

# MONTHLY ECONOMIC INDICATORS

August 1 1999

## HIGHLIGHTS

-  **Employment posts its second highest increase of the year in July. Gains were concentrated in Quebec.**
-  **The national unemployment rate, however, edges up to 7.7% because of a rising labour force.**
-  **Output grew for the tenth consecutive month in May. The increase was shared between goods and services industries.**
-  **Plant and equipment spending is expected to reach record levels in 1999.**
-  **Exports rose more than imports, leading to an increase in the trade surplus in May.**
-  **Speculation of an interest rate hike in the U.S. caused the Canadian dollar to retreat and stock prices to fall.**

## Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$92 B)	737.6	0.3	3.1	May
Goods	241.2	0.3	2.2	May
Services	496.4	0.4	3.6	May
Composite Index	214.5	0.2	3.8	June
Employment (000's)	14679	0.3	2.7	July
Full-time	11995	0.4	3.4	July
Part-time	2685	-0.4	-0.3	July
Unemployment* (%)	7.7	7.6	8.4	July
Youth*	14.1	13.5	15.1	July
Adult*	6.5	6.5	7.1	July
CPI inflation*	1.6	1.6	1.0	June
Retail Sales (\$M)	21,319	0.4	3.4	May
Housing Starts (000's)	145	-4.5	19.7	July
Trade Balance* (\$M)	2,444	2,343	1,309	May
Exports	28,894	0.5	10.1	May
Imports	26,450	0.1	6.1	May
M&E	8,744	0.4	7.2	May
3-mth Corp. paper* (%)	4.88	4.86	5.14	Aug 4
Long bond yield* (%)	5.83	5.63	5.61	Aug 4
Canadian dollar* (US¢)	66.50	66.39	66.14	Aug 6

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

**This issue's Special Report:  
Canada's Chemical Industry**

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).



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# MONTHLY ECONOMIC August 1999 INDICATORS

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This report uses data available as of August 6, 1999. It has been prepared by Dave Dupuis, Joseph Macaluso, André Patry and Karen Smith of the Micro-Economic Analysis Directorate, under the direction of Raynald Létourneau and Shane Williamson. The special report in this issue was prepared by Jennifer Kennedy and Frank Lee. 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 613-995-8452 or through the Internet at [williamson.shane@ic.gc.ca](mailto:williamson.shane@ic.gc.ca).



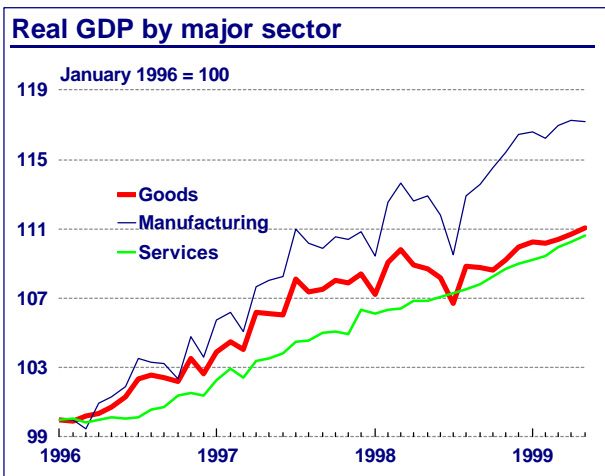
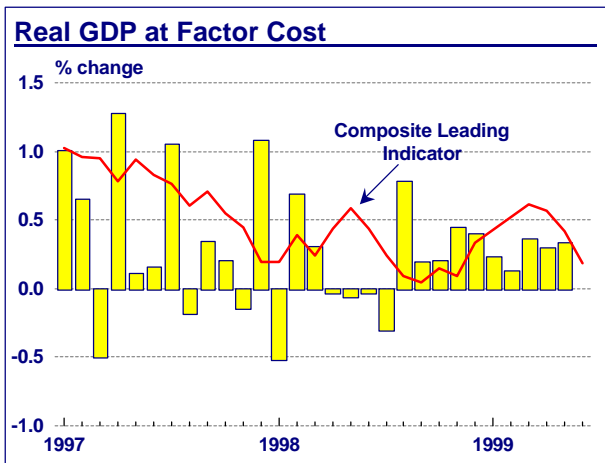
## Real GDP by Industry

### Output advances in May...

- Real GDP continues to advance, increasing 0.3% in May. This marks the tenth consecutive monthly increase in real GDP – the longest uninterrupted string of gains since the late 1980s.

### ...led by gains in Service-producing industries and the Mining sector

- Activity in the Service sector rose 0.4% in May. Wholesale Trade (+1.0%) continued to lead the way, with the largest absolute gain in the Service Sector for the fourth consecutive month. Strong sales of computers and high demand for lumber and hardware contributed to May's impressive performance. Elsewhere, Business Services (+0.9%) continued to grow, buoyed by increased demand for accounting and legal services. Real Estate & Insurance (+0.4%) also posted a strong month, spurred by a strong housing market.
- Output in the Goods-producing industries increased 0.3% in May, led by the Mining (+1.0%) sector. Higher production of diamonds, oil and natural gas more than offset declines in base metal and other non-metal mines. Electric power utilities got a boost from warmer-than-average weather in Eastern Canada, while Manufacturing paused in May.



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

#### May 1999

	\$ millions	monthly change	% Change since last month	% Change since last year
<b>Total Economy</b>	<b>737,630</b>	<b>2,444</b>	<b>0.3</b>	<b>3.1</b>
<b>Business sector</b>	<b>611,524</b>	<b>2,470</b>	<b>0.4</b>	<b>3.7</b>
<b>Goods</b>	<b>241,212</b>	<b>679</b>	<b>0.3</b>	<b>2.2</b>
Agriculture	11,964	116	1.0	-0.0
Fishing & Trapping	641	-2	-0.3	-16.6
Logging & Forestry	4,847	91	1.9	9.4
Mining*	26,626	274	1.0	-5.3
Manufacturing	132,839	-51	-0.0	3.8
Construction	39,554	62	0.2	1.8
Other Utilities	24,741	189	0.8	2.9
<b>Services</b>	<b>496,418</b>	<b>1,765</b>	<b>0.4</b>	<b>3.6</b>
Transport & Storage	32,973	101	0.3	2.5
Communications	27,249	291	1.1	15.6
Wholesale Trade	46,679	479	1.0	11.8
Retail Trade	45,902	104	0.2	2.1
Finance & Insurance	39,763	52	0.1	1.1
Real Estate & Ins. Agent	80,716	304	0.4	2.5
Business services	43,777	374	0.9	7.9
Government services	43,087	74	0.2	0.9
Education	40,021	-40	-0.1	-0.4
Health & Social Services	48,336	4	0.0	0.0
Accommodation & Food	18,668	-32	-0.2	0.9
Other	29,247	54	0.2	2.3

\*Includes Quarrying and Crude Petroleum & Natural Gas

# THE ECONOMY



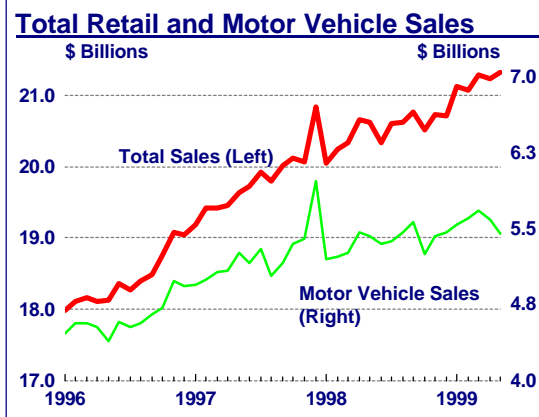
## Consumer Spending and Attitudes

### Consumer spending rebounded in the first quarter...

- Following two relatively weak quarters, growth in real consumer spending surged in the first quarter of 1999, advancing 5.1% (annual rate).
- Purchases of goods made gains in all major categories. In particular, durable goods advanced 15.9% on the quarter, buoyed by automotive purchases.
- Growth in disposable income slowed markedly in the first quarter to 2.1%. Consequently, consumer purchases were partially financed through increased borrowing, as is evident by the falling saving rate (the weakest on record) and the increase in the debt-to-income ratio.

### ...but the momentum may be slowing

- Following gains in March (+6.7%) and April (+1.1%), the number of new motor vehicles sold in May decreased (-3.8%). More than two thirds of this drop is attributable to lower sales of passenger cars.
- Retail sales advanced 0.4% in May, following a decline of the same magnitude in April. Retail sales have been volatile so far in 1999 and this trend may continue, as department store sales decreased 0.3% in June.



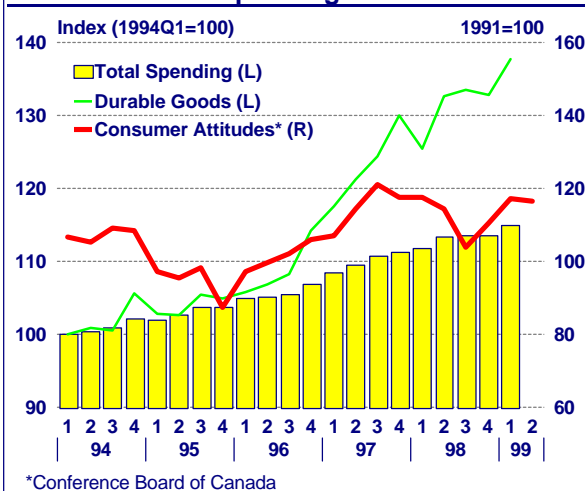
### Retail Sales and Consumer Credit

	\$ millions	% Change since	
		last month	last year
<b>May 1999</b>			
<b>Total Retail Sales</b>	21,319	0.4	3.4
Food	4,934	1.0	2.4
Drug Stores	1,112	0.6	1.8
Clothing	1,218	1.4	4.3
Furniture	1,118	4.8	8.2
Automotive	8,084	-1.6	1.6
General Merch. Stores	2,494	2.0	6.8
All other Stores	2,359	1.7	6.3
Total ex. motor vehicles	15,861	1.4	4.4
<b>Consumer Credit</b>	161,688	0.5	6.4

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	1997	1998	1998 Q4	1999 Q1
<b>Real Consumption (92\$)</b>	472,867	485,906	488,144	494,300
% change	4.2	2.8	0.0	5.1
Durable Goods	62,823	66,801	67,652	70,192
% change	13.3	6.3	-2.3	15.9
Semi-Durable Goods	44,334	46,526	46,540	47,148
% change	4.3	4.9	-0.4	5.3
Non-Durable Goods	118,293	119,521	119,728	120,820
% change	1.3	1.0	-1.4	3.7
Services	247,417	253,058	254,224	256,140
% change	3.4	2.3	1.3	3.0
<b>Disposable Income</b>	534,728	552,778	558,404	561,320
% change	3.1	3.4	4.2	2.1
<b>Saving Rate (%)</b>	2.8	2.3	2.2	1.4
<b>Debt-to-Income Ratio (%)</b>	96.4	98.3	99.2	99.9

### Real Consumer Spending and Attitudes



\*Conference Board of Canada

# THE ECONOMY

## Business Investment in Plant and Equipment

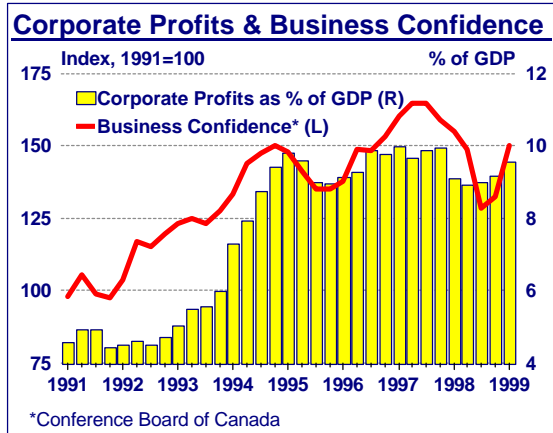
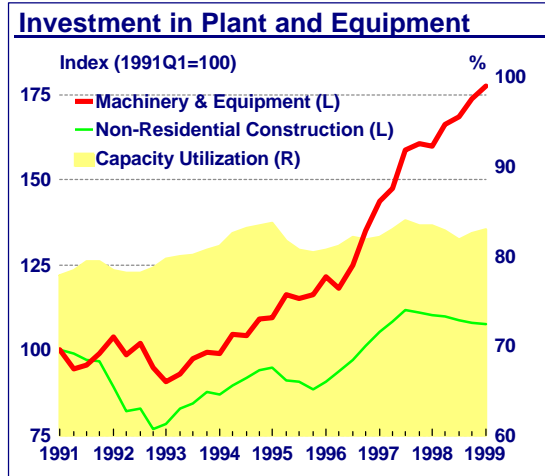


### Investment rises early in the year...

- Investment in Machinery & Equipment (M&E) posted another strong gain in the first quarter, fuelled by purchases of computers and other office equipment.
- Growth in corporate profits (before taxes) accelerated to 5.9% (in nominal terms) in the first quarter. Gains were concentrated in the non-financial sector, with motor vehicle and transportation equipment industries faring well. Profits in Primary industries also made a modest rebound as commodity prices recovered from recent lows.

### ...with encouraging signs for the future

- Imports of M&E increased a further, albeit meagre, 0.4% in May, with gains in computers and communications equipment largely offset by lower imports of aircrafts. Elsewhere, non-residential construction slowed slightly in May (-0.2%), largely due to a fall in repair and engineering projects.
- Despite this mixed data, signs are very encouraging for the future. The most recent Survey of Private and Public Investment Intentions reveals that business and government investment in plant and equipment is expected to reach a record level of \$135.8 billion in 1999, an increase of 8.1% over 1998. Steady profits, high capacity utilization rates and low interest rates are the underlying factors behind these high investment intentions.



### Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	1997	1998	1998 Q2	1998 Q3	1998 Q4	1999 Q1
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1992\$)</b>	59,112	64,701	64,376	65,308	67,284	68,732
% change	22.2	9.5	17.5	5.9	12.7	8.9
<b>Non-residential Construction (1992\$)</b>	39,079	39,110	39,312	38,932	38,696	38,588
% change	14.0	0.1	-1.9	-3.8	-2.4	-1.1
<b>Capacity Utilization (% , Non-farm goods)</b>	83.2	82.7	82.9	81.9	82.6	83.1
Capacity Utilization (Mfg. sector)	83.7	83.8	83.7	82.6	84.7	85.7
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>						
% change						
Profits - Non-financial industries						
% change						
Profits - Financial industries						
% change						
<b>Business Credit</b>	621,420	682,926	676,193	692,331	699,997	704,314
% change	8.8	9.9	8.1	9.9	4.5	2.5

NOTE: Statistics Canada is making significant changes to the Quarterly Survey of Financial Statistics for Enterprises. For this reason, the first quarter results are preliminary only and may be subject to significant revision.



## Housing

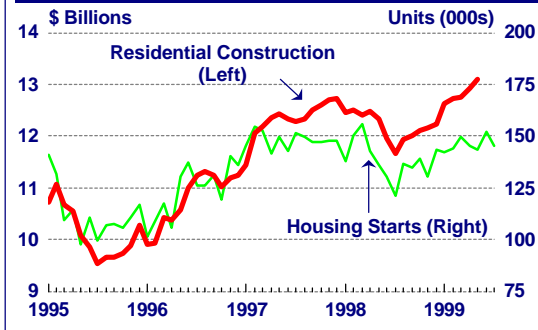
### Spending on new housing surges in the first quarter...

- After slumping during most of last year, investment in residential construction rose 16.6% (annual rate) in the first quarter of 1999, the largest quarterly gain since 1996.
- The rebound in the housing market was led by new housing construction – urban starts soared in Ontario and the Atlantic region, while new multi-dwelling sales across Canada increased nearly 20%.
- The housing sector was also boosted by solid increases in renovation and resale activity in the first quarter.

### ...and this momentum continues well into the second quarter

- Existing home sales increased 3.7% in June – the fifth consecutive monthly increase. Existing home sales for the first six months of 1999 are 6.9% higher than a year ago.
- Residential building permits increased 1.4% in June and are up 7.6% in the second quarter of 1999.
- National housing starts fell 4.5% in July following a (revised) 5.8% increase in June. Despite this drop and an increasing trend in mortgage rates recently, housing activity is expected to advance in 1999. According to Statistics Canada's revised Survey of Public and Private intentions, housing investment is expected to increase 2.7% in 1999 (on the strength of renovation activity).

### Housing Activity



### Monthly Housing Indicators

	levels	Change since	
		last month	last year
<b>Residential Construction (1)</b> (\$92M, factor cost basis)	13,098	1.3%	6.2%
<b>Building Permits, \$M (2)</b>	1,709	1.4%	17.2%
<b>Sales of Existing Homes (2)</b> (# of units)	21,169	763	
<b>Housing Starts, # of units (3)</b>	145,000	-6,800	23,900
Newfoundland	1,000	0	400
Prince Edward Island	600	300	300
Nova Scotia	2,400	-700	600
New Brunswick	2,100	-300	-400
Quebec	17,700	500	3,300
Ontario	60,600	-7,300	22,400
Manitoba	2,600	700	600
Saskatchewan	3,400	1,400	900
Alberta	20,300	-2,100	-100
British Columbia	11,900	500	-6,800

1 - May data; 2 - June data; 3 - July data.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association

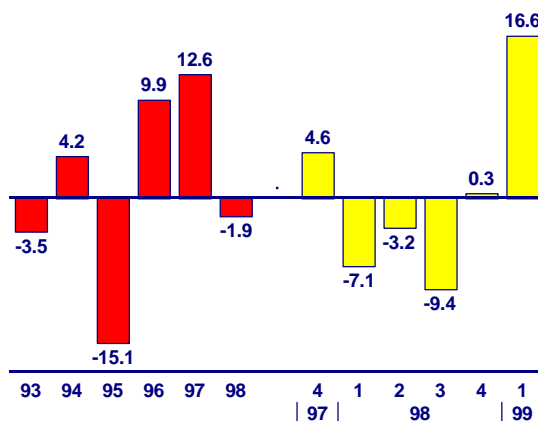
### Real Investment in Residential Structures

\$92 Millions, SAAR (unless otherwise noted)

	1997	1998	1998 Q4	1999 Q1
<b>Residential Construction</b>	42,348	41,547	40,972	42,580
% change	12.6	-1.9	0.3	16.6
Construction by Business sector	42,223	41,422	40,852	42,452
% change	12.6	-1.9	0.3	16.6
New Housing	21,441	20,695	20,372	21,332
% change	19.5	-3.5	11.2	20.2
Alterations & Improvements	13,315	13,645	13,572	14,088
% change	7.2	2.5	4.4	16.1
Ownership & Transfer Costs	7,592	7,207	7,028	7,160
% change	4.5	-5.1	-29.7	7.7

### Growth in Real Residential Construction

% change, SAAR





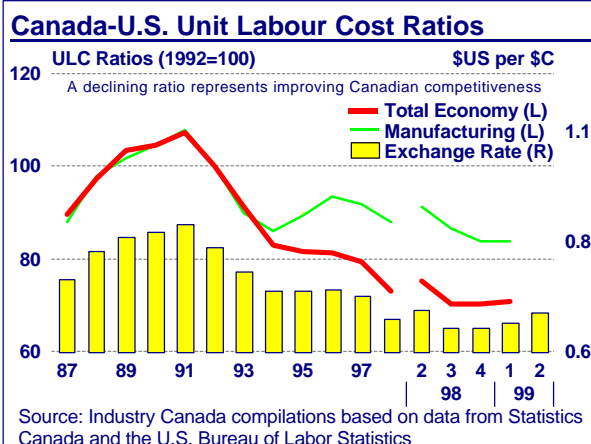
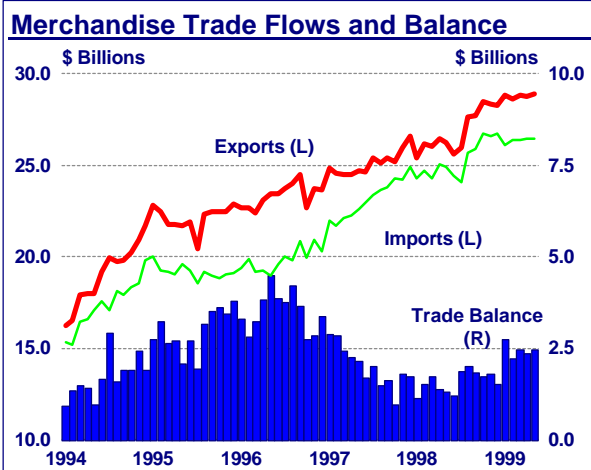


### Exports gain more than imports...

- Exports increased 0.5% in May. Rising exports of coal, wheat, seafood, cars and minerals more than offset a sharp decrease in aircraft and forest product exports. Shipments to Japan, in particular, have been very strong, rising 16.0% in May – the fourth consecutive monthly increase.
- Imports have been virtually unchanged since February, and remained \$300 million lower in May than the record level reached in December 1998. A recovery in imports of M&E and automotive parts in May was almost completely offset by a drop in imports of Industrial Goods & Materials.

### ...leading to an increase in the trade surplus in May

- With exports increasing more than imports, the trade balance rose from (a revised) \$2.3 billion in April to \$2.4 billion in May. The trade balance has held fairly steady at a high level since January, averaging \$2.4 billion per month. This compares with an average monthly surplus of only \$1.6 billion for 1998.



### Merchandise Trade

May 1999	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	1999 April	1999 May	1998 Jan-May	1999 Jan-May	Apr to May 1999	Apr to May 1999	Apr to May 1999	May 98 to May 99
<b>Exports</b>	<b>28,763</b>	<b>28,894</b>	<b>130,296</b>	<b>143,911</b>	<b>131</b>	<b>0.5</b>		<b>10.1</b>
to United States	24,779	24,734	107,233	123,343	-45	-0.2		13.6
<b>Imports</b>	<b>26,420</b>	<b>26,450</b>	<b>123,261</b>	<b>131,699</b>	<b>30</b>	<b>0.1</b>		<b>6.1</b>
from United States	20,296	20,291	94,796	101,424	-5	0.0		5.6
<b>Trade Balance</b>	<b>2,343</b>	<b>2,444</b>	<b>7,035</b>	<b>12,212</b>	<b>101</b>			
with United States	4,483	4,443	12,437	21,919	-40			
<b>Exports by Commodity</b>								
Agriculture/Fishing Products	2,004	2,132	10,498	10,413	128	6.4		1.3
Energy Products	2,275	2,474	9,831	10,292	199	8.7		21.2
Forestry Products	3,261	3,159	14,404	15,727	-102	-3.1		10.8
Industrial Goods & Materials	4,529	4,549	24,086	22,993	20	0.4		-6.2
Machinery & Equipment	6,728	6,486	31,878	33,608	-242	-3.6		-0.5
Automotive Products	7,713	7,825	30,172	39,638	112	1.5		31.8
Other Consumer Goods	1,156	1,117	4,886	5,689	-39	-3.4		9.1
<b>Imports by Commodity</b>								
Agriculture/Fishing Products	1,499	1,486	7,008	7,391	-13	-0.9		3.8
Energy Products	817	808	3,804	3,584	-9	-1.1		9.0
Forestry Products	231	220	1,016	1,106	-11	-4.8		2.3
Industrial Goods & Materials	5,027	4,970	24,677	25,128	-57	-1.1		-0.2
Machinery & Equipment	8,712	8,744	40,480	43,731	32	0.4		7.2
Automotive Products	6,136	6,155	27,556	30,694	19	0.3		10.7
Other Consumer Goods	2,981	3,047	13,690	15,082	66	2.2		7.3



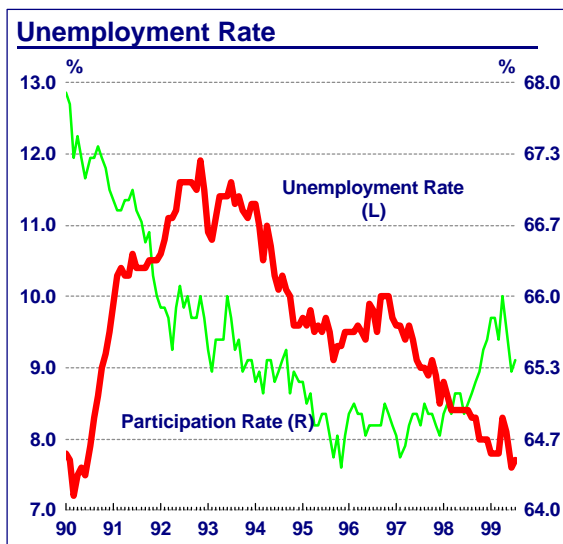
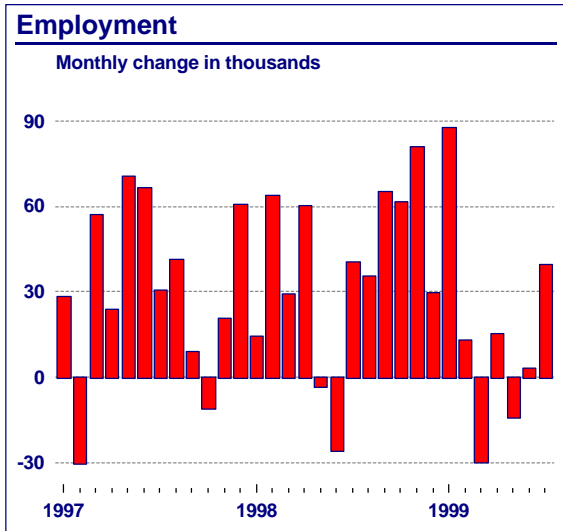
## Employment and Unemployment

### Employment is up in July...

- The economy generated 40,000 new jobs in July, following a gain of only 3,000 jobs the previous month. Employment had levelled off in recent months after a period of strong growth in the last half of 1998.
- A large increase in full-time employment was partially offset by losses in part-time work. On a year-over-year basis, full-time employment was up 3.4% in July, while the number of part-time jobs was down slightly.
- Youth employment grew more than twice as fast as adult employment in July.

### ...but a rising labour force pushes the unemployment rate up to 7.7%

- The national unemployment rate rose 0.1 percentage points to 7.7% in July as the increase in employment was more than offset by a growing number of people seeking work (+59,000).
- With this increase in the labour force, the participation rate rose to 65.4% in July, following two months of decline.
- The youth unemployment rate rose by 0.6 percentage points to 14.1% as job gains were offset by an increase in the labour force. The adult unemployment rate was 6.5% in July, unchanged from the previous month.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	1998 July	1999 June	1999 July	last month	last year	year-to- date	last month	last year
<b>Employment</b>	14,290.6	14,639.8	14,679.3	39.5	388.7	115.9	0.3	2.7
<b>Full-time</b>	11,597.8	11,943.9	11,994.7	50.8	396.9	185.0	0.4	3.4
<b>Part-time</b>	2,692.8	2,695.9	2,684.5	-11.4	-8.3	-69.2	-0.4	-0.3
<b>Youth 15-24</b>	2,090.3	2,181.1	2,193.3	12.2	103.0	11.8	0.6	4.9
<b>Adult 25+</b>	12,200.3	12,458.7	12,485.9	27.2	285.6	104.0	0.2	2.3
<b>Self-employed</b>	2,517.1	2,589.8	2,535.4	-54.4	18.3	-54.2	-2.1	0.7
<b>Unemployment</b>	1,302.1	1,203.7	1,222.9	19.2	-79.2	-49.3	1.6	-6.1
<b>Unemployment Rate</b>	8.4	7.6	7.7	0.1	-0.7	-0.3		
<b>Youth 15-24</b>	15.1	13.5	14.1	0.6	-1.0	-0.3		
<b>Adult 25+</b>	7.1	6.5	6.5	0.0	-0.6	-0.3		
<b>Labour Force</b>	15,592.7	15,843.4	15,902.1	58.7	309.4	66.5	0.4	2.0
<b>Participation Rate</b>	65.0	65.3	65.4	0.1	0.4	-0.2		
<b>Employment Rate</b>	59.5	60.3	60.4	0.1	0.9	0.0		





## Industry Overview

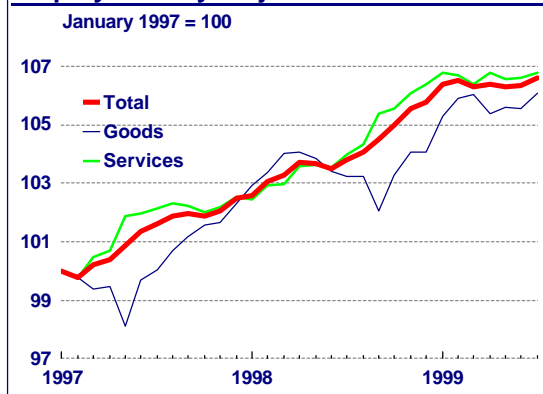
### Employment gains are shared between the Goods and Services industries...

- In July, employment edged up 20,000 in the Goods-producing industries. Gains in Manufacturing were partially offset by losses in Agriculture and Construction.
- The number of jobs in the Service sector also increased by 20,000. Job gains were posted by five of the eleven major groupings, led by: Management, Administration & Other Support Services; Transportations & Warehousing; and, Information, Culture & Recreation. The largest losses were posted by Other Services, Professional, Scientific & Technical Services and Trade.

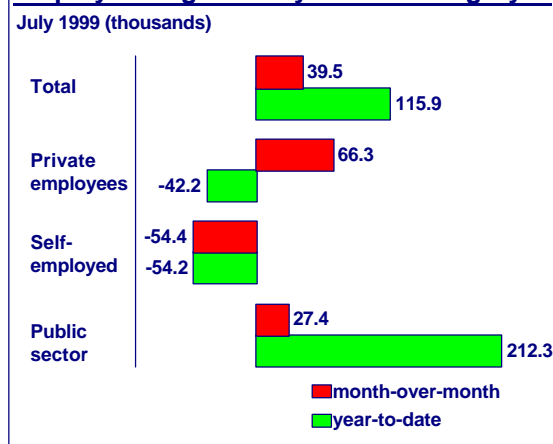
### ...but most of the gains were among private sector paid employees

- The number of paid employees in the private sector rose almost two and a half times as much as in the public sector while Self-employment fell significantly in July.
- The public sector continued to grow in July, with employment rising by 27,000 – the seventh consecutive monthly increase. Employment in Public Administration rose, but remained below the level of a year ago.

### Employment by major sector



### Employment growth by worker category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	1998 July	1999 June	1999 July	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	3,731.9	3,815.5	3,835.4	19.9	103.5	73.2	0.5	2.8
Agriculture	410.3	408.3	399.4	-8.9	-10.9	-12.8	-2.2	-2.7
Other Primary*	302.8	252.7	254.4	1.7	-48.4	-25.6	0.7	-16.0
Utilities	111.8	134.5	136.5	2.0	24.7	21.3	1.5	22.1
Construction	757.4	770.3	765.4	-4.9	8.0	-47.7	-0.6	1.1
Manufacturing	2,149.6	2,249.9	2,279.8	29.9	130.2	138.1	1.3	6.1
<b>Service-producing</b>	10,558.7	10,824.3	10,843.8	19.5	285.1	42.6	0.2	2.7
Trade	2,178.6	2,284.2	2,276.4	-7.8	97.8	35.3	-0.3	4.5
Transportation	679.1	762.6	782.5	19.9	103.4	51.8	2.6	15.2
FIRE*	836.5	892.3	887.3	-5.0	50.8	-10.8	-0.6	6.1
Professional/Scientific	900.9	922.0	913.7	-8.3	12.8	-22.9	-0.9	1.4
Management/Administrative	498.5	518.5	538.9	20.4	40.4	51.8	3.9	8.1
Educational Services	942.4	958.2	957.5	-0.7	15.1	18.2	-0.1	1.6
Health Care/Social Assistance	1,478.1	1,479.6	1,480.2	0.6	2.1	-10.5	0.0	0.1
Information/Culture/Recreation	631.4	627.2	642.1	14.9	10.7	-1.2	2.4	1.7
Accommodation & Food	896.2	907.0	917.2	10.2	21.0	-15.3	1.1	2.3
Other Services	712.5	718.3	689.0	-29.3	-23.5	-42.9	-4.1	-3.3
Public Administration	804.5	754.2	758.9	4.7	-45.6	-11.0	0.6	-5.7

\*Other Primary: Forestry, Fishing, Mining, Oil & Gas; Transportation includes warehousing; FIRE: Finance, Insurance, Real Estate & Leasing.



## Provincial Overview

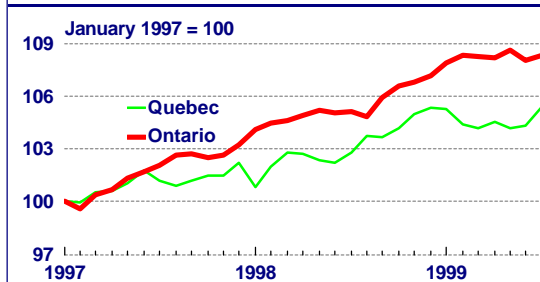
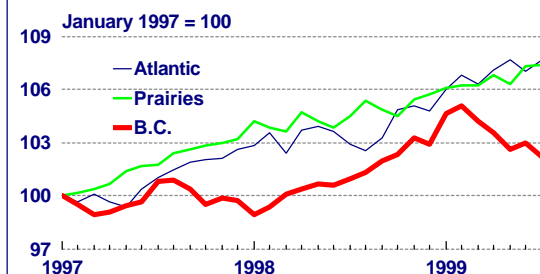
### Quebec leads in job gains in July...

- Following little change in previous months, employment grew by 34,000 in Quebec, accounting for more than 85% of all new jobs created in July. Ontario had the second largest growth.
- Employment was also higher in all other provinces, except for British Columbia, Manitoba and Prince Edward Island.
- British Columbia reported the largest provincial job loss in July, the fourth monthly decline since February.

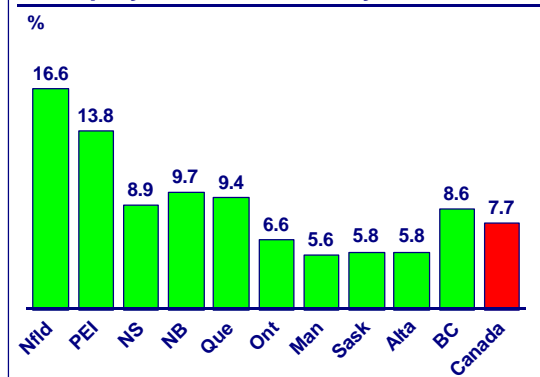
### ...and unemployment rates are up in most of the provinces.

- Six provinces posted higher unemployment rates in July. The largest increases were reported in New Brunswick, Ontario and Manitoba.
- The increases in New Brunswick, Ontario, Saskatchewan and Alberta occurred despite higher employment as labour force grew at a faster pace.
- Unemployment rates went down in Nova Scotia, Newfoundland and Quebec. The unemployment rate was unchanged in British Columbia.

### Regional employment patterns



### Unemployment Rates -- July 1999



### Provincial Employment and Unemployment Trends

	Levels 1999 July	Employment (thousands)				Unemployment rate (%)		
		Change since last month		Change since last year		Levels	Change since	
		(000's)	%	(000's)	%		last month	last year
Canada	14,679.3	39.5	0.3	388.7	2.7	7.7	0.1	-0.7
Newfoundland	211.5	1.7	0.8	15.5	7.9	16.6	-0.3	-1.3
P.E.I.	61.2	-0.4	-0.6	-1.0	-1.6	13.8	0.1	1.4
Nova Scotia	416.8	0.2	0.0	15.0	3.7	8.9	-0.3	-1.7
New Brunswick	334.9	4.4	1.3	15.3	4.8	9.7	0.8	-1.4
Quebec	3,399.6	33.6	1.0	83.8	2.5	9.4	-0.2	-1.4
Ontario	5,767.8	13.8	0.2	168.5	3.0	6.6	0.3	-0.5
Manitoba	557.2	-3.9	-0.7	9.9	1.8	5.6	0.3	0.2
Saskatchewan	482.8	0.3	0.1	6.5	1.4	5.8	0.2	-0.2
Alberta	1,567.0	5.0	0.3	52.8	3.5	5.8	0.2	0.3
B.C.	1,880.5	-15.2	-0.8	22.3	1.2	8.6	0.0	-0.3



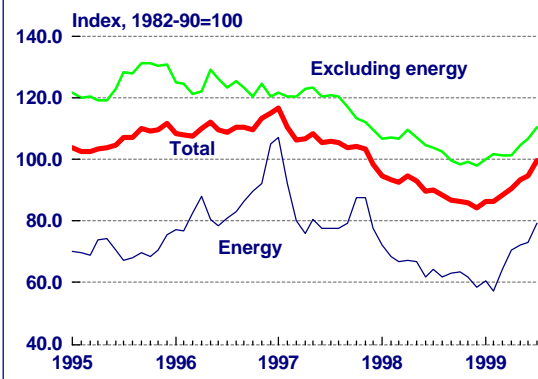
### Inflation holds steady in June...

- The year-over-year rate of CPI inflation was unchanged at 1.6% in June.
- Once again, higher transportation costs put the most upward pressure on the general price level. Air transportation fares advanced 16.2% (annual basis) in June, while the price of gasoline increased 3.7%. Partially offsetting these price increases were lower costs for computers and telephone services.

### ...remaining well within the Bank of Canada's target range

- After hovering around the lower bound target of 1% since the end of 1997, inflation has picked up in recent months. Since April, the annual CPI inflation rate has averaged approximately 1.6%.
- The "core" inflation rate – excluding the volatile food and energy components as well as the impact of indirect taxes – increased to 1.7% in June, but remains within the bottom half of the 1-3% target range set jointly by the Bank of Canada and the Department of Finance.
- Commodity prices rose sharply in July, with the commodity price index advancing 10.4% (annual basis), its largest gain since October 1995. The index was led by a 23.4% (annual basis) surge in energy prices.

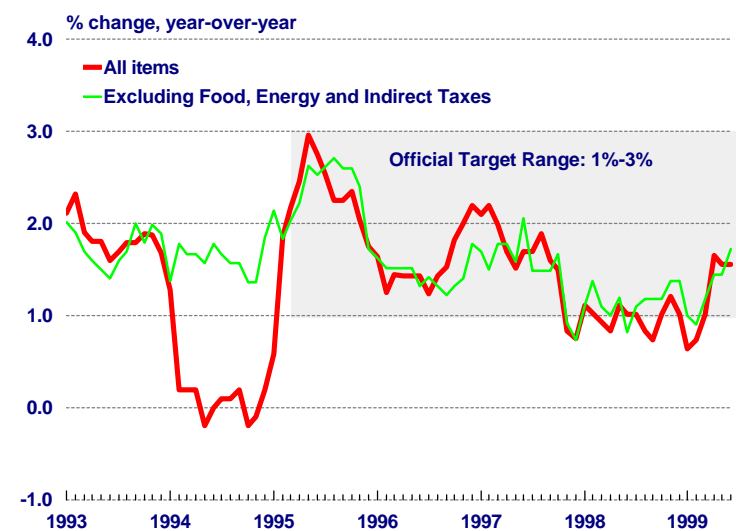
### Commodity Prices (\$U.S. basis)



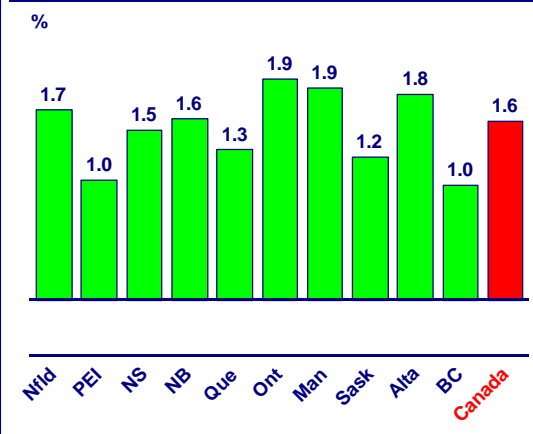
### Consumer Prices

	Index (1992=100)	% Change since	
		last month	last year
<b>June 1999</b>			
<b>All items CPI</b>	110.5	0.1	1.6
Food	111.5	0.4	1.2
Shelter	104.7	0.1	1.2
Household operations	109.2	0.1	1.1
Clothing & Footwear	104.5	-0.4	1.3
Transportation	123.7	-0.3	2.5
Health & Personal Care	110.5	0.1	2.1
Recreation, Educ. & Reading	120.6	0.8	1.8
Alcohol & Tobacco	94.7	0.0	2.3
<b>Excl. Food/Energy/Indirect Taxes</b>	112.0	0.2	1.7
Energy	107.6	-0.7	2.4
<b>Commodity Prices (July)</b>			
Index, 1982-90=100	99.5	5.0	10.4
Excluding Energy	110.4	3.7	6.3
Energy	79.2	8.6	23.4

### Consumer Price Index



### Provincial CPI Inflation -- June 1999



## Short-term and Long-term Interest Rates

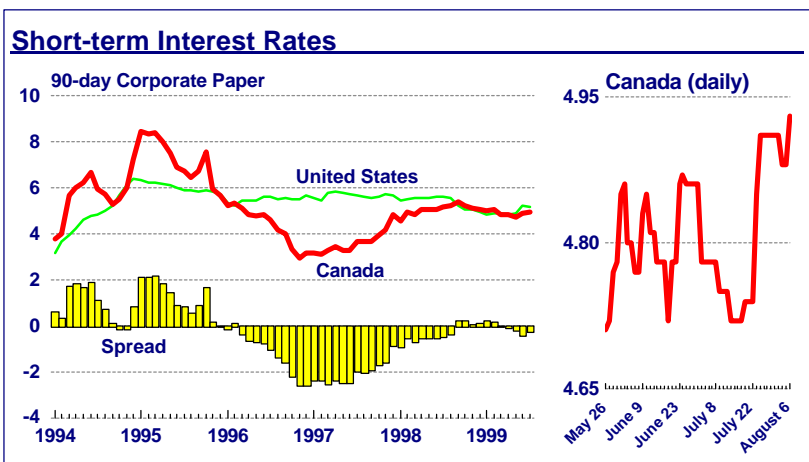


### *Fears of an interest rate hike in the U.S. push up bond yields...*

- The Federal Reserve adopted a neutral policy bias (from a tightening bias) following its quarter point hike on June 30th. However, on July 22nd Alan Greenspan suggested that a further interest rate increase in the US might be necessary to combat inflationary pressures.
- This news had an immediate impact on financial markets. Concerns that the Bank of Canada would once again not match a Fed increase put substantial downward pressure on Canadian bond prices. Canadian short-term rates increased 11 basis points while long-term rates shot up 13 basis points by closing on July 23rd.
- Canadian long-term rates increased a further 9 basis points on August 6th as concerns over inflationary pressure in the US intensified. This was due to a strong employment release and news that average hourly wages in the US had posted another significant increase.

### *...and increase the gap between Canadian and U.S. interest rates*

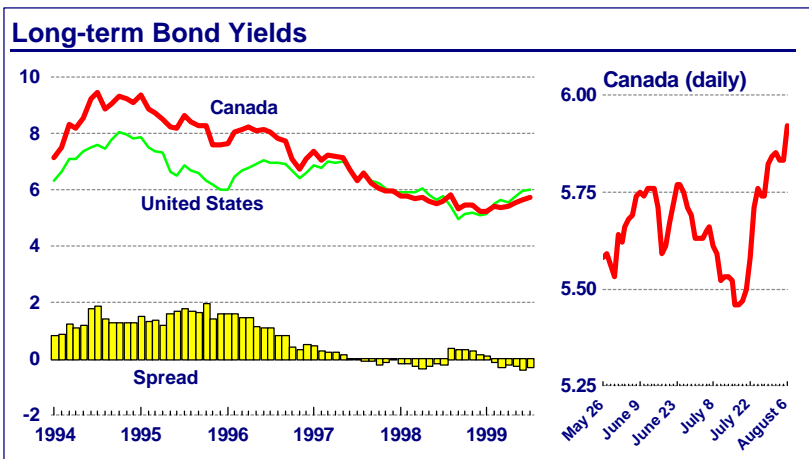
- At the end of July, Canadian short-term and long-term rates were roughly 25 basis points below comparable U.S. yields. However, with American rates increasing faster than Canadian rates in early August, the interest rate spread has increased. As of August 4th, Canadian short and long term rates were 37 and 29 basis points lower, respectively.



### 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
Feb 1999	5.04	0.16	5.43	-0.08
March	4.85	-0.04	5.36	-0.27
April	4.80	-0.05	5.41	-0.17
May	4.71	-0.19	5.58	-0.22
June	4.86	-0.38	5.63	-0.35
July	4.91	-0.26	5.74	-0.27
August 4	4.88	-0.37	5.83	-0.29

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	5 year
1997	4.50	6.00	6.65	7.05
1998	5.25	6.75	6.20	6.60
Feb 1999	5.25	6.75	6.40	6.90
March	5.00	6.75	6.45	6.95
April	5.00	6.50	6.30	6.95
May	4.75	6.25	6.30	7.30
June	4.75	6.25	6.75	7.70
July	4.75	6.25	7.05	7.75
August 4	4.75	6.25	7.05	7.75

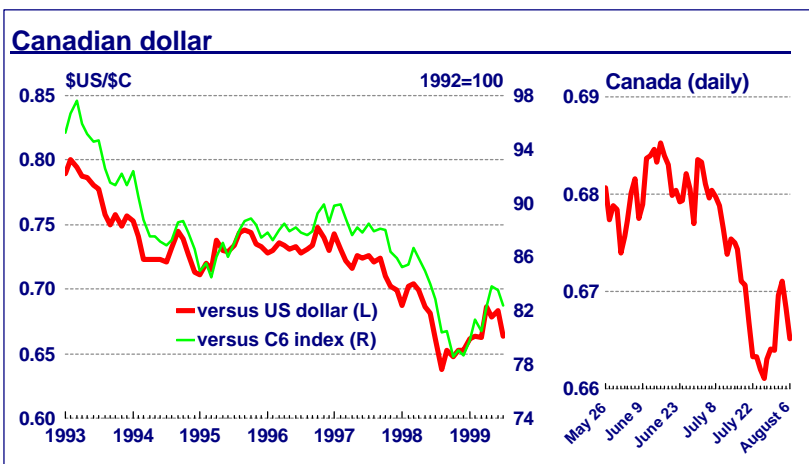


### The stock market declines in late July...

- The TSE300 experienced sharp gains in early July, peaking at 7292.7 on July 15th. However, interest rate fears were largely responsible for the TSE subsequently posting 7 consecutive daily losses. This left the TSE300 down 308.5 points over this span, closing on July 26 at below 7000 points for the first time since June. Strong employment and wage data from the US in early August caused the TSE300 to fall further, hitting a six-week low of 6878.8 on August 6th.

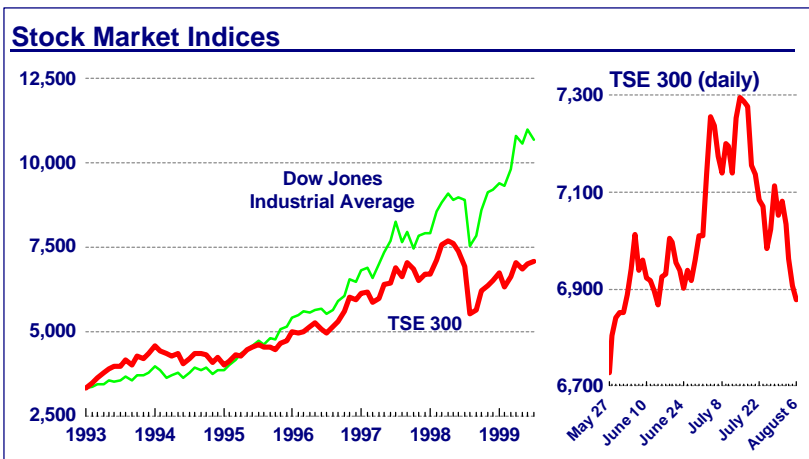
### ...and the Canadian dollar also loses ground

- Speculation of an interest rate hike in the US also put downward pressure on the Canadian dollar throughout late July. In addition, strong economic data out of Germany contributed to investors shifting money out of North American currencies and into the Euro in late July. This further weakened the Canadian dollar, which hit a four month low of US66.1¢ on July 27th.
- The Canadian dollar staged a rebound, advancing over half a cent (US) on August 3rd, on the strength of corporate acquisition activity and rising commodity prices.



### The Canadian Dollar

(close)	\$US vs. \$Cdn	index vs. C-6 (92=100)	DM vs. \$Cdn	yen vs. \$Cdn
1997	0.6991	85.87	1.247	90.87
1998	0.6522	78.71	1.082	75.91
Feb 1999	0.6632	81.33	1.166	77.81
March	0.6628	80.51	1.184	78.71
April	0.6863	82.26	1.229	80.49
May	0.6784	83.80	1.259	83.35
June	0.6835	83.50	1.283	82.17
July	0.6639	82.39	1.267	80.13
August 6	0.6650			



### Key Stock Market Indexes

	July Close	% change from	
		last month	last year
<b>TSE 300</b>	<b>7,081</b>	<b>1.0</b>	<b>2.2</b>
Oil & Gas	6,371	7.0	14.2
Metals & Minerals	3,768	-0.9	16.8
Utilities	8,271	1.2	8.7
Paper & Forest	5,009	3.2	22.4
Merchandising	5,317	-2.6	-14.1
Financial Services	7,355	-1.7	-21.9
Gold	5,042	-4.3	-6.5
Price-Earnings Ratio*	34.0	0.7	4.4
<b>S&amp;P 500</b>	<b>1,329</b>	<b>-3.2</b>	<b>18.6</b>
<b>Dow Jones</b>	<b>10,655</b>	<b>-2.9</b>	<b>19.9</b>

\*columns 2 & 3 reflect change in levels



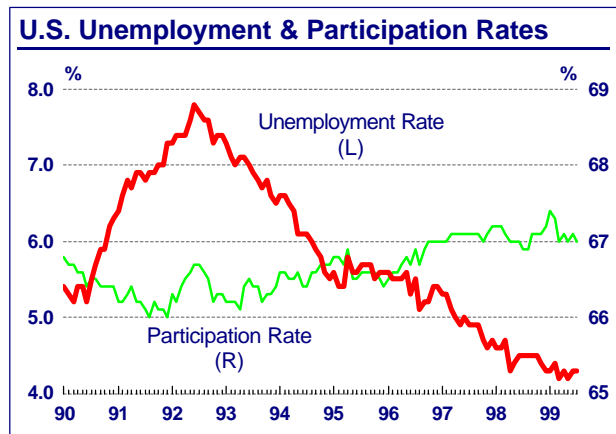
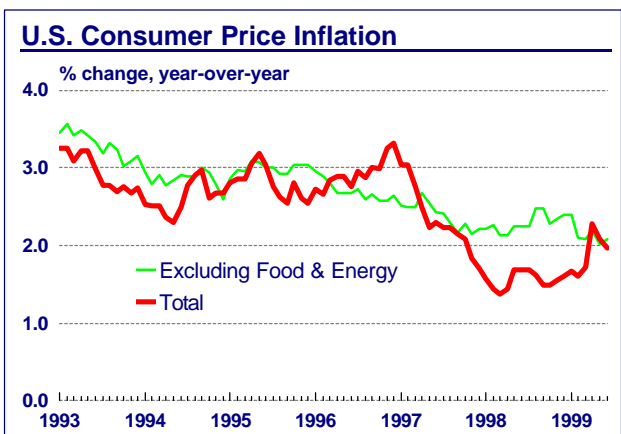
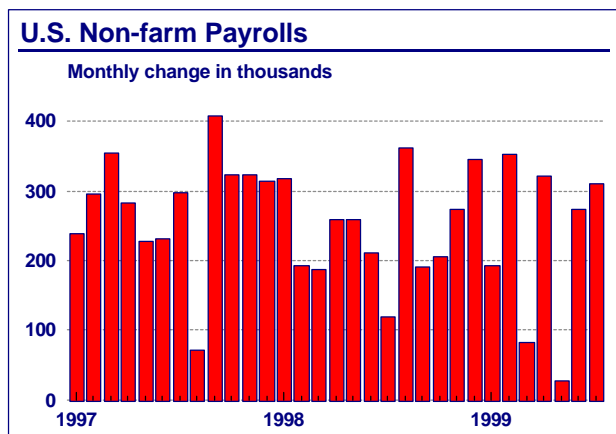
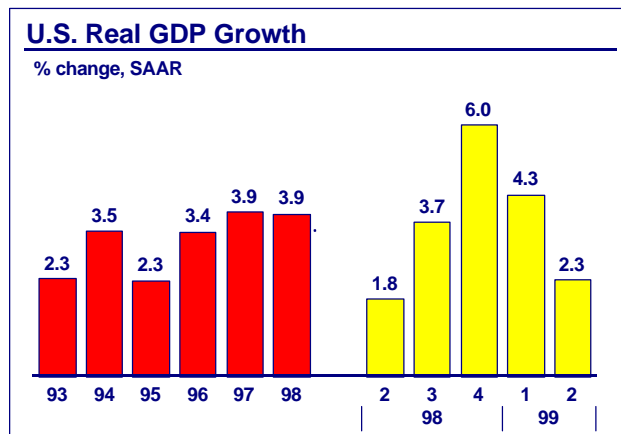
## U.S. Economic Trends

### *The U.S. economy is strong, but slows from first quarter...*

- Advance estimates indicate that the U.S. economy expanded 2.3% in the second quarter (annual rate), down from 4.3% in the first quarter. Slower growth in consumer spending (+4.0%) and lower government spending (-1.2%) were the principal reasons for slower GDP growth.
- Although the U.S. trade deficit jumped to a record \$21.3 billion in May, the GDP release suggests that exports increased 4.5% overall in the second quarter, while imports fell by 9.7%.
- For the second consecutive month, employment was up strongly in July (+310,000), with job gains led by Services, Retail Trade and a rebound in Manufacturing. The unemployment rate was unchanged at 4.3%. However, average hourly earnings, an important inflation signal, rose 0.5% in July, above the 0.3% consensus.

### *... as the Fed promises to act quickly should inflation appear.*

- Although consumer prices were unchanged in June, the employment cost index – which is followed by the Fed as a potential leading indicator of inflation – rose 1.1%. The Federal Reserve Chairman, Alan Greenspan, has indicated on several occasions that the Fed will react quickly and promptly to any signs of inflation. These statements have dampened enthusiasm in the financial markets as fears of higher interest rates rise.







***The Canadian chemical industry is a key part of Canadian manufacturing***

- The chemical industry is the third largest manufacturing industry in Canada, in terms of value added.
  - In 1997, the chemical industry contributed 8.1% of total manufacturing value added in Canada and provided over 87,000 jobs.

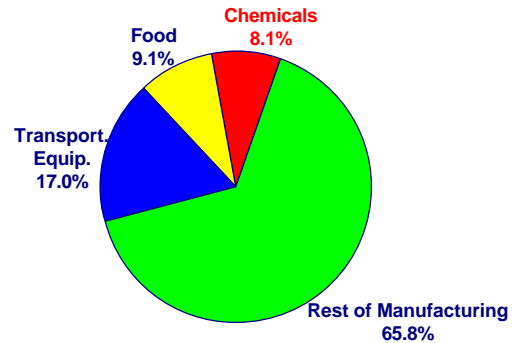
***It has experienced fast productivity growth...***

- Labour productivity in the Canadian chemical industry has grown, on average, 3.5% per year over the 1988-96 period, well above the manufacturing average of 2% per year.
- And, Canada's labour productivity growth in the chemical industry has outstripped the U.S. growth rate in the last eight years--3.5% compared to 2.6%.
- Still, labour productivity in the Canadian chemical industry has not yet attained its full potential.
  - In 1996, it was about 85% of the U.S. level.

***...and is one of the most knowledge intensive manufacturing industries***

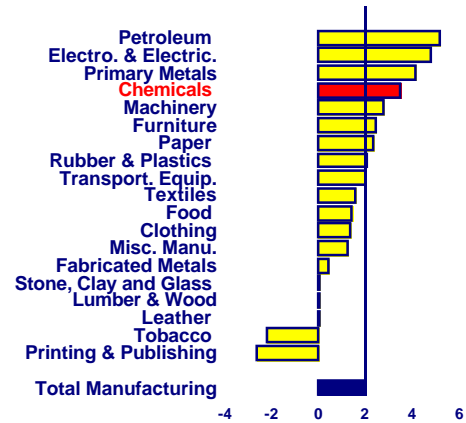
- The chemical industry is the most knowledge intensive manufacturing industry in Canada, in terms of having the highest percentage of workers with a post-secondary education.
  - Almost one in three employees in the Canadian chemical industry have, at least, a university degree, compared to the Canadian manufacturing average of about one in ten.
  - Similarly, the chemical industry in the U.S. is also the most knowledge intensive, with 40% of workers having a university degree.

**Distribution of Canada's Manufacturing Value Added, 1997**



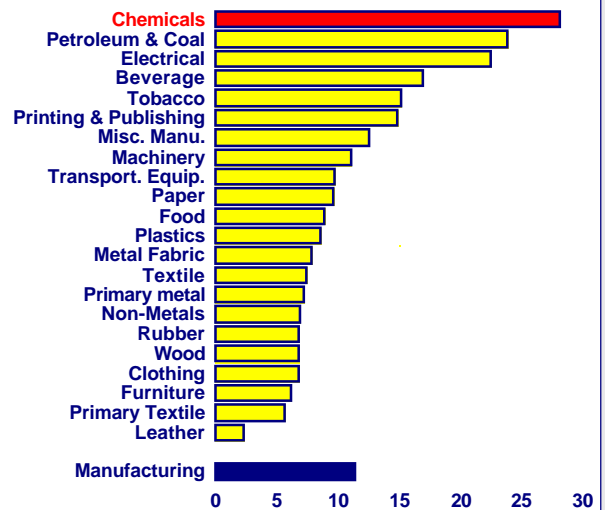
Source: Statistics Canada

**Labour Productivity\* Growth, 1988-96**



\* Value-added per worker (US value added at market prices is converted into factor cost to be comparable with Canadian data.)  
 \*\* Growth rates are average compound rates  
 Source: 1998, OECD STAN Database

**Knowledge Workers\* by Industry, 1997**



\* Percentage of workers with a university degree %  
 Source: Statistics Canada



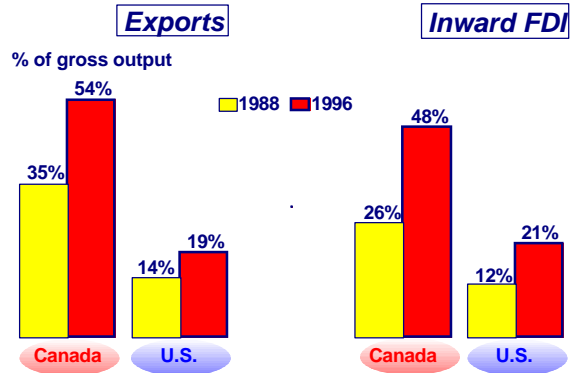
***The chemical industry continues to embrace globalization...***

- The Canadian chemical industry has strong global links in terms of exports and foreign direct investment.
- One half of Canada's chemical output is exported, compared to about one fifth for the U.S. Furthermore, the growth in Canada's export orientation continues to exceed the pace in the U.S.
- Inward FDI is valued at almost 50% of gross output in Canada's chemical industry; for the U.S. it is about 20%.

***...and is very competitive***

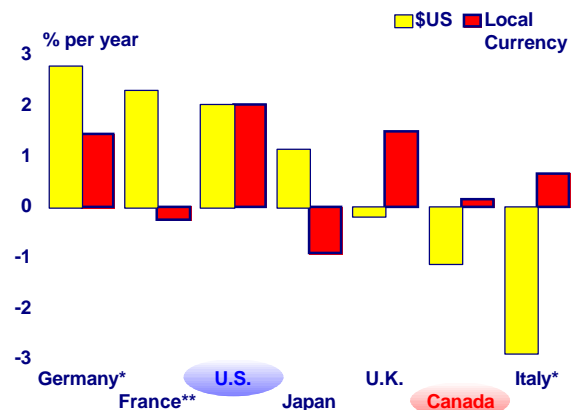
- Since 1988, unit labour costs in Canada's chemical industry have grown at a slower pace than in other G7 countries.
- Ignoring the impact of the depreciating dollar, unit labour costs in Canada have risen by less than a quarter of a percent per year, compared to 2% in the U.S.
- Factoring in the depreciating dollar, unit labour costs have declined by more than 1.1% per year, one of the lowest rates in the G7.

**Chemical Industry – Globalization**



\* For Canada, FDI intensity includes the textile industry  
 Source: Statistics Canada, Bureau of Economic Analysis and 1998 STAN Database, OECD

**Growth in Unit Labour Cost, Chemical Industry, 1988-96**



\* 1988-94  
 \*\* 1988-95  
 Source: 1998 STAN Database, OECD



***The industrial chemical subsector drives the competitive advantage of the chemical industry***

- The industrial chemical subsector accounts for roughly 40% of Canada's total value added in the chemical industry and 30% of total employment.
- Over the 1988-96 period, unit labour costs in Canada's industrial chemical industry significantly declined.
  - Unit labour costs in this subsector, measured in U.S. dollars, fell by 2.5% per year. This is twice the rate of decline of the aggregate chemical industry in Canada.
  - Across the G7, only Italy had a larger decline in (US dollar) unit labour costs and this was due entirely to its depreciating currency.

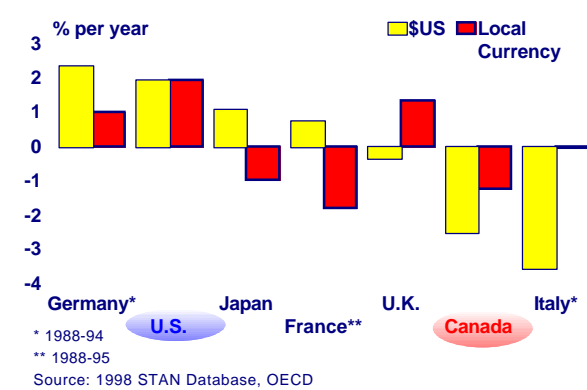
***Its strong productivity performance...***

- Canada's level of labour productivity in industrial chemicals was the highest among the G7 in 1996. Moreover, during the 1988-96 period, Canada's growth in labour productivity was second only to France.

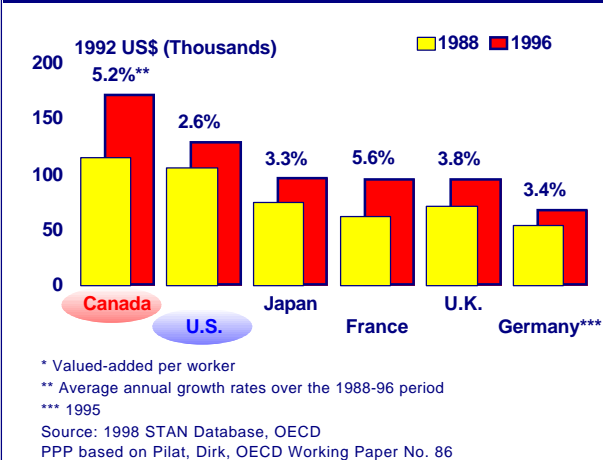
***...explains over 50% of Canada's gain in cost competitiveness vis-à-vis the U.S.***

- Over the 1988-96 period, Canada's unit labour costs in the industrial chemical industry decreased by 35% relative to the U.S.
  - Over 50% of this gain was due to Canada's industrial chemical employees becoming more productive relative to U.S. employees.
  - Slower growth in labour compensation and the depreciating Canadian dollar also contributed to this improved cost performance.
- However, Canada's R&D business spending in industrial chemicals remains about 25% of that of the U.S.'s, which could undermine the future competitiveness of the Canadian industry.

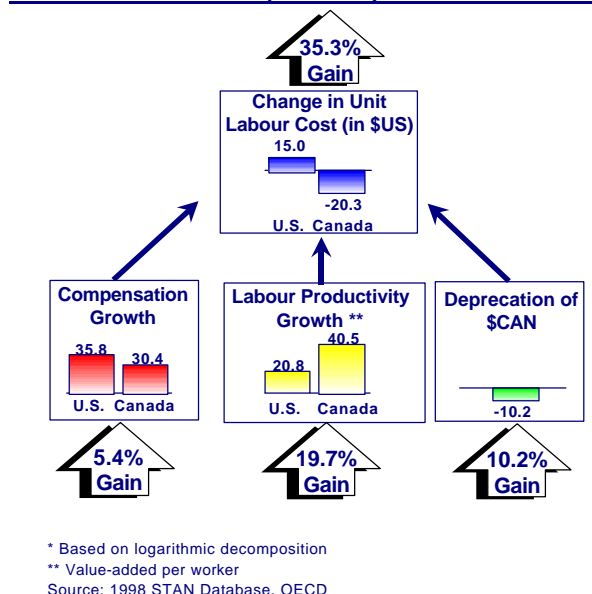
**Growth in Unit Labour Cost, Industrial Chemicals, 1988-96**



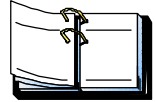
**Labour Productivity\* – Industrial Chemicals**



**Change in Competitiveness – Industrial Chemicals 1988-96 (Percent)\***



## COMING UP



### Key Future Data Releases and Planned Events

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#### CANADA

Survey of Manufacturing – June .....	August 17
Consumer Price Index – July .....	August 18
International Trade – June .....	August 19
Financial Statistics For Enterprises – 2nd Quarter 1999 .....	August 20
GDP at factor cost – June .....	August 31
National Economic & Financial Accounts – 2nd Quarter 1999 .....	August 31
Balance of International Payments – 2nd Quarter 1999 .....	August 31
Capacity Utilization Rates – 2nd Quarter 1999 .....	September 10
Labour Force Survey – August .....	September 10
Business Conditions Survey – October .....	November 2

#### UNITED STATES

Consumer Price Index – July .....	August 17
International Trade – June .....	August 19
Federal Open Market Committee meeting .....	August 24
GDP – 2nd Quarter 1999, Preliminary .....	August 26
Employment Situation – August .....	September 3

Note: the August MEI uses data available as of August 6, 1999