effort to save interest expenditures and reduce the deficit. Now that short-term interest rates have about doubled from 1993 levels, the interest expenditures of Canada will also rise far more rapidly than at any point in the history of this nation. With interest expenditures already consuming 40% of total expenditure, the prospects of rising to the 50% level by 1996 are extremely high. To further propel this issue onward, virtually 40% of the total national debt of Canada is expiring. This brings the potential for a crisis in Canada to the point where noticeable financing problems are going to start surfacing by 1996.

It may be a bit extreme to see Canada actually go into default on its debt in any permanent manner. Nonetheless, the possibility of suspending all interest payments may become a forced reality rather than and impossible circumstance. The Quebec situation merely raises the concerns about the fate of the national debt from an international investor's perspective and if there remains an unrealistic approach to solving this problem by the socialists, Canada's fate may very well be sealed without the benefit of a kiss.

The new budget that has been announced merely illustrates how this debt problem will not be solved. The bulk of announcements are concerned purely with raising additional taxes. Significant reductions within government programs and an honest restructuring of the debt has yet to surface. The refusal of government unions to accept the fact that some restructuring is necessary will merely cause this issue to be resolved by the capital markets rather than by honest political reassessment.

Socialism vs Economic Reality

Of course the socialist's view remains undaunted in Canada as well as throughout Europe and within the Democratic party of the United States. They see all economic problems as stemming from a lack of taxation of corporations and the loosely defined rich. They fail to understand the important difference of transfer payments and their effect upon the overall economic growth of the nation. Not a single objective view enters their debate that would show a brief glimpse of reason or self- reflection. The socialist doesn't even understand that there is a major debt crisis brewing worldwide. This stark contrast between views is as if a conservative and a socialist both fell off the top of the World Trade Center in New York. The conservative immediately yells "I going to die" while the socialist simply says as he passing the 10th floor "so far so good." This is a reflection of reality. Just because the debt ceiling hasn't collapsed so far, doesn't mean that it never will! The process as a whole is similar to an old experiment from chemistry where drops of blue dye are place into a clear liquid one at a time. At first, no major change is observed until suddenly one final drop causes the enter experiment to change color. We have been draining the productive sources of society for the benefit of social programs and government employment since World War II. These trends have encroached to such an extent, that virtually every single working individual in the private sector needs to be taxed at 50% to pay for the other half of society that has become a drain upon the economic growth of society as a whole.

The Outlook For US Interest Rates

Near-term models are clearly showing that the prospects for interest rates to move slightly lower going into the end of the first quarter remain quite good. If the 30 year bonds in the US can close **ABOVE** 10316 on a nearest futures basis, this will signal that a temporary high in interest rates has been established. This would also suggest that interest rates might provide a consolidation phase in US for the first half of 1995 before resuming an upward trend going into 1996.

Those who would like to immediately proclaim that the uptrend in interest rates has been reversed with the first uptick in unemployment would be wise to consider their losses on this position last year before jumping in with both feet. The rise in interest rates that has already taken place will begin to make its presence known in the deficit after the first quarter. As the deficit begins to rise and the sharp rise in wholesale prices begins to make its way into the economy after March, the focus will return toward concern about inflation.

The rally in bond markets is **NOT** a reversal in long-term trend - it is merely a natural reaction within a bear market. No trend **EVER** moves in one direction whithout some sort of a reaction in the opposite trend.

Those looking to lock-in mortgages should take advantage of any marginal decline going into April. Such an opportunity may **NOT** afford itself beyond June on a global scale.

Japan's Capital Crisis

The Japanes marketplace has been under severe pressure for the past 6 years ever since the Nikkei reached its peak in December 1989. Because of the accounting rules in Japan that allow institutions to carry their investments at cost or market value on a discretionary basis, countless portfolios have remained inactive for the last 6 years hoping and praying that a rally will come along and bail them out.

The foreign buying dominated the Japanes market throughout 1994. The Japanese stock market was the most profitable investment to non-Japanese investors because of a near 30% appreciation in the underlying currency. But now the extreme overvaluation of the yen threatens the profitablity of Japanese companies that are dependent upon exports.

The Baring default poses a serious problem to the Japanese marketplace since it involved a huge long position in Nikkei futures positioned against a huge short position in Japanese 10 year government bonds. This position will have to be liquidated and in the process, the Japanese stock market could very well move sharply lower into March where a decline to the 13-11,000 zone **CANNOT BE RULED OUT!** Such a decline may also force major selling in the cash side of the market as small Japanese companies simply give-up and begin to sell their stocks in fear that the market will never recover.

To make matters worse, we see the risk that yen will advance against the dollar by 5% to 10% going into the end of March. Liquidation by Japanese companies will cause many to sell foreign assets in an effort to boost their balance sheets for year-end. The higher the yen moves, the greater the losses will be on their foreign positions as well.

In conclusion, March/April may present a dramatic swing within the world capital markets. The chaos that will be unleashed may lead to a sharp rally in US bonds and ever some flight to qualitiy effects due to the Baring issue. The positions of Baring remain as open positions and this means that the default could get far worse before it ends.

UNITED STATES

The U.S. Federal Reserve moved to head off future inflationary pressures by increasing its target for the key federal funds rate - the cost of overnight money for banks - from 5.5% to 6% - and lifted the more symbolic discount rate from 4.75% to 5.25%. The Fed said that despite tentative signs of moderating growth, economic activity "has continued to advance at a substantial pace, while resource utilization has risen further."

The move was widely anticipated in financial markets as economic growth of 4.5% at the end of last year was well above the rate seen as compatible with stable inflation. Three new economic indicators show that the economy continues to expand, although there were some hints that the pace of expansion has slowed.

1)The National Association of Purchasing Management's composite index, which measures manufacturing activity, rose to 57.9% in January from 57.5% in December. A reading above 50% indicates that the manufacturing economy is generally expanding.

2)The index of leading economic indicators - the governments chief forecasting gauge of future economic activity - was up 0.1% in December, its 14th gain in 17 months.

3)A second Commerce Department report on construction spending showed that spending rose 1.1% in December to a seasonally adjusted $530 billion annual rate, the fifth straight monthly increase.

Several economists said that although on the surface the reports appear to point to strong growth, there were signs in all three reports that these indicators could be peaking. Also, scattered sign of slower growth, such as weaker retail and car sales and a jump in corporate inventories at the end of last year, have convinced many analysts that a pause in the tightening process is likely, either now or after another half point rise, perhaps in March. The next meeting of the Fed's Open Market Committee is scheduled for March 28. Barring surprise evidence of economic strength or a run on the dollar, no interest rate action is expected before then.

NEW HOME SALES: Sales of new homes fell in December for the second straight month, the Commerce Department said today, signalling that steadily rising interest rates have brought the housing market to the verge of a slowdown for 1995. After a strong 1994, in which sales were at a 6-year high, analysts say bulging inventories of unsold homes and costlier mortgages foreshadow a decline of around 5% this year.

The Federal Reserve pushed up interest rates six times last year, sending mortgage rates up two full percentage points. The latest hike in interest rates in February will further slow the interest-rate sensitive housing market, according to real estate analysts.

The Commerce Department said December sales eased .6%, to a seasonally adjusted annual rate of 637,000, down a sharp 22% from the rate of 817,000 in December of 1993. The drop followed a big revised plunge of 9.6% in November to 641,000. Previously, the department said November Sales were down only 2.5% at a rate of 693,000.

Nonetheless, for all of 1994, sales of new homes totalled 670,000, little changed from 666,000 in 1993, but still the best sales year since 1988, when 676,000 new homes were sold.

December sales of new homes weakened in every region except the south, where they gained 15.1%, to 312,000 per year. In the Northeast, they plunged 23.4% to a rate of 49,000 and in the Mid west they fell 8.9%, to 123,000 per year. In the West, sales dropped 11.6%, to a rate of 152,000 a year.

JOBLESS RATE: The first significant sign that the economy is cooling emerged when the Labor Department reported that the unemployment rate rose for the first time in more than a year.

The unemployment rate for January jumped 0.3% to 5.7% matching October's level. The Labor also reported that employers created only 134,000 jobs last month, about half the pace of previous months and the smallest gain in a year.

While economists were careful to note that the new data suggests that the economy is still growing, many agreed the report seems to indicate the year-long series of interest rate rises by the Fed are finally taking effect.

Some analysts said the weakness in the unemployment rate may have been exaggerated by the large number of people entering the work force. There was an increase of 411,000 people in the overall workforce in January, including an increase of 343,000 unemployed workers who are seeking jobs.

Nevertheless, economists agreed that the report dampened the chances for another rate increase by the Federal Reserve when it meets at the end of March. If signs of a slowdown continue and inflation remains under control, the Fed is likely to face increasing criticism if it decides to raise rates further.

HEALTHCARE: US employer's healthcare costs fell last year, indicating that grater use of cost-efficient "managed care" schemes is bringing inflation in the medical sector under control. Average health costs for companies with 10 or more workers fell 1.1% to $3,741 per employee, according to consultancy firm of Foster Higgins. This followed an 8% increase in 1993 and double-digit increases in previous years. Costs fell because the proportion of employers using health maintenance organizations (HMOs) and other, looser forms of managed care rose sharply last year to 63% from 52% in 1993. Companies with more than 500 employees reduced health costs by 1.9% last year. But smaller companies, which tend to make less use of manage care, saw costs rise 6.5%.

RETAIL SALES: US retail sales rose 0.2% in January, while December's increase was revised upwards to 0.2% from minus 0.1. Last month's rise was slightly lower than Wall Street economists had predicted, suggesting g that the year long monetary tightening had begun to bear some fruit. Weak sales in apparel and eating were offset by stronger-than-expected sales of gas, general merchandise and foods.

TRADE DEFICIT: The US merchandise trade deficit soared to $166.3 billion last year as the booming US economy sucked in imports. Unexpectedly, the balance of both goods and services improved in December, giving the Clinton Administration the opportunity to paint a bright future for US exports. Exports of capital goods and cars rose during the month, while oil imports dropped. Mr Ron Brown, the US Commerce Secretary, blamed the massive yearly deficit on the differences in the growth rates between US and its **industrialized trading partners. "Capital goods now account for almost 40% of the increase in our imports - a record level",** he said.

WHOLESALE PRICES: US wholesale prices rose modestly in January with a sharp increase in energy prices partly offset by declining food costs. The Labor Department said its producer price index rose 0.3% last month, after moving up by a revised 0.4% in December instead of the 0.2% gain previously reported. Food prices dropped 0.6% in January, compared with December's revised increase of 1.4%. Energy prices jumped 2.3% last month, compared with December's revised drop of 1.0%.

After factoring out volatile food and energy prices, the department said the **"core"** PPI rose 0.2%, after a revised 0.3% in December. Economists on average had expected both the overall and the core index to rise by 0.4%

AUSTRALIA:

INVESTMENT SPENDING: Capital spending by Australian businesses is estimated to have risen by more than a fifth in the past year. According the Australian Bureau of Statistics, private new capital expenditure rose by 3.2% in the December quarter to A$7.87 billion, a slightly lower increase than some economists had been predicting. However, this still left total expenditure up by 21.5% over the December quarter, with spending on equipment and plants almost 34% higher. The surge has been seen as one of the main reasons for Australia's recent current account problems, since many capital goods are imported. The federal government recently revised upwards its estimates for the increase in capital expenditure during the 1994-95 fiscal year, and is now predicting a 24% advance, compared with the previously estimated 14.5% rise.

GOLD PRODUCTION: Gold production for 1994 rose 1.4% from the year earlier to a record 250.7 metric tons, maintaining the nation's ranking as the world's third-largest producer. Production in 1994 translated to 8 million ounces of gold. The price of gold last year averaged US$385.50. Australia's production of newly mined gold was valued at A$44.23 billion (US$3.18 billion).

Australian's gold output is expected to continue to increase in 1995 as further discoveries are brought into production.

INTEREST RATE FEARS: Fears that Australian interest rates may rise again in the medium term were reignited after monthly wages data started to show signs of wage inflation. Average weekly ordinary-time earnings of full-time adults rose by 1.6% in the three months to November, bringing the increase over the past year to 4.2%.

The annual rate of inflation had previously stood at about 3%, and the 1.6% rise for the quarter was well above market expectations.

Concern about wages was partly allayed by the January jobs data - unemployment edged up to 9%, having fallen from 9.3% in November to 8.9% in December on a seasonally adjusted basis.

MONEY SUPPLY: Australia's most widely watched measure of money supply, the credit aggregate, rose 0.7% in December from November, the Reserve Bank of Australia said. It was up 9.1% for the year.

Housing loans rose 1.4%, continuing an unbroken chain of gains dating back to mid-1992. For the year ended December 31, credit for housing loans rose 22.3%, the 13th consecutive increase. Housing lending totalled A$147.96 billion.

The widely watched component of the credit aggregate that mainly measures loans to business rose 0.1% in December to A$193.88 billion. In the year, business lending rose 2%, only the 6th year-on-year rise in two years. Business lending is viewed as a measure of corporate investment, which has become the focus for financial market participants. The Australian government forecast a 24.1% rise in investment in the year ended June 30.

Housing credit also has been a focus of the market because the central bank last year singled out the housing boom as a prime threat in accelerating inflation. The bank's broad money indicator - which measures currency, bank deposits, plus net borrowings by non-bank financial institutions - rose 0.4% in December to A$306.84 billion. Broad money gained 9.1% on the year.

The bank's measure of M3 in the month rose by 0.4% to A$ 257.57 billion. It rose 9.9% on the year. M3 measures the total cash, plus all private deposits and certain financial assets, including bank certificates. M3 isn't considered a reliable measure of money supply in Australia because the measure has been skewed by the introduction of new banks.

Australia's current account deficit soared to an all-time monthly record in December, reaching a seasonally adjusted A$2.386 billion ($1.82 billion). The figure compares with a A$2 billion deficit in the previous month, and a A$1.64 billion deficit in December 1994. The government is now forecasting a A$26 billion current account deficit for the year overall, equivalent to 5.75% of GDP.

Exports, in adjusted terms, slipped slightly from November's A$5.48 billion to A$5.20 billion last month, while imports rose by 6.4% to A$6.43 billion. Rural exports dropped by about 15% to A$1.48 billion. The figures confirmed economist's worst suspicions: surging domestic demand has created an investment boom, and encouraged imports of capital goods. At the same time, a strong dollar, the impact on rural exports of the drought (now breaking) and Japan's slow recovery has constrained export performance.

More encouraging were figures that showed building approvals fell again last month, while retail sales were 0.2% below the November figure on a seasonally adjusted basis. The retail trade figures, in particular, encouraged hopes that the three interest rate rises undertaken since last year may be cooling demand.

TRADE RELATIONS WITH U.S.: Australia is to review its trade relationship with the US, its second largest trading partner. Australia has a large, persistent and rising trade deficit with the US - in contrast to Japan, its largest trading partner, with which Australia runs a surplus. The deficit with the US stood at just over A$6 billion in 1990 but topped A$ billion in 1993.

News of the trade review comes in the wake of minimal growth in Australian exports in the current 1994-5 financial year and a worsening balance of payments situation. Announcing the review in a speech to the Committee for Economic Development of Australia (Ceda), MR McMullen, federal trade minister, said that while Australia's traditional trade focus had inevitably shifted to Asia, it was important not to neglect traditional; markets in the Asia-Pacific Economic Co-operation forum (Apec) and other parts of the world.

Apec is a loose grouping of nations in the region: both the US and Australia are members. Apec leaders recently pledged to create a free trade zone early in the next century - a development strongly urged by Australia and the US. The trade minister said that the review would look at obstacles to exports and the role which investment could play in shaping trading relationships.

WEAKER COMPANY PROFITS: Australian growth forecasts for the final quarter most likely will be shaved following the release on Feb 22 of weaker-than-expected corporate profits in the fourth quarter. The bureau of Statistics said corporate profits in the last three months of 1994 fell 1.3% to A$11.01 billion before tax, interest and depreciation. The figure is added to the growth report for the quarter, which will be released March 15.

The Bureau said pre-tax profits fell 0.7% to A$6.69 billion. They rose. They rose 32.5% on the year. The figures are seasonally adjusted. The quarterly decline followed 10 consecutive quarters of growth and an increase of 10.2% the previous quarter.

Pre-tax earnings from mining companies dropped 21.3% to A$1.01 billion, following a revised 11.9% increase in the July/September quarter. Retail profits shed 11.7% and transport and storage profits fell 17%, the bureau said. In trend terms, which smooth volatility in seasonal data, company profits rose 3.1% before tax, interest and depreciation. They were up 17.3% for the year. The pre-tax trend data rose 2.7% in the quarter, for an annual increase of 27.2%.

VEHICLE REGISTRATIONS: Australian new motor vehicle registrations in January rose 4.2% from December, to be up 13.2% on the year. That followed a rise of 1.3% in December, according to the Bureau of Statistics. The result was better than analysts' forecasts for a monthly increase of 3%. The Bureau said that registrations for all vehicles rose in January to 54,806 from a revised 52,602. Passenger vehicle registrations rose 6.6% in the month to 45,977. They were up 12.9% on the year.

JAPAN:

YEN: Japan's finance ministry is watching the yen's rise against the dollar with **"grave concern,"** said Mr Jiro Saito, vice-finance minister. The ministry was keeping in close contact with the other Group of Seven leading industrial countries, to cooperate on currency market issues. He noted the yen was rising against the dollar in tandem with the D-mark's rise. The yen's strength, identified by the OECD as the greatest threat to Japan's economic recovery, is a headache for its export-dependent manufacturers.

ECONOMIC RECOVERY: Japan's economy is undergoing a slow and uneven take-off, according to government indicators issued in February. The Economic Planning Agency's coincident index, a basket of 11 indicators of current business conditions, stood at 85 in December, the fifth month running at which it has stood above 50, the dividing line between expansion and contraction. It stood at 60 in November, proof the economy **"remains on a trend toward recovery",** the EPA said. The leading indicator, a measure of expected economic conditions three to six months ahead, fell slightly to 72.7 in December, above the equilibrium for the second month running.

JAPANESE DEBT: While the U.S. is by far the world's most indebted nation when you count all outstanding obligations (mostly Treasury bonds), Japan is now taking on new debt at a faster rate. In 1995, Japan will be No. 1 in new debt issuance, which counts new bonds, less those that are used to refinance old or maturing debt. The number is significant because it reflects how quickly Japan is going into debt. After running a budget surplus as recently as 1992, Japan will issue some 17.6 trillion yen ($176 billion) of new government debt this year to cover an expected budget shortfall according to J.P.Morgan. That is an amount equal to 3.4% of GDP, while the expected new debt issuance in the US of $130 billion represents 1.8%. In nominal terms, Japan will borrow 35% more than the US this year.

While the amount of new debt is alarming, Japan's unique budgeting process means the country may be able to avoid the huge deficits that have plagued the US for more than a decade. The system ensures that most of the government debt represents investments in projects that provide long-term benefits to the country.

Japan's solution for curbing fiscal recklessness is to divide government debt into construction bonds and deficit bonds, literally called **"red letter bonds"** in Japanese. Construction bonds can only be used to pay for projects with a useful life of 20 years or more (i.e. bridges and roads). Deficit bonds, which cannot be issued without the approval of Japan's parliament are used to cover short-falls in government revenue. This is an effort to enforce fiscal discipline.

KOBE TAX: The Japanese Government is considering a tax increase to fund the rebuilding of Kobe, devastated by a earthquake in January. Mr Kozo Igarashi, chief cabinet secretary revealed that one option would be to bring forward a planned 1997 rise in the sales tax, to insure that the costs of the quake, in which more than 5,000 died, do not lead to uncontrolled growth in the deficit.

An early increases in the sales tax - from 3% to 5% - would be supported by the finance ministry. Another option would be to withhold an income tax cut planned for this year, according to government officials. But the prospect of a tax rise prompted opposition from the Keidanren business federation, whose chairman, Mr Shoichiro Toyoda said the government should carry out this years tax cut as planned and concentrate on stimulating the economy.

A tax rise would heighten concern in the U.S. and European Union, where an increase in Japanese demand for imported products would be welcome, while any measure that would discourage consumers to spend would be opposed.

Mr Igarishi's remarks suggest a revision in the ruling coalition's original plan of issuing government bonds to cover the costs of the quake. The shift reflects the finance ministry's deep reluctance to increase the budget deficit, already set to reach nearly 6% of GDP this year by the OECD.

UNEMPLOYMENT: Japan's jobless averaged a record 2.9% of the workforce last year. the unemployment rate , while below the post-war high of 3.1% in May 1987, is the highest average recorded for a full year. Based on the latest December report, it shows little evidence of declining soon.

The number of people in work, a more sensitive Japanese labor market indicator than the jobless rate (which is widely thought to understate the truth), fell by an annualized 0.3% in December, the 6th consecutive monthly decline.

MONEY SUPPLY: Fears that Japan's gentle economic recovery might be harmed by a shortage of credit were diminished in mid- February by the sharpest monthly rise in money supply in 3 1/2 years. Japan's main measure of money supply, M2 plus certificates of deposit, was 3.1% higher in January from the previous January. That represents a slight acceleration from the 2.9% revised growth achieved in December.

Money supply expansion is expected to hold steady, at about 3% in the three months to March, said a central bank official. A broader measure of liquidity, also including post office savings, bank debentures and deposits at agricultural cooperatives, rose by an annualized 3.6% in January.

BANKS' BAD LOANS: Japanese banks unloaded $1.21 billion in bad loans in January, according to the company that buys the debt. Coopertive Credit Purchasing Co. paid $423 million for these non-performing loans, indicating $790 million in losses for the banks. The banks formed Cooperative Credit in March 1993 to dispose of their huge portfolios of bad loans resulting from the wave of speculative deals in the late 1980s. The liquidation firm has since paid $32.5 billion to acquire loans with $70 billion face value, resulting in bank losses of $37.5 billion, and it has recovered only $1.47 billion.

FRANCE:

UNEMPLOYMENT: The increase in French unemployment slowed sharply last year, but not enough for the government to meet its target of stabilizing the number of people out of work. Statistics released by the labor ministry showed that the number of unemployed in December fell by 8,200 to 3.329 million. The decline limited the annual rise in unemployment to 26,700 compared with an increase of 312,500 in 1993.

However, unemployment remain France's most acute economic and social problem, with 12.6% of the labour force out of work, compared with 10.7% for the European Union as a whole. The issue is particularly sensitive ahead of the spring presidential elections. Mr Edourard Balladur, the prime minister and the favorite in the polls to succeed President Francois Mitterand, has made reducing unemployment a priority.

Mr Michel Giraud, labour minister, said the fall in December continued an improving trend which should enable the government to achieve its target of cutting unemployment by 200,000 this year. He urged trade unions and employers to open talks on reducing working hours as a possible means of increasing employment opportunities.

But the persistence of high unemployment, despite economic recovery, drew attacks from unionists. Economists said the figures were encouraging, but provided ammunition for both sides. The unions and political opponents can point to the failure to cut employment and Mr Balladur can point to areas of progress, which includes job creation. According to Mr Giraud, the government should exceed its target of creating more than 200,000 non-farm jobs this year. In other areas, however, the problems mounted. In particular, the number of long-term unemployed continued to rise, reaching 1.24 million at the end of December, a rise of 13.8% on the year.

INDUSTRIAL CAPACITY: French plants were running at 83.9% of their production capacity in last year's forth quarter, the highest in two years, according to the French National Institute of Statistics in its quarterly industrial survey. That compares with a low of 80 in October 1993, when the economy was undergoing its worse recession since World War II, and a high of about 88.5 in April 1990.

French Industrial capacity utilization has averaged 84.3% since 1976, when the survey began. French manufacturers were at their most confident since 1989 when assessing future demand for their products. The confidence index rose to 18, from 17 in the third-quarter survey and -28 in April 1993.

COMPANY START-UPS: French company creation slowed in January after a spurt in December. Some 25,140 companies were set up or reopened in January, down from 27,480 in December. Start up figures were more promising in the transport and services industries, where 5,760 new companies were founded in January, compared with 5,970 in December, than in trade, catering and food industries, where 6,490 companies were established in December, compared with 7,270 in December. The figures are seasonally- adjusted.

NEW CAR SALES: New car sales in France rose 21% in January to 156,300 from 129,170 a year earlier, according to the French Automobile maker's association.

Prime Minister Edouard Balladur introduced financial incentives at the end of January last year to encourage motorists to trade in old cars for new. While the effects of those incentives have diminished in recent months, they remain in force and have been the primary reason for the strength of the French car market. Market share for French brand-name cars was 61.2% in January, in line with the level for the whole of 1994

TRADE SURPLUS: France's December trade nearly doubled to 12.72 billion French francs ($2.4billion) from 6.85 billion in November. Exports for the month rose to 119.5 billion francs from 113.5 billion in November. Imports were steady at 106.75 billion in December from 106.65 billion the previous month. The figures bring the 1994 trade surplus to 87.8 billion francs, down from 88.1 billion in 1993.

MANUFACTURED GOODS CONSUMPTION: French household consumption of manufactured goods fell 1.9% in January from December, and was 2.8% higher than a year earlier, the French National Office of Statistics, or Insee, said. The December monthly rise was revised to 1.2% from 0.7%. The January figure was lower than economist's expectations. Excluding automobiles, the decline in January was 1.1%, according to Insee. Manufactured goods represent roughly 30% of households' total spending.

HOUSING STARTS: French Housing starts rose 3.4% in January from the same period in 1994, the Housing Ministry said. Housing starts stood at 27,700 in January compared with 26,800 in January 1994 and 20,900 in January 1993. Permits for new housing granted in January declined 1.4% from the same period last year. Permits granted in January stood at 27,800, compared with 28,200 for January 1994 and 25,400 for the same period 1993. In the 12 months to the end of January, housing starts rose 15.3% and permits rose 9.6% compared with the previous 12-month period.

INDUSTRIAL OUTPUT: French industrial output jumped 0.8% during the month of December, or 6.4% in the year, said Insee. The November rise was revised up by 0.5 percentage point on top of the 0.4% increase initially announced. Year-on-year, manufacturing output rose 10.8%. Both figures came higher than most expectations.

GERMANY:

RISK OF HIGHER RATES: Germany faces the risk of higher rates as inflationary pressures grow and consumer confidence rises to peaks not seen since the unification boom of 1991, according to the Bundesbank. In its latest economic review, the country's central bank says that it will act to counter the effects of any price increases. It notes that raw materials and import prices are rising in response to an accelerating worldwide economic recovery, while companies attempt to raise selling prices as demand grows.

These warning signs come just at a time when the German central bank is within reach of achieving its goal of so-called "price stability" - an annual inflation rate of 2%. The rate dropped from 2.7% in December to 2.3% in January and the consumer price index has been rising at a seasonally adjusted annual rate of 1 3/4% for the past 6 months.

The review, published in the Bundesbank's monthly report for February, appears to end any lingering hopes for further cuts in Germany's discount and Lombard lending rates, held at 4.5% and 6% respectively since last May. The report also includes a reminder to industry to avoid loading itself with extra costs which could reduce competitiveness, especially in light of the steady rise in the value of the D-mark.

UNEMPLOYMENT: Unemployment in west Germany fell by a seasonally adjusted 3,000 in January, reinforcing confidence that the improving trend evident since last summer was still intact despite a slight rise in the jobless total during December. The federal labor office blamed cold weather and flooding in the north of the country for a 200,000 increase in the unadjusted figure, which pushed the unemployment rate up from 8.2% to 8.9%, fractionally above the level in January last year.

The unadjusted figure for the east climbed almost 91,000, driving the rate up from 13.5% to 14.7%, compared with 17.2% a year earlier. The pan-German unemployment rate, published officially for the first time was 10%.

PPI: Western Germany's inflation rate at the producer level climbed its fastest monthly pace in 3 1/2 years in January, raising fears that the economy is recovering too fast. The Federal Statistics Office announced that Western German producer prices rose 0.5% in January, the biggest month-on-month jump since July 1991. That pushed the year-on-year increase to 1.7%, the highest since June 1992. The increase was larger than expected

CPI: Consumer prices in Eastern Germany rose 0.7% in the month to mid-January and were up 1.8% from a year earlier, the Federal Statistics Office said, the lowest since the Eastern German economy was absorbed into the Western economy on July 1, 1990.

The Eastern German cost of living index climbed to 136.7 in January 1993 (2nd half 1990/1st half 1991 = 100). The government continues to publish a separate price index for the five eastern states, which account for a quarter of the German population but only a tenth of the economic output. Later in 1995, the statistics office plans to compute a pan-German price index in addition to publishing separate indexes for the eastern and western halves.

M3 GROWTH: Germany's money supply growth declined more steeply than expected in January. Compared with the fourth quarter of 1993, M3 grew in January by an annualized rate of 4.9% in December. This represents an annualized 5.8% decline against the fourth quarter of 1994, the Bundesbank said. But economists said the central bank would concentrate on price and industrial production data to assess when to raise interest rates. It would also keep a close eye on the wage round. The Bundesbank provided a comparison with with the last quarter of 1993. Increased monetary capital formation, with funds moving to longer-term investments, was mostly responsible for the improvement, along with capital outflows abroad.

ECONOMIC GROWTH: Germany is expected to be the fastest growing of the Group of Seven leading industrial countries next year and should also have the G7's smallest budget deficit in 1996, according to Mr Theo Waigel, the German Finance Minister.

Citing unpublished IMF forecasts, Mr Waigel said Germany's growth rate was due to reach around 3% this year, catching up with the growth rates of other G7 countries. Growth should quicken further to 3.5% next year he said.

Mr Waigel, speaking after the weekend meeting of the G7, said strong growth would have a positive effect on the labor market, hopefully reducing appreciably the number of unemployed this year.

NEW CAR REGISTRATIONS: New passenger car registrations in Germany rose 1.1% in January from December and were down 1.1% from January last year. The month-to month gain came after December new car registrations dropped 0.8% from November and were up 5.9% from December 1993. A total of 246,560 new cars were registered in January. Overall vehicle registrations, which include trucks, buses, tractors and trailers, fell 1.1% in January from a month earlier and were down 0.1% from the year earlier level. New registrations of buses were down 7.9% on the month, while new registrations of trucks dropped 23.9% in January.

MOTOR VEHICLE PRODUCTION: Germany's motor vehicle production rose 38% in January from a year earlier, to 392,300 units, according to the German automobile industry association (VDA). VDA said the growth was partly a function of "extraordinarily low" production in 1994, and noted the industry also had one more working day in January 1995 than in January 1994. Truck production in January rose 52% to 13.700 units compared to 9,017 units in the previous period. Passenger car production rose 38% in January to 370,200 from 268,215 in 1994. Of total production in January, 202,900 units were exported, up 29% from 156,743 units inn January 1994.

UNITED KINGDOM:

INTEREST RATES: UK interest rates must continue to rise sharply if the government is to meet its inflation target, according to the National Institute for Economic and Social Research. The group said a further rise of 1 1/2 percentage points in base rates by next year would produce an inflation rate of about 4%, well above the government target of 1% to 2.5% by spring of 1997. The group said larger rate rises would be needed to hit the target. On February 2, the Bank of England raised base rates a half a point to 6.75%, the highest level since November 1992.

NATIONAL BUDGET SURPLUS: The UK recorded a substantial budget surplus last month, with buoyant corporation tax receipts strengthening expectations that the public sector borrowing requirement for this financial year will match or undershoot the £34.3 billion forecast by the treasury last November. The Treasury and the government's statistical office reported that the public sector repaid a net £2.99 billion of debt in January after borrowing £456 million in December. The December borrowing figure was revised down from the £677 million reported in January.

CONSTRUCTION ORDERS: UK construction orders fell 1% in 1994 compared with the previous year as demand for infrastructure and public housing decreased, the Department of Environment said. Increased prices pushed the value of the orders up 6.5% to 21.3 billion pounds ($33 billion) in 1994, compared with 20 billion pounds in 1993. The total volume of new orders in 1994's fourth quarter, adjusted to exclude seasonal variations, fell 9% from the previous quarter and 21% compared with the same period a year earlier.

Demand for infrastructure construction, while down only 13% from the previous quarter, fell 60%, compared with the 1993 fourth quarter. Public housing and housing association orders for the fourth quarter rose 10% from the previous quarter, but were 22% lower than the same quarter in 1993. Orders for private housing in the fourth quarter was down 8%, compared with the 3rd quarter, and down 4% compared with the fourth quarter of 1993.

RETAIL PRICES: Prices paid by UK consumers for goods and services were unchanged in January, as discounting by clothing, footwear and household goods retailers offset higher food, drink and tobacco prices. The retail index was up 3.3% from a year earlier according to the Central Statistical Office. The index rose 0.5% in December, leaving the annual increase in the index at 2.9%.

The CSO attributed the rise in the annual rate to a decline in home loan payments in January a year ago dropping out of this month's calculations. Retail prices minus mortgage interest payments, or underlying inflation, declined 0.1% in January and climbed 2.8% from a year earlier, following an annual increase of 2.5% in December.

Apart from tobacco and alcohol, the full effect of the extra duties announced in the government's autumn Budget have been passed through to consumers. With the underlying inflation rate below 3%, unemployment falling and no pickup in average earnings, "the recovery looks healthy and sustainable," a Treasury official said, "although the pace of growth in retail sales has clearly slowed. Figures released by the Department of Employment show the jobless total fell 27,500 in January, while the annual rate of wage increases was steady at 3.75% in December.

Next month, the CSO said it will release a narrow inflation measure, known as RPIY, which excludes mortgage interest payments and indirect taxes. The UK central bank raised interest rates by half a percentage point to 6.75% on February 2, the third rise in 5 months, in an attempt to head off inflation. The British Government's target for the annual rate of underlying inflation is 1% to 4%, although it has said it will set monetary policy to get the rate below 2.5% before the next general election which must be held by May 1997.

CAR PRODUCTION: The number of cars produced in the UK in January was 119,358, up 18% from a year earlier, according to the CSO. In the 3 months through January, production of cars rose 16% from the previous three months and was 20.2% higher than a year earlier. Cars produced for the domestic market numbered 51,979 in January, down 19% from the same period a year earlier. On a three-month basis home production increased 1.4% from the previous period and declined an annual 8.7%. The number of cars produced for the export market was 67,379 in January, up 83% from a year earlier. Production rose 33% in the three months through January from the prior period and climbed 67% from a year earlier.

According to Roger King, director of public affairs at the Society of Motor Manufacturers and Traders, "The established pattern which we saw during the latter half of 1994 is continuing into 1995 with healthy demand from overseas markets providing the impetus. The sluggish demand for new cars in the UK is reflected by an 18% downturn in production for the home market. The continuing recovery of the commercial vehicle sector is well illustrated with January's figures." Commercial vehicle production rose an annual 7% to 17, 670 in January. In the three- month period commercial vehicle production rose 9.4% from the prior period and climbed 19.1% from a year earlier.

NON-EU TRADE DEFICIT: Britain's trade deficit with countries outside the European Union narrowed to a lower than expected 303 million pounds ($480 million) in January from a revised 913 million in December, according to the Central Statistical Office. The December deficit originally was reported as 1.05 billion on January 26. The trade figures exclude so-called "in-visible earnings" such as services, interest earnings and dividends.

Excluding oil and erratic items, the underlying visible trade deficit was 138 million pounds in January, compared with 762 million. The CSO defines erratic items as ships, North Sea installations, aircraft, precious stones and silver. The trade deficit excluding oil with non-EU countries was 306 million pounds in January compared with a 74 million pound deficit. In the three months through January, the visible non-EC trade deficit was 1.53 billion pounds, up from 895 million in the prior three months and from 1.18 billion in the year-earlier period.

Exports totalled 4.94 billion pounds in the month, up 4% from December, while imports from countries outside the EU fell 7.5% to 5.24 billion pounds. The report excludes trade statistics for Sweden, Finland and Austria for the first time as they joined the European Union on January 1 of this year. Trade statistics with Mexico are now included with North America.

CONSUMER CONFIDENCE: The "feel-bad" factor in the British economy has hit consumers after a brief post-Christmas boost, with confidence deteriorating sharply in February, according to the latest gallop survey. The poll, carried out for the European Commission, shows a sharp drop in expectations about general economic developments so far this year, possibly triggered by the recent rise in bank base rates. Although there was only a slight worsening in the way people assessed their own financial positions, pessimism about prices and unemployment for the next 12 months ran much deeper.

When asked how the general economic situation would develop over the next 12 months, 37% of the 2,161 adults polled between February 1 and 4 said they expected it to worsen, compared with 31% in January. Only 23% said they thought it would improve, against 27% in January, leaving a negative net balance of 14% this month. This indicated greater pessimism than January's negative net balance of 4%, but less gloom than December's minus 20% result.

The February poll coincided with the most recent half percentage point increase in bank base rates to 6.75 % while Decembers gloom may have mirrored an earlier half point interest rate rise and mini-budget excise duty increases.

CANADA:

Canada's provincial governments are expected to post budget results that exceed analysts' expectations for the fiscal year ending March 31, the Wall Street Journal reported. Saskatchewan Finance Minister Janice McKinnon four years of budget surpluses that will be used to pay down its debt, which may be upgraded by rating agencies, according to Salomon Brother Inc analyst Peter Plaut. Canadian financial markets may soon have to deal with a lack of new bond issues by some provinces. Moody's Investor service Inc said that it was reviewing its Aaa rating on Canada's debt for a possible downgrade because of the country's deficit outlook.

Investors residing outside Canada bought a net C$135 million (US$97 million) of Canadian securities in December, Statistics Canada said. The federal statistics agency revised November's net sales by foreigners to 4.33 billion from the originally reported $2.23 billion. In a year-end report, StatsCan said non-residents channeled $21 billion into Canadian securities in 1994, less than half the "massive" $49 billion invested in 1993. Foreigners sold a net $1.21 billion of Canadian bonds in November, the fourth consecutive month they have reduced their holdings, StatsCan said. The bond market activity included the sale of $2.66 billion of existing bonds and the purchase of $2.76 billion of new issues. Retirements totalled $1.31 billion.

Non-Canadians bought a net $2.14 billion in money market paper, largely in Canadian government treasury bills. US and European investors were the main buyers; Asian investors were sellers. Foreign investors sold $802 million of Canadian equities in December, following November's sales of $305 million.

Canadians, meanwhile, bought a net $1.21 billion of foreign securities in December, doubling their November purchases worth $590 million. They bought a net $522 million of foreign bonds and $688 million of foreign stocks. According to StatsCan, Canadian residents have been consistently building their portfolios of foreign securities and a marked shift in recent years away from US markets to overseas markets. For all of 1994, StatsCan said foreign purchases of Canadian bonds fell to $13.9 billion - the lowest level since 1987, Non-Canadians also bought $6 billion of Canadian stocks, the third consecutive year of net equity purchases.

WHOLESALE TRADE: Wholesale merchants' sales rose 1.6% to C$20.5 billion (US$14.6 billion) in December from a revised $20 billion in November. The advance bettered economists' expectations of an increase in the range of 0.6% to 0.7%. The federal statistics agency earlier reported November's wholesale trade totalled $20.09 billion.

In a year-end report, StatsCan said 1994's wholesale sales jumped 12.5% from 1993. December's gain marked the 11th consecutive month of "sustained increases", the agency said. All the figures are seasonally adjusted. In December, seven of the nine trade groups posted increases, with the biggest gains in dollar terms in sales of machinery and equipment, which rose 2.5%. This was paced by 4.4% gains in sales of motor vehicles and parts and of lumber and building materials. These gains were offset in part by a 1% decline in sales of metals, hardware, plumbing and heating equipment.

Inventory levels in December increased 0.2% to $29.1 billion as six of the nine trading groups saw higher sales. The inventories- to-sales ratio at the end of December dropped to 1.42 to 1.44 in November.

For all of 1994, wholesalers benefited from a lower Canadian dollar and strong demand from the US, the country's largest export partner. The dollar, recently quoted at 71.48 US cents, traded as high as 76.28 US cents at the start of 1994. Wholesale sales of metals, hardware, plumbing and heating equipment surged 23.5% in 1994 to $17.75 billion. This was closely paced by an 18.4% jump in machinery and equipment sales to $53.86 billion, and an 18.2% climb in sales of motor vehicles and parts to $26.54 billion.

RETAIL SALES: Canada's retail sales rose 0.7% in December from November because of increased pre-Christmas sales of furniture and appliances. Decembers' sales totaled C$17.743 billion (US$12.68 billion). November sales were revised upward to $17.63 billion from the originally reported $17.56 billion.

Excluding car sales, December's retail sales rose 0.5% to $13.572 billion. November's sales were revised upward to $13.51 billion from $13.44 billion. All figures are seasonally adjusted at an annual rate. StatsCan said December's sales were fueled by the purchase of "leisure and time-saving items for the home, especially during the Christmas season". Furniture and appliance sales jumped 6.2%.

In a year-end report, StatsCan said 1994's retail sales jumped 6.9% to $207.2 billion, the fourth consecutive annual climb. Each year the increases have strengthened: Sales rose 4.8% in 1993, after a 2.1% advance in 1992. December saw six of the seven retail divisions post gains. They accounted for nearly 90% of total sales. Sales by new and used motor-vehicle dealers rose 1.2%, while automotive parts climbed 0.5%. Food sales climbed 0.7%. Clothing sales advanced 0.4%. Men's clothing sales jumped 3.6%. This gain was tempered by moderate women's clothing sales and a 2.6% drop in footwear. Drugstores sales edged up 0.1%, while sales by "other retail stores", including small variety stores fell 1.9%.

Last year marked the first year since 1989 that automotive sales increased. New-vehicle sales, according to CanStat, jumped 14.3% from the year-earlier level. Excluding the automotive division, 1994's retail sales increased 4.8%, following increases of 4% in 1993 and 2.1% in 1992. Trailing car sales were a 10.4% increase in annual sales for shoe retailers and a 6.1% gain for clothing stores. Drugstores sales increased 1.8% in 1994 after adding 10.9% in 1993 and 9.5% in 1992.

MONEY SUPPLY: Canada's M1 money supply rose C$113 million (US$80.53 million) to $57.566 billion in January from December, the Bank of Canada said. M1, which includes currency in circulation and demand deposits, totaled $57.453 billion in December. M2 money supply, all the components of M1 as well as savings deposits, rose $1.419 billion to $365.679 billion from $364.260 billion. Canada's M3 money supply in January totaled $441.849 billion, the bank said. M3 consists of M2 along with non-personal fixed term deposits and foreign currency deposits of Canadian residents deposited in Canada.

TRADE SURPLUS: Canada's trade surplus narrowed to C$2.098 billion (US$1.488 billion) in December from November as companies imported more machinery and industrial goods. Exports and imports both reached records as Canadian manufacturers took advantage of strong US demand, improved competitiveness and a lower Canadian dollar. The surplus matched economists expectations. November's surplus was revised upward to $2.257 billion from the originally reported $2.076 billion, the federal statistics agency said.

In a preliminary year-end report, StatsCan said Canada's trade performance bettered 1993 records for both imports and exports. The 1994 trade surplus also reached a record $17.11 billion, surpassing the previous 1987 benchmark of $11.22 billion. Exports climbed to a high for the seventh month, increasing 4.55 in December to $21.185 billion. Shipments of cars, trucks and forest products accounting for two-thirds of the gain. Imports also set a monthly record - the fourth such record

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