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Friday, March 6, 1987

OVERVIEW

■ Expansion of Gross Domestic Product Slows

In 1986, GDP expanded by 3.1%, down from an average rate of about 4% in the previous three years. Most of the growth in 1986 occurred in the first two quarters.

■ Current Account Registers Sizeable Deficit

The record deficit (\$8.8 billion) in 1986 follows a relatively small deficit in 1985 and surpluses in the four previous years.

■ Net Sales of Outstanding Canadian Bonds Remain High

In December, net bond sales to non-residents totalled \$1.3 billion, with Japanese investors accounting for more than \$1 billion of net sales for the third consecutive month.

■ Gross Domestic Product at Factor Cost Rallies

Following declines in October and November, real GDP rose 1.2% in December, the largest gain recorded since April 1986.

■ Raw Materials Price Index Continues Rising Trend

In January, increasing prices for mineral fuels and wood products helped to push the RMPI up 2.6% during the month.

■ Industrial Product Price Increases Remain Low

In January, the index rose 0.2% on a monthly basis, but was 0.9% lower than its level in January 1986.

Expansion of Gross Domestic Product Slows

In 1986, Gross Domestic Product, at 1981 prices, expanded by 3.1%, compared to an average rate of about 4% in the previous three years of the current expansion. Growth occurred largely in the first half of the year with marginal increases in the second half of the year.

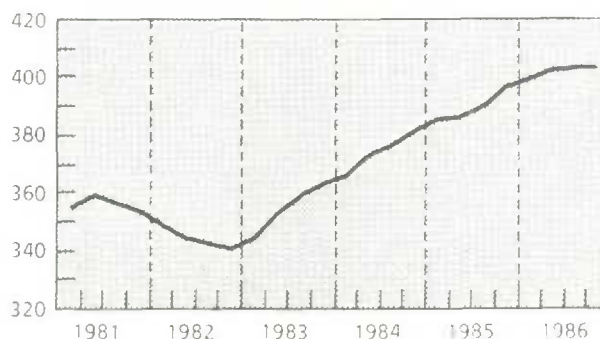
The gain in real GDP reflected growth of about 3% in both final domestic demand and in exports. There was considerable divergence in the growth trends by component, however, partly reflecting large declines in energy and other resource prices during the year.

While consumer spending and housing demand posted solid gains in 1986, business investment in plant and equipment flattened out. Exports grew less rapidly than imports, while lower prices received for merchandise exports were a major factor in reducing the overall rate of price increase in GDP to 2.8%, the lowest in over 20 years.

(continued on page 2)

Gross Domestic Product

(Billions of 1981 dollars)

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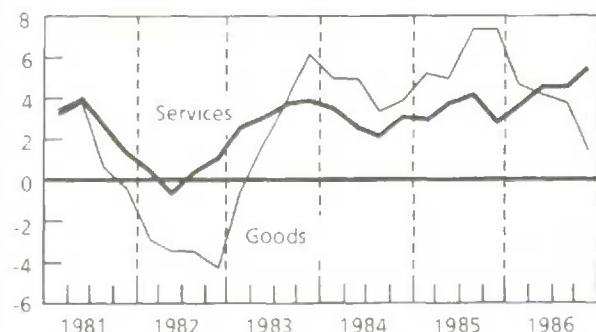
Canada

... Gross Domestic Product

Personal Expenditure

The volume of personal expenditure on goods and service rose by 4.0%, compared to 5.0% in 1985. Spending on services rose 4.6%, in contrast with a 3.5% increase for goods. The strength in services was partly related to the large increase of tourism in Canada associated with Expo '86. The slower growth in expenditure on goods largely originated in automotive products, up 3.1%, following three years of growth of well over 10% per year. The solid growth in housing demand was reflected in higher purchases of furniture and appliances, while semi-durable goods posted a 5.4% gain. Slow growth in energy demand served to restrain the increase in non-durable goods to 1.6%.

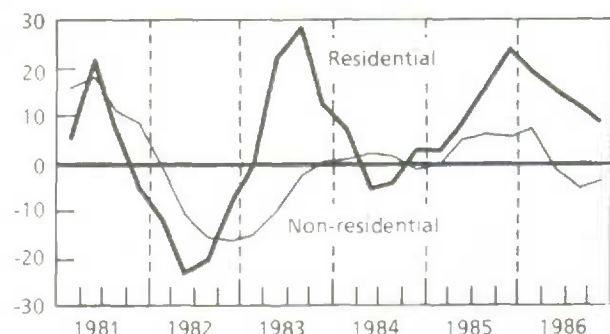
Personal Expenditure Growth Rate
(% change, previous year)



Business Expenditure on Fixed Capital

Residential construction rose by 13.2% in volume, comparable to the gain in 1985. Most of the increased house building activity occurred in Ontario and Quebec, and was accompanied by a sharp increase in house prices. Business investment in plant and equipment, in real terms, fell 0.8% following a 4% gain in 1985. A sharp cutback in non-residential construction was largely offset by a 5.4% increase in machinery and equipment. The drop in non-residential construction was particularly severe in the energy sector, at a time of declining oil prices. Increased investment in the manufacturing and services industries was most evident in central Canada.

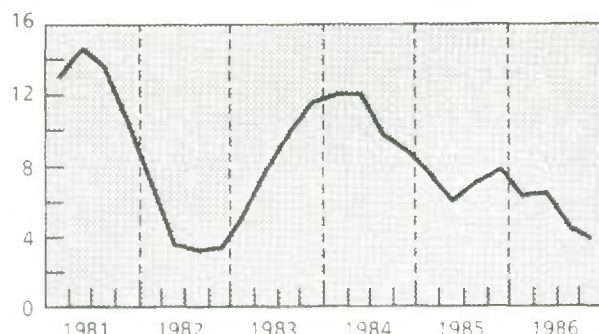
Business Investment in Fixed Capital
(% change, previous year)



Net Domestic Income

Total labour income rose by 5.7% in 1986. Wages and salaries in the services-producing industries rose 6.1%. Weak employment limited wage and salary growth in the goods-producing industries to 4.3%. Personal income rose 6.9% for the year. Increased income taxes restrained the growth in disposable incomes to 5.4%; together with the gain in spending, the personal savings rate fell from 13.6% in 1985 to 11.3% in 1986. Corporate profits before taxes declined by 4.9% in 1986, reversing an increase of similar magnitude in 1985. The decrease largely originated in mineral fuel and petroleum industries, which were affected by lower crude oil prices.

Net Domestic Income
(% change, previous year)



Current Account Continues to Record Sizeable Deficit

Following a small deficit in 1985 and surpluses in the previous four years, 1986 current account transactions produced the largest deficit on record. The deficit on goods and services amounted to \$8.8 billion. However, when compared to the size of the economy (as measured by GDP) relatively larger deficits have been experienced.

The sharp increase in the deficit originated from merchandise trade transactions, where imports continued to advance strongly (7.5%). Although substantial, the growth of imports was much lower than the sharp advances in recent years. Exports, on the other hand, were virtually unchanged from 1985, as a major decline (\$5.2 billion) in the value of petroleum exports offset increases in all other commodities. Overall, merchandise trade produced a surplus, but at \$10.1 billion it was at its lowest level in five years.

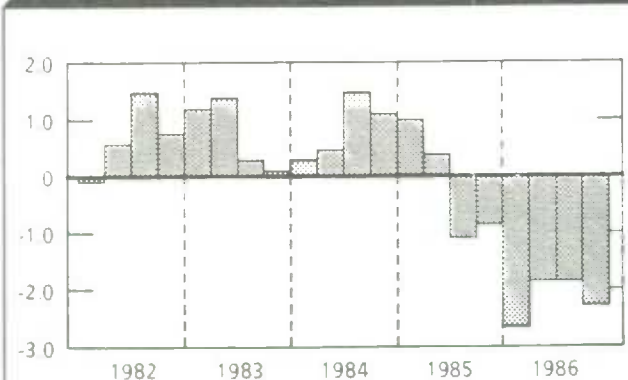
Investment income has always been the largest item among non-merchandise transactions. In 1986, the deficit on investment income increased by \$2.2 billion, to \$16.8 billion. The main features of this advance were sharply higher interest payments on record bond borrowings abroad; larger dividend payments, specifically in the petroleum sector; and a decline in dividend receipts from the unusually high levels of the previous two years.

International travel, which is also included in the current account, registered a deficit of \$1.1 billion, its lowest level since 1979. This improvement helped to counteract the large increase in the investment income deficit. Expo 86 generated higher receipts from foreign tourists and likely encouraged more Canadians to travel within the country.

In the capital account, bond borrowings abroad netted \$23.1 billion in 1986, more than doubling last year's net inflow. Relatively high Canadian interest

Current Account Balance

(billions of dollars, seasonally adjusted)



rates and a lower external value of the dollar were major factors in this increase. Japanese residents, who have steadily increased their holdings of Canadian bonds in recent years, accounted for 40% of the net inflow.

Foreign direct investment in Canada shifted to a net inflow of \$1.6 billion, from a net outflow of \$3.0 billion in 1985. Foreign investment in Canada (measured by gross inflows) reached a record level in 1986. There was, however, a large outflow in the fourth quarter as a foreign oil company repatriated a large amount of funds during a reorganization of its Canadian operations.

In line with large net investments recorded in recent years, a net outflow of \$4.8 billion was registered for direct investment abroad by Canadians. In the current year, a surge in take-over activities was combined with a sharp rise of investment by the service sector. The manufacturing and petroleum sectors were the most active direct investors in 1985.

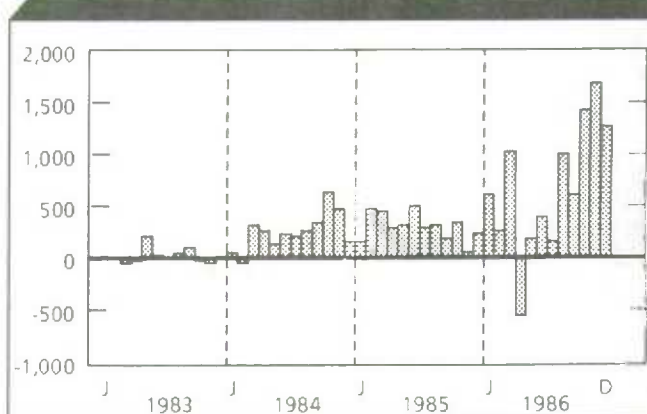
For further information, contact International and Financial Economics Division at (613) 990-9050.

Net Sales of Outstanding Canadian Bonds Remain High

In December, Japanese investments in outstanding Canadian bonds remained strong, accounting for virtually all of the \$1.3 billion of net bond sales to non-residents. This marked the third consecutive month where net investments from Japan exceeded \$1-billion. Similarly, for the year as a whole, Japan accounted for the bulk of the net foreign investment in outstanding Canadian bonds, which doubled to a record \$7.4 billion. These investments were predominantly in Government of Canada issues. On a smaller scale, net investment in outstanding Canadian bonds were also made by the residents of the United Kingdom and West Germany, while the United States reduced its holdings of such bonds. The gross value of bonds traded with non-residents (sales and purchases) nearly doubled to \$69 billion in 1986. The rise in net foreign investments during the year was influenced by a combination of relatively high Canadian interest rates and a lower external value of the Canadian dollar.

Non-residents reduced their holdings of Canadian stocks by \$45 million in December, in contrast to net investments of more than \$100 million in each of the previous four months. For all of 1986, however, foreign investments in outstanding Canadian stocks increased by about \$800 million, following an increase of \$1.2 billion in 1985. This contrasted with the pattern of net disinvestments which have prevailed since 1981.

Net Sales of Canadian Securities
(millions of dollars)



Residents were net buyers of foreign bonds in December, with net purchases amounting to \$153 million, similar to that recorded in the previous two months. These investments were largely in United States government securities. During 1986, net purchases of outstanding foreign bonds totalled \$150 million, compared to \$400 million in the previous year.

For further information, contact International and Financial Economics Division at (613) 990-9050.

PUBLICATIONS RELEASED FROM FEBRUARY 27 - MARCH 5

EDUCATION, CULTURE AND TOURISM

Education Statistics Bulletin - Financial Statistics of Community Colleges and Vocational Schools, 1984-85. Catalogue number 81-002 (Canada: \$4/\$40; Other Countries: \$5/\$50).

INDUSTRY

Asphalt Roofing, December 1986. Catalogue number 45-001 (Canada: \$4/\$40; Other Countries: \$5/\$50).

Coal and Coke Statistics, November 1986. Catalogue number 45-002 (Canada: \$8/\$80; Other Countries: \$9/\$90).

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Pulpwood and Wood Residue Statistics, December 1986. Catalogue number 25-001 (Canada: \$5/\$50; Other Countries: \$6/\$60).

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Shipments of Solid Fuel-burning Heating Products, Quarter Ended December 1986. Catalogue number 25-002 (Canada: \$3/\$12; Other Countries: \$4/\$16).

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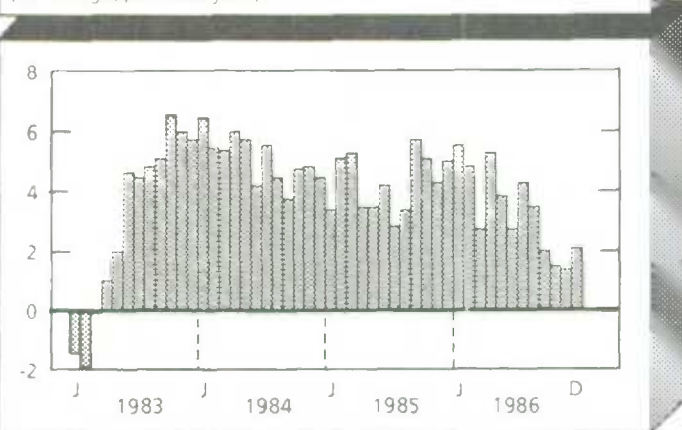
Real Gross Domestic Product Rallies

Gross Domestic Product at factor cost, in 1981 prices, increased 1.2% in December, following declines in November and October. The December increase was the largest gain recorded since a 1.8% increase in April 1986 and marked the only time in 1986 that GDP surpassed its April level. It now stands 2.1% above the level of December 1985. Output of goods-producing industries increased 1.6% in December, while services-producing industries advanced 1.0%.

Goods-producing industries accounted for half the December gain in economic activity. Virtually all of this growth occurring in manufacturing and mining industries, which were weak throughout most of 1986. Approximately 60% of the manufacturing increase originated from producers of wood products, paper products and transportation equipment. The December output increases recorded by these industries coincided with substantially higher exports of lumber, newsprint, motor vehicles, and motor vehicle parts. The increased production and exports of wood products followed the end of the B.C. woodworkers strike and preceded the anticipated implementation of the export tax on lumber in January 1987. Manufacturers of food and beverage products also reported significant production increases in December. In mining, about 90% of the gain was due to industries involved in the extraction, exploration and development of mineral fuels. Construction, agriculture, and utilities industries reported output declines during the month.

Output gains were widespread among services-producing industries, with virtually all industry groups showing growth. Following consecutive monthly decreases of 1.4% in October and 1.5% in November, output of the finance, insurance and real estate

Gross Domestic Product
(% change, previous year)

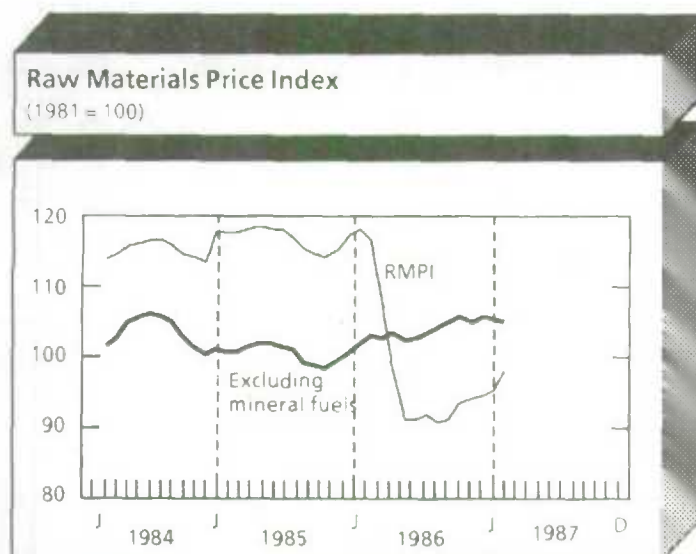


industry increased 1.4% in December. In wholesale trade, substantial output gains were recorded by wholesalers of food, paper, lumber and automotive products. Output of the transportation and storage industry increased substantially for the second consecutive month, mainly due to advances in railway, water, and truck transport, as well as increased storage activity. Much of the gain in the railway transport and storage industries was due to increased throughput of grain products following the end of a labour dispute which had disrupted operations at Thunder Bay grain elevators until mid-October. Exports of grain products increased substantially in both November and December. Retail trade increased 0.6% during December mostly due to gains by motor vehicle dealers and food stores.

For further information, contact, Industry Measures and Analysis Division at (613) 991-3673.

Raw Materials Price Index Continues Rising Trend

The Raw Materials Price Index (RMPI, 1981=100), which measures price changes in materials purchased by Canadian industry, increased 2.6% in January, continuing the upward trend in prices evident since August 1986. Of the seven components making up the RMPI, four showed decreases, while three registered increases.



The advance in the RMPI mirrors the movement of its major component, mineral fuels. After reaching a peak in March 1985, the index for the mineral fuels component declined 47.1%. The lowest value for this

component was recorded in July 1986, since then price levels have climbed 21.1%. The estimated advance in January was 6.8%, as crude oil prices rose substantially during the month (9.0%).

Raw Materials Price Index

	Sept.	Oct.	Nov.	Dec.	Jan.
	% change, previous month				
Total	2.5	0.6	0.6	0.8	2.6
Mineral fuels	5.9	2.9	-0.1	3.3	6.8
Excluding mineral fuels	0.6	-0.8	1.1	-0.7	-0.1

The wood products index increased 2.8% in the current month, reaching a level 11.1% higher than a year earlier. Following a period of fluctuating price levels from April until August, this index has registered monthly increases over 2% for three consecutive months. The rise in January was the result of advances in the indexes for logs and bolts (2.7%) and pulpwood (2.9%).

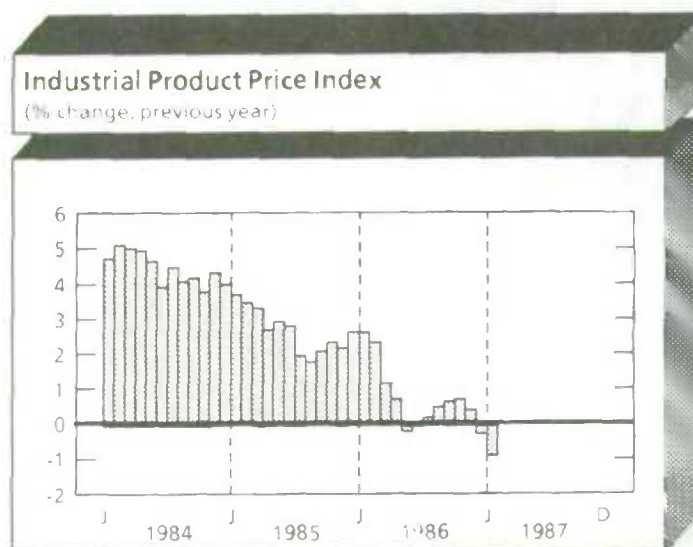
Increases in these two component indexes offset a decrease in the animal and animal products index brought on by lower prices for hogs, cattle and calves, and a drop in the vegetable products component.

Further information, contact Prices Division at (613) 990-9606.

Industrial Product Price Index Increases Remain Low

In January, the Industrial Product Price Index (IPPI, 1981=100) was down 0.9% from the same month a year earlier, the largest year-over-year decrease recorded since the IPPI was first calculated in 1956. The yearly rate of change in the index for petroleum and coal products (-30.0%) was mainly responsible for this decline. With the petroleum and coal products component excluded, the IPPI would have had a moderate year-over-year advance of 3.1%.

In January, the petroleum and coal products component was up 0.5% over December, the first monthly increase in a year. Increases were also observed in the prices of paper and paper products and pharmaceutical products. Decreases for meat products, lumber and motor vehicles had a moderating effect on the overall index.



(continued on page 7)

... Industrial Product Price Index

The paper and paper products component rose 1.8% in January, largely as a result of the 5.7% increase in prices for woodpulp. A strong advance in demand on export markets and the sizeable decrease in the U.S. dollar were major factors in this increase. Increases in finished product prices, corrugated cartons and packaging (4.5%), paper envelopes (4.9%), and folding boxes (1.8%) also contributed to the monthly movement in the overall index.

The price index for meat products, which had registered large monthly increases from June to September, dropped 2.4% in January 1987. Fresh and frozen pork prices (the main source of upward pressure during the summer months) declined on a month-over-month basis for the fourth consecutive month. The index for this commodity was down 4.0%, while prices for smoked ham and boiled uncanned ham declined 13.7% and 11.7% during January. Beef prices also slipped (-2.4%), but overall the price index for meat products was still 6.2% higher than in January 1986.

For further information, contact Prices Division at (613) 990-9606.

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LATEST MONTHLY STATISTICS

			Previous Month	% Change From Year Ago
EMPLOYMENT, INCOME				
Average Weekly Earnings (\$)	Dec.*	434.99	433.58	2.5
Labour Income (\$ million)	Nov.	22,626	22,890	4.6
Persons with Jobs (million)	Jan.	11.33	11.56	1.2
Unemployed (million)	Jan.	1.3	1.2	-0.4
INVENTORIES				
Department Store (\$ million)	Dec.	4,282	4,749	21.2
Manufacturers' Owned (\$ million)	Dec.	33,620	33,912	-1.4
ORDERS				
Manufacturers' New Orders (\$ million)	Dec.	19,897	20,461	2.0
Manufacturers' Unfilled Orders (\$ million)	Dec.	23,585	23,786	-0.5
PRICES				
Consumer Price Index (1981 = 100)	Dec.	134.9	134.7	4.2
New House Price Index (1981 = 100)	Dec.	110.3	109.7	12.3
Raw Materials Price Index (1981 = 100)	Jan.*	97.7	95.0	-16.1
Excl. mineral fuels	Jan.*	105.0	104.9	1.9
Industrial Product Price Index (1981 = 100)	Jan.*	119.9	119.8	-0.9
CONSTRUCTION				
			Year-to-date	
Building Permits (\$ million)	Nov.*	2,094	22,583	15.7
Housing Starts - Urban Centres (units)	Jan.*	14,286	14,286	53.0
ENERGY				
Coal Production (thousand tonnes)	Dec.*	4,994	56,508	-6.9
Electricity Generation (gigawatt hours)	Dec.*	44,783	455,834	2.1
Natural Gas Production (million cubic metres)	Nov.	9,894	94,328	-3.0
FOREIGN TRADE				
Exports - Balance of Payments Basis (\$ million)	Dec.	10,030	121,079	0.7
Imports - Balance of Payments Basis (\$ million)	Dec.	8,672	111,516	8.5
SALES				
Department Store Sales (\$ million)	Dec.	1,945	12,668	5.2
Manufacturers' Shipments (\$ million)	Dec.	20,098	241,541	2.2
New Motor Vehicle Sales (\$ million)	Dec.	1,589	21,792	9.6
Refined Petroleum Products (thousand cubic metres)	Dec.	7,229	77,999	0.4
Retail Sales (\$ million)	Dec.	14,426	139,676	7.8

Statistics are in current dollars and are not seasonally adjusted.

* new this week.

Infomat

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