



The Daily

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Releases

Canada's international transactions in securities

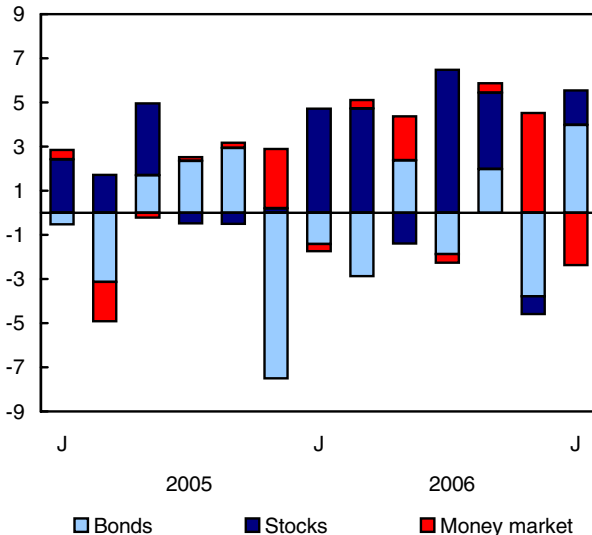
July 2006

Canadian investors continued to invest heavily in foreign securities in July, acquiring \$6.3 billion worth. Half went to foreign bonds, while the other half was split between foreign shares and short-term paper.

After a brief pause in June, foreign purchases of Canadian securities picked up speed. Foreign investors bought \$3.2 billion of Canadian securities, mainly bonds.

Foreign portfolio investment in Canadian securities

\$ billions



Robust acquisitions of foreign debt securities

Building on back-to-back record purchases in the first two quarters this year, Canadian investors carried on with heavy acquisitions of foreign bonds by buying \$3.0 billion worth in July.

July's acquisitions of foreign bonds were mainly in overseas bonds, totalling \$2.9 billion. On the other hand, purchases of US bonds slowed down significantly, from \$2.7 billion in June to only \$151 million worth in July.

Canadian investors bought \$1.7 billion of foreign money market paper in July, after selling off \$864 million the month before. This was the highest level of acquisition since November 2005. The amount was

Related market information

In July, Canadian short-term **interest rates** decreased 17 basis points to 4.15%. Meanwhile, US rates continued upward, increasing another 16 basis points to 4.95%. The resulting differential between the two rates widened further to a 10-year high of 0.80%, in favour of investing in the United States.

Meanwhile, the long-term interest rate differential between Canada and the United States remained stable at 0.66% as rates in both countries fell in July. Canadian rates dropped 25 basis points to 4.38%, while US rates had a similar decline of 21 basis points to 5.04%.

Canadian **stock prices** increased 1.9% in July with the S&P/TSX Composite index ending the month at 11,831.0. US stock prices also increased with the Standard and Poor's Composite Index finishing at 1,276.7, up 0.5% from June.

The **Canadian dollar** fell another US 1.22 cents in July. It closed the month at US 88.37 cents against the American dollar.

Definitions

The data series on international security transactions cover portfolio transactions in stocks, bonds and money market instruments for both Canadian and foreign issues.

Stocks include common and preferred equities, as well as warrants.

Debt securities include bonds and money market instruments.

Bonds have an original term to mature of more than one year.

Money market instruments have an original term to maturity of one year or less.

almost equally split between US government paper, other US paper and overseas paper.

Purchases of foreign equities resume

After a brief pull-back in June from consecutive months of strong purchases earlier this year, Canadians resumed their investment in foreign equities, buying \$1.6 billion in July. Canadian pension funds were particularly active in acquiring foreign shares. On a regional basis, Canadians bought \$3.2 billion and \$1.8 billion respectively from the United States and European Union countries, while selling off \$3.4 billion worth of foreign shares to all other regions.

New issues of Canadian bonds come to the spotlight

Foreign investors added \$4.0 billion Canadian bonds to their portfolios, the highest value since November 2004.

July's purchases were concentrated in corporate bonds and provincial government bonds. Investment in

federal government and federal government enterprise bonds slowed down to less than half a billion.

Foreign investors purchased \$884 million of outstanding Canadian bonds in July, after selling off \$1.3 billion in June. However, the principal investment in July came from a sizeable \$2.8 billion in net new issues. Canadian provinces and corporations raised funds by issuing bonds mainly in the US market.

American investors alone acquired \$8.0 billion worth of Canadian bonds, the second highest on record. This more than offset a \$6.0 billion sell-off by European investors. Investors in other foreign countries were also active in acquiring Canadian bonds in the month. July's investment in Canadian bonds was mainly US dollar denominated, as a \$1 billion increase in bonds denominated in Canadian dollars was offset by the similar reduction in bonds denominated in other foreign currencies.

A big sell-off of Canadian paper after record purchases

Foreign investors sold off \$2.4 billion in Canadian money market paper in July, after a record purchase of \$4.5 billion the month before. This was the highest sell-off of Canadian short-term paper in the past five years. Three-quarters of the divestment was in federally issued paper, both government t-bills and paper issued by federal enterprises.

The swing came largely from American investors who sold off \$1.8 billion in Canadian paper in July after a near record purchase of \$3.8 billion the month before. In July, the differential on short-term rates between the United States and Canada climbed to its highest value in almost a decade, still favouring investment in the United States.

Demand for Canadian shares remains strong

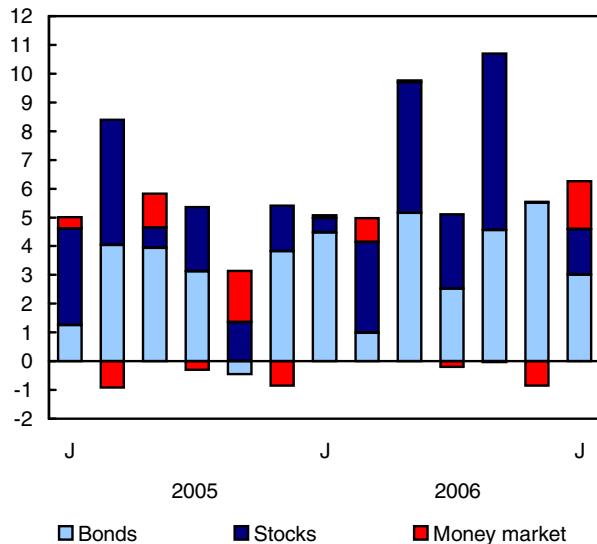
Non-residents bought \$1.6 billion in Canadian equities in July, almost all outstanding shares. Shares of Canadian manufacturing, mining and investment intermediaries were top picks.

Purchases of Canadian shares have been strong since January 2006. Heavy purchases have occurred in five out of the past seven months amounting to \$18.6 billion so far in 2006.

Geographically, American and British investors bought \$1.6 billion and \$1.0 billion respectively of Canadian shares, while investors from other foreign countries sold off some of their holdings.

Canadian portfolio investment in foreign securities

\$ billions Reverse of balance of payments signs



Available on CANSIM: tables 376-0018 to 376-0029, 376-0042, 376-0058 and 376-0063.

Definitions, data sources and methods: survey number 1535.

The July 2006 issue of *Canada's International Transactions in Securities* (67-002-XIE, free) will soon be available.

Data on Canada's international transactions in securities for August will be released on October 19.

For general information or to order data, contact Client Services (613-951-1855; infobalance@statcan.ca). To enquire about the concepts, methods or data quality of this release, contact Barry Mersereau (613-951-9052), Balance of Payments Division.

□

Canada's international transactions in securities

| | April 2006 | May 2006 | June 2006 | July 2006 | January to July 2005 | January to July 2006 |
|--|---------------|----------------|---------------|---------------|----------------------------|----------------------------|
| | \$ millions | | | | | |
| Foreign investment in Canadian securities | 4,192 | 5,861 | -81 | 3,139 | 6,893 | 21,242 |
| Bonds (net) | -1,871 | 1,979 | -3,777 | 3,980 | 2,453 | -1,594 |
| Outstanding | -821 | 2,622 | -1,345 | 884 | -1,223 | 2,896 |
| New issues | 1,283 | 1,692 | 3,886 | 4,243 | 20,209 | 19,548 |
| Retirements | -2,623 | -2,663 | -4,704 | -1,432 | -17,050 | -23,511 |
| Change in interest payable ¹ | 290 | 328 | -1,615 | 285 | 518 | -527 |
| Money market paper (net) | -419 | 438 | 4,531 | -2,400 | -528 | 4,163 |
| Government of Canada | -2,416 | -449 | 3,419 | -1,362 | 869 | 3,248 |
| Other | 1,997 | 887 | 1,112 | -1,038 | -1,397 | 915 |
| Stocks (net) | 6,481 | 3,445 | -835 | 1,559 | 4,969 | 18,672 |
| Outstanding | 6,288 | 2,722 | -1,097 | 1,611 | 2,397 | 20,071 |
| Other transactions | 193 | 723 | 262 | -52 | 2,572 | -1,399 |
| Canadian investment in foreign securities | -4,894 | -10,654 | -4,680 | -6,251 | -26,073 | -46,296 |
| Bonds (net) | -2,525 | -4,554 | -5,512 | -3,007 | -13,134 | -26,211 |
| Stocks (net) | -2,587 | -6,148 | -31 | -1,581 | -11,712 | -18,545 |
| Money market paper (net) | 218 | 47 | 864 | -1,664 | -1,228 | -1,540 |

1. Interest accrued less interest paid.

Note: A minus sign indicates an outflow of money from Canada, that is, a withdrawal of foreign investment from Canada or an increase in Canadian investment abroad.



Study: Competing for the retail drug market

2005

Pharmacies still dominate the retail drug market. However, between 1998 and 2005, they lost market share to food and general merchandise stores, according to a new study.

Pharmacies accounted for 84.0% of sales of prescription and over-the-counter drugs in 1998. However, by 2005, this share had tumbled to 76.9%. At the same time, the proportion of drug sales in both food stores and general merchandise stores edged up.

Pharmacies includes drug stores, cosmetics, beauty supplies and perfume stores, optical goods stores and other health and personal care stores.

Drug sales refers to sales of prescription and over-the-counter drugs, vitamins, herbal remedies and other health supplements.

In Quebec, any store incorporated as a pharmacy must be owned and operated by a pharmacist. Consequently, in contrast to the situation in other provinces, Quebec pharmacies located in food and general merchandise stores are included in the pharmacies trade group only. In other provinces, the sales of pharmacies located in another store are included in the host store's sales. As a result, the drug sales of food and general merchandise stores are underestimated at the national level.

For every \$100 in drug purchases in 2005, consumers spent \$14.10 in food stores, up from \$10.30 in 1998. In general merchandise stores, they spent \$9.00 on drugs in 2005, up from \$5.50.

During this period, drug sales increased at an average annual rate of 6.5% in pharmacies. However, this was only half the growth rate of 13.8% for drug sales in food and general merchandise stores.

Sales of prescription and over-the-counter drugs have exploded in Canada during the past decade or so, with the nation's greying population and the millions of prescriptions now being written each year by physicians.

In 2005, retail sales of drugs surpassed the \$20-billion mark for the first time.

This boom in drug sales has been accompanied by an emerging phenomenon in the retail market — the appearance of more and more pharmacy outlets in food and general merchandise stores.

The article "Competing for the retail drug market", published today in the online *Analysis in Brief* series, looked at this phenomenon, focusing on the competition between pharmacies and food and general merchandise stores between 1998 and 2005 using data from the Quarterly Retail Commodity Survey. It also compared the situations in Canada and the United States.

The growth of drug sales outpaced that of all retail commodities combined. Drug sales grew at an annual average rate of 7.9% between 1998 and 2005, compared with growth of 5.3% for all retail commodities combined.

In the United States, the demand for prescription and over-the-counter drugs grew at about the same pace as in Canada. In contrast to the situation in Canada, however, American pharmacies captured an increasing share of the market for health and personal care products. Food and general merchandise stores lost market share.

The increase in drug sales is probably not entirely the result of rising drug costs. Demand appears to be responsible for most of the growth. The number of prescriptions filled by Canadian pharmacies, including new prescriptions and renewals, has risen sharply during the past decade.

Relative to other products, drugs accounted for a rising share of sales for retailers that sell them.

Definitions, data sources and methods: survey number 2008.

The analytical article "Competing for the retail drug market" (11-621-MIE2006048, free) is now available online in the *Analysis in Brief* series.

For more information, or to enquire about the concepts, methods or data quality of this release, contact Serge Grenier (613-951-3566), Distributive Trades Division. ■

Study: Importance of knowledge capital for innovation in successful companies

1992 to 1998

This new report, released in *The Canadian Economy in Transition* series, summarizes the findings of the research program at Statistics Canada that has explored the link between knowledge capital and business performance.

This program came about in response to an earlier set of studies that examined the amount of competitive restructuring that occurs in industrial populations. These earlier studies paint a dynamic picture of the competitive process by drawing attention to the pervasiveness of growth and decline within many industries.

Research described in this new report complements these earlier studies by linking competitive outcomes to the adoption of corporate innovation strategies. It describes the results from a set of surveys that examine the strategies and activities that characterize firms at different stages of this growth and decline process.

While investments in physical capital, such as machinery, equipment and production facilities, are

often seen as hallmarks of growing companies, all these surveys point to the importance of developing intangible, knowledge capital-organizational capabilities associated with the growth process.

In young small firms, this knowledge capital often involves general business skills or basic capabilities related to management, financing and marketing that young firms require if they are to survive their early years. Successful entrants report a strong emphasis on "getting the fundamentals right" across a wide range of strategic areas.

In contrast, many small firms that have exited the marketplace report that their demise was due to deficiencies in general skills, notably in financial and general management.

As young companies grow and mature, specialized competencies related to innovation and technology management emerge as the core forms of knowledge capital. Innovation capabilities related to research and development and advanced technology use are often what set high-growth firms apart from low-growth firms.

Innovation capabilities also discriminate between more and less successful firms when examining more comprehensive measures of business performance, such as changes in productivity, profitability and market share.

Firms build advanced innovation capabilities by developing knowledge capital in areas that complement their core research and development and technology capabilities. Successful innovators support their innovation strategies by developing a network of complementary skills, including those related to human resource management, marketing and production.

These studies on knowledge capital also focus on the link between innovation and the competitive environment. Innovation involves a great deal of market specificity, as innovators pursue different sets of strategies and activities in different competitive environments. These studies show that there is no single path to innovation that works in all markets.

A core finding runs through many of these studies: Innovation results from an active, driven process. Innovative firms make substantial investments

in developing their innovation capabilities, often emphasizing a range of complementary business skills.

The research paper "Innovation capabilities: The knowledge capital behind the survival and growth of firms" is now available from the *Publications* module of our website as part of the *Canadian Economy in Transition* (11-622-MIE2006013, free) series.

More studies related to innovation, firm strategies and performance and industrial competition dynamics are available free of charge in the analytical series *Update on Economic Analysis* (11-623-XIE, free) from the *Publications* module of our website.

For more information, or to enquire about the concepts, methods or data quality of this release, contact John Baldwin (613-951-8588) or Guy Gellatly (613-951-3758) of the Micro-economic Analysis Division. ■

Spending on research and development 2006 intentions

Total spending on research and development (R&D) in Canada is projected to increase again this year at a modest pace, according to preliminary estimates.

R&D spending is projected to reach \$28.4 billion in 2006, up 4.4% from \$27.2 billion in 2005.

Although this increase would be slightly below the 4.5% gain in 2005, it is well above the sluggish growth rate of 1.6% in 2002.

As has been the case since 2004, increases in R&D spending in the higher education sector continue to account for a major proportion of the overall growth of \$1.2 billion.

R&D spending by higher education institutions is expected to increase by 10%. This would account for 84% of the estimated overall growth. R&D spending by business enterprises is expected to contribute only 16% of total growth.

The value of the federal government's performance of R&D is expected to decline from \$2.2 billion to about \$2.1 billion.

The federal government is projected to be the second largest funder of R&D (behind business enterprises) in 2006, accounting for just over 18% of funding for R&D. Business enterprises are expected to account for 47% of the total funding.

Figures on provincial distribution of R&D spending are available up to 2004. That year, three provinces recorded major increases in their expenditures on R&D: Manitoba (+14.1%), Alberta (+12.1%), and British Columbia (+11.9%). These gains were due mainly to substantial growth in R&D performance by business enterprises within these provinces.

In 2004, business enterprises accounted for more than 50% of R&D performance in Quebec, Ontario and British Columbia. On the other hand, universities in the Atlantic provinces, Manitoba, Saskatchewan, and Alberta were the dominant R&D performers in those provinces.

Definitions, data sources and methods: survey numbers, including related surveys, 4201, 4204, 4208, 4209, 4210, 4212 and 5109.

The service bulletin *Science Statistics: "Total spending on research and development in Canada, 1990 to 2006, and provinces, 1990 to 2004"*, Vol. 30, no. 7 (88-001-XIE, free) is now available. The working paper "Estimates of Canadian research and development expenditures, Canada, 1995 to 2006, and by province 1995 to 2004" (88F0006XIE2006009, free) are available from the *Publications* module of our website.

For more detailed information, or to enquire about the methods, concepts or data quality of this release, contact Janet Thompson, (613-951-2580; janet.thompson@statcan.ca) or Louise Earl, (613-951-2880; louise.earl@statcan.ca), Science, Innovation and Electronic Information Division. ■

Monthly Survey of Large Retailers

July 2006

Data for the Monthly Survey of Large Retailers are now available for July.

Available on CANSIM: table 080-0009.

Definitions, data sources and methods: survey number 5027.

A data table is also available in the *Summary tables* module online.

Data for the group of large retailers for August will be released on October 23.

For general information or to order data, contact Client Services (toll-free 1-877-421-3067; 613-951-3549; retailinfo@statcan.ca). To enquire about the concepts, methods or data quality of this release, contact Wendy Gibbard (613-951-0353), Distributive Trades Division. ■

Steel pipe and tubing

July 2006

Data on production and shipments of steel pipe and tubing are now available for July.

Available on CANSIM: table 303-0046.

Definitions, data sources and methods: survey number 2105.

The July 2006 issue of *Steel, Tubular Products and Steel Wire* (41-019-XIE, free) will soon be available.

For more information, or to enquire about the concepts, methods or data quality of this release, contact the dissemination officer (toll-free 1-866-873-8789; 613-951-9497; manufact@statcan.ca), Manufacturing, Construction and Energy Division. ■

New products

Analysis in Brief: "Competing for the retail drug market", no. 48
Catalogue number 11-621-MIE2006048
(free).

The Canadian Economy in Transition: "Innovation Capabilities: The Knowledge Capital Behind the Survival and Growth of Firms", no. 13
Catalogue number 11-622-MIE2006013
(free).

New Motor Vehicle Sales, July 2006, Vol. 78, no. 7
Catalogue number 63-007-XIE
(free).

Canada's Balance of International Payments,
Second quarter 2006, Vol. 54, no. 2
Catalogue number 67-001-XIE
(free).

Canada's International Investment Position, Second
quarter 2006, Vol. 4, no. 2
Catalogue number 67-202-XIE
(free).

Science Statistics, Vol. 30, no. 7
Catalogue number 88-001-XIE
(free).

**Science, Innovation and Electronic Information
Division Working Papers : "Estimates
of Canadian Research and Development
Expenditures, Canada, 1995 to 2006, and by
Province 1995 to 2004"**, Vol. 2006, no. 9
Catalogue number 88F0006XIE2006009
(free).

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

MAJOR RELEASES

- **Urban transit, 1995** 2
Despite the emphasis on taking urban transit, Canadians are using it less and less. In 1995, each Canadian took an average of about 20 trips on some form of urban transit, the lowest level in the past 25 years.
- **Productivity, hourly compensation and unit labour cost, 1995** 4
Growth in productivity among Canadian businesses was notably weak again in 1995, accompanied by sluggish gains in employment and slow economic growth during the year.

OTHER RELEASES

- **Help-wanted index, May 1997** 3
- **Short-term Expectations Survey** 2
- **Steel primary forms, week ending May 31, 1997** 12
- **Egg production, Apr. 1997** 12

PUBLICATIONS RELEASED 11



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