



Canadian Economic Accounts Quarterly Review



Third quarter 2007

Symbols

The following standard symbols are used in Statistics Canada publications:

.	not available for any reference period
..	not available for a specific reference period
...	not applicable
0	true zero or a value rounded to zero
0 ^s	value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
P	preliminary
r	revised
X	suppressed to meet the confidentiality requirements of the <i>Statistics Act</i>
E	use with caution
F	too unreliable to be published

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Statistics Canada
System of National Accounts

Canadian Economic Accounts Quarterly Review

Third quarter 2007

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Related products and serviceswww.statcan.ca/nea**GDP by income and by expenditure**

CANSIM tables	380-0001 to 380-0017, 380-0019 to 380-0035, 380-0037, 380-0056 to 380-0060, 382-0006, 384-0001, 384-0002, 384-0004 to 384-0013, and 384-0036
Publication:	
National Income and Expenditure Accounts	13-001-XIB
Tables and Analytical Document:	
National Income and Expenditure Accounts	13-001-PPB
Estimates of Labour Income	13F0016XPB
Provincial Economic Accounts	13-213-PPB
Spreadsheets	13-001-DDB, 13F0016DDB, 13-213-DDB, 13-001-XDB, 13F0016XDB, 13-213-XDB

GDP by industry

CANSIM table	379-0027
Publication:	
Gross Domestic Product by Industry	15-001-XIE

Balance of international payments

CANSIM tables	376-0001 to 376-0036 and 376-0060 to 376-0061
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Canada's Balance of International Payments	67-001-XIE

Financial flow accounts

CANSIM tables	378-0001, 378-0002
Tables and Analytical Document	13-014-PPB
Spreadsheets	13-014-DDB, 13-014-XDB

Labour productivity, hourly compensation and unit labour cost

CANSIM tables	383-0008 to 383-0015
Publication:	
The Canadian productivity accounts - Data	15-003-XIE
Provincial Labour Productivity Growth, 1997 to 2005	15-206-XIE

International investment position

CANSIM tables	376-0037 to 376-0042 and 376-0051 to 376-0059
Publication:	
Canada's International Investment Position	67-202-XIE

National balance sheet accounts

CANSIM tables	378-0003 to 378-0010
Publication:	
National Balance Sheet Accounts	13-214-XIE
Spreadsheets	13-214-DDB, 13-214-XDB

Latest developments in the Canadian economic accounts

Publication	13-605-XIE
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About this publication

This publication presents an overview of the economic developments reported in Canada's national accounts for the most recent quarter. The overview covers several broad areas: 1) Gross domestic product (GDP) by income and by expenditure, 2) GDP by industry, 3) Balance of international payments, 4) Financial flow accounts 5) Labour productivity and other related variables, 6) International investment position and 7) National balance sheet.

The publication examines quarterly trends in the major aggregates that comprise GDP, both income- and expenditure-based, as well as prices and the financing of economic activity by institutional sector. GDP is also examined by industry, both for the last month of the quarter and the quarter as a whole. Canada's transactions with non-residents related to international trade, investment income flows, transfers and international investing and financing activities are summarized. The quarterly productivity estimates are meant to assist in the analysis of the short-run relationship between the fluctuations of output, employment, compensation and hours worked. Complete national balance sheets provide estimates of Canada's wealth. Canada's financial position with the rest of the world is also articulated. The overview is accompanied by graphics and several detailed statistical tables. Some issues also contain more technical articles, explaining national accounts methodology or analysing a particular aspect of the economy.

This publication carries the detailed analyses, charts and statistical tables that, prior to its first issue, were released in *The Daily* (11-001-XIE) under the headings National Economic and Financial Accounts, Canada's Balance of International Payments and Gross Domestic Product by industry.

Revision policy

GDP by income and by expenditure, Balance of international payments, Financial flow accounts, Labour productivity, hourly compensation and unit labour cost, International investment position, National balance sheet:

Preceding quarters of the year are revised when the current quarter is published. Each year revisions extending back four years are made with the publication of first quarter data. They are not normally revised again except when historical revisions are carried out.

GDP by industry:

Revisions arise from updates to benchmark data, projectors and seasonal adjustment. January to June: Back to the beginning of the previous year; July: Back to January of fifth previous year; August to December: Back to January of current year. Occasionally, there are historical revisions due to conceptual, methodological and classification changes—the most recent with the July 2002 GDP release.

Revisions in this issue

GDP by income and by expenditure, Balance of international payments, Financial flow accounts, International investment position, National balance sheet:

With this release revisions have been made back to the first quarter of 2007.

GDP by industry:

Since the last release of the *Canadian Economic Accounts Quarterly Review*, revisions were made back to January 2002.

Labour productivity, hourly compensation and unit labour cost:

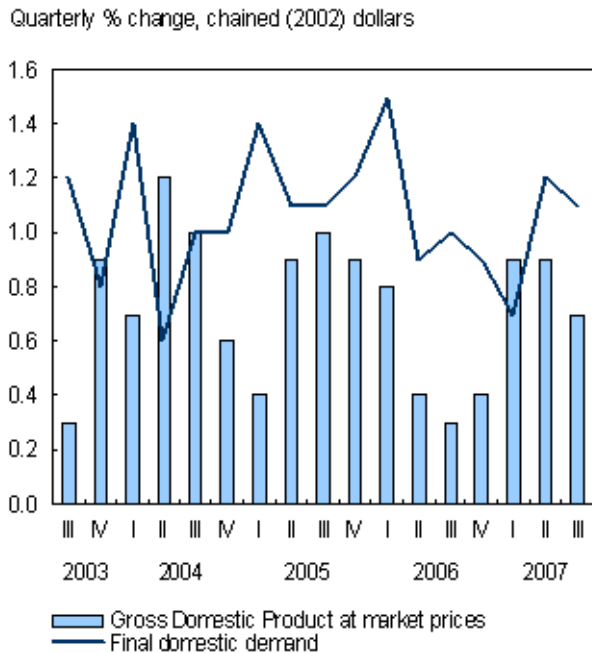
With this release revisions have been made back to the first quarter of 2007 at the aggregate level and to the first quarter of 1997 at the industry level.

Section A Overview

Third quarter 2007 and September 2007

Economic growth moderated in the third quarter as real gross domestic product (GDP) advanced 0.7%, down from 0.9% in the second. Economic output was up 0.1% in September, after increasing 0.2% in August and 0.1% in July. Final domestic demand remained buoyant (+1.1%), outpacing GDP for the eleventh quarter in the past twelve.

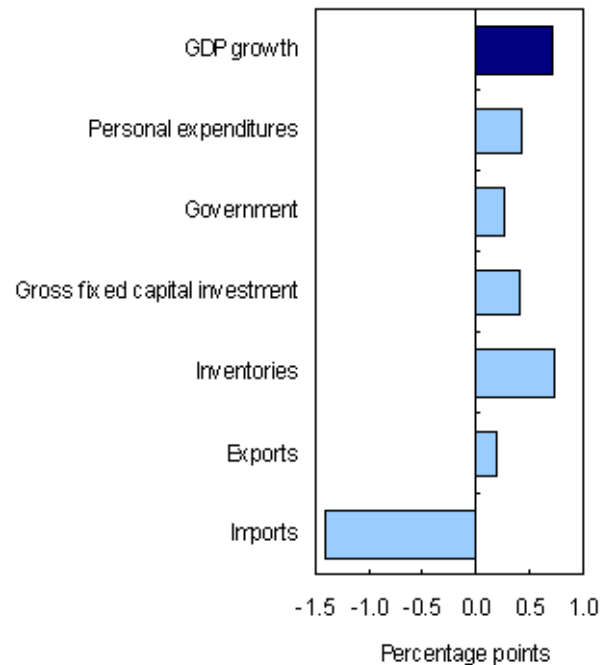
Chart A.1
Final domestic demand outpaces GDP



Consumer spending eased in the third quarter from its robust showing in the second, while retailers and wholesalers added significantly to their inventories. Imports outpaced exports by a wide margin, as the Canadian dollar once again appreciated sharply (+5.1%) against its U.S. counterpart.

Businesses took advantage of lower prices to invest heavily in machinery and equipment. Housing investment remained strong, propelled by new home construction, while the resale market retreated.

Chart A.2
Contributions to percent change in GDP, third quarter 2007



The output of the service industries expanded 0.9% in the third quarter, while the production of the goods industries contracted 0.1%. Significant growth was recorded in wholesale trade. Finance and insurance, construction, mining, and accommodation and food services also contributed to the overall increase. These gains were partly offset by declines in manufacturing, utilities, and forestry and logging.

Note to readers

Percentage changes for expenditure-based and industry-based statistics (such as consumer expenditures, investment, exports, imports output) are calculated using volume measures, that is, adjusted for price variations. Percentage changes for income-based statistics (such as labour income, corporate profits and farm income) are calculated using nominal values, that is, not adjusted for price variations.

For more information please contact an Information Officer in the Income and Expenditure Accounts Division at 613-951-3640 or jead-info-dcrd@statcan.ca. More information on chain Fisher methodology is available at [Chain Fisher volume index - Methodology](#) (catalogue 13-605-XIE).

Labour income grew at a slower pace than in the first half of 2007, while personal disposable income was up moderately. Corporate profits advanced on strong bank earnings.

The Canadian economy grew at an annualized rate of 2.9% in the third quarter, compared to 4.9% for the U.S. economy.

Table A.1
Real gross domestic product, chained (2002) dollars^[1]

	Change	Year-over-year change	
		Annualized change	Year-over-year change
	%		
First quarter 2006	0.8	3.4	3.6
Second quarter 2006	0.4	1.5	3.1
Third quarter 2006	0.3	1.3	2.4
Fourth quarter 2006	0.4	1.5	1.9
First quarter 2007	0.9	3.5	1.9
Second quarter 2007	0.9	3.8	2.5
Third quarter 2007	0.7	2.9	2.9

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

Industrial production (the output of utilities, mines and factories) slipped 0.4% in the third quarter as utilities and manufacturing both declined. Mining moved forward as a result of the increase in oil and gas exploration and metal ore mining. In comparison, all three sectors increased in the United States resulting in an overall gain of 1.1% for the quarter.

Economy-wide prices in Canada, as measured by the chain price index for GDP, edged down 0.3% in the third quarter, partly as a result of lower prices for energy exports. Excluding energy, economy-wide prices were up 0.2%, after a 1.5% increase in the second quarter.

Table A.2
Monthly gross domestic product by industry at basic prices

	April 2007 ^f	May 2007 ^f	June 2007 ^f	July 2007 ^f	August 2007 ^f	September 2007 ^p
	Seasonally adjusted, chained (2002) dollars, month-to-month % change					
All industries	0.0	0.4	0.2	0.1	0.2	0.1
Goods-producing industries	0.0	-0.2	0.2	-0.2	0.1	-0.1
Services-producing industries	0.1	0.7	0.2	0.3	0.2	0.2
Industrial production	0.1	-0.4	0.2	-0.2	-0.1	-0.3
Manufacturing	-0.1	0.1	-0.7	0.3	-0.4	-0.9
Wholesale trade	-0.7	1.9	0.4	1.4	0.1	1.0
Energy sector	0.4	-1.3	1.7	-0.9	0.0	0.8

^f Revised figures

^p Preliminary figures

Pace of consumer spending eases

Growth of consumer spending eased to 0.7% in the third quarter, less than half the pace posted in the second quarter and the weakest gain in two years.

After increasing 3.9% in the second quarter, consumer purchases of new and used motor vehicles were down a sharp 2.6% in the third. Spending on motor vehicle parts and repairs as well as on motor fuels was also down. Consumption of electricity, natural gas and other fuels all declined.

Continued strength in the housing market stimulated spending on household furniture and appliances. Outlays on recreational, sporting and camping equipment and on clothing and footwear were also strong.

Consumption of services was up 1.1% in the third quarter, matching its pace in the second. Net expenditure abroad was up sharply for a second consecutive quarter, as the stronger dollar boosted Canadians' travel spending abroad (which includes cars and trucks purchased in the U.S. and brought back) and restrained spending by visitors to Canada.

Large build-up of inventories

Businesses added \$15 billion worth of goods and materials to their non-farm inventories in the third quarter following two quarters of small increases.

Retailers accounted for just over \$9 billion of the inventory accumulation, with motor vehicles responsible for nearly half of the build-up. Wholesalers also added significantly to their inventories of motor vehicles and machinery and equipment.

Despite a 0.7% reduction in output, manufacturers built up stocks for the second consecutive quarter as higher inventories of finished goods more than offset lower inventories of raw materials.

Farm inventories dwindled for the third consecutive quarter, as farmers sold off grains at prices driven higher by demand for bio-fuels.

Imports outpace exports by wide margin

Imports of goods and services jumped 4.4% in the third quarter, following a 1.9% gain in the second. Imports have outpaced exports now in twelve of the past seventeen quarters.

Machinery and equipment imports jumped 6.4% as Canadian businesses invested heavily in new machinery and equipment. Aircraft, engines and parts led in this category. Automotive products and other consumer goods were both up sharply.

Travel imports were up sharply for the second consecutive quarter as the soaring loonie stimulated Canadians' travel spending abroad.

Exports of goods and services increased 0.6% in the third quarter, after growing 0.8% in the second.

Exports of industrial goods and materials were up 4.5%, the strongest pace in a year, driven notably by higher shipments of nickel ores. Shipments of automotive products were up 2.0%, rebounding from two consecutive quarters of declines. Exports of energy products advanced 1.4% on increased oil and natural gas deliveries south of the border.

Labour disputes in the B.C. forestry sector as well as continued softening in U.S. residential construction contributed to a sharp 6.2% drop in forestry exports. Output of the forestry and logging industry slid 7.2%.

Heavy investment in machinery and equipment

Business investment in machinery and equipment picked up steam in the third quarter, advancing 3.6%, more than twice the pace set in the second quarter and the fastest pace in ten quarters.

Investment in other transportation equipment jumped 14%, owing mainly to capital outlays by the airline industry. Outlays for telecommunications, computers and other office equipment and software posted solid increases.

On the down side, capital outlays for trucks slipped 2.8%, their third consecutive decline.

Continued gains in housing investment

Investment in housing posted another solid gain during the third quarter. Over the past three quarters, total investment in residential structures has grown 4.8%, compared to a decline of 2.9% over the preceding three quarters.

The strength in housing stemmed from new residential construction. Renovation activity gave an added boost, advancing 1.2% in the third quarter, twice its pace in the second.

The resale market cooled over the summer months, as ownership transfer costs (which include real estate commissions) slipped 1.6%, following two quarters of solid gains.

Labour income slows from first half of 2007

Labour income advanced 0.5% in the third quarter, less than one-third its pace in the first and second quarters, when special pay equity payments in Quebec and special pension contributions in Newfoundland and Labrador boosted labour income.

Excluding these special payments labour income would have grown 1.2% in the third quarter, 1.6% in the second and 1.8% in the first.

Corporate profits boosted

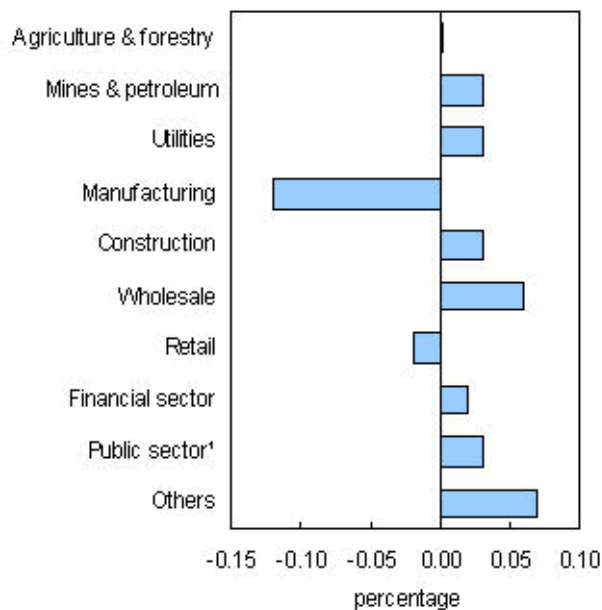
Corporation profits before taxes increased 2.6%, the fastest pace in nearly two years. Profits were boosted by earnings in the banking sector. The oil and gas extraction industry, petroleum refineries and coal products, retailers and wholesalers also fared well.

Lower exports and labour disruptions in the B.C. forestry sector contributed to lower profits for wood and paper producers, while lower commodity prices reduced profits in mining (excluding mineral fuels).

Gross domestic product by industry, September 2007

Economic activity was up 0.1% in September, after increasing 0.2% in August and 0.1% in July. The gain recorded by the service producing industries (+0.2%) was partially neutralized by the decrease in the production of goods (-0.1%). Increases in the energy sector and wholesale trade propelled the growth, while a decline in manufacturing and retail trade dampened it. Gains were also registered in construction, and in the accommodation and food services sector. The finance and insurance sector and metal ore mining were additional sources of declines.

Chart A.3
Main industrial sectors' contribution, September 2007



1. Education, health and public administration.

Wholesale trade rose 1.0% in September, for a fifth consecutive monthly increase. Gains were posted in the wholesaling of food and beverages, motor vehicles, and building supplies. These gains were dampened by declines in the wholesaling of oilseeds and grains, computer and other electronic equipment, lumber and millwork, and office and professional equipment. After a very strong showing in August, retail trade experienced a slight decrease of 0.3% in September.

Manufacturing retreated 0.9% in September, on the heels of declines in August and June, while the Canadian dollar appreciated vis-à-vis the U.S. currency. The production of non-durable goods (-0.7%) and durable goods (-0.9%) declined. Of the 21 major manufacturing groups, 16 decreased, these accounting for 78% of total manufacturing value added.

The energy sector advanced 0.8% in September, after remaining unchanged in August. Electricity production jumped 1.7% in September, while natural gas production posted a slight increase and crude oil production slipped. Oil and gas exploration moved ahead (+3.7%) for the fourth month in a row, but still remains well below its level of activity recorded in early 2007.

The construction sector advanced 0.4% in September, a fifth consecutive monthly increase. The gains recorded in residential construction (+0.8%) and engineering and repair work (+0.3%) overshadowed the modest slip in non-residential building construction (-0.1%).

Industrial production (the output of mines, utilities and factories) retreated 0.3% in September. The gains in utilities and mining were not enough to offset the decline in manufacturing. In the United States, industrial production increased 0.2% in September. Both manufacturing and mining moved ahead, while utilities fell.

Table A.3 Canadian economic accounts key indicators[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted at annual rates, millions of dollars at current prices								
GDP by income and by expenditure								
Wages, salaries and supplementary labour income	730,928	739,764	751,268	767,872	781,416	785,172	694,041	737,382
	0.5	1.2	1.6	2.2	1.8	0.5	6.0	6.2
Corporation profits before taxes	197,444	201,864	201,464	205,872	208,444	213,764	189,357	198,859
	1.4	2.2	-0.2	2.2	1.2	2.6	11.9	5.0
Interest and miscellaneous investment income	65,880	65,464	64,304	66,672	68,740	66,980	61,070	65,310
	0.4	-0.6	-1.8	3.7	3.1	-2.6	12.9	6.9
Net income of unincorporated business	86,064	86,408	87,200	89,244	91,344	91,512	84,957	86,324
	0.5	0.4	0.9	2.3	2.4	0.2	1.0	1.6
Taxes less subsidies	164,092	160,384	160,040	163,840	167,724	168,388	156,181	161,582
	1.4	-2.3	-0.2	2.4	2.4	0.4	4.9	3.5
Personal disposable income	833,116	844,976	856,616	875,836	882,628	888,184	791,486	842,302
	-0.2	1.4	1.4	2.2	0.8	0.6	4.3	6.4
Personal saving rate[2]	1.7	1.8	2.2	2.8	1.6	1.3	1.6	2.3

Seasonally adjusted at annual rates, millions of chained (2002) dollars								
Personal expenditure on consumer goods and services	750,550	759,897	766,839	773,292	784,543	790,397	724,942	755,204
	0.9	1.2	0.9	0.8	1.5	0.7	3.8	4.2
Government current expenditure on goods and services	250,155	251,113	252,961	254,395	256,429	260,042	242,557	250,604
	0.8	0.4	0.7	0.6	0.8	1.4	2.2	3.3
Gross fixed capital formation	297,993	300,447	303,625	304,912	307,871	313,448	279,345	299,468
	0.7	0.8	1.1	0.4	1.0	1.8	8.5	7.2
Investment in inventories	17,572	12,838	61	2,469	4,401	15,490	13,575	10,198

Exports of goods and services	502,355	505,539	508,881	509,858	513,714	516,624	501,732	505,344
	-0.4	0.6	0.7	0.2	0.8	0.6	2.2	0.7
Imports of goods and services	544,582	552,820	551,615	551,726	562,040	586,498	519,435	545,268
	2.4	1.5	-0.2	0.0	1.9	4.4	7.5	5.0
Gross domestic product at market prices	1,280,142	1,284,213	1,288,949	1,300,021	1,312,063	1,321,433	1,247,780	1,282,204
	0.4	0.3	0.4	0.9	0.9	0.7	3.1	2.8
Seasonally adjusted at annual rates, millions of chained (2002) dollars								
GDP at basic prices, by industry								
Goods producing industries	375,464	374,480	373,421	377,643	378,710	378,377	371,208	375,489
	-0.8	-0.3	-0.3	1.1	0.3	-0.1	2.7	1.2
Industrial production	274,517	273,486	271,364	275,049	275,885	274,839	274,884	274,357
	-1.3	-0.4	-0.8	1.4	0.3	-0.4	1.6	-0.2
Energy sector	85,772	86,638	84,925	86,508	86,674	86,726	85,011	85,876
	-0.5	1.0	-2.0	1.9	0.2	0.1	1.6	1.0
Manufacturing	187,315	184,920	183,590	185,630	186,293	184,967	188,478	186,631
	-1.8	-1.3	-0.7	1.1	0.4	-0.7	1.6	-1.0
Non-durable manufacturing	74,464	74,031	73,355	72,738	73,420	73,118	75,800	74,329
	-1.3	-0.6	-0.9	-0.8	0.9	-0.4	-0.1	-1.9
Durable manufacturing	113,027	111,038	110,392	113,113	113,076	112,041	112,814	112,470
	-2.1	-1.8	-0.6	2.5	-0.0	-0.9	2.8	-0.3
Construction	73,596	74,369	75,536	76,115	76,696	77,768	68,527	74,087
	1.0	1.1	1.6	0.8	0.8	1.4	7.8	8.1
Services producing industries	816,920	822,022	827,148	833,623	841,930	849,885	788,924	818,862
	0.9	0.6	0.6	0.8	1.0	0.9	3.1	3.8
Wholesale trade	68,644	69,239	68,298	69,076	70,324	72,243	63,879	68,383
	1.9	0.9	-1.4	1.1	1.8	2.7	6.0	7.1
Retail trade	68,968	69,647	69,847	71,264	72,874	73,309	65,132	69,015
	2.0	1.0	0.3	2.0	2.3	0.6	3.6	6.0
Transportation and warehousing	55,493	55,565	55,683	55,808	56,264	57,244	53,802	55,501
	0.4	0.1	0.2	0.2	0.8	1.7	3.5	3.2
Finance, insurance, real estate and renting	229,000	231,525	234,023	236,632	239,166	240,987	221,951	230,362
	0.9	1.1	1.1	1.1	1.1	0.8	3.2	3.8
Information and communication technologies	54,271	54,744	55,151	55,772	56,671	56,953	52,262	54,485
	0.9	0.9	0.7	1.1	1.6	0.5	4.6	4.3

1. The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line is the period to period percentage change.

2. Actual rate.

Section B

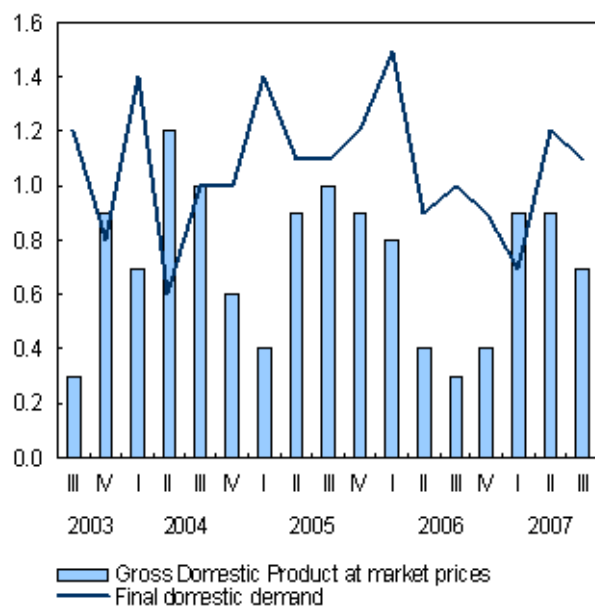
GDP by income and by expenditure

Third quarter 2007

Economic growth moderated in the third quarter as real gross domestic product (GDP) advanced 0.7%, down from 0.9% in the second. Final domestic demand remained buoyant (+1.1%), outpacing GDP for the eleventh quarter in the past twelve.

Chart B.1
Final domestic demand outpaces GDP

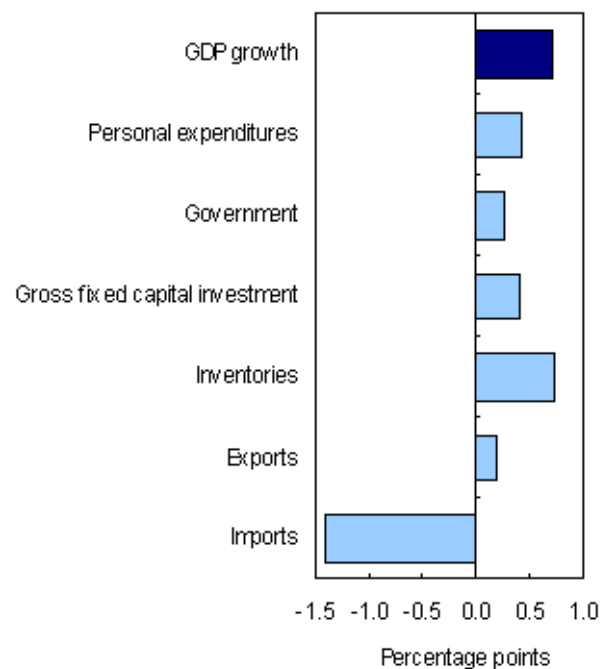
Quarterly % change, chained (2002) dollars



Consumer spending eased in the third quarter from its robust showing in the second, while retailers and wholesalers added significantly to their inventories. Imports outpaced exports by a wide margin, as the Canadian dollar once again appreciated sharply (+5.1%) against its U.S. counterpart.

Businesses took advantage of lower prices to invest heavily in machinery and equipment. Housing investment remained strong, propelled by new home construction, while the resale market retreated.

Chart B.2
Contributions to percent change in GDP, third quarter 2007



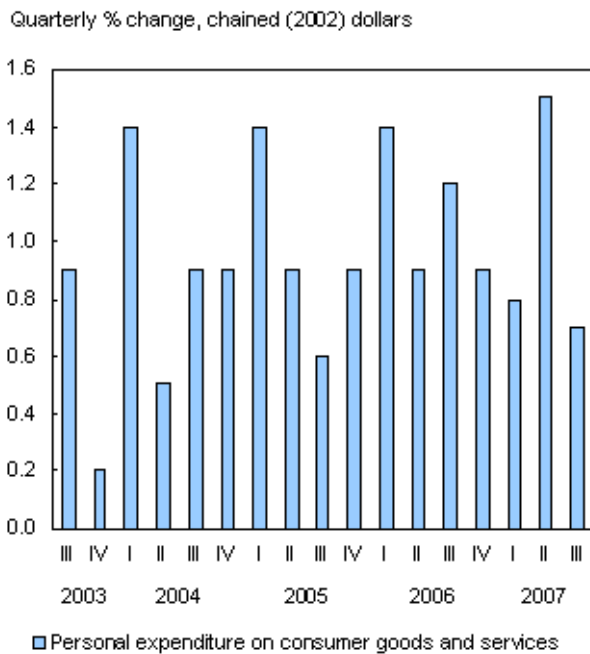
Labour income grew at a slower pace than in the first half of 2007, while personal disposable income was up moderately. Corporate profits advanced on strong bank earnings.

The Canadian economy grew at an annualized rate of 2.9% in the third quarter, compared to 4.9% for the U.S. economy.

Pace of consumer spending eases

Growth of consumer spending eased to 0.7% in the third quarter, less than half the pace posted in the second quarter and the weakest gain in two years. Consumption of durable and non-durable goods both edged down owing to weakness in demand for automotive and energy products.

Chart B.3
Consumer spending decelerates after strong second quarter



After increasing 3.9% in the second quarter, consumer purchases of new and used motor vehicles were down a sharp 2.6% in the third. Spending on motor vehicle parts and repairs as well as on motor fuels was also down. Consumption of electricity, natural gas and other fuels all declined.

Continued strength in the housing market stimulated spending on household furniture and appliances. Outlays on recreational, sporting and camping equipment and on clothing and footwear were also strong.

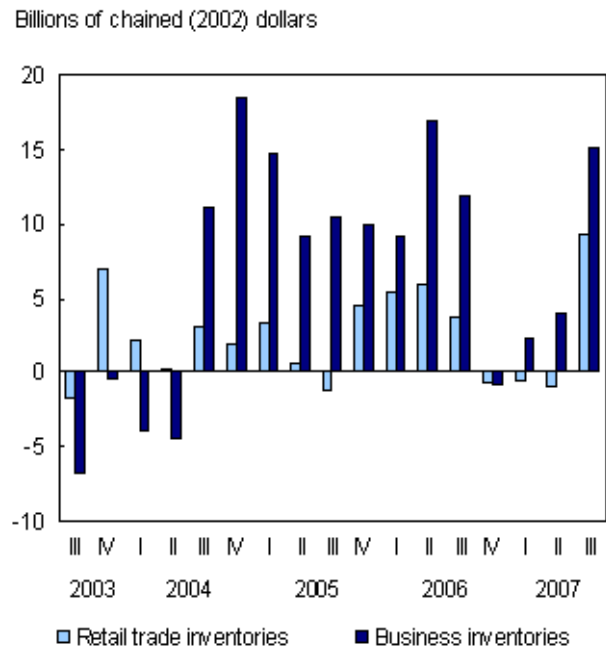
Consumption of services was up 1.1% in the third quarter, matching its pace in the second. Net expenditure abroad was up sharply for a second consecutive quarter, as the stronger dollar boosted Canadians' travel spending abroad (which includes cars and trucks purchased in the U.S. and brought back) and restrained spending by visitors to Canada.

Large build-up of inventories

Businesses added \$15 billion worth of goods and materials to their non-farm inventories in the third quarter following two quarters of small increases.

Retailers accounted for just over \$9 billion of the inventory accumulation, with motor vehicles responsible for nearly half of the build-up. Wholesalers also added significantly to their inventories of motor vehicles and machinery and equipment.

Chart B.4
Large build-up of inventory at retail level



Despite a 0.7% reduction in output, manufacturers built up stocks for the second consecutive quarter as higher inventories of finished goods more than offset lower inventories of raw materials. Farm inventories dwindled for the third consecutive quarter, as farmers sold off grains at prices driven higher by demand for bio-fuels.

The economy-wide inventory-to-sales ratio rose to 0.66 leaving just enough inventories to satisfy 61 days of sales, at the current pace, and in line with its average (0.67) over the preceding four quarters.

Imports outpace exports by wide margin

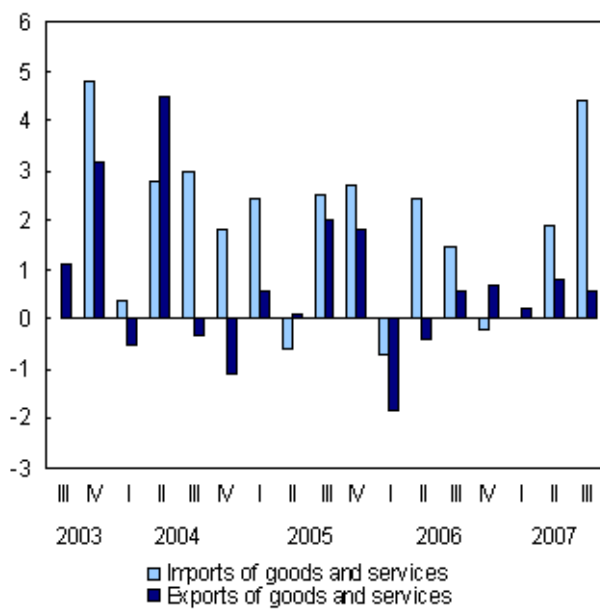
Imports of goods and services jumped 4.4% in the third quarter, following a 1.9% gain in the second. Imports have outpaced exports now in twelve of the past seventeen quarters. Increases were recorded across all major categories of imported goods, with the exception of energy products.

Machinery and equipment imports jumped 6.4% as Canadian businesses invested heavily in new machinery and equipment. Aircraft, engines and parts led in this category. Automotive products and other consumer goods were both up sharply.

Travel imports were up sharply for the second consecutive quarter as the soaring loonie stimulated Canadians' travel spending abroad.

Chart B.5
Imports outpace exports

Quarterly % change, chained (2002) dollars



Exports of goods and services increased 0.6% in the third quarter, after growing 0.8% in the second. Since the fourth quarter of 2002, when the Canadian dollar began to appreciate against its U.S. counterpart, exports have grown only 7.7%. Imports of goods and services, on the other hand, have grown 34%. The difference is not as marked however on a current price basis, as exports increased 9.3%, while imports grew only 15% over the same period.

Industrial goods and materials, automotive and energy products shored up export growth during the quarter. Industrial goods and materials were up 4.5%, the strongest pace in a year, driven notably by higher shipments of nickel ores. Shipments of automotive products were up 2.0%, rebounding from two consecutive quarters of declines. Exports of energy products advanced 1.4% on increased oil and natural gas deliveries south of the border.

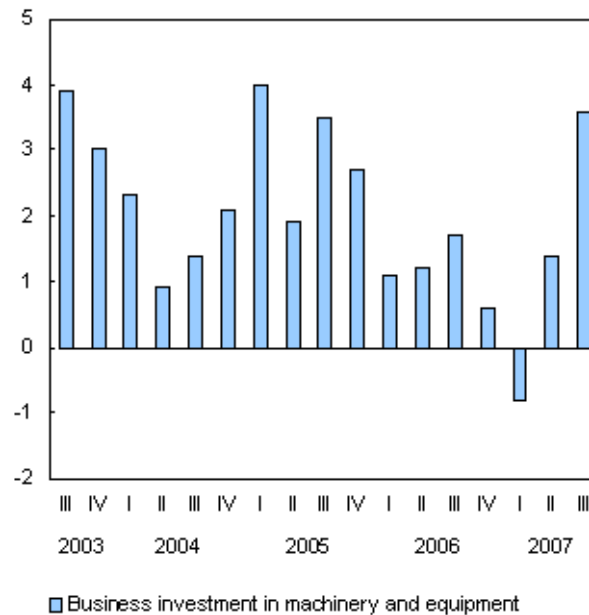
Labour disputes in the B.C. forestry sector as well as continued softening in U.S. residential construction contributed to a sharp 6.2% drop in forestry exports, led by lumber and other wood fabricated materials. Output of the forestry and logging industry slid 7.2%.

Heavy investment in machinery and equipment

Business investment in machinery and equipment picked up steam in the third quarter, advancing 3.6%, more than twice the pace set in the second quarter and the fastest pace in ten quarters.

Chart B.6
Business investment in machinery and equipment posts solid gains

Quarterly % change, chained (2002) dollars



Investment in other transportation equipment jumped 14%, owing mainly to capital outlays by the airline industry. Outlays for telecommunications, computers and other office equipment and software posted solid increases.

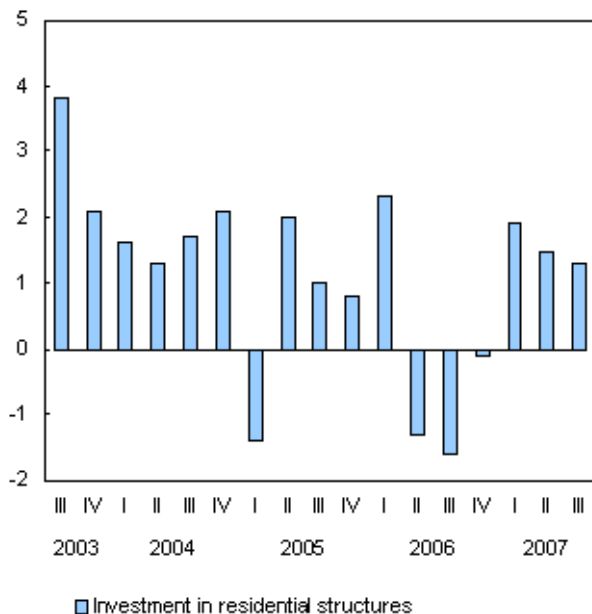
On the down side, capital outlays for trucks slipped 2.8%, their third consecutive decline.

Continued gains in housing investment

Investment in housing posted another solid gain during the third quarter. Over the past three quarters, total investment in residential structures has grown 4.8%, compared to a decline of 2.9% over the preceding three quarters.

Chart B.7
Another solid quarter for housing investment

Quarterly % change, chained (2002) dollars



The strength in housing stemmed from new residential construction, as housing starts jumped to 247,400 at annual rates in the third quarter. Renovation activity gave an added boost, advancing 1.2% in the third quarter, twice its pace in the second.

The resale market cooled over the summer months, as ownership transfer costs (which include real estate commissions) slipped 1.6%, following two quarters of solid gains.

Labour income slows from first half of 2007

Labour income advanced 0.5% in the third quarter, less than one-third its pace in the first and second quarters, when special pay equity payments in Quebec and special pension contributions in Newfoundland and Labrador boosted labour income. Excluding these special payments labour income would have grown 1.2% in the third quarter, 1.6% in the second and 1.8% in the first.

Both employment and average weekly earnings were up during the quarter, and the unemployment rate edged down to thirty-year lows. The wage bill in construction jumped 3.3%, while that in manufacturing slipped 0.9%.

Personal disposable income advanced in the third quarter. Income tax payments by persons decreased 1.3% from a high second quarter level that was boosted by taxes on capital gains reported with income tax returns. The personal saving rate slipped to 1.3%, while households increased their mortgage borrowing significantly for the third consecutive quarter.

Corporate profits boosted

Corporation profits before taxes increased 2.6%, the fastest pace in nearly two years. Profits were boosted by earnings in the banking sector. The oil and gas extraction industry, petroleum refineries and coal products, retailers and wholesalers also fared well.

Lower exports and labour disruptions in the B.C. forestry sector contributed to lower profits for wood and paper producers, while lower commodity prices reduced profits in mining (excluding mineral fuels).

Economy-wide prices

The chain price index for GDP edged down 0.3% in the third quarter, after advancing 1.3% in the second.

Lower prices for energy exports played a role, as the price index for GDP excluding energy, edged up 0.2%. The special payments included in government labour income (mentioned above) also played a role; excluding these payments in addition to energy, economy-wide prices would have increased 0.5% in the third quarter and 1.4% in the second.

The Canadian dollar appreciated 5.1% against its U.S. counterpart in the third quarter, while the chain price index for imports slipped 2.8%. Consumers paid lower prices for goods during the quarter, while businesses paid lower prices for machinery and equipment.

Table B.1 Gross domestic product, income-based, current prices and quarterly percentage change[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted data at annual rates, millions of dollars								
Wages, salaries and supplementary labour income	730,928 0.5	739,764 1.2	751,268 1.6	767,872 2.2	781,416 1.8	785,172 0.5	694,041 6.0	737,382 6.2
Corporation profits before taxes	197,444 1.4	201,864 2.2	201,464 -0.2	205,872 2.2	208,444 1.2	213,764 2.6	189,357 11.9	198,859 5.0
Government business enterprise profits before taxes	14,156 1.8	13,668 -3.4	13,556 -0.8	15,096 11.4	15,308 1.4	15,256 -0.3	14,578 12.8	13,823 -5.2
Interest and miscellaneous investment income	65,880 0.4	65,464 -0.6	64,304 -1.8	66,672 3.7	68,740 3.1	66,980 -2.6	61,070 12.9	65,310 6.9
Accrued net income of farm operators from farm production	240 -40.0	268 11.7	468 74.6	1,008 115.4	1,876 86.1	1,436 -23.5	1,321 -57.5	344 -74.0
Net income of non-farm unincorporated business, including rent	85,824 0.7	86,140 0.4	86,732 0.7	88,236 1.7	89,468 1.4	90,076 0.7	83,636 3.2	85,980 2.8
Inventory valuation adjustment	-444 ...	-1,376 ...	-5,820 ...	-2,760 ...	4,192 ...	2,700 ...	-933 ...	-1,775 ...
Taxes less subsidies, on factors of production	64,448 1.1	64,620 0.3	64,880 0.4	66,132 1.9	66,892 1.1	67,340 0.7	61,847 4.8	64,421 4.2
Net domestic product at basic prices	1,158,476 0.6	1,170,412 1.0	1,176,852 0.6	1,208,128 2.7	1,236,336 2.3	1,242,724 0.5	1,104,917 7.0	1,164,344 5.4
Taxes less subsidies, on products	99,644 1.6	95,764 -3.9	95,160 -0.6	97,708 2.7	100,832 3.2	101,048 0.2	94,334 5.0	97,161 3.0
Capital consumption allowances	183,876 1.1	185,752 1.0	187,504 0.9	189,796 1.2	192,056 1.2	194,352 1.2	176,338 4.8	184,750 4.8
Statistical discrepancy	224 ...	468 ...	-268 ...	376 ...	896 ...	-652 ...	-509 ...	52 ...
Gross domestic product at market prices	1,442,220 0.8	1,452,396 0.7	1,459,248 0.5	1,496,008 2.5	1,530,120 2.3	1,537,472 0.5	1,375,080 6.5	1,446,307 5.2

1. The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line is the period to period percentage change.

Table B.2 Gross domestic product, expenditure-based, current prices and quarterly percentage change[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted data at annual rates, millions of dollars								
Personal expenditure on consumer goods and services	799,220 1.4	809,776 1.3	817,020 0.9	830,552 1.7	847,460 2.0	854,152 0.8	760,701 5.6	803,502 5.6
Durable goods	104,784 1.0	106,808 1.9	107,560 0.7	109,212 1.5	112,992 3.5	112,388 -0.5	100,014 4.7	105,716 5.7
Semi-durable goods	66,664 1.5	67,444 1.2	67,484 0.1	69,184 2.5	69,976 1.1	71,296 1.9	63,055 4.0	66,818 6.0
Non-durable goods	196,540 1.9	197,692 0.6	195,196 -1.3	199,592 2.3	204,348 2.4	203,192 -0.6	187,836 6.2	195,572 4.1
Services	431,232 1.3	437,832 1.5	446,780 2.0	452,564 1.3	460,144 1.7	467,276 1.5	409,796 5.8	435,396 6.2
Government current expenditure on goods and services	277,720 -0.0	280,064 0.8	283,640 1.3	290,148 2.3	296,168 2.1	296,220 0.0	262,650 5.5	279,806 6.5
Government gross fixed capital formation	40,128 2.0	40,668 1.3	41,208 1.3	41,580 0.9	42,116 1.3	42,772 1.6	36,296 13.1	40,336 11.1
Government investment in inventories	-96 ...	-116 ...	-52 ...	8 ...	-60 ...	100 ...	27 ...	-41 ...
Business gross fixed capital formation	274,660 1.3	280,012 1.9	285,852 2.1	292,428 2.3	297,460 1.7	303,184 1.9	253,074 10.3	277,885 9.8
Residential structures	98,160 1.3	98,552 0.4	99,900 1.4	103,564 3.7	107,012 3.3	109,700 2.5	89,791 8.3	98,386 9.6
Non-residential structures and equipment	176,500 1.4	181,460 2.8	185,952 2.5	188,864 1.6	190,448 0.8	193,484 1.6	163,283 11.4	179,499 9.9
Non-residential structures	83,980 3.9	87,368 4.0	90,620 3.7	93,256 2.9	95,512 2.4	97,320 1.9	72,674 17.1	85,698 17.9
Machinery and equipment	92,520 -0.8	94,092 1.7	95,332 1.3	95,608 0.3	94,936 -0.7	96,164 1.3	90,609 7.3	93,801 3.5
Business investment in inventories	15,440 ...	11,640 ...	-1,840 ...	-848 ...	336 ...	13,320 ...	9,642 ...	7,824 ...
Non-farm	16,416 ...	11,992 ...	-1,516 ...	328 ...	1,252 ...	14,668 ...	9,038 ...	8,369 ...
Farm	-976 ...	-352 ...	-324 ...	-1,176 ...	-916 ...	-1,348 ...	604 ...	-545 ...
Exports of goods and services	518,504 -0.8	526,512 1.5	531,240 0.9	547,624 3.1	546,664 -0.2	533,340 -2.4	520,379 5.1	524,706 0.8
Goods	449,124 -1.2	457,168 1.8	462,028 1.1	477,924 3.4	476,840 -0.2	463,968 -2.7	451,779 5.3	455,696 0.9
Services	69,380 1.9	69,344 -0.1	69,212 -0.2	69,700 0.7	69,824 0.2	69,372 -0.6	68,600 3.5	69,010 0.6
Deduct: Imports of goods and services	483,136 2.0	495,696 2.6	498,088 0.5	505,112 1.4	499,128 -1.2	506,268 1.4	468,197 6.2	487,660 4.2
Goods	400,520 2.0	411,860 2.8	412,692 0.2	419,508 1.7	411,472 -1.9	419,648 2.0	388,282 6.9	404,391 4.1
Services	82,616 1.7	83,836 1.5	85,396 1.9	85,604 0.2	87,656 2.4	86,620 -1.2	79,915 3.2	83,269 4.2
Statistical discrepancy	-220 ...	-464 ...	268 ...	-372 ...	-896 ...	652 ...	508 ...	-51 ...
Gross domestic product at market prices	1,442,220 0.8	1,452,396 0.7	1,459,248 0.5	1,496,008 2.5	1,530,120 2.3	1,537,472 0.5	1,375,080 6.5	1,446,307 5.2
<i>Final domestic demand</i>	<i>1,391,728 1.1</i>	<i>1,410,520 1.4</i>	<i>1,427,720 1.2</i>	<i>1,454,708 1.9</i>	<i>1,483,204 2.0</i>	<i>1,496,328 0.9</i>	<i>1,312,721 6.7</i>	<i>1,401,529 6.8</i>

1. The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line is the period to period percentage change.

Table B.3 Real gross domestic product, expenditure-based, quarterly percentage change[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted at annual rates, millions of chained (2002) dollars[2]								
Personal expenditure on consumer goods and services	750,550 0.9	759,897 1.2	766,839 0.9	773,292 0.8	784,543 1.5	790,397 0.7	724,942 3.8	755,204 4.2
Durable goods	108,498 1.9	111,390 2.7	112,667 1.1	114,479 1.6	118,527 3.5	118,279 -0.2	102,468 5.3	109,755 7.1
Semi-durable goods	68,138 1.8	69,351 1.8	69,700 0.5	71,423 2.5	72,030 0.8	73,669 2.3	63,866 4.3	68,529 7.3
Non-durable goods	170,187 0.9	171,346 0.7	171,030 -0.2	172,125 0.6	174,262 1.2	173,982 -0.2	167,859 1.9	170,305 1.5
Services	404,747 0.6	409,104 1.1	414,880 1.4	416,956 0.5	421,714 1.1	426,562 1.1	391,140 4.3	407,772 4.3
Government current expenditure on goods and services	250,155 0.8	251,113 0.4	252,961 0.7	254,395 0.6	256,429 0.8	260,042 1.4	242,557 2.2	250,604 3.3
Government gross fixed capital formation	37,914 1.1	37,955 0.1	38,336 1.0	38,141 -0.5	38,220 0.2	38,829 1.6	35,086 10.9	37,929 8.1
Government investment in inventories	-84 ...	-96 ...	-40 ...	8 ...	-52 ...	84 ...	24 ...	-33 ...
Business gross fixed capital formation	260,075 0.7	262,489 0.9	265,286 1.1	266,766 0.6	269,645 1.1	274,613 1.8	244,256 8.1	261,536 7.1
Residential structures	78,974 -1.3	77,711 -1.6	77,690 -0.0	79,239 2.0	80,373 1.4	81,403 1.3	76,976 3.5	78,604 2.1
Non-residential structures and equipment	182,598 1.8	186,880 2.3	189,984 1.7	189,580 -0.2	191,256 0.9	195,387 2.2	168,019 10.8	184,693 9.9
Non-residential structures	70,523 2.5	72,651 3.0	74,707 2.8	75,011 0.4	75,276 0.4	75,808 0.7	63,480 10.8	71,667 12.9
Machinery and equipment	111,598 1.2	113,532 1.7	114,184 0.6	113,264 -0.8	114,865 1.4	119,054 3.6	104,641 10.8	112,390 7.4
Business investment in inventories	17,668 ...	12,953 ...	112 ...	2,460 ...	4,459 ...	15,388 ...	13,544 ...	10,238 ...
Non-farm	16,943 ...	11,893 ...	-721 ...	2,302 ...	3,989 ...	15,098 ...	11,055 ...	9,301 ...
Farm	-483 ...	63 ...	156 ...	-756 ...	-433 ...	-760 ...	2,004 ...	17 ...
Exports of goods and services	502,355 -0.4	505,539 0.6	508,881 0.7	509,858 0.2	513,714 0.8	516,624 0.6	501,732 2.2	505,344 0.7
Goods	437,427 -0.7	441,107 0.8	444,776 0.8	445,977 0.3	449,577 0.8	452,792 0.7	436,649 2.4	440,950 1.0
Services	64,931 1.2	64,471 -0.7	64,172 -0.5	63,958 -0.3	64,219 0.4	63,939 -0.4	65,105 1.0	64,432 -1.0
Deduct: Imports of goods and services	544,582 2.4	552,820 1.5	551,615 -0.2	551,726 0.0	562,040 1.9	586,498 4.4	519,435 7.5	545,268 5.0
Goods	454,479 2.6	462,483 1.8	461,088 -0.3	462,216 0.2	468,617 1.4	492,443 5.1	432,703 8.1	455,279 5.2
Services	90,235 1.3	90,513 0.3	90,687 0.2	89,721 -1.1	93,512 4.2	94,380 0.9	86,834 4.5	90,131 3.8
Statistical discrepancy	-195 ...	-410 ...	237 ...	-323 ...	-768 ...	560 ...	464 ...	-45 ...
Gross domestic product at market prices	1,280,142 0.4	1,284,213 0.3	1,288,949 0.4	1,300,021 0.9	1,312,063 0.9	1,321,433 0.7	1,247,780 3.1	1,282,204 2.8
<i>Final domestic demand</i>	<i>1,297,838 0.9</i>	<i>1,310,523 1.0</i>	<i>1,322,465 0.9</i>	<i>1,331,601 0.7</i>	<i>1,347,749 1.2</i>	<i>1,362,872 1.1</i>	<i>1,246,194 4.5</i>	<i>1,304,376 4.7</i>

1. The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line is the period to period percentage change.

2. Chained dollar series are calculated as the product of the chain-type quantity index and the current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates are usually not additive.

Table B.4 Real gross domestic product, expenditure-based, annualized percentage change[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Quarter to quarter percent change at annual rates, chained (2002) dollars								
Personal expenditure on consumer goods and services	3.8	5.1	3.7	3.4	5.9	3.0	3.8	4.2
Durable goods	7.9	11.1	4.7	6.6	14.9	-0.8	5.3	7.1
Semi-durable goods	7.4	7.3	2.0	10.3	3.4	9.4	4.3	7.3
Non-durable goods	3.7	2.8	-0.7	2.6	5.1	-0.6	1.9	1.5
Services	2.4	4.4	5.8	2.0	4.6	4.7	4.3	4.3
Government current expenditure on goods and services	3.2	1.5	3.0	2.3	3.2	5.8	2.2	3.3
Government gross fixed capital formation	4.4	0.4	4.1	-2.0	0.8	6.5	10.9	8.1
Government investment in inventories[2]	-172	-12	56	48	-60	136	4	-57
Business gross fixed capital formation	2.8	3.8	4.3	2.3	4.4	7.6	8.1	7.1
Residential structures	-5.2	-6.2	-0.1	8.2	5.8	5.2	3.5	2.1
Non-residential structures and equipment	7.5	9.7	6.8	-0.8	3.6	8.9	10.8	9.9
Non-residential structures	10.5	12.6	11.8	1.6	1.4	2.9	10.8	12.9
Machinery and equipment	5.0	7.1	2.3	-3.2	5.8	15.4	10.8	7.4
Business investment in inventories[2]	7,450	-4,715	-12,841	2,348	1,999	10,929	5,653	-3,307
Non-farm[2]	7,853	-5,050	-12,614	3,023	1,687	11,109	5,751	-1,754
Farm[2]	-816	546	93	-912	323	-327	-386	-1,987
Exports of goods and services	-1.8	2.6	2.7	0.8	3.1	2.3	2.2	0.7
Goods	-2.8	3.4	3.4	1.1	3.3	2.9	2.4	1.0
Services	4.9	-2.8	-1.8	-1.3	1.6	-1.7	1.0	-1.0
Deduct: Imports of goods and services	9.8	6.2	-0.9	0.1	7.7	18.6	7.5	5.0
Goods	10.7	7.2	-1.2	1.0	5.7	21.9	8.1	5.2
Services	5.3	1.2	0.8	-4.2	18.0	3.8	4.5	3.8
Statistical discrepancy[2]	-384	-215	647	-560	-445	1,328	637	-509
Gross domestic product at market prices	1.5	1.3	1.5	3.5	3.8	2.9	3.1	2.8
<i>Final domestic demand</i>	<i>3.5</i>	<i>4.0</i>	<i>3.7</i>	<i>2.8</i>	<i>4.9</i>	<i>4.6</i>	<i>4.5</i>	<i>4.7</i>

1. Quarter to quarter percentage change, annualized.
2. Actual change in millions of dollars, at annual rates.

Table B.5 Contributions to percentage change in real gross domestic product, expenditure-based[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Using seasonally adjusted data, percentage points								
Personal expenditure on consumer goods and services	0.520	0.689	0.509	0.469	0.805	0.414	2.146	2.284
Durable goods	0.138	0.193	0.084	0.118	0.256	-0.015	0.391	0.506
Semi-durable goods	0.083	0.082	0.023	0.113	0.039	0.104	0.200	0.328
Non-durable goods	0.123	0.093	-0.025	0.086	0.165	-0.021	0.269	0.196
Services	0.177	0.322	0.427	0.153	0.344	0.347	1.286	1.254
Government current expenditure on goods and services	0.153	0.074	0.142	0.110	0.155	0.271	0.426	0.629
Government gross fixed capital formation	0.030	0.003	0.028	-0.014	0.006	0.044	0.269	0.214
Government investment in inventories	-0.014	-0.001	0.004	0.004	-0.004	0.010	0.000	-0.005
Business gross fixed capital formation	0.131	0.177	0.206	0.109	0.210	0.359	1.437	1.299
Residential structures	-0.091	-0.110	-0.002	0.136	0.099	0.090	0.230	0.140
Non-residential structures and equipment	0.222	0.287	0.208	-0.027	0.111	0.268	1.207	1.159
Non-residential structures	0.143	0.176	0.171	0.025	0.022	0.044	0.526	0.687
Machinery and equipment	0.079	0.111	0.037	-0.053	0.089	0.224	0.680	0.472
Business investment in inventories	0.512	-0.327	-0.886	0.160	0.133	0.716	0.379	-0.261
Non-farm	0.556	-0.358	-0.892	0.211	0.114	0.735	0.404	-0.133
Farm	-0.044	0.031	0.005	-0.051	0.019	-0.019	-0.025	-0.129
Exports of goods and services	-0.162	0.229	0.240	0.070	0.274	0.200	0.849	0.262
Goods	-0.220	0.263	0.262	0.086	0.255	0.220	0.797	0.316
Services	0.058	-0.034	-0.022	-0.016	0.019	-0.020	0.052	-0.054
Deduct: Imports of goods and services	0.776	0.508	-0.075	0.007	0.618	1.401	2.492	1.623
Goods	0.703	0.491	-0.086	0.069	0.380	1.349	2.224	1.407
Services	0.073	0.018	0.011	-0.062	0.238	0.053	0.268	0.216
Statistical discrepancy	-0.030	-0.017	0.050	-0.043	-0.034	0.101	0.052	-0.041
Gross domestic product at market prices	0.363	0.318	0.369	0.859	0.926	0.714	3.066	2.759
<i>Final domestic demand</i>	<i>0.833</i>	<i>0.943</i>	<i>0.886</i>	<i>0.674</i>	<i>1.176</i>	<i>1.087</i>	<i>4.277</i>	<i>4.427</i>

1. The chained (2002) dollars data shown in the table "Real gross domestic product, expenditure-based, quarterly percentage change" are not additive. The contributions to percentage change shown in the above table are additive and provide a measure of the composition of GDP growth.

Table B.6 Gross domestic product, implicit chain price indexes[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
	Using seasonally adjusted data, (2002 = 100)							
Personal expenditure on consumer goods and services	106.5 0.5	106.6 0.1	106.5 -0.1	107.4 0.8	108.0 0.6	108.1 0.1	104.9 1.7	106.4 1.4
Government current expenditure on goods and services	111.0 -0.8	111.5 0.5	112.1 0.5	114.1 1.8	115.5 1.2	113.9 -1.4	108.3 3.3	111.6 3.1
Government gross fixed capital formation	105.8 0.9	107.1 1.2	107.5 0.4	109.0 1.4	110.2 1.1	110.2 0.0	103.4 2.0	106.3 2.8
Business gross fixed capital formation	105.6 0.7	106.7 1.0	107.8 1.0	109.6 1.7	110.3 0.6	110.4 0.1	103.6 2.0	106.3 2.6
Exports of goods and services	103.2 -0.4	104.1 0.9	104.4 0.3	107.4 2.9	106.4 -0.9	103.2 -3.0	103.7 2.8	103.8 0.1
Imports of goods and services	88.7 -0.3	89.7 1.1	90.3 0.7	91.6 1.4	88.8 -3.1	86.3 -2.8	90.2 -1.2	89.4 -0.8
Gross domestic product at market prices	112.7 0.4	113.1 0.4	113.2 0.1	115.1 1.7	116.6 1.3	116.3 -0.3	110.2 3.4	112.8 2.4
<i>Final domestic demand</i>	<i>107.2 0.2</i>	<i>107.6 0.4</i>	<i>108.0 0.4</i>	<i>109.2 1.1</i>	<i>110.1 0.8</i>	<i>109.8 -0.3</i>	<i>105.3 2.1</i>	<i>107.5 2.0</i>

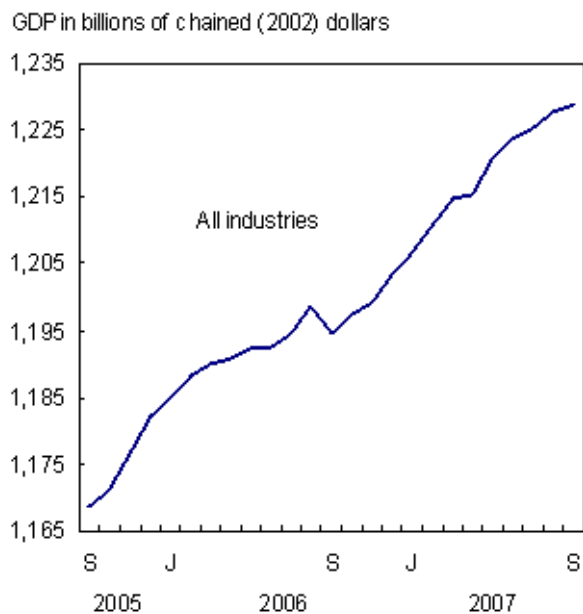
1. The first line is the series itself. The second line is the percentage change.

Section C GDP by industry

September 2007 and third quarter 2007

Economic activity was up 0.1% in September, after increasing 0.2% in August and 0.1% in July. The gain recorded by the service producing industries (+0.2%) was partially neutralized by the decrease in the production of goods (-0.1%). Increases in the energy sector and wholesale trade propelled the growth, while a decline in manufacturing and retail trade dampened it. Gains were also registered in construction and in the accommodation and food services sector. The finance and insurance sector and metal ore mining were additional sources of declines.

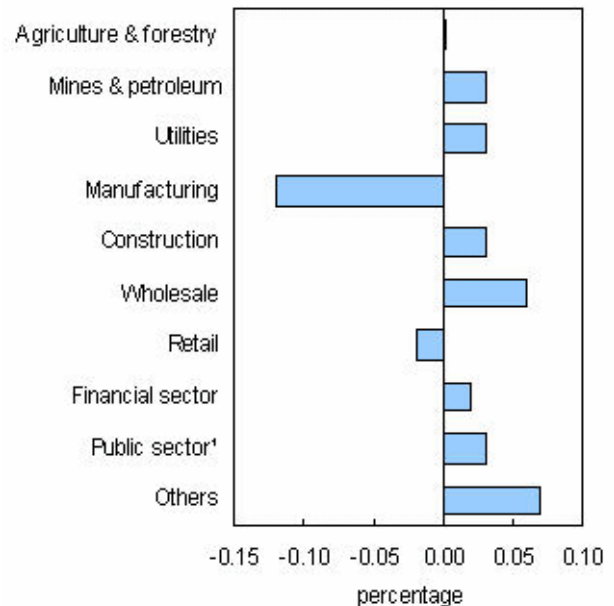
Chart C.1
Economic activity edges up



Wholesale trade increases significantly

Wholesale trade rose 1.0% in September, for a fifth consecutive monthly increase. Gains were posted in the trade of food and beverage products, motor vehicles, and building supplies. Household and personal products, metal and petroleum products also advanced. These gains were dampened by declines in the wholesaling of oilseeds and grains, computer and other electronic equipment, lumber and millwork, and office and professional equipment.

Chart C.2
Main industrial sectors' contribution to total growth - September 2007



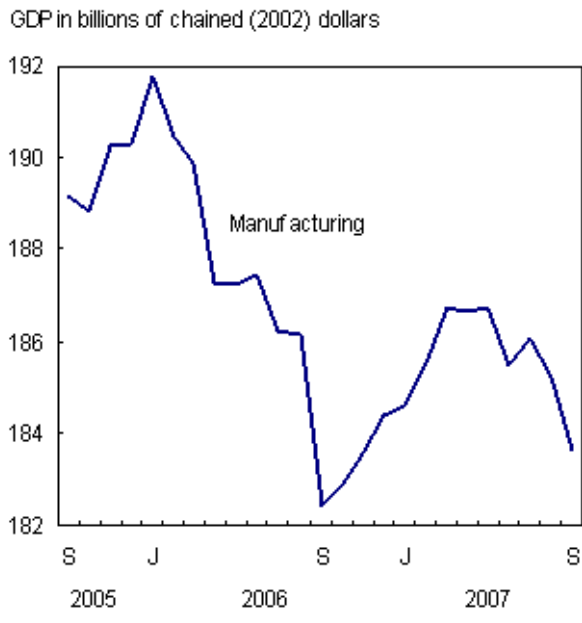
1. Education, health and public administration.

Manufacturing falls for a second straight month

Manufacturing retreated 0.9% in September, on the heels of declines in August and June, while the Canadian dollar appreciated vis-à-vis the U.S. currency. The production of non-durable (-0.7%) and durable goods (-0.9%) declined. Of the 21 major manufacturing groups, 16 decreased, these accounting for 78% of total manufacturing value added.

The manufacturing of paper, motor vehicles, food products, and computer and electronic products, all posted significant decreases. Notable increases were recorded by the chemical and printing sub-sectors.

Chart C.3
Manufacturing sector falls sharply



Industrial production (the output of mines, utilities and factories) retreated 0.3% in September. The gains in utilities and mining were not enough to offset the decline in manufacturing. In the United States, industrial production increased 0.2% in September. Both manufacturing and mining moved ahead, while utilities fell.

Energy sector posts gain

The energy sector advanced 0.8% in September, after remaining unchanged in August. Electricity production jumped 1.7% in September on the strength of increased hydro production. Natural gas production posted a slight increase while crude oil production slipped. Oil and gas exploration moved ahead (+3.7%) for the fourth month in a row, but still remains well below its level of activity recorded in early 2007.

The output of the mining sector excluding oil and gas slipped 0.1% in September. The declines in metal ore mines were partly offset by the gains in non-metallic mineral mines (which includes diamonds). In particular, copper, nickel, lead and zinc mining made a return to a more normal level of activity following a record-high month of August.

Construction advances

The construction sector advanced 0.4% in September, a fifth consecutive monthly increase. The gains recorded in residential construction (+0.8%) and engineering and repair work (+0.3%) overshadowed the modest slip in non-residential building construction (-0.1%). The construction of single-family homes and multi-unit structures propelled residential construction. For the second month in a row, industrial building construction posted a gain while commercial and public building construction retreated. Engineering construction stood still.

After record-high levels of activity in June and July, the home resale market retreated for a second consecutive month in September, due to the significant decline in sales in the major markets. As a result, the real estate agents and brokers industry fell 1.6% for the month.

Retail trade retreats

After a very strong showing in August, retail trade experienced a slight decrease of 0.3% in September. Sales by new and used car dealers fell. Sales of computer, and pharmacies and personal care stores, also retreated. Gains were recorded by food and beverage stores, building material stores, as well as general merchandise stores (which include department stores).

Other industries

Activities in the finance and insurance sector slipped 0.1%. The decline experienced by the insurance sector was only partially offset by the slight gain posted by banking. The accommodation and food services sector rose 1.1% in September. The number of international overnight travellers to Canada advanced 1.9%. The visitors from the United States accounted for the bulk of this increase.

Third quarter 2007

Economic activity grew at a slightly slower pace in the third quarter of 2007 than in the second. The Canadian economy grew 0.1% in September, after increasing 0.2% in August and 0.1% in July.

The output of the service industries expanded 0.9% in the third quarter, while the production of the goods industries contracted 0.1%. Significant growth was recorded in wholesale trade. The finance and insurance sector, construction, mining, and accommodation and food services also contributed to the overall increase. These gains were partly offset by declines in manufacturing, utilities, and forestry and logging.

Wholesale trade, up 2.7%, continued its strong quarterly ascent that began in 2004 and was interrupted only temporarily in the fourth quarter of 2006. This quarterly increase was largely on the strength of sales by merchants of machinery and equipment, and motor vehicles. Apparel, household and personal products, pharmaceuticals, building supplies and metal products, also contributed to the increase. However, lumber and millwork, and alcohol and tobacco wholesaling activities fell back.

The finance and insurance sector advanced 1.1% on the strength of banking and brokerage. Real estate agents and brokers posted a 2.7% drop, as transactions in the home-resale market returned to a more normal level after several months of record-breaking activity. Construction activities grew 1.4% in the third quarter. All types of construction activities increased, with residential construction leading the sector.

Retail trade edged up 0.6% in the third quarter largely due to sales by clothing and computer stores, and beverage vendors. Conversely, sales of motor vehicles, used and recreational motor vehicle and parts dealers, and convenience stores declined.

The energy sector edged up 0.1% in the third quarter. While oil and gas exploration jumped 19.7%, utilities (-1.6%), and oil and gas extraction fell (-0.8%) during the quarter. Although the increase in oil and gas exploration was quite significant, this followed a 28% decline in the second quarter and was still well below the levels of activity registered at the beginning of the year and in 2006 and 2005.

Following two quarters of growth, manufacturing activities fell 0.7% in the third quarter, on a backdrop of an appreciating Canadian dollar. Of the 21 major groups, 15 decreased, these accounting for 60% of total manufacturing value added. The production of both non-durables (-0.4%) and durables (-0.9%) declined during the quarter. Sawmills, fabricated metal products and machinery manufacturing, recorded notable declines for the third quarter. Conversely, motor vehicle and associated parts manufacturing increased during the quarter.

Industrial production (the output of utilities, mines and factories) slipped 0.4% in the third quarter. Utilities and manufacturing both declined. Mining moved forward as a result of the increase in oil and gas exploration as well as in metal ore mining. In comparison, all three sectors increased in the United States resulting in an overall gain of 1.1% for the quarter.

Table C.1 Real gross domestic product by industry, at basic prices, monthly[1]

	February 2007	March 2007	April 2007	May 2007	June 2007	July 2007	August 2007	September 2007
Seasonally adjusted at annual rates, millions chained (2002) dollars								
All industries	1,210,954 <i>0.4</i>	1,214,743 <i>0.3</i>	1,215,333 <i>0.0</i>	1,220,703 <i>0.4</i>	1,223,748 <i>0.2</i>	1,225,405 <i>0.1</i>	1,227,699 <i>0.2</i>	1,229,128 <i>0.1</i>
Goods-producing industries	378,651 <i>0.8</i>	378,671 <i>0.0</i>	378,841 <i>0.0</i>	378,173 <i>-0.2</i>	379,117 <i>0.2</i>	378,391 <i>-0.2</i>	378,598 <i>0.1</i>	378,141 <i>-0.1</i>
Agriculture, forestry, fishing and hunting	27,368 <i>-0.1</i>	27,055 <i>-1.1</i>	27,130 <i>0.3</i>	26,914 <i>-0.8</i>	26,568 <i>-1.3</i>	26,342 <i>-0.9</i>	26,623 <i>1.1</i>	26,638 <i>0.1</i>
Mining and oil and gas extraction	58,603 <i>2.0</i>	58,118 <i>-0.8</i>	57,721 <i>-0.7</i>	56,866 <i>-1.5</i>	58,291 <i>2.5</i>	57,741 <i>-0.9</i>	58,123 <i>0.7</i>	58,362 <i>0.4</i>
Utilities	30,907 <i>2.2</i>	30,470 <i>-1.4</i>	31,416 <i>3.1</i>	31,458 <i>0.1</i>	31,353 <i>-0.3</i>	30,923 <i>-1.4</i>	30,727 <i>-0.6</i>	31,114 <i>1.3</i>
Construction	76,010 <i>-0.0</i>	76,301 <i>0.4</i>	76,115 <i>-0.2</i>	76,704 <i>0.8</i>	77,269 <i>0.7</i>	77,397 <i>0.2</i>	77,798 <i>0.5</i>	78,108 <i>0.4</i>
Manufacturing	185,535 <i>0.5</i>	186,742 <i>0.7</i>	186,647 <i>-0.1</i>	186,756 <i>0.1</i>	185,477 <i>-0.7</i>	186,051 <i>0.3</i>	185,224 <i>-0.4</i>	183,625 <i>-0.9</i>
Services-producing industries	832,866 <i>0.2</i>	836,697 <i>0.5</i>	837,122 <i>0.1</i>	843,282 <i>0.7</i>	845,385 <i>0.2</i>	847,832 <i>0.3</i>	849,947 <i>0.2</i>	851,875 <i>0.2</i>
Wholesale trade	69,052 <i>1.0</i>	69,818 <i>1.1</i>	69,355 <i>-0.7</i>	70,678 <i>1.9</i>	70,938 <i>0.4</i>	71,935 <i>1.4</i>	72,027 <i>0.1</i>	72,766 <i>1.0</i>
Retail trade	70,801 <i>-0.3</i>	72,008 <i>1.7</i>	71,787 <i>-0.3</i>	73,567 <i>2.5</i>	73,267 <i>-0.4</i>	72,791 <i>-0.6</i>	73,686 <i>1.2</i>	73,451 <i>-0.3</i>
Transportation and warehousing	55,747 <i>0.4</i>	56,146 <i>0.7</i>	56,225 <i>0.1</i>	56,337 <i>0.2</i>	56,230 <i>-0.2</i>	57,025 <i>1.4</i>	57,289 <i>0.5</i>	57,417 <i>0.2</i>
Information and cultural industries	43,817 <i>0.5</i>	43,893 <i>0.2</i>	44,009 <i>0.3</i>	43,969 <i>-0.1</i>	44,281 <i>0.7</i>	44,196 <i>-0.2</i>	44,264 <i>0.2</i>	44,342 <i>0.2</i>
Finance, insurance and real estate	236,713 <i>0.4</i>	237,351 <i>0.3</i>	238,146 <i>0.3</i>	239,273 <i>0.5</i>	240,079 <i>0.3</i>	240,844 <i>0.3</i>	240,955 <i>0.0</i>	241,163 <i>0.1</i>
Professional, scientific and technical services	56,435 <i>0.2</i>	56,527 <i>0.2</i>	56,759 <i>0.4</i>	57,126 <i>0.6</i>	57,259 <i>0.2</i>	57,391 <i>0.2</i>	57,450 <i>0.1</i>	57,579 <i>0.2</i>
Administrative and waste management services	31,187 <i>0.3</i>	31,267 <i>0.3</i>	31,388 <i>0.4</i>	31,536 <i>0.5</i>	31,674 <i>0.4</i>	31,759 <i>0.3</i>	31,849 <i>0.3</i>	31,952 <i>0.3</i>
Educational services	56,780 <i>0.0</i>	56,862 <i>0.1</i>	57,027 <i>0.3</i>	57,225 <i>0.3</i>	57,290 <i>0.1</i>	57,309 <i>0.0</i>	57,425 <i>0.2</i>	57,571 <i>0.3</i>
Health care and social assistance	75,807 <i>0.1</i>	75,991 <i>0.2</i>	76,223 <i>0.3</i>	76,464 <i>0.3</i>	76,611 <i>0.2</i>	76,756 <i>0.2</i>	76,904 <i>0.2</i>	77,025 <i>0.2</i>
Arts, entertainment and recreation	11,576 <i>-0.7</i>	11,568 <i>-0.1</i>	11,419 <i>-1.3</i>	11,520 <i>0.9</i>	12,030 <i>4.4</i>	11,801 <i>-1.9</i>	11,744 <i>-0.5</i>	11,806 <i>0.5</i>
Accommodation and food services	27,337 <i>-2.2</i>	27,526 <i>0.7</i>	26,880 <i>-2.3</i>	27,410 <i>2.0</i>	27,462 <i>0.2</i>	27,627 <i>0.6</i>	27,855 <i>0.8</i>	28,173 <i>1.1</i>
Other services (except public administration)	30,530 <i>0.1</i>	30,579 <i>0.2</i>	30,626 <i>0.2</i>	30,702 <i>0.2</i>	30,747 <i>0.1</i>	30,781 <i>0.1</i>	30,841 <i>0.2</i>	30,906 <i>0.2</i>
Public administration	67,144 <i>0.2</i>	67,220 <i>0.1</i>	67,351 <i>0.2</i>	67,550 <i>0.3</i>	67,575 <i>0.0</i>	67,703 <i>0.2</i>	67,740 <i>0.1</i>	67,805 <i>0.1</i>
Other aggregations								
Industrial production	276,053 <i>1.1</i>	276,063 <i>0.0</i>	276,339 <i>0.1</i>	275,315 <i>-0.4</i>	276,002 <i>0.2</i>	275,363 <i>-0.2</i>	274,950 <i>-0.1</i>	274,203 <i>-0.3</i>
Non-durable manufacturing industries	72,661 <i>-0.2</i>	72,731 <i>0.1</i>	72,940 <i>0.3</i>	73,555 <i>0.8</i>	73,764 <i>0.3</i>	73,861 <i>0.1</i>	73,018 <i>-1.1</i>	72,475 <i>-0.7</i>
Durable manufacturing industries	113,097 <i>1.0</i>	114,252 <i>1.0</i>	113,937 <i>-0.3</i>	113,405 <i>-0.5</i>	111,885 <i>-1.3</i>	112,369 <i>0.4</i>	112,407 <i>0.0</i>	111,346 <i>-0.9</i>
Business sector industries	1,020,377 <i>0.4</i>	1,023,842 <i>0.3</i>	1,024,044 <i>0.0</i>	1,028,847 <i>0.5</i>	1,031,681 <i>0.3</i>	1,033,105 <i>0.1</i>	1,035,204 <i>0.2</i>	1,036,365 <i>0.1</i>
Non-business sector industries	190,484 <i>0.1</i>	190,803 <i>0.2</i>	191,209 <i>0.2</i>	191,771 <i>0.3</i>	191,977 <i>0.1</i>	192,198 <i>0.1</i>	192,388 <i>0.1</i>	192,657 <i>0.1</i>
ICT sector, total	55,867 <i>0.9</i>	56,081 <i>0.4</i>	56,489 <i>0.7</i>	56,457 <i>-0.1</i>	57,066 <i>1.1</i>	56,993 <i>-0.1</i>	57,063 <i>0.1</i>	56,803 <i>-0.5</i>
Energy sector	87,465 <i>2.3</i>	86,597 <i>-1.0</i>	86,917 <i>0.4</i>	85,814 <i>-1.3</i>	87,292 <i>1.7</i>	86,502 <i>-0.9</i>	86,506 <i>0.0</i>	87,169 <i>0.8</i>

1. The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line is the period-to-period percentage change at monthly rates.

Table C.2 Real gross domestic product by industry, at basic prices, quarterly and annually[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted at annual rates, millions chained (2002) dollars								
Goods-producing industries	375,464 <i>-0.8</i>	374,480 <i>-0.3</i>	373,421 <i>-0.3</i>	377,643 <i>1.1</i>	378,710 <i>0.3</i>	378,377 <i>-0.1</i>	371,208 <i>2.7</i>	375,489 <i>1.2</i>
Agriculture, forestry, fishing and hunting	28,176 <i>-0.9</i>	27,399 <i>-2.8</i>	27,384 <i>-0.1</i>	27,271 <i>-0.4</i>	26,871 <i>-1.5</i>	26,534 <i>-1.3</i>	28,437 <i>2.7</i>	27,847 <i>-2.1</i>
Mining and oil and gas extraction	56,751 <i>-0.8</i>	57,558 <i>1.4</i>	57,204 <i>-0.6</i>	58,057 <i>1.5</i>	57,626 <i>-0.7</i>	58,075 <i>0.8</i>	56,044 <i>0.3</i>	57,174 <i>2.0</i>
Utilities	30,250 <i>0.3</i>	30,286 <i>0.1</i>	29,818 <i>-1.5</i>	30,543 <i>2.4</i>	31,409 <i>2.8</i>	30,921 <i>-1.6</i>	30,550 <i>4.9</i>	30,128 <i>-1.4</i>
Construction	73,596 <i>1.0</i>	74,369 <i>1.1</i>	75,536 <i>1.6</i>	76,115 <i>0.8</i>	76,696 <i>0.8</i>	77,768 <i>1.4</i>	68,527 <i>7.8</i>	74,087 <i>8.1</i>
Manufacturing	187,315 <i>-1.8</i>	184,920 <i>-1.3</i>	183,590 <i>-0.7</i>	185,630 <i>1.1</i>	186,293 <i>0.4</i>	184,967 <i>-0.7</i>	188,478 <i>1.6</i>	186,631 <i>-1.0</i>
Services-producing industries	816,920 <i>0.9</i>	822,022 <i>0.6</i>	827,148 <i>0.6</i>	833,623 <i>0.8</i>	841,930 <i>1.0</i>	849,885 <i>0.9</i>	788,924 <i>3.1</i>	818,862 <i>3.8</i>
Wholesale trade	68,644 <i>1.9</i>	69,239 <i>0.9</i>	68,298 <i>-1.4</i>	69,076 <i>1.1</i>	70,324 <i>1.8</i>	72,243 <i>2.7</i>	63,879 <i>6.0</i>	68,383 <i>7.1</i>
Retail trade	68,968 <i>2.0</i>	69,647 <i>1.0</i>	69,847 <i>0.3</i>	71,264 <i>2.0</i>	72,874 <i>2.3</i>	73,309 <i>0.6</i>	65,132 <i>3.6</i>	69,015 <i>6.0</i>
Transportation and warehousing	55,493 <i>0.4</i>	55,565 <i>0.1</i>	55,683 <i>0.2</i>	55,808 <i>0.2</i>	56,264 <i>0.8</i>	57,244 <i>1.7</i>	53,802 <i>3.5</i>	55,501 <i>3.2</i>
Information and cultural industries	42,932 <i>0.7</i>	43,353 <i>1.0</i>	43,651 <i>0.7</i>	43,773 <i>0.3</i>	44,086 <i>0.7</i>	44,267 <i>0.4</i>	41,848 <i>4.0</i>	43,147 <i>3.1</i>
Finance, insurance and real estate	229,000 <i>0.9</i>	231,525 <i>1.1</i>	234,023 <i>1.1</i>	236,632 <i>1.1</i>	239,166 <i>1.1</i>	240,987 <i>0.8</i>	221,951 <i>3.2</i>	230,362 <i>3.8</i>
Professional, scientific and technical services	55,076 <i>0.4</i>	55,504 <i>0.8</i>	56,088 <i>1.1</i>	56,436 <i>0.6</i>	57,048 <i>1.1</i>	57,473 <i>0.7</i>	53,793 <i>2.8</i>	55,377 <i>2.9</i>
Administrative and waste management services	30,392 <i>1.5</i>	30,775 <i>1.3</i>	30,979 <i>0.7</i>	31,183 <i>0.7</i>	31,533 <i>1.1</i>	31,853 <i>1.0</i>	28,756 <i>5.2</i>	30,524 <i>6.1</i>
Educational services	56,111 <i>0.2</i>	56,206 <i>0.2</i>	56,587 <i>0.7</i>	56,803 <i>0.4</i>	57,181 <i>0.7</i>	57,435 <i>0.4</i>	55,008 <i>2.2</i>	56,221 <i>2.2</i>
Health care and social assistance	74,633 <i>0.5</i>	74,878 <i>0.3</i>	75,376 <i>0.7</i>	75,831 <i>0.6</i>	76,433 <i>0.8</i>	76,895 <i>0.6</i>	72,784 <i>1.5</i>	74,780 <i>2.7</i>
Arts, entertainment and recreation	11,544 <i>2.7</i>	11,293 <i>-2.2</i>	11,566 <i>2.4</i>	11,602 <i>0.3</i>	11,656 <i>0.5</i>	11,784 <i>1.1</i>	10,940 <i>0.8</i>	11,410 <i>4.3</i>
Accommodation and food services	27,219 <i>0.1</i>	27,173 <i>-0.2</i>	27,880 <i>2.6</i>	27,605 <i>-1.0</i>	27,251 <i>-1.3</i>	27,885 <i>2.3</i>	26,418 <i>2.7</i>	27,365 <i>3.6</i>
Other services (except public administration)	29,989 <i>0.8</i>	30,170 <i>0.6</i>	30,390 <i>0.7</i>	30,536 <i>0.5</i>	30,692 <i>0.5</i>	30,843 <i>0.5</i>	29,346 <i>1.8</i>	30,072 <i>2.5</i>
Public administration	66,967 <i>0.7</i>	66,756 <i>-0.3</i>	66,831 <i>0.1</i>	67,130 <i>0.4</i>	67,492 <i>0.5</i>	67,749 <i>0.4</i>	65,309 <i>1.5</i>	66,758 <i>2.2</i>
Other aggregations								
Industrial production	274,517 <i>-1.3</i>	273,486 <i>-0.4</i>	271,364 <i>-0.8</i>	275,049 <i>1.4</i>	275,885 <i>0.3</i>	274,839 <i>-0.4</i>	274,884 <i>1.6</i>	274,357 <i>-0.2</i>
Non-durable manufacturing industries	74,464 <i>-1.3</i>	74,031 <i>-0.6</i>	73,355 <i>-0.9</i>	72,738 <i>-0.8</i>	73,420 <i>0.9</i>	73,118 <i>-0.4</i>	75,800 <i>-0.1</i>	74,329 <i>-1.9</i>
Durable manufacturing industries	113,027 <i>-2.1</i>	111,038 <i>-1.8</i>	110,392 <i>-0.6</i>	113,113 <i>2.5</i>	113,076 <i>-0.0</i>	112,041 <i>-0.9</i>	112,814 <i>2.8</i>	112,470 <i>-0.3</i>
Business sector industries	1,003,206 <i>0.3</i>	1,007,201 <i>0.4</i>	1,010,284 <i>0.3</i>	1,020,047 <i>1.0</i>	1,028,191 <i>0.8</i>	1,034,891 <i>0.7</i>	975,594 <i>3.2</i>	1,005,146 <i>3.0</i>
Non-business sector industries	188,696 <i>0.5</i>	188,692 <i>-0.0</i>	189,561 <i>0.5</i>	190,517 <i>0.5</i>	191,652 <i>0.6</i>	192,414 <i>0.4</i>	184,377 <i>1.7</i>	188,687 <i>2.3</i>
ICT sector, total	54,271 <i>0.9</i>	54,744 <i>0.9</i>	55,151 <i>0.7</i>	55,772 <i>1.1</i>	56,671 <i>1.6</i>	56,953 <i>0.5</i>	52,262 <i>4.6</i>	54,485 <i>4.3</i>
Energy sector	85,772 <i>-0.5</i>	86,638 <i>1.0</i>	84,925 <i>-2.0</i>	86,508 <i>1.9</i>	86,674 <i>0.2</i>	86,726 <i>0.1</i>	85,011 <i>1.6</i>	85,876 <i>1.0</i>

1. The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line is the period to period percentage change.

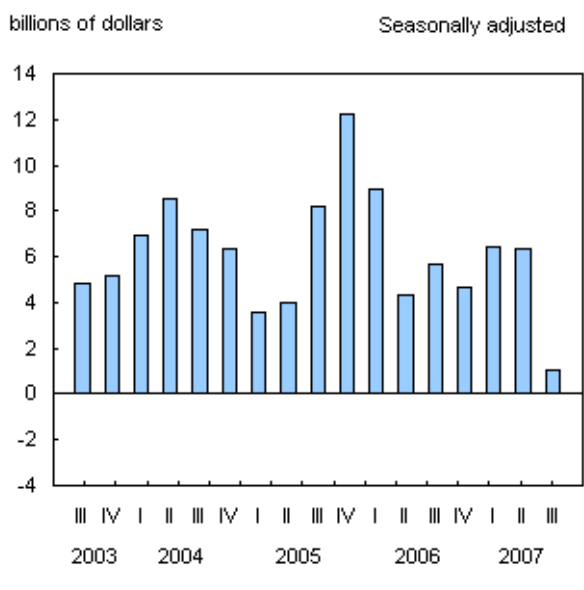
Section D

Balance of international payments

Third quarter 2007

Canada's current account surplus with the rest of the world (on a seasonally adjusted basis) decreased \$5.3 billion in the third quarter of 2007 to \$1.0 billion. The lowest current account surplus since the second quarter of 2003 resulted mostly from a large drop in the goods surplus.

Chart D.1
Strong decline in the current account balance



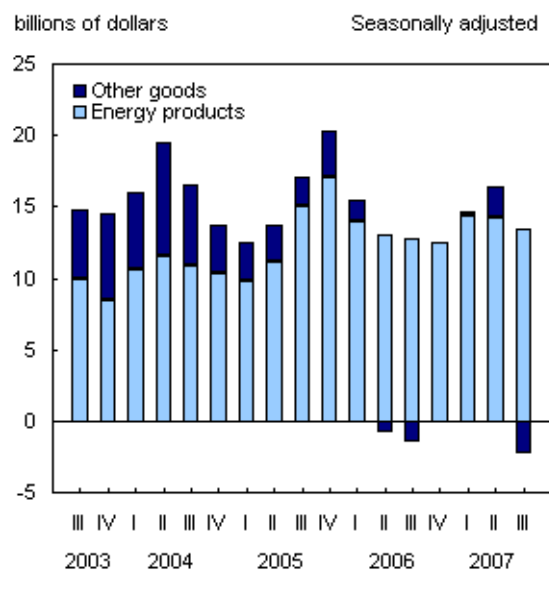
In the capital and financial account (not seasonally adjusted), both outward and inward investment flows slowed appreciably in the third quarter of 2007. Nevertheless, Canada's net foreign assets advanced by almost twice the pace of its net international liabilities, despite the first quarterly reduction in Canadian holdings of foreign securities in over 12 years and large foreign takeovers of Canadian companies.

Current account

Large drop in the goods surplus, as some commodity prices fall

The surplus on trade in goods plunged \$5.3 billion to reach \$11.1 billion in the third quarter, the lowest level since the second quarter of 1999. Goods exports dropped 2.7% to \$116.0 billion while imports rebounded after a drop in the second quarter. The \$3.2 billion decline in exports was widespread, affecting almost all the major categories of products.

Chart D.2
A record deficit in the non-energy products brings down the goods surplus



Note to readers

The **balance of payments** covers all economic transactions between Canadian residents and non-residents, in two accounts - the current account and the capital and financial account.

The **current account** covers transactions in goods, services, investment income and current transfers. Exports and interest income are examples of receipts, while imports and interest expense are payments. The overall balance of receipts and payments is Canada's current account **surplus** or **deficit**.

The **capital and financial account** is mainly composed of transactions in financial instruments. Financial assets and liabilities with non-residents are presented in three functional classes: direct investment, portfolio investment and other investment. These flows arise from financial activities of either Canadian residents (foreign assets of Canadian investors) or non-residents (Canadian liabilities to foreign investors). Transactions resulting in capital inflows to Canada are presented as positive values while those giving rise to capital outflows from Canada are shown as negative values.

In principle, a current account surplus corresponds to an equivalent net outflow in the capital and financial account; and, a current account deficit corresponds to an equivalent net inflow in the capital and financial account. In other words, the two accounts should add to zero. In practice, as data are compiled from multiple sources, this is rarely the case and gives rise to measurement error. The **statistical discrepancy** is the unobserved net inflow or outflow.

Exports of energy products fell \$0.8 billion in the third quarter, due to a 15% drop in the price of natural gas. Higher export volumes for natural gas and crude petroleum, as well as higher prices for crude petroleum, were not enough to offset the effect of falling natural gas prices. Lower volumes and prices of other energy products also contributed to the decline in the third quarter.

After increasing for seven consecutive quarters, exports of industrial materials fell \$0.6 billion during the third quarter. Prices of industrial materials were down slightly, on average, but remained close to historical highs. The largest price decreases were for nickel ores, nickel and alloys, and inorganic chemicals (including uranium), after strong price increases in the second quarter. These declines were largely offset by higher prices for other industrial materials.

Exports of machinery and equipment were also down \$0.6 billion, with the largest decrease occurring in aircraft and other (non-automotive) transportation equipment. Automotive products fell again, but not as steeply as in the second quarter.

Forestry product exports continued their decline in the third quarter, losing \$0.5 billion, mostly in lumber and newsprint. Since the end of 2005, exports of forestry products have declined 23% due to lower volumes and prices.

A rebound in imports also pulls down goods surplus

After falling back in the second quarter, imports of goods resumed an upward trend, increasing \$2.0 billion to a record \$104.9 billion, just slightly higher than the first quarter level. Most of the gains were reflected in a turnaround in both automotive products and in machinery and equipment.

Imports of automotive products increased \$0.8 billion due mainly to stronger imports of passenger motor vehicles at \$7.0 billion, the second highest level ever. The \$0.6 billion increase in machinery and equipment reflected record imports of aircraft, engines and parts which reached \$3.0 billion for the first time.

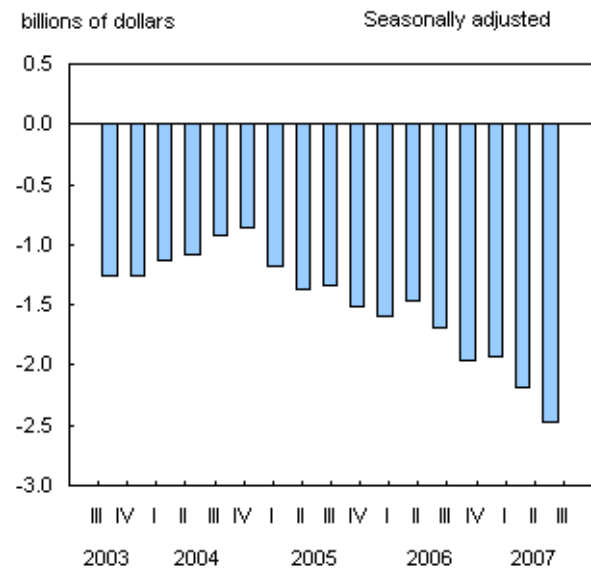
Energy product imports were flat in the third quarter as higher imports of crude petroleum were offset by a reduction in other energy products.

Services deficit narrows, despite record travel deficit

The services deficit narrowed slightly in the third quarter. The record deficit in travel was outweighed by a sharp decline in the deficit for commercial services. Nonetheless, the \$4.6 billion overall services deficit was the second largest ever.

Chart D.3

Large increase in expenses in United States leads to a record travel deficit



The travel deficit increased \$0.3 billion to a peak of \$2.5 billion. As the value of the Canadian dollar continued to rise in the third quarter, the number of Canadian travellers going to United States increased 5.5% and their spending reached almost \$3.9 billion, a 10.3% increase over the second quarter and, by far, the largest level ever recorded. As spending by U.S. travellers in Canada remained unchanged from the second quarter, the travel deficit with the United States was \$1.8 billion, the highest since the end of 1991.

The higher travel deficit was more than offset by a much reduced deficit in commercial services. The \$0.3 billion deficit was the lowest since the end of 2005 and was mainly due to lower payments for financial services and, to a lesser extent, royalties. The drop in financial services imports reflected a more typical volume of transactions in foreign stocks, after two exceptionally strong quarters, and a reduction in new Canadian bonds issued abroad.

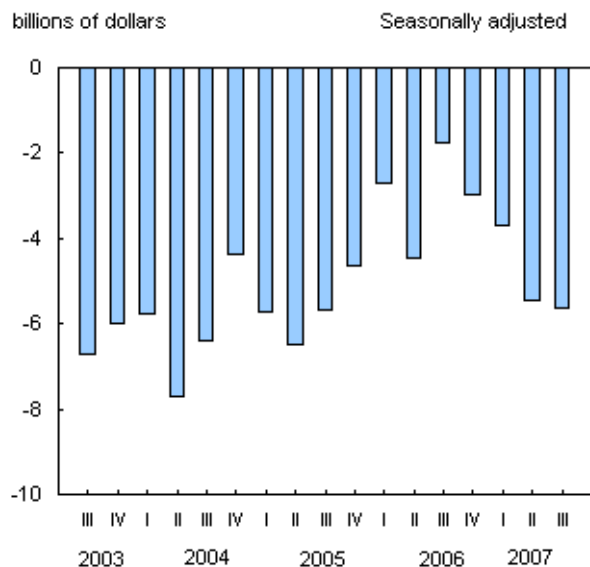
The deficit on transportation services was close to \$2.0 billion in the third quarter as payments on passenger fares reached another record.

Investment income deficit widens marginally

The investment income deficit widened by \$0.2 billion to \$5.6 billion during the third quarter as the increase in payments outpaced the increase in receipts.

Chart D.4

Few changes in the investment income deficit



Profits earned by foreign direct investors in Canada increased \$0.8 billion to a high of \$9.8 billion. The energy sector remained the largest source of profits for foreign direct investors, despite a decline in the third quarter. Interest income received by Canadian portfolio investors declined for the first time since the second quarter of 2005. Receipts totalled \$2.1 billion in the third quarter, a decline of \$95 million from the high reached in the previous quarter.

Financial account

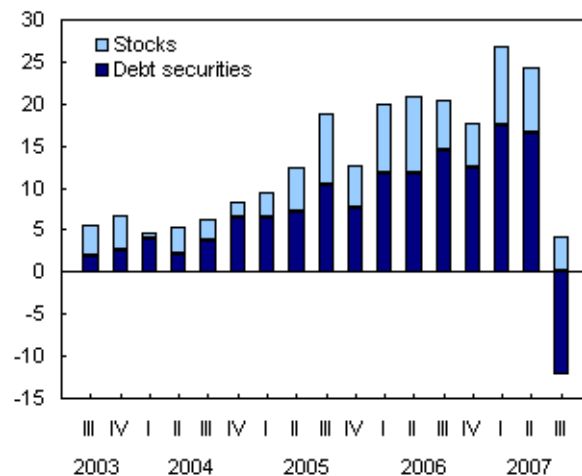
Rare divestment in foreign securities, led by money market instruments

Canadian residents divested \$8.0 billion worth of foreign securities in the third quarter, all in debt instruments, following record investments over the past two quarters. The first quarterly divestment of foreign securities in over 12 years coincided with the recent global meltdown in the asset-backed commercial paper market.

Chart D.5

Record divestment in foreign debt securities¹

billions of dollars



1. Reverse of Balance of Payments signs.

Canadian investments in foreign money market instruments plunged by a record \$10.4 billion over the quarter, eliminating more than one-half of those holdings. Three-quarters of the reduction was in non-US corporate paper, mainly issues of European banks. Meanwhile, Canadian investors acquired \$506 million of safer US government treasury-bills.

Canadian investors also reduced their holdings of foreign bonds by \$1.7 billion in the third quarter, interrupting nearly four years of exceptionally heavy investment in foreign long term debt. In contrast to the money market, this divestment was concentrated in US government bonds (\$4.8 billion). Canadians continued to acquire U.S. corporate and non-U.S. bonds (\$3.1 billion), but at a slower pace than the first two quarters of 2007.

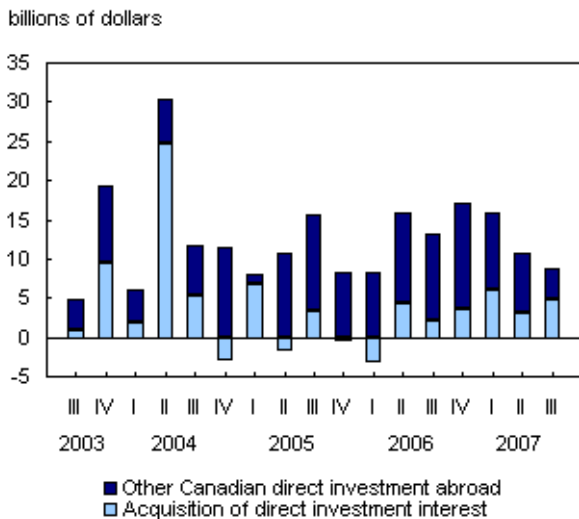
Investment in foreign stocks remained robust in the third quarter at \$4.1 billion, evenly split between US and non-US equities.

Direct investment abroad slows down for a third consecutive quarter

Canadian direct investment abroad amounted to \$8.7 billion in the third quarter, its lowest level in six quarters. Over half of these outflows (\$4.8 billion) resulted from acquisitions.

Chart D.6

Direct investment abroad moderates¹



1. Reverse of Balance of Payments signs.

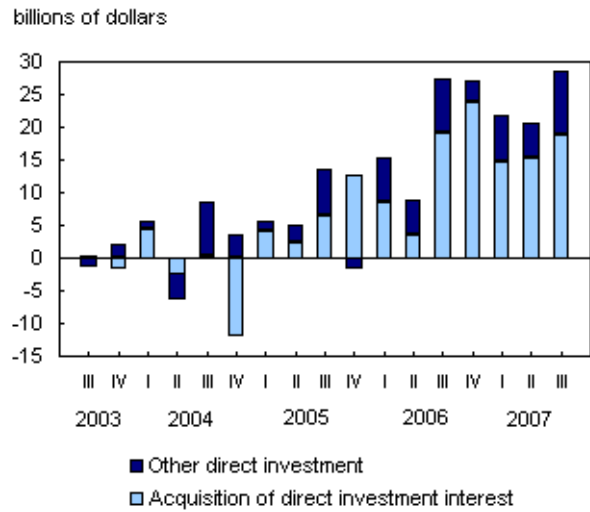
Direct investment in the energy and metallic minerals sector rebounded to \$5.7 billion. This occurred against the backdrop of a global economy characterized by rising oil prices and a depreciating US dollar. On the other hand, investment in the finance and insurance sector slowed down significantly from previous quarters to \$2.2 billion. Geographically, the United States received the bulk of the investment from Canadian direct investors (\$4.0 billion).

Large foreign direct investment in the Canadian economy driven by acquisitions

Capital flows into the Canadian economy by foreign direct investors surpassed the \$20 billion mark for the fifth consecutive quarter, reaching \$28.6 billion in the third quarter of 2007. This was the highest quarter of foreign direct investment inflows since the tech. bubble in 2000. Most of the inflows served to acquire Canadian firms (\$18.8 billion).

Chart D.7

Foreign takeovers continue unabated



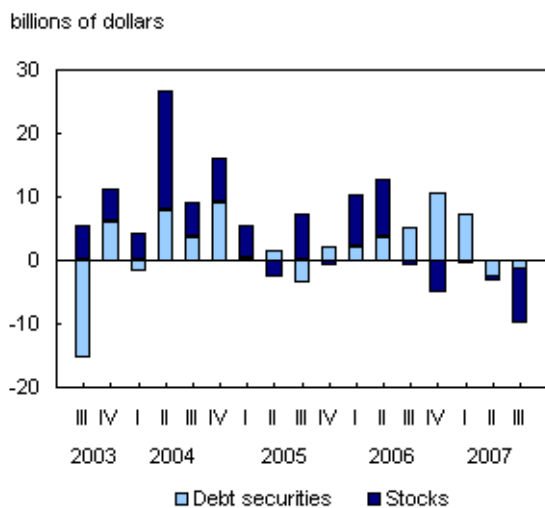
Direct investors from the European Union were the most active with investments totalling \$17.9 billion during the quarter. The two sectors of the Canadian economy obtaining the bulk of the financing from abroad were the energy and metallic minerals sector (\$10.6 billion) and the finance and insurance sector (\$9.3 billion).

The trend of heavy direct investment into Canada started in the third quarter of 2006 and has totalled \$125.2 billion since then. Direct investment activity during this period has been driven to a large extent by the high level of acquisitions of Canadian firms (\$91.7 billion).

Foreign takeovers lead to a record foreign portfolio divestment in Canadian securities

Foreign portfolio holdings of Canadian securities fell \$9.9 billion in the third quarter, led by equities and marking the largest ever quarterly decline. The bulk of the \$8.5 billion divestment of Canadian equities during the third quarter was due to foreign takeovers of Canadian companies and the resulting retirement of foreign-held portfolio shares. In addition, foreign investors sold \$2.3 billion worth of portfolio shares at a time when Canadian equity prices were up slightly for the quarter (1.4%).

Chart D.8
Foreign portfolio holdings of Canadian securities plummet



Foreign holdings of Canadian bonds were largely unchanged in the third quarter (-\$189 million). Non-resident investors purchased \$6.0 billion worth of outstanding issues but this was more than offset by substantial net retirements (retirements less new issues), mostly in federal and provincial government issues.

Non residents sold \$1.2 billion of Canadian money market paper in the third quarter. All the foreign divestment was in federal and provincial issues. Investment in government enterprise paper (\$1.0 billion) was completely offset by divestment in other corporate paper.

Transactions in deposits, loans and reserves assets

The other investment account recorded a significant net outflow of \$26.2 billion over the quarter. The outflow was mostly related to strong growth in both deposit and loan assets. A large reduction in Canadian short-term loans from abroad in the form of repurchase agreements also added to the outflow on the quarter. The Canadian dollar finally broke parity with the US dollar closing the third quarter at just over 100 US cents, an increase of 6.6 US cents from the previous quarter's close. The Canadian dollar was also up against most other major currencies.

Table D.1 Balance of payments

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Not seasonally adjusted, millions of dollars								
Current account								
Receipts								
Goods and services	132,405	131,426	130,643	134,906	139,510	131,501	518,762	522,926
Goods	115,548	111,946	115,070	119,327	122,584	112,139	451,783	455,696
Services	16,857	19,480	15,573	15,579	16,926	19,363	66,979	67,230
Investment income	14,748	16,492	17,050	15,035	16,076	15,850	48,213	61,599
Direct investment	7,609	8,677	9,523	7,032	7,571	7,878	26,017	32,600
Portfolio investment	4,202	4,262	4,682	5,228	5,458	5,108	12,380	16,867
Other investment	2,937	3,554	2,844	2,775	3,047	2,864	9,816	12,131
Current transfers	2,021	1,920	2,704	2,942	2,127	2,172	8,176	9,682
Current account receipts	149,174	149,838	150,397	152,883	157,713	149,524	575,151	594,207
Payments								
Goods and services	125,310	121,328	122,453	126,199	128,839	123,580	467,423	486,789
Goods	104,860	100,300	102,246	104,419	107,016	101,982	388,282	404,395
Services	20,450	21,028	20,207	21,780	21,823	21,598	79,141	82,394
Investment income	18,108	18,006	19,888	20,016	20,546	21,177	70,735	73,446
Direct investment	8,145	7,608	8,573	7,924	9,294	10,327	34,212	31,091
Portfolio investment	6,602	6,783	7,129	7,011	6,906	6,748	27,897	27,094
Other investment	3,361	3,616	4,186	5,081	4,347	4,102	8,625	15,260
Current transfers	1,781	2,090	2,859	3,542	1,897	2,173	9,051	10,394
Current account payments	145,199	141,423	145,200	149,758	151,282	146,930	547,208	570,629
Balances								
Goods and services	7,095	10,099	8,190	8,707	10,671	7,922	51,340	36,137
Goods	10,688	11,646	12,824	14,909	15,569	10,157	63,501	51,302
Services	-3,593	-1,548	-4,635	-6,201	-4,897	-2,235	-12,162	-15,165
Investment income	-3,359	-1,514	-2,839	-4,981	-4,470	-5,327	-22,522	-11,847
Direct investment	-535	1,069	951	-892	-1,723	-2,448	-8,195	1,509
Portfolio investment	-2,400	-2,521	-2,447	-1,784	-1,447	-1,640	-15,518	-10,227
Other investment	-424	-62	-1,342	-2,305	-1,300	-1,238	1,191	-3,129
Current transfers	239	-170	-154	-600	231	-1	-875	-712
Current account balance	3,975	8,415	5,197	3,126	6,432	2,593	27,943	23,578
Capital and financial account[1]								
Capital account	1,076	993	951	1,246	1,018	1,046	5,940	4,201
Financial account	-5,769	-7,587	-1,164	-8,908	-7,157	-8,230	-38,287	-22,741
Canadian assets, net flows								
Canadian direct investment abroad	-15,787	-13,245	-17,046	-15,767	-10,719	-8,731	-40,645	-51,322
Portfolio investment	-20,808	-20,372	-17,637	-26,749	-24,266	7,982	-53,279	-78,693
Foreign bonds	-12,689	-9,533	-10,767	-17,186	-16,336	1,688	-29,238	-43,602
Foreign stocks	-9,055	-5,892	-5,142	-9,331	-7,691	-4,079	-21,951	-28,291
Foreign money market	936	-4,946	-1,728	-232	-239	10,373	-2,089	-6,800
Other investment	-20,938	-12,939	19,796	-20,873	-15,193	-22,184	-22,157	-35,325
Loans	-4,317	-6,377	429	-5,009	2,582	-9,151	8,217	-12,201
Deposits	-16,742	-4,069	25,901	-6,103	-11,748	-18,140	-15,817	-8,183
Official international reserves	909	52	1,662	-4,722	-366	-144	-1,653	-1,013
Other assets	-788	-2,545	-8,195	-5,038	-5,661	5,251	-12,903	-13,927
Total Canadian assets, net flows	-57,533	-46,555	-14,887	-63,389	-50,179	-22,932	-116,081	-165,339
Canadian liabilities, net flows								
Foreign direct investment in Canada	8,784	27,223	27,047	21,667	20,644	28,613	35,046	78,317
Portfolio investment	12,849	4,166	5,328	6,888	-3,329	-9,874	9,577	32,544
Canadian bonds	-843	6,351	12,341	8,122	-3,435	-189	-78	18,015
Canadian stocks	9,091	-1,034	-5,264	-532	-899	-8,524	9,133	10,814
Canadian money market	4,602	-1,151	-1,749	-702	1,006	-1,160	522	3,715
Other investment	30,131	7,579	-18,653	25,925	25,706	-4,038	33,171	31,737
Loans	3,226	7,048	716	3,012	2,809	-4,434	3,496	11,873
Deposits	27,046	657	-18,032	21,844	22,329	-37	28,951	20,724
Other liabilities	-141	-126	-1,337	1,069	568	434	723	-860
Total Canadian liabilities, net flows	51,764	38,968	13,723	54,480	43,022	14,702	77,793	142,598
Total capital and financial account, net flows	-4,694	-6,593	-213	-7,662	-6,139	-7,185	-32,347	-18,540
Statistical discrepancy	719	-1,821	-4,984	4,536	-293	4,591	4,404	-5,038

1. A minus sign (-) denotes an outflow of capital resulting from an increase in claims on non-residents or from a decrease in liabilities to non-residents. Transactions are recorded on a net basis.

Table D.2 Current account

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted at quarterly rates, millions of dollars								
Receipts								
Goods and services	129,186	131,187	132,338	136,427	136,168	132,835	518,762	522,926
Goods	112,282	114,294	115,506	119,481	119,208	115,989	451,783	455,696
Services	16,904	16,893	16,832	16,946	16,960	16,846	66,979	67,230
Travel	4,213	4,178	4,124	4,149	4,207	4,241	16,674	16,598
Transportation	2,965	3,049	3,111	3,229	3,214	3,082	11,750	12,129
Commercial services	9,290	9,224	9,140	9,115	9,094	9,068	36,888	36,708
Government services	436	443	457	453	446	454	1,666	1,795
Investment income	14,323	16,498	16,885	15,622	15,474	15,806	48,213	61,599
Direct investment	7,407	8,716	9,150	7,495	7,344	7,845	26,017	32,600
Interest	398	434	276	414	483	305	1,045	1,380
Profits	7,009	8,282	8,874	7,081	6,861	7,540	24,971	31,220
Portfolio investment	4,129	4,295	4,741	5,239	5,285	5,195	12,380	16,867
Interest	1,480	1,582	1,838	2,034	2,180	2,095	3,652	6,189
Dividends	2,649	2,712	2,903	3,205	3,104	3,101	8,728	10,679
Other investment	2,787	3,488	2,995	2,887	2,845	2,766	9,816	12,131
Current transfers	2,282	2,252	2,521	2,506	2,444	2,605	8,176	9,682
Private	644	673	623	735	640	660	2,697	2,680
Official	1,638	1,579	1,897	1,771	1,804	1,945	5,479	7,002
Total receipts	145,791	149,938	151,744	154,555	154,086	151,245	575,151	594,207
Payments								
Goods and services	120,562	123,701	124,297	126,040	124,546	126,333	467,423	486,789
Goods	100,128	102,968	103,175	104,877	102,868	104,911	388,282	404,395
Services	20,434	20,732	21,122	21,163	21,678	21,423	79,141	82,394
Travel	5,685	5,874	6,081	6,076	6,396	6,711	22,059	23,311
Transportation	4,721	4,823	5,058	5,025	5,084	5,058	17,566	19,194
Commercial services	9,773	9,779	9,726	9,811	9,942	9,396	38,503	38,865
Government services	255	255	256	250	255	257	1,013	1,024
Investment income	18,760	18,259	19,848	19,305	20,903	21,446	70,735	73,446
Direct investment	8,584	7,555	8,569	7,697	9,378	10,177	34,212	31,091
Interest	365	365	370	356	365	365	1,501	1,465
Profits	8,219	7,190	8,199	7,341	9,013	9,812	32,711	29,626
Portfolio investment	6,584	6,797	7,175	6,966	6,894	6,767	27,897	27,094
Interest	5,448	5,624	5,819	5,846	5,700	5,580	23,369	22,324
Dividends	1,136	1,173	1,355	1,120	1,194	1,187	4,528	4,770
Other investment	3,592	3,908	4,105	4,642	4,631	4,502	8,625	15,260
Current transfers	2,139	2,313	2,977	2,822	2,287	2,426	9,051	10,394
Private	1,330	1,417	2,129	1,917	1,427	1,412	5,172	6,913
Official	809	896	849	905	860	1,015	3,879	3,481
Total payments	141,462	144,273	147,123	148,167	147,736	150,206	547,208	570,629
Balances								
Goods and services	8,624	7,487	8,041	10,387	11,622	6,501	51,340	36,137
Goods	12,154	11,325	12,331	14,604	16,340	11,078	63,501	51,302
Services	-3,530	-3,839	-4,290	-4,217	-4,718	-4,577	-12,162	-15,165
Travel	-1,472	-1,696	-1,957	-1,927	-2,189	-2,470	-5,385	-6,713
Transportation	-1,757	-1,775	-1,948	-1,795	-1,870	-1,977	-5,815	-7,065
Commercial services	-482	-556	-587	-697	-848	-328	-1,615	-2,157
Government services	181	188	202	202	190	198	653	770
Investment income	-4,437	-1,761	-2,963	-3,683	-5,429	-5,641	-22,522	-11,847
Direct investment	-1,176	1,161	581	-202	-2,034	-2,332	-8,195	1,509
Interest	34	69	-94	59	118	-60	-455	-85
Profits	-1,210	1,092	674	-260	-2,152	-2,272	-7,740	1,594
Portfolio investment	-2,455	-2,502	-2,434	-1,727	-1,610	-1,572	-15,518	-10,227
Interest	-3,968	-4,042	-3,982	-3,812	-3,520	-3,485	-19,718	-16,135
Dividends	1,513	1,540	1,548	2,085	1,910	1,914	4,200	5,908
Other investment	-806	-420	-1,110	-1,755	-1,786	-1,737	1,191	-3,129
Current transfers	143	-61	-457	-315	157	179	-875	-712
Private	-686	-744	-1,505	-1,181	-787	-751	-2,475	-4,233
Official	829	683	1,049	866	944	930	1,600	3,521
Current account	4,330	5,665	4,622	6,388	6,350	1,039	27,943	23,578

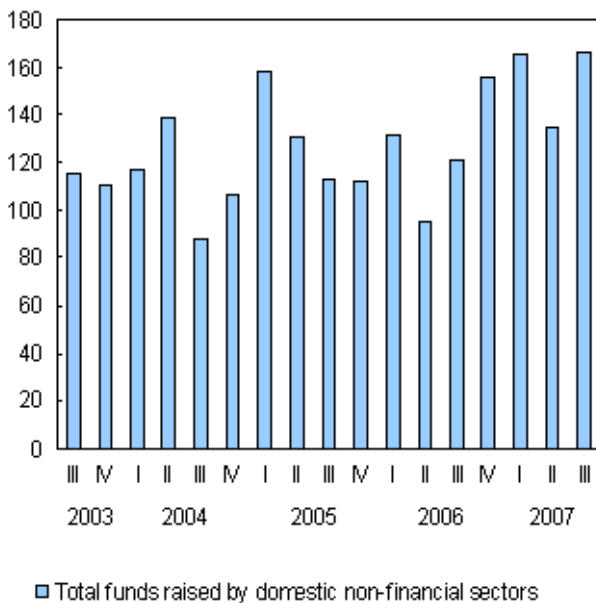
Section E Financial flow accounts

Third quarter 2007

Total funds raised by domestic non-financial sectors on financial markets amounted to \$166.1 billion in the third quarter of 2007 (seasonally adjusted at annual rates), up from the second quarter of 2007. Households led the private sector's demand for funds. After the second quarter's large reduction in marketable debt, the overall government sector returned to financial markets. Other levels of government substantially increased their borrowings, offsetting the significant debt reduction posted by the federal government.

Chart E.1
Overall demand for funds increases

Billions of dollars, seasonally adjusted at annual rates



The key financial market indicators registered slightly differing signals in the quarter. The S & P/Toronto Stock Exchange Composite Index declined slightly in July and August but recovered in September to carry the third quarter closing to a 1.4% increase over that of the second quarter. With the country's strong domestic economy and the sustained demand for Canadian-produced commodities such as crude oil and metals, the Canadian dollar continued to appreciate against the US dollar, closing the quarter above par against the US dollar, a 30-year high. For the first time since May 2006, the bank rate increased by a quarter of a percentage point in July. Despite this increase in the bank rate, mortgage rates remained fairly steady during the third quarter following the modest increases posted in the previous quarter. After recording moderate gains during the second quarter, bond yields showed a slight decline during the last two months of the third quarter.

Household sector

The household sector's overall borrowing increased in the third quarter, as mortgage borrowing remained robust spurred on by growth in housing starts. The demand for consumer credit remained strong as expenditure on services and semi-durable goods continued to increase, compensating for declines in consumer spending on durable and non-durable goods.

Overall household debt in the form of mortgages and consumer credit grew, amounting to 115.7% of personal disposable income. However, debt servicing charges remained stable at about 8% of personal disposable income.

Investment in financial assets by the household sector was again led by the acquisition of deposits and pension assets.

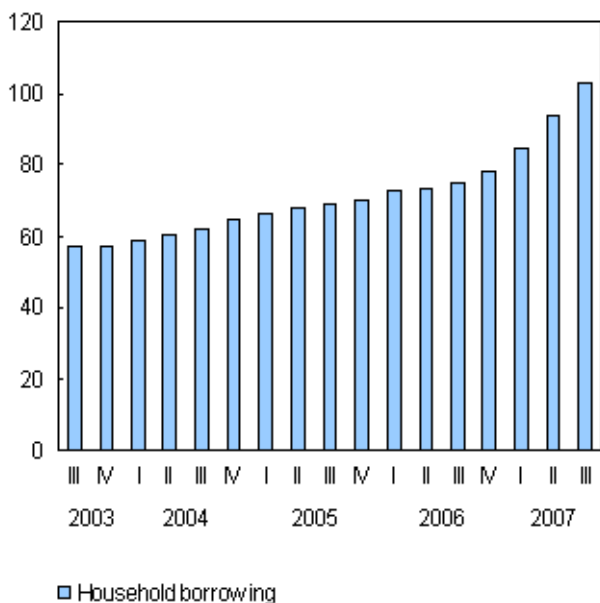
Note to readers

The Financial Flow Accounts (FFA) measure net lending or borrowing by examining financial transactions in the economy by sector. The FFA arrive at a measure of net financial investment which is the difference between change in financial assets and liabilities. (e.g., net purchases of securities less net issuance of securities).

The Financial Flow Accounts also provide the link between financial and non-financial activity in the economy which ties estimates of saving and non-financial asset formation (e.g., investment in new housing) with the underlying financial transactions.

Chart E.2**Household borrowing continues to rise**

Billions of dollars, seasonally adjusted at annual rates

**Corporate sector**

The corporate sector remained a net lender to the rest of the economy in the third quarter, even while building inventories and continuing to increase investment in fixed capital. Undistributed corporation profits, which make up the bulk of corporate saving, rebounded after two successive quarters of declines.

For private non-financial corporations, there was a significant slowdown in net new share issuance. Financial institutions continued to strengthen their overall positions. Their significant reduction in foreign holdings of equities, money market and fixed income instruments was more than offset by their net acquisition of domestic fixed income instruments.

Government sector

The federal government continued its trend of debt reduction in the third quarter with a second straight quarter of significant net redemption of short-term debt. This was, however, offset by net new financing by other levels of government, notably through net new issuance of short-term paper and bonds by the provinces. Nevertheless, as revenue remained strong, the overall government sector continued to maintain its surplus position.

Chart E.3**Total government borrowing rebounds**

Billions of dollars, seasonally adjusted at annual rates

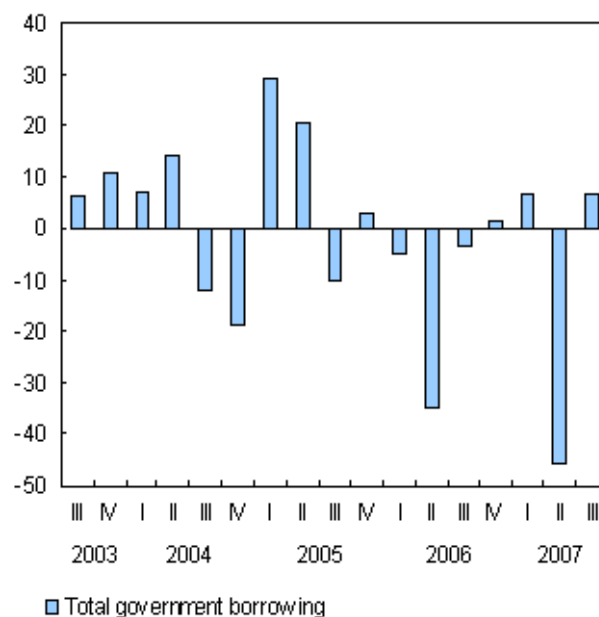


Table E.1 Financial market summary table

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted data at annual rates, millions of dollars								
Funds raised								
Persons and unincorporated business	75,760	77,056	82,928	88,852	100,896	105,800	70,555	79,150
Consumer credit	27,792	28,868	29,920	30,952	31,796	32,168	25,122	28,277
Bank loans	2,000	1,676	2,828	1,924	1,872	2,468	1,684	2,267
Other loans	236	212	2,340	2,152	5,456	704	763	2,091
Mortgages	45,732	46,300	47,840	53,824	61,772	70,460	42,986	46,515
Non-financial private corporations	51,272	41,948	70,388	71,544	79,368	54,836	48,741	54,523
Bank loans	8,828	548	5,320	13,428	13,624	6,772	5,319	2,659
Other loans	2,664	-596	-5,076	-1,544	-5,960	-784	2,537	813
Other short-term paper	16,124	7,948	15,920	1,184	5,368	8,668	3,895	15,304
Mortgages	13,628	14,692	18,564	18,916	19,884	21,808	9,971	14,706
Bonds	-3,776	12,444	16,076	22,044	9,096	14,352	6,852	5,369
Shares	13,804	6,912	19,584	17,516	37,356	4,020	20,167	15,672
Non-financial government enterprises	2,844	5,360	1,044	-1,552	-100	-1,152	-1,356	2,771
Bank loans	692	376	28	216	-4	280	-59	234
Other loans	-552	-528	1,104	-2,976	456	-24	54	224
Other short-term paper	-356	4,608	-820	-120	-132	-1,460	-630	1,002
Mortgages	-4	-4	-4	-4	-4	4	2	-3
Bonds	3,064	908	736	1,332	-416	76	-723	1,314
Shares	0	0	0	0	0	-28	0	0
Federal government	-31,944	-3,596	-2,448	4,112	-51,824	-29,588	2,309	-10,266
Bank loans	-64	-20	36	148	152	128	141	-36
Other loans	0	0	0	0	0	0	0	0
Canada short-term paper	-21,956	-1,144	4,592	11,160	-37,612	-21,708	11,036	-3,686
Canada Savings Bonds	-1,936	-1,748	-3,124	-2,156	-2,000	-1,100	-1,751	-2,247
Other bonds	-7,988	-684	-3,952	-5,040	-12,364	-6,908	-7,117	-4,297
Other levels of government	-2,708	108	3,524	2,652	5,976	36,252	8,207	-249
Bank loans	-540	20	216	880	1,932	-860	209	266
Other loans	188	-20	564	352	660	476	732	127
Other short-term paper	5,148	-6,952	-4,740	-2,368	-5,540	20,072	-4,440	-958
Mortgages	-12	-4	0	4	-4	-4	-13	0
Provincial bonds	-8,568	5,216	6,840	2,580	7,256	15,252	10,121	-1,201
Municipal bonds	628	1,728	752	1,080	1,604	1,244	1,290	1,356
Other bonds	448	120	-108	124	68	72	308	161
Total funds raised by domestic non-financial sectors	95,224	120,876	155,436	165,608	134,316	166,148	128,456	125,929
Consumer credit	27,792	28,868	29,920	30,952	31,796	32,168	25,122	28,277
Bank loans	10,916	2,600	8,428	16,596	17,576	8,788	7,294	5,390
Other loans	2,536	-932	-1,068	-2,016	612	372	4,086	3,255
Canada short-term paper	-21,956	-1,144	4,592	11,160	-37,612	-21,708	11,036	-3,686
Other short-term paper	20,916	5,604	10,360	-1,304	-304	27,280	-1,175	15,348
Mortgages	59,344	60,984	66,400	72,740	81,648	92,268	52,946	61,218
Bonds	-18,128	17,984	17,220	19,964	3,244	22,988	8,980	455
Shares	13,804	6,912	19,584	17,516	37,356	3,992	20,167	15,672

Table E.2 Sector accounts - Persons and unincorporated businesses[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted data at annual rates, millions of dollars								
Income	1,082,796	1,097,596	1,114,472	1,140,708	1,159,252	1,162,500	1,032,247	1,094,724
	-0.1	1.4	1.5	2.4	1.6	0.3	5.1	6.1
Wages, salaries and supplementary labour income	730,928	739,764	751,268	767,872	781,416	785,172	694,041	737,382
	0.5	1.2	1.6	2.2	1.8	0.5	6.0	6.2
Unincorporated business net income[2]	86,064	86,408	87,200	89,244	91,344	91,512	84,957	86,324
	0.5	0.4	0.9	2.3	2.4	0.2	1.0	1.6
Interest, dividends and miscellaneous investment income	123,016	124,116	126,924	131,572	134,300	131,976	114,048	123,376
	3.0	0.9	2.3	3.7	2.1	-1.7	5.4	8.2
Current transfers from government	138,456	142,804	144,732	147,204	147,724	149,248	134,766	143,183
	-5.6	3.1	1.4	1.7	0.4	1.0	3.6	6.2
Current transfers from corporations	1,760	1,812	1,852	1,876	1,908	1,952	1,737	1,779
	4.0	3.0	2.2	1.3	1.7	2.3	-25.4	2.4
Current transfers from non-residents	2,572	2,692	2,496	2,940	2,560	2,640	2,698	2,680
	-13.1	4.7	-7.3	17.8	-12.9	3.1	7.4	-0.7
Outlay	1,068,564	1,082,564	1,095,456	1,116,352	1,145,532	1,150,600	1,019,422	1,075,772
	1.1	1.3	1.2	1.9	2.6	0.4	6.2	5.5
Personal expenditure on goods and services	799,220	809,776	817,020	830,552	847,460	854,152	760,701	803,502
	1.4	1.3	0.9	1.7	2.0	0.8	5.6	5.6
Current transfers to government	249,680	252,620	257,856	264,872	276,624	274,316	240,761	252,422
	0.1	1.2	2.1	2.7	4.4	-0.8	7.7	4.8
Current transfers to corporations	15,648	16,144	16,416	16,652	17,136	17,820	14,013	15,794
	4.5	3.2	1.7	1.4	2.9	4.0	10.0	12.7
Current transfers to non-residents	4,016	4,024	4,164	4,276	4,312	4,312	3,947	4,054
	0.1	0.2	3.5	2.7	0.8	0.0	13.8	2.7
Saving	14,232	15,032	19,016	24,356	13,720	11,900	12,825	18,952
	-48.3	5.6	26.5	28.1	-43.7	-13.3	-41.6	47.8
Disposable income[3]	833,116	844,976	856,616	875,836	882,628	888,184	791,486	842,302
	-0.2	1.4	1.4	2.2	0.8	0.6	4.3	6.4
Saving rate	1.7	1.8	2.2	2.8	1.6	1.3	1.6	2.3

Gross saving and capital transfers	59,728	60,808	64,852	72,552	61,812	60,428	57,803	64,515
	-17.8	1.8	6.7	11.9	-14.8	-2.2	-7.9	11.6
Saving	14,232	15,032	19,016	24,356	13,720	11,900	12,825	18,952
	-48.3	5.6	26.5	28.1	-43.7	-13.3	-41.6	47.8
Capital consumption allowances	42,024	42,572	43,204	44,040	44,648	45,320	39,981	42,308
	1.4	1.3	1.5	1.9	1.4	1.5	6.0	5.8
Net capital transfers	3,472	3,204	2,632	4,156	3,444	3,208	4,997	3,255
	-6.5	-7.7	-17.9	57.9	-17.1	-6.9	62.3	-34.9
Deduct: Non-financial capital acquisition	117,036	117,924	117,604	121,716	126,972	125,592	108,361	117,105
	1.0	0.8	-0.3	3.5	4.3	-1.1	8.6	8.1
Net lending	-57,308	-57,116	-52,752	-49,164	-65,160	-65,164	-50,558	-52,590

Transactions in financial assets	23,988	19,400	33,236	48,508	43,376	41,536	21,883	29,245

Currency and deposits	40,756	32,148	37,004	13,912	38,440	40,132	4,371	33,510

Canadian debt securities	-20,328	-25,052	-10,208	-7,512	-8,456	-19,444	-11,559	-17,548

Corporate shares and mutual funds	-12,692	-5,320	3,144	29,028	-2,044	13,888	14,326	1,590

Life insurance and pensions	55,160	43,924	41,564	50,592	63,160	50,552	40,987	46,172

Other financial assets	-38,908	-26,300	-38,268	-37,512	-47,724	-43,592	-26,242	-34,479

Transactions in liabilities	80,268	80,232	84,884	93,820	108,324	109,836	72,033	82,448

Consumer credit	27,792	28,868	29,920	30,952	31,796	32,168	25,122	28,277

Bank and other loans	2,236	1,888	5,168	4,076	7,328	3,172	2,447	4,358

Mortgages	45,732	46,300	47,840	53,824	61,772	70,460	42,986	46,515

Trade payables	4,508	3,176	1,956	4,968	7,428	4,036	1,478	3,298

Net financial investment	-56,280	-60,832	-51,648	-45,312	-64,948	-68,300	-50,150	-53,203

Sector discrepancy	-1,028	3,716	-1,104	-3,852	-212	3,136	-408	613

1. The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line is the period to period percentage change.

2. Sum of accrued net income of farm operators from farm production and net income of non-farm unincorporated business, including rent.

3. Total income minus current transfers to government.

Table E.3 Sector accounts - Corporations and government business enterprises, total[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted data at annual rates, millions of dollars								
Income	367,388	379,884	402,076	375,072	387,580	390,192	350,618	378,421
	0.8	3.4	5.8	-6.7	3.3	0.7	11.8	7.9
Corporation profits before taxes	197,444	201,864	201,464	205,872	208,444	213,764	189,357	198,859
	1.4	2.2	-0.2	2.2	1.2	2.6	11.9	5.0
Government business enterprise profits before taxes	14,156	13,668	13,556	15,096	15,308	15,256	14,578	13,823
	1.8	-3.4	-0.8	11.4	1.4	-0.3	12.8	-5.2
Inventory valuation adjustment	-444	-1,376	-5,820	-2,760	4,192	2,700	-933	-1,775

Interest, dividends and miscellaneous receipts[2]	85,380	94,588	121,668	85,324	87,236	85,040	79,331	96,768
	-0.1	10.8	28.6	-29.9	2.2	-2.5	20.1	22.0
Interest on consumer debt	15,648	16,144	16,416	16,652	17,136	17,820	14,013	15,794
	4.5	3.2	1.7	1.4	2.9	4.0	10.0	12.7
Interest on public debt[3]	55,204	54,996	54,792	54,888	55,264	55,612	54,272	54,952
	0.7	-0.4	-0.4	0.2	0.7	0.6	-0.6	1.3
Outlay	258,888	260,084	269,652	265,484	269,256	271,344	248,425	262,371
	-0.8	0.5	3.7	-1.5	1.4	0.8	8.4	5.6
Interest, dividends and miscellaneous payments	207,236	206,312	208,852	208,652	213,548	213,572	196,802	207,171
	0.5	-0.4	1.2	-0.1	2.3	0.0	9.0	5.3
Direct taxes	49,420	51,192	55,496	52,476	53,320	55,400	49,492	51,432
	-0.4	3.6	8.4	-5.4	1.6	3.9	7.6	3.9
Other current transfers	2,232	2,580	5,304	4,356	2,388	2,372	2,131	3,768
	-55.0	15.6	105.6	-17.9	-45.2	-0.7	-18.1	76.8
Saving	108,500	119,800	132,424	109,588	118,324	118,848	102,193	116,050
	4.9	10.4	10.5	-17.2	8.0	0.4	20.8	13.6
Gross saving and capital transfers	227,724	240,204	253,900	232,036	242,188	244,208	217,059	235,952
	2.6	5.5	5.7	-8.6	4.4	0.8	11.7	8.7
Saving	108,500	119,800	132,424	109,588	118,324	118,848	102,193	116,050
	4.9	10.4	10.5	-17.2	8.0	0.4	20.8	13.6
Capital consumption allowances	116,692	117,784	118,608	119,768	121,116	122,444	111,932	117,146
	1.0	0.9	0.7	1.0	1.1	1.1	4.3	4.7
Net capital transfers	2,532	2,620	2,868	2,680	2,748	2,916	2,934	2,756
	-15.7	3.5	9.5	-6.6	2.5	6.1	18.5	-6.1
Deduct: Non-financial capital acquisition	173,064	173,728	166,408	169,864	170,824	190,912	154,355	168,604
	7.3	0.4	-4.2	2.1	0.6	11.8	14.1	9.2
Net lending	54,660	66,476	87,492	62,172	71,364	53,296	62,704	67,348

Transactions in financial assets	460,392	565,544	579,636	673,812	718,468	663,828	463,862	536,606

<i>Of which:</i>								
Consumer credit	27,792	28,868	29,920	30,952	31,796	32,168	25,122	28,277

Bank and other loans	19,932	32,880	32,828	39,520	30,272	32,932	7,335	28,180

Mortgages	68,412	69,364	73,560	81,492	92,584	101,148	60,490	69,392

Short-term paper	-13,940	13,420	42,744	13,164	-17,608	17,072	24,393	31,635

Bonds	45,652	57,372	90,280	40,140	90,400	112,868	66,894	61,001

Shares	-11,712	-616	8,296	17,296	19,372	-6,676	17,551	-1,670

Foreign investments	71,912	75,964	98,284	107,616	127,232	-39,700	51,864	78,209

Transactions in liabilities	404,328	502,260	495,892	611,948	656,388	596,220	398,083	472,687

<i>Of which:</i>								
Currency and deposits	83,852	100,872	114,656	140,164	168,752	208,364	93,312	94,248

Bank and other loans	11,736	5,580	19,856	29,708	31,308	38,336	7,880	7,698

Short-term paper	25,932	42,836	41,596	18,528	13,764	21,288	23,527	40,811

Bonds	46,184	68,608	118,692	78,168	97,584	106,220	64,159	76,814

Shares	50,064	61,936	111,756	100,680	144,480	113,536	60,272	81,849

Life insurance and pensions	50,644	38,768	36,136	44,744	58,816	47,760	38,364	41,255

Net financial investment	56,064	63,284	83,744	61,864	62,080	67,608	65,779	63,919

Sector discrepancy	-1,404	3,192	3,748	308	9,284	-14,312	-3,075	3,429

1. The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line is the period to period percentage change.

2. Includes interest and dividends received from non-residents.

3. Interest on the public debt is routed to other sectors of the economy through the corporate sector due to incomplete information on transactions of government debt instruments.

Table E.4 Sector accounts - Government[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted data at annual rates, millions of dollars								
Income	580,264	580,640	589,552	598,668	614,500	615,768	559,746	582,437
	0.2	0.1	1.5	1.5	2.6	0.2	7.0	4.1
Taxes on incomes	227,920	232,120	242,824	245,764	257,436	257,500	219,949	233,344
	-1.1	1.8	4.6	1.2	4.7	0.0	8.9	6.1
Contributions to social insurance plans	67,092	67,440	67,448	68,000	68,872	69,196	65,340	66,898
	2.3	0.5	0.0	0.8	1.3	0.5	5.2	2.4
Taxes on production and imports	179,420	175,808	175,868	179,176	182,440	183,032	173,081	177,248
	0.9	-2.0	0.0	1.9	1.8	0.3	4.7	2.4
Other current transfers from persons	10,644	10,568	10,668	10,668	10,852	10,800	10,442	10,614
	0.6	-0.7	0.9	0.0	1.7	-0.5	3.1	1.6
Investment income	50,796	49,756	47,124	49,096	48,328	48,776	48,446	49,604
	0.1	-2.0	-5.3	4.2	-1.6	0.9	11.8	2.4
Sales of goods and services[2]	44,392	44,948	45,620	45,964	46,572	46,464	42,488	44,729
	1.0	1.3	1.5	0.8	1.3	-0.2	5.6	5.3
Outlay	543,064	550,724	557,160	566,264	572,748	574,740	524,279	550,708
	-1.6	1.4	1.2	1.6	1.1	0.3	4.2	5.0
Gross current expenditure on goods and services[2]	322,112	325,012	329,260	336,112	342,740	342,684	305,138	324,535
	0.1	0.9	1.3	2.1	2.0	-0.0	5.5	6.4
Current transfers	157,852	162,688	164,852	167,072	166,796	168,864	156,376	163,200
	-5.7	3.1	1.3	1.3	-0.2	1.2	4.0	4.4
Interest on the public debt	63,100	63,024	63,048	63,080	63,212	63,192	62,765	62,973
	0.6	-0.1	0.0	0.1	0.2	-0.0	-1.7	0.3
Saving	37,200	29,916	32,392	32,404	41,752	41,028	35,467	31,729
	35.7	-19.6	8.3	0.0	28.8	-1.7	78.8	-10.5
Gross saving and capital transfers	60,660	53,464	56,388	56,540	65,924	65,672	57,900	55,216
	20.5	-11.9	5.5	0.3	16.6	-0.4	37.8	-4.6
Saving	37,200	29,916	32,392	32,404	41,752	41,028	35,467	31,729
	35.7	-19.6	8.3	0.0	28.8	-1.7	78.8	-10.5
Capital consumption allowances	25,160	25,396	25,692	25,988	26,292	26,588	24,425	25,296
	0.9	0.9	1.2	1.2	1.2	1.1	4.9	3.6
Net capital transfers	-1,700	-1,848	-1,696	-1,852	-2,120	-1,944	-1,992	-1,809

Deduct: Non-financial capital acquisition	40,032	40,552	41,156	41,588	42,056	42,872	36,323	40,295
	1.5	1.3	1.5	1.0	1.1	1.9	13.1	10.9
Net lending	20,628	12,912	15,232	14,952	23,868	22,800	21,577	14,921

Transactions in financial assets	12,004	20,132	52,388	28,752	11,708	4,832	57,107	21,225

Currency and deposits	5,428	2,212	412	560	9,080	5,120	2,951	1,287

Loans	-1,352	-744	1,092	-92	2,416	1,672	4,053	1,180

Canadian securities	11,772	20,580	11,552	32,988	3,996	20,172	21,909	8,827

Other financial assets	-3,844	-1,916	39,332	-4,704	-3,784	-22,132	28,194	9,931

Transactions in liabilities	-6,932	11,628	35,828	12,860	-10,000	-16,092	35,625	7,197

Bank and other loans	-416	-20	816	1,380	2,744	-256	1,082	357

Short-term paper	-16,808	-8,096	-148	8,792	-43,152	-1,636	6,596	-4,644

Bonds	-19,364	2,728	-60	8,472	-1,812	8,704	2,323	-7,529

Other liabilities	29,656	17,016	35,220	-5,784	32,220	-22,904	25,624	19,013

Net financial investment	18,936	8,504	16,560	15,892	21,708	20,924	21,482	14,028

Sector discrepancy	1,692	4,408	-1,328	-940	2,160	1,876	95	893

1. The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line is the period to period percentage change.

2. In GDP, government current expenditure is recorded on a net basis, that is, after deduction of sales of goods and services. In the government sector accounts, sales of goods and services to other sectors are shown separately as part of revenue, and current expenditure is recorded on a gross basis, which leaves saving unchanged.

Table E.5 Sector accounts - Non-residents[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Seasonally adjusted data at annual rates, millions of dollars								
Income	552,068	564,928	574,236	576,036	571,564	579,432	534,710	559,566
	0.9	2.3	1.6	0.3	-0.8	1.4	7.3	4.6
Sales of goods (imports)	400,520	411,860	412,692	419,508	411,472	419,648	388,282	404,391
	2.0	2.8	0.2	1.7	-1.9	2.0	6.9	4.1
Sales of services (imports)	82,616	83,836	85,396	85,604	87,656	86,620	79,915	83,269
	1.7	1.5	1.9	0.2	2.4	-1.2	3.2	4.2
Interest, dividends and miscellaneous receipts	60,376	59,980	64,240	59,636	63,288	63,460	57,462	61,512
	-1.8	-0.7	7.1	-7.2	6.1	0.3	14.5	7.0
Current transfers	8,556	9,252	11,908	11,288	9,148	9,704	9,051	10,394
	-27.9	8.1	28.7	-5.2	-19.0	6.1	19.5	14.8
Outlay	566,188	584,156	619,868	599,760	599,356	584,880	561,477	585,146
	-0.7	3.2	6.1	-3.2	-0.1	-2.4	6.7	4.2
Purchases of goods (exports)	449,124	457,168	462,028	477,924	476,840	463,968	451,779	455,696
	-1.2	1.8	1.1	3.4	-0.2	-2.7	5.3	0.9
Purchases of services (exports)	69,380	69,344	69,212	69,700	69,824	69,372	68,600	69,010
	1.9	-0.1	-0.2	0.7	0.2	-0.6	3.5	0.6
Interest, dividends and miscellaneous payments	38,556	48,636	78,544	42,112	42,916	41,120	32,922	50,758
	3.4	26.1	61.5	-46.4	1.9	-4.2	37.7	54.2
Current transfers	9,128	9,008	10,084	10,024	9,776	10,420	8,176	9,682
	-13.1	-1.3	11.9	-0.6	-2.5	6.6	14.3	18.4
Saving	-14,120	-19,228	-45,632	-23,724	-27,792	-5,448	-26,767	-25,580

Gross saving and capital transfers	-18,424	-23,204	-49,436	-28,708	-31,864	-9,628	-32,706	-29,782

Saving	-14,120	-19,228	-45,632	-23,724	-27,792	-5,448	-26,767	-25,580

Net capital transfers	-4,304	-3,976	-3,804	-4,984	-4,072	-4,180	-5,939	-4,202

Net lending[2]	-18,424	-23,204	-49,436	-28,708	-31,864	-9,628	-32,706	-29,782

Transactions in financial assets	173,808	136,904	73,704	162,332	139,084	75,484	59,075	128,674

Currency and deposits	40,172	-19,844	5,568	63,268	-12,004	-11,248	4,200	3,898

Loans	-5,828	-2,888	640	6,652	5,860	14,984	-1,894	-4,967

Short-term paper	10,208	2,700	-15,024	5,212	-2,748	4,076	520	2,376

Bonds	948	33,552	34,836	28,484	-3,708	4,020	-546	17,704

Shares	16,436	2,876	-7,636	-11,188	-17,812	-22,588	9,134	10,815

Other financial assets	111,872	120,508	55,320	69,904	169,496	86,240	47,661	98,848

Transactions in liabilities	192,528	147,860	122,360	194,776	157,924	95,716	96,186	153,418

Official reserves	-380	1,764	-384	6,488	4,392	2,948	1,655	1,015

Currency and deposits	20,328	19,520	7,204	8,088	9,864	4,196	6,389	15,022

Bank and other loans	-804	21,800	8,720	10,916	-2,832	8,336	-1,915	11,980

Foreign investments	88,576	87,344	110,520	112,348	120,008	-40,368	61,234	91,314

Other liabilities	84,808	17,432	-3,700	56,936	26,492	120,604	28,823	34,087

Net financial investment	-18,720	-10,956	-48,656	-32,444	-18,840	-20,232	-37,111	-24,744

Sector discrepancy	296	-12,248	-780	3,736	-13,024	10,604	4,405	-5,038

1. The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line is the period to period percentage change.

2. This account presents the saving as well as the net lending or borrowing position of non-residents with respect to their transactions with Canadian residents. The sign of these aggregates is, therefore, the reverse of what appears in the Canadian Balance of International Payments.

Section F

Labour productivity, hourly compensation and unit labour cost

Third quarter 2007

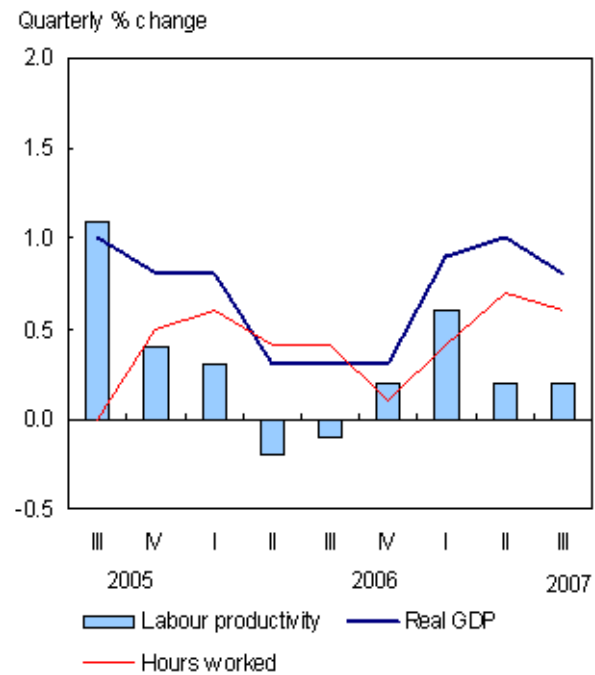
Labour productivity of Canadian businesses rose 0.2% in the third quarter, the same as the growth rate recorded in the previous quarter. This pace remains below that of the first three months of the year, which saw growth of 0.6%.

Meanwhile, productivity growth in the United States climbed sharply to 1.6% in the third quarter due mainly to a substantial growth in production.

In the third quarter, the services sector was solely responsible for the overall rise in productivity of Canadian businesses, while productivity in the goods sector fell. In particular, productivity in manufacturing declined for the first time since the third quarter of 2006.

The modest productivity performance in the third quarter, combined with the strength of the Canadian dollar, again drove up the unit cost of Canadian labour expressed in US dollars, although to a lesser degree than in the second quarter. This continues to impact negatively on the competitiveness of Canadian businesses compared to their American counterparts.

Chart F.1
Productivity growth in Canada's business sector remains weak



Note to readers

This chapter presents an analysis on labour productivity for the aggregate business sector and its constituent industries (15 two-digit NAICS industries) and sub-sectors (goods and services). The statistical series for total economy, business sector and non-commercial sector start with the first quarter of 1981, while those at industry level are available only back to the first quarter of 1997.

The term "productivity" refers to labour productivity. Calculations of the productivity growth rate and its related variables are based on index numbers rounded to one decimal place.

For more information about the productivity program, see the new National Economic Accounts module (www.statcan.ca/nea). You can also order a copy of a technical note about the quarterly estimates of productivity by sending an email to productivity.measures@statcan.ca.

Revisions

This release incorporates revised estimates of labour productivity and associated variables based on revisions to source data. The Survey of Employment, Payrolls and Hours (SEPH) published revised employment estimates from 2001 on March 30, 2007. Revisions to Gross Domestic Product (GDP) by industry from 2002 to 2006 were released on October 31, 2007 by the Industry Accounts Division. New annual benchmarks for hours worked were released on November 27, 2007. As a result of these revisions, estimates have been revised back to the first quarter of 2007 at the aggregate level and to the first quarter of 1997 at the industry level.

In addition, indexes of labour productivity and the related variables have been converted from reference year 1997 to reference year 2002. This change affects data from the first quarter 1981 to the present. Adoption of the new 2002 reference year does not alter productivity growth rates since it represents a scaling of indices based on 1997.

Labour productivity is the ratio of output to labour input (hours worked). Quarterly estimates of productivity are derived from a Fisher chained index of GDP, or of value added, in the business sector. Economic performance as measured by labour productivity must be interpreted carefully, since these estimates reflect changes in other inputs in addition to the growth in productive efficiency.

Labour compensation includes all payments in cash or in kind made by domestic producers to persons as remuneration for work. This includes salaries and supplementary labour income of paid workers, plus the imputed labour income of self-employed workers.

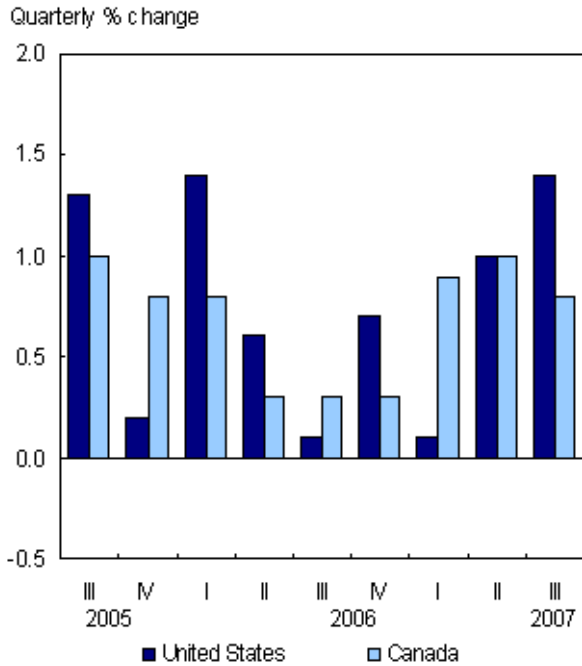
Unit labour cost is the labour cost per unit of output. It is calculated as the ratio of labour compensation to real value added. It is also the equivalent of the ratio of labour compensation per hour worked to labour productivity. The unit labour cost will increase when hourly compensation rises faster than labour productivity.

Unit labour cost in US dollars is the equivalent of the ratio of Canadian unit labour cost to the exchange rate. This latter corresponds to the U.S. dollar value expressed in Canadian dollars.

Productivity growth remains moderate in Canada while accelerating sharply in the United States

While GDP in Canada rose slightly less than in the second quarter, the growth in GDP in the United States accelerated sharply in the third quarter.

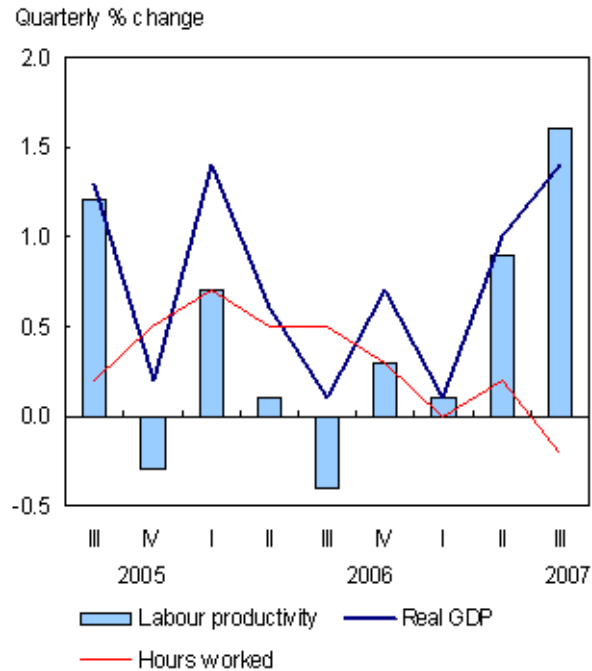
Chart F.2
Output growth twice as high in American businesses



After posting the same rate in the second quarter in both countries (+1.0%), GDP south of the border rose at a pace almost twice that of Canada. In the third quarter, GDP growth in Canadian businesses was 0.8% compared with a gain of 1.4% in the United States.

In the United States, productivity climbed sharply to 1.6% in the third quarter, a clear improvement over the 0.9% increase in the second quarter after almost no improvement (+0.1%) in the first three months of the year. This is the best performance since the third quarter of 2003 (+2.3%).

Chart F.3
US productivity growth accelerates



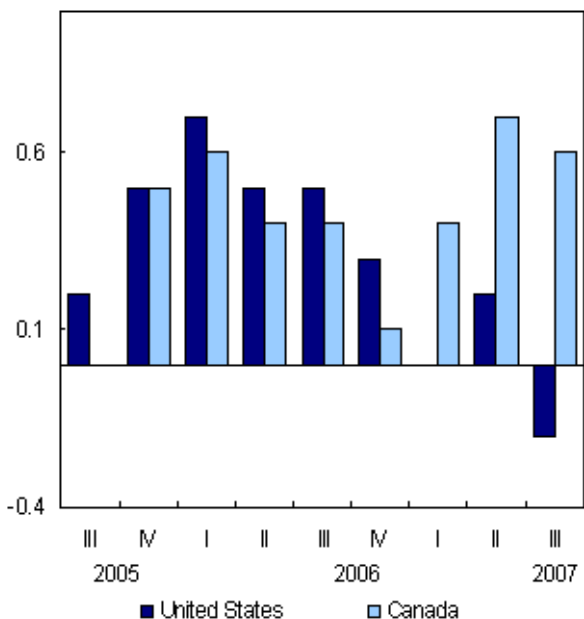
The gap in terms of productivity growth between Canada and the United-States stems also from differences in labour market performance.

Hours worked devoted to production in Canadian businesses grew 0.6% in the third quarter, slightly less than the 0.7% rise recorded in the previous quarter. Full-time work was the main component in the increase in hours worked in the third quarter.

Chart F.4

Growth in hours worked slows in both countries, but was negative in the U.S.

Quarterly % change



By comparison, hours worked in American companies edged down 0.2% in the third quarter after increasing by 0.2% in the second quarter. This is the first decline after a series of 16 straight quarters of increases or stability. The pace of growth in hours worked has been slowing gradually since the third quarter of 2006.

Unit labour cost continues to slow

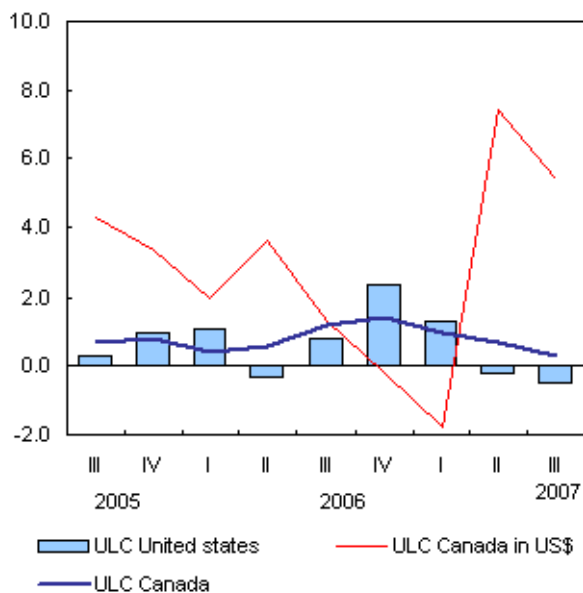
Labour cost per unit of production, a measure of inflationary pressures from wages, slowed in Canadian businesses in the third quarter, rising only 0.3% compared with the 0.7% posted in the previous quarter. This is gradually slowing down since the fourth quarter of 2006.

This situation reflects a slowdown in the growth of hourly compensation from the second quarter, given the small gains in productivity posted in the last two quarters. In the previous four quarters, hourly compensation in Canada had experienced quarterly increases of 0.9% or higher.

Chart F.5

Canadian unit labour costs in US \$ decelerates slightly

Quarterly % change



For U.S. businesses, labour cost per unit of production fell 0.5% in the third quarter after posting a small decrease of 0.2% in the previous quarter. In these past two quarters, the increase in hourly compensation was less than that of productivity, thereby creating a second straight quarterly reduction in unit labour cost in the United States.

In light of the strong rise in the Canadian dollar in the third quarter, the growth in Canada's unit labour cost expressed in US dollars was up 5.4% in the quarter, following a sharp increase of 7.4% in the second quarter.

Industry analysis

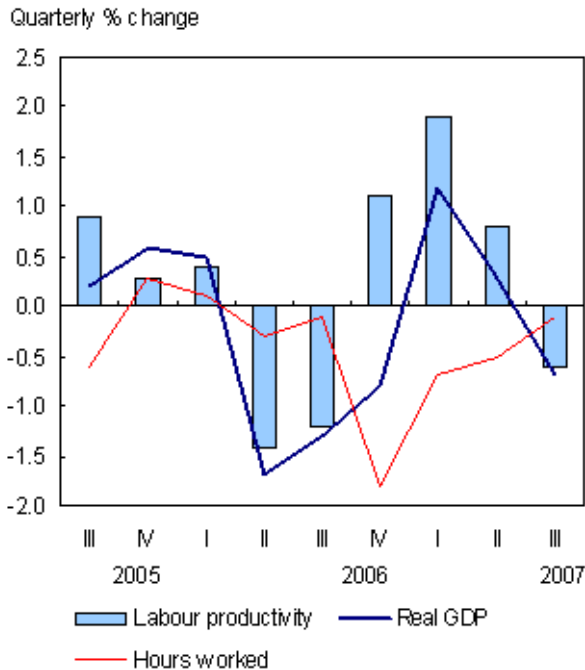
While productivity in the goods sector continue to decline...

In the third quarter of 2007, labour productivity fell by 0.8% in the goods producing sector compared to a 0.2% decline in the second quarter. All industries from this sector contributed to the overall decline. Manufacturing, the largest industry of this sector, records its first decline in productivity since the third quarter of 2006.

In manufacturing, productivity decreased by 0.6% in the third quarter. This was the first decline after three straight quarters of growth.

Hours worked in manufacturing decreased 0.1% in the third quarter, the sixth straight quarter of decline, reflecting continued adjustment in this sector. Meanwhile, production in manufacturing declined 0.7% in the third quarter after two straight quarterly increases.

Chart F.6
Productivity in manufacturing declined for the first time in one year”



Manufacturing output continues to be hampered by the sharp appreciation of the Canadian dollar. Manufacturers have had to cope with a 4.9% appreciation of the Canadian dollar against its US counterpart in the third quarter, following a 6.3% appreciation in the second quarter.

... it continues to improve in the services

In contrast, with a gain of 0.4%, the services producing sector has recorded a third consecutive productivity increase. This rate of growth was the same as in the second quarter, but higher than the growth of 0.2% in the first quarter. With the exception of information and cultural industries, all other service industries improved or maintained their productivity level over the third quarter. Once again, wholesale trade has been one of the leaders of this sector with strong productivity growth in the third quarter, based largely on the strength of sales by merchants of machinery and equipment, and motor vehicles.

Although it experienced a very small productivity gain in the third quarter, the finance, real estate and company management industry registered positive growth for the seventh consecutive quarter.

Less upward pressure on hourly compensation in both sectors

After accelerating in the latter part of 2006 and in the first quarter of 2007 (+1.5%), hourly compensation growth in the business sector has been gradually slowing, recording increases of 0.9% in the second and 0.4% in the third quarter of 2007. Both goods and services producing sectors have registered a deceleration in hourly compensation in the third quarter.

In the goods producing sector, hourly compensation growth continues to attenuate recording an increase of 0.2% compared to 0.4% in the second quarter. These rates are well below the growth of 2.1% recorded in each of the two previous quarters. This deceleration is attributable to all goods producing industries with the exception of agriculture, forestry, fishing and hunting.

In the service sector, the growth in hourly compensation decelerated in the third quarter (+0.6%) after remaining at about the same pace over the three previous quarters (+1.2%). The main contributors to this deceleration were administrative and support, waste management and remediation services as well as other private services which recorded declines.

In contrast, retail trade and professional, scientific and technical services experienced relatively higher growth in hourly compensation for a second consecutive quarter.

Slight acceleration in unit labour costs in the goods sector...

The 0.2% growth in hourly compensation, combined with a productivity decline of -0.8% in the third quarter, led to a 0.9% increase in the unit labour costs of Canadian businesses operating in goods producing industries, compared to 0.6% in the second quarter. Unit labour costs are used to monitor inflationary pressures by comparing relative differences between changes in hourly wages and productivity.

In the third quarter of 2007, the unit labour costs accelerated in the goods producing sector, reflecting increases in most industries with the exception of manufacturing. Unit labour cost in manufacturing declined for the third consecutive quarter.

...but a net improvement in the services

The gradual deceleration in unit labour cost in Canadian businesses which started in the fourth quarter 2006 is mainly attributable to the services sector. Unit labour costs in this sector edged up 0.1% in the third quarter compared to 0.8% in the second quarter. This deceleration is mainly attributable to wholesale trade, transportation and warehousing, administration and support, waste management and remediation services and other private industries. On the other hand, these improvements were offset by an acceleration of the unit labour costs in retail trade in the third quarter.

Table F.1 Business sector - Labour productivity and related variables for Canada and the United States[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007
Seasonally adjusted						
Percent change from previous quarter						
Canada						
Labour productivity	-0.2	-0.1	0.2	0.6	0.2	0.2
Real GDP	0.3	0.3	0.3	0.9	1.0	0.8
Hours worked	0.4	0.4	0.1	0.4	0.7	0.6
Hourly compensation	0.5	1.1	1.6	1.5	0.9	0.4
Unit labour cost	0.6	1.2	1.4	1.0	0.7	0.3
Exchange rate[2]	-2.8	-0.1	1.6	2.8	-6.3	-4.9
Unit labour cost in US\$	3.6	1.3	-0.2	-1.8	7.4	5.4
United States						
Labour productivity	0.1	-0.4	0.3	0.1	0.9	1.6
Real GDP	0.6	0.1	0.7	0.1	1.0	1.4
Hours worked	0.5	0.5	0.3	0.0	0.2	-0.2
Hourly compensation	-0.1	0.4	2.8	1.3	0.6	1.1
Unit labour cost	-0.3	0.8	2.4	1.3	-0.2	-0.5
Percent change from same quarter of previous year						
Canada						
Labour productivity	1.6	0.4	0.2	0.5	0.9	1.2
Real GDP	3.0	2.2	1.6	1.7	2.4	3.0
Hours worked	1.4	1.8	1.4	1.2	1.6	1.9
Hourly compensation	4.2	3.5	3.9	4.8	5.3	4.5
Unit labour cost	2.6	3.1	3.7	4.3	4.4	3.4
Exchange rate[2]	-9.8	-6.7	-2.9	1.5	-2.2	-6.8
Unit labour cost in US\$	13.7	10.5	6.8	2.8	6.6	10.9
United States						
Labour productivity	1.7	0.2	0.7	0.2	0.8	2.9
Real GDP	3.6	2.4	2.8	1.5	1.9	3.2
Hours worked	1.8	2.2	2.1	1.3	1.1	0.3
Hourly compensation	3.9	2.8	4.8	4.4	5.2	5.9
Unit labour cost	2.2	2.6	4.1	4.3	4.3	3.0
Percent change from previous quarter at annualized rate[3]						
Canada						
Labour productivity	-0.8	-0.4	0.8	2.3	0.8	0.8
Real GDP	1.1	1.1	1.1	3.6	4.0	3.2
Hours worked	1.5	1.5	0.4	1.5	3.0	2.6
Hourly compensation	2.1	4.6	6.4	6.3	3.7	1.7
Unit labour cost	2.6	4.8	5.9	4.0	2.8	1.0
Unit labour cost in US\$	15.0	5.3	-0.8	-7.0	33.0	23.2
United States						
Labour productivity	0.8	-1.5	1.2	0.2	3.6	6.7
Real GDP	2.5	0.6	2.6	0.2	4.4	5.7
Hours worked	1.7	2.2	1.4	0.0	0.8	-1.0
Hourly compensation	-0.4	1.6	11.4	5.5	2.4	4.7
Unit labour cost	-1.2	3.1	10.1	5.3	-1.1	-2.0

1. Source: U.S. data are from the Bureau of Labor Statistics, Productivity and costs, published in NEWS.

2. The exchange rate corresponds to the U.S. dollar value expressed in Canadian dollars.

3. The change at annualized rates corresponds to the annual growth rate that would have been observed if the growth over the quarter had been the same for the whole year.

Table F.2 Business sector - Some related variables for labour markets[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007
Seasonally adjusted						
Percent change from previous quarter						
Canada						
All jobs	0.2	0.2	0.6	0.6	0.4	0.5
Hours worked	0.4	0.4	0.1	0.4	0.7	0.6
Average hours	0.1	0.3	-0.5	-0.2	0.4	0.2
Labour share[2]	0.0	0.8	1.4	-0.6	-0.8	0.3
United States						
All jobs	0.4	0.3	0.4	0.2	0.2	-0.1
Hours worked	0.5	0.5	0.3	0.0	0.2	-0.2
Average hours	0.0	0.2	-0.0	-0.2	-0.0	-0.1
Labour share[2]	-1.1	0.3	2.2	0.3	-0.8	-0.5
Percent change from same quarter of previous year						
Canada						
All jobs	1.3	1.4	1.5	1.5	1.7	2.0
Hours worked	1.4	1.8	1.4	1.2	1.6	1.9
Average hours	0.0	0.4	-0.1	-0.3	0.0	-0.1
Labour share[2]	-0.7	1.1	3.3	1.7	0.8	0.3
United States						
All jobs	1.8	1.9	1.9	1.3	1.1	0.7
Hours worked	1.8	2.2	2.1	1.3	1.1	0.3
Average hours	0.0	0.3	0.2	0.0	0.0	-0.4
Labour share[2]	-1.1	-0.3	1.8	1.7	2.0	1.2
Percent change from previous quarter at annualized rates[3]						
Canada						
All jobs	0.8	0.8	2.3	2.3	1.5	1.9
Hours worked	1.5	1.5	0.4	1.5	3.0	2.6
Average hours	0.4	1.2	-2.0	-0.8	1.6	0.8
Labour share[2]	0.0	3.3	5.9	-2.4	-3.2	1.2
United States						
All jobs	1.6	1.2	1.5	0.8	0.9	-0.4
Hours worked	1.7	2.2	1.4	0.0	0.8	-1.0
Average hours	0.1	1.0	-0.1	-0.8	-0.1	-0.5
Labour share[2]	-4.4	1.0	9.3	1.2	-3.2	-2.1

1. Source: U.S. data are from the Bureau of Labor Statistics, Productivity and costs, published in NEWS.

2. This is the ratio of labour compensation to GDP at market prices in current dollars.

3. The change at annualized rates corresponds to the annual growth rate that would have been observed if the growth over the quarter had been the same for the whole year.

Table F.3 Indexes of labour productivity by industry[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Using seasonally adjusted data, (2002 = 100)								
Business sector - goods	103.1	102.8	103.3	104.9	104.7	103.9	102.7	103.2
	<i>-0.6</i>	<i>-0.3</i>	<i>0.5</i>	<i>1.5</i>	<i>-0.2</i>	<i>-0.8</i>	<i>1.3</i>	<i>0.5</i>
Agriculture, forestry, fishing and hunting	126.5	123.0	125.5	128.2	125.8	125.7	126.8	125.8
	<i>-1.2</i>	<i>-2.8</i>	<i>2.0</i>	<i>2.2</i>	<i>-1.9</i>	<i>-0.1</i>	<i>1.3</i>	<i>-0.8</i>
Construction	106.0	106.3	107.2	106.8	105.0	104.0	99.9	105.7
	<i>2.5</i>	<i>0.3</i>	<i>0.8</i>	<i>-0.4</i>	<i>-1.7</i>	<i>-1.0</i>	<i>0.9</i>	<i>5.9</i>
Manufacturing	105.6	104.3	105.4	107.4	108.3	107.7	105.7	105.6
	<i>-1.4</i>	<i>-1.2</i>	<i>1.1</i>	<i>1.9</i>	<i>0.8</i>	<i>-0.6</i>	<i>3.8</i>	<i>-0.1</i>
Business sector - services	106.7	107.2	107.0	107.2	107.6	108.0	104.3	106.7
	<i>0.8</i>	<i>0.5</i>	<i>-0.2</i>	<i>0.2</i>	<i>0.4</i>	<i>0.4</i>	<i>3.0</i>	<i>2.3</i>
Wholesale trade	121.0	122.2	119.8	120.0	121.4	123.4	112.0	120.2
	<i>2.9</i>	<i>1.0</i>	<i>-2.0</i>	<i>0.2</i>	<i>1.2</i>	<i>1.6</i>	<i>6.8</i>	<i>7.3</i>
Retail trade	111.1	112.3	111.6	114.3	115.9	116.0	105.3	111.1
	<i>1.7</i>	<i>1.1</i>	<i>-0.6</i>	<i>2.4</i>	<i>1.4</i>	<i>0.1</i>	<i>1.6</i>	<i>5.5</i>
Transportation and warehousing	106.4	106.2	106.4	105.5	105.0	105.3	105.2	106.3
	<i>0.1</i>	<i>-0.2</i>	<i>0.2</i>	<i>-0.8</i>	<i>-0.5</i>	<i>0.3</i>	<i>5.9</i>	<i>1.1</i>
Information and cultural industries	113.7	114.1	113.5	113.2	112.4	111.0	107.0	113.5
	<i>0.9</i>	<i>0.4</i>	<i>-0.5</i>	<i>-0.3</i>	<i>-0.7</i>	<i>-1.2</i>	<i>6.4</i>	<i>6.1</i>
Finance, real estate and company management	101.6	103.2	104.5	105.1	105.9	106.0	101.3	102.6
	<i>0.5</i>	<i>1.6</i>	<i>1.3</i>	<i>0.6</i>	<i>0.8</i>	<i>0.1</i>	<i>-1.1</i>	<i>1.3</i>
Professional, scientific and technical services	101.7	100.9	101.0	100.1	101.3	102.4	102.6	101.2
	<i>0.5</i>	<i>-0.8</i>	<i>0.1</i>	<i>-0.9</i>	<i>1.2</i>	<i>1.1</i>	<i>-0.0</i>	<i>-1.3</i>
Administrative and support, waste management and remediation services	101.8	101.5	101.6	102.3	102.2	102.7	99.8	101.5
	<i>0.9</i>	<i>-0.3</i>	<i>0.1</i>	<i>0.7</i>	<i>-0.1</i>	<i>0.5</i>	<i>1.3</i>	<i>1.7</i>
Accommodation and food services	101.3	101.0	102.3	100.2	97.4	98.1	101.0	101.8
	<i>-1.2</i>	<i>-0.3</i>	<i>1.3</i>	<i>-2.1</i>	<i>-2.8</i>	<i>0.7</i>	<i>4.0</i>	<i>0.8</i>
Other commercial services	103.9	104.0	104.3	103.5	103.5	103.5	104.4	104.0
	<i>0.0</i>	<i>0.1</i>	<i>0.3</i>	<i>-0.8</i>	<i>0.0</i>	<i>0.0</i>	<i>3.5</i>	<i>-0.3</i>

1. The first line is the series itself. The second line is the percentage change.

Table F.4 Indexes of unit labour cost by industry[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Using seasonally adjusted data (2002 = 100)								
Business sector - goods	110.9	112.3	114.0	114.7	115.4	116.4	108.0	111.8
	<i>1.0</i>	<i>1.3</i>	<i>1.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.9</i>	<i>3.4</i>	<i>3.4</i>
Agriculture, forestry, fishing and hunting	85.6	87.1	87.6	89.5	88.2	90.2	85.9	86.9
	<i>-1.9</i>	<i>1.8</i>	<i>0.6</i>	<i>2.2</i>	<i>-1.5</i>	<i>2.3</i>	<i>-0.8</i>	<i>1.2</i>
Construction	106.4	107.9	108.7	111.8	114.4	116.5	105.5	107.2
	<i>0.5</i>	<i>1.4</i>	<i>0.7</i>	<i>2.9</i>	<i>2.3</i>	<i>1.8</i>	<i>4.5</i>	<i>1.7</i>
Manufacturing	107.6	109.1	110.3	109.6	109.4	109.2	106.2	108.3
	<i>1.2</i>	<i>1.4</i>	<i>1.1</i>	<i>-0.6</i>	<i>-0.2</i>	<i>-0.2</i>	<i>1.0</i>	<i>2.0</i>
Business sector - services	108.7	109.8	111.4	112.6	113.5	113.6	106.8	109.6
	<i>0.4</i>	<i>1.0</i>	<i>1.5</i>	<i>1.1</i>	<i>0.8</i>	<i>0.1</i>	<i>2.5</i>	<i>2.6</i>
Wholesale trade	96.1	97.8	101.1	103.7	102.8	101.6	99.2	98.1
	<i>-1.3</i>	<i>1.8</i>	<i>3.4</i>	<i>2.6</i>	<i>-0.9</i>	<i>-1.2</i>	<i>-0.8</i>	<i>-1.1</i>
Retail trade	107.5	106.2	106.1	104.4	105.0	106.6	106.0	106.5
	<i>1.1</i>	<i>-1.2</i>	<i>-0.1</i>	<i>-1.6</i>	<i>0.6</i>	<i>1.5</i>	<i>1.1</i>	<i>0.5</i>
Transportation and warehousing	105.3	106.4	107.8	110.1	110.5	110.6	105.5	106.2
	<i>0.0</i>	<i>1.0</i>	<i>1.3</i>	<i>2.1</i>	<i>0.4</i>	<i>0.1</i>	<i>0.4</i>	<i>0.7</i>
Information and cultural industries	103.8	104.1	105.6	105.6	106.5	108.3	101.7	104.2
	<i>0.5</i>	<i>0.3</i>	<i>1.4</i>	<i>0.0</i>	<i>0.9</i>	<i>1.7</i>	<i>0.6</i>	<i>2.5</i>
Finance, real estate and company management	115.0	114.8	116.0	116.8	118.5	119.1	110.3	114.8
	<i>1.6</i>	<i>-0.2</i>	<i>1.0</i>	<i>0.7</i>	<i>1.5</i>	<i>0.5</i>	<i>4.6</i>	<i>4.1</i>
Professional, scientific and technical services	112.6	116.4	116.6	118.3	118.3	118.9	109.6	115.0
	<i>-1.5</i>	<i>3.4</i>	<i>0.2</i>	<i>1.5</i>	<i>0.0</i>	<i>0.5</i>	<i>5.8</i>	<i>4.9</i>
Administrative and support, waste management and remediation services	112.5	113.8	117.0	120.7	122.3	120.3	110.8	114.2
	<i>-0.7</i>	<i>1.2</i>	<i>2.8</i>	<i>3.2</i>	<i>1.3</i>	<i>-1.6</i>	<i>4.3</i>	<i>3.0</i>
Accommodation and food services	108.0	115.2	117.8	119.4	124.5	124.0	106.9	111.8
	<i>1.7</i>	<i>6.7</i>	<i>2.3</i>	<i>1.4</i>	<i>4.3</i>	<i>-0.4</i>	<i>2.3</i>	<i>4.6</i>
Other commercial services	115.9	116.4	117.3	119.6	121.7	120.8	110.9	115.8
	<i>2.2</i>	<i>0.4</i>	<i>0.8</i>	<i>2.0</i>	<i>1.8</i>	<i>-0.7</i>	<i>4.1</i>	<i>4.4</i>

1. The first line is the series itself. The second line is the percentage change.

Section G

Canada's International investment position

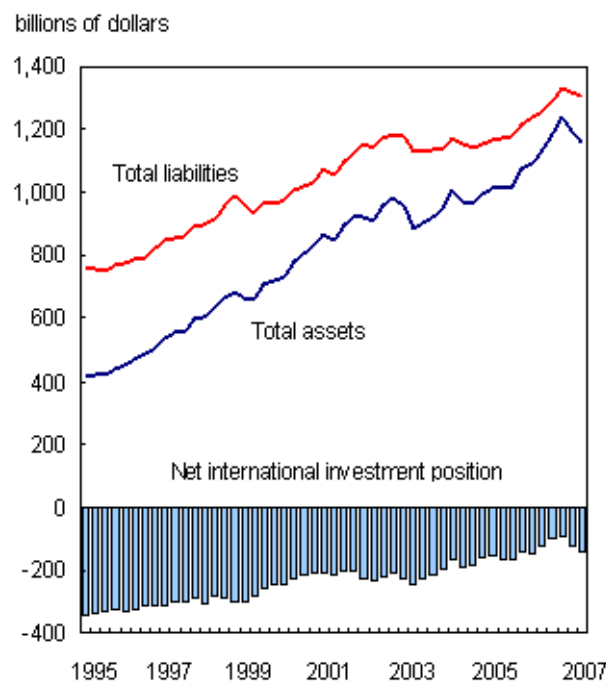
Third quarter 2007

International assets and liabilities both continued to decline in the third quarter of 2007, though the drop in assets was greater. As a result, Canada's overall net international liabilities (the difference between Canada's financial assets abroad and liabilities to non-residents) rose for a third straight quarter, although at a slower rate than in the previous quarter.

Net liabilities to non-residents increased \$12.2 billion in the third quarter to \$145.3 billion. Net external liabilities now represent 9.4% of Canada's gross domestic product, up from 8.1% the previous quarter, but down significantly from its historical high of 44.3% in 1994.

Chart G.1

Canada's international investment position



Canadian dollar continues to drive increase in net international liabilities

The increase in net liabilities to non-residents was mainly due to the continued appreciation of the Canadian dollar during the third quarter, which had a larger impact on assets than it did on liabilities. The Canadian dollar continued to make gains against most major foreign currencies in the third quarter, albeit at a reduced rate of increase. It gained 7.1% against the US dollar, 5.1% against the pound sterling, 1.65% against the Euro and lost 0.08% against the Japanese yen.

The larger net foreign indebtedness also reflected a slower pace of international investment activity in the third quarter, even though asset transactions exceeded liability flows. Non-resident divestment in Canadian stocks and a sharp drop in Canadian investors' foreign money market holdings were the main contributors to the weakness of financial transactions in assets and liabilities.

Foreign assets decline more than international liabilities

Holdings of international assets fell to \$1,164.4 billion, a drop of \$31.4 billion from the second quarter. The currency effect reduced the Canadian dollar value of these assets by \$53.9 billion while divestment of foreign money market instruments contributed an additional decline in assets. The overall decrease was only slightly offset by an increase in deposit assets.

At the same time, Canada's international liabilities declined \$19.2 billion to \$1,309.7 billion. Although foreign acquisitions of Canadian firms remained strong in the third quarter, these increased liabilities were more than offset by the exchange rate effect in foreign holdings of Canadian bonds and deposits.

Note to readers

Currency valuation

The value of assets and liabilities denominated in foreign currency are converted to Canadian dollars at the end of each period for which a balance sheet is calculated. Most of Canada's foreign assets are denominated in foreign currencies while less than half of our international liabilities are in foreign currencies.

When the Canadian dollar is appreciating in value, the restatement of the value of these assets and liabilities in Canadian dollars lowers the recorded value. The opposite is true when the dollar is depreciating.

Canadian assets: Substantial decrease in foreign securities and direct investment holdings

The strong Canadian dollar continued to have a large impact on the value of Canadian investors' foreign securities holdings and on Canadian direct investment abroad. Almost all of these assets are denominated in foreign currency.

The currency effect on the holdings of foreign securities during the third quarter led to a reduction of \$17.4 billion in assets. In addition to the substantial currency effect there was a \$10.4 billion divestment in the holdings of foreign money market instruments. This reduced Canadian holdings to \$9.0 billion, under half of what it was in the previous quarter, a level not seen since the second quarter of 2003.

Moreover, there was a reduction in holdings of foreign bonds, and transactions in foreign stocks decelerated in the quarter.

The appreciation of the Canadian dollar in the third quarter continued to have a large impact on the value of Canadian direct investment abroad, which fell by \$17.2 billion to \$491.3 billion. Direct investment transactions with foreign affiliates were weaker than usual and the stronger dollar removed \$25.4 billion from the value of Canadian direct investment abroad.

Canadian direct investment in the United States fell by \$11.2 billion to \$209.4 billion while Canadian direct investment in all other countries decreased by \$6.0 billion to \$281.8 billion.

Canadian liabilities: Increase in foreign direct investment in Canada

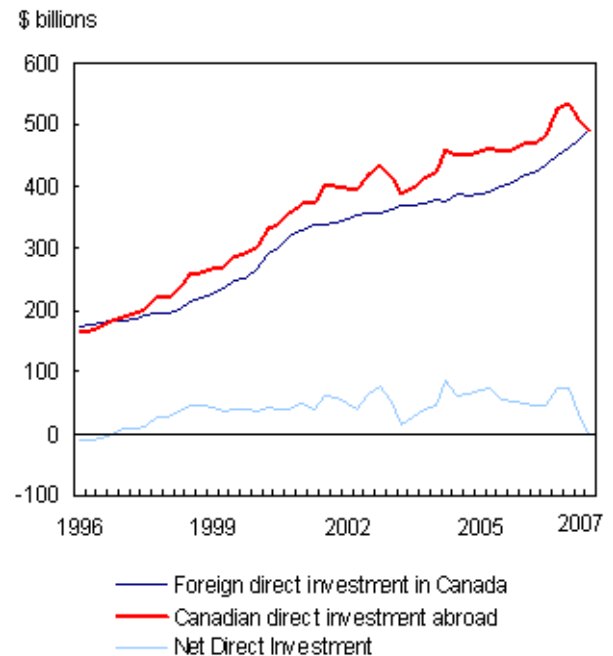
Foreign direct investment holdings increased \$19.1 billion during the quarter despite the continued appreciation in the Canadian dollar making Canadian companies more expensive to acquire. The value of acquisitions of Canadian firms was \$18.8 billion in the quarter, of which 39% was in the mining industry. Foreign direct investment in Canada reached \$495.3 billion at the end of September.

Non-resident holdings of Canadian bonds, stocks, and money market paper declined \$19.3 billion during the quarter. This reduction was explained by a divestment in Canadian stocks of \$8.5 billion and a negative currency effect of \$12.8 billion on Canadian bonds (more than one-half of the outstanding Canadian bonds held by non-residents are issued in foreign currencies).

Net direct investment position turns negative

For the first time in more than 10 years Canada's net position on direct investment –the difference between Canadian direct investment abroad and foreign direct investment in Canada – was negative. Foreign direct investment in Canada surpassed Canadian direct investment abroad by a narrow margin.

Chart G.2
Direct investment position



The year to date effect on the net direct investment position is a decrease of \$78.5 billion, of which \$57.6 billion is attributable to the currency effect. Changes in the Canadian dollar have an effect on direct investment assets but have no effect on direct investment liabilities.

Canada has a net liability position in direct investment vis-à-vis the United States, and it was the largest contributor to the drop in net direct investment in the third quarter. Canada has a net asset position in direct investment with all other countries as a group.

Increase in net international indebtedness sharper with portfolio investment at market value

Canada's overall net international liabilities can also be calculated with asset and liability holdings of tradable portfolio securities valued at market prices. In this instance, net foreign indebtedness grows more sharply, up \$39.9 billion to reach \$108 billion. This is partly accounted for by the downward re-valuation to the holdings of foreign equity by Canadian investors, and reflects the correction in the major world stock markets in the quarter.

Table G.1 International investment position at period-end

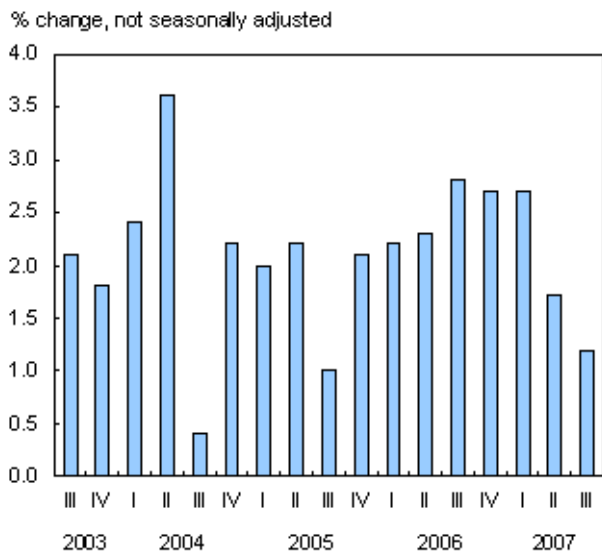
	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Millions of dollars								
Assets								
Canadian direct investment abroad	468,500	480,635	523,260	535,359	508,441	491,254	459,606	523,260
Portfolio investment abroad								
Foreign bonds	103,207	112,763	128,505	145,001	152,119	143,407	82,276	128,505
<i>Foreign bonds at market value</i>	<i>108,378</i>	<i>121,474</i>	<i>138,171</i>	<i>156,039</i>	<i>161,069</i>	<i>146,841</i>	<i>88,744</i>	<i>138,171</i>
Foreign stocks	200,794	202,720	216,194	218,569	205,138	196,859	197,082	216,194
<i>Foreign stocks at market value</i>	<i>464,047</i>	<i>491,609</i>	<i>559,671</i>	<i>574,255</i>	<i>568,110</i>	<i>541,790</i>	<i>445,564</i>	<i>559,671</i>
Foreign money market	12,916	17,870	19,966	20,128	19,774	8,997	13,055	19,966
<i>Foreign money market at market value</i>	<i>12,964</i>	<i>17,941</i>	<i>20,062</i>	<i>20,196</i>	<i>19,825</i>	<i>9,044</i>	<i>13,108</i>	<i>20,062</i>
Other investment								
Loans	63,556	71,298	72,360	76,932	72,385	76,841	45,957	72,360
Deposits	147,845	152,119	131,427	136,720	139,816	151,150	120,813	131,427
Official international reserves	40,301	40,131	40,959	45,507	42,534	40,887	38,030	40,959
<i>Official international reserves at market value</i>	<i>40,089</i>	<i>40,256</i>	<i>40,862</i>	<i>45,386</i>	<i>41,991</i>	<i>40,769</i>	<i>38,400</i>	<i>40,862</i>
Other assets	55,864	57,287	57,758	57,227	55,615	55,021	56,605	57,758
Total assets								
at book value	1,092,983	1,134,822	1,190,429	1,235,443	1,195,822	1,164,417	1,013,424	1,190,429
with portfolio investment at market value	<i>1,361,243</i>	<i>1,432,619</i>	<i>1,543,571</i>	<i>1,602,114</i>	<i>1,567,252</i>	<i>1,512,710</i>	<i>1,268,797</i>	<i>1,543,571</i>
Liabilities								
Foreign direct investment in Canada	423,498	435,328	448,858	462,820	476,269	495,319	407,610	448,858
Portfolio investment								
Canadian bonds	374,022	379,586	404,590	411,070	387,505	373,046	380,818	404,590
<i>Canadian bonds at market value</i>	<i>387,896</i>	<i>404,346</i>	<i>430,163</i>	<i>432,626</i>	<i>398,462</i>	<i>388,279</i>	<i>408,768</i>	<i>430,163</i>
Canadian stocks	112,513	112,428	112,571	112,382	112,063	108,929	105,818	112,571
<i>Canadian stocks at market value</i>	<i>346,754</i>	<i>351,733</i>	<i>379,482</i>	<i>386,509</i>	<i>407,366</i>	<i>404,475</i>	<i>318,934</i>	<i>379,482</i>
Canadian money market	27,059	25,931	24,515	23,730	24,089	22,383	20,783	24,515
<i>Canadian money market at market value</i>	<i>27,242</i>	<i>26,136</i>	<i>24,716</i>	<i>23,953</i>	<i>24,279</i>	<i>22,599</i>	<i>20,899</i>	<i>24,716</i>
Other investment								
Loans	45,529	50,013	49,508	54,654	54,014	47,758	41,645	49,508
Deposits	234,571	235,692	227,149	247,012	251,663	238,723	201,025	227,149
Other liabilities	21,915	21,674	22,225	23,076	23,326	23,545	22,156	22,225
Total liabilities								
at book value	1,239,107	1,260,652	1,289,417	1,334,744	1,328,929	1,309,703	1,179,855	1,289,417
with portfolio investment at market value	<i>1,487,405</i>	<i>1,524,922</i>	<i>1,582,101</i>	<i>1,630,650</i>	<i>1,635,379</i>	<i>1,620,698</i>	<i>1,421,037</i>	<i>1,582,101</i>
Net international investment position								
at book value	-146,124	-125,829	-98,988	-99,301	-133,107	-145,286	-166,431	-98,988
with portfolio investment at market value	<i>-126,162</i>	<i>-92,303</i>	<i>-38,530</i>	<i>-28,536</i>	<i>-68,127</i>	<i>-107,988</i>	<i>-152,240</i>	<i>-38,530</i>

Section H National balance sheet accounts

Third quarter 2007

National net worth reached \$5.4 trillion by the end of the third quarter of 2007, or \$163,700 per capita. National net worth expanded by a modest \$63 billion in the quarter. This represented an increase of 1.2% over the second quarter, the weakest growth in eight quarters.

**Chart H.1
National net worth slows down**



With economic growth slowing in the third quarter, growth in national wealth (economy-wide non-financial assets) decelerated to 1.9%, down from 2.4% in the previous quarter. Residential real estate continued to be the major driving force in the growth of national wealth, accounting for over half of the gain.

The strong saving position of the government and the corporate sectors, coupled with continuing gains in the real estate market and a resilient stock market, contributed to the sustained growth of national net worth in the third quarter. However, this growth in national net worth was dampened by an increase in Canada's net foreign indebtedness, largely resulting from revaluation, as the Canadian dollar appreciated against most major foreign currencies. The appreciation of the Canadian dollar reduced the Canadian dollar value of holdings of international assets to a much larger extent that it reduced Canadian foreign currency denominated liabilities. Foreign direct investment in Canada increased despite the continued appreciation of the Canadian dollar, contributing to the increase in Canadian liabilities to non-residents.

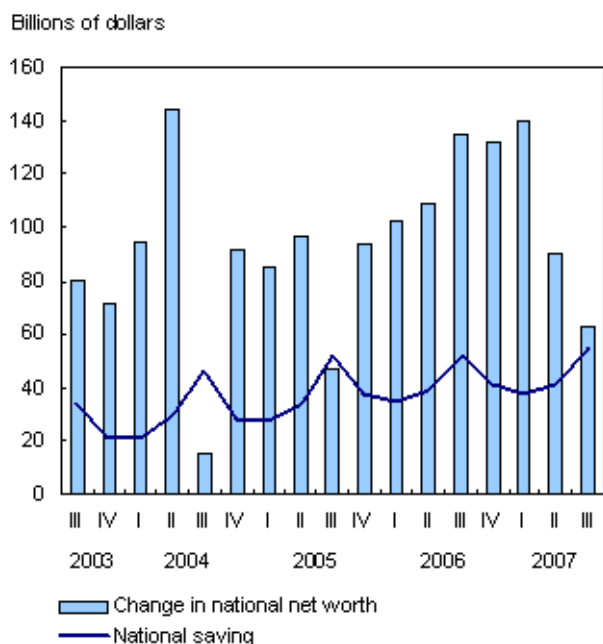
Note to readers

The national balance sheet accounts are statements of the balance sheets of all of the various sectors of the economy. They consist of the non-financial assets owned in the various sectors of the economy and of financial claims outstanding. National wealth is the sum of non-financial assets (produced assets, land surrounding structures and agricultural land) in all sectors of the economy. National net worth is national wealth less net foreign liabilities (i.e., what is owed to non-residents less what non-residents owe to Canadians). Alternatively, it is the sum of the net worth of persons, corporations and governments.

National saving is the sum of saving of persons, corporations and governments. National saving and investment contribute to change in national net worth. The revaluation of assets and liabilities also contributes to changes in national net worth. The causes of revaluation include changes in non-financial asset prices, equity prices, interest rates, exchange rates and loan allowances.

Quarterly series, both book and market value, are available from the first quarter of 1990. For more information on the market value estimates, consult the Balance sheet estimates at market value page of our website (13-605).

Chart H.2
Saving and revaluations drive change in national net worth



Household net worth grows at slower pace

Growth in household net worth slowed significantly during the third quarter, increasing 1.2%, about half the pace of the previous quarter and the slowest in five quarters. The advances in both financial and non-financial assets were largely offset by the substantial increase in liabilities. Increases in mortgage loans and consumer credit were the main contributors to the rise of total household liabilities.

Financial assets managed to post slight growth with modest increases in deposits, pension funds and equities combining to offset the dampening effect of the appreciating Canadian dollar on foreign investments. Residential real estate remained the major driving force of the growth of the households' non-financial assets.

Household debt, in the form of consumer credit and mortgages, continued to outpace increases in net worth. Consequently, the debt-to-net worth ratio increased to 17.9% while the overall household debt amounted to 115.7% of personal disposable income.

Chart H.3
Household leverage rises

As a % of net worth, not seasonally adjusted data

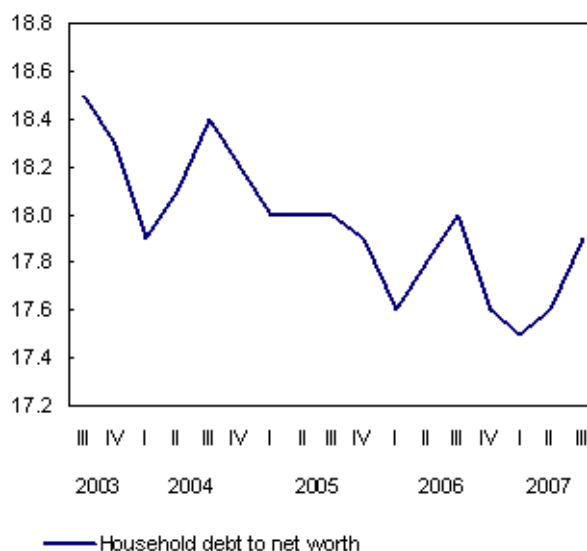
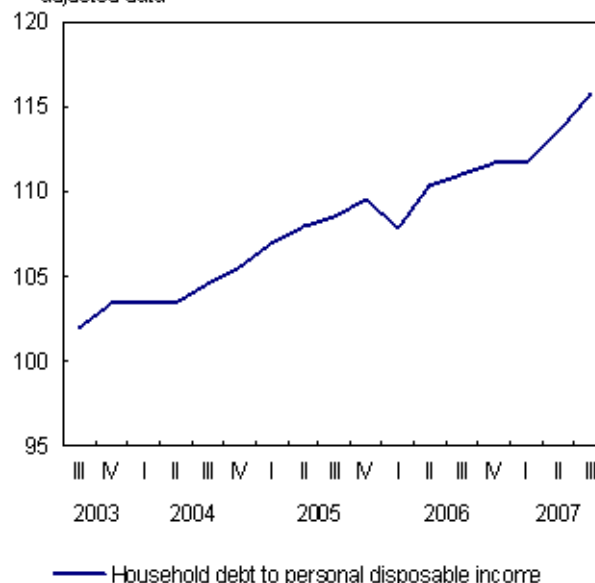


Chart H.4
Household debt-to-income ratio continues to rise

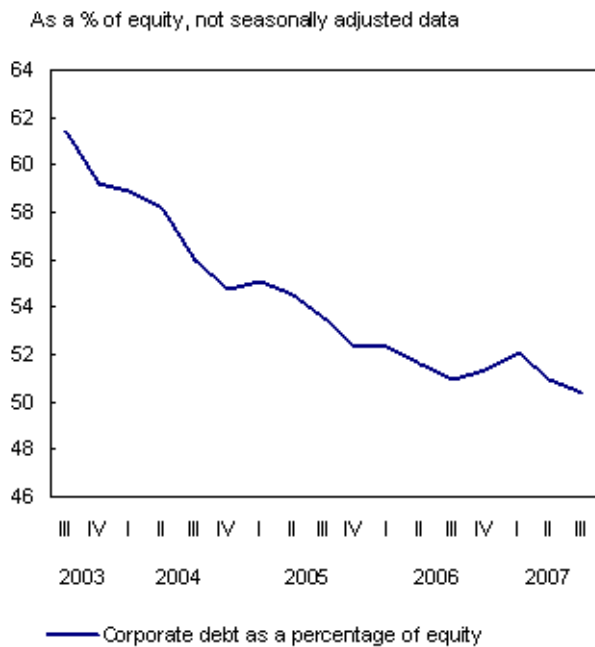
As a % of personal disposable income, seasonally adjusted data



Non-financial corporate leverage falls further

The private non-financial corporate sector remained in a surplus position while increasing fixed investment in the third quarter. The demand for funds in the quarter declined, resulting in a further decrease in leverage. The debt-to-equity ratio declined for the second consecutive quarter, as strong growth in retained earnings combined with net new share issues outpaced slight increases in debt levels.

Chart H.5
Corporate leverage continues downward trend



Government net debt-to-gross domestic product ratio continues to decline

Total government net debt maintained its downward trend for a 14th consecutive quarter, propelled by a further surplus and reflected in the sustained reduction of Government of Canada short-term paper obligations and net retirement of Government of Canada bonds. Consequently, the net debt-to-GDP ratio continued its decline, with net debt in the third quarter less than half of GDP, compared with almost 90% a decade ago.

Financial institutions continue to increase financial assets

Financial institutions, traditional net lenders to the other sectors of the economy, continued to significantly increase their financial assets, mainly on the strength of increases in bank loans, consumer credit and mortgage holdings. The currency effect of the appreciating Canadian dollar continued to be felt through the downward revaluation of foreign currency-denominated investment portfolios of the institutional investors' sectors.

Table H.1 National balance sheet accounts[1]

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Market value, not seasonally adjusted, billions of dollars								
National net worth								
National wealth	4,978 2.4	5,079 2.0	5,157 1.5	5,287 2.5	5,416 2.4	5,520 1.9	4,794 6.9	5,157 7.6
Net foreign debt	-126 ...	-92 ...	-38 ...	-28 ...	-67 ...	-108 ...	-152 ...	-38 ...
National net worth	4,852 2.3	4,987 2.8	5,119 2.6	5,259 2.7	5,349 1.7	5,412 1.2	4,642 7.5	5,119 10.3
National net worth per capita (dollars)	148,700 1.9	152,400 2.5	156,200 2.5	160,000 2.4	162,300 1.4	163,700 0.9	143,000 6.4	156,200 9.2

1. The first line is the series itself expressed in billions of dollars. The second line, is the period-to-period percentage change.

Table H.2 National balance sheet, market value

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Millions of dollars at quarter end								
Total assets	15,831,119	16,176,314	16,713,938	17,114,290	17,434,090	17,724,294	15,265,125	16,713,938
Non-financial assets	4,978,126	5,079,134	5,157,467	5,287,151	5,416,204	5,519,506	4,794,042	5,157,467
Residential structures	1,396,461	1,436,971	1,465,798	1,496,316	1,535,195	1,574,242	1,314,745	1,465,798
Non-residential structures	1,134,659	1,150,708	1,165,960	1,193,444	1,223,187	1,245,321	1,131,290	1,165,960
Machinery and equipment	419,098	423,775	429,636	447,468	444,569	437,387	413,633	429,636
Consumer durables	379,022	379,953	386,824	387,766	394,941	396,616	374,978	386,824
Inventories	211,411	218,399	215,949	219,829	216,673	223,107	206,397	215,949
Land	1,437,475	1,469,328	1,493,300	1,542,328	1,601,639	1,642,833	1,352,999	1,493,300
Net financial assets	-125,767	-92,224	-38,233	-28,191	-67,393	-107,655	-152,490	-38,233
Financial assets	10,852,993	11,097,180	11,556,471	11,827,139	12,017,886	12,204,788	10,471,083	11,556,471
Official reserves	40,301	40,130	40,960	45,508	42,533	40,886	38,029	40,960
Gold & foreign currency	38,033	37,860	38,867	43,547	40,756	39,224	35,357	38,867
IMF reserve position	1,219	1,218	970	834	740	667	1,629	970
Special drawing rights	1,049	1,052	1,123	1,127	1,037	995	1,043	1,123
Currency and bank deposits	889,827	907,028	919,320	923,503	950,477	993,899	856,234	919,320
Other deposits	218,536	221,349	225,308	230,908	236,274	241,440	210,475	225,308
Foreign currency deposits	107,362	123,750	137,908	149,007	157,800	167,779	107,659	137,908
Consumer credit	287,155	295,291	302,103	307,269	317,409	326,158	273,869	302,103
Trade receivables	259,145	260,901	263,727	266,441	268,079	270,173	254,173	263,727
Bank loans	230,660	231,522	233,352	244,395	249,642	254,776	216,670	233,352
Other loans	223,543	225,771	233,575	234,732	237,850	240,064	219,123	233,575
Canada short-term paper	109,859	109,471	113,158	124,291	109,668	102,209	120,159	113,158
Other short-term paper	194,725	201,766	214,354	219,896	221,359	233,542	175,390	214,354
Mortgages	779,866	799,973	816,121	830,419	856,995	885,460	748,525	816,121
Canada bonds	266,802	271,376	264,057	257,015	254,011	253,717	273,451	264,057
(of which CSB's)	17,125	16,917	15,465	15,083	14,821	14,747	17,712	15,465
Provincial bonds	302,500	303,300	302,988	304,557	299,198	308,173	307,675	302,988
Municipal bonds	37,975	39,891	39,759	41,621	41,699	42,878	37,745	39,759
Other bonds	443,962	454,081	485,922	497,477	506,920	534,568	427,744	485,922
Life insurance & pensions	1,301,870	1,335,293	1,396,073	1,421,384	1,448,037	1,473,765	1,269,192	1,396,073
Corporate claims	1,270,534	1,296,282	1,308,610	1,348,033	1,340,365	1,367,099	1,217,074	1,308,610
Government claims	212,445	215,102	217,751	222,772	222,184	223,414	209,243	217,751
Shares	2,187,560	2,223,792	2,391,990	2,451,281	2,538,880	2,577,716	2,094,538	2,391,990
Foreign investments	587,630	633,771	720,657	753,375	752,023	700,656	550,399	720,657
Other financial assets	900,736	907,340	928,778	953,255	966,483	966,416	863,716	928,778
Liabilities and net worth	15,831,119	16,176,314	16,713,938	17,114,290	17,434,090	17,724,294	15,265,125	16,713,938
Liabilities	10,978,760	11,189,404	11,594,704	11,855,330	12,085,279	12,312,443	10,623,573	11,594,704
Currency and bank deposits	911,300	924,187	940,210	944,932	969,120	1,014,737	872,473	940,210
Other deposits	218,536	221,349	225,308	230,908	236,274	241,440	210,475	225,308
Foreign currency deposits	104,615	118,590	132,089	153,044	156,005	160,277	116,274	132,089
Consumer credit	287,155	295,291	302,103	307,269	317,409	326,158	273,869	302,103
Trade payables	260,081	262,418	265,928	268,118	270,982	273,784	251,353	265,928
Bank loans	219,065	214,747	217,241	225,534	234,755	238,579	207,364	217,241
Other loans	218,497	220,778	222,459	228,151	233,195	237,157	217,614	222,459
Canada short-term paper	123,882	122,969	126,307	135,947	121,090	112,912	129,632	126,307
Other short-term paper	206,124	212,111	223,451	230,701	232,718	244,267	185,764	223,451
Mortgages	780,209	800,316	816,467	830,763	857,334	885,797	748,873	816,467
Canada bonds	317,507	319,197	315,538	307,961	296,535	296,448	325,531	315,538
(of which CSB's)	17,125	16,917	15,465	15,083	14,821	14,747	17,712	15,465
Provincial bonds	417,297	422,158	429,054	429,897	413,022	416,216	432,043	429,054
Municipal bonds	41,995	44,086	44,047	45,787	45,698	46,920	41,787	44,047
Other bonds	656,218	680,648	727,545	742,299	738,513	761,107	649,473	727,545
Life insurance & pensions	1,301,870	1,335,293	1,396,073	1,421,384	1,448,037	1,473,765	1,269,192	1,396,073
Corporate claims	525,979	547,096	513,323	545,936	561,144	557,657	478,062	513,323
Government claims	212,445	215,102	217,751	222,772	222,184	223,414	209,243	217,751
Shares	3,303,705	3,353,072	3,575,247	3,651,842	3,786,144	3,867,519	3,161,224	3,575,247
Other liabilities	872,280	879,996	904,563	932,085	945,120	934,289	843,327	904,563
Net worth	4,852,359	4,986,910	5,119,234	5,258,960	5,348,811	5,411,851	4,641,552	5,119,234

Table H.3 Credit market summary table

	Second quarter 2006	Third quarter 2006	Fourth quarter 2006	First quarter 2007	Second quarter 2007	Third quarter 2007	2005	2006
Millions of dollars at quarter end								
Debt outstanding of:								
Persons and unincorporated business	1,027,765	1,049,971	1,067,745	1,084,222	1,115,037	1,144,941	988,955	1,067,745
Consumer credit	287,155	295,291	302,103	307,269	317,409	326,158	273,869	302,103
Bank loans	36,709	36,575	36,985	38,106	37,837	38,962	34,349	36,985
Other loans	73,268	72,992	73,703	74,620	76,213	75,478	72,249	73,703
Mortgages	630,633	645,113	654,954	664,227	683,578	704,343	608,488	654,954
Non-financial private corporations	606,460	613,040	633,195	651,876	653,216	660,458	593,075	633,195
Bank loans	123,724	122,149	121,360	125,414	130,705	131,234	117,001	121,360
Other loans	75,525	77,132	76,958	78,295	78,829	77,320	74,696	76,958
Other short-term paper	49,722	51,561	57,088	59,679	59,508	62,588	44,784	57,088
Mortgages	123,660	127,266	132,176	136,869	142,105	147,722	117,270	132,176
Bonds	233,829	234,932	245,613	251,619	242,069	241,594	239,324	245,613
Non-financial government enterprises	65,618	67,552	67,502	66,804	65,154	64,908	64,436	67,502
Bank loans	2,804	2,755	2,678	2,649	2,684	2,688	2,465	2,678
Other loans	7,062	7,082	7,376	6,347	6,473	6,574	7,083	7,376
Other short-term paper	5,476	7,436	6,204	6,205	6,206	6,206	5,676	6,204
Mortgages	98	96	95	94	93	94	99	95
Canada bonds	0	0	0	0	0	0	0	0
Provincial bonds	48,440	48,444	48,500	48,867	47,104	46,771	47,376	48,500
Municipal bonds	121	121	121	121	121	121	121	121
Other bonds	1,617	1,618	2,528	2,521	2,473	2,454	1,616	2,528
Federal government	406,110	404,422	403,096	413,495	394,015	385,160	412,102	403,096
Bank loans	101	101	101	101	101	101	100	101
Other loans	0	0	0	0	0	0	0	0
Canada short-term paper	123,882	122,969	126,307	135,947	121,090	112,912	129,632	126,307
Canada bonds	282,127	281,352	276,688	277,447	272,824	272,147	282,370	276,688
Canada savings bonds	17,125	16,917	15,465	15,083	14,821	14,747	17,712	15,465
Other bonds	265,002	264,435	261,223	262,364	258,003	257,400	264,658	261,223
Other levels of government	399,523	398,013	404,608	408,583	407,491	413,582	398,354	404,608
Bank loans	3,443	3,550	3,705	4,767	5,172	4,860	3,005	3,705
Other loans	15,026	15,067	15,228	15,204	15,289	15,428	15,072	15,228
Other short-term paper	18,592	15,067	15,663	15,677	15,663	20,206	13,947	15,663
Mortgages	2,000	2,000	2,000	1,999	1,999	1,999	2,000	2,000
Provincial bonds	315,301	315,973	321,567	322,480	320,030	321,055	320,883	321,567
Municipal bonds	41,327	42,522	42,543	44,566	45,460	46,156	39,706	42,543
Other bonds	3,834	3,834	3,902	3,890	3,878	3,878	3,741	3,902
Total funds raised by domestic non-financial sectors	2,505,476	2,532,998	2,576,146	2,624,980	2,634,913	2,669,049	2,456,922	2,576,146
Consumer credit	287,155	295,291	302,103	307,269	317,409	326,158	273,869	302,103
Bank loans	166,781	165,130	164,829	171,037	176,499	177,845	156,920	164,829
Other loans	170,881	172,273	173,265	174,466	176,804	174,800	169,100	173,265
Canada short-term paper	123,882	122,969	126,307	135,947	121,090	112,912	129,632	126,307
Other short-term paper	73,790	74,064	78,955	81,561	81,377	89,000	64,407	78,955
Mortgages	756,391	774,475	789,225	803,189	827,775	854,158	727,857	789,225
Bonds	926,596	928,796	941,462	951,511	933,959	934,176	935,137	941,462
Non-residents	42,649	47,083	50,391	53,109	47,301	47,506	40,315	50,391
Bank loans	11,595	16,775	16,111	18,861	14,887	16,197	9,306	16,111
Other loans	31,054	30,308	34,280	34,248	32,414	31,309	31,009	34,280
Mortgages
Total borrowing excluding domestic financial institutions	2,548,125	2,580,081	2,626,537	2,678,089	2,682,214	2,716,555	2,497,237	2,626,537
Domestic financial institutions	669,581	691,649	732,901	757,572	784,237	819,603	627,056	732,901
Bank loans	52,284	49,617	52,412	54,497	58,256	60,734	50,444	52,412
Other loans	47,616	48,505	49,194	53,685	56,391	62,357	48,514	49,194
Other short-term paper	132,334	138,047	144,496	149,140	151,341	155,267	121,357	144,496
Mortgages	23,818	25,841	27,242	27,574	29,559	31,639	21,016	27,242
Bonds	413,529	429,639	459,557	472,676	488,690	509,606	385,725	459,557
Total funds raised = total funds supplied	3,217,706	3,271,730	3,359,438	3,435,661	3,466,451	3,536,158	3,124,293	3,359,438
Assets of:								
Persons and unincorporated business	98,575	100,589	92,918	90,625	80,653	81,319	111,454	92,918
Non-financial corporations	77,101	77,585	80,451	82,433	83,613	83,685	76,479	80,451
Governments	227,192	236,962	237,515	248,103	251,052	257,546	225,126	237,515
Non-residents	419,677	422,181	443,641	454,191	431,863	416,287	423,968	443,641
Domestic financial institutions	2,418,471	2,457,232	2,527,662	2,583,946	2,642,309	2,720,311	2,311,316	2,527,662