

I·N·F·O·M·A·T

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

Friday, March 10, 1989

OVERVIEW

■ Business Intends to Increase Capital Investment in 1989

Businesses plan to increase their expenditures on capital assets for the fifth consecutive year. The rise expected in 1989 is estimated to be 8.2%.

■ Non-financial Sector Borrowing Slows Noticeably

Sharply lower credit demands by households and private corporations offset increased borrowing by governments, and held the increase in non-financial sector borrowing to 3.2% in the fourth quarter of 1988.

■ 1988 Economic Summary

Accelerating economic output and continued improvement in the labour markets were evident in 1988. Prices rose, but the rate of growth was slower than in 1987.

■ Leading Indicator Posts Moderate Growth

The composite leading indicator continued to register moderate growth in December (0.5%).

■ Notable Advance in Building Permits

The value of building permits issued was up 11.6% in December, following four months of little overall growth.

■ Help-wanted Index Stable

The help-wanted index was unchanged in February, maintaining the level of labour demand for a fifth consecutive month.

This issue also includes articles on **New Housing Prices** and **Labour Income**.

Business Intends to Increase Capital Investment in 1989

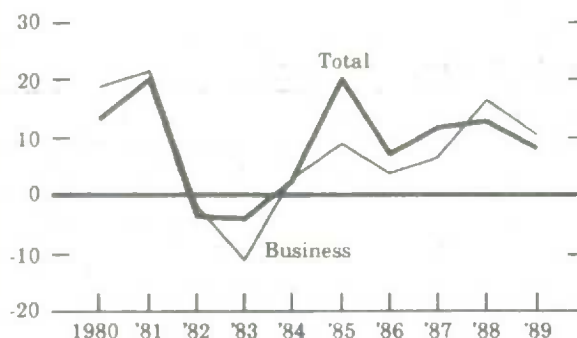
Capital expenditures on new fixed assets in Canada are expected to total \$133.3 billion in 1989, a current dollar increase of 8.2% over 1988. With this advance, capital spending will have increased each year since 1983. Expenditures on machinery and equipment will grow at a faster rate than spending on construction in 1989, as they did in 1988. Except for mining, all sectors expect to increase spending in 1989.

Two sectors account for about 60% of the \$10 billion increase in capital spending: manufacturing and utilities. Neither sector fully realized their planned expenditures for 1988 and most industries in these sectors have included the shortfall from 1988 in their 1989 capital investment intentions.

(continued on page 2)

Capital Expenditures

(% change, previous year)



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... Business Intends to Increase Capital Investment

These data are based on a survey conducted between the beginning of November and early in February which asks respondents for capital expenditures they expect to make in the upcoming year.

Manufacturers intend to increase their spending by 20.7%, continuing the trend established in preceding years. Increases in paper products, primary metals and the chemical industries were the main sources of this advance. The wood and transportation equipment industries plan to reduce their capital expenditures in 1989.

Utilities are also planning to increase expenditures sharply for the second consecutive year. Electric power, gas pipeline and telephone companies plan to increase their capital expenditures.

The mining industry is planning to decrease its capital spending by 12%, with most of the intended decrease coming from expenditures on oil and gas wells,

and gold mines. This was a turnaround for both of these industries who had boosted their capital spending in 1988.

The expected gain in the trade, finance and commercial industries (9.0%) was concentrated in commercial services, banks and wholesale trade.

All levels of government anticipate an increase in capital expenditures. The advance will be led by federal government departments (22%), provincial governments (15%), and municipal governments (14%). The institutions group intends to increase its expenditures in 1989, after holding them to 1986 levels last year.

Investment in residential construction is expected to increase slightly (1.2%) to \$35.7 billion in 1989. The estimate is based on projected housing starts of 201,000 in 1989, compared to 223,000 in 1988.

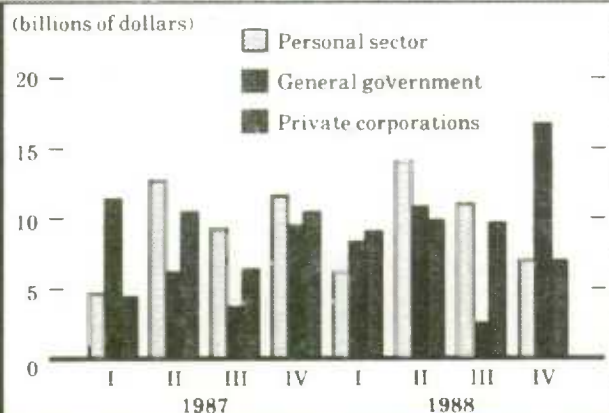
For further information, order *Private and Public Investment in Canada, Intentions 1989* (catalogue number 61-205) or contact Science, Technology and Capital Stock Division at (613) 951-2209.

Non-financial Sector Borrowing Slows Noticeably

Non-financial sectors of the Canadian economy borrowed \$32.4 billion on credit markets during the fourth quarter of 1988, up 3.2% over the fourth quarter of 1987. Total borrowings were slightly higher than the previous record set in the same quarter of 1986. Increased demands for funds by governments exceeded reductions by households and private corporations.

During the fourth quarter, borrowing by the personal sector amounted to 7.2 billion, down almost 40% from the same quarter in 1987. In the first three quarters of 1988, the level of personal borrowing had matched or exceeded the corresponding period of 1987. Growth in borrowing exceeded growth in income, so that by year-end, the level of debt represented 74% of personal disposable income, up from 72% at the beginning of the year.

Domestic Non-financial Borrowings



The \$7.1 billion raised by non-financial corporations during the quarter was also down significantly from the previous year, contrasting with the higher level of borrowing in the first three quarters. The sector's borrowing showed a shift from negotiated loans to marketable paper. All sectors, except the personal and unincorporated business, have shown a shift to marketable paper in 1988.

Federal government borrowing increased from a year earlier despite a drop in net proceeds from Canada Savings Bonds. Like the personal sector, federal government borrowings in the first three quarters of the year were slightly below the levels registered in 1987, but rose sharply in the fourth quarter.

Financial Market Summary

	1988			
	Q1	Q2	Q3	Q4
	millions of dollars			
Non-financial sectors				
Personal Sector	6,256	14,297	11,152	7,154
Private Corporations	9,153	9,991	9,779	7,127
Government Enterprises	50	532	148	1,234
General Government	8,390	10,803	2,502	16,904
Total Domestic Non-financial	23,849	35,623	23,581	32,419

For further information, order *Financial Flow Accounts* (catalogue number 13-014) or contact International and Financial Economics Division at (613) 951-9043.

Help-wanted Index Stable

- The seasonally adjusted help-wanted index was unchanged in January, as advances in three regions were offset by decreases in Quebec and Ontario.
- The help-wanted index serves as an early indicator of the demand for labour by monitoring changes in the number of help-wanted ads published in 20 metropolitan newspapers. The index has been stable for the last five months.
- The index for the Atlantic region increased for the seventh consecutive month to reach 199.
- In Quebec, the index decreased to 170. The index has declined five points in the last five months.
- After hovering around 179 for most of 1988, the index for Ontario has retreated slightly since October (to 176).

Help-wanted Index (1981 = 100) – Revised

	Oct.	Nov.	Dec.	Jan.	Feb.
	seasonally adjusted				
Canada	152	152	152	152	152
Atlantic Region	186	188	191	195	199
Quebec	173	175	174	172	170
Ontario	181	180	179	177	176
Prairie Region	85	85	85	87	89
British Columbia	104	106	109	112	116

- The index for the Prairies rose in February, continuing the gentle rising trend observed over the last 12 months.
- The index for British Columbia continued to show a trend similar to that of the Prairie region – a steadily increasing demand for labour.

For further information, contact Labour Division at (613) 951-4045.

Leading Indicator Posts Moderate Growth

The composite leading indicator rose moderately in December, as it has for eight months. The monthly increase of 0.5% matched the advance noted in October.

Business investment continued to be an important contributor in December. Employment in business and personal services, which reflects the early stages of business planning, posted its fourth straight increase of 0.8%. New orders for durable goods turned up as a result of orders for capital goods. These increases are in line with the recent gains in business investment, which are expected to continue in 1989 (see capital investments on page 1).

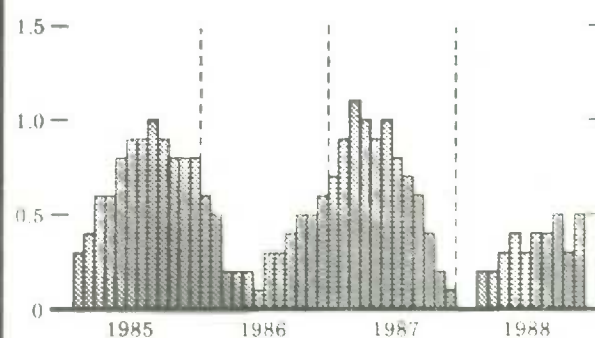
The outlook for household demand remains favourable. Spending on durable goods and housing continued to rise, at the same time as strong gains in both employment and incomes.

The U.S. leading indicator, which anticipates our export demand, firmed somewhat in December. The Canadian dollar continued to appreciate, however, which may dampen export demand.

The financial market indicators were mixed; the real money supply posted an increase for the second consecutive month, while the stock market registered a slight increase.

Composite Leading Indicator

(% change, previous month)

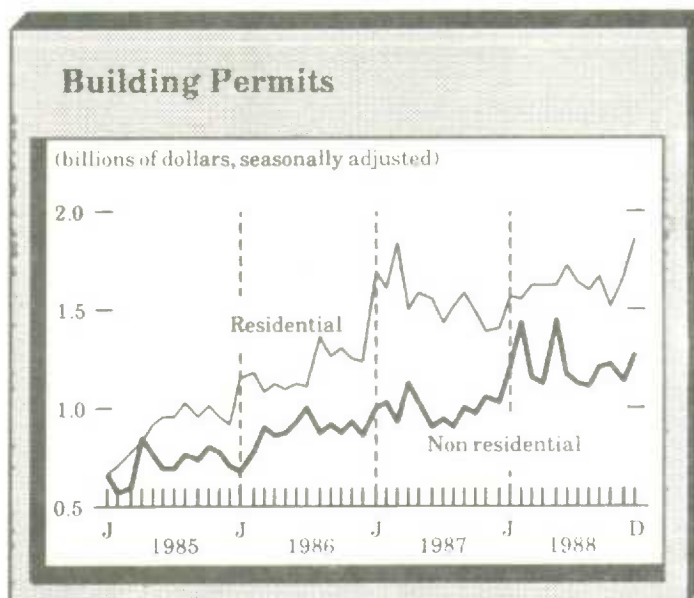


The composite leading indicator was recently redesigned and rebased. Readers wishing more information should refer to the February issue of the *Canadian Economic Observer* which provides an overview of the overhauled indicator – its components and use.

For further information, order the Canadian Economic Observer (catalogue number 11-010) or contact International and Financial Economics Division at (613) 951-3627.

A strong rise pushed the level of residential permits up 11.3% to \$1.9 billion. Prior to the current month, permits appeared to have weakened over the preceding five months. But in December, permits issued for single-family dwellings jumped by nearly 19% and multi-family dwellings by 9%. These gains originated in Quebec, Ontario and British Columbia.

For further information, order Building Permits (catalogue number 64-001) or contact Science, Technology and Capital Stock Division at (613) 951-2583.



1988 Economic Summary

- The economy grew by 4.5%, up from the 4.0% growth rate recorded in 1987.
- Business investment was exceptionally strong throughout the year. Spending on machinery and equipment rose 21% in real terms, the highest growth in 32 years.
- Consumer spending and residential construction also increased substantially.
- Labour income rose 8%, corporate profits rose 13% and farm income dropped about 1%.

- The annual average of the consumer price index was 4.1% higher in 1988 than it was in 1987. The comparable rate for 1987 was 4.4%. This slowdown interrupted a trend to slightly higher annual increases observed in the two preceding years.
- Increases in the transportation (1.9%) and food (2.6%) indexes were noticeably lower than the average in 1988.

- Employment registered strong overall growth (3.2%) in 1988.
- Almost all of the increase in employment occurred among the 25 years and older age group, while there was little change among those aged 15 to 24.
- Part-time employment grew faster than full-time employment, returning to the trend noted prior to 1987.
- The average annual rate of unemployment dropped to 7.8%, continuing the downward movement noted since 1984. The rate remains slightly above the pre-recession level of 7.5%.

- Exports rose 8.7%, the largest advance registered in four years. The increase was primarily in exports of automotive products and industrial goods.
- Imports posted an advance of 10.4%. Imports have generally grown faster than exports since 1983.
- The trade surplus totalled \$9.6 billion in 1988, a drop of \$1.4 billion from 1987.

New Housing Prices Escalate

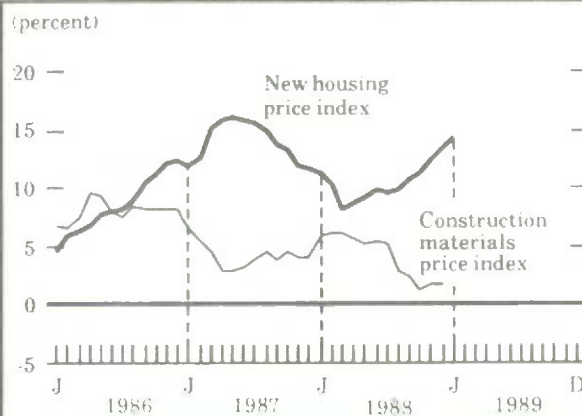
The new housing price index, which measures changes in prices for particular models of new residential houses, rose 0.9% in January, posting a strong advance for the third consecutive month. On a year-over-year basis, the index was up 14.2%.

Victoria registered the largest monthly increase of all cities surveyed (3.2%). The strong growth noted in Toronto housing prices since September continued in January when prices rose 1.5% over December. Over the last 12 months, the rate of increase in the land only component for Toronto has been approximately double the growth in the house only portion.

Growth rates of new housing prices for the rest of Canada were 10% or under. In Ontario and Quebec, year-over-year increases have moderated and range between 4.7% and 10%. In the Western provinces, Vancouver recorded the highest year-over-year increase (8.5%) but has yet to surpass the 1981 reference level for housing prices. In Manitoba and Saskatchewan new housing prices were essentially unchanged from January 1988.

For further information, order Construction Price Statistics (catalogue number 62-007) contact Prices Division at (613) 951-9607.

New Housing and Building Material Price Indexes



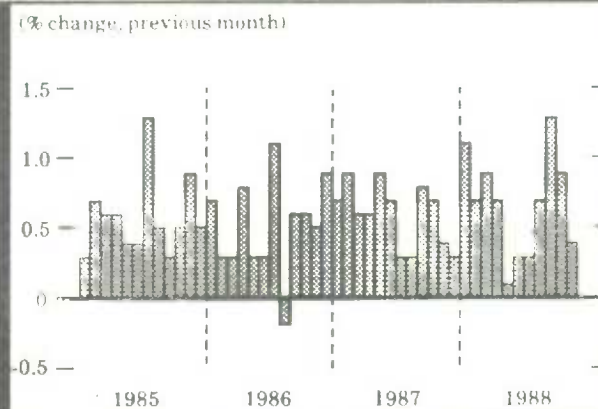
Slower Growth in Wages and Salaries

In December, the seasonally adjusted estimates of wages and salaries rose 0.4%, lower than the advances registered in the four preceding months. In 1988, labour income rose 8.1% over 1987.

In the manufacturing industries, wages and salaries increased for the sixth month in a row. The advance of 1.1% was in line with increases in recent months. Large gains were also recorded for federal administration (1.1%) and commercial and personal services (0.8%). Wages and salaries in all the provinces were up less than 1%, but the estimates for the Yukon and Northwest Territories, and Abroad increased 1.5%.

For further information, order Estimates of Labour Income (catalogue number 72-005) or contact Labour Division at (613) 951-4051.

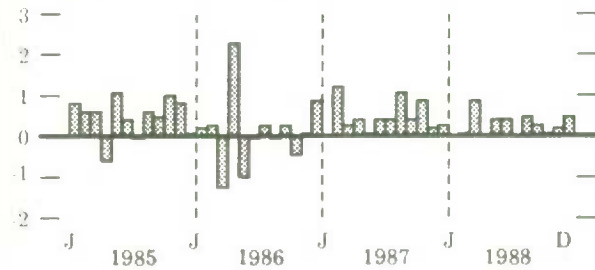
Wages and Salaries



CURRENT TRENDS*

Gross Domestic Product

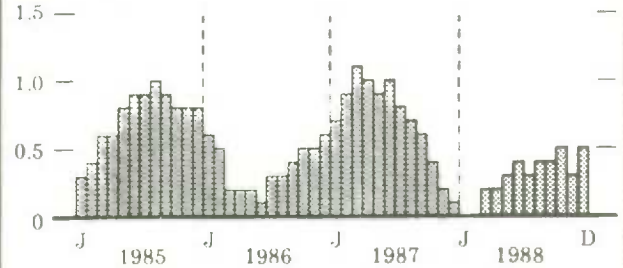
(% change, previous month)



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

Composite Leading Indicator

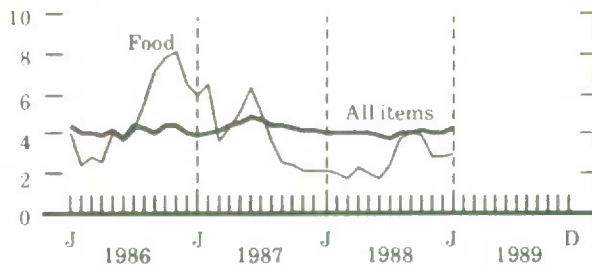
(% change, previous month)



The composite leading indicator continued to register moderate growth in December.

Consumer Price Index

(% change, previous year)

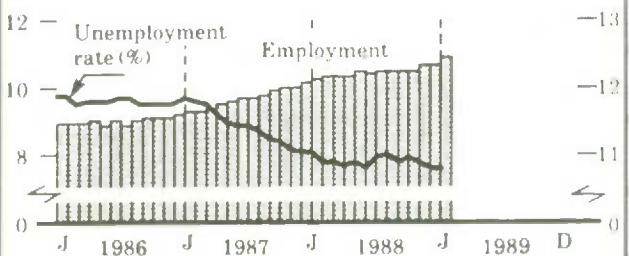


Following several months of slower growth, seasonal price increases bumped up the CPI in January.

Unemployment Rate and Employment

%

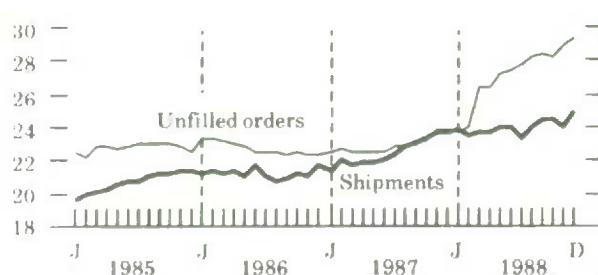
millions



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

Manufacturing

(billions of dollars)



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 MARCH 3 TO MARCH 9

AGRICULTURE

Farm Cash Receipts, January-December 1988. Catalogue number 21-001 (Canada: \$10/\$40; Other Countries: \$11/\$44).

The Dairy Review, December 1988. Catalogue number 23-001 (Canada: \$11/\$110; Other Countries: \$12/\$120).

HOUSEHOLD SURVEYS

Household Facilities by Income and Other Characteristics, 1988. Catalogue number 13-218 (Canada: \$35; Other Countries: \$37).

INCOME AND EXPENDITURE

System of National Accounts, Aggregate Productivity Measures, 1987. Catalogue number 15-204 (Canada: \$28; Other Countries: \$29).

INDUSTRY

Asphalt Roofing, January 1989. Catalogue number 45-001 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

Fruit and Vegetable Preservation, Vol.17, No.10, Pack of Canned Pears, 1988. Catalogue number 32-023 (Canada: \$7/\$115; Other Countries: \$8/\$125).

Fruit and Vegetable Preservation, Vol. 17, No. 18, Pack of Processed Brussels Sprouts, 1988. Catalogue number 32-023 (Canada: \$7/\$115; Other Countries: \$8/\$125).

Fruit and Vegetable Preservation, Vol. 17, No. 22, Pack of Processed Mushrooms, 1988. Catalogue number 32-023 (Canada: \$7/\$115; Other Countries: \$8/\$125).

Fruit and Vegetable Preservation, Vol.17, No.9, Pack of Processed Plums, 1988. Catalogue number 32-023 (Canada: \$7/\$115; Other Countries: \$8/\$125).

Gypsum Products, January 1989. Catalogue number 44-003 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

Primary Iron and Steel, December 1988. Catalogue number 41-001 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

Retail Trade, October 1988. Catalogue number 63-005 (Canada: \$16/\$160; Other Countries: \$17/\$170).

INDUSTRY - Concluded

Retail Trade, November 1988. Catalogue number 63-005 (Canada: \$16/\$160; Other Countries: \$17/\$170).

Rigid Insulating Board (Wood Fibre Products), January 1989. Catalogue number 36-002 (Canada: \$4.50/\$45; Other Countries: \$5.50/\$55).

INTERNATIONAL AND FINANCIAL ECONOMICS

Financial Flow Accounts, Fourth Quarter 1988. Catalogue number 13-014 (Canada: \$11.50/\$46; Other Countries: \$12.50/\$50).

INTERNATIONAL TRADE

Summary of Canadian International Trade (H.S. Based), December 1988. Catalogue number 65-001 (Canada: \$16.50/\$165; Other Countries: \$17.50/\$175).

LABOUR

Estimates of Labour Income, July-September 1988. Catalogue number 72-005 (Canada: \$17.25/\$69; Other Countries: \$18.25/\$73).

Labour Force Information, February 1989. Catalogue number 71-001P (Canada: \$5.50/\$55; Other Countries: \$6.50/\$65).

PRICES

Industry Price Indexes, December 1988. Catalogue number 62-011 (Canada: \$16.50/\$165; Other Countries: \$18.50/\$185).

SERVICES

Business Services, 1984-1986. Catalogue number 63-232 (Canada: \$28; Other Countries: \$30.50).

Telephone Statistics, December 1988. Catalogue number 56-002 (Canada: \$7.50/\$75; Other Countries: \$8.50/\$85).

TRANSPORT

Railway Carloadings, January 1989. Catalogue number 52-001 (Canada: \$7.50/\$75; Other Countries: \$8.50/\$85).



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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)	Dec.	142.3	0.5%	3.5%
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)	Jan. *	239	5.3%	20.1%
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)	Dec. *	27.2	0.4%	8.4%
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)	Jan. *	141.2	0.9%	14.2%

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

* New this week.

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