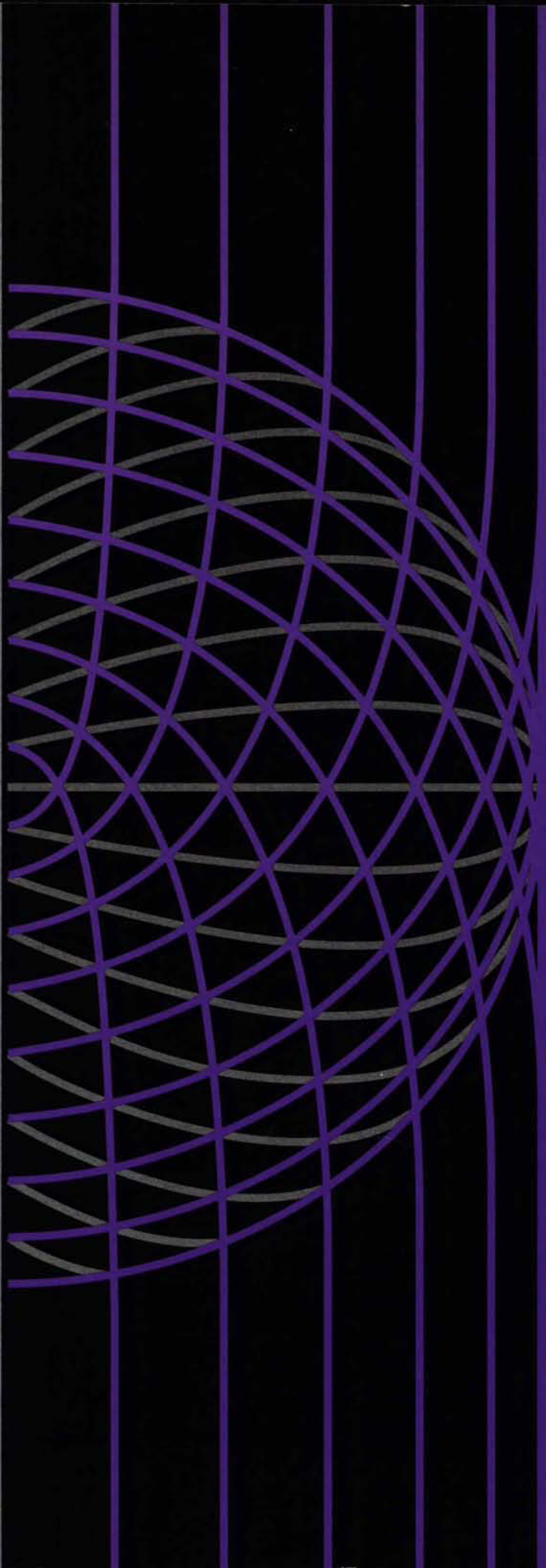


Periodical Publishing

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Canada

1990-1991

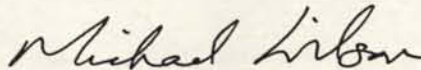
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BIBLIOTHÈQUE
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TECHNOLOGIE CANADA**FOREWORD**

In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to growth and prosperity. Promoting improved performance by Canadian firms in the global marketplace is a central element of the mandates of Industry, Science and Technology Canada and International Trade Canada. This Industry Profile is one of a series of papers in which Industry, Science and Technology Canada assesses, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological, human resource and other critical factors. Industry, Science and Technology Canada and International Trade Canada assess the most recent changes in access to markets, including the implications of the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the profiles.

Ensuring that Canada remains prosperous over the next decade and into the next century is a challenge that affects us all. These profiles are intended to be informative and to serve as a basis for discussion of industrial prospects, strategic directions and the need for new approaches. This 1990-1991 series represents an updating and revision of the series published in 1988-1989. The Government will continue to update the series on a regular basis.



Michael H. Wilson
Minister of Industry, Science and Technology
and Minister for International Trade

Structure and Performance**Structure**

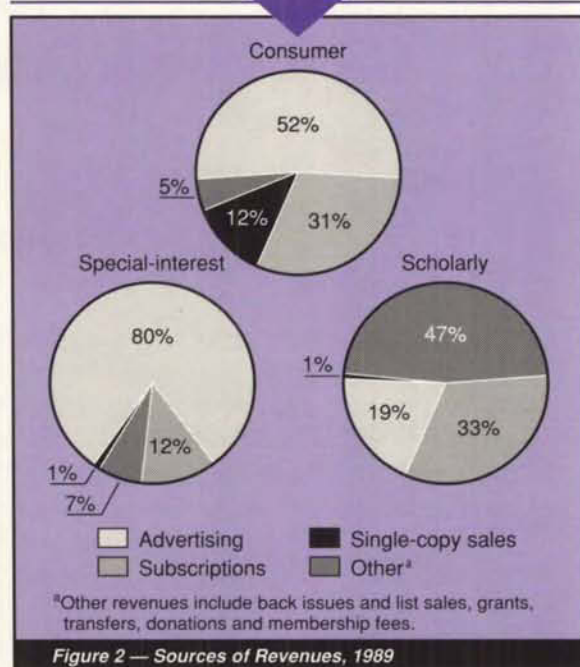
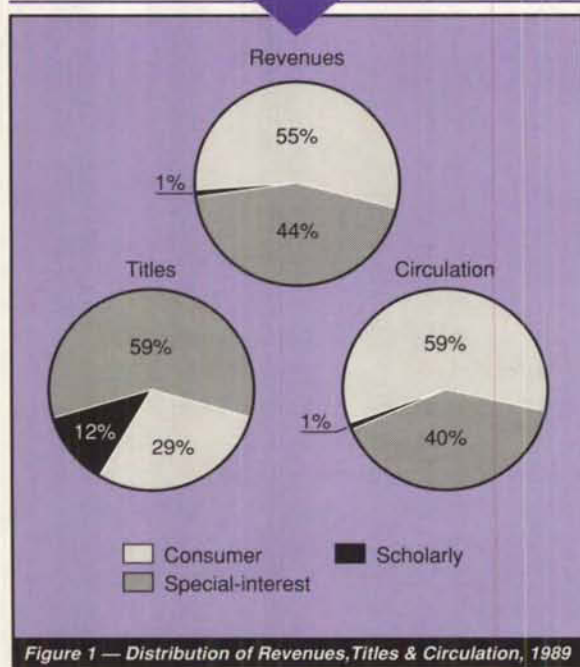
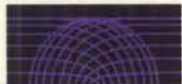
Periodical publishers perform a variety of operations, including the gathering of news, the preparation of articles and editorials, the selling of advertising space and the preparation of advertisements and distribution. A small number of firms also perform their own printing. The others subcontract this operation to commercial printers.

For consistency, the definition and categorization of periodicals provided by Statistics Canada are used in this profile.¹ Periodicals can be grouped into three distinct categories: general-interest consumer periodicals (also called magazines), special-interest periodicals (including business, professional, trade and farm periodicals) and scholarly periodicals.

In 1989, the industry comprised approximately 1 091 firms, publishing about 1 611 periodicals with a total circulation of 40 million copies per issue. Employment directly attributable to the publishing of periodicals is estimated to be around 6 270, including 4 509 full-time employees. In addition, the industry makes use of about 4 500 volunteers, mostly engaged in research and provision of articles and editorials. Revenues totalled about \$903 million in 1989, of which 64 percent originated from advertising sales. Periodicals received about 6.3 percent of total net advertising revenues by all media. In comparison, radio captured 8.3 percent, television 15.6 percent, and newspapers 29.7 percent. Other media accounted for the rest.

Consumer periodicals generated sales of \$497 million, or 55 percent of total 1989 revenues, even though this type of periodical accounted for only 29 percent of the number

¹A periodical is defined as a printed means of communication, stapled, stitched, glued, folded or otherwise formed into a distinct package, and published more than once a year but not more often than once a week. In addition, advertising must not represent more than 70 percent of the content. Accordingly, directories, annual reports and circulars are excluded from this profile. Data by category of periodical for 1989 are ISTC estimates.



of titles published (Figure 1). Special-interest periodicals earned about 44 percent of the revenues and accounted for 59 percent of the titles published. Scholarly periodicals registered \$12 million, more than 1 percent of the industry revenues.

As indicated in Figure 2, advertising was the major source of revenues for both consumer and special-interest periodicals in 1989. Subscription revenues represented about a third of revenues for consumer and scholarly periodicals. Almost half of the revenues of scholarly periodicals originated from other sources, mostly from grants.

Periodicals can also be categorized according to their method of circulation. Controlled-circulation periodicals (ones delivered free to select audiences) represented 39 percent of all periodicals published in 1989 and accounted for 44 percent of the total circulation of all periodicals. Paid-circulation periodicals (ones sold as single copies and through subscriptions) accounted for the balance. Almost two-thirds of all consumer periodicals and more than 70 percent of all scholarly periodicals fall into the paid-circulation category. Approximately half of all special-interest periodicals fall into the controlled-circulation group.

Traditionally, profitability and return on investment for publishers of periodicals have been low. The industry registered an average profit rate before taxes of 4 percent of revenues in 1989, the same as in 1988. However, when the size of the firm is taken into consideration, small firms (revenues less than \$100 000) averaged a loss of 23 percent

of revenues while large firms (revenues exceeding \$500 000) registered a profit before taxes of 6 percent of revenues. Consumer periodicals on average registered profits before taxes of 5 percent of revenues, while special-interest periodicals showed a 6 percent rate. Scholarly periodicals averaged a loss of 2 percent. The average profit before taxes for French-language periodicals was approximately 7 percent of revenues, 3 percent higher than the national average.

The industry is characterized by the presence of a large number of small firms, but it is dominated by a few large publishers. In 1989, large firms produced 23 percent of the periodicals but generated 85 percent of industry revenues. Of the 1 091 publishers in the industry, more than 950 published only one periodical. The largest firm published about 70 special-interest and consumer periodicals. The majority of the small firms restrict their activities to the publishing of periodicals. In contrast, the larger firms are usually involved in several communications fields, for example, radio, television, newspapers and books.

The industry is concentrated in Ontario. More than 50 percent of titles were published in that province, generating approximately 62 percent of the revenues of the industry. Quebec firms followed with 27 percent of the titles published and 27 percent of the revenues. There were no other provinces where firms published more than 10 percent of the titles. Approximately 60 percent of the periodicals were published in English, 22 percent in French, 15 percent were bilingual and



the remaining 3 percent in other languages. About 74 percent of the periodicals are delivered through the postal service; the others are distributed by private delivery services. Periodicals sold exclusively through newsstands represented about 7.6 percent of total circulation per issue in 1989.

There are approximately 330 periodicals in the French-language segment of the industry, the majority of those published in the province of Quebec. More than 50 percent of these periodicals fall into the special-interest category and around 40 percent in the consumer group. French-language periodicals in 1988 generated sales of approximately \$188 million, or 21 percent of the total revenues of the Canadian periodicals publishing industry. French-language periodicals rely less on advertising as a source of revenues than their English-language counterparts do; advertising revenues represent only 51 percent of total revenues in Quebec, compared with 68 percent in Ontario. In contrast, French-language periodicals generate a larger proportion of their revenues from newsstand sales than their English-language counterparts — approximately 14 percent versus a national average of 7 percent. This situation could be explained by the fact that Francophones are greater readers of Canadian writings than are Anglophones. In many cases, because French-language periodicals command a greater share of newsstand space, more attention is given to cover design, making them more competitive and therefore salable.

The industry is predominantly Canadian-owned. Canada's *Income Tax Act* effectively prevents foreign ownership of periodicals by making such businesses unprofitable if foreign-owned. More specifically, the Act prohibits the deduction of advertising expenditures by Canadian companies as a legitimate expense for income tax purposes when such advertising is placed in foreign-owned periodicals. In order to compete in the advertising market, foreign-owned periodicals would have to reduce their advertising rates below the rates offered by Canadian-owned periodicals. Some major Canadian publishers now own periodicals in the United States; however, their combined share of the U.S. market is small.

Canada has a major trade deficit in the periodical sector. Canadian exports of periodicals totalled about \$16 million in 1989, of which 99.6 percent was directed to the United States. Exports represented about 2 percent of revenues. Imports of periodicals into Canada totalled about \$633 million in 1989, accounting for 42 percent of the Canadian market (Figure 3). The import penetration rate for consumer periodicals could be as high as 65 percent. Correspondingly, the ratio would be lower for the other two categories of periodicals. Newsstand sales for consumer periodicals are dominated by foreign periodicals, most of those coming from the United States. As a measure of the importance of import penetration,

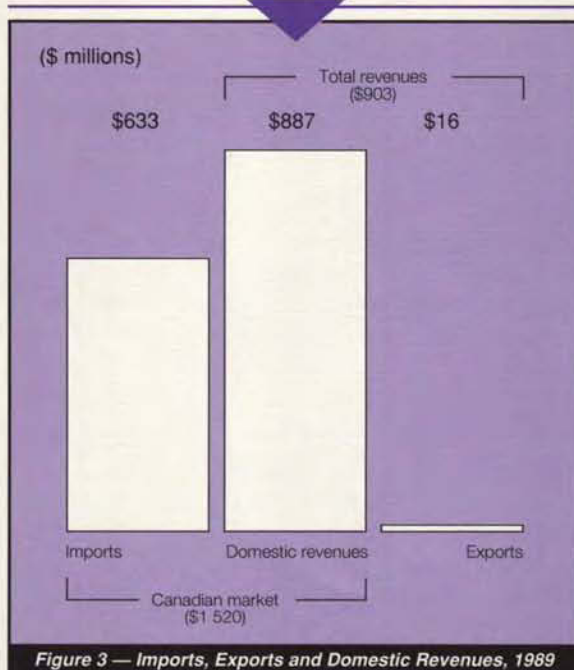


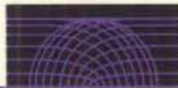
Figure 3 — Imports, Exports and Domestic Revenues, 1989

it is generally accepted that U.S. products account for about three-quarters of the newsstand sales of English-language consumer periodicals in Canada.

In recent years, there has been a growing trend, mainly in Quebec, toward the internationalization of communications. The number of partnerships with foreign publishers is increasing. Transmo (Quebecor) bought the rights from IPC Magazines of Great Britain to publish *L'Essentiel*, a consumer periodical for women in Canada. Transcontinental Publications is in a joint venture with the French group, Bayard, to publish *Good Times* and *Le Bel Age*, two consumer periodicals aimed at seniors. Télémedia Publishing is a partner with the French company Hachette in publishing *Elle Québec*, a consumer periodical for young women. These joint ventures and licences allow Canadian publishers to finance periodicals that they might not be able to afford otherwise. They are a reflection of the need to reduce the risks and costs inherent in launching new consumer periodicals.

Performance

Estimated revenues of the industry have increased from \$607 million in 1984 to \$903 million in 1989 in current dollars (Figure 4). In terms of constant 1986 dollars, which take into account the effect of inflation, average growth was 4 percent per year. The industry did reasonably well compared with the total manufacturing sector, which registered an average annual increase of 3.3 percent in terms of constant 1986 dollars. Of the three categories of periodicals, consumer magazines



generated the most revenues between 1984 and 1989. However, their share of industry revenues has been decreasing since 1985, to the benefit of special-interest periodicals. Canadian consumer periodicals, mostly in the English language, have faced strong competition from foreign publishers, particularly U.S. publishers.

Advertising revenues as a share of total industry revenues remained relatively constant. Between 1985 and 1989, advertising revenues stayed at 63 to 64 percent of total revenues. Single-copy sales have remained low during that period, while subscription sales were increasing their share of total revenues from 18 percent in 1986 to 22 percent in 1989.

The number of publishers increased from 810 in 1984 to approximately 1 091 in 1989, a 35 percent increase over the six-year period. The number of periodicals also increased from 1 400 titles in 1984 to 1 611 in 1989. The greatest share of the increase was attributed to special-interest periodicals. The modest level in employment growth from 1984 to 1986 is at least partly a reflection of improvements in efficiency due to the introduction of desktop publishing and other microelectronics technology. It may also reflect an increased use of free-lancers. The sharper rise in employment after 1986 may be because companies were moving away from the use of outside contractors; the decline in 1989 reflects the reduced number of periodicals.

As a whole, the periodical publishing industry is moderately profitable, with an average profit before taxes of about 4.7 percent during the period 1984 to 1989. General-interest and special-interest periodicals earned profit rates of 4 to 6 percent, while scholarly periodicals showed rates varying from a loss of 5 percent to a gain of 3 percent from 1985 to 1988. Data for this category breakdown are unavailable for 1989.

Canadian exports of periodicals decreased from 1985 to 1989, primarily because some Canadian publishers opened offices in the United States in order to edit and print issues that were previously exported from Canada. Imports have increased steadily from 1985 until 1989, although their relative market share has been declining somewhat because of the even faster growth of the Canadian market.

Strengths and Weaknesses

Structural Factors

Competitiveness in the periodical publishing industry depends largely on the ability to obtain articles of interest to readers, and to market and distribute the publications. Readership in turn attracts advertisers.

The small Canadian market is spread over a large geographic area. The market is further reduced by linguistic

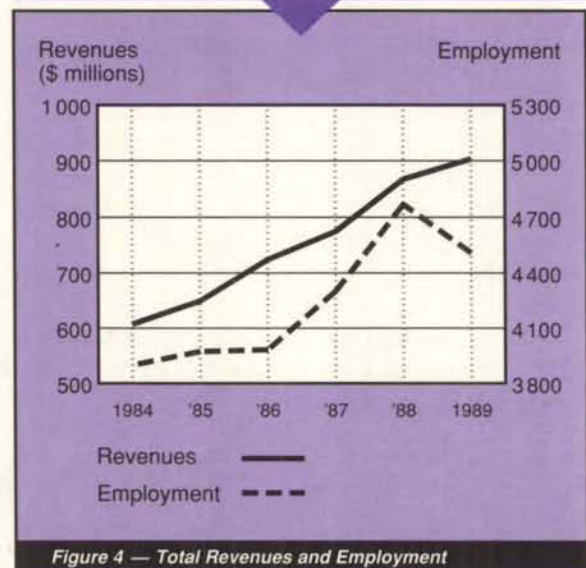


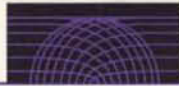
Figure 4 — Total Revenues and Employment

duality. These market limitations prevent most Canadian periodical publishing companies from benefiting from the economies of scale that their U.S. counterparts enjoy. The disparity between Canadian and U.S. corporate size puts Canadian publishers at a disadvantage in their own market, especially for English-language consumer magazines.

Their larger population and pool of advertising dollars allow the large U.S. publishers to offer more extensive editorial coverage, a wider range of topics and a more glossy appearance than their Canadian counterparts. Because of their strong position in the Canadian market, U.S. periodicals have become the price-setters, restricting the prices that can be charged by comparable Canadian publications. Small Canadian periodical publishers tend to suffer from insufficient financing and inadequate expenditures on marketing activities.

Another feature of the Canadian market is the relatively limited space reserved for Canadian periodicals of general interest on newsstands. In Britain, for example, more than 90 percent of consumer periodicals are sold through newsstands, compared with about 6 percent in Canada. Distributors prefer using the available space for the bestsellers, most of which are U.S. magazines. These magazines are more attractive and more reliable as a source of sales. As a result, Canadian publishers of consumer periodicals distribute their products by mail, a process which is both more costly, as it requires more promotional effort than newsstand distribution, and less timely in speed of delivery.

Newsstand exposure is especially important for new periodicals, providing the visibility needed to attract new subscribers. This situation is not as prevalent in French



Canada, where Quebec periodicals have traditionally occupied more space on newsstands, because foreign competition is not as significant.

Expenditures on advertising per capita are lower in Canada than in the United States, and consequently all Canadian media, including periodicals, recover less revenue from this source than their counterparts in the United States. This situation is largely due to the spillover effects of American multinational advertising, which reaches Canadian consumers as well as U.S. ones. Canadian branch offices spend less on advertising, knowing that their U.S. parent companies' advertising programs will reach Canadians.

In the past few years, increased concentration has provided more adequate human and financial resources for some companies and has enabled them to offer a more competitive product. Maclean Hunter, Magazines Publicor Canada and Télémedia Publishing are examples of companies actively involved in rationalization. Such firms are vertically integrated (involved in publishing, printing and distribution) and horizontally integrated (some are involved in broadcasting as well as publishing).

The industry, both in Canada and the United States, is labour-intensive and dependent on skilled employees. In the past few years, labour supply has not been a critical problem area.

Trade-Related Factors

Although Canada, like the United States, the European Community and Japan, extends duty-free entry to periodicals, non-tariff barriers do exist. As part of the existing measures to protect and enhance the Canadian industry, Section 19 of the federal *Income Tax Act* disallows Canadian advertisers from claiming, as a tax deduction, costs associated with advertising directed to a market in Canada if this advertising is placed in a non-Canadian periodical. Section 19 was amended in 1976 to exclude foreign periodicals printed in Canada. Canada also prohibits the importation of periodicals containing more than 5 percent of Canadian advertising targeting the Canadian population. Religious, literary and scholarly publications are exempted from the latter measure. These regulations were introduced to encourage Canadian and foreign advertisers to use Canadian periodicals.

As part of the cultural industries, the periodical publishing industry is virtually excluded from the Canada-U.S. Free Trade Agreement (FTA). Under the FTA, Canada removed, on 1 January 1989, the "print and typeset in Canada" requirement (one of the criteria previously used to define Canadian periodicals) and, thus, eligibility for the deduction of advertising expenses for income tax purposes. The tax deductions for advertisements placed in Canadian-controlled periodicals

are maintained, but the periodicals may now be printed outside Canada and still qualify for tax deductions.

Technological Factors

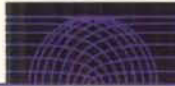
The industry generally relies on manufacturers of machinery and equipment to develop technological improvements. Most technological innovations are developed abroad, but the Canadian publishing and printing industries have kept pace with their foreign counterparts. They are as modern as any of their international competitors.

Ongoing improvements allow the industry to offer a better-quality product at a lower cost. The latest innovations for the periodical publishing industry are in the typesetting, platemaking, binding and finishing stages of production. Especially important has been the acquisition of typesetting and desktop publishing equipment. Desktop publishing has completely changed the way pages are put together for many periodicals in the country. Because of its flexibility, the desktop system offers the capability to customize the look of the periodical with charts, graphs and text wrapped around photos and illustrations. In addition, increased use of ink-jetting and selective binding technology in periodical publishing enables publishers to offer more personalized and more specialized products and services.

Other Factors

The manufacturing processes used by publishers and commercial printers do not give rise to serious pollution problems. Nonetheless, the publishing and commercial printing industries in Canada and the United States will have to address their readers' environmental concerns, such as demands for even greater use of recycled paper.

Over the years, the federal government has adopted several special measures to support the periodical publishing industry. In addition to the measures already described in the "Trade-Related Factors" section, government assistance has been offered through the provision of preferential postal rates for all periodicals (Canadian and some foreign) to help reduce distribution costs. In December 1989, the federal government announced the phasing out of the annual postal subsidy program known as the Publications Distribution Assistance Program. The program will be replaced with a new program of direct support to Canadian periodical publishers totalling approximately \$85 million per year. On 1 March 1991, foreign-owned periodicals became ineligible for subsidized postal rates, and postal rate increases for Canadian-owned, paid-circulation periodicals were limited to the rate of inflation until the end of March 1994, when the new program of direct payment will come into effect. Also on 1 March 1991, the effective postal rates for most Canadian-owned, controlled-circulation periodicals



increased by 50 percent and, with another adjustment in 1992, the postal rates for this category will return to commercial rates.

On 4 July 1990, the federal government announced a new Cultural Industries Development Fund program of \$33 million over five years to provide Canadian-owned and -controlled cultural industries with loan financing and management consulting services.

Periodicals are exempted from the existing federal sales tax, but the periodical publishing industry is subject to the 7 percent federal goods and services tax (GST) implemented on 1 January 1991.

The Canada Council offers grants to artistic, literary and children's periodicals. The Social Sciences and Humanities Research Council of Canada provides assistance to scholarly journals while the Natural Sciences and Engineering Research Council of Canada supports scholarly scientific publications.

The industry's products are subject to provisions of the *Canadian Copyright Act*, which came into force in 1924. Major amendments were made in June 1988. The two most important measures affecting the periodical publishing industry are the penalties for infringement of copyright and the creation of agencies for the collective administration of copyright. Under the Act, the penalties for infringement are much tougher, up to \$1 million in fines and five years in jail, compared with a maximum fine of only \$200 and two months in jail under the old Act. The Act allows the creation of agencies to collect royalties on behalf of publishers for the reproduction of articles. A second series of amendments dealing primarily with the concerns of users of copyright material is expected to be introduced in Parliament in the near future.

Some provincial governments support the periodical publishing industry, mostly in the areas of art and literature.

Evolving Environment

At the time of writing, the Canadian and U.S. economies were showing signs of recovering from a recessionary period. During the recession, companies in the industry generally experienced reduced demand for their outputs, in addition to longer-term underlying pressures to adjust. In some cases, the cyclical pressures may have accelerated adjustments and restructuring. With the signs of recovery, though still uneven, the medium-term outlook will correspondingly improve. The overall impact on the industry will depend on the pace of the recovery.

The industry will need to make adjustments to face the phasing out of the Canada Post grants and the introduction of the GST. The Canadian industry expects these measures to have a negative impact.

Overall, market demand for periodicals over the medium term is projected to grow at a moderate rate, but one that is higher than the country's gross domestic product (GDP). Factors such as the amount of leisure time and the education level of the population will continue to exert a strong positive influence on demand. In particular, the fragmented leisure market with more needs and more submarkets will give rise to more specialized, targeted publications. However, other factors, such as the anticipated slower population growth and the aging of the population, will have a negative impact on demand. So will the strong competition among leisure products for a share of the consumer's time and money, especially technological developments such as video games and pay television.

The current Uruguay Round of multilateral trade negotiations and the integration of the economies of the European Community after 1992 should have minimal impact on the Canadian periodicals publishing industry.

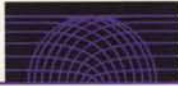
One new trend that seems to be emerging in the periodical publishing industry is the internationalization of culture through such means as joint ventures. The Canadian industry is also restructuring itself through acquisitions and mergers to be in a better position to capture a larger share of the Canadian market.

The FTA should have only a minor effect on the industry. The elimination of the "print and typeset in Canada" requirement as one of the criteria to define Canadian periodicals will enable Canadian publishers to investigate the possibility of subcontracting their printing needs to the United States, as opposed to being restricted to using Canadian printers. However, factors such as freight costs and the need for some Canadian publishers to maintain a distinctively Canadian image would suggest that only a limited number of Canadian periodicals would be able to take advantage of this opportunity.

Competitiveness Assessment

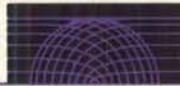
By their very nature, magazines are particular to their country. The English-language segment of the industry is facing strong competition from the United States, mainly in the general-interest magazine segment. The majority of Canadian publishers suffer size-related disadvantages relative to their U.S. counterparts.

In the coming years, the industry will also need to adapt to the phasing out of the postal subsidy program.



For further information concerning the subject matter
contained in this profile, contact

Consumer Products Branch
Industry, Science and Technology Canada
Attention: Periodical Publishing
235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 954-3105
Fax: (613) 954-3107



PRINCIPAL STATISTICS^a

	1984	1985	1986	1987	1988	1989
Publishers	810	921	974	1 064	1 109	1 091
Employment ^b (full-time)	3 900	3 973	3 983	4 300	4 768	4 509
Revenues (\$ millions)	607	649	724	775	867	903
Profits before taxes (\$ millions)	42	26	29	39	35	36
(% of revenues)	7	4	4	5	4	4
Periodicals published	1 400	1 496	1 568	1 595	1 627	1 611

^aSee *Periodical Publishing*, Statistics Canada Catalogue No. 87-203, annual, unless otherwise stated.

^bEmployment figures are from Statistics Canada unpublished data except for 1984 and 1987, which are ISTC estimates, and 1985 and 1989, which were published in *Periodical Publishing*, Statistics Canada Catalogue No. 87-203, annual.

TRADE STATISTICS^a

	1984	1985	1986	1987	1988	1989
Exports (\$ millions)	27	32	20	17	16	16
Domestic revenues (\$ millions)	580	617	704	758	851	887
Imports (\$ millions)	555	526	550	575	600	633
Canadian market (\$ millions)	1 135	1 143	1 254	1 333	1 451	1 520
Exports (% of revenues)	4.4	4.9	2.8	2.2	1.8	1.8
Imports (% of Canadian market)	48.9	46.0	43.9	43.1	41.4	41.6

^aISTC estimates. Statistics Canada does not differentiate among the various types of exporters, including publishers and commercial printers. In addition, small shipments through the mail are not included in existing data.

SOURCES OF IMPORTS^a (% of total value)

	United States	European Community	Asia	Other
1989	94.3	5.3	0.2	0.2

^aSee *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.



DESTINATIONS OF EXPORTS^a (% of total value)

	United States	European Community	Asia	Other
1989	99.6	0.2	0.1	0.1

^aSee *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

REGIONAL DISTRIBUTION^a (average over the period 1987 to 1989)

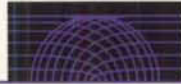
	Atlantic	Quebec	Ontario	Prairies	British Columbia
Publishers (% of total)	5	28	46	12	9
Employment ^b (% of total)	2	19	62	8	9
Revenues (% of total)	1	27	62	5	5

^aSee *Periodical Publishing*, Statistics Canada Catalogue No. 87-203, annual.

^bISTC estimates.

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