The Economy in Brief

DEPARTMENT OF FINANCE DECEMBER 2002

Overview

- In the third quarter of 2002 real gross domestic product (GDP) increased a solid 3.1%, a slowing from the more robust gains of 5.7% and 4.4% in the two previous quarters.
- Real exports rose 9.6%, their strongest advance since the first quarter of 2000. With weaker growth in imports, the current account surplus widened by $1.6 billion to $20.4 billion.
- Final domestic demand growth continued, although at about half the 4.4% pace of the previous quarter. A 15.9% advance in residential investment and a 4.8% increase in business investment in machinery and equipment drove the 2.0% domestic demand gain in the third quarter. Consumer spending growth slowed to 0.5%.
- The Canadian economy created over half a million net new jobs in the first 11 months of the year, the largest employment gain over any 11-month period on record back to 1976. In November the unemployment rate was 7.5%, compared to its recent peak of 8.0% in December 2001.

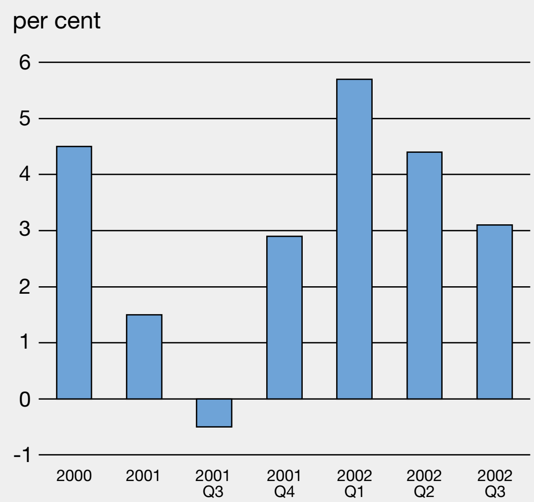
Exports drive growth

Real GDP growth has been solid since the fourth quarter of 2001 (Chart 1). Real exports contributed strongly to growth in the third quarter, rising 9.6%. Automotive products and machinery and equipment registered notable increases.

Residential investment surges

Low interest rates continued to support the housing market. Residential investment increased 15.9% in the third quarter to stand 17.5% above its level of a year earlier. Housing starts rose in the third quarter, contributing to a 31.9% increase in new

Chart 1
Growth in real GDP



Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, December 6, 2002.

Department of Finance Canada Ministère des Finances Canada

Canada

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	2000	2001	2002:Q1	2002:Q2	2002:Q3	Most recent	
Real gross domestic product	4.5	1.5	5.7	4.4	3.1		–
Final domestic demand	4.0	2.5	3.7	4.4	2.0		–
Government expenditure							–
Goods and services	2.3	3.3	1.7	3.3	2.8		–
Gross fixed capital	3.0	11.5	7.1	8.3	0.7		–
Consumer expenditure	3.7	2.6	2.9	4.2	0.5		–
Residential investment	3.5	4.7	35.2	-1.7	15.9		–
Business fixed investment	8.2	-1.1	-1.9	9.3	2.1		–
Non-residential construction	6.4	0.8	-7.7	-1.9	-2.3		–
Machinery and equipment	9.3	-2.2	1.8	16.7	4.8		–
Business inventory investment ($ billion)	9.9	-3.5	-7.8	7.2	6.4		–
Exports	8.0	-3.8	5.3	2.0	9.6		–
Imports	8.2	-5.8	5.2	18.9	6.3		–
Current account balance							
(nominal $ billion)	27.8	30.0	21.3	18.8	20.4		–
(percentage of GDP)	2.6	2.8	1.9	1.7	1.8		–
Nominal personal income	7.1	4.0	4.8	2.8	3.7		–
Nominal personal disposable income	6.9	4.4	7.2	4.5	4.1		–
Real personal disposable income	4.7	2.5	4.5	1.0	0.7		–
Profits before taxes	19.4	-8.9	48.7	51.1	12.6		–
Costs and prices (%, y/y)							
GDP price deflator	3.9	1.1	-1.5	0.2	2.0		–
Consumer price index	2.7	2.6	1.5	1.3	2.3	3.2	Oct-2002
CPI excluding eight most volatile items	1.3	2.0	2.1	2.2	2.4	2.5	Oct-2002
Unit labour costs	3.7	2.8	1.0	0.8	1.1		
Wage settlements (total)	2.5	3.1	2.9	2.6	2.8	3.3	Sep-2002
Labour market							
Unemployment rate (%)	6.8	7.2	7.8	7.6	7.6	7.5	Nov-2002
Employment growth	2.6	1.1	2.8	3.7	3.4	3.3	Nov-2002
Financial markets (average)							
Exchange rate (cents U.S.)	67.3	64.6	62.7	64.4	64.0	64.04	5-Dec-02
Prime interest rate (%)	7.3	5.8	3.8	4.1	4.5	4.50	5-Dec-02

Note: Real values are in chained 1997 dollars.
Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

construction activity over the second-quarter level. Growth in spending on renovations remained solid.

Business fixed investment rises

Business spending on plant and equipment rose 2.1% in the third quarter, following a jump of 9.3% in the second. Investment in import-intensive machinery and equipment increased 4.8% after rising 16.7% in the previous quarter. Investment in transportation equipment rose strongly while that in information and communications technology declined.

Non-residential construction decreased for the fifth consecutive quarter. This reflected reduced spending on engineering projects and building construction.

Consumer spending growth slows

Real consumer expenditure growth slowed to 0.5% in the third quarter from over 4% in the second. Increased spending on services and non-durables was largely offset by lower outlays on durables and semi-durables. In particular, consumers reduced their spending on automotive products for the second consecutive quarter. This largely reflected the continuing easing of motor vehicle purchases following the unsustainable growth generated last year by incentive programs.

Personal income increased a solid 3.7% in the quarter, as continued growth in earned income more than offset a drop in personal investment income. However, rising consumer prices limited the gain in real personal disposable income.

Nevertheless, real personal disposable income per capita was about 2% above the level of a year earlier and nearly 13% above its most recent low in 1996.

The personal savings rate, at 4.7% in the third quarter, remained unchanged from its second-quarter level and above the low of 3.7% in mid-2001.

Businesses slow the pace of inventory accumulation

Businesses boosted inventories by $6.4 billion in the quarter. As sales grew at the same pace as inventories, the inventory-to-sales ratio remained at a historically low level.

Imports rise less than exports

Real imports rose 6.3%, with particular strength in automotive parts. This reflected the need to import parts for greater Canadian production to meet increased exports of motor vehicles. Imports of consumer goods also jumped while those of services dipped.

Current account surplus remains high

The current account surplus increased by $1.6 billion to $20.4 billion, or 1.8% of GDP (Chart 2). This was the 11th consecutive quarter that the surplus exceeded $17 billion, a level never reached before 2000.

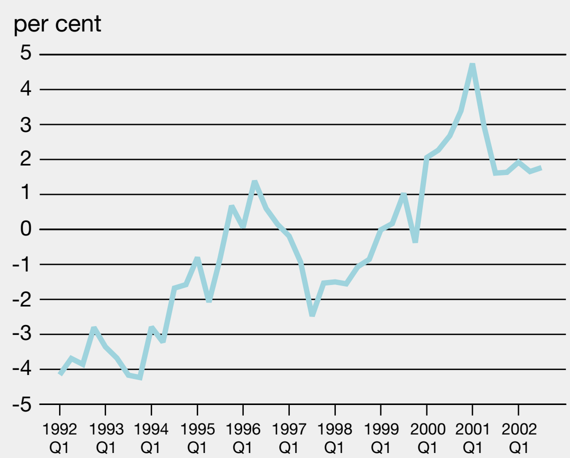
Despite a deterioration in the terms of trade (import prices rose more than export prices), stronger growth in real exports than imports boosted the surpluses in the nominal trade balance and the current account.

Inflation remains moderate

Underlying price and cost pressures remained subdued in the third quarter. The GDP deflator, a comprehensive measure of inflation, rose 1.9% and stood 2.0% above its level of a year earlier.

Consumer price inflation rose to 3.2% in October, as energy prices jumped. Core CPI inflation, which excludes the eight most volatile items, was 2.5% in October, well within the target band of 1% to 3%.

Chart 2
Current account as a percentage of nominal GDP



Total economy labour productivity showed mixed results in the third quarter: output per employed person dipped 0.4% while output per hour worked rose 4.0%, as hours worked fell. Output per hour worked was 2.7% greater than a year earlier.

Labour costs per unit of output rose 2.0% in the third quarter to stand 1.1% higher than a year earlier.

Corporate profits rise again

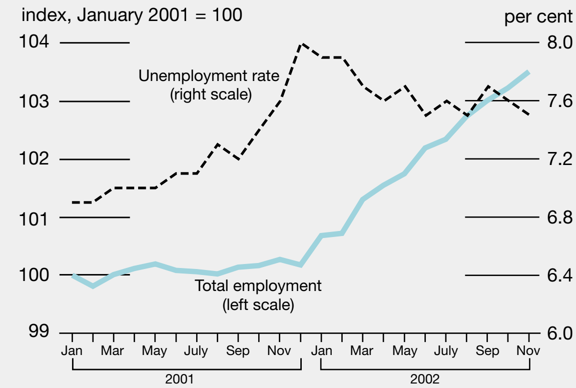
Corporate profits increased 12.6% in the third quarter. This followed jumps of about 50% in each of the previous two quarters. The gains in the quarter were notable in manufacturing, especially in the automotive sector. Financial sector profits declined. Overall profits increased to 11.1% of nominal GDP.

Employment continues to rise

Employment jumped 3.4% in the third quarter. The economy added a further 75,000 new jobs in October and November, bringing the number of jobs created so far this year to 502,000. The majority of these new jobs were full-time.

The strong labour market induced 453,000 people to enter the labour force during the first 11 months of the year, bringing the participation rate to its highest level since 1990 and 1.2 percentage points higher than a year earlier. As a result of the changes in employment and participation, the unemployment rate was 7.5% in November, compared to 8.0% in December 2001 (Chart 3).

Chart 3
Employment and the unemployment rate



Bank of Canada stands pat

On December 3 the Bank of Canada left its key policy rate unchanged, citing continuing financial and geopolitical uncertainties and global economic weakness.

On November 6 the U.S. Federal Reserve reduced interest rates by 50 basis points. Since Canadian short-term rates have been relatively steady since early September, the spread between Canadian and U.S. short rates has widened. Canadian and U.S. long rates have risen by similar amounts in the last three months.

The value of the Canadian dollar has traded in a narrow range with the U.S. dollar in recent months. It closed at 64.04 cents U.S. on December 5.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Distribution Centre at (613) 995-2855. For other inquiries about this publication, contact Mostafa Askari at (613) 992-3055.
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