

I·N·F·O·M·A·T

A W E E K L Y R E V I E W

Friday, March 3, 1989

OVERVIEW

■ Pace of Economic Growth Maintained in Fourth Quarter

Real gross domestic product rose 0.6% in the fourth quarter, a pace just slightly lower than those registered earlier in the year.

■ Current Account Deficit Doubles

Large dividend payments and rising imports pushed the current account deficit to \$4.3 billion in the fourth quarter, double the deficit recorded in the third quarter.

■ Marginal Advance in Industrial Corporations' Profits

Operating profits edged up slightly to \$9.4 billion in the fourth quarter, continuing the pattern of irregular movements that have left profit levels somewhat lower than in the fourth quarter of 1987.

■ Monthly GDP Registers Largest Advance Since August

In December, gross domestic product by industry rose 0.5%, as output of both the services- and the goods-producing industries advanced.

■ Foreign Investment in Canadian Bonds Picks Up

In December, net foreign investment in outstanding Canadian bonds amounted to \$938 million, returning to the trend of strong investment flows recorded throughout the year.

This issue also includes articles on **Average Weekly Earnings, Industrial Product Price Index** and the **Raw Material Price Index**.

Pace of Economic Growth Maintained in Fourth Quarter

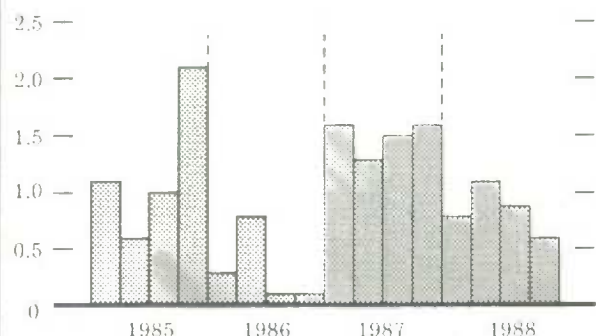
Gross domestic product in 1981 prices rose 0.6% in the fourth quarter, a pace somewhat below those registered earlier in the year. The 1988 average quarterly growth in GDP was 0.8% in real terms, about half the 1.5% average posted in 1987. The volume of economic activity in the current quarter was 3.4% higher than in the fourth quarter of 1987.

Final domestic demand continued to expand at a robust pace in the quarter (1.4%). Machinery and equipment investment, residential investment and personal expenditure led the advance. Business non-residential construction and total government expenditure grew less rapidly. A substantial positive swing in the rate of inventory accumulation also contributed to growth. Net exports dropped sharply and a large inflow of merchandise imports was recorded.

(continued on page 2)

Real GDP Growth

(% change from previous quarter)



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... Pace of Economic Growth Maintained in Fourth Quarter

Labour income grew more rapidly than in the third quarter as employment growth quickened. Income in the third quarter was also depressed by strike activity. Corporate profits declined slightly in the quarter. Interest and miscellaneous investment income rose 9.2%, partly because of higher deposit interest rates and higher government investment income. The accrued net income from farm production fell substantially in the quarter, reflecting a large drop in grain exports.

Total government spending rose 1.2% in the quarter. Much of this growth was accounted for by increased spending at the provincial and local government levels. Total government revenue increased 2.2% with direct taxes on persons, indirect taxes and investment income each accounting for substantial parts of the increase. The government sector deficit, on a national accounts basis, posted a notable decrease. The provincial sector was responsible for most of the decline.

For further information, order National Income and Expenditure Accounts (catalogue number 13-001) or contact Income and Expenditure Accounts Division at (613) 951-9155.

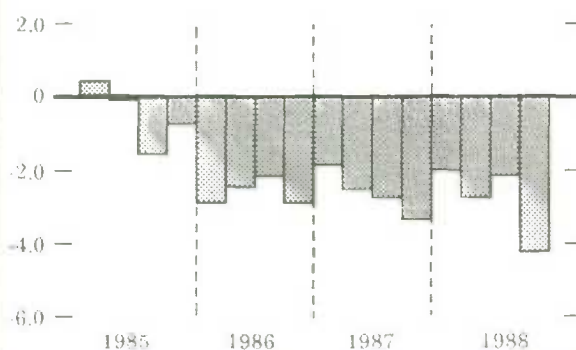
Current Account Deficit Doubles

Following exceptionally large dividend payments, the seasonally adjusted current account deficit increased to a record \$4.3 billion in the fourth quarter, double the third quarter level. Also, the merchandise trade balance declined to its lowest quarterly level since 1981. Imports increased \$1.3 billion to \$32.6 billion, the first substantial quarterly increase in 1988. Much of this increase stemmed from higher levels of machinery and equipment, and motor vehicle imports. Export levels were unchanged from the third quarter.

The capital account, which is not seasonally adjusted, showed that non-residents continued to invest heavily in Canadian interest-bearing securities, with a sharp increase in short-term securities. The latter investments amounted to \$2.2 billion. Short-term interest rates continued to rise during the quarter, while long-term rates were largely unchanged, bringing about an inversion of the yield curve. The non-bank sector reduced deposits held abroad. This decline was partially offset by an increase in Canada's international reserves. Underlying these movements, the dollar reached a new peak against the United States currency, but depreciated against other major currencies.

Current Account Balance

(billions of dollars, seasonally adjusted)



For further information, order Quarterly Estimates of the Canadian Balance of International Payments (catalogue number 67-001P) or contact International and Financial Economics Division at (613) 951-9050.

Moderate Advance in Industrial Product Prices

- The industrial product price index (IPPI, 1981 = 100) was up moderately in January, continuing a trend of slower growth.
- Transportation equipment prices were down slightly (0.2%) for the second consecutive month in January.

- Primary metal prices edged up 0.4% in January, reflecting large price changes recorded for nickel. Nickel prices have strengthened in the last three months.
- Prices of petroleum and coal products were estimated to have increased (1.8%) in the last two months, after dropping for six months.

For further information, order Industry Price Indexes (catalogue number 62-011) or contact Prices Division at (613) 951-9607.

Marginal Advance in Industrial Corporations' Profits

In the fourth quarter, operating profits of industrial corporations posted a marginal advance over the previous quarter to a level of \$9.4 billion. Operating profits have recorded a series of irregular movements in 1988 that have left profits slightly below the level registered in the final quarter of 1987 (\$9.6 billion). Sales continued to grow (1.3%), advancing for the eleventh consecutive quarter, but growth has moderated since the second quarter of 1988.

Profits and losses varied greatly in 1988. Of the 47 major industry groups, 27 recorded increases in operating profits. The metal mining industry registered

the largest increase (\$223 million), due at least partly to significantly higher non-ferrous metal prices. The communications industry posted a rise in profits of \$74 million. The minerals fuels industry registered the largest decline (\$210 million), reflecting lower crude oil prices.

Pre-tax profits (which unlike operating profits include investment income and other gains) fell \$197 million, to the average level of the previous four quarters (\$13.9 billion). Gains on the sale of investments and fixed assets decreased in the quarter, more than offsetting the increase in operating profits.

For further information, order *Industrial Corporations: Financial Statistics* (catalogue number 61-003) or contact *Industrial Organization and Finance Division* at (613) 951-9843.

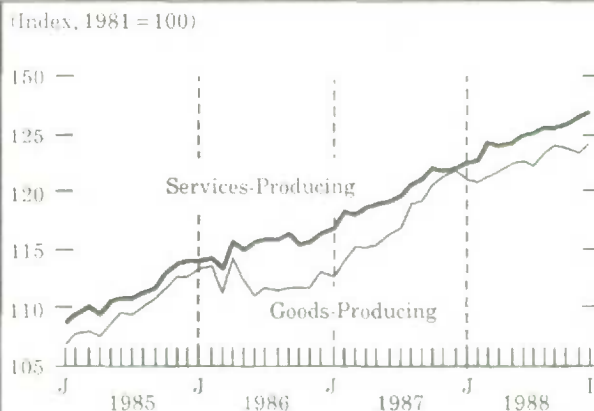
Monthly GDP Registers Largest Advance Since August

Real gross domestic product by industry increased 0.5% in December. Except for a large advance in August, output has only grown slowly since June. Output from the service-producing industries rose 0.4%, maintaining a pattern of steady growth. In the goods-producing industries, output was up following marginal declines in October and November.

The service-producing industries have registered moderate gains for eight consecutive months and have been the main support of growth in total GDP in 1988. About 40% of the growth in December originated in retail trade where year-end sales by new motor vehicle dealers were up sharply. Retail trade had dropped slightly in November. The resale housing market was very active for the second consecutive month. Wholesale trade also rose for the second month in a row, following decreases in the two preceding months.

Unlike the service-producing industries, output from the goods-producing industries has fluctuated and only shows marginal growth since the start of the year. The increase in the current month (0.6%) was the largest

GDP Goods- and Services-Producing Industries



monthly gain in five months. Growth was widespread, with mining, construction, manufacturing, utilities and forestry registering substantial increases. Output from mining rose for the first time in five months. Construction activity was higher as output from the non-residential sector increased. The manufacturing industries recorded a marginal increase, following two consecutive declines.

For further information, order *Gross Domestic Product by Industry* (catalogue number 15-001) or contact *Industry Measures and Analysis Division* at (613) 951-3673.

Real Gross Domestic Product

| | Aug. Sept. Oct. Nov. Dec. | | | | |
|------------------------------|---------------------------|-----|------|------|-----|
| | % change, previous month | | | | |
| Real Gross Domestic Product | 0.5 | 0.3 | 0.1 | 0.2 | 0.5 |
| Goods-producing industries | 0.9 | 0.5 | -0.2 | -0.2 | 0.6 |
| Service-producing industries | 0.3 | 0.1 | 0.3 | 0.5 | 0.4 |

Foreign Investment in Canadian Bonds Picks Up

In December, net foreign investment in outstanding Canadian bonds amounted to \$938 million, a return to the trend of strong investment flows recorded throughout the year. In November, non-residents had reduced their holdings of Canadian bonds by \$614 million, the first major disinvestment in more than a year. Except for Japan, all other economic regions were net investors.

Non-residents continued to reduce their holdings of Canadian stocks. The net disinvestment amounted to \$400 million in December, one of the largest monthly declines this year. In 1988, non-residents reduced their holdings of Canadian stocks by \$2.7 billion, a sharp contrast with net investments of \$4.3 billion in 1987.

Security Transactions

| | Aug. | Sept. | Oct. | Nov. | Dec. |
|---------------------|---------------------|-------|------|--------|------|
| Net sales | millions of dollars | | | | |
| Canadian Securities | | | | | |
| Bonds | 550 | 759 | 714 | -614 | 938 |
| Stocks | -248 | -364 | -106 | -450 | -385 |
| Total | 302 | 396 | 608 | -1,064 | 553 |
| Foreign Securities | | | | | |
| Bonds | -97 | -71 | -261 | 105 | 106 |
| Stocks | -181 | -153 | 327 | -461 | -83 |
| Total | -278 | -224 | 66 | -356 | 84 |

Average Weekly Earnings Post Slower Growth

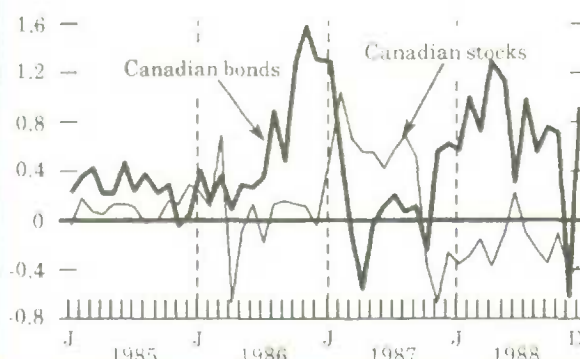
In December, average weekly earnings were up 4.1% over the same month a year earlier. This increase was in line with a gradual slowing of the growth rate over the last eight months. Average weekly earnings in the goods-producing industries continued to show a gentle acceleration, while gains in the service-producing industries have fluctuated around 3.5% for the last three months.

The largest industry group in the service sector (community, business and personal services) registered sizeable increases in earnings in the first nine months of 1988. However, growth has moderated in the last two months, falling to 2.6%, the lowest increase in more than a year.

All industries contributed to the growth of earnings in the goods-producing sector. In the manufacturing industries, average weekly earnings continued to accelerate in December, rising 5.7% over the same month a year earlier.

Net Sales of Outstanding Securities to Non-Residents

(billions of dollars)

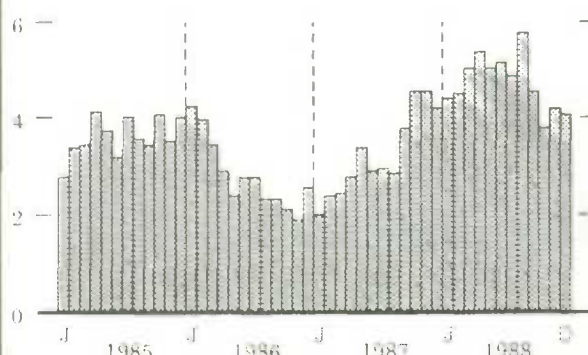


Canadian residents increased their holdings of foreign stocks by \$83 million in December. Residents reduced their holdings of foreign bonds for the second consecutive month in December, following three months of net investments. Canadian investment in foreign securities has been erratic in recent years, frequently shifting between net buying and selling.

For further information, order *Security Transactions with Non-residents* (catalogue number 67-002) or contact International and Financial Economics Division at (613) 951-9052.

Average Weekly Earnings (Industrial Aggregate)

(% change, previous year)



For further information, order *Employment, Earnings and Hours* (catalogue number 72-002) or contact Labour Division at (613) 951-4090.

Raw Material Prices

- The raw materials price index rose for the second consecutive month in January. These increases followed a six-month downturn in the index.
- A significant jump in crude oil prices (8.4%) was a major factor in the January rise in the RMPI.
- The animal products component was up (2.4%) after three months of lower prices. Cattle, hogs and chickens all registered increases in January.
- Non-ferrous metal prices were down slightly, the first decline in six months.

Raw Materials Price Index

| | Sept. | Oct. | Nov. | Dec. | Jan. |
|--------------------------------|--------------------------|-------------|-------------|------------|------------|
| | % change, previous month | | | | |
| Total | -0.7 | -1.0 | -1.0 | 0.5 | 2.6 |
| Mineral fuels | -2.5 | -3.8 | -3.7 | 0.3 | 6.7 |
| Non-ferrous metals | 3.1 | 3.6 | 4.2 | 2.9 | -0.1 |
| Animal products | 0.7 | -0.5 | -2.0 | -0.7 | 2.4 |
| Total, excluding mineral fuels | 0.2 | 0.5 | 0.3 | 0.7 | 0.6 |

Further information, order *Industry Price Indexes* (catalogue number 62-011) or contact Prices Division at (613) 951-9607.

LATEST MONTHLY STATISTICS

| | Period | Level | Change Previous Period | Change Previous Year |
|---|--------|--------|------------------------------|----------------------------|
| GENERAL | | | | |
| Gross Domestic Product (billion 1981 dollars) | Dec.* | 402 | 0.5% | 3.4% |
| Composite Leading Indicator (1981 = 100) | Nov.* | 141.6 | 0.3% | 3.1% |
| Profits of Industrial Corporations (\$ billion) | 4th Q* | 9.4 | 1.2% | -2.1% |
| DOMESTIC DEMAND | | | | |
| Retail Trade (\$ billion) | Dec. | 14.3 | 1.9% | 5.9% |
| New Motor Vehicle Sales ('000 units) | Dec. | 137 | 6.0% | 6.5% |
| Housing Starts ('000, annual rates) | Dec. | 220 | -7.2% | 0.5% |
| LABOUR | | | | |
| Employment (millions) | Jan. | 12.4 | 0.7% | 2.5% |
| Unemployment Rate (%) | Jan. | 7.6 | 0.0 | -0.4 |
| Participation Rate (%) | Jan. | 67.2 | 0.3 | 0.6 |
| Labour Income (\$ billion) | Nov. | 26.9 | 0.9% | 7.4% |
| Average Weekly Earnings (\$) | Dec.* | 469.93 | 0.0% | 4.1% |
| EXTERNAL TRADE | | | | |
| Merchandise Exports (\$ billion) | Dec. | 11.0 | -2.7% | 3.1% |
| Merchandise Imports (\$ billion) | Dec. | 10.7 | -3.2% | -1.8% |
| Merchandise Trade Balance (\$ billion) | Dec. | 0.4 | 0.0 | -0.2 |
| MANUFACTURING | | | | |
| Shipments (\$ billion) | Dec. | 24.9 | 3.4% | 4.9% |
| New Orders (\$ billion) | Dec. | 25.3 | 2.2% | 3.8% |
| Unfilled Orders (\$ billion) | Dec. | 29.3 | 1.4% | 23.2% |
| Inventory/ Shipments Ratio | Dec. | 1.53 | -0.6 | 0.1 |
| Capacity Utilization (%) | 3rd Q | 81.6 | 0.0 | 1.3 |
| PRICES | | | | |
| Consumer Price Index (1981 = 100) | Jan. | 146.8 | 0.5% | 4.3% |
| Industrial Product Price Index (1981 = 100) | Jan.* | 130.3 | 0.4% | 2.9% |
| Raw Materials Price Index (1981 = 100) | Jan.* | 95.9 | 2.6% | -5.4% |
| New Housing Price Index (1981 = 100) | Dec. | 139.9 | 1.4% | 13.6% |

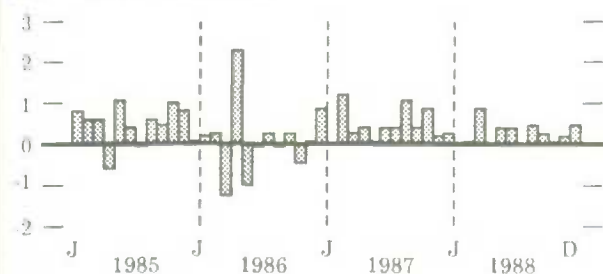
Note: All series are seasonally adjusted with the exception of average weekly earnings and the price indexes.

* New this week.

CURRENT TRENDS*

Gross Domestic Product

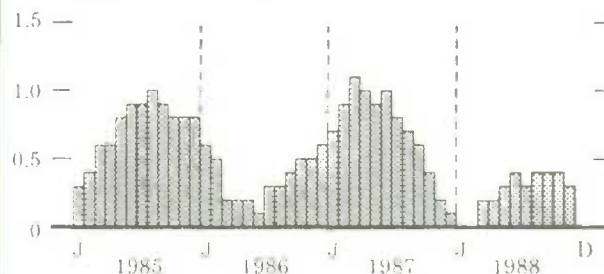
(% change, previous month)



In December, gross domestic product by industry rose 0.5%, as output of both the services- and the goods-producing industries advanced.

Composite Leading Indicator

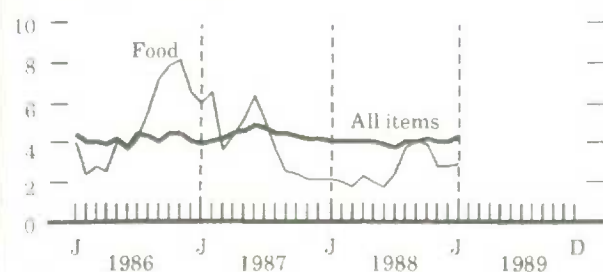
(% change, previous month)



Growth in the composite leading indicator slowed in November.

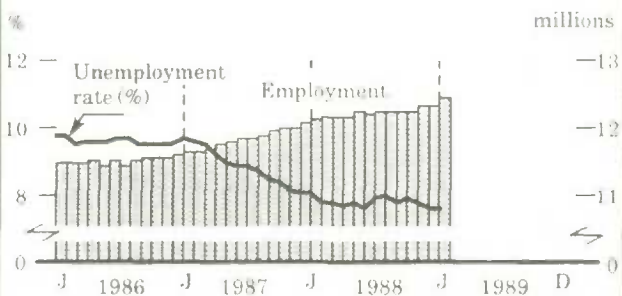
Consumer Price Index

(% change, previous year)



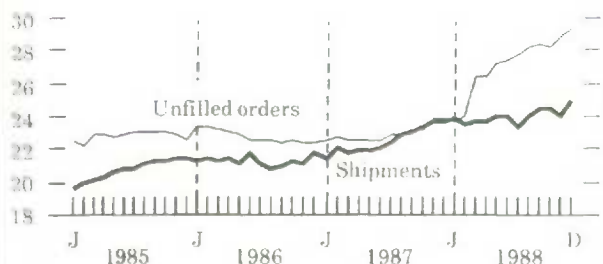
Following several months of slower growth, seasonal price increases bumped up the CPI in January.

Unemployment Rate and Employment



Employment increased by 89,000 in January, the third consecutive month of stronger growth.

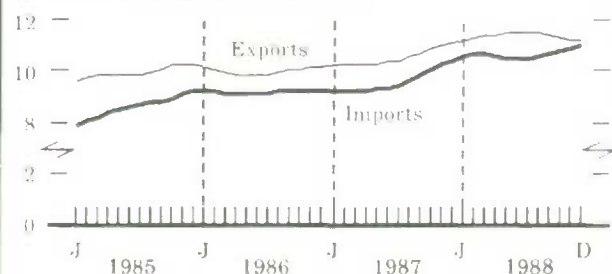
Manufacturing



Following two consecutive declines, the value of manufacturing shipments rose 3.4% in December to total \$24.9 billion.

Merchandise Trade

(billions of dollars, short-term trend)



Exports and imports have moved in tandem for the last six months, but imports have risen faster.

* All series are seasonally adjusted except the consumer price index.

PUBLICATIONS RELEASED FROM FEBRUARY 24 TO MARCH 2

EDUCATION, CULTURE AND TOURISM

Performing Arts - Culture Statistics, 1986. Catalogue number 87-209 (Canada: \$28; Other Countries: \$29).

HOUSING, FAMILY AND SOCIAL STATISTICS

The Family in Canada, 1971-1986. Catalogue number 89-509 (Canada: \$35; Other Countries: \$36).

INCOME AND EXPENDITURE

Provincial Economic Accounts, 1976-1987. Catalogue number 13-213 (Canada: \$50; Other Countries: \$52).

INDUSTRY

Cement, December 1988. Catalogue number 44-001 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

Corrugated Boxes and Wrappers, January 1989. Catalogue number 36-004 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

Department Store Monthly Sales, by Province and Metropolitan Area, Vol. 3, No.12, December 1988. Catalogue number 63-004 (Canada: \$2.50/\$25; Other Countries: \$3.50/\$35).

Department Store Sales and Stocks, June 1988. Catalogue number 63-002 (Canada: \$13/\$130; Other Countries: \$14/\$140).

Department Store Sales and Stocks, July 1988. Catalogue number 63-002 (Canada: \$13/\$130; Other Countries: \$14/\$140).

Electric Lamps (Light Bulbs and Tubes), January 1989. Catalogue number 43-009 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

Fruit and Vegetable Preservation - Pack of Processed Beans, Green and Wax, Vol. 17, No.8, 1988. Catalogue number 32-023 (Canada: \$7/\$115; Other Countries: \$8/\$125).

Fruit and Vegetable Preservation - Pack of Processed Broccoli, Vol. 17, No.17, 1988. Catalogue number 32-023 (Canada: \$7/\$115; Other Countries: \$8/\$125).

Fruit and Vegetable Preservation - Pack of Processed Cauliflower, Vol. 17, No. 20, 1988. Catalogue number 32-023 (Canada: \$7/\$115; Other Countries: \$8/\$125).

Fruit and Vegetable Preservation, Pack of Processed Corn, Vol.17, No.6, 1988. Catalogue number 32-023 (Canada: \$7/\$115; Other Countries: \$8/\$125).

Fruit and Vegetable Preservation - Pack of Processed Pumpkin and Squash, Vol.17, No.13, 1988. Catalogue number 32-023 (Canada: \$7/\$115; Other Countries: \$8/\$125).

Industrial Chemicals and Synthetic Resins, December 1988. Catalogue number 46-002 (Canada: \$5/\$50; Other Countries: \$6/\$60).

Mineral Wool Including Fibrous Glass Insulation, January 1989. Catalogue number 44-004 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

New Motor Vehicle Sales, October 1988. Catalogue number 63-007 (Canada: \$9/\$90; Other Countries: \$10/\$100).

Oil Pipe Line Transport, November 1988. Catalogue number 55-001 (Canada: \$9/\$90; Other Countries: \$10/\$100).

Production and Disposition of Tobacco Products, January 1989. Catalogue number 32-022 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

Production and Inventories of Process Cheese and Instant Skim Milk Powder, January 1989. Catalogue number 32-024 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

Production and Shipments of Steel Pipe and Tubing, December 1988. Catalogue number 41-011 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

Production and Stocks of Tea, Coffee and Cocoa, Quarter Ended December 1988. Catalogue number 32-025 (Canada: \$6.25/\$25; Other Countries: \$7.25/\$29).

Production, Sales and Stocks of Major Appliances, January 1989. Catalogue number 43-010 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

Production, Shipments and Stocks on Hand of Sawmills in British Columbia, December 1988. Catalogue number 35-003 (Canada: \$6.50/\$65; Other Countries: \$7.50/\$75).

Pulpwood and Wood Residue Statistics, December 1988. Catalogue number 25-001 (Canada: \$5.50/\$55; Other Countries: \$6.50/\$65).

Quarterly Shipments of Office Furniture Products, Quarter Ended December 31, 1988. Catalogue number 35-006 (Canada: \$6.25/\$25; Other Countries: \$7.25/\$29).

Restaurant, Caterer and Tavern Statistics, November 1988. Catalogue number 63-011 (Canada: \$5.50/\$55; Other Countries: \$6.50/\$65).

Shipments of Plastic Film and Bags Manufactured from Resin, Quarter Ended December 31, 1988. Catalogue number 47-007 (Canada: \$6.25/\$25; Other Countries: \$7.25/\$29).

The Sugar Situation, January 1989. Catalogue number 32-013 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

INDUSTRY MEASURES AND ANALYSIS

System of National Accounts, Gross Domestic Product by Industry, November 1988. Catalogue number 15-001 (Canada: \$11.50/\$115; Other Countries: \$12.50/\$125).

INTERNATIONAL AND FINANCIAL ECONOMICS

Quarterly Estimates of Canadian Balance of International Payments, Fourth Quarter 1988. Catalogue number 67-001P (Canada: \$9.25/\$37; Other Countries: \$10.25/\$41).

INTERNATIONAL TRADE

Imports by Commodity (HS Based), November 1988. Catalogue number 65-007 (Canada: \$50/\$500; Other Countries: \$60/\$600).

LABOUR

Results from a Special Survey of Employers, November 1986. Catalogue number 71-532 (Canada: \$24; Other Countries: \$29).

Unemployment Insurance Statistics, November 1988. Catalogue number 73-001 (Canada: \$13/\$130; Other Countries: \$14/\$140).

TRANSPORT

Railway Operating Statistics, November 1988. Catalogue number 52-003 (Canada: \$9.50/\$95; Other Countries: \$10.50/\$105).



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KEY RELEASE CALENDAR: MARCH 1989*

| Monday | Tuesday | Wednesday | Thursday | Friday |
|--|--|---|--|--|
| | | 1 Income and Expenditure Accounts, 4 th Quarter Balance of Payments, 4 th Quarter Gross Domestic Product, December Industrial Corporations, 4 th Quarter | | 3 |
| 6 Composite Leading Indicator, December | 7 | 8 Capital Expenditures, 1989 Financial Activity, 4 th Quarter Help-wanted Index, February | 9 Labour Income, December New Housing Price Index, January Motor Vehicle Sales, January | 10 Labour Force Survey, February International Travel, January Farm Product Price Index, January |
| 13 Department Store Sales, January Housing Starts, January | 14 | 15 | 16 | 17 Consumer Price Index, February International Trade, January |
| 20 Capacity Utilization Rates, 4 th Quarter | 21 Building Permits, January Manufacturing Industries, January | 22 Retail Trade, January Department Store Sales and Stocks, January | 23 Wholesale Trade, January Security Transactions, January | 24 |
| 27 | 28 Refined Petroleum Products, February | 29 Financial Institutions, 4 th Quarter Employment, Earnings and Hours, January | 30 Crude Petroleum and Natural Gas, December | 31 Gross Domestic Product, January Industrial Product Price Index, February Raw Materials Price Index, February |

* Release dates for International Trade, the Consumer Price Index and the Labour Force Survey are fixed, dates for other data series may vary slightly.

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