

# The Daily

Statistics Canada

Tuesday, March 3, 1987

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## Major Releases

### Gross Domestic Product, Preliminary Annual and Fourth Quarter 1986

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- In 1986, real GDP increased 3.1%.

### Real Gross Domestic Product at Factor Cost, by Industry, December 1986

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- Real GDP increased 1.2% from November.

### Quarterly Estimates of the Canadian Balance of International Payments, Fourth Quarter 1986 and Annual 1986

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- Current account transactions, on a seasonally adjusted basis, produced a large deficit (\$2.3 billion), as in each of the three previous quarters.

### Transactions in Outstanding Securities with Non-residents, December 1986

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- Japanese investments in outstanding Canadian bonds exceeded \$1-billion for the third consecutive month.

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## Major Releases

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### Gross Domestic Product

Preliminary Annual and Fourth Quarter 1986

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

The gain in real GDP reflected growth of about 3% in both final domestic demand and in exports. There was considerable divergence in the growth trends by component, however, partly reflecting large declines in energy and other resource prices during the year. While consumer spending and housing demand posted solid gains in 1986, business investment in plant and equipment flattened out. Exports grew less rapidly than imports, while lower prices received for merchandise exports were a major factor in reducing the overall rate of price increase in GDP to 2.8%, the lowest in over 20 years.

In terms of industry output, growth in 1986 was led by services, up 4.3%. Production of goods was up 1.6%, with output sluggish in mining and manufacturing for much of the year.

### Components of Demand

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

Residential construction rose by 13.2% in volume, comparable to the gain in 1985. Most of the increased house building activity occurred

in Ontario and Quebec, and was accompanied by a sharp increase in house prices.

Business investment in plant and equipment, in real terms, fell 0.8% following a 4% gain in 1985. A sharp cutback in non-residential construction was largely offset by a 5.4% increase in machinery and equipment. The drop in non-residential construction was particularly severe in the energy sector, at a time of declining oil prices. Increased investment in the manufacturing and services industries was most evident in central Canada.

At \$2.2 billion, the volume of non-farm business inventory accumulation was little changed in 1986. An acceleration in stockpiling in the first quarter of the year, notably in the trade sector, was followed by progressively more restraint during the year. At year-end, the ratio of non-farm inventories to final sales was little changed from a year ago.

Net exports of goods and services, at 1981 prices, declined \$1.5 billion, with all of the drop taking place in merchandise trade. A 6.0% increase in the volume of merchandise imports was widespread across commodities. The largest gains occurred in crude petroleum and some components of imported machinery and equipment. The weakness in export volume, up only 2.6%, was most evident in slack demand for wheat and natural gas.

The rise of 2.8% in the implicit price index for GDP reflected a 2.2% drop in prices received for exports of goods, particularly for energy products and a range of agricultural and mineral products. The implicit price index for final domestic demand rose by about 4% for the third consecutive year.

### Components of Income

Total labour income rose by 5.7% in 1986. Wages and salaries in the services-producing industries rose 6.1%. Weak employment limited wage and salary growth in goods-producing industries to 4.3%. Personal income rose 6.9% for the year. Increased income taxes restrained the growth in disposable incomes to 5.4%; together with the gain in spending, the personal savings rate fell from 13.6% in 1985 to 11.3% in 1986.

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Corporate profits before taxes declined by 4.9% in 1986, reversing an increase of similar magnitude in 1985. The decrease largely originated in mineral fuel and petroleum industries, which were affected by lower crude oil prices.

The total government sector deficit, on a national accounts basis, narrowed from \$31.3 billion in 1985 to \$27.3 billion in 1986. Total revenues of all levels of government combined rose 7.0%, largely due to higher rates of personal direct taxes and indirect taxes. The growth in total expenditures slowed noticeably, to 4.2% compared to 7.5% in 1985. There were lower rates of growth in interest payments on the public debt and outlays for goods and services. Subsidy and capital assistance payments declined in the year, mainly reflecting the termination of a number of petroleum-related programs.

#### Fourth Quarter 1986

Real expenditure on GDP rose only fractionally in the fourth quarter as increased final domestic and export demand was largely supplied from inventories. Final domestic demand grew by 0.6%, after a 1.0% gain in the third quarter, as a slowdown in consumer demand was partly offset by increased fixed capital investment. In particular, housing demand grew steadily, while business investment in plant and equipment turned up after a slump in the second and third quarters.

In terms of output by industry, the fourth quarter gain originated in goods-producing industries, as output of services-producing industries declined for the first quarter this year. There were widespread gains in the goods-producing industries, following slight declines in the previous two quarters.

The volume of personal expenditure on goods and services rose 0.2% in the fourth quarter, following two quarters of strong increases. A 2.5% decline in outlays on durable goods was accounted for by lower spending on

automobiles, which had risen sharply in the third quarter when temporary incentives to purchase proliferated.

Business investment in plant and equipment rose 0.8% in volume, to partly reverse the cumulative drop of 5.8% in the previous two quarters. The firming of investment was most evident in exploration and development of oil and gas which led to a 1.1% rebound in non-residential construction. Special provincial government incentives in Alberta to invest before year-end contributed to this gain. Outlays for machinery and equipment continued to rise moderately. Residential construction rose by 4.2% in volume, after a similar gain in the third quarter with all of the increase originating in new construction.

Real business inventories declined by \$1.1 billion, after a \$3.4 billion increase in the third quarter. The decline originated in agriculture, manufacturing and trade. The easing of inventory accumulation in the second half of the year accompanied increased domestic and export demand, and followed a large accumulation of stocks early in the year.

Net exports of goods and services rose nearly \$2.1 billion in volume in the fourth quarter, to their highest level in over a year. This largely reflected increased export volume, up 3% in total for the second consecutive quarter. Exports of merchandise strengthened mainly as a result of higher grain shipments – which were held in inventory by labour disputes in the third quarter – as well as shipments of motor vehicle products. The volume of import demand grew by 1.6% in total.

Total labour income grew by 1.1% in the fourth quarter, as the result of gains in both the goods-producing (0.6%) and services-producing (1.4%) industries. Personal disposable income rose by 1.8%, after two quarters of weak growth. The personal savings rate was little changed at 10.2% in the quarter.

(continued on page 4)

Available on CANSIM: matrices 6701-6741, 6641-6642.

A printout containing all tables is also available on the day of release from the Income and Expenditure Accounts Division (\$35/\$140).

Order the fourth quarter 1986 issue of *National Income and Expenditure Accounts* (13-001, \$15/\$60) scheduled for release the fourth week of March, 1986, or contact Barbara Clift (613-990-9158), Income and Expenditure Accounts Division.

**Gross Domestic Product, Income Based**  
(Seasonally Adjusted at Annual Rates)

	I	II	III	IV	1986	IV'86 III'86	1986 1985
	(\$ millions)					% Change	
Wages, salaries and supplementary labour income <sup>1</sup>	265,392	268,860	271,896	274,792	270,235	1.1	5.7
Corporation profits before taxes <sup>2</sup>	43,632	44,520	45,104	47,516	45,193	5.3	-4.9
Interest and miscellaneous investment income <sup>2</sup>	42,528	38,988	40,088	42,088	40,923	5.0	2.1
Accrued net income of farm operators from farm production	5,272	7,252	3,856	4,352	5,183	12.9	26.9
Net income of non-farm unincorporated business, including rent	30,748	32,288	33,304	34,672	32,753	4.1	14.6
Inventory valuation adjustment	-1,532	1,032	-1,124	-3,012	-1,159	-1,888 <sup>3</sup>	1,006 <sup>3</sup>
<b>Net domestic income at factor cost</b>	<b>386,040</b>	<b>392,940</b>	<b>393,124</b>	<b>400,408</b>	<b>393,128</b>	<b>1.9</b>	<b>5.2</b>
Indirect taxes less subsidies	52,592	51,660	56,636	54,288	53,794	-4.1	14.0
Capital consumption allowances	56,180	56,820	58,172	58,688	57,465	0.9	7.0
Statistical discrepancy	1,660	1,156	320	224	840		
<b>Gross Domestic Product at market prices</b>	<b>496,472</b>	<b>502,576</b>	<b>508,252</b>	<b>513,608</b>	<b>505,227</b>	<b>1.1</b>	<b>6.1</b>

<sup>1</sup> Includes military pay and allowances

<sup>2</sup> These aggregates differ from those shown in earlier tables in that they are on a "domestic" basis and thus include interest and dividends paid to non-residents and exclude interest and dividends received from non-residents.

<sup>3</sup> Actual change in millions of dollars.

**Gross Domestic Product, Expenditure Based**  
 (Seasonally Adjusted at Annual Rates)

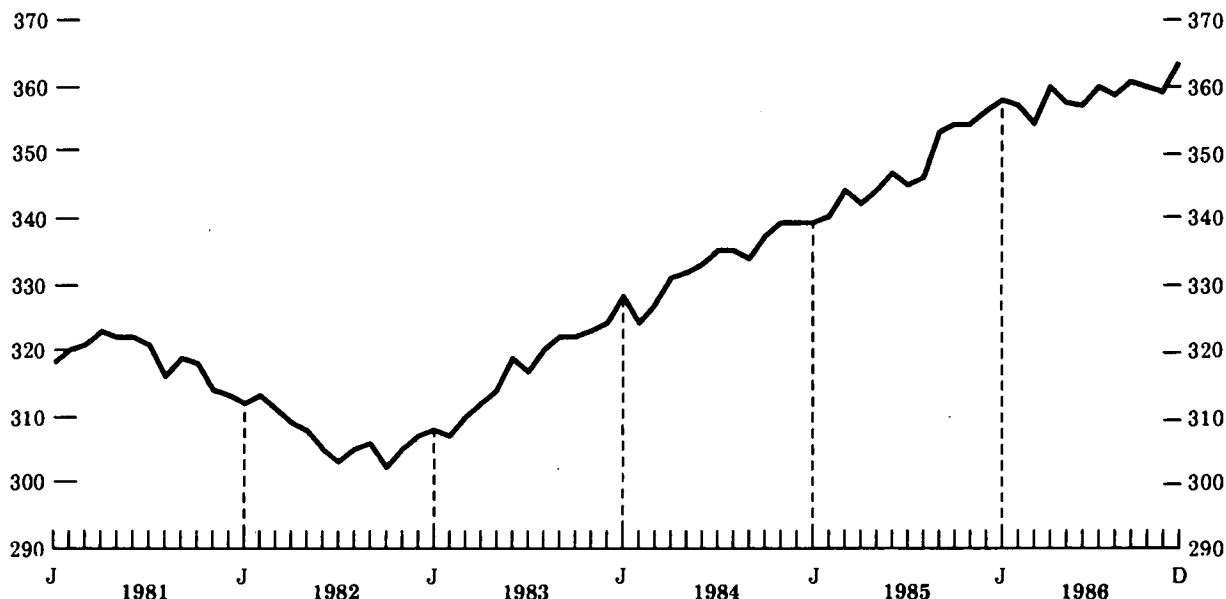
	I	II	III	IV	1986	IV'86 III'86	1986 1985
	<b>At current prices</b>					<b>% Change</b>	
	(\$ millions)						
Personal expenditure on consumer goods and services	288,220	293,552	301,460	305,772	297,251	1.4	8.2
Durable goods	42,392	43,072	45,720	44,956	44,035	-1.7	10.2
Semi-durable goods	29,944	30,684	31,408	32,156	31,048	2.4	8.9
Non-durable goods	83,568	83,556	85,128	85,900	84,538	0.9	4.7
Services	132,316	136,240	139,204	142,760	137,630	2.6	9.7
Government current expenditure on goods and services	98,328	99,092	100,568	101,904	99,973	1.3	5.3
Government investment in fixed capital	11,744	11,528	11,420	11,340	11,508	-0.7	-2.3
Government investment in inventories	64	-20	-256	72	-35	328 <sup>1</sup>	29 <sup>1</sup>
Business investment in fixed capital	86,460	85,736	87,132	89,884	87,303	3.2	8.0
Residential	28,120	29,436	31,536	33,584	30,669	6.5	20.9
Plant and equipment	58,340	56,300	55,596	56,300	56,634	1.3	2.1
Business investment in inventories	7,828	6,348	1,816	-2,184	3,452	-4,000 <sup>1</sup>	707 <sup>1</sup>
Exports of goods and services <sup>2</sup>	138,896	133,804	137,796	141,760	138,064	2.9	1.5
Deduct: Imports of goods and services <sup>3</sup>	133,404	126,312	131,364	134,716	131,449	2.6	7.1
Statistical discrepancy	-1,664	-1,152	-320	-224	-840		
<b>Gross Domestic Product at market prices</b>	<b>496,472</b>	<b>502,576</b>	<b>508,252</b>	<b>513,608</b>	<b>505,227</b>	<b>1.1</b>	<b>6.1</b>
Final Domestic Demand	484,752	489,908	500,580	508,900	496,035	1.7	7.3
	<b>At 1981 prices</b>						
	(\$ millions)						
Personal expenditure on consumer goods and services	220,372	222,992	226,608	227,128	224,275	0.2	4.0
Durable goods	36,508	36,208	37,944	37,000	36,915	-2.5	5.5
Semi-durable goods	24,548	24,992	25,292	25,696	25,132	1.6	5.4
Non-durable goods	61,628	62,356	62,848	62,712	62,386	-0.2	1.6
Services	97,688	99,436	100,524	101,720	99,842	1.2	4.6
Government current expenditure on goods and services	74,552	74,628	74,792	75,256	74,807	0.6	1.2
Government investment in fixed capital	9,952	9,748	9,596	9,472	9,692	-1.3	-4.5
Government investment in inventories	52	-16	-196	56	-26	252 <sup>1</sup>	24 <sup>1</sup>
Business investment in fixed capital	73,788	72,252	72,548	73,996	73,146	2.0	3.6
Residential	23,972	24,440	25,604	26,668	25,171	4.2	13.2
Plant and equipment	49,816	47,812	46,944	47,328	47,975	0.8	-0.8
Business investment in inventories	6,632	6,392	3,440	-1,092	3,843	-4,532 <sup>1</sup>	1,354 <sup>1</sup>
Exports of goods and services <sup>2</sup>	128,004	125,180	128,864	132,756	128,701	3.0	3.1
Deduct: Imports of goods and services <sup>3</sup>	113,092	108,480	112,836	114,616	112,256	1.6	5.1
Statistical discrepancy	-1,312	-896	-232	-164	-651		
<b>Gross Domestic Product at market prices</b>	<b>398,948</b>	<b>401,800</b>	<b>402,584</b>	<b>402,792</b>	<b>401,531</b>	<b>0.1</b>	<b>3.1</b>
Final Domestic Demand	378,664	379,620	383,544	385,852	381,920	0.6	3.1
	<b>Implicit price indexes</b>						
Personal expenditure on consumer goods and services	130.8	131.6	133.0	134.6	132.5	1.2	4.1
Durable goods	116.1	119.0	120.5	121.5	119.3	0.8	4.4
Semi-durable goods	122.0	122.8	124.2	125.1	123.5	0.7	3.2
Non-durable goods	135.6	134.0	135.5	137.0	135.5	1.1	3.0
Services	135.4	137.0	138.5	140.3	137.8	1.3	4.9
Government current expenditure on goods and services	131.9	132.8	134.5	135.4	133.6	0.7	4.0
Government investment in fixed capital	118.0	118.3	119.0	119.7	118.7	0.6	2.2
Business investment in fixed capital	117.2	118.7	120.1	121.5	119.4	1.2	4.3
Residential	117.3	120.4	123.2	125.9	121.8	2.2	6.7
Plant and equipment	117.1	117.8	118.4	119.0	118.0	0.5	2.9
Exports of goods and services <sup>2</sup>	108.5	106.9	106.9	106.8	107.3	-0.1	-1.6
Deduct: Imports of goods and services <sup>3</sup>	118.0	116.4	116.4	117.5	117.1	0.9	1.8
<b>Gross Domestic Product at market prices</b>	<b>124.4</b>	<b>125.1</b>	<b>126.2</b>	<b>127.5</b>	<b>125.8</b>	<b>1.0</b>	<b>2.8</b>
Final Domestic Demand	128.0	129.1	130.5	131.9	129.9	1.1	4.1

<sup>1</sup> Actual change in millions of dollars.<sup>2</sup> Excludes investment income received from non-residents.<sup>3</sup> Excludes investment income paid to non-residents.

## Real Gross Domestic Product by Industry at Factor Cost, in 1981 Prices

(Millions of dollars)

(seasonally adjusted at annual rates)



## Real Gross Domestic Product at Factor Cost, by Industry

(seasonally adjusted data)

December 1986

### Monthly Overview

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

### Goods-producing Industries

Goods-producing industries accounted for half the December gain in economic activity, with

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

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### Services-producing Industries

Output gains were widespread among services-producing industries, with virtually all industry groups showing growth. Following consecutive monthly decreases of 1.4% in October and 1.5% in November, output of the finance, insurance and real estate industry increased 1.4% in December. In wholesale trade, substantial output gains were recorded by wholesalers of food, paper, lumber and automotive products. Output of the transportation and storage industry increased substantially for the second consecutive month, mainly due to advances in railway, water, and truck transport, as well as increased storage activity. Much of the gain in the railway transport and storage industries was due to increased throughput of grain products following the end

of a labour dispute which had disrupted operations at Thunder Bay grain elevators until mid-October. Exports of grain products increased substantially in both November and December. Retail trade increased 0.6% during December mostly due to gains by motor vehicle dealers and food stores.

(see table on page 7)

Available on CANSIM: matrices 4665-4668.

Order the December 1986 issue of *Gross Domestic Product by Industry* (61-005, \$10/\$100), scheduled for release in mid-March. Contact: Ron Kennedy (613-991-3673), Industry Measures and Analysis Division.

# Real Gross Domestic Product by Industry at Factor Cost, in 1981 Prices, Monthly

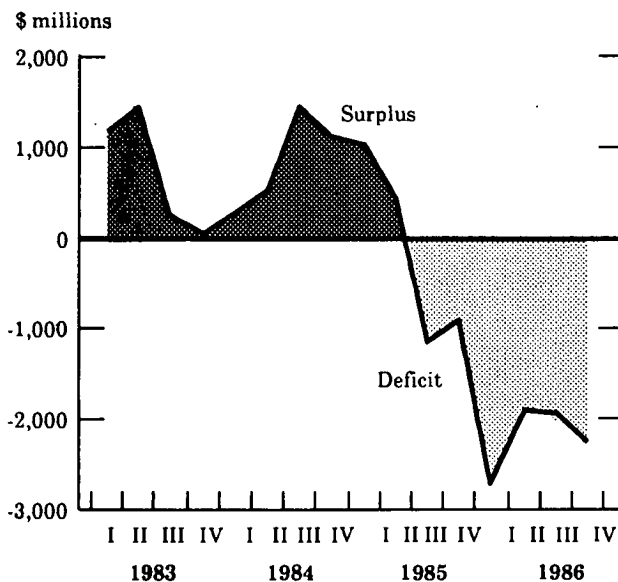
(Seasonally Adjusted at Annual Rates)

(\$ millions)

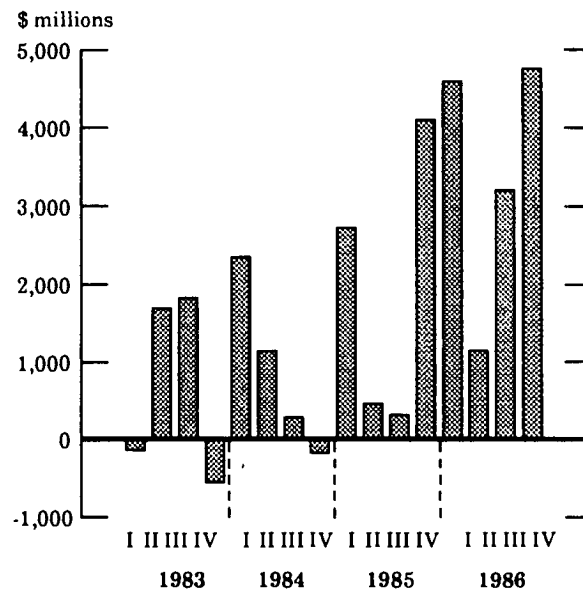
	1985	1986			
	December	September	October	November	December
<b>Total economy</b>	<b>356,199.6</b>	<b>360,712.4</b>	<b>359,736.0</b>	<b>359,153.9</b>	<b>363,592.9</b>
<b>Business sector</b>					
Agricultural and related services industries	10,780.8	11,475.6	11,518.8	11,527.2	11,455.2
Fishing and trapping industries	559.2	584.4	612.0	524.4	578.4
Logging and forestry industry	2,259.6	2,659.2	2,256.0	2,247.6	2,254.8
Mining, quarrying and oil well industries	20,212.8	18,417.6	18,559.2	18,324.0	18,996.0
Manufacturing industries	66,746.4	65,196.0	66,090.0	65,799.6	67,585.2
Construction industries	24,756.0	25,071.6	24,747.6	25,179.6	24,990.0
Transportation and storage industries	16,470.0	15,943.2	15,984.0	16,381.2	16,848.0
Communication industries	9,963.6	10,495.2	10,408.8	10,522.8	10,497.6
Other utility industries	11,344.8	11,102.4	11,078.4	11,096.4	11,054.4
Wholesale trade industries	17,487.6	17,907.6	17,726.4	17,998.8	18,542.4
Retail trade industries	22,999.2	23,838.0	23,440.8	23,355.6	23,494.8
Finance, insurance and real estate	52,166.4	54,507.6	53,754.0	52,923.6	53,682.0
Community, business and personal services	37,455.6	39,720.0	39,614.4	39,376.8	39,669.6
<b>Non-business sector</b>					
Mining industries	44.4	55.2	38.4	51.6	56.4
Manufacturing industries	67.2	60.0	60.0	60.0	63.6
Forestry services industry	267.6	246.0	258.0	274.8	285.6
Transportation industries	1,567.2	1,534.9	1,549.2	1,567.1	1,594.4
Communication industries	54.0	51.6	50.4	51.6	52.8
Water systems industry	526.8	555.6	548.4	549.6	548.4
Insurance and other finance industry	312.0	339.2	338.4	339.6	340.8
Government service industry	23,276.4	23,106.0	23,241.6	23,174.4	23,085.6
Community and personal services	36,882.0	37,845.5	37,861.2	37,827.6	37,916.9
<b>Special aggregations</b>					
Business sector:	293,202.0	296,918.4	295,790.4	295,257.6	299,648.4
- goods	136,659.6	134,506.8	134,862.0	134,698.8	136,914.0
- services	156,542.4	162,411.6	160,928.4	160,558.8	162,734.4
Non-business sector	62,997.6	63,794.0	63,945.6	63,896.3	63,944.5
- goods	638.4	670.8	646.8	661.2	668.4
- services	62,359.2	63,123.2	63,298.8	63,235.1	63,276.1
Goods-producing industries	137,298.0	135,177.6	135,508.8	135,360.0	137,582.4
Services-producing industries	218,901.6	225,534.8	224,227.2	223,793.9	226,010.5
Industrial production	98,942.4	95,386.8	96,374.4	95,881.2	98,304.0
Non-durable manufacturing industries	31,237.2	30,852.0	31,279.2	30,951.6	31,574.4
Durable manufacturing industries	35,509.2	34,344.0	34,810.8	34,848.0	36,010.8



### Current Account Balance (seasonally adjusted)



### Capital Account - Net Flow



### Canadian Balance of International Payments

Fourth Quarter 1986 and Annual 1986

#### Fourth Quarter 1986

Current account transactions, on a seasonally adjusted basis, produced a large deficit, as in each of the previous three quarters. During the current quarter, an increase recorded in the merchandise trade surplus was largely attributable to the automotive sector which had been weak throughout much of 1986. However, the increase in the merchandise surplus was more than offset by higher deficits on the services and investment income accounts.

Among capital transactions, which are not seasonally adjusted, bond borrowings abroad reached a new record, with Japan continuing to be a major investor. Record inflows of foreign direct investment in Canada in the fourth quarter were more than offset by a repatriation of funds by a foreign company in the petroleum sector. Canadian residents stepped up both their foreign direct and portfolio investments abroad; this gave rise to larger net outflows than in the previous quarter.

#### Current Account, Seasonally Adjusted

The main quarterly features were:

- A current account deficit of \$2.3 billion, compared to \$1.9 billion in the previous quarter. The increase of \$565 million in the merchandise trade surplus to \$2.8 billion was more than offset by an increase of \$896 million in the deficit on non-merchandise transactions to \$5.0 billion;
- An increase of 4% (\$1.3 billion) in merchandise exports, almost double the advance of the previous quarter; this contrasted with declines in the first half of the year. Increases in the current quarter were recorded for passenger cars, wheat, steel bars and ores. Decreases were recorded in trucks and tractors, lumber and coal;
- An increase of 2.6% (\$715 million) in imports, down from a 4.6% advance in the previous quarter. Higher imports were recorded in office machines and other equipment, crude petroleum, coal and aircraft. Decreases were recorded in petroleum and coal products and in metal in ores;

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- A surplus of \$532 million in the automotive sector following a virtual balance in the previous quarter. The surplus for the year was, however, at its lowest level since 1982;
- Among non-merchandise transactions, a return to a deficit on travel which amounted to \$395 million. This deficit arose from both lower receipts and higher payments in contrast to the previous two quarters which were largely affected by Expo 86;
- An increase of \$1.0 billion in the deficit on the investment income account to \$4.6 billion. This increase was attributable to dividends where both higher payments and lower receipts were recorded;
- A sharp increase of \$509 million in net transfer receipts to \$613 million due to unusually large receipts of withholding taxes.

#### **Current and Capital Accounts** (Not Seasonally Adjusted)

The main quarterly features were:

- A deficit of \$1.7 billion in the current account compared to a virtual balance in the fourth quarter of 1985. This increase stemmed largely from merchandise trade transactions where the surplus was sharply reduced;
- Among liabilities to non-residents, a record net inflow of \$8.3 billion from transactions in Canadian bonds, compared to \$5.8 billion in the previous quarter. The bulk of the increase represented foreign investment in the secondary market, particularly Japanese purchases of Government of Canada bonds;
- A net outflow of over \$800 million from foreign direct investment in Canada, representing a shift of \$2.1 billion from the previous quarter's net inflow. As in the previous quarter, there were very large inflows from foreign investors. However, in the current quarter, these were more than

offset by an exceptionally large repatriation of funds by a foreign oil company, related to a restructuring of its Canadian operations;

- Among claims on non-residents, a record net outflow of \$1.4 billion for Canadian portfolio investments abroad, \$857 million in stocks and \$512 million in bonds. While most of the net Canadian investment in bonds was in United States issues, about half of the net investment in stocks was channelled into the United Kingdom to purchase overseas stocks;
- An increase of \$1.2 billion in reserve assets compared to a decline of \$442 million in the previous quarter. Part of the increase was funded from abroad through Canada bills. This instrument, denominated in United States dollars, was introduced by the Government of Canada in October 1986;
- A statistical discrepancy (the balancing item between the recorded estimates of current and capital accounts) equivalent to a net debit of \$3.1 billion;
- A stable Canadian dollar against the United States dollar, averaging 72 U.S. cents for the quarter. The Canadian dollar appreciated, however, against the pound sterling and the Japanese yen.

#### **Year 1986**

Current account transactions produced the largest deficit on record. (Viewed, however, against the size of the economy as measured by GDP, relatively larger deficits have been experienced in earlier years.) The 1986 deficit followed a relatively small deficit in 1985 and surpluses in the previous four years. The sharp increase in the deficit originated from merchandise trade transactions where imports continued to advance strongly whereas exports were virtually unchanged. As a result, the merchandise trade surplus was at its lowest level in the last five years. In non-merchandise transactions, a large increase in the deficit on investment income was substantially offset by a much lower deficit on travel, largely attributable to Expo 86.  
(continued on page 11)

Among capital transactions, record bond borrowings abroad more than doubled the 1985 net inflow. Japanese residents, who steadily increased their holdings of Canadian bonds in recent years, accounted for 40% of the 1986 net inflow. On foreign direct investment in Canada, a shift to a net inflow was largely explained by additional investment from overseas countries. The net outflow to the United States reflected a massive repatriation of funds by a foreign oil company in the fourth quarter. In Canadian claims abroad, Canadian direct investment abroad continued to generate a substantial outflow. There was also a notable increase in Canadian investment in foreign stocks, which resulted in a record net outflow.

### Current Account

The main annual features were:

- A record current account deficit of \$8.8 billion. The increase from the previous year's deficit of \$0.6 billion was overwhelmingly due to the sharp decline (\$7.3 billion) in the merchandise trade surplus to \$10.1 billion. There was also an increase of \$0.9 billion in the non-merchandise deficit to \$18.9 billion;
- A substantial increase of \$7.7 billion (7.5%) in merchandise imports although high, was much lower than the sharp advances of recent years. Higher imports were recorded in machinery and equipment, industrial goods and materials, and automotive products. The only major decline was in imports of crude petroleum, which was attributable to a sharp drop in prices as volume increased;
- An increase of \$372 million (0.3%) in merchandise exports. Underlying this small increase was a sharp drop of \$5.2 billion for energy products, offset by widespread increases in other commodities;
- Among non-merchandise transactions, an increase of \$2.2 billion in the deficit on the investment income account to \$16.8 billion.

Interest payments increased sharply as a result of record bond borrowings from abroad. Payments of dividends were also larger, specifically in the oil sector. Receipts of dividends declined from the unusually high levels of the previous two years;

- In international travel, a halving of the deficit to \$1.1 billion, the lowest deficit since 1979. The decline in the deficit was related to Expo 86 which generated higher receipts from abroad and likely slowed down the growth of travel abroad by Canadians;

### Capital Account

- A record net inflow of \$23.1 billion from bond borrowings abroad, more than doubling the net inflow of 1985. The net investment came from overseas countries. Japan, which had steadily increased its holdings of Canadian bonds in recent years, purchased a record \$9.5 billion in 1986. There were also very large purchases by other overseas countries which could be related to a combination of relatively high Canadian interest rates and a lower external value of the Canadian dollar;
- A record net inflow of \$2.5 billion from foreign investment in the Canadian money market, in contrast to a net disinvestment of some \$600 million in 1985. The bulk of the investment came from the United States, and was largely channelled into Government of Canada paper;
- A net inflow of \$1.6 billion from foreign direct investment in Canada, a shift from the net outflow of \$3.0 billion in 1985. Foreign investments in Canada, as measured by gross inflows, reached a record level in 1986. There was, however, a large outflow in the fourth quarter as a foreign oil company repatriated a large amount of funds as it reorganized its operations in Canada;

(continued on page 12)

- A net outflow of \$4.8 billion on account of Canadian direct investment abroad, in line with large net investments recorded in recent years. In the current year, there was a surge of take-over activities and a sharp rise of investment by the service sector, in contrast with 1985 when the manufacturing and the petroleum sectors predominated;
- A substantial increase in Canadian investment in foreign stocks, resulting in a record net outflow of \$2.1 billion. About half went to the United Kingdom and included sizeable purchases of stocks of recently privatized companies;
- A statistical discrepancy (the balancing item between the recorded estimates of current and capital accounts) equivalent to a net debit of \$4.9 billion;

- A relatively stable Canadian dollar (72 U.S. cents) against the United States dollar, even though it touched a record low early in the year. Against all other major currencies, however, the Canadian dollar depreciated, except for the last few months when it strengthened against the British pound and the Japanese yen.

(see table on page 12)

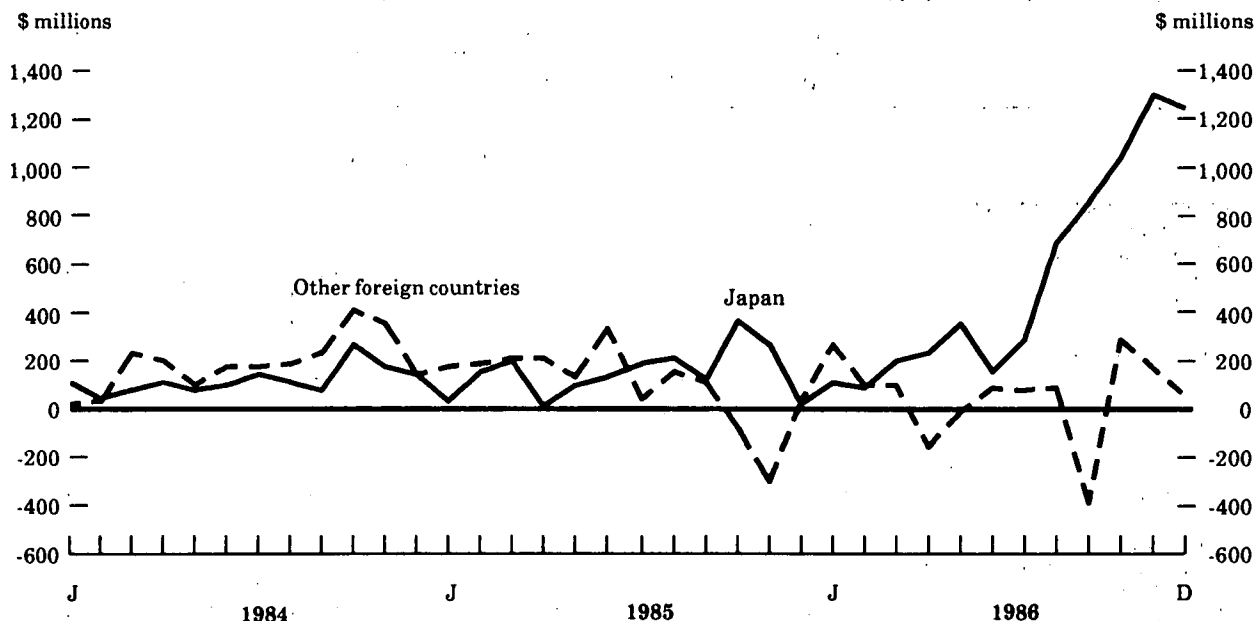
Available on CANSIM: matrices 147, 273-275, 279-281, 1363, 1364, 1369, 1370, 2325-2339, 2343-2349 and 2353.

Contact: L. Laliberté (613-990-9050),  
Balance of Payments, International and Financial Economics Division.

**The Canadian Balance of International Payments - Summary**  
(\$ millions)

	1985	1986				1985	1986
	IV	I	II	III	IV		
Seasonally adjusted							
<b>Current account balances</b>							
Merchandise	4,014	2,463	2,703	2,201	2,766	17,475	10,133
Non-merchandise:							
Services	-1,106	-1,089	-829	-592	-1,006	-4,298	-3,516
Investment Income	-4,063	-4,495	-4,021	-3,655	-4,647	-14,598	-16,818
Transfers	243	428	251	104	613	836	1,397
Total non-merchandise	-4,926	-5,156	-4,599	-4,143	-5,039	-18,060	-18,937
Total current account	-912	-2,693	-1,895	-1,942	-2,273	-584	-8,805
Not seasonally adjusted							
Current account balance	-90	-4,209	-2,234	-676	-1,685	-584	-8,805
<b>Capital account</b>							
Canadian claims on non-residents, net flows:							
Direct investment	-1,137	-1,178	-1,146	-923	-1,565	-5,100	-4,812
Portfolio securities	-951	133	-849	-216	-1,369	-1,208	-2,301
Other	2,675	-4,486	-143	-1,045	258	119	-5,416
Total Canadian claims, net flow	586	-5,532	-2,138	-2,184	-2,676	-6,189	-12,529
Canadian liabilities to non-residents, net flows:							
Direct investment	-36	1,116	19	1,247	-825	-2,950	1,557
Portfolio securities	3,010	6,556	3,513	6,140	8,835	12,964	25,043
Other	552	2,476	-250	-1,982	-572	3,859	-329
Total Canadian liabilities, net flow	3,527	10,148	3,281	5,405	7,437	13,873	26,271
Total net capital flow	4,113	4,616	1,144	3,222	4,761	7,684	13,742
Statistical discrepancy	-4,023	-407	1,090	-2,545	-3,076	-7,100	-4,937

# **Net Trade in Outstanding Canadian Bonds With Japan and All Other Foreign Countries (Net Sales + / Net Purchases-)**



## **Transactions in Outstanding Securities with Non-residents**

December 1986

### **Outstanding Canadian Securities**

In December, Japanese investments in outstanding Canadian bonds remained strong, accounting for virtually all of the \$1.3 billion of net bond sales to non-residents. This marked the third consecutive month where net investments from Japan exceeded \$1-billion. Similarly, for the year as a whole, Japan accounted for the bulk of the net foreign investments in outstanding Canadian bonds, which doubled to a record \$7.4 billion. These investments were predominantly in Government of Canada issues. On a smaller scale, net investments in outstanding Canadian bonds were also made by the residents of the United Kingdom and West Germany, while the United States reduced its

holdings of such bonds. The gross value of bonds traded with non-residents (sales and purchases) nearly doubled to \$69 billion in 1986. The rise in net foreign investments during the year was influenced by a combination of relatively high Canadian interest rates and a lower external value of the Canadian dollar.

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

(continued on page 15)

### Outstanding Foreign Securities

Residents purchased, on a net basis, a record \$682 million of outstanding foreign stocks in December. Some \$350 million went to the United Kingdom, largely into shares of a recently privatized British company. The balance, which was channelled to the United States, was also largely invested in overseas stocks. During 1986, net investments in foreign stocks increased by a record \$1.6 billion, some 80% of which represented net purchase of overseas stocks. In the current year, net investments in overseas markets have far surpassed net investments in the United States market which historically have accounted for the bulk of resident portfolio investments abroad.

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

Order the December 1986 issue of *Security Transactions with Non-residents* (67-002, \$15/\$150), available in March. Contact: J. Motala (613-990-9052), Balance of Payments, International and Financial Economics Division.

### Transactions in Outstanding Securities with Non-residents

December 1986  
(\$ millions)

Type of security	Sales to Non-residents	Purchases from Non-residents	Net Sales (+)
<b>Canadian securities:</b>			
Bonds	3,305	1,995	+1,310
Common and preferred stocks	960	1,005	-45
<b>Total - December 1986</b>	<b>4,265</b>	<b>3,000</b>	<b>+1,265</b>
<b>Total - November 1986</b>	<b>4,008</b>	<b>2,316</b>	<b>+1,691</b>
<b>Foreign securities:</b>			
Bonds	2,495	2,647	-153
Common and preferred stocks	1,839	2,521	-682
<b>Total - December 1986</b>	<b>4,333</b>	<b>5,168</b>	<b>-835</b>
<b>Total - November 1986</b>	<b>3,741</b>	<b>4,040</b>	<b>-298</b>

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## Data Availability Announcements

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### Telephone Statistics

December 1986

Canada's 13 major telephone systems reported monthly revenues of \$909.7 million in December 1986, up 8.6% from December 1985.

Operating expenses were \$655.3 million, an increase of 8.4% over December 1985. Net operating revenue was \$254.4 million, a gain of 9.1% from December 1985.

Available on CANSIM: matrix 355.

Order the December 1986 issue of *Telephone Statistics* (56-002, \$7.50/\$75), scheduled for release the week of March 16. Contact: J.R. Slattery (613-991-2205), Services Division.

### Gypsum Products

January 1987

Manufacturers shipped 28 174 494 square metres of plain gypsum wallboard in January 1987, up 10.5% from the 25 492 808 square metres shipped in January 1986 and up 7.2% from the 26 291 356 square metres shipped in December 1986.

Available on CANSIM: matrices 39 and 122 (series 11 and 12).

Order the January 1987 issue of *Gypsum Products* (44-003, \$4/\$40), to be released the week of March 9. Contact: Sharon M. Boyer (613-991-3520), Industry Division.

**The  
Daily**

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## Publications Released

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**Current Economic Indicators – Vol. 3,  
No. 1, February 1987.**

**Catalogue number 13-005**

(Canada: \$10/\$100; Other Countries:  
\$11/\$110).

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

**Production and Inventories of Process  
Cheese and Instant Skim Milk Powder,  
December 1986. Catalogue number 32-024**  
(Canada: \$4/\$40; Other Countries: \$5/\$50).

**Factory Sales of Electric Storage Batteries,  
December 1986. Catalogue number 43-005**  
(Canada: \$4/\$40; Other Countries: \$5/\$50).

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

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

**Production and Sales of Phonograph  
Records and Pre-recorded Tapes in  
Canada, December 1986.**

**Catalogue number 47-004**

(Canada: \$4/\$40; Other Countries: \$5/\$50).

**Air Carrier Operations in Canada, October-  
December 1985. Catalogue number 51-002**  
(Canada: \$20/\$80; Other Countries: \$21/\$84).

**Quarterly Estimates of the Canadian  
Balance of International Payments,  
Fourth Quarter 1986**  
**Catalogue number 67-001P**  
(Canada: \$8/\$32; Other Countries: \$9/\$36)

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

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