

# MONTHLY ECONOMIC INDICATORS

## February 1999

### HIGHLIGHTS

-  ***The Canadian economy begins the year strongly, generating 87,000 new jobs in January.***
-  ***The unemployment rate falls to 7.8%, the lowest since June 1990.***
-  ***Output expands in November, boosted by gains in both Goods and Services.***
-  ***A robust export performance leads to an improvement in Canada's trade surplus.***
-  ***The Canadian dollar rises above US67¢ for the first time since July.***

### Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$92 B)	724.2	0.4	2.7	Nov
Goods	238.2	0.7	1.6	Nov
Services	486.0	0.3	3.3	Nov
Composite Index	208.7	0.2	3.3	Dec
Employment (000's)	14,651	0.6	3.7	Jan
Full-time	11,894	0.7	3.4	Jan
Part-time	2,757	0.1	5.1	Jan
Unemployment* (%)	7.8	8.0	8.8	Jan
Youth*	13.9	14.4	16.5	Jan
Adult*	6.7	6.8	7.4	Jan
CPI inflation*	1.0	1.2	0.7	Dec
Retail Sales (\$M)	20,772	1.1	4.1	Nov
Housing Starts (000's)	143.1	9.6	-3.7	Dec
Trade Balance* (\$B)	1,927	1,733	1,622	Nov
Exports	28,397	-0.1	9.4	Nov
Imports	26,470	-0.8	8.8	Nov
M&E	8,652	-2.6	7.8	Nov
3-mth Corp. paper* (%)	5.02	5.02	4.56	Feb 3
Long bond yield* (%)	5.34	5.29	5.81	Feb 3
Canadian dollar* (US¢)	67.08	66.18	68.70	Feb 5

\*Data in levels only – % change not reported.

### This issue's Special Report: The Productivity Gap between Canadian and U.S. Firms

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at [http://strategis.ic.gc.ca/sc\\_ecnmy/mera/engdoc/03.html](http://strategis.ic.gc.ca/sc_ecnmy/mera/engdoc/03.html).



Industry  
Canada

Industrie  
Canada

Canada

# MONTHLY ECONOMIC INDICATORS

## February 1999

### CONTENTS

	Page
<b>The Economy</b>	
<i>Real GDP by Industry</i> .....	3
<i>Consumer Spending and Attitudes</i> .....	4
<i>Business Investment in Plant and Equipment</i> .....	5
<i>Housing</i> .....	6
<i>Trade and Competitiveness</i> .....	7
<b>Labour Market Trends</b>	
<i>Employment and Unemployment</i> .....	8
<i>Industry Overview</i> .....	9
<i>Provincial Overview</i> .....	10
<b>Prices and Financial Markets</b>	
<i>Consumer and Commodity Prices</i> .....	11
<i>Exchange Rates and Stock Markets</i> .....	12
<i>Short-term and Long-term Interest Rates</i> .....	1 3
<b>The United States Economy</b>	
<i>U.S. Economic Trends</i> .....	14
<b>THIS ISSUE'S SPECIAL REPORT:</b>	
<b>The Productivity Gap between Canadian and U.S. Firms</b> .....	15
<b>Coming Up...</b>	
<i>Key Future Data Releases/Planned Events</i> .....	17

This report uses data available as of February 5, 1999. It has been prepared under the direction of Shane Williamson by Dave Dupuis, Joseph Macaluso, Stéfane Marion and Karen Smith of the Micro-Economic Analysis Directorate. The special report in this issue is based on research by Frank Lee and Jianmin Tang of Strategic Investment Analysis. All information is taken from public sources, primarily Statistics Canada, the Bank of Canada and the Canada Mortgage and Housing Corporation. Please address comments to Shane Williamson at 613-954-3494 or through the Internet at [williamson.shane@ic.gc.ca](mailto:williamson.shane@ic.gc.ca).

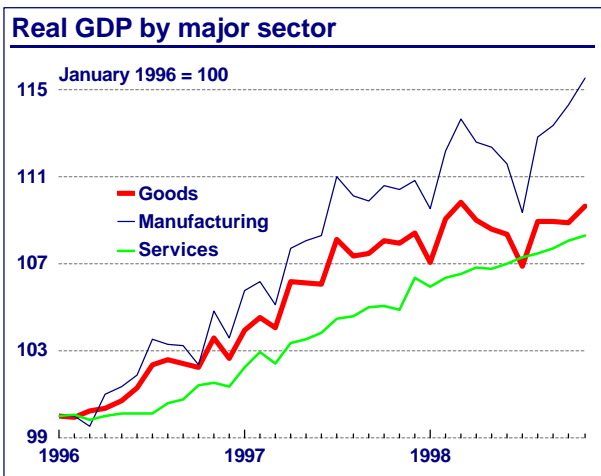
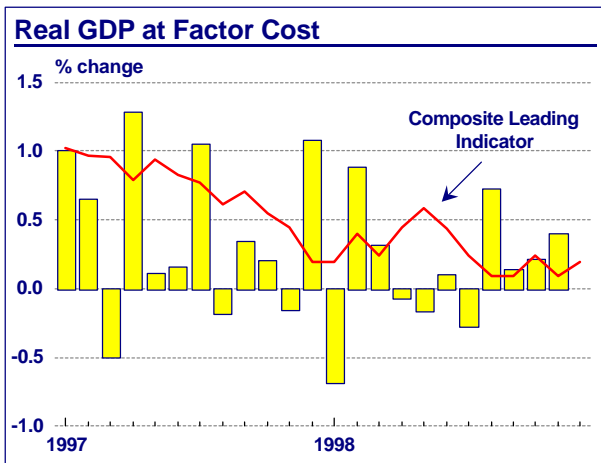


### Output continues to advance in November...

- Real GDP increased 0.4% in November, the fourth consecutive monthly increase. Owing to a mid-year period of weakness largely induced by strikes, however, growth in 1998 has lagged well behind the rate set in 1997.

### ...as strong US demand buoys the Manufacturing sector

- Output in the Goods sector was up 0.7% in November. The Manufacturing sector, boosted by strong demand in the U.S., posted a broad-based gain and accounted for half of November's overall increase. After experiencing declines in nine of the previous ten months, the Mining sector advanced modestly due to increased diamond mining. Oil & Gas production was lower, however, the fourth drop in five months.
- Output in the Service sector rose 0.3% in November, with healthy gains in Retail Trade and Business Services. Retail Trade benefitted from a rebound in the auto sector, while computer and temporary-help services drove the increase in Business Services (as has been the case all year). Elsewhere in the Service sector, a decline in stock market activity associated with financial market volatility led to lower output in the Finance industries.



### Real GDP at Factor Cost (1992 dollars)

#### November 1998

	\$ millions	monthly change	% Change since last month	% Change since last year
<b>Total Economy</b>	<b>724,193</b>	<b>2,883</b>	<b>0.4</b>	<b>2.7</b>
<b>Business sector</b>	<b>598,115</b>	<b>2,723</b>	<b>0.5</b>	<b>3.0</b>
<b>Goods</b>	<b>238,192</b>	<b>1,597</b>	<b>0.7</b>	<b>1.6</b>
Agriculture	11,838	3	0.0	-0.8
Fishing & Trapping	643	0	0.0	-9.9
Logging & Forestry	4,701	-9	-0.2	-4.0
Mining*	26,514	98	0.4	-7.3
Manufacturing	130,922	1,393	1.1	4.6
Construction	39,837	158	0.4	2.5
Other Utilities	23,737	-46	-0.2	-2.4
<b>Services</b>	<b>486,001</b>	<b>1,286</b>	<b>0.3</b>	<b>3.3</b>
Transport & Storage	32,668	-60	-0.2	1.7
Communications	24,970	243	1.0	12.5
Wholesale Trade	43,432	158	0.4	7.1
Retail Trade	44,952	451	1.0	4.2
Finance & Insurance	39,624	-191	-0.5	0.6
Real Estate & Ins. Agent	79,473	127	0.2	2.2
Business services	41,844	423	1.0	6.7
Government services	42,914	161	0.4	0.5
Education	40,109	-39	-0.1	3.4
Health & Social Services	48,471	-29	-0.1	0.6
Accommodation & Food	18,810	74	0.4	2.0
Other	28,734	-32	-0.1	1.8

\*Includes Quarrying and Crude Petroleum & Natural Gas

# THE ECONOMY

## Consumer Spending and Attitudes

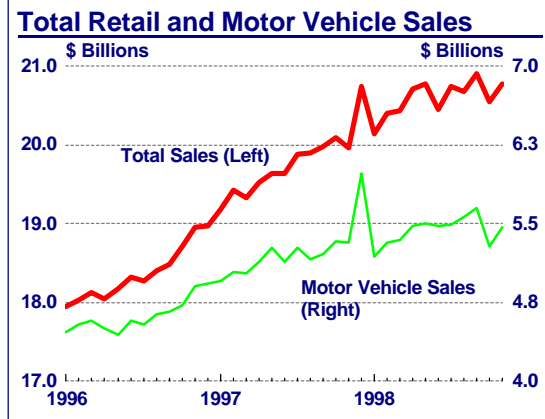


### Consumer spending slows in the third quarter...

- A significant decline in spending on durable goods (particularly autos) contributed to a substantial slowing in the growth of consumer spending in the third quarter.
- A combination of falling disposable income and higher income tax contributions contributed to the second consecutive fall in personal disposable income. The saving rate declined to a record low of -0.8% while the debt-to-income ratio rose to an all-time high of 101.6%.

### ...and could be flat overall in the fourth quarter

- The removal of generous incentive programs led to a sharp decline in new auto sales in October, contributing heavily to a 1.7% fall in total retail sales on the month. Although some of these losses were subsequently recouped in November – led by a rebound in the auto sector – retail sales have shown no sustained growth over the past seven months.
- After registering its largest decline this decade, consumer confidence could rebound somewhat in the fourth quarter. Strong employment gains late in the year and the return of stability to the stock market may boost confidence.



### Retail Sales and Consumer Credit

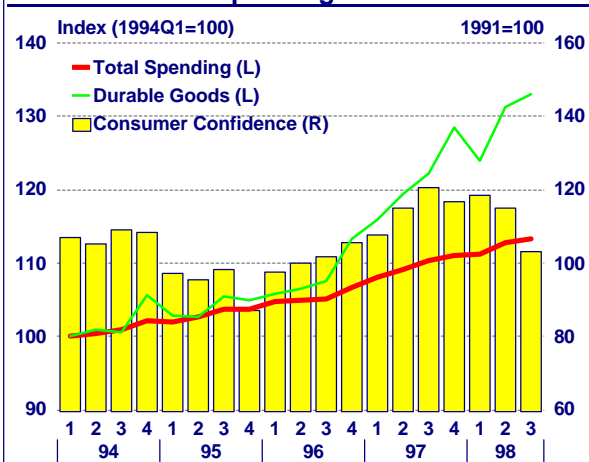
	November 1998 \$ millions	% Change since	
		last month	last year
<b>Total Retail Sales</b>	20,772	1.1	4.1
Food	4,872	0.9	3.7
Drug Stores	1,085	-0.6	4.8
Clothing	1,192	1.6	6.6
Furniture	1,070	1.2	8.3
Automotive	7,931	2.1	2.7
General Merch. Stores	2,331	-1.0	2.9
All other Stores	2,292	0.5	7.9
Total ex. motor vehicles	15,308	0.3	4.6
<b>Consumer Credit</b>	156,223	0.0	7.4

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	1996	1997	1998 Q2	1998 Q3
<b>Real Consumption (92\$)</b>	453,130	471,525	484,644	487,336
% change	2.3	4.1	5.6	2.2
Durable Goods	55,205	61,926	66,896	67,828
% change	4.1	12.2	25.8	5.7
Semi-Durable Goods	42,661	44,485	46,604	46,764
% change	0.8	4.3	0.3	1.4
Non-Durable Goods	116,948	118,644	119,800	120,640
% change	1.7	1.5	3.6	2.8
Services	238,316	246,470	251,344	252,104
% change	2.5	3.4	2.8	1.2
<b>Disposable Income</b>	519,105	529,082	539,700	538,988
% change	1.5	1.9	0.0	-0.5
<b>Saving Rate (%)</b>	5.4	2.2	0.3	-0.8
<b>Debt-to-Income Ratio (%)</b>	94.1	97.3	100.2	101.6
<b>Consumer Attitudes*</b>	101.2	115.0	115.0	103.3

\*Conference Board of Canada

### Real Consumer Spending and Confidence





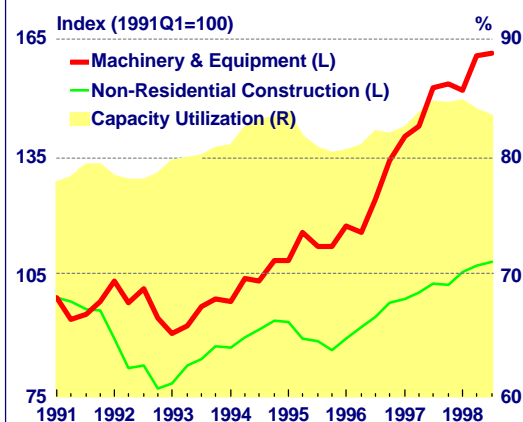
### Investment slows in the third quarter...

- Growth in investment in Machinery & Equipment (M&E) fell back in the third quarter following a sharp gain in the previous period. Non-Residential Construction also posted slower growth in the period, as drilling and exploration activity in the energy sector fell.
- The moderation in investment spending stems from lower business confidence, which fell for the fifth consecutive quarter and registered its largest drop in 17 years.
- Profits rebounded in the third quarter, but are still down substantially on a year-over-year basis. Low commodity prices and weak foreign demand have weakened corporate balance sheets.

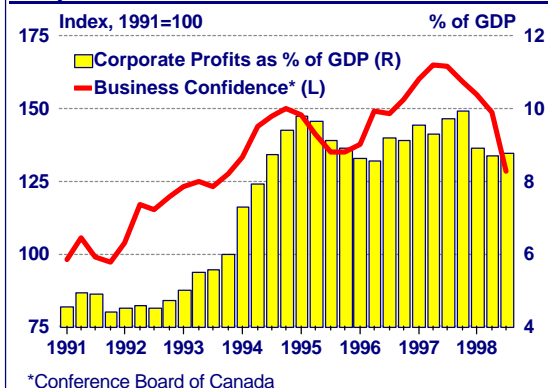
### ...and is unlikely to pick up late in the year

- Following six consecutive monthly increases, imports of M&E declined in November, mainly due to lower imports of industrial machinery and locomotives.
- Non-Residential Construction increased slightly on the month, largely on the strength of a surge in drilling and rigging activity. Building on non-residential construction sites tailed off in November.

### Investment in Plant and Equipment



### Corporate Profits & Business Confidence



### Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	1996	1997	1997 Q4	1998 Q1	1998 Q2	1998 Q3
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1992\$)</b>	47,722	57,057	59,420	58,884	62,160	62,516
% change	9.3	19.6	2.5	-3.6	24.2	2.3
<b>Non-residential Construction (1992\$)</b>	33,608	36,433	36,864	38,052	38,620	38,988
% change	4.7	8.4	-1.8	13.5	6.1	3.9
<b>Capacity Utilization (% , Non-farm goods)</b>	81.5	83.9	84.6	84.8	84.1	83.5
Capacity Utilization (Mfg. sector)	82.5	84.9	85.6	86.3	85.8	85.3
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	96,067	110,682	116,020	107,816	98,752	102,452
% change	-1.1	15.2	12.2	-25.4	-29.6	15.9
Profits - Non-financial industries	71,871	82,218	84,760	79,676	72,760	76,436
% change	-6.7	14.4	10.6	-21.9	-30.5	21.8
Profits - Financial industries	24,194	28,462	31,260	28,140	25,992	26,012
% change	20.5	17.6	16.8	-34.3	-27.2	0.3
<b>Business Credit</b>	570,832	621,441	648,179	662,030	675,076	692,953
% change	5.0	8.9	13.1	8.8	8.1	11.0
<b>Index of Business Confidence*</b>	147.0	162.3	159.2	155.0	148.9	128.6

\*Conference Board of Canada



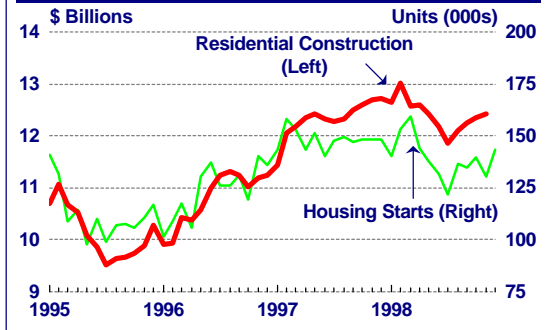
### Spending on new housing falls in the third quarter...

- Residential investment fell 10.1% in the third quarter – the third straight decline – with lower spending on both new housing and renovation activity.
- Third-quarter results were affected by labour disruptions in some housing trades in the important southern Ontario market, but weakness extended throughout most regions of the country.
- However, transfer costs on sales of existing homes were up sharply, reflecting strength in the resale market for existing homes.

### ...and is expected to remain weak in 1999

- The value of residential construction increased in the first two months of the fourth quarter, but has yet to return to the levels prevailing prior to the series of strikes that hit the sector this past summer. Following a weak November, housing starts increased 9.6% in December and were up 5.1% overall in the fourth quarter.
- Canada Mortgage and Housing Corporation (CMHC) predicts that national housing starts will fall slightly in 1999. The impact of low mortgage rates is expected to be offset by moderate employment growth, slowing population growth (due to lower international immigration) and weak consumer confidence.

### Housing Activity



### Monthly Housing Indicators

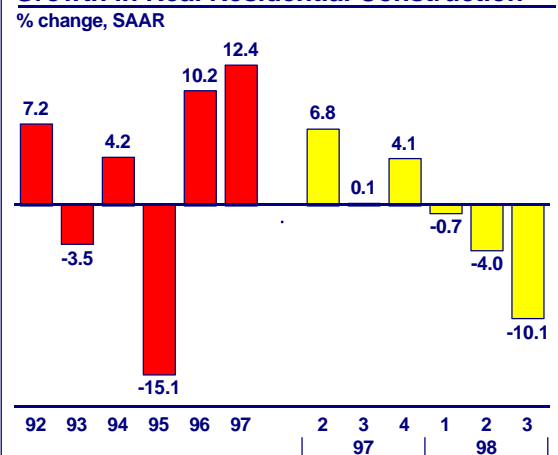
	levels	Change since	
		last month	last year
<b>Residential Construction (1)</b> (\$92M, factor cost basis)	12,421	0.6%	-2.2%
<b>Building Permits, \$M (2)</b>	1,572	-2.2%	2.1%
<b>Sales of Existing Homes (3)</b> (# of units)	17,594	180	
<b>Housing Starts, # of units (3)</b>	143,100	12,500	-5,500
Newfoundland	700	100	-300
Prince Edward Island	100	-100	-100
Nova Scotia	1,300	-400	-2,000
New Brunswick	1,700	100	700
Quebec	20,100	200	200
Ontario	54,400	5,000	3,900
Manitoba	1,100	-200	0
Saskatchewan	1,500	-500	-500
Alberta	27,500	7,200	4,900
British Columbia	13,500	1,100	-11,600

1 - November data; 2 - December data; 3 - December data.  
Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association

### Real Investment in Residential Structures

	1996	1997	1998 Q2	1998 Q3
<b>Residential Construction</b>	37,729	42,385	42,384	41,276
% change	10.1	12.3	-3.9	-10.1
Construction by Business sector	37,567	42,229	42,228	41,120
% change	10.2	12.4	-4.0	-10.1
New Housing	17,977	21,383	21,024	19,692
% change	7.3	18.9	-14.1	-23.0
Alterations & Improvements	12,415	13,426	13,984	13,876
% change	7.6	8.1	-5.6	-3.1
Ownership & Transfer Costs	7,337	7,576	7,376	7,708
% change	23.1	3.3	39.4	19.3

### Growth in Real Residential Construction





# THE ECONOMY

## Trade and Competitiveness



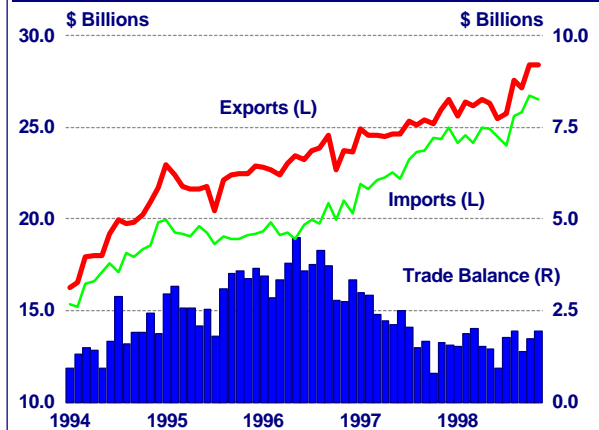
### Exports hold steady in November..

- Exports remained virtually unchanged in November. A sharp rise in shipments of Automotive Products was completely offset by a steep decline in exports of Energy Products and M&E. The decline in Energy Products was broad-based, but steepest for crude oil due to falling prices.
- Shipments to the U.S. continued to rise in November. Exports to Japan rebounded strongly, led by an increase in exports of Lumber, Automobiles and Agricultural Products. However, exports to other countries were down sharply on the month.

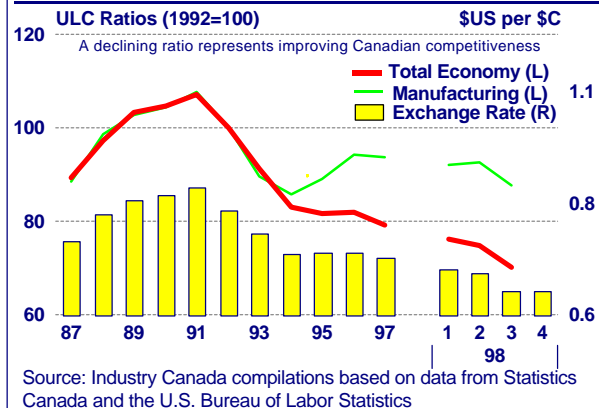
### ...but falling imports lead to an increase in Canada's trade surplus

- Imports declined 0.8% in November. Strong gains in Consumer Goods were more than offset by a large drop in M&E (the first in seven months).
- As imports fell with exports holding steady, Canada's trade balance advanced \$194 million to \$1.9 billion in November.

### Merchandise Trade Flows and Balance



### Canada-U.S. Unit Labour Cost Ratios



### Merchandise Trade

November 1998	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change
	1998 October	1998 November	1997 Jan-Nov	1998 Jan-Nov	Oct to Nov 1998	Oct to Nov 1998	Nov 97 to Nov 98
<b>Exports</b>	<b>28,419</b>	<b>28,397</b>	<b>274,581</b>	<b>293,664</b>	<b>-22</b>	<b>-0.1</b>	<b>9.4</b>
to United States	24,056	24,362	221,506	245,773	306	1.3	15.2
<b>Imports</b>	<b>26,686</b>	<b>26,470</b>	<b>251,890</b>	<b>275,689</b>	<b>-216</b>	<b>-0.8</b>	<b>8.8</b>
from United States	20,717	20,594	191,765	212,106	-123	-0.6	10.3
<b>Trade Balance</b>	<b>1,733</b>	<b>1,927</b>	<b>22,691</b>	<b>17,975</b>	<b>194</b>		
with United States	3,339	3,768	29,741	33,667	429		
<b>Exports by Commodity</b>							
Agriculture/Fishing Products	2,187	2,111	22,509	22,780	-76	-3.5	-2.0
Energy Products	2,055	1,800	24,777	21,916	-255	-12.4	-23.0
Forestry Products	3,009	3,007	31,984	32,252	-2	-0.1	1.4
Industrial Goods & Materials	4,715	4,693	50,793	52,657	-22	-0.5	-4.7
Machinery & Equipment	6,720	6,597	61,954	71,915	-123	-1.8	10.7
Automotive Products	7,555	7,957	63,363	70,304	402	5.3	37.4
Other Consumer Goods	1,090	1,105	9,717	11,379	15	1.4	18.8
<b>Imports by Commodity</b>							
Agriculture/Fishing Products	1,476	1,496	14,197	15,730	20	1.4	10.3
Energy Products	703	667	9,614	8,042	-36	-5.1	-15.2
Forestry Products	213	215	2,170	2,269	2	0.9	0.5
Industrial Goods & Materials	5,223	5,162	49,309	54,982	-61	-1.2	8.5
Machinery & Equipment	8,883	8,652	83,127	92,275	-231	-2.6	7.8
Automotive Products	6,202	6,222	55,219	59,854	20	0.3	13.1
Other Consumer Goods	2,954	3,095	26,880	31,251	141	4.8	16.4

# LABOUR MARKET TRENDS



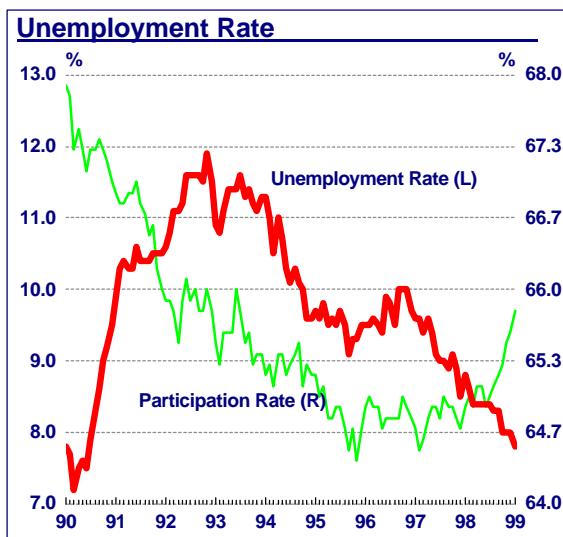
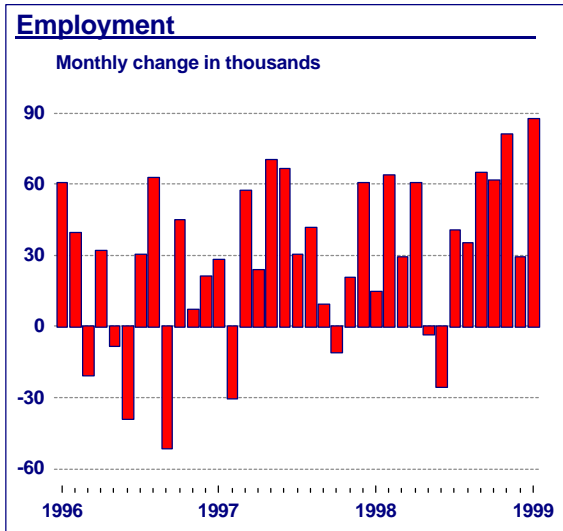
## Employment and Unemployment

### Employment surges by 87,000 in January...

- The economy created 87,000 new jobs in January, the seventh consecutive monthly increase and the largest single gain since November 1994.
- January's job gains – virtually all full-time positions – build on a strong performance in 1998 in which just over 450,000 jobs were created.
- Strong employment growth has attracted more people to the labour force. The participation rate was 65.8% in January, up 0.9 percentage points on a year-over-year basis.

### ...driving the unemployment rate down to 7.8%

- An increase in the labour force was not sufficient to offset the sharp employment gains in January. Consequently, the national unemployment fell 0.2 percentage points to 7.8%, the lowest rate since June 1990.
- A 44,000 rise in employment lowered the youth unemployment rate to 13.9% in January, falling 0.5 points on the month to reach its lowest rate since September 1990.
- The adult employment rate edged down 0.1 points to 6.7% in January. On a year-over-year basis, the adult unemployment rate is down 0.7 percentage points.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	1998 January	1998 December	1999 January	last month	last year	year-to-date	last month	last year
<b>Employment</b>	14,124.7	14,563.4	14,650.8	87.4	526.1	87.4	0.6	3.7
<b>Full-time</b>	11,502.8	11,809.7	11,894.2	84.5	391.4	84.5	0.7	3.4
<b>Part-time</b>	2,621.9	2,753.7	2,756.6	2.9	134.7	2.9	0.1	5.1
<b>Youth 15-24</b>	2,022.6	2,181.5	2,225.0	43.5	202.4	43.5	2.0	10.0
<b>Adult 25+</b>	12,102.1	12,381.9	12,425.8	43.9	323.7	43.9	0.4	2.7
<b>Self-employed</b>	2,465.3	2,589.6	2,589.2	-0.4	123.9	-0.4	-0.0	5.0
<b>Unemployment</b>	1,370.9	1,272.2	1,247.9	-24.3	-123.0	-24.3	-1.9	-9.0
<b>Unemployment Rate</b>	8.8	8.0	7.8	-0.2	-1.0	-0.2		
<b>Youth 15-24</b>	16.5	14.4	13.9	-0.5	-2.6	-0.5		
<b>Adult 25+</b>	7.4	6.8	6.7	-0.1	-0.7	-0.1		
<b>Labour Force</b>	15,495.6	15,835.6	15,898.7	63.1	403.1	63.1	0.4	2.6
<b>Participation Rate</b>	64.9	65.6	65.8	0.2	0.9	0.2		
<b>Employment Rate</b>	59.2	60.4	60.7	0.3	1.5	0.3		





## Industry Overview

### Job growth is shared equally between Goods- and Service-producing industries...

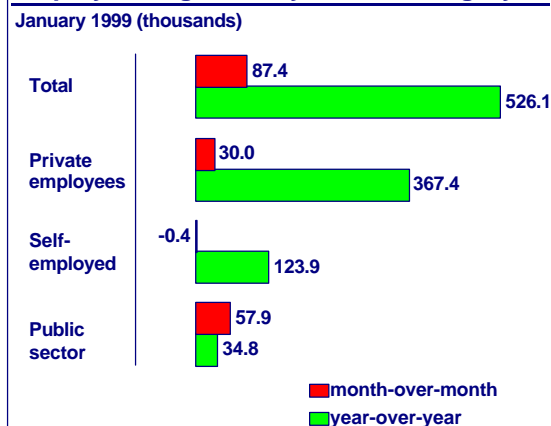
- Employment was up 44,000 in the Goods-producing industries in January, largely on the strength of a solid rebound in Manufacturing. Manufacturing employment rose 55,000 on the month, following a weak performance overall in 1998. Employment in Construction was flat in January, while the Primary industries posted small losses.
- Employment in the Service-producing industries increased by 43,000 in January. Six of the eleven major groupings recorded job gains, led by Education and Trade. A substantial decline was posted by Health & Social Services, though employment remains up on a year-over-year basis.

### ...as the public and private sectors both register gains in January

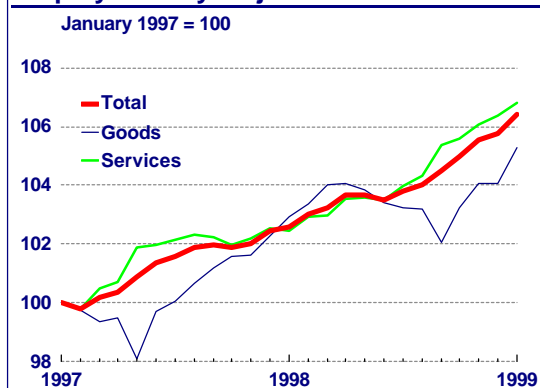
- Public-sector employment increased by 58,000 in January, following the loss of 55,000 jobs the previous month. The number of paid employees in the private sector rose 30,000, but self-employment fell slightly.

With the January release, Statistics Canada has implemented the new North American Industry Classification System (NAICS) and modified its definition of the public sector.

### Employment growth by worker category



### Employment by major sector



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	1998 January	1998 December	1999 January	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	3,721.4	3,762.2	3,806.5	44.3	85.1	44.3	1.2	2.3
Agriculture	417.1	412.2	406.7	-5.5	-10.4	-5.5	-1.3	-2.5
Other Primary*	317.7	280.0	276.7	-3.3	-41.0	-3.3	-1.2	-12.9
Utilities	125.3	115.2	112.6	-2.6	-12.7	-2.6	-2.3	-10.1
Construction	728.0	813.1	813.4	0.3	85.4	0.3	0.0	11.7
Manufacturing	2,133.4	2,141.7	2,197.1	55.4	63.7	55.4	2.6	3.0
<b>Service-producing</b>	10,403.3	10,801.2	10,844.2	43.0	440.9	43.0	0.4	4.2
Trade	2,137.9	2,241.1	2,274.2	33.1	136.3	33.1	1.5	6.4
Transportation	719.7	730.7	742.1	11.4	22.4	11.4	1.6	3.1
FIRE*	829.0	898.1	893.4	-4.7	64.4	-4.7	-0.5	7.8
Professional/Scientific	834.1	936.6	925.9	-10.7	91.8	-10.7	-1.1	11.0
Management/Administrativ	464.7	487.1	501.3	14.2	36.6	14.2	2.9	7.9
Educational Services	929.2	939.3	976.5	37.2	47.3	37.2	4.0	5.1
Health Care/Social Assistance	1,414.1	1,490.7	1,436.0	-54.7	21.9	-54.7	-3.7	1.5
Information/Culture/Recreatio	624.6	643.3	647.2	3.9	22.6	3.9	0.6	3.6
Accommodation & Food Services	940.5	932.5	929.2	-3.3	-11.3	-3.3	-0.4	-1.2
Other Services	722.5	731.9	748.7	16.8	26.2	16.8	2.3	3.6
Public Administration	787.1	769.9	769.6	-0.3	-17.5	-0.3	-0.0	-2.2

\*Other primary: forestry, fishing, mining, oil & gas; Transportation includes warehousing; FIRE: Finance, Insurance, Real Estate and Leasing.



## Provincial Overview

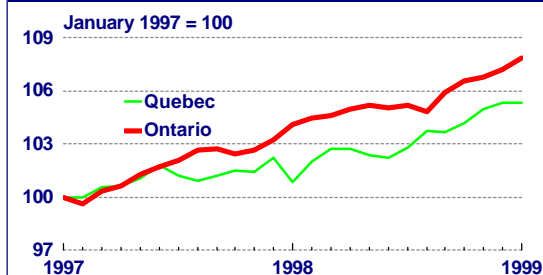
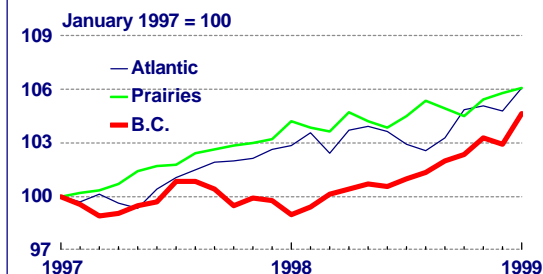
### Ontario and British Columbia lead January's job gains...

- January's overall job gain was led by increases of 37,000 in Ontario and 32,000 in British Columbia.
- Employment was also up in most other provinces. However, Saskatchewan and Quebec registered small losses.

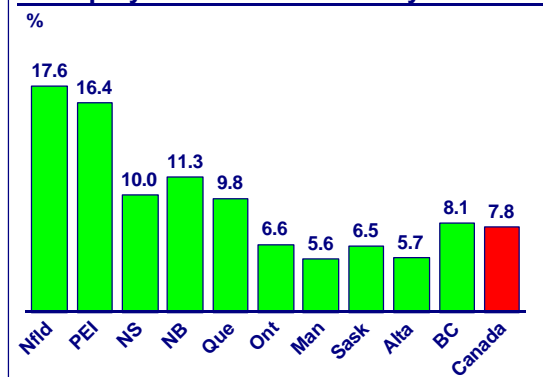
### ...and the unemployment rate falls in most provinces

- Seven of 10 provinces registered lower unemployment rates in January, including declines of 1.1 percentage points in Newfoundland (to 17.6%) and 0.6 points in Nova Scotia (10.0%).
- The unemployment rate was unchanged in Alberta at 5.7%, but rose by 1.0 percentage point in PEI (16.4%) and by 0.2 points in Saskatchewan (6.5%). The significant rise in PEI's unemployment rate occurred despite higher employment due to an even bigger increase in the labour force.
- Overall, unemployment rates remain lowest in the Prairie provinces and Ontario.

### Regional employment patterns



### Unemployment Rates -- January 1999



### Provincial Employment and Unemployment Trends

	Employment (thousands)				Unemployment rate (%)			
	Levels	Change since last month		Change since last year		Levels	Change since last month	Change since last year
	1999 January	(000's)	%	(000's)	%			
Canada	14,650.8	87.4	0.6	526.1	3.7	7.8	-0.2	-1.0
Newfoundland	202.0	2.4	1.2	6.2	3.2	17.6	-1.1	0.0
P.E.I.	60.7	0.7	1.2	0.7	1.2	16.4	1.0	2.1
Nova Scotia	408.9	7.2	1.8	5.5	1.4	10.0	-0.6	-1.2
New Brunswick	337.6	1.9	0.6	18.2	5.7	11.3	-0.3	-1.7
Quebec	3,396.4	-1.5	-0.0	143.0	4.4	9.8	-0.1	-1.4
Ontario	5,744.2	37.2	0.7	202.5	3.7	6.6	-0.3	-1.3
Manitoba	554.0	0.6	0.1	11.1	2.0	5.6	-0.3	0.0
Saskatchewan	477.8	-3.2	-0.7	-4.4	-0.9	6.5	0.2	0.9
Alberta	1,543.5	10.1	0.7	39.0	2.6	5.7	0.0	0.3
B.C.	1,925.7	32.1	1.7	104.5	5.7	8.1	-0.1	-1.4



## Consumer and Commodity Prices

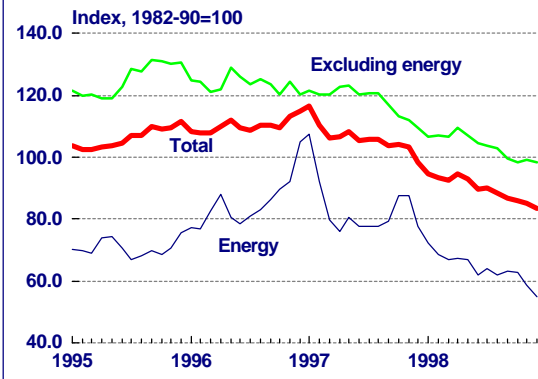
### Inflation was lower at year-end...

- On a year-over-year basis, the rate of CPI inflation was 1.0% in December, down 0.2 percentage points from November. CPI inflation averaged 1.0% for all of 1998, the lowest annual rate of inflation since the early 1960s (not accounting for 1994, when a sharp reduction in cigarette taxes depressed the CPI).
- Compared to last year, higher prices for shelter, food, cable TV services, new motor vehicles, and university tuition put upward pressure on December's CPI. These increases were partly offset by lower prices for gasoline and computer equipment.
- Inflation excluding food, energy and indirect taxes ended the year at 1.4%, within the bottom half of the official 1%-3% target range.

### ... with no underlying cost pressures

- Underlying inflationary pressures remained muted at the end of 1998. Commodity prices dropped again in December – prices have fallen in ten of the last twelve months – and are down 15% from their year-ago level.
- The weak Canadian dollar has put upward pressure on prices quoted in U.S. dollars. Still, producer prices were down 0.3% from their year-earlier level in December, with the most significant reductions for Refined Petroleum, Coal Products and Primary Metals. Excluding the impact of the lower Canadian dollar, producer prices were down 2.5% from their year-ago level in December.

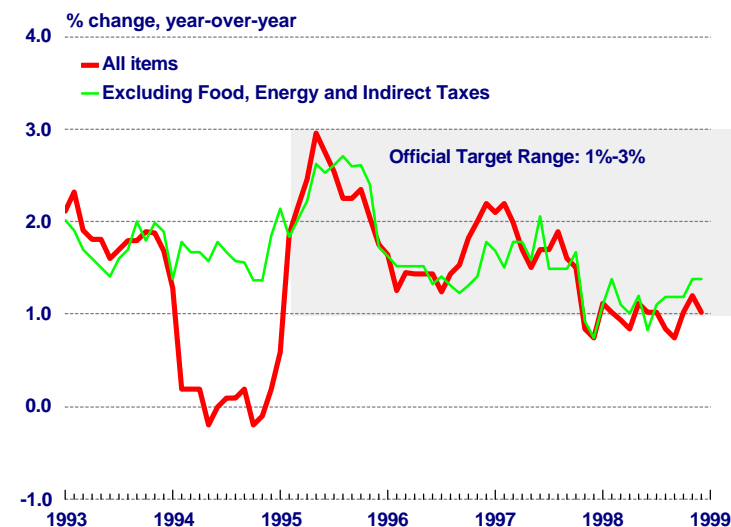
### Commodity Prices (\$U.S. basis)



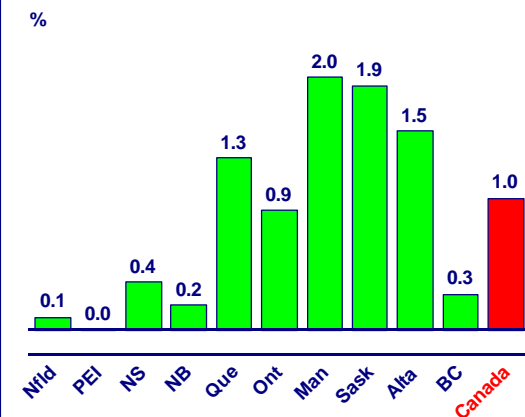
### Consumer Prices

	Index (1992=100)	% Change since	
		last month	last year
<b>All items CPI</b>	108.7	-0.3	1.0
Food	109.7	0.0	1.7
Shelter	104.4	0.2	1.1
Household operations	107.8	-0.1	0.8
Clothing & Footwear	102.6	-1.8	0.9
Transportation	120.3	-0.7	-0.8
Health & Personal Care	108.8	-0.1	2.0
Recreation, Educ. & Reading	116.5	-0.6	2.0
Alcohol & Tobacco	93.4	-0.1	3.7
<b>Excl. Food/Energy/Indirect Taxes</b>	110.5	-0.2	1.4
Energy	102.9	-1.2	-4.3
<b>Commodity Prices (December)</b>			
Index, 1982-90=100	83.3	-2.1	-15.3
Excluding Energy	98.4	-0.8	-10.1
Energy	55.0	-6.3	-29.0

### Consumer Price Index



### Provincial CPI Inflation -- December 1998



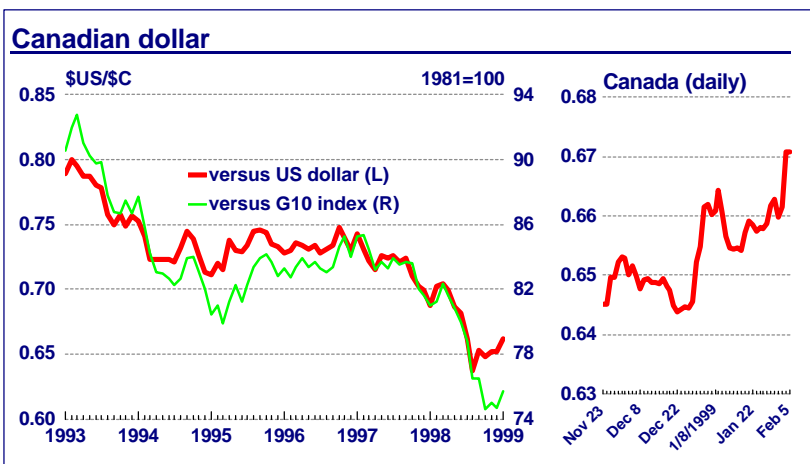


### The Canadian dollar strengthens further...

- The Canadian dollar hovered around US66¢ through much of January before surging almost one full cent on February 4, breaking through the US67¢ level for the first time since July.
- This latest surge in the Canadian dollar was sparked by a larger-than-expected reduction in interest rates engineered by the Bank of England to tackle slowing economic activity in that country. Most market analysts expect that the European central bank will also lower interest rates in the near future to stimulate growth in the euro zone.

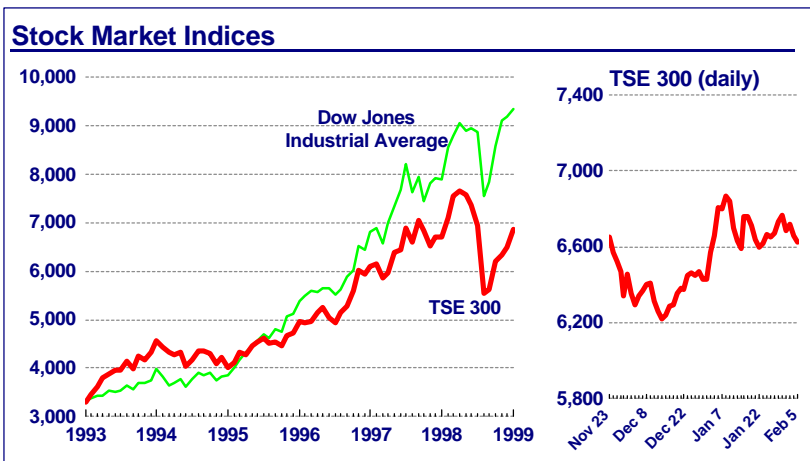
### ...but stock markets dip

- Following a very significant rally in December, North American equities eased somewhat over the last month. Reports suggesting very robust economic activity in North America rekindled worries that interest rates may need to be increased in order to keep a lid on inflationary pressures.
- The TSE rose 9% in December, but subsequently fell back roughly 3.4% through January and early February. The TSE closed just above 6633 on February 5, down about 2.7% on a year-over-year basis. By comparison, U.S. stock prices remain 23% above their year-ago level.



### The Canadian Dollar

(close)	\$US vs. \$Cdn	index vs. G-10 (81=100)	DM vs. \$Cdn	yen vs. \$Cdn
1997	0.6991	81.62	1.247	90.87
1998	0.6522	74.69	1.082	75.91
1998 Aug	0.6376	76.50	1.164	94.15
Sept	0.6531	76.48	1.117	88.38
Oct	0.6481	74.58	1.060	78.10
Nov	0.6523	75.03	1.093	78.17
Dec	0.6522	74.69	1.082	75.91
1999 Jan	0.6618	75.74	1.110	74.58
Feb 5	0.6708			



### Key Stock Market Indexes

	January Close	% change from	
		last month	last year
<b>TSE 300</b>	<b>6,869</b>	<b>5.9</b>	<b>2.5</b>
Oil & Gas	4,419	-4.8	-30.6
Metals & Minerals	3,030	-1.3	-25.7
Utilities	8,184	10.5	33.3
Paper & Forest	3,616	1.5	-16.6
Merchandising	5,498	-2.8	-0.7
Financial Services	8,613	2.1	5.0
Gold	5,666	-4.3	-16.8
Price-Earnings Ratio*	26.3	-2.2	1.0
<b>S&amp;P 500</b>	<b>1,280</b>	<b>4.1</b>	<b>30.5</b>
<b>Dow Jones</b>	<b>9,359</b>	<b>1.9</b>	<b>18.4</b>

\*columns 2 & 3 reflect change in levels

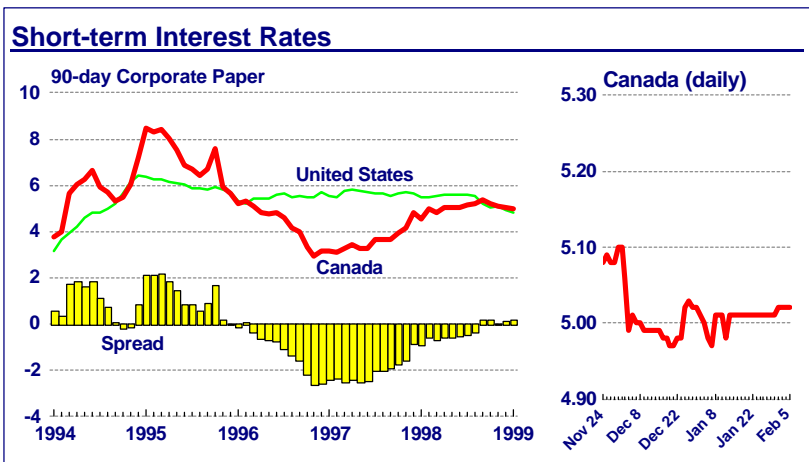


### Bond yields rise...

- Short-term interest rates remained virtually unchanged in January, the third month of stability since the Bank of Canada initiated a series of rate reductions last September. Still, the spread between Canadian and U.S. short-term rates widened slightly to 20 basis points during the month, as U.S. rates edged lower amid financial uncertainty following Brazil's decision to let its currency float.
- Long-term rates, after declining to relatively low levels late in November in anticipation of further easing of interest rates in North America, have edged up since mid-December. Higher yields were prompted by a string of economic releases pointing to stronger-than-expected growth in North America. These reports have all but erased hopes that monetary authorities would further lower interest rates in the near future.

### ... putting upward pressure on mortgage rates

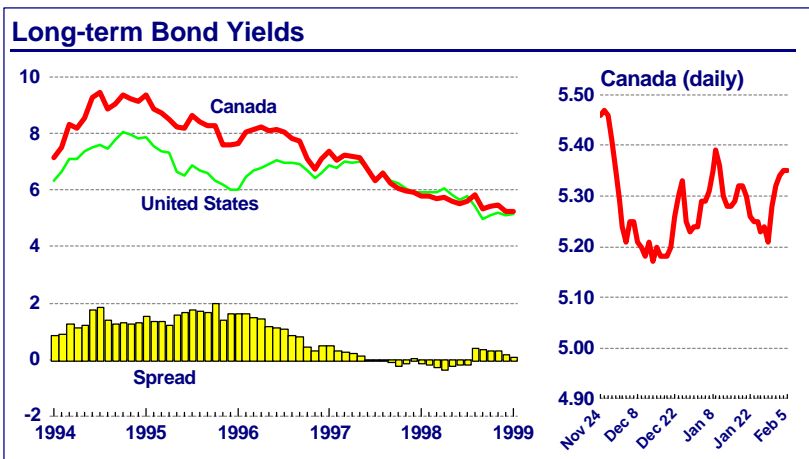
- Chartered banks increased borrowing costs for homeowners in January – the first increase after eight rounds of reductions since last summer. The 5-year mortgage rate was raised to 6.9%, up 30 basis points from an historical low of 6.6% in December. The one-year rate was increased 20 basis points to 6.4%.



#### Key Money Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
1997	4.80	-0.85	5.95	0.02
1998	5.02	0.09	5.23	0.14
1998 Aug	5.22	-0.33	5.83	0.39
1998 Sept	5.38	0.19	5.32	0.34
1998 Oct	5.22	0.19	5.45	0.32
1998 Nov	5.09	0.02	5.47	0.28
1998 Dec	5.02	0.09	5.23	0.14
1999 Jan	5.01	0.19	5.23	0.09
Feb 3	5.02	0.20	5.34	0.10

A positive spread indicates that Canadian rates are above their U.S. counterparts.



#### Key Lending Rates

(end of period)	Bank Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
1997	4.50	6.00	6.65	7.05
1998	5.25	6.75	6.20	6.60
1998 Aug	5.00	6.50	6.75	7.15
1998 Sept	5.75	7.25	6.75	7.15
1998 Oct	5.50	7.00	6.50	6.75
1998 Nov	5.25	6.75	6.40	7.15
1998 Dec	5.25	6.75	6.20	6.60
1999 Jan	5.25	6.75	6.40	6.90
Feb 3	5.25	6.75	6.40	6.90



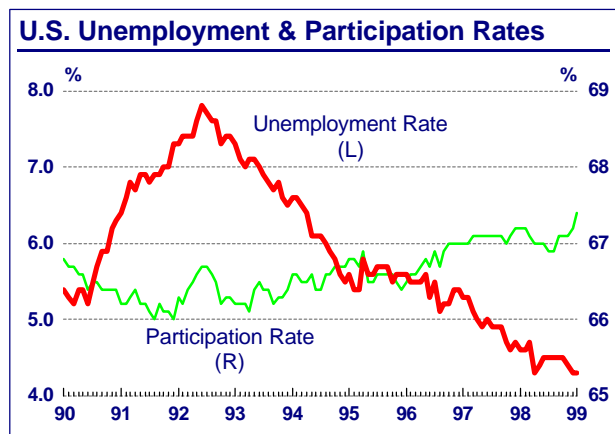
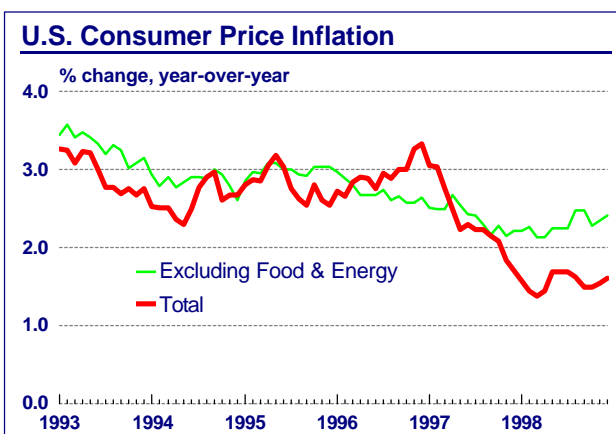
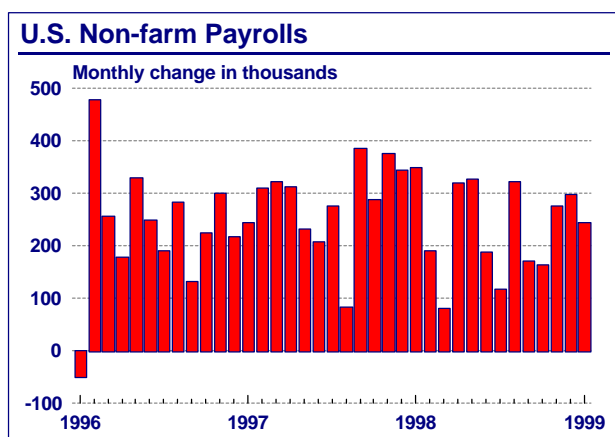
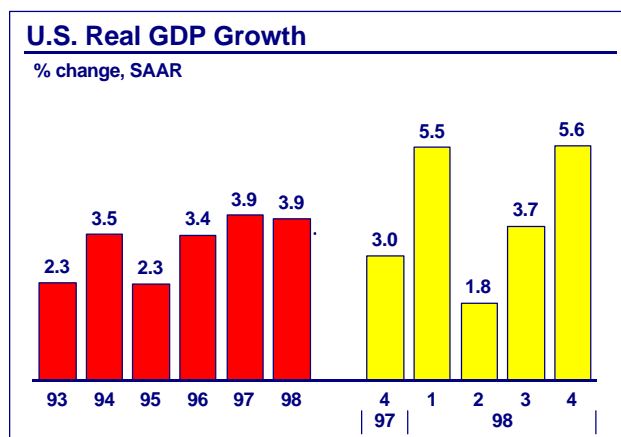
## U.S. Economic Trends

### *The U.S. economy displays surprising strength late in the year...*

- Advance estimates reveal that U.S. real GDP surged 5.6% in the fourth quarter of 1998, far exceeding the growth of 4.5% expected by most economists. The major contributors to this increase were personal consumption expenditures on durable goods, exports of goods (whose growth outpaced that for imports), and investment in producers' durable equipment. For the year as a whole, real GDP grew 3.9%, the same as in 1997 (and the highest growth rate since 1984).

### *...and this momentum carries over to the beginning of 1999*

- Early indicators for the first quarter suggest that the economy's momentum has carried over into 1999. U.S. payroll employment rose a higher-than-expected 245,000 in January, led by widespread gains in the service-producing sector. The unemployment rate held steady at 4.3%, a 28-year low. Also in January, the employment-population ratio rose 0.3 points to 64.5% while the labour force participation rate increased to 67.4% – both record highs.
- The Federal Reserve opted to leave its trend-setting interest rate unchanged at 4.75 percent at its February 2-3 meeting. The concerns of higher inflation – because of a rapidly growing economy and tight labour markets – were offset by the negative impact that higher rates would have on foreign economies (particularly Latin America and Asia) and the U.S. stock market. The Federal Open Market Committee is next scheduled to meet on March 30.





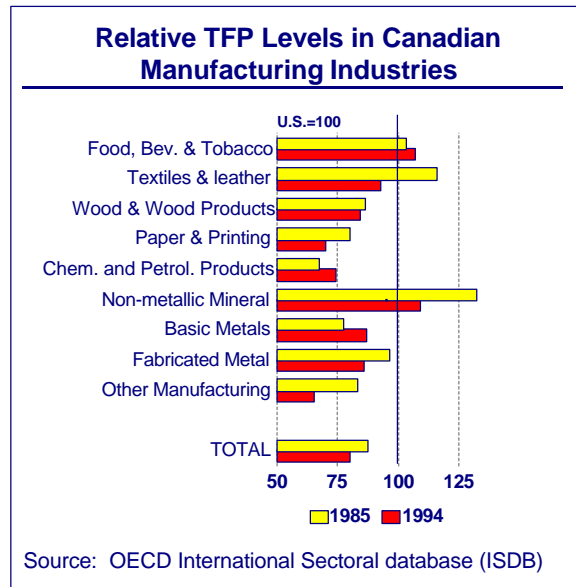
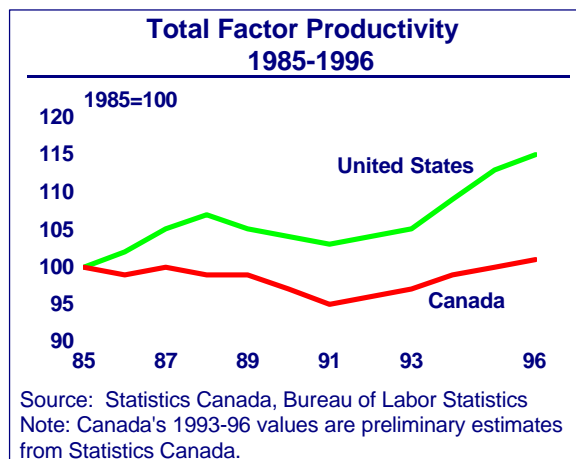


### Slower productivity growth in Canada's Manufacturing sector...

- Total factor productivity (TFP) in Canada's Manufacturing sector has been basically flat over the 1985-1996 period. In contrast, over this same period TFP has increased by roughly 15% in the U.S.
  - TFP is a broad measure of productivity which assesses the efficiency in which all factors of production are combined.

### ...has led to a widening productivity gap between Canada and the U.S....

- Canada's slower productivity growth has led to a widening of the overall Canada-U.S. productivity gap.
  - Industry-level data from the OECD indicate that the overall level of productivity in Canadian Manufacturing industries was only 87.1% of that in the U.S. in 1985, *i.e.*, a gap of roughly 13%. By 1994, this gap had risen to just over 20%.
- At the industry level, Canada's productivity performance significantly lagged behind that of the U.S. in 7 of 9 major manufacturing industries in 1994.
  - Indeed, in 1994 the productivity gap exceeded 20% for Other Manufacturing, Paper & Printing, and Chemical & Refined Petroleum Products.
- Moreover, Canada's relative TFP position has deteriorated over time in 6 of 9 industry groups. Most notably, TFP in the Textiles & Leather industries was significantly above that of the U.S. in 1985, but had fallen well below the U.S. by 1994. Other substantial declines in Canada's relative productivity performance occurred in Non-metallic Minerals and Other Manufacturing.



*This special report is based on the findings in "Productivity Gap between Canadian and U.S. Firms", by Frank C. Lee and Jianmin Tang, Industry Canada (1998).*



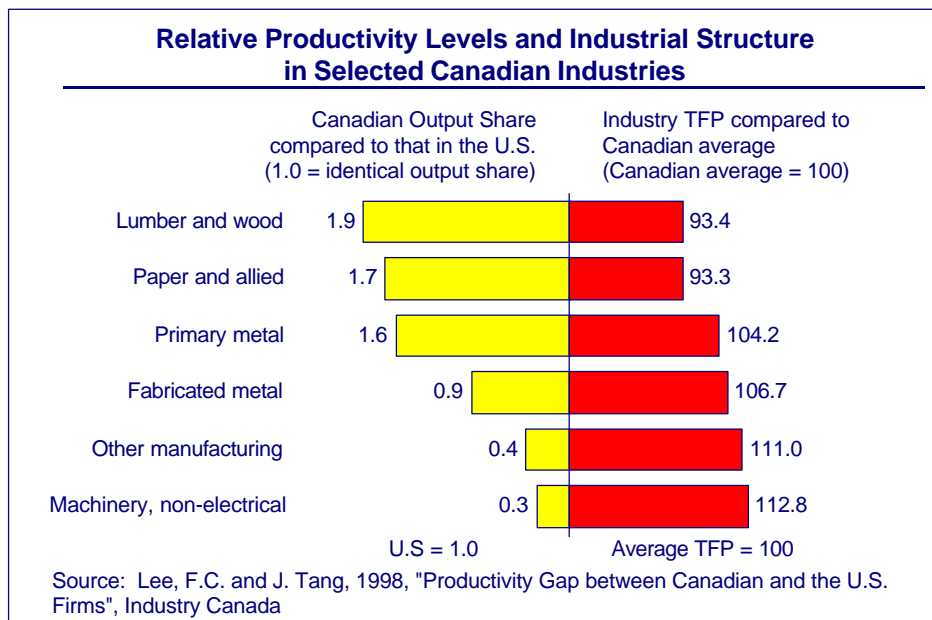
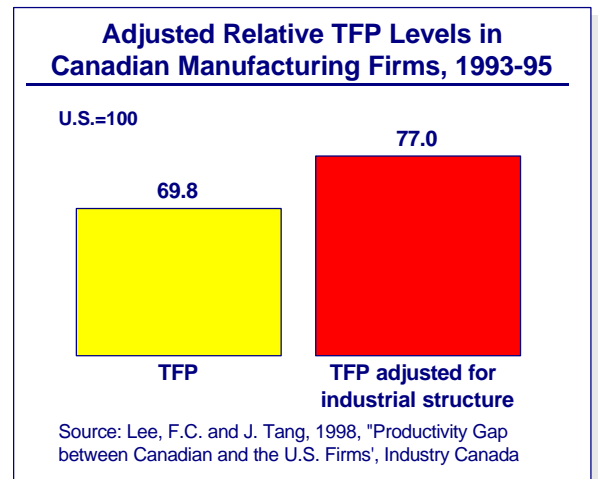
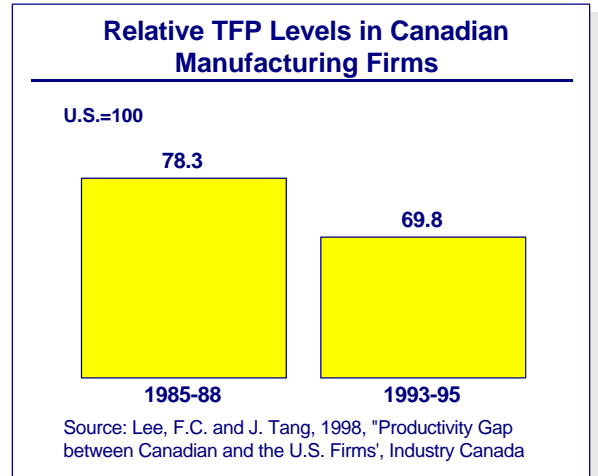
**The Productivity Gap between Canadian and U.S. Firms**

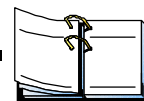
**Firm-level data also point to a growing Canada-U.S. productivity gap...**

- An analysis of TFP using data at the firm level confirms that the productivity gap between Canadian and U.S. manufacturing firms has been widening.
  - On average over the 1993-95 period, Canadian firms were 30.2% less productive than U.S. firms. This compares to a productivity gap of 21.7% over the 1985-88 period.

**...that can be partly explained by differences in industrial structure**

- Compared to their U.S. counterparts, Canadian manufacturing firms tend to be more heavily concentrated in industries with relatively low productivity, such as Lumber & Wood and Paper & Allied Products. Conversely, high productivity industries such as Non-Electrical Machinery and Other Manufacturing on average account for a smaller share of manufacturing output in Canada.
- Adjusting for differences in industrial structure raises Canada's relative TFP to 77.0% of the U.S. in the 1993-95 period, compared to 69.8% before any adjustments. That is, adjusting for industrial structure narrows the TFP gap between Canadian and U.S. firms from 30.2% to 23.0%.





#### CANADA

Survey of Manufacturing – December .....	February 16
Consumer Price Index – January .....	February 18
International Trade – December .....	February 19
Private and Public Investment Intentions – 1999 .....	February 23
Financial Statistics For Enterprises – 4th Quarter 1998 .....	February 26
GDP at factor cost – December .....	March 1
National Economic & Financial Accounts – 4th Quarter 1998 .....	March 1
Balance of International Payments – 4th Quarter 1998 .....	March 1
Capacity Utilization Rates – 4th Quarter 1998 .....	March 9
Labour Force Survey – February .....	March 12
Business Conditions Survey – April .....	May 4

#### UNITED STATES

Consumer Price Index – January .....	February 19
International Trade – December .....	February 19
GDP – 4th Quarter 1998, Preliminary estimate .....	February 26
Employment Situation – February .....	March 5
Federal Open Market Committee meeting .....	March 30

Note: the February MEI uses data available as of February 5, 1999

The Special Report scheduled for the March MEI is entitled  
"Public and Private Investment Intentions"



---

***Micro Economic Policy Analysis***  
***Analyse de la politique micro-économique***

---