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For release at 8:30 a.m.

MAJOR RELEASES

- **National economic and financial accounts, second quarter 1998**

Gross domestic product grew 0.4% in the second quarter of 1998, following the 0.8% gain in the first quarter. Consumer spending and business investment in fixed capital gained momentum, while inventory accumulation slowed sharply.

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- **Balance of international payments, second quarter 1998**

Canada's current account deficit narrowed marginally to \$4.2 billion (seasonally adjusted) in the second quarter of 1998. A pick-up in the import of goods was moderated by other current account transactions.

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- **Gross domestic product by industry at factor cost, June 1998**

Total economic activity edged down 0.1% in June — the third straight small decline. This was the first time since the beginning of 1991 that the economy has not grown for three consecutive months. However, the economy still expanded in the second quarter of 1998, but at a slower pace than in the previous quarter.

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National economic and financial accounts

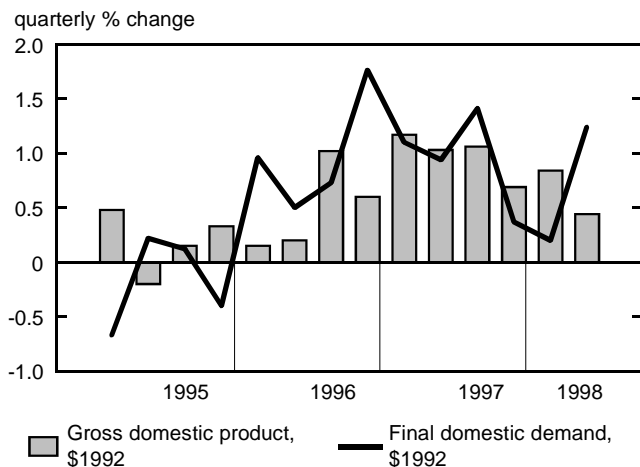
Second quarter 1998

Gross domestic product grew 0.4% in the second quarter of 1998, following the 0.8% gain in the first quarter. Consumer spending and business investment in fixed capital gained momentum, while inventory accumulation slowed sharply.

Production slowed while demand strengthened

Gross domestic product grew 0.4% in the second quarter of 1998, following the 0.8% gain in the first quarter. By contrast, final domestic demand rose 1.2%, following a 0.2% increase in the previous quarter, as consumer spending and business investment in fixed capital gained momentum. With exports growing at about the same pace as the previous quarter, the slowdown in production was reflected in a sharply lower rate of inventory accumulation.

Domestic demand strong



Note to readers

At the time of the release of the estimates for the first quarter 1998, the National economic and financial accounts (NEFA) were revised back to the first quarter 1997 and the Balance of international payments, back to the first quarter of 1993. As a result, the common elements between the two will remain inconsistent until the NEFA are revised back to 1993 in the fall. Meanwhile, the series affected in the NEFA, namely exports and imports of goods and services, international transfers and international investment income flows, have been linked to show the same rates of change as published in the Balance of payments.

Gross domestic product at 1992 prices¹

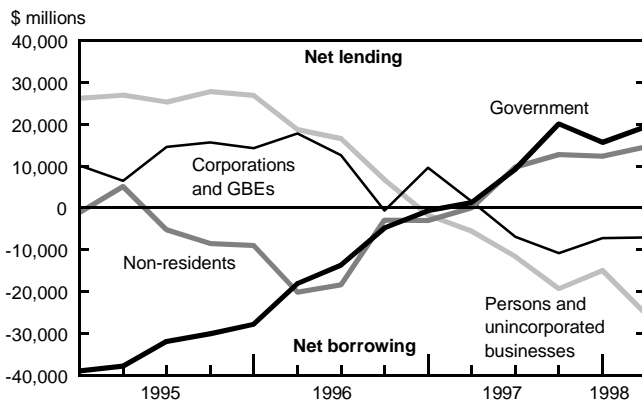
	% change	Annualized % change	Year-over-year % change
First quarter 1997	1.2	4.8	3.0
Second quarter 1997	1.0	4.2	3.9
Third quarter 1997	1.1	4.3	3.9
Fourth quarter 1997	0.7	2.8	4.0
First quarter 1998	0.8	3.4	3.7
Second quarter 1998	0.4	1.8	3.1

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

Governments and foreigners, sources of funds to economy

The combined borrowing of corporations and households rose sharply in the quarter, and the sources of funds to the economy came from higher government surpluses and borrowing from non-residents. This situation has prevailed in recent quarters and represents a reversal of that prevalent for most of 1995 and 1996.

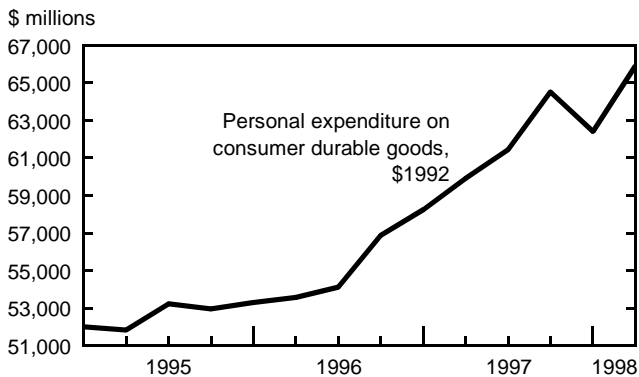
Shift in sources of funds continued



Incentives boosted demand for motor vehicles

Personal expenditure on goods and services rose 1.4% in the second quarter after a pause in the first quarter. Almost half of the increase resulted from sharply higher purchases of new motor vehicles (+14.0%) related to dealer incentive programs. Excluding new motor vehicles, consumer expenditure has grown at about 0.9% in both quarters with demand spread across the components.

Spending on consumer durables contributed to growth



Personal income slowed sharply in line with labour income, from a 1.5% increase in the first quarter to a 0.5% gain in the second, and with the higher income tax collections, personal disposable income fell after two quarters of growth. The combined effect of the pick-up in consumer spending and drop in disposable income was a \$3.5 billion reduction of personal saving.

Transactions in assets and liabilities reveal that households were still investing heavily in pension funds, mutual funds and other savings instruments and financed their spending on durable goods and their investment in housing through borrowing. The higher borrowing, however, does not imply a reduction in the net worth of the household sector, as it was largely used to acquire fixed assets. In addition, net saving does not include capital gains on assets and, over the past few years, the rise in net worth has increasingly come from such capital gains, rather than from saving out of current income. This helps explain the household sector's ability to maintain spending despite slow income growth.

Business investment gained momentum

Business investment in non-residential structures and equipment grew 2.8% in the second quarter, after a 0.7% gain in the previous quarter. The acceleration of investment resulted from a sharp rebound in purchases of machinery and equipment, supplied mainly by imports. Higher motor vehicle purchases accounted for a large portion of the rebound. Non-residential structures slowed from a 3.4% gain in the first quarter to a 1.8% advance in the second. The increase in building construction was the same as last quarter's. The slowdown came in engineering construction, particularly oil and gas drilling which has fallen in the order of 20% since early last year. Investment in residential construction fell 1.6%. The 5.6% drop in new construction was partly offset by a jump in real estate commissions on purchases of existing homes. Overall, the rise in business investment for the first six months of 1998 is in line with the results of the Public and Private Investment Intentions Survey published late in July.

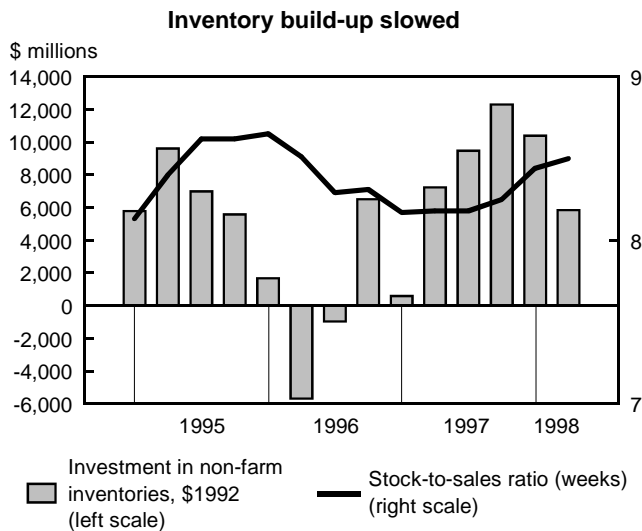
Corporate profits dropped for the second quarter in a row as prices for energy and other primary products remained low on world markets and retailers took lower margins to maintain sales. The corporate sector continued to borrow to finance investment, largely through higher bond and equity issues.

Export demand remained strong

Exports rose 1.3% in real terms in the second quarter, compared with 1.5% in the first. Exports of goods were up 1.2%. The sources of strength were similar to the first quarter (machinery and equipment, industrial goods and energy products). Exports of services were somewhat stronger (+2.0%).

Inventory accumulation slowed

The accumulation of non-farm inventories slowed markedly, from \$10.4 billion in the first quarter to \$5.8 billion in the second. The slowdown was most evident for durable goods in both wholesale and retail trade, in line with the areas of strong demand. A notable drop was recorded in gold inventories, together with sharply higher gold exports. The inventory-to-sales ratio remained at about eight and a half weeks of supply.



Government surplus grew

Government expenditure on goods and services and investment picked up momentum in the second

quarter, but higher revenues and lower transfer payments to other sectors brought the overall government sector surplus to \$19.5 billion (seasonally adjusted at annual rates), up from \$15.7 billion in the first quarter. All levels of government recorded surpluses, with the federal government alone posting a \$14 billion surplus.

Available on CANSIM: matrices 701-726, 728-735, 737-744, 748-750, 796, 797, 6520-6585 and 6597-6624.

The second quarter 1998 issue of *National economic and financial accounts*, quarterly estimates (13-001-XPB, \$44/\$145) will be available shortly. See *How to order publications*.

Detailed printed tables of unadjusted and seasonally adjusted quarterly national accounts (13-001-PPB, \$50/\$180), financial flow statistics (13-014-PPB, \$50/\$180) and estimates of labour income (13F0016XPB \$20/\$200), plus supplementary analytical tables and charts are available immediately. At 8:30 a.m. on release day, the complete quarterly national accounts, financial flow accounts, and monthly estimates of labour income data sets can be obtained on microcomputer diskette. The diskettes (13-001-XDB, 13-014-XDB and 13F0016XDB) can also be purchased at lower cost seven days after the official release date. To purchase any of these products, contact the client services officer (613-951-3810; iea-crd@statcan.ca), Income and Expenditure Accounts Division.

For further information about this release, contact the information officer (613-951-3640), Income and Expenditure Accounts Division. □

Gross domestic product, income-based

	1994	1995	1996	1997	Fourth quarter 1997	First quarter 1998	Second quarter 1998	First quarter 1998 to second quarter 1998
	seasonally adjusted at annual rates							% change at quarterly rates
	\$ millions							
Wages, salaries and supplementary labour income ¹	405,163	419,096	429,601	445,804	450,376	457,008	459,852	0.6
Corporation profits before taxes	59,467	70,355	67,988	78,988	82,992	76,096	74,312	-2.3
Government business enterprise profits before taxes	5,824	6,517	6,476	6,707	6,664	6,248	7,040	12.7
Interest and miscellaneous investment income	51,813	50,167	48,789	46,187	46,196	43,700	43,948	0.6
Accrued net income of farm operators from farm production	1,697	2,228	3,457	1,422	1,040	1,248	1,272	1.9
Net income of non-farm unincorporated business, including rent	44,189	46,463	49,491	52,978	54,128	55,020	55,528	0.9
Inventory valuation adjustment ²	-5,337	-2,410	-1,569	-1,622	-1,920	1,160	-1,128	-2,288
Net domestic product at factor cost	562,816	592,416	604,233	630,464	639,476	640,480	640,824	0.1
Indirect taxes less subsidies	102,925	106,571	109,944	114,501	116,288	117,344	120,648	2.8
Capital consumption allowances	95,323	100,737	105,935	110,722	112,348	115,152	115,452	0.3
Statistical discrepancy ²	1,187	-595	211	-584	-1,324	-2,932	-804	2,128
Gross domestic product at market prices	762,251	799,129	820,323	855,103	866,788	870,044	876,120	0.7

¹ Includes military pay and allowances.

² The change column reflects actual change in millions of dollars for these items.

Gross domestic product, expenditure-based

	1994	1995	1996	1997	Fourth quarter 1997	First quarter 1998	Second quarter 1998	First quarter 1998 to second quarter 1998
seasonally adjusted at annual rates								% change at quarterly rates
\$ millions at current prices								
Personal expenditure on consumer goods and services	445,879	460,033	477,927	505,896	515,416	516,080	525,372	1.8
Durable goods	53,862	55,682	58,500	66,132	70,100	67,340	71,336	5.9
Semi-durable goods	41,749	42,691	43,117	45,734	46,636	48,128	47,936	-0.4
Non-durable goods	112,206	114,545	118,720	122,494	122,268	122,400	123,844	1.2
Services	238,062	247,115	257,590	271,536	276,412	278,212	282,256	1.5
Government current expenditure on goods and services	169,599	171,072	168,965	168,459	168,508	168,600	169,984	0.8
Government gross fixed capital formation	20,056	20,105	19,271	18,241	18,020	18,396	18,756	2.0
Government inventories ¹	-1	30	-2	5	-	-40	-28	12
Business gross fixed capital formation	117,794	115,237	121,907	140,325	144,480	144,568	146,964	1.7
Residential structures	42,023	36,270	40,083	45,965	47,048	47,204	46,808	-0.8
Non-residential structures	33,953	34,124	35,437	39,230	39,948	41,456	42,216	1.8
Structures and equipment	41,818	44,843	46,387	55,130	57,484	55,908	57,940	3.6
Business investment in inventories ¹	2,143	8,134	1,045	7,251	12,384	11,904	7,800	-4,104
Non-farm ¹	2,245	8,046	448	8,648	14,208	12,316	7,168	-5,148
Farm ¹	-102	88	597	-1,397	-1,824	-412	632	1,044
Exports of goods and services	261,692	302,199	320,739	343,536	354,004	353,776	356,968	0.9
Goods	227,895	264,940	280,570	301,649	311,236	310,656	312,924	0.7
Services	33,797	37,259	40,169	41,887	42,768	43,120	44,044	2.1
Deduct: Imports of goods and services	253,724	278,276	289,319	329,193	347,348	346,168	350,496	1.3
Goods	208,593	231,206	239,578	278,463	296,512	293,592	298,036	1.5
Services	45,131	47,070	49,741	50,730	50,836	52,576	52,460	-0.2
Statistical discrepancy ¹	-1,187	595	-210	583	1,324	2,928	800	-2,128
Gross domestic product at market prices	762,251	799,129	820,323	855,103	866,788	870,044	876,120	0.7
Final domestic demand	753,328	766,447	788,070	832,921	846,424	847,644	861,076	1.6
\$ millions at 1992 prices								
Personal expenditure on consumer goods and services	433,812	441,263	451,682	470,177	476,624	477,388	483,856	1.4
Durable goods	51,647	52,508	54,465	61,020	64,500	62,400	65,880	5.6
Semi-durable goods	41,434	42,550	42,816	44,606	45,220	46,596	46,584	-0.0
Non-durable goods	113,146	114,419	116,773	117,922	117,608	117,732	118,668	0.8
Services	227,585	231,786	237,628	246,629	249,296	250,660	252,724	0.8
Government current expenditure on goods and services	165,888	165,244	163,164	162,988	163,288	163,020	164,192	0.7
Government gross fixed capital formation	19,730	19,487	18,773	17,760	17,420	17,984	18,376	2.2
Government inventories ¹	-1	30	-2	5	-	-36	24	60
Business gross fixed capital formation	112,397	108,914	115,819	132,135	135,228	135,768	137,588	1.3
Residential structures	39,820	34,189	37,928	42,912	43,796	43,732	43,020	-1.6
Non-residential structures	32,430	32,191	33,581	36,637	37,036	38,284	38,956	1.8
Structures and equipment	40,147	42,534	44,310	52,586	54,396	53,752	55,612	3.5
Business investment in inventories ¹	2,919	7,429	944	6,977	11,536	10,672	6,864	-3,808
Non-farm ¹	2,302	6,987	384	7,395	12,296	10,388	5,836	-4,552
Farm ¹	617	442	560	-418	-760	284	1,028	744
Exports of goods and services	237,684	259,695	274,456	296,534	305,292	310,004	314,012	1.3
Goods	205,526	225,109	238,215	259,548	267,560	272,220	275,460	1.2
Services	32,158	34,586	36,241	36,986	37,732	37,784	38,552	2.0
Deduct: Imports of goods and services	227,054	242,306	254,908	288,933	302,028	302,120	306,620	1.5
Goods	187,532	202,184	212,911	246,867	260,412	259,680	264,668	1.9
Services	39,522	40,122	41,997	42,066	41,616	42,440	41,952	-1.1
Statistical discrepancy ¹	-1,155	553	-198	540	1,232	2,744	748	-1,996
Gross domestic product at market prices	744,220	760,309	769,730	798,183	808,592	815,424	819,040	0.4
Final domestic demand	731,827	734,908	749,438	783,060	792,560	794,160	804,012	1.2

¹ The change column reflects actual change in millions of dollars for these items.

- Nil or zero.

National accounts price and volume indexes

	1994	1995	1996	1997	Fourth quarter 1997	First quarter 1998	Second quarter 1998	First quarter 1998 to second quarter 1998
seasonally adjusted data								% change at quarterly rates
implicit price indexes, 1992=100								
Personal expenditure on consumer goods and services	102.8	104.3	105.8	107.6	108.1	108.1	108.6	0.5
Government current expenditure on goods and services	102.2	103.5	103.6	103.4	103.2	103.4	103.5	0.1
Government gross fixed capital formation	101.7	103.2	102.7	102.7	103.4	102.3	102.1	-0.2
Business gross fixed capital formation	104.8	105.8	105.3	106.2	106.8	106.5	106.8	0.3
Exports of goods and services	110.1	116.4	116.9	115.9	116.0	114.1	113.7	-0.4
Imports of goods and services	111.7	114.8	113.5	113.9	115.0	114.6	114.3	-0.3
Gross domestic product	102.4	105.1	106.6	107.1	107.2	106.7	107.0	0.3
Final domestic demand	102.9	104.3	105.2	106.4	106.8	106.7	107.1	0.4
chain price indexes, 1992=100								
Personal expenditure on consumer goods and services	103.0	104.6	106.2	107.9	108.3	108.5	108.9	0.4
Government current expenditure on goods and services	102.3	103.8	104.0	103.9	103.7	103.9	103.9	0.1
Government gross fixed capital formation	102.2	104.1	104.2	104.8	104.8	104.2	104.4	0.2
Business gross fixed capital formation	105.4	106.8	106.9	107.9	108.3	108.2	108.7	0.4
Exports of goods and services	110.6	117.4	118.0	118.4	120.6	119.2	119.7	0.4
Imports of goods and services	112.5	116.4	115.8	117.1	118.6	118.8	119.1	0.2
Gross domestic product	102.7	105.1	106.5	107.3	107.9	107.4	107.9	0.4
Final domestic demand	103.1	104.7	105.7	106.9	107.2	107.3	107.6	0.3
chain Fisher volume indexes, 1992=100								
Personal expenditure on consumer goods and services	104.9	106.6	109.1	113.8	115.4	115.4	117.0	1.4
Government current expenditure on goods and services	98.0	97.5	96.2	96.0	96.2	96.0	96.7	0.8
Government gross fixed capital formation	104.5	102.8	98.5	92.8	91.6	94.2	95.8	1.7
Business gross fixed capital formation	103.7	100.2	106.0	120.9	123.8	123.7	125.1	1.2
Exports of goods and services	124.8	135.4	143.1	153.6	157.4	159.2	160.2	0.6
Imports of goods and services	117.5	124.9	130.8	147.8	154.3	153.7	155.3	1.0
Gross domestic product at market prices	106.4	108.8	110.2	114.2	115.8	116.7	117.0	0.3
Final domestic demand	103.1	103.4	105.3	110.1	111.5	111.5	112.9	1.2

Financial market summary table

	1994	1995	1996	1997	Fourth quarter 1997	First quarter 1998	Second quarter 1998	First quarter 1998 to second quarter 1998
	seasonally adjusted at annual rates							
	\$ millions							actual change
Persons and unincorporated business	25,267	25,026	30,376	33,212	35,604	34,568	35,880	1,312
Funds raised								
Consumer credit	7,049	6,718	7,275	9,429	9,628	9,028	9,924	896
Bank loans	232	973	1,169	783	676	2,580	2,048	-532
Other loans	3,047	3,880	4,740	4,814	5,224	5,996	5,776	-220
Mortgages	14,939	13,455	17,192	18,186	20,076	16,964	18,132	1,168
Non-Financial private corporations	34,895	25,943	32,871	52,868	52,212	51,252	56,868	5,616
Funds raised								
Bank loans	5,957	1,980	-1,044	5,882	5,148	7,988	5,352	-2,636
Other loans	4,466	2,072	2,965	4,390	6,376	10,760	2,136	-8,624
Other short-term paper	1,015	2,041	3,624	5,086	5,296	8,148	724	-7,424
Mortgages	-443	-1,707	386	1,048	760	5,060	2,660	-2,400
Bonds	6,958	11,212	6,514	13,433	12,488	1,288	26,492	25,204
Shares	16,942	10,345	20,426	23,029	22,144	18,008	19,504	1,496
Non-financial government enterprises	1,665	-2,062	-5,034	-2,006	584	-164	-1,204	-1,040
Funds raised								
Bank loans	824	-709	-996	-590	-1,344	568	408	-160
Other loans	369	-348	-322	-795	-684	-620	-300	320
Other short-term paper	-1,326	-64	975	2,046	5,508	388	-5,580	-5,968
Mortgages	-17	-6	-	2	-	-	-	-
Bonds	1,951	-632	-4,690	-2,668	-2,976	-548	4,256	4,804
Shares	-136	-303	-1	-1	80	48	12	-36
Federal government	26,053	24,815	10,592	-7,744	2,788	1,892	-31,840	-33,732
Funds raised								
Bank loans	-134	-11	22	-8	72	-8	-24	-16
Other loans	-21	-3	-	1	-24	4	4	-
Canada short-term paper	-8,017	-892	-20,777	-25,041	-6,856	-16,832	-52,060	-35,228
Canada Saving Bonds	889	-1,152	2,031	-3,102	-14,752	1,484	-2,020	-3,504
Marketable bonds	33,336	26,873	29,316	20,406	24,348	17,244	22,260	5,016
Other levels of government	22,724	16,605	12,717	5,198	6,236	2,952	22,796	19,844
Funds raised								
Bank loans	361	16	-31	387	-168	-844	1,568	2,412
Other loans	894	770	854	232	320	144	396	252
Other short-term paper	-816	-2,015	-1,172	-2,028	-1,100	-432	7,148	7,580
Mortgages	-14	-13	9	-18	-24	8	20	12
Provincial bonds	21,211	17,345	12,749	6,243	6,920	3,988	13,932	9,944
Municipal bonds	1,078	567	393	336	88	-32	-252	-220
Other bonds	10	-65	-85	46	200	120	-16	-136
Total funds raised by domestic non-financial sectors	110,604	90,327	81,522	81,528	97,424	90,500	82,500	-8,000
Consumer credit	7,049	6,718	7,275	9,429	9,628	9,028	9,924	896
Bank loans	7,240	2,249	-880	6,454	4,384	10,284	9,352	-932
Other loans	8,755	6,371	8,237	8,642	11,212	16,284	8,012	-8,272
Canada short-term paper	-8,017	-892	-20,777	-25,041	-6,856	-16,832	-52,060	-35,228
Other short-term paper	-1,127	-38	3,427	5,104	9,704	8,104	2,292	-5,812
Mortgages	14,465	11,729	17,587	19,218	20,812	22,032	20,812	-1,220
Bonds	65,433	54,148	46,228	34,694	26,316	23,544	64,652	41,108
Shares	16,806	10,042	20,425	23,028	22,224	18,056	19,516	1,460

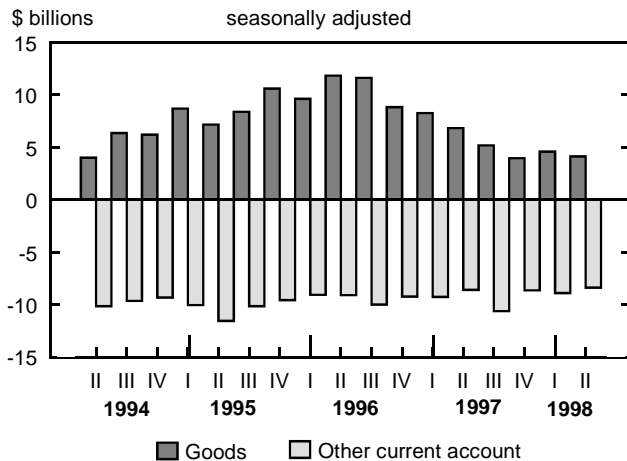
- Nil or zero.

Balance of international payments

Second quarter 1998

Canada's current account deficit narrowed marginally to \$4.2 billion (seasonally adjusted) in the second quarter of 1998. In other words, Canadians continued to spend more than they earned from abroad in goods, services, investment income and transfers, as they have been doing for almost two years. The decline in the surplus on goods, driven by a pick-up in import activity, was tempered by a reduction in other current account transactions.

Goods and other current account balances



In the financial account (which is not seasonally adjusted), non-residents continued to invest in bonds and equities of Canadian companies during the second quarter. Nevertheless, there was a reduction in foreign deposits at Canadian banks and in holdings of Canadian money market instruments. Canadian demand for foreign equities also strengthened in the quarter. However, reserves were drawn down, as the Canadian dollar came under downward pressure.

Current account

Higher imports trimmed surplus on goods

Canadian businesses reduced their surplus on goods in the second quarter, as they increased their imports more than exports. Most of the shrinkage in the goods surplus centered on non-OECD economies, followed by continental European Union countries. Further, Canadian goods trade with Japan moved to

a deficit for a first time since early 1993, while the surplus with the United States continued to widen.

Imports of goods advanced 1.5% to a record \$74.1 billion. The largest gains appeared in machinery and equipment, where most categories rose, and in consumer and industrial goods. At the same time, imports of most automotive products and transportation equipment (except for trucks and aircraft) weakened. The decrease in the auto sector reflected plant closures late in the quarter.

Sales abroad by exporting firms rose a modest 0.8%, to a peak of \$78.2 billion in the second quarter. Continued foreign demand led to a strong increase in machinery and equipment, with gains in all categories. This was offset by a marked decrease in the export of trucks and cars, which was also related to plant closures. In addition, resources (precious metals and natural gas) and consumer goods picked up. However, declines were evident in wheat, pulp and lumber sales abroad.

Transactions in services led to the narrowing in the non-goods deficit

The deficit on services narrowed in the second quarter, mainly reflecting lower deficits on transportation, commercial services and travel. A decline in the deficit on investment income, which was largely offset by lower net current transfer receipts, also contributed to a narrowing of the non-goods trade balance. This continued the moderating trend in the non-goods trade deficit, evident over the past three years.

Capital and financial account

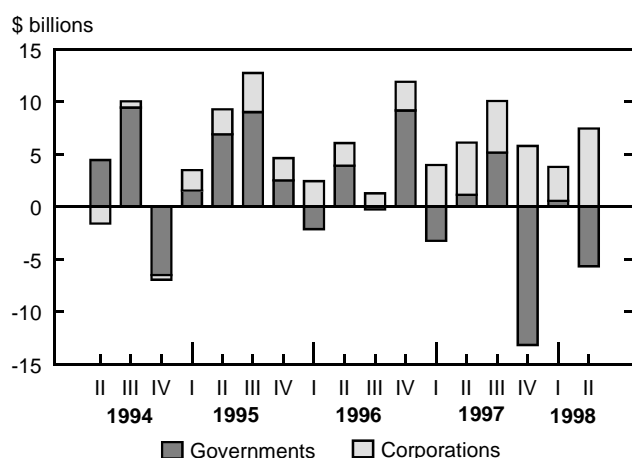
Foreign investors acquired Canadian corporate bonds at record pace

In the second quarter of 1998, a record \$7.4 billion foreign acquisition of Canadian corporate bonds coincided with significant declines in foreign holdings of government securities. In addition, non-resident investors continued buying Canadian stocks despite a modest fall in the market (as measured by the TSE composite index); this was a fourth consecutive quarter of above-average buying, coming almost exclusively from U.S. investors. The reduction in the demand for funds by Canadian governments, over the last two years, has meant that Canadian corporations have increasingly replaced governments as the major issuers in foreign markets.

Notably, overall foreign investment activity in Canadian securities was relatively flat, as acquisitions

of Canadian stocks and bonds were largely neutralized by reduced holdings of money market instruments. This disinvestment included both government and corporate instruments but was led by redemptions of federal Treasury bills. The differential between Canadian and American short-term rates, which has steadily fallen throughout the first half of 1998 to the 30 basis point level, continued to favour investment in the United States.

Foreign portfolio investment in Canadian bonds



Sharp reduction of foreign deposits at Canadian banks

Foreign currency deposits in Canadian banks were drawn down, on the heels of a significant build-up in the previous two quarters. Two-thirds of this activity consisted of the transactions of banks with their foreign affiliates, while the balance was primarily to U.S. customers.

Companies maintained significant levels of cross-border direct investment

Businesses direct investment activities both abroad and in Canada were significant — despite being scaled back from the record levels in the first quarter. Canadian investment abroad exceeded foreign investment in Canada by a narrow margin. Canadian companies injected \$4.7 billion into mainly existing foreign subsidiaries and affiliates. About 90% was invested in the United States by firms in most major industry groups, led by finance and insurance.

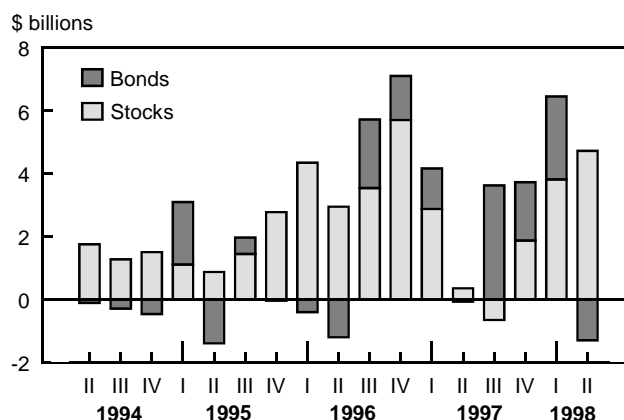
At the same time, foreign companies channelled \$4.1 billion to Canadian subsidiaries and affiliates,

about \$3 billion less than the acquisition-fuelled record outlays of the first quarter. The investment, principally from the United States, was directed mainly to the finance and insurance, as well as, service and retail industries.

Canadian investment in foreign stocks approached new high

Canadian interest in foreign stocks, which had been evident for some time, picked up in the last three quarters. Canadian investors acquired near record amounts of foreign equities in the second quarter of 1998, but sold foreign bonds. This contrasted with a significant build-up of foreign bonds over a number of quarters. Nonetheless, portfolio investment abroad outpaced Canadian foreign investment in Canadian securities in the quarter.

Canadian portfolio investment in foreign¹ bonds and stocks



¹ Reverse of balance of payment signs.

Canadian official international reserves drawn down

Canada sold \$3.5 billion of its international reserves in the second quarter, as the Canadian dollar came under downward pressure from most foreign currencies. The domestic currency closed the second quarter at just over US 68 cents, down US 2.3 cents over the quarter. The reduction of these assets stood in contrast to a record build-up of reserves in the first

quarter, which had been largely financed by issuing securities in foreign markets.

Available on CANSIM: matrix 2325-2327, 2355 and 2360-2377.

For further information on this release, contact Patrick O'Hagan (613-951-1798), Balance of Payments and Financial Flows Division. □

Balance of payments

	Second quarter 1997	Third quarter 1997	Fourth quarter 1997	First quarter 1998	Second quarter 1998	1996	1997
	Not seasonally adjusted						
	\$ millions						
Current account							
Receipts							
Goods and services	87,070	86,347	87,917	86,182	91,978	319,715	342,673
Goods	76,479	73,285	78,631	77,089	80,825	279,701	301,101
Services	10,591	13,062	9,286	9,093	11,152	40,014	41,572
Investment income	8,028	7,196	7,768	7,966	7,882	26,271	29,722
Direct investment	3,973	3,038	3,432	3,715	3,552	10,940	13,253
Portfolio investment	851	848	875	893	934	3,035	3,397
Other investment	3,204	3,310	3,462	3,358	3,396	12,296	13,072
Current transfers	891	1,052	1,131	1,856	1,181	4,448	4,828
Current account receipts	95,989	94,595	96,816	96,005	101,041	350,433	377,223
Payments							
Goods and services	83,159	81,101	85,109	87,518	89,989	287,090	327,162
Goods	70,564	68,141	73,344	73,889	77,050	237,816	276,846
Services	12,595	12,960	11,765	13,629	12,939	49,274	50,316
Investment income	14,583	15,557	14,072	15,645	14,511	54,630	58,649
Direct investment	4,362	4,820	3,106	3,958	3,505	13,286	15,962
Portfolio investment	7,224	7,310	7,519	7,432	7,530	28,870	29,070
Other investment	2,997	3,427	3,447	4,255	3,476	12,475	13,617
Current transfers	1,025	964	1,003	1,264	1,009	4,183	4,227
Current account payments	98,767	97,621	100,184	104,428	105,509	345,903	390,038
Balances							
Goods and services	3,911	5,246	2,809	-1,336	1,989	32,625	15,511
Goods	5,916	5,144	5,288	3,200	3,775	41,884	24,255
Services	-2,004	103	-2,479	-4,536	-1,786	-9,260	-8,744
Investment income	-6,555	-8,360	-6,304	-7,680	-6,629	-28,359	-28,927
Direct investment	-389	-1,782	326	-243	48	-2,346	-2,709
Portfolio investment	-6,373	-6,462	-6,644	-6,540	-6,597	-25,835	-25,673
Other investment	207	-117	14	-897	-80	-178	-545
Current transfers	-134	88	128	592	172	265	600
Current account balance	-2,778	-3,026	-3,367	-8,423	-4,468	4,530	-12,815
Capital and financial account							
Capital account	2,038	2,050	1,545	1,316	1,450	8,082	7,609
Financial account¹	-6,619	8,993	10,675	9,953	-6,034	-21,023	12,261
Canadian assets, net flows							
Canadian direct investment abroad	-4,015	-3,855	-5,419	-8,514	-4,690	-15,841	-19,426
Portfolio investment	-307	-2,984	-3,732	-6,459	-3,443	-18,562	-11,192
Foreign bonds	57	-3,630	-1,848	-2,637	1,289	-1,986	-6,702
Foreign stocks	-364	646	-1,884	-3,823	-4,732	-16,576	-4,491
Other investment	-10,002	8,070	-2,350	1,896	5,238	-37,723	-21,088
Loans	-6,769	-5,534	855	5,043	-2,295	-4,568	-21,134
Deposits	-4,233	8,268	-2,488	-2,035	3,417	-18,802	-2,788
Official international reserves	564	1,522	2,921	-6,422	3,541	-7,498	3,388
Other assets	437	3,814	-3,638	5,310	575	-6,855	-554
Total Canadian assets, net flows	-14,323	1,230	-11,501	-13,078	-2,896	-72,127	-51,706
Canadian liabilities, net flows							
Foreign direct investment in Canada	1,194	4,704	2,033	7,401	4,127	9,301	9,876
Portfolio investment	1,510	13,950	-11	7,393	798	20,216	18,743
Canadian bonds	6,107	10,078	-7,399	3,784	1,763	19,253	9,507
Canadian stocks	706	3,916	3,839	3,047	3,092	8,281	7,642
Canadian money market	-5,303	-44	3,549	562	-4,057	-7,319	1,594
Other investment	4,999	-10,890	20,154	8,237	-8,064	21,588	35,348
Loans	2,438	-1,565	-3,665	935	3,158	6,121	-951
Deposits	1,837	-9,343	23,258	6,825	-11,724	16,862	34,109
Other liabilities	725	18	561	477	502	-1,395	2,190
Total Canadian liabilities, net flows	7,704	7,763	22,176	23,031	-3,138	51,104	63,966
Total capital and financial							
Account, net flows	-4,581	11,043	12,220	11,269	-4,584	-12,941	19,870
Statistical discrepancy	7,359	-8,017	-8,853	-2,846	9,052	8,411	-7,054

¹ A minus sign denotes an outflow of capital resulting from an increase in claims on non-residents or a decrease in liabilities to non-residents.
- Nil or zero.

Current account

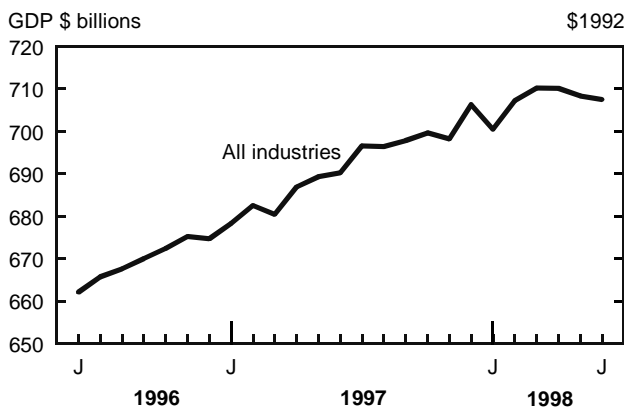
	Second quarter 1997	Third quarter 1997	Fourth quarter 1997	First quarter 1998	Second quarter 1998	1996	1997
	seasonally adjusted						
	\$ millions						
Receipts							
Goods and services							
Goods	73,748	75,732	77,665	77,570	78,223	279,701	301,101
Services	10,361	10,537	10,604	10,673	10,916	40,014	41,572
Travel	3,025	3,017	3,107	3,399	3,445	11,759	12,141
Transportation	2,088	2,110	2,075	2,010	2,060	7,778	8,323
Commercial services	4,995	5,159	5,170	5,008	5,151	19,519	20,100
Government services	252	252	253	256	259	958	1,008
Total	84,109	86,269	88,269	88,244	89,139	319,715	342,673
Investment income							
Direct investment	3,866	3,128	3,422	3,741	3,459	10,940	13,253
Interest	102	98	96	104	105	464	391
Profits	3,764	3,030	3,326	3,637	3,354	10,476	12,862
Portfolio investment	852	853	874	890	930	3,035	3,397
Interest	315	333	357	353	380	967	1,302
Dividends	537	521	518	537	550	2,067	2,095
Other investment	3,394	3,102	3,415	3,463	3,529	12,296	13,072
Total	8,112	7,083	7,711	8,094	7,918	26,271	29,722
Current transfers							
Private	505	533	509	584	548	2,049	2,082
Official	381	552	603	1,262	618	2,398	2,746
Total	886	1,085	1,113	1,846	1,166	4,448	4,828
Total receipts	93,107	94,438	97,093	98,184	98,224	350,433	377,223
Payments							
Goods and services							
Goods	66,915	70,544	73,697	72,969	74,093	237,816	276,846
Services	12,597	12,655	12,597	13,050	13,009	49,274	50,316
Travel	3,919	3,960	3,914	3,930	3,933	15,122	15,649
Transportation	2,816	2,905	2,922	3,102	2,973	11,072	11,514
Commercial services	5,717	5,646	5,618	5,870	5,938	22,497	22,576
Government services	145	143	144	148	165	583	577
Total	79,512	83,198	86,294	86,020	87,102	287,090	327,162
Investment income							
Direct investment	4,038	4,923	3,484	3,598	3,282	13,286	15,962
Interest	375	375	373	378	379	1,544	1,500
Profits	3,663	4,547	3,111	3,220	2,904	11,741	14,462
Portfolio investment	7,224	7,311	7,521	7,430	7,532	28,870	29,070
Interest	6,922	6,991	7,196	7,119	7,223	27,697	27,827
Dividends	302	320	325	311	309	1,173	1,243
Other investment	2,997	3,427	3,447	4,255	3,476	12,475	13,617
Total	14,259	15,660	14,452	15,283	14,291	54,630	58,649
Current transfers							
Private	479	441	474	493	491	1,707	1,834
Official	601	561	536	668	571	2,476	2,393
Total	1,081	1,002	1,010	1,160	1,063	4,183	4,227
Total payments	94,852	99,861	101,756	102,462	102,455	345,903	390,038
Balances							
Goods and services							
Goods	6,834	5,189	3,968	4,601	4,130	41,884	24,255
Services	-2,236	-2,117	-1,993	-2,377	-2,093	-9,260	-8,744
Travel	-894	-943	-807	-531	-488	-3,363	-3,508
Transportation	-728	-796	-847	-1,092	-913	-3,295	-3,191
Commercial services	-722	-488	-448	-862	-786	-2,977	-2,477
Government services	108	109	109	108	94	376	431
Total	4,597	3,071	1,974	2,224	2,037	32,625	15,511
Investment income							
Direct investment	-172	-1,795	-62	143	177	-2,346	-2,709
Interest	-274	-277	-277	-273	-273	-1,080	-1,109
Profits	102	-1,518	215	416	450	-1,265	-1,600
Portfolio investment	-6,372	-6,458	-6,646	-6,540	-6,602	-25,835	-25,673
Interest	-6,606	-6,658	-6,839	-6,766	-6,843	-26,729	-26,525
Dividends	235	201	193	226	241	894	852
Other investment	397	-324	-32	-792	52	-178	-545
Total	-6,147	-8,577	-6,741	-7,188	-6,372	-28,359	-28,927
Current transfers							
Private	26	92	35	91	57	343	248
Official	-220	-9	68	594	47	-78	352
Total	-195	83	103	686	104	265	600
Current account	-1,744	-5,423	-4,664	-4,278	-4,232	4,530	-12,815

Gross domestic product by industry at factor cost

June 1998

Total economic activity edged down 0.1% in June — the third straight small decline. This was the first time since the beginning of 1991 that the economy has not grown for three consecutive months. However, the economy still expanded in the second quarter of 1998, but at a slower pace than in the previous quarter.

Economy edged down for a third consecutive month



The June decline reflected the direct and indirect effects of a strike in the auto sector in the United States. Excluding the manufacturing of autos and parts (the two industries most directly affected by the strike), economic activity advanced 0.1% in June.

The strike also sideswiped wholesalers, while the construction industry continued to be troubled by labour turmoil of its own. Weaker department store sales led a widespread slump in retail sales. On the other hand, output at electric and gas utilities surged, while the mining sector bounced back from a weak performance in May. The finance industries also rebounded in June, while providers of business services returned to previous growth rates after a pause in April and May.

Strike in the auto industry induced further slowdown in manufacturing

Total manufacturing output fell 1.1% in June — the sharpest of three consecutive declines. Production of automobiles and parts plunged 9.9%, as strike action by GM workers at two parts plants in the United States had a ripple effect on the tightly integrated North American automotive industry. Output of beverages

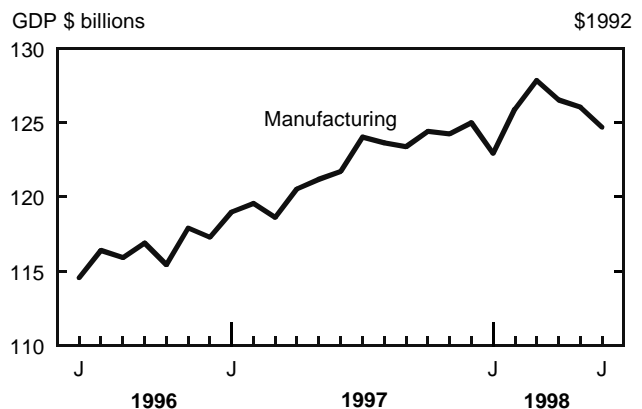
Note to readers

The gross domestic product (GDP) of an industry is the value added by labour and capital in transforming inputs purchased from other producers into outputs. Monthly GDP by industry is valued at 1992 prices. The estimates presented here are seasonally adjusted at annual rates.

In December 1997, monthly GDP estimates by industry at 1992 prices were released for the first time, and the data were made available from January 1992. Historical estimates of GDP by industry at 1992 prices are now available from January 1961 in CANSIM matrices 4677-4681. Historical data from 1961 to 1992 will be published in Gross domestic product by industry (15-512-XPB, \$60).

and paper and allied products also declined in June. These drops were partly offset by increased growth in the electrical and electronic products, fabricated metal and other manufacturing industries. June's slowdown in manufacturing was concentrated in 10 of 22 major industry groups, which accounted for 38% of total manufacturing output. Excluding the auto and parts industries, manufacturing was flat in June.

U.S. auto strike pulls down manufacturing



Output of automobiles fell 11.6% in June, while production of parts dropped by 8.7%. Shutdowns at parts plants generally occurred later in the month, as they beefed up inventories before curtailing output. By the end of June, over 12,000 Canadian GM auto workers were laid off because of the strike, not counting those involved elsewhere in the supply and distribution chain. The strike was resolved at the end of July.

Manufacturers of beverages curtailed output by 6% in June after a significant build-up in production that culminated in a sharp increase in May, as beer sales

surged because of a warmer spring and a price war in Quebec.

Production of paper and allied products fell 2.2% in June, after a growth spurt in May. Output of newsprint in particular dropped sharply, but producers of paperboard and building board also experienced declines. Papermakers had a brief respite from strike activity in May (and a corresponding increase in output), but the industry now faces an even larger strike that began in mid-June. This coincided with weaker exports of these products in June.

Output in the electronics industry recovered somewhat from a setback in May, although production levels remained below April's all-time high. The office and business machine industry showed the most substantial increase in June, as manufacturers mounted a strong quarter-end push and took advantage of lower-priced components from Asian suppliers. The major appliance industry and the communications equipment industry also reported substantial gains in June. Makers of telecommunications equipment reported the only significant decline, cutting output for the second consecutive month.

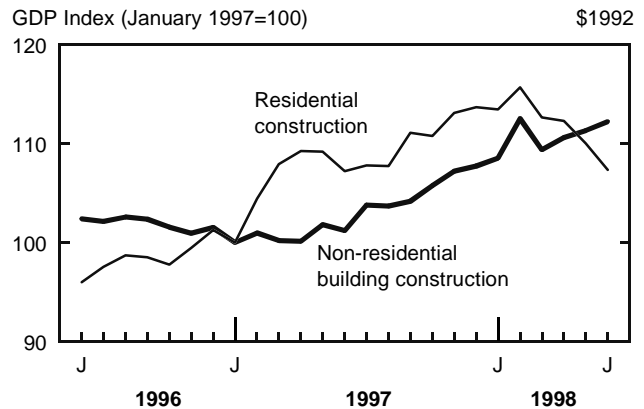
After a flat performance in May, manufacturers of other goods increased their output in June (+2.5%). Makers of scientific equipment contributed the most to this increase in output. The musical instrument and sound recording industry also fared well in June, advancing for the fourth consecutive month.

Output in the fabricated metal products industry picked up in June after a flat May. Increased production by the metal stamping industry reversed two consecutive months of decline. Makers of power boilers also experienced higher output in June on the strength of new contracts, effectively returning to 1997 levels of activity.

Construction weakened by strikes

Total construction activity fell 0.3% in June, the fourth decline in as many months. As in May, the overall decline was sparked by a drop in residential building activity, as strikes by drywallers and trim carpenters in Southern Ontario spread to other trades in that region. Looking ahead, for the first time in over three years, housing starts were down for a fourth consecutive month in July.

Builders' strike still a drag on residential construction

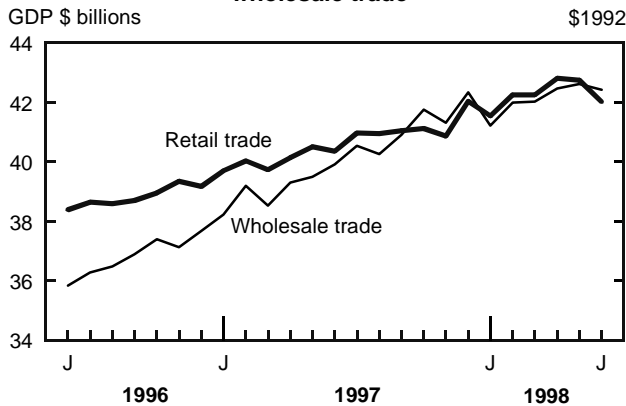


However, work on non-residential building projects recorded another gain in June, the 9th advance in 10 months. The pace of growth in industrial projects (which encompasses factories and other industrial buildings) continued to outpace activity on commercial and institutional projects.

Retailers experienced a widespread decline

Retail sales tumbled 1.7% in June, after edging down slightly in the previous two months. The drop was the largest in almost eight years, coming second only to a 5.3% decline in January 1991, when the GST was introduced. While declines were broad-based, department and clothing stores were hardest hit. Service stations, general merchandise stores, auto parts stores and motor vehicle dealers also experienced sagging demand. Those retailers that did enjoy increased sales (such as furniture and beverage, drug and tobacco stores) experienced relatively small gains.

**Waning demand, auto strike, slow retail and
wholesale trade**



**Auto strike, warmer weather, reduce wholesale
trade ...**

Wholesale sales fell 0.5% in June. Most of the decline could be attributed to a significant reduction in automobile wholesales (most of Canada's sizeable international trade in automobiles was handled by wholesalers). Distribution of agricultural and chemical supplies came down from high May sales, as the unseasonably warm spring brought some business forward. Increased sales of computers and software partly offset these declines, as did higher sales of food.

... But weather gave utilities a boost

Electrical utilities boosted output by 1.8% in June, bringing production back in line with year-earlier levels. The June increase is the latest in a series that has seen the industry gradually recover from January's ice storm. The gas distribution industry also returned to more seasonable levels, after unusually warm weather had caused demand to sag in May.

Finance bounced back

The finance industries retraced most of a significant May decline, rising 1.3% in June. Activity at banks and stock exchanges was propelled by a significant rebound in the volume of shares traded. Banking activity has fluctuated in a fixed range for several months, and was essentially at levels achieved in September 1997.

Business services resumed upward course

Business service activity picked up again (+1.0%) in June, after pausing in the previous two months. Providers of computer services, miscellaneous business services and architectural, engineering and scientific services all returned to previous patterns of growth after slowing in either April or May.

Other industries

Increased output of oil and gas buoyed the mining sector (+0.9%) in June — despite continued weakness in gold mining and drilling activity. Grain storage facilities had another disappointing month, as trade in wheat and other grains remained depressed. Telephone companies continued to benefit from an increase in business arising from a flurry of recent promotions, especially in the long distance market.

Available on CANSIM: matrices 4677-4681.

The June 1998 issue of *Gross domestic product by industry* (15-001-XPB, \$15/\$145) is scheduled for release in early September.

For analytical information on this release, contact Richard Evans (613-951-9145; evanric@statcan.ca). For information regarding the purchase of data, contact Kim Lauzon (613-951-9417, lauzonk@statcan.ca), Industry Measures and Analysis Division. □

Gross domestic product at factor cost by industry, at 1992 prices


	Jan. 1998 ^r	Feb. 1998 ^r	Mar. 1998 ^r	Apr. 1998 ^r	May 1998 ^r	June 1998 ^p	May 1998 to June 1998	June 1998	June 1997 to June 1998
seasonally adjusted									
	month-to-month % change						\$ change ¹	\$ level ¹	% change
All industries	-0.8	1.0	0.4	0.0	-0.3	-0.1	-790	707,487	2.5
Goods-producing industries	-1.7	1.9	0.9	-0.6	-0.5	-0.4	-884	235,055	2.0
Agriculture	-1.9	-0.7	0.1	0.2	0.2	-0.6	-72	11,999	-2.8
Fishing and trapping	8.5	0.5	2.4	2.0	1.8	-4.6	-43	900	-3.7
Logging and forestry	-1.2	-0.4	-1.8	-2.3	-5.5	-1.0	-38	3,672	-12.5
Mining, quarrying and oil wells	-1.5	-0.6	0.4	-0.1	-0.9	0.9	263	28,907	5.5
Manufacturing	-1.7	2.4	1.5	-1.0	-0.4	-1.1	-1361	124,662	2.4
Construction	2.7	1.4	-1.1	-0.8	-0.8	-0.3	-137	40,261	3.4
Other utilities	-9.7	4.6	2.8	0.9	0.3	2.1	504	24,654	-1.1
Services-producing industries	-0.4	0.5	0.2	0.3	-0.1	0.0	94	472,432	2.8
Transportation and storage	-2.8	0.9	0.7	-0.6	-0.8	0.3	81	29,862	1.1
Communications	-0.2	-0.2	0.3	1.2	-0.1	0.6	146	26,276	5.9
Wholesale trade	-2.7	1.9	0.1	1.0	0.4	-0.5	-197	42,419	6.3
Retail trade	-1.2	1.7	0.0	1.3	-0.1	-1.7	-734	42,016	4.1
Finance and insurance	-1.4	0.1	0.7	1.0	-1.6	1.3	478	36,727	2.2
Real estate and insurance agent	0.1	0.4	0.2	0.2	0.3	0.1	85	75,865	1.9
Business services	1.2	1.2	0.1	-0.6	0.4	1.0	427	41,943	8.7
Government services	-0.2	-0.1	0.1	0.0	-0.1	-0.2	-74	40,277	-0.6
Education	-0.1	0.0	-0.1	0.2	0.1	0.0	10	40,538	-0.1
Health and social services	0.6	-0.2	0.1	-0.2	-0.2	-0.1	-67	48,862	1.0
Accommodation and food	2.6	0.0	-1.0	0.8	-1.6	-0.2	-34	18,999	2.9
Other services	0.3	0.3	0.2	-0.3	0.5	-0.1	-27	28,648	1.8
Other aggregations									
Industrial production	-2.7	2.2	1.5	-0.6	-0.4	-0.3	-594	178,223	2.4
Non-durable manufacturing	-1.1	1.4	1.0	-0.2	0.3	-0.6	-368	56,316	2.4
Durable manufacturing	-2.1	3.2	1.9	-1.7	-1.0	-1.4	-993	68,346	2.4
Business sector	-1.0	1.2	0.5	0.0	-0.3	-0.1	-597	581,710	3.1
Non-business sector	0.1	-0.1	0.0	0.1	-0.1	-0.2	-193	125,777	-0.2



^r Revised figures.

^p Preliminary figures.

¹ Millions of dollars at annual rate.



Catalogue 11-001E (PDF) 11MB (15,584,000 bytes)	
 The Daily	
Statistics Canada	
Thursday, June 3, 1997	
For release at 8:30 a.m.	
MAJOR RELEASES	
• Urban transit, 1995 Despite the emphasis on taking urban transit, Canadians are using it less and less. In 1995, each Canadian took an average of about 4.5 trips on some form of urban transit, the lowest level in the past 25 years.	2
• Productivity, hourly compensation and unit labour cost, 1995 Growth in productivity among Canadian businesses was notably weak again in 1995 accompanied by sluggish gains in employment and slow modest growth during the year.	4
OTHER RELEASES	
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Editor: Duncan Currie (613-951-1103, currdun@statcan.ca)

Head of Official Release: Chantal Prévost (613-951-1088, prevcha@statcan.ca)

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RELEASE DATES: SEPTEMBER 1998

(Release dates are subject to change.)

Release date	Title	Reference period
2	Help-wanted Index	August 1998
4	Building permits	July 1998
4	Labour Force Survey	August 1998
8	Industrial capacity utilization rates	Q 2 1998
8	Radio listening	Autumn 1997
9	Field crop reporting series: July 31 grain stocks	July 1998
9	Perspectives on labour and income	Autumn 1998
9	New Housing Price Index	July 1998
11	New motor vehicle sales	July 1998
15	Canadian social trends	Autumn 1998
16	Monthly Survey of Manufacturing	July 1998
16	Travel between Canada and other countries	July 1998
17	Canadian international merchandise trade	July 1998
18	Consumer Price Index	August 1998
18	Wholesale trade	July 1998
21	Retail trade	July 1998
22	Employment Insurance	July 1998
23	Canada's international transactions in securities	July 1998
23	Composite Index	August 1998
25	Employment, earnings and hours	July 1998
28	National tourism indicators	Q 2 1998
29	Industrial Product Price Index	August 1998
29	Raw Materials Price Index	August 1998
30	Real gross domestic product at factor cost by industry	July 1998

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