



Infommat

A Weekly Review

Friday, September 6, 2002

INSIDE

◆ Slight decline in current account surplus

Canada's current account surplus with the rest of the world declined slightly during the second quarter of 2002, but remained strong. The surplus fell to \$4.9 billion, down from almost \$5.3 billion in the first quarter, on a seasonally adjusted basis.

◆ Corporate profits continue to recover

The recovery in corporate profits was sustained in the second quarter. Operating profits rose 10.7% to \$38.8 billion, following similar gains in the first quarter. This rebound followed four straight quarterly declines in 2001.

◆ Travel from the United States bouncing back

Overnight travel to Canada from the United States showed signs of recovery in the first quarter for the first time since September 11. About 2.3 million tourists came from the United States, up 3.3% from the first quarter of 2001.

◆ High-speed Internet by cable gaining popularity

Access to high-speed Internet by cable increased substantially in 2001, but smaller communities were still far behind their larger counterparts. As of August 31, 2001, about 85% of homes with access to cable also had access to broadband service, up from 70% a year earlier.

Economy still robust but losing momentum

Canada's economy surged ahead in the second quarter, although there were signs it was slowing down. The nation's real gross domestic product (GDP) advanced 1.1% between April and June, driven by consumer spending and a build-up of inventories. Measured on an annualized basis, the economy grew at a rate of 4.3%.

GDP growth in the second quarter matched the average over the previous two quarters, and was well above the flat showing of the first three quarters of 2001.

However, after a strong start to the quarter, economic growth appeared to be losing momentum. On a monthly basis, GDP edged up only 0.1% in both May and June, following a 0.8% expansion in April. June's gain was the ninth consecutive monthly advance since the downturn in September 2001. Strong consumer demand for housing and retail goods was behind the increase, while industrial production edged down.

(continued on page 2)

Gross domestic product, \$ chained 1997¹

	Change	Annualized change	Year-over-year change
	%		
First quarter 2001	0.2	0.6	2.6
Second quarter 2001	0.1	0.3	2.0
Third quarter 2001	-0.1	-0.5	0.6
Fourth quarter 2001	0.7	2.9	0.8
First quarter 2002	1.5	6.2	2.2
Second quarter 2002	1.1	4.3	3.2

¹ The **change** is the growth rate from one period to the next. The **annualized change** is the growth rate compounded annually. The **year-over-year change** is the growth rate of a given quarter compared with the same quarter in a previous year.



Economy still robust... (continued from page 1)

On a quarterly basis, final domestic demand gained 0.9%, matching its first quarter pace. Domestic demand was boosted by strong consumer spending on services and a pick-up of business investment in machinery and equipment, which more than offset an easing of investment in housing.

Corporate profits continued to recover from their tumble in 2001, and healthy gains in employment pushed up labour income. Imports were up strongly to satisfy domestic demand and the rebuilding of inventory.

Consumer spending, up a robust 0.7%, continued to provide impetus to economic growth in the second quarter. More than one-quarter of the growth in consumer spending came from recreational services, which were boosted by higher ticket sales for spectator sports and lotteries.

Spending on furniture and household appliances was up as a result of the strong housing market. Purchases of new and used motor vehicles fell, but remained at near-record levels.

Investment in housing slipped from its frantic pace in the first quarter, but remained at historically high levels. A 2.9% gain in new housing construction was more than offset by a 10.9% drop in home resale activity.

Personal disposable income was up a healthy 1.5%, following three quarters of gains averaging 1.2%. The personal saving rate remained at 5.3% after edging up in the previous three quarters.

The growth in disposable income and the reduced cost of carrying debt over the past year have likely helped to fuel demand and raise the saving rate.

Personal sector borrowing, although still strong, eased in the second quarter, reflecting both flat spending on consumer goods and a less robust housing market. The household debt-to-income ratio was unchanged from the first quarter at \$95.80 of debt for every \$100 of income.

Corporate profits advanced 9.8% in the second quarter, as a result of gains in the manufacturing, wholesaling, retailing, and oil and gas industries. However, manufacturers of computers and electronic products continued to register losses. Businesses began to rebuild inventories, after three straight quarters of depletion. Over half of the build-up was related to replenishing the stock of new motor vehicles on dealers' lots after two quarters of record sales.

Business plant and equipment spending recorded its strongest gain since the fourth quarter of 1999, boosted by a 4.8% increase in spending on machinery and equipment.

*The second quarter 2002 issue of **National income and expenditure accounts, quarterly estimates** (Internet: 13-001-XIB, \$33/\$108; paper: 13-001-XPB, \$44/\$145) is now available. For more information, contact the information officer (613-951-3640), Income and Expenditure Accounts Division. (See also "Current trends" on page 6.)*

Arts, entertainment and recreation services

Performing arts companies' revenues declined 1.7% in 2000 to \$894.4 million. Their profit margin fell to 8.2%, a decline of nearly 3 percentage points from 1999. Salaries and wages accounted for just over one third of the industry's total expenses in 2000.

The spectator sports industry, which includes professional and semi-professional sports clubs and teams, continued to report losses in 2000, with a profit margin of -6.3%.

The amusement and recreation services industry generated revenues of \$5.0 billion in 2000. This includes the ski industry, comprised of downhill and cross-country skiing facilities, which saw its profit margin fall to 10.4% in 2000. This was the result of a 14.9% rise in expenses that far exceeded the industry's 1.5% increase in revenues.

Data for selected industries of the arts, entertainment and recreation services industries, including performing arts companies, spectator sports, and amusement and recreational operations, are now available for 2000. For more information, contact Brad Binns (613-951-3288; brad.binns@statcan.ca) or Irene Ross (613-951-6305; puccire@statcan.ca), Service Industries Division.

Slight decline in current account surplus

Canada's current account surplus with the rest of the world declined slightly during the second quarter of 2002, but remained strong.

The surplus fell to \$4.9 billion, down from almost \$5.3 billion in the first quarter, on a seasonally adjusted basis. It has remained above \$4.0 billion for 10 straight quarters.

The current account, which summarizes all foreign transactions associated with current economic activity in Canada, includes four types of transactions: trade in goods, trade in services, flows of investment income and transfers. A surplus is seen as positive for the Canadian currency.

The surplus in goods fell by about \$200 million to \$13.7 billion, as imports rose faster than exports. The largest gain in exports occurred in energy products where the \$2.2-billion increase reflected higher prices of crude petroleum and natural gas.

The goods surplus with the United States rose for a second straight quarter, mainly as a result of higher prices for energy exports. However, this gain was more than offset by a significantly wider goods deficit with European Union countries.

The deficit in investment income fell by about \$228 million to just over \$7.2 billion, primarily the result of higher profits on Canadian direct investment abroad that followed three quarters of decline.

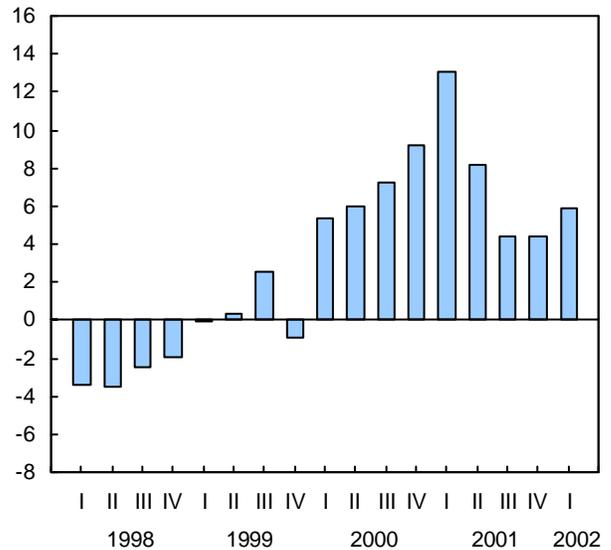
Canada's travel deficit — the difference between what Canadians spend abroad and what foreigners spend in Canada — more than doubled to \$418 million (seasonally adjusted), its highest level in five quarters. Fewer foreign visitors came to Canada and more Canadians visited overseas countries.

Both exports and imports of commercial services increased by about \$300 million during the second quarter. This left the deficit at \$902 million.

In the financial account, which is not seasonally adjusted, foreign direct investors channelled \$7.9 billion into the Canadian economy, down substantially from \$17.2 billion during the first quarter. Acquisitions of Canadian firms fell from a high level to the lowest in five quarters.

Current account balance

\$ billions, seasonally adjusted



Foreign demand for Canadian securities rebounded strongly, as Canadian companies floated a near-record amount of new shares in U.S. markets. Foreign investors bought \$4.2 billion worth of Canadian equities after divesting a similar amount in the first quarter. However, they reduced purchases of Canadian bonds to \$1.9 billion, less than half that of the first quarter.

Canadian direct investment abroad rose from \$6.6 billion in the first quarter to \$8.3 billion in the second. However, this was still well below the increases recorded in 2000 and 2001. Most of it went to Europe and the United States, led by investments in the energy and metallic minerals industry.

Canadian portfolio investors added \$6.3 billion to their holdings of foreign securities, compared with \$11.4 billion in the first quarter.

*The second quarter 2002 issue of **Canada's balance of international payments** (Internet: 67-001-XIB, \$29/\$93; paper: 67-001-XPB, \$38/\$124) will be available soon. For more information, contact Arthur Ridgeway (613-951-8907), Balance of Payments Division.*

Corporate profits continue to recover

The recovery in corporate profits was sustained in the second quarter. Operating profits rose 10.7% to \$38.8 billion, following similar gains in the first quarter.

Profits increased in almost two-thirds of the 24 industry groups. This rebound followed four straight quarterly declines in 2001. Corporate profits peaked in the fourth quarter of 2000 at \$45.3 billion.

The non-financial group enjoyed an 11.9% profit surge, as low interest rates, employment gains and rising consumer confidence sustained growth in the manufacturing and retail sectors.

Manufacturers posted their third straight rise in operating profits, as second quarter profits advanced 6.1% to \$9.9 billion. The motor vehicles industry continued to fuel growth in this sector, as North American demand for new motor vehicles remained strong.

Machinery and equipment manufacturers boosted operating profits 34.4%. Furniture manufacturers benefited from the continued strength in housing and reported a 38.3% jump in profits. Chemical producers' profits fell 20.4% and profits of "other" transportation equipment manufacturers dropped 17.7%. Operating profits of retailers increased 11.8% to \$2.4 billion in the second quarter, following a 9.2% rise in the first.

On the other hand, manufacturers of computers and electronic products registered operating losses for the fourth time in the past five quarters. Losses of \$0.1 billion were slightly lower than in the first quarter, but stagnant markets have forced the industry into extensive restructuring and downsizing.

Companies involved in oil and gas extraction benefited from higher crude oil and natural gas prices in the second quarter. Profits of \$4.3 billion were 59.7% above first quarter levels. Nonetheless, profits remained well below those earned in the second quarter of 2001, when robust energy prices lifted profits to \$5.5 billion.

The reversal of temporary duties on lumber exports to the United States generated refunds to Canadian exporters and a boost to second quarter profits. Exports of softwood lumber to the

Financial statistics for enterprises

Seasonally adjusted

	Q2 2001	Q1 2002	Q2 2002	Q1 to Q2 2002
	\$ billions			% change
All industries				
Operating revenue	551.6	547.6	560.8	2.4
Operating profit	38.8	35.0	38.8	10.7
Non-financial industries				
Operating revenue	499.1	497.6	511.0	2.7
Operating profit	29.7	27.2	30.5	11.9
Financial industries				
Operating revenue	52.5	50.0	49.8	-0.4
Operating profit	9.1	7.8	8.3	6.8

United States accelerated in May as a brief duty-free window was opened. However, the re-instatement of countervailing and anti-dumping duties later in the quarter slashed softwood exports in June. Wood and paper industry profits recovered to \$1.0 billion in the second quarter, up from \$0.9 billion in the first.

Operating profits in the transportation and warehousing industry advanced 10.1% to \$1.5 billion, their highest level in almost two years. Higher levels of manufacturing shipments have been a boon for many transportation carriers. Airline profits strengthened, in part because of extensive cost-cutting programs and rising consumer confidence.

Profits in the financial group of industries increased 6.8%, led by sizeable gains by depository credit intermediaries. However, profits of funds and other financial vehicles (which are not included in industry totals) fell 23.8% to \$1.7 billion, largely the result of losses on the sale of investments. Jittery investors withdrew from mutual funds, amid uncertain financial market conditions

*The second quarter 2002 issue of **Quarterly financial statistics for enterprises** (Internet: 61-008-XIE, \$26/\$86) will be available soon. For general information, contact Jeannine D'Angelo (613-951-2604). For analytical information, contact Bill Potter (613-951-2662), Industrial Organization and Finance Division.*

Travel from the United States to Canada bouncing back

Overnight travel to Canada from the United States showed signs of recovery in the first quarter for the first time since September 11.

About 2.3 million tourists came from the United States, up 3.3% from the first quarter of 2001. However, only about 550,000 tourists arrived from other countries, down 8.1%, the fourth consecutive quarterly decrease.

Canadians took 4.3 million overnight trips outside Canada, down 12.2% from the first quarter of 2001. Travel to U.S. locations dropped 12.1%, and travel to overseas countries tumbled 12.4%.

Overnight travel by air to the United States has suffered significantly following September 11. Canadians took 1.2 million flights to the United States in the first quarter, down 22.9% from the first quarter of 2001. Car trips south of the border remained stable at 1.4 million. Americans took almost 1.5 million overnight trips by car to Canada in the first quarter, up 11.4%; the number of trips by air dropped 6.1% to 657,000.

Business-related overnight trips by U.S. residents to Canada were down 13.8% in the first quarter of 2002, compared to the

Overnight trips between Canada and other countries

	Q1 2001	Q1 2002	Q1 2001 to Q1 2002
	'000		% change
Canadian trips abroad	4,857	4,266	-12.2
To the United States	3,194	2,809	-12.1
To other countries	1,663	1,457	-12.4
Travel to Canada	2,823	2,847	0.8
From the United States	2,220	2,293	3.3
From other countries	603	554	-8.1

same quarter of 2001. Overnight trips by Americans to visit friends or family were up 8.3%, and holiday-related overnight trips to Canada were up 5.2%.

U.S. travellers spent an estimated \$1.1 billion on overnight trips to Canada in the first quarter, up 12.1%.

For more information, contact *Élaine Fournier* (613-951-5907; elaine.fournier@statcan.ca), Culture, Tourism and the Centre for Education Statistics.

High-speed Internet by cable gaining popularity

Access to high-speed Internet by cable increased substantially in 2001, but smaller communities were still far behind their larger counterparts.

Despite the improvement in the availability of this technology in small communities, the gap between them and medium-sized and large communities is still significant. More than 70% of cable homes (homes with access to cable) in small communities did not have access to high-speed Internet by cable.

As of August 31, 2001, just over 9.4 million homes, or about 85% of cable homes, had access to broadband service, up from about 70% a year earlier.

Deployment occurred fastest in small communities, where the number of homes with access to high-speed service more than doubled to almost 363,400. This represented only about 27% of homes with access to cable, up from 11% in 2000. In medium-sized communities, 78% had access, compared with 47% in 2000.

Network upgrades necessary to offer this service were almost completed in the largest communities, defined as census metropolitan areas, where 96% of cable homes had access to this broadband technology, up from 86%.

The rate of adoption of cable Internet also progressed rapidly in communities of all sizes. Overall, almost 15% of homes with access to cable Internet had adopted it as of August 31, 2001. The rate of adoption was highest in large communities (16%) and lowest in small communities (10%).

Internet by cable - Deployment and penetration indicators by community size

	2000	2001	2000 to 2001
	'000		% change
Deployment			
Homes with access to Internet by cable			
Large communities	6,567.7	7,529.6	14.6
Medium-sized communities	898.9	1,512.1	68.2
Small communities	143.1	363.4	154.0
Total	7,609.7	9,405.1	23.6
Penetration (adoption)			
Subscribers to Internet by cable			
Large communities	696.2	1,174.7	68.7
Medium-sized communities	80.1	178.3	122.5
Small communities	10.1	37.4	270.3
Total	786.4	1,390.4	76.8

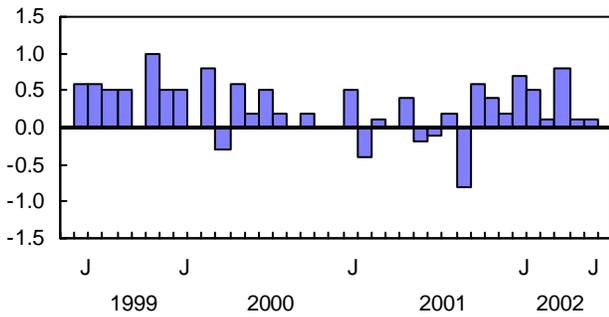
In total, there were just under 1.4 million subscribers to Internet by cable as of August 31, 2001, up 77% from 2000.

Service bulletin, broadcasting and telecommunications, Vol. 32, no. 3 (Internet: 56-001-XIE, \$10/\$32) will be available soon. For more information, contact Daniel April (613-951-3177; daniel.april@statcan.ca), Science, Innovation and Electronic Information Division.

Current trends

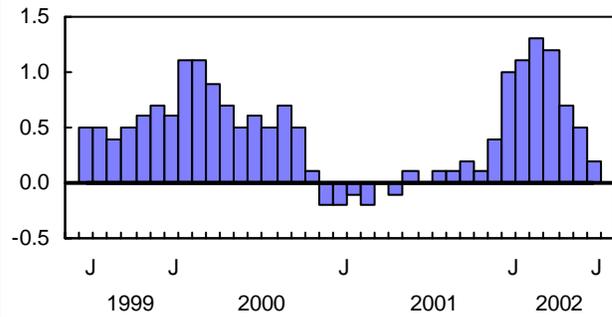
Gross domestic product

% change, previous month



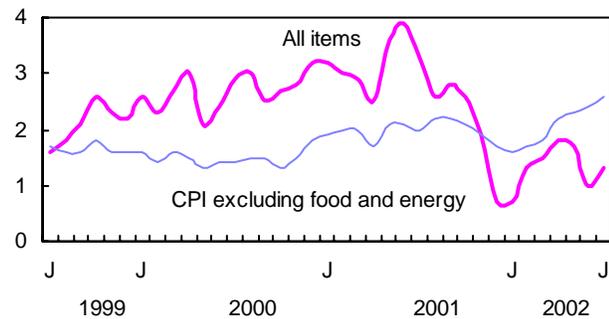
Composite Index

% change, previous month



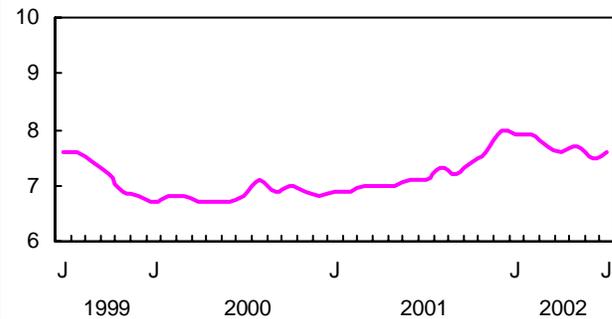
Consumer Price Index

% change, previous year



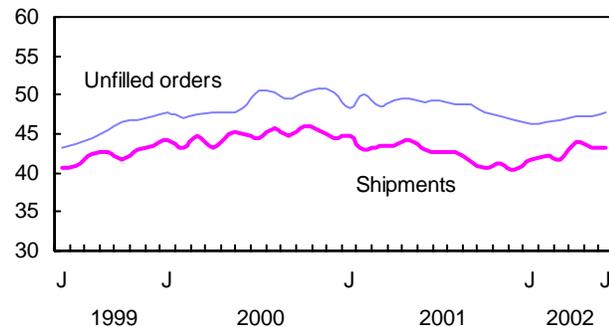
Unemployment rate

%



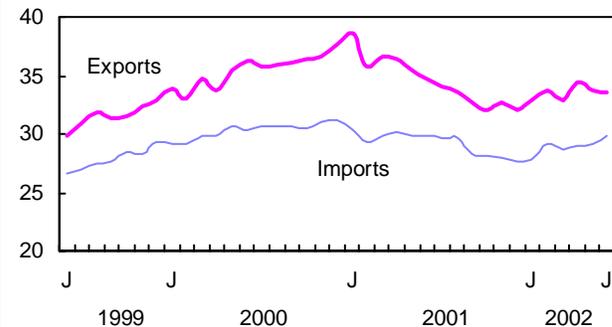
Manufacturing

\$ billions



Merchandise trade

\$ billions



Note: All series are seasonally adjusted except the Consumer Price Index.

Latest statistics

	Period	Level	Change, previous period	Change, previous year
GENERAL				
Gross domestic product (\$ billions, 1997) ¹	June*	967.4	0.1%	2.9%
Composite Index (1992=100)	July	177.6	0.2%	6.9%
Operating profits of enterprises (\$ billions)	Q2 2002	38.8	10.7%	-0.2%
Capacity utilization rate (%) ²	Q1 2002	81.7	1.3†	-2.3†
DOMESTIC DEMAND				
Retail trade (\$ billions)	June	25.6	1.8%	6.2%
New motor vehicle sales (thousands of units)	June	142.7	-2.0%	7.6%
Wholesale trade (\$ billions)	June	34.5	0.1%	3.7%
LABOUR				
Employment (millions)	July	15.4	0.1%	2.3%
Unemployment rate (%)	July	7.6	0.1†	0.5†
Participation rate (%)	July	66.8	0.0†	0.9†
Average weekly earnings (\$)	June	676.61	0.10%	2.03%
Help-wanted Index (1996=100)	August*	126.9	-1.1%	-11.9%
Regular Employment Insurance beneficiaries (in thousands)	June	551.5	-0.5%	8.1%
INTERNATIONAL TRADE				
Merchandise exports (\$ billions)	June	33.6	-0.5%	-2.9%
Merchandise imports (\$ billions)	June	29.8	2.1%	0.1%
Merchandise trade balance (all figures in \$ billions)	June	3.8	-0.8	-1.0
MANUFACTURING				
Shipments (\$ billions)	June	43.2	-0.1%	0.8%
New orders (\$ billions)	June	43.6	0.2%	2.8%
Unfilled orders (\$ billions)	June	47.8	0.8%	-2.7%
Inventory/shipments ratio	June	1.43	0.00	-0.09
PRICES				
Consumer Price Index (1992=100)	July	119.6	0.5%	2.1%
Industrial Product Price Index (1997=100)	July	106.9	0.2%	-0.3%
Raw Materials Price Index (1997=100)	July	114.7	2.6%	0.3%
New Housing Price Index (1992=100)	June	110.3	0.2%	4.1%

Note: All series are seasonally adjusted with the exception of the price indexes.

* new this week

† percentage point

¹ 1997 replaces 1992 as the base year used in determining prices for gross domestic product by industry. Also, valuation has been changed from factor cost to basic prices.

² Calculation of the rates of capacity use is now based on the 1997 North American Industrial Classification System (NAICS), which has replaced the 1980 Standard Industrial Classification.

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Cereals and oilseeds review	June 2002	22-007-XIB	11/112
Cereals and oilseeds review	June 2002	22-007-XPB	15/149
Farm Product Price Index	June 2002	21-007-XIB	free
Stocks of frozen and chilled meat products	August 2002	23-009-XIE	free
INCOME AND EXPENDITURE ACCOUNTS			
Canadian economic accounts quarterly review	Q2 2002	13-010-XIE	free
Estimates of labour income, monthly estimates	June 2002	13F0016DDB	125/500
Estimates of labour income, monthly estimates, Tables and analytical document	June 2002	13F0016XPB	20/65
Financial flow accounts, quarterly estimates	Q2 2002	13-014-DDB	300/1,200
Financial flow accounts, quarterly estimates	Q2 2002	13-014-PPB	50/180
National income and expenditure accounts, quarterly estimates	Q2 2002	13-001-DDB	125/500
National income and expenditure accounts, quarterly estimates	Q2 2002	13-001-PPB	50/180
INTERNATIONAL TRADE			
Imports by country	January-June 2002	65-006-XMB	62/206
Imports by country	January-June 2002	65-006-XPB	124/412
LABOUR AND HOUSEHOLD SURVEYS ANALYSIS			
Perspectives on labour and income	August 2002	75-001-XIE	5/48
MANUFACTURING, CONSTRUCTION AND ENERGY			
Coal and coke statistics	June 2002	45-002-XIB	9/85
Electric power statistics	June 2002	57-001-XIB	9/85
Energy statistics handbook	Q2 2002	57-601-XCB	150
Energy statistics handbook	Q2 2002	57-601-XIE	35/100
Production and disposition of tobacco products	July 2002	32-022-XIB	5/47
PRICES			
Capital expenditure price statistics	Q1 2002	62-007-XPB	24/79

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