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A Weekly Review

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GDP edges down for first time in nearly two years

Canada's economy shrank between April and June for the first time in almost two years under the burden of SARS, the mad cow disease scare and a stronger Canadian dollar.

Real gross domestic product (GDP) edged down 0.1%, the first quarterly contraction since the third quarter of 2001.

Much of the weakness came in April at the height of the SARS outbreak. The economy posted gains in both May and June.

On an annualized basis, Canada's output declined 0.3%, compared with a 3.1% gain in the United States.

A 0.7% increase in consumer spending and a 0.5% gain in business investment shored the economy up between April and June. But both slowed significantly from their first-quarter pace.

Growth in spending on services accounted for three-fourths of the increase in consumer spending. Outlays on recreational services increased 2.6%, bolstered by gambling and attendance at spectator sports. But labour income growth slowed to 0.3% and job gains were negligible.

(continued on page 2)

Real gross domestic product, $ chained 1997[1]

	Change	Annualized change	Year-over-year change
		%	
First quarter 2002	1.4	5.8	2.5
Second quarter 2002	0.9	3.8	3.2
Third quarter 2002	0.7	2.7	4.0
Fourth quarter 2002	0.4	1.6	3.5
First quarter 2003	0.6	2.6	2.7
Second quarter 2003	-0.1	-0.3	1.6

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 a previous year.*

GDP edges down... *(continued from page 1)*

At the same time, a slowdown in inventory investment held the economy back. Wholesalers and retailers built up inventories at a slower pace in the second quarter. More than half of this slowdown was due to motor vehicle inventories.

With the combination of SARS and the war in Iraq, the number of Canadians traveling abroad fell a sharp 5.9%, while the volume of foreign travel to Canada plunged 14%.

Corporate profits tumbled 8.2%, the first decline since the fourth quarter of 2001. This sharp drop stemmed largely from reduced energy prices in the second quarter, which contributed to substantially lower profits in the energy sector.

The slump continued in manufacturing, where output fell for the third consecutive quarter, as lower production levels were widely reported.

Motor vehicle parts manufacturers pared back production. Food manufacturers were hard hit toward the end of the quarter by the mad cow disease scare. Sawmills were hampered by the stronger dollar, making it more difficult to compete in American markets.

Manufacturers of information and communication technologies equipment continued their downward spiral that started in late 2000.

Demand for housing remained strong. Investment in residential structures advanced 0.9%, matching growth of the first quarter. Housing starts exceeded 200,000 units, still at historically high levels, but were nonetheless below the starts in the previous three quarters.

On a monthly basis, gross domestic product by industry inched up 0.1% in June after a 0.2% gain in May. On average, the level of economic activity has remained flat since the start of the year.

Sluggishness in the economy resulted largely from a continuing decline in industrial production, with significantly lower output in manufacturing and utilities. Industrial production fell 0.7%, the fifth straight monthly decline.

Manufacturing output fell 1.1%, the largest monthly decline since September 2001. The output of Canadian sawmills fell 6.2% in June, as the impact of a higher Canadian dollar combined with punitive tariffs to thwart export sales to the United States.

Production of motor vehicles was scaled back in light of large stocks of unsold 2003 vehicles. Manufacturing of computer and electronic products declined 1.8%, with lower production of computers and communications equipment.

For more information, contact Jo Ann MacMillan (613-951-7248; joann.macmillan@statcan.ca), Industry Measures and Analysis Division. (See also "Current trends" on page 6.)

Residential construction reaches record level

Residential construction experienced a surge in the second quarter of 2003. The total value of investment climbed to $16.0 billion, a 10.6% increase from 2002. New housing, renovations and acquisition costs all experienced increases.

Between January and June 2003, investment in the housing sector has reached $27.9 billion, up 12.1% from 2002, a record level for this period.

Historically low mortgage rates and their positive impact on the accessibility of homeownership, a high level of employment and a lack of existing homes available on the resale market are some of the factors that have stimulated the demand for new housing.

Construction of new housing reached $7.8 billion, up 8.4% from last year. The greatest contribution to this growth came from increased investment in the construction of single family homes (+6.0% to $5.3 billion), primarily the result of a substantial rise in the average value of this type of unit. Investment in the construction of new apartments was also up sharply (+21.2% to $1.4 billion).

Quebec registered the largest gain (+11.8% to $4.2 billion), with Ontario and British Columbia close behind. In these three provinces, increases in renovations and expenditures for the construction of new apartments and single family homes were responsible for the gain.

For more information contact Étienne Saint-Pierre au (613) 951-2025 (saineti@statcan.ca), Investment and Capital Stock Division.

$1.8 billion plunge in current account surplus

Canada's current account surplus in financial dealings with the rest of the world fell to its second lowest level in a year between April and June as exports slumped and foreign investors reaped profits.

The surplus for the second quarter fell $1.8 billion to $5.1 billion on a seasonally adjusted basis. (The power outage in Ontario meant that several working days were lost in compiling these data. As a result, larger-than-normal revisions may be necessary later.)

The current account, which summarizes all foreign transactions associated with current economic activity in Canada, includes four main types of transactions: trade in goods, trade in services, flows of investment income and transfers.

There were two key factors in the decline in the overall surplus: a $1-billion plunge in the goods surplus to about $14.8 billion; and a $600-million increase in the deficit in investment income, as profits earned by foreign direct investors in Canada rebounded. The deficit in investment income reached almost $7.1 billion.

These events occurred against a backdrop of a strengthening Canadian dollar. At the end of the quarter, the Canadian dollar was worth over 74 US cents, up six full cents from the first quarter, and nearly 11 cents since the beginning of the year.

The surplus in goods fell as exports declined more than imports. Exports of goods reached their lowest level since the fourth quarter of 2001 and their second lowest since the end of 1999.

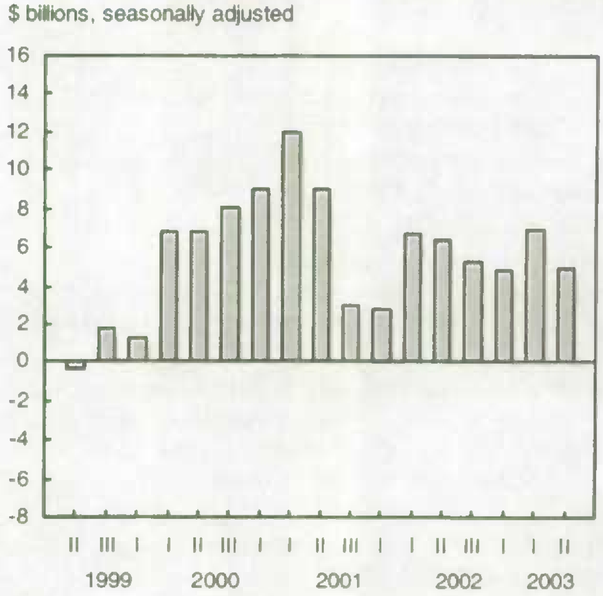
Exports of motor vehicle parts were at their lowest level since the first quarter of 2001 and were responsible for most of the decline in automotive products.

Exports of agriculture products fell as the fear of mad cow disease had a large impact on exports of live animals, and of meat and meat preparations. Wheat exports improved after five quarters of decline, while exports of lumber reached the lowest level in more than 10 years.

Overall, the services deficit increased slightly to $2.7 billion, its highest level since 1995. At the same time, the travel deficit increased by $265 million to $1.1 billion, as fewer foreign visitors came to Canada in the second quarter.

In the financial account, which is not seasonally adjusted, foreign direct investors injected $5.1 billion into the Canadian economy between April and June. It was the fourth straight quarter of slow investment, although a $1.6 billion improvement from the first quarter.

Current account balance



Foreign portfolio investment in Canadian securities, at $8.8 billion, was virtually unchanged for a third straight quarter. Foreign investors also bought more than $6.4 billion in Canadian bonds, two-thirds of the investment of the first quarter, as well as just over $2.9 billion in Canadian stocks.

For its part, Canadian direct investment abroad plunged from more than $5.2 billion in the first quarter to a meager $2.8 billion. Most of the investment was related to reinvested earnings and some small acquisitions.

Canadian investors snapped up nearly $2.7 billion in foreign bonds between April and June, bringing the total for the first half of 2003 to $6.3 billion, equal to the annual total for 2002. Second-quarter buying went entirely to US treasury bonds, as investors sold off a small amount of overseas bonds. In the previous three quarters, Canadian investors had shifted some of their acquisitions to overseas bonds.

At the same time, Canadian demand for foreign equities picked up, as Canadians bought $482 million in US stocks, a major rebound from their sell-off of $2.7 billion in the first quarter.

For more information or to enquire about the concepts, methods or data quality of this release, contact Arthur Ridgeway (613-951-8907), Balance of Payments Division.

Corporate profits halt five straight quarters of gains

Corporate profits slumped between April and June, halting a string of five straight quarters of growth, largely because of falling energy prices.

Profits reached $40.4 billion in the second quarter, down 7.3% from a record high of $43.6 billion in the first. The decline followed a gain of 12.4% in the first three months of the year.

The energy sector again dominated the results, as crude and refined petroleum prices plunged after a first-quarter surge, largely because of concerns over supply. In addition, manufacturing profits reached their lowest level more than a year.

If the oil and gas extraction industry and the petroleum refining industry were excluded, operating profits would have slipped a more modest 1.0 %. Overall, 13 of the 24 broad industry groups posted weaker profit results in the second quarter.

The non-financial group of industries dominated the second-quarter profit slide. Their profits declined 10.3% to $30.7 billion, again halting five straight quarters of gains.

In contrast, operating profits in the financial industries rose 3.7% to $9.7 billion. This gain was somewhat slower than increases of 8.5% and 9.3% in the preceding two quarters. Insurance company profits rose to $1.7 billion from $1.5 billion in the first quarter.

Operating profits in the oil and gas extraction industry tumbled to $4.5 billion in the second quarter from $6.5 billion in the first. Despite the second-quarter weakness, operating profits of oil and gas producers were still 39.9% above those earned in the second quarter of 2002.

Manufacturers saw their profits tumble 10.0% in the second quarter, curtailed by sizable declines in the petroleum and coal, primary metals and motor vehicles industries.

Manufacturers had enjoyed sustained growth over the previous six quarters that lifted profits from $6.5 billion in the third quarter of 2001 to the recent high of $10.5 billion in the first quarter of 2003.

Financial statistics for enterprises
Seasonally adjusted

	Q2 2002	Q1 2003	Q2 2003	Q1 to Q2 2003
	$ billions			% change
All industries				
Operating revenue	569.3	596.8	590.2	-1.1
Operating profit	36.2	43.6	40.4	-7.3
Non-financial industries				
Operating revenue	517.7	543.4	536.6	-1.3
Operating profit	27.8	34.2	30.7	-10.3
Financial industries				
Operating revenue	51.6	53.4	53.6	0.3
Operating profit	8.4	9.4	9.7	3.7

Although the second quarter profit downturn was centred in the petroleum industry, weakness was widespread, with 11 of the 17 manufacturing industries reporting lower second-quarter profits. Excluding the petroleum and coal industry, manufacturing profits were down 3.5%.

Petroleum and coal manufacturers suffered a 33.2% slide in operating profits in the second quarter.

Manufacturers of primary metals saw operating profits tumble 27.7% to $0.4 billion, following a 19.6% drop in the first quarter. Softening steel demand, as well as lower priced imports from off-shore steel producers, are cited as causes of difficult market conditions within the industry.

Motor vehicles and parts manufacturers earned $1.3 billion in second-quarter operating profits, down 7.4%.

Profits in the wood and paper industry fell 13.9% to $0.6 billion. They have been in a downward spiral since peaking at $2.3 billion in the first quarter of 2000. Profits on lumber exports continued to be hindered by punitive duties on softwood lumber exports to the United States.

For more information, contact Bill Potter (613-951-2662) or Haig McCarrell (613-951-5948), Industrial Organization and Finance Division.

World trade analyzer

International Trade Division's current version of the *World trade analyzer* on CD-ROM is now available with annual time series data covering the period 1985-2001. With data on bilateral merchandise trade flows among all the United Nations member countries covering more than 700 commodities in nine broad commodity groups, the database recompiles the UN data on a consistent basis and reconciles the differing values of trade reported by exporting and importing countries. It uses a version of the Standard International Trade Classification (SITC) Revision 2, modified to match Canadian trade and industry classifications.

For more information contact Jocelyne Elibani (1-800-294-5583; 613-951-9786; trade@statcan.ca), International Trade Division.

One in five say they'll never retire

New data from the General Social Survey (GSS) underscore the extent to which people in their late 40s and 50s are uncertain about when they will retire.

In addition, nearly one-third of these individuals feel they haven't made adequate preparations to maintain their standard of living after they leave their job.

Just over 6 million people were aged 45 to 59 in 2001, according to census data. They include about three-quarters of the baby-boomer generation born between 1946 and 1965. In the next decade, as the baby boomers move through their 50s and 60s, more Canadians than ever before will be poised to make the transition to retirement.

About 12% of Canadians aged 45 to 59 did not know when they plan to retire, while an additional 18% said they did not intend to ever retire. Together these two groups represented nearly 1.4 million people, almost one-third (31%) of all non-retired Canadians aged 45 to 59.

GSS data show a wide variation in the age at which Canadians plan to retire. Just over one-fifth (22%) of non-retired people aged 45 to 59 said they plan on retiring before 60, while comparable proportions said they plan on retiring between 60 and 64 (22%) or at 65 (23%).

Only 3% said they plan on retiring after 65. The remaining 31% said either that they don't know when they plan on retiring, or that they do not intend to retire.

Evidence from the Labour Force Survey shows that since the late 1970s, the average age of retirement in Canada declined from about 65 to 61 years of age.

Almost one-third of non-retired Canadians in their late 40s and 50s said they were not making adequate financial preparations for their retirement. For example, 33% of women said their financial preparations were inadequate, compared with 29% of men.

Financial characteristics were also important factors. Concerns about their financial future were most prevalent among people who did not have private pension coverage, who did not own their home, who had lower personal and household incomes, and who had fewer weeks of employment during the year.

People who were widowed, separated or divorced were far more likely to feel that their financial preparations were inadequate, compared with those who were married or living in a common-law relationship.

The respondents who had already retired were asked to compare their financial situation to their situation during the year before retirement. Among recently retired Canadians, the majority (53%) said that their financial situation was about the same as it was the year before they retired. Just over 13% said their financial situation had improved since then.

Together, two-thirds of recent retirees either experienced no change or an improvement in their financial standard of living after leaving the labour force. The remaining one-third (34%) reported being financially worse off.

For more information contact Grant Schellenberg (613-951-9580), Housing, Family and Social Statistics Division.

Monthly Survey of Large Retailers
June 2003

Year-over-year sales growth in June was weak for most commodity groups. Overall sales amounted to $7.3 billion, up only 0.9% from June 2002. This was the smallest year-over-year increase since the survey's inception in 1997.

Health and personal care products posted the largest increase, up 7.4% and clothing, footwear and accessory sales fell 1.6% in June from June 2002.

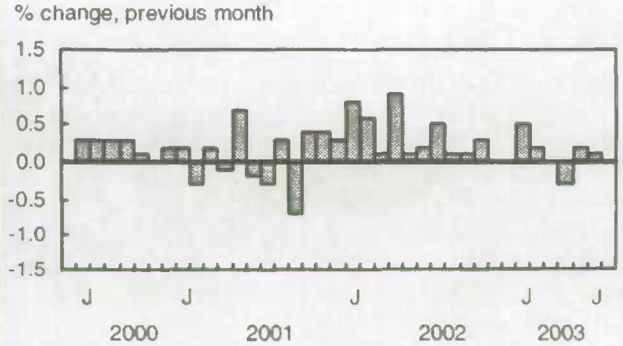
Household appliance sales were relatively strong (+7.5%), in part because of a torrid housing market across the country. Household appliances were a strong performer in 2002, but had seen some weakening in early 2003. Sales of home electronics (cameras, photographic supplies, telephones and home office electronics) also posted strong increases in June. However, home furnishings (artwork, bedding, floor coverings) were weak, dropping 2.4%.

Sales of tobacco products and supplies, which represent about one-quarter of this category, dropped a sharp 11.1% from June 2002, despite a 16.1% price increase. Automotive fuels, oil and additives, and motor vehicle parts, service and rental — each representing about one-fifth of the sales — increased 5.3% and 0.4%, respectively, compared with June 2002.

For more information contact Client Services (1-877-421-3067; 613-951-3549; retailinfo@statcan.ca), Distributive Trades Division.

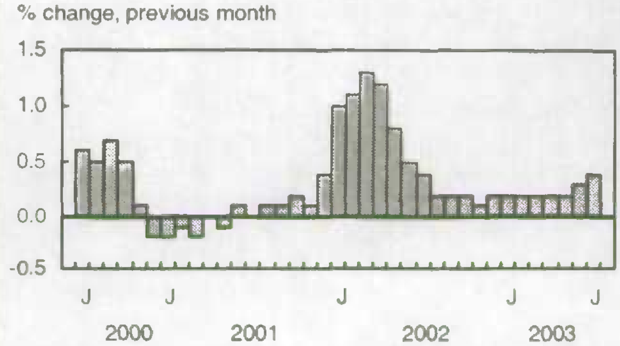
Current trends

Gross domestic product



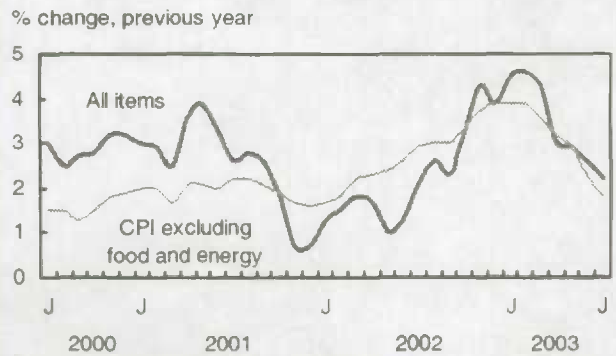
Total economic activity edged up 0.1% in June after a 0.2% gain in May.

Composite Index



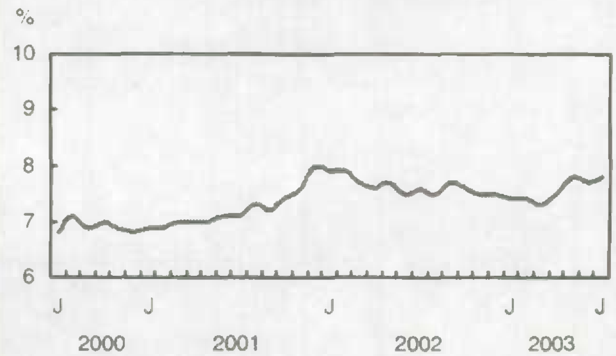
The leading indicator grew 0.4% in July after rising 0.3% in June.

Consumer Price Index



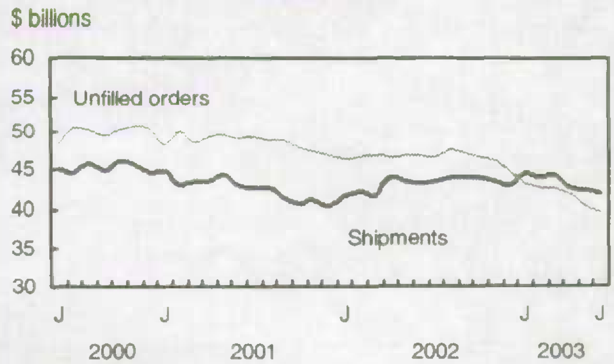
Consumer prices for goods and services were 2.2% higher in July than they were a year earlier. Excluding food and energy, prices rose 1.8%.

Unemployment rate



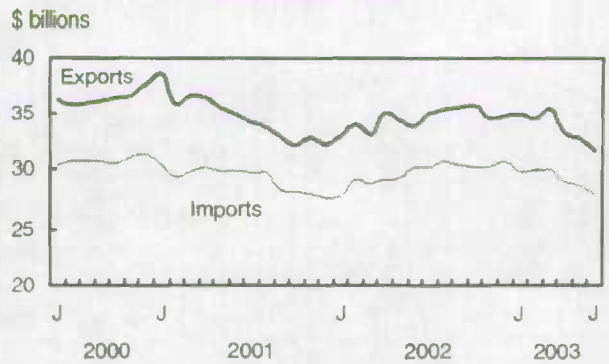
In June, the unemployment rate rose 0.1 percentage points to 7.8%.

Manufacturing



Manufacturers' shipments fell 0.5% in June to $41.9 billion. The backlog of unfilled orders declined 1.3% to $39.6 billion.

Merchandise trade



In June, the value of merchandise exports dropped 3.2% to $31.6 billion. Imports fell 2.2% to $28.0 billion.

Note: All series are seasonally adjusted except the Consumer Price Index.

Latest statistics

	Period	Level	Change, previous period	Change, previous year
GENERAL				
Gross domestic product ($ billions, 1997)[1]	June*	995.0	0.1%	1.9%
Composite Index (1992=100)	July	182.5	0.4%	2.4%
Operating profits of enterprises ($ billions)	Q2 2003	40.4	-1.3%	11.7%
Capacity utilization rate (%)[2]	Q1 2003	82.8	0.3†	1.2†
DOMESTIC DEMAND				
Retail trade ($ billions)	June	26.4	0.3%	2.7%
New motor vehicle sales (thousands of units)	June	130.0	-10.2%	-8.9%
Wholesale trade ($ billions)	June	35.8	0.0%	3.3%
LABOUR				
Employment (millions)	July	15.7	-0.1%	1.9%
Unemployment rate (%)	July	7.8	0.1	0.2†
Participation rate (%)	July	67.5	0.0†	0.6†
Average weekly earnings ($)	June	693.29	0.9%	2.1%
Regular Employment Insurance beneficiaries (in thousands)	May	561.4	2.7%	0.3%
INTERNATIONAL TRADE				
Merchandise exports ($ billions)	June	31.6	-3.8%	-6.5%
Merchandise imports ($ billions)	June	28.0	-2.2%	-7.0%
Merchandise trade balance (all figures in $ billions)	June	3.6	-0.4	-0.1
MANUFACTURING				
Shipments ($ billions)	June	41.9	-0.5%	-3.1%
New orders ($ billions)	June	41.4	2.0%	-4.7%
Unfilled orders ($ billions)	June	39.6	-1.3%	-15.6%
Inventory/shipments ratio	June	1.50	-0.01	0.07
PRICES				
Consumer Price Index (1992=100)	July	122.2	0.1%	2.2%
Industrial Product Price Index (1997=100)	July*	105.3	1.3%	-1.6%
Raw Materials Price Index (1997=100)	July*	110.0	-1.5%	-2.4%
New Housing Price Index (1992=100)	June	116.3	0.3%	4.5%

Note: All series are seasonally adjusted with the exception of the price indexes.
* *new this week*
† *percentage point*
[1] *1997 replaces 1992 as the base year used in determining prices for gross domestic product by industry. Also, valuation has been changed from factor cost to basic prices.*
[2] *Calculation of the rates of capacity use is now based on the 1997 North American Industry Classification System (NAICS), which has replaced the 1980 Standard Industrial Classification.*

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Products released from August 28 to Septe

SUBJECT AREA Title of product	Period	Catalogue number	Price ($) (issue/subscription)
AGRICULTURE			
Stocks of frozen and chilled meats	August 2003	23-009-XIE	Free
The dairy review	April-June 2003	23-001-XIB	27/89
ANALYTICAL STUDIES			
Economic analysis research paper series: The impact of self-employment on labour-productivity growth: A Canada and United States comparison.	No. 16	11F0027MIE2003016	Free
CURRENT ECONOMIC ANALYSIS			
Canadian economic observer	August 2003	11-010-XIB	17/170
Canadian economic observer	August 2003	11-010-XPB	23/227
HEALTH STATISTICS			
Canadian Community Health Survey: Mental health and well-being	2002	82-617-XIE	Free
INCOME AND EXPENDITURE ACCOUNTS			
Canadian economic accounts quarterly review	Q2 2003	13-010-XIE	Free
Estimates of labour income, monthly estimates	June 2003	13F0016DDB	125/500
Estimates of labour income, monthly estimates	June 2003	13F0016XDB	25/100
Estimates of labour income, monthly estimates	June 2003	13F0016XPB	20/65
Financial flow accounts, quarterly estimates	Q2 2003	13-014-PPB	50/180
Financial flow accounts, quarterly estimates	Q2 2003	13-014-DDB	300/1,200
Financial flow accounts, quarterly estimates	Q2 2003	13-014-XDB	60/240
National income and expenditure accounts, quarterly estimates	Q1 2003	13-001-XIB	33/109
National income and expenditure accounts, quarterly estimates	Q2 2003	13-001-PPB	50/180
National income and expenditure accounts, quarterly estimates	Q2 2003	13-001-XDB	25/100
National income and expenditure accounts, quarterly estimates	Q2 2003	13-001-DDB	125/500
INTERNATIONAL TRADE			
Exports by commodity	May 2003	65-004-XMB	37/361
Exports by commodity	May 2003	65-004-XPB	78/773
Imports by country	January-June 2003	65-006-XMB	62/206
Imports by country	January-June 2003	65-006-XPB	124/412
World trade analyzer	2001	65F0016XCE	Various prices
LABOUR STATISTICS			
Guide to the analysis of Workplace and Employee Survey 2001	2001	71-221-GIE	Free
Employment, earnings and hours	June 2003	72-002-XIB	24/240
MANUFACTURING, CONSTRUCTION AND ENERGY			
Primary iron and steel	June 2003	41-001-XIB	5/47
TRANSPORTATION			
Monthly railway carloadings	June 2003	52-001-XIE	8/77

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