

The Daily

Statistics Canada

Thursday, March 1, 1990

For release at 10:00 a.m.

MAJOR RELEASES

- **National Income and Expenditure Accounts, Fourth Quarter and Preliminary Annual 1989** 2
The economy grew 0.5% in the fourth quarter of 1989 and 2.9% in the year as a whole.
- **Canada's Balance of International Payments, Fourth Quarter 1989** 11
The current account deficit, on a seasonally adjusted basis, remained large for the third consecutive quarter, reaching a new record.
- **Financial Flow Accounts, Fourth Quarter and Annual 1989** 15
Household indebtedness reached 74.7% of personal disposable income, a record high.
- **Real Gross Domestic Product at Factor Cost by Industry, December 1989** 17
GDP increased 0.2% in December, following a 0.5% increase in November and a decline of 0.3% in October.

DATA AVAILABILITY ANNOUNCEMENTS

Electric Power Statistics, December 1989	20
Telephone Statistics, December 1989	20
Railway Carloadings, Seven-day Period Ending February 14, 1990	20
Steel Primary Forms (Steel Ingots), Week Ending February 24, 1990	20

PUBLICATIONS RELEASED

21

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MAJOR RELEASES

National Income and Expenditure Accounts

Fourth Quarter and Preliminary Annual 1989

Gross domestic product at market prices grew 1.4% in the fourth quarter of 1989, reaching a seasonally adjusted annual rate of \$663 billion. GDP at 1981 prices rose 0.5% (equivalent to a compound annual rate of 2.0%) while the implicit price index increased 0.9%.

In calendar year 1989, gross domestic product at market prices grew 7.8% to \$649 billion. After adjusting for inflation, GDP at 1981 prices advanced 2.9%. It was the seventh consecutive year of economic expansion since the recession in 1982, although the pace of growth was substantially slower in 1989 than in the previous two years (see Chart 1). The GDP implicit price index rose 4.8% in 1989, the highest economy-wide inflation rate since 1983 (see Chart 2).

Highlights: Fourth Quarter 1989

The economy continued to expand in the fourth quarter, by 0.5% in volume terms. The growth was accounted for by a large 1.7% increase in final domestic demand, a drop in net exports equivalent to 0.9% of real GDP, and reduced farm inventory accumulation. The increase in final domestic demand reflected strong consumer spending and continued sprightliness in business investment. Business non-farm inventory investment also picked up.

Components of Demand

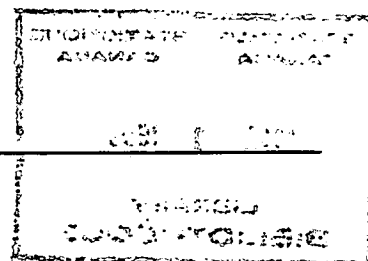
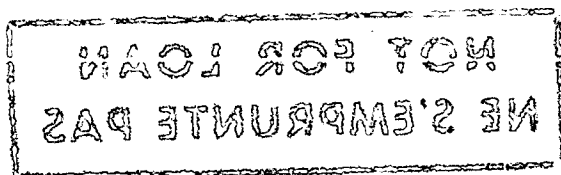
Consumer spending rose 1.3% in real terms during the fourth quarter. The increase was related to large

Note to Users

The Income and Expenditure Accounts estimates at constant prices will be rebased from a 1981 to a 1986 time and weight base with the release of the first quarter 1990 data on June 20, 1990. Historical patterns and real growth rates will not be affected prior to 1986, although the series will be linked to the new 1986 time base and expressed in 1986 dollars. The data from the period 1986 forward will be revised to reflect more recent output and expenditure patterns and published growth rates will be affected by these changes. All rebased series will have new CANSIM identifiers, which will be announced when the rebased series are released.

gains in personal disposable income earlier in the year. Growth in current dollar spending was 8.4% on a year-over-year basis, about the same as for disposable income. Expenditure on electricity, gas and other heating fuels rose particularly rapidly because of abnormally cold weather. Purchases of new passenger cars declined, but the drop was more than offset by higher outlays for new trucks and vans, car parts and repairs. Expenditure on furniture and appliances rose 0.6% in real terms, the same growth rate as for outlays on clothing and footwear. Spending on services recorded a large 1.7% increase.

All major components of residential investment advanced in the fourth quarter. New construction increased 1.5%, spending for alterations and improvements rose 1.7% and transfer costs jumped 14.2%, all in volume terms. A large part of the growth in residential investment activity occurred in Western Canada. Business non-residential construction outlays increased 0.7% in the quarter to a level 3.3% above that of a year earlier. Business capital spending on machinery and equipment rose 3.8%, rebounding after a drop in the third quarter.



Components of Final Demand at 1981 Prices

Fourth Quarter 1989

	Change in Billions of 1981 dollars	Percentage change
Personal expenditure	3.4	1.3
Durable goods	0.7	1.5
Semi-durable goods	0.0	0.0
Non-durable goods	0.7	1.0
Services	2.1	1.7
Government expenditure	1.1	1.2
Wages, salaries and SLI	0.4	0.8
Other current goods and services	0.0	0.0
Investment	0.7	5.3
Business investment	3.2	3.0
Residential investment	1.2	3.7
Plant and equipment investment	2.1	2.7
Non-residential construction	0.2	0.7
Machinery and equipment	1.9	3.8
Final domestic demand	7.8	1.7
Exports of goods and services	-0.3	-0.2
Merchandise	-0.2	-0.2
Non-merchandise	-0.1	-0.4

Business non-farm inventories built up at a fairly rapid rate during the quarter. As in the previous two quarters, the accumulation was concentrated at the retail and wholesale trade levels. Manufacturing inventories declined slightly as increases in wood and paper products, clothing and non-automotive transportation products were more than offset by decreases in fabricated metals, machinery and motor vehicle parts.

Net exports of goods and services fell \$3.5 billion in the quarter (in current dollars, seasonally adjusted at annual rates). After allowance for price changes, the drop had a -0.9% impact on the real GDP growth rate. The volume of exports decreased 0.2% and imports rose 2.5%. Energy products, motor vehicle parts, plastic products and chemicals, metals and alloys, metallic ores and passenger cars accounted for most of the drop in merchandise exports. In the case of merchandise imports, major increases were recorded in crude petroleum, machinery and equipment and automotive products.

Price Indexes

The GDP implicit price index rose 0.9% in the fourth quarter, about the same rate of inflation as in the

previous two quarters. Weight changes had an important effect on the index. The chain price indexes, which are unaffected by weight shifts and provide a better indication of underlying price movements, point to a gradual moderation in the rate of inflation through the year.

For total GDP (excluding the value of physical change in inventories) the chain price index rose 0.8% in the fourth quarter. Inflation was somewhat higher than this overall rate in the personal expenditure and non-residential construction components, and lower in the other components. Lower prices for many resource products on international markets were an important factor in the low 0.2% export price growth.

Quarterly Price Indexes in 1989

(Percentage change)

	I	II	III	IV
Implicit Price Index				
Gross domestic product	1.7	0.9	1.0	0.9
Chain Price Indexes				
Personal expenditure	1.4	1.4	1.3	0.9
Government expenditure	1.4	1.3	0.7	0.7
Residential investment	2.0	0.7	1.1	0.6
Non-residential construction	2.0	1.4	0.6	0.9
Machinery and equipment	-0.3	0.9	0.4	-0.4
Final domestic demand	1.3	1.3	1.0	0.7
Exports	1.4	0.8	-1.2	0.2
Less: imports	0.0	1.1	-0.7	-0.2
Gross domestic product*	1.7	1.2	0.9	0.8

* Excludes value of physical change in inventories.

Components of Income

On the income side of the accounts, labour income grew 1.8%, down from 2.0% in the third quarter. Labour Force Survey paid hours worked grew 0.8%, up from 0.6% in the third quarter. Most of the increase in labour income occurred in the services-producing industries, notably in finance, commercial services, education, health care and provincial government administration. Lower retroactive and other special payments, compared to the previous quarter, had the effect of reducing the labour income growth rate by about 0.2%.

Chart 1

GDP at 1981 Prices

Annual percentage change

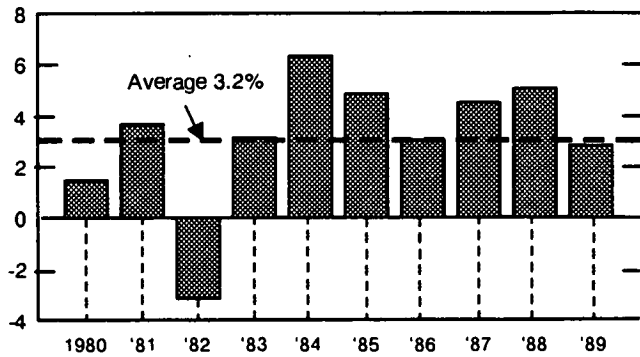
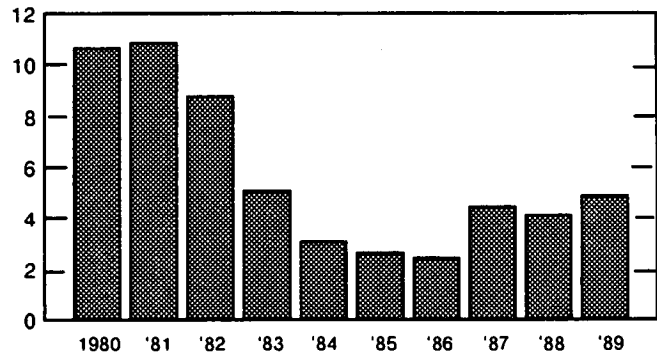


Chart 2

GDP Implicit Price Index

Annual percentage change



Corporation profits before taxes declined 3.5% in the fourth quarter. The decrease was most evident among industrial corporations, for which profits declined 6.1%. The resource industries were particularly hard hit as commodity prices weakened further. Partially offsetting these declines, the profits of financial corporations increased substantially. Large increases in loan loss provisions by the chartered banks reduced their reported net profits sharply, but these adjustments are not included in the national accounts definition of profits.

Interest and miscellaneous investment income rose 2.8% in the quarter. The strong rate of advance reflected the higher average interest rates paid on personal deposits and gains in investment income by trustee pension funds. The accrued net income of farm operators from farm production fell substantially in the quarter largely due to reduced government subsidies. Net paid and imputed rents dropped slightly, partly due to higher mortgage interest and other expenses, while other unincorporated business income advanced 2.7%.

Personal income and personal disposable income both rose 1.7%. Consumer expenditure rose 2.1% in current dollar terms and the personal saving rate declined from 10.1% in the third quarter to 9.8% in the fourth.

Quarterly Income Series in 1989

(Percentage change)

	I	II	III	IV
Labour income	2.7	2.6	2.0	1.8
Corporation profits	3.3	-5.6	-1.7	-3.5
Investment income	3.9	2.0	-1.8	2.8
Accrued farm income	-11.2	-2.0	24.0	-36.2
Net rents	0.3	0.1	0.1	-0.5
Unincorporated business income	2.3	1.5	0.7	2.7
Personal income	2.1	2.6	1.8	1.7
Personal disposable income	3.3	1.2	2.2	1.7

Total government sector spending rose 1.2% in the quarter, with most of the growth accounted for by increases in transfers to persons and interest on the public debt at the federal and provincial government levels. Total government sector revenue increased 1.3% with direct taxes on persons, indirect taxes and investment income each accounting for substantial parts of the increase. The total government sector deficit, on a national accounts basis, remained unchanged at \$23.1 billion in the fourth quarter. The provincial government deficit declined slightly while the local government deficit increased by a similar amount.

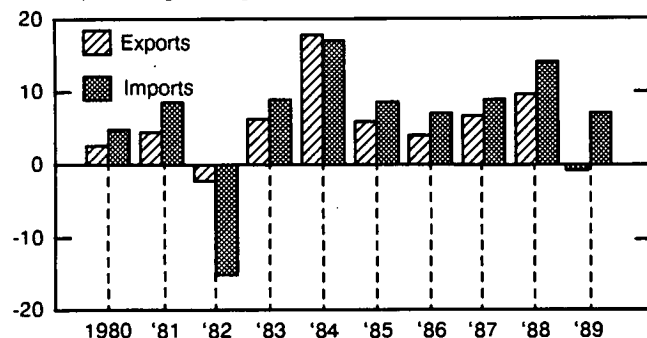
Output by Industry

GDP originating among services-producing industries advanced 0.8% in the fourth quarter, while output in the goods-producing industries recorded no net

Chart 3

Exports and Imports at 1981 Prices

Annual percentage change



increase. Industries recording significant growth included finance, insurance and real estate, community, business and personal services, communication industries, retail trade and construction, both residential and non-residential. Primary industries, manufacturing, transportation and storage industries and wholesale trade industries recorded output declines.

Highlights: Calendar Year 1989

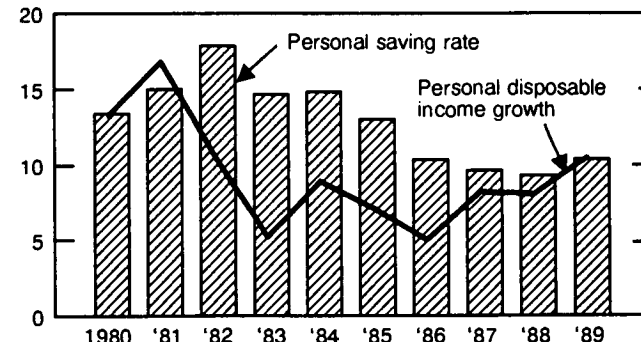
Gross domestic product grew 2.9% in volume terms in 1989 and final domestic demand advanced 4.5%. It was the fifth straight year in which final domestic demand increased more rapidly than GDP. The strong demand growth was associated with substantially higher real imports, up 7.2%. Exports dropped 0.9%, largely as a result of the continuing appreciation of the Canadian dollar on world currency markets and the slower 3.0% growth in the United States economy.

The substantial rise in final domestic demand during 1989 was due to the continuing investment boom coupled with a 4.0% increase in consumer expenditure, although in both cases the rates of growth were lower than in 1987 and 1988. Business spending on machinery and equipment recorded a sixth consecutive year of very rapid expansion while construction activity rose somewhat more moderately.

Chart 4

Personal Disposable Income Growth and the Personal Saving Rate

Annual percentage change



The rise in consumer spending was particularly strong in the services component. Government expenditure grew less rapidly than the other major components of demand.

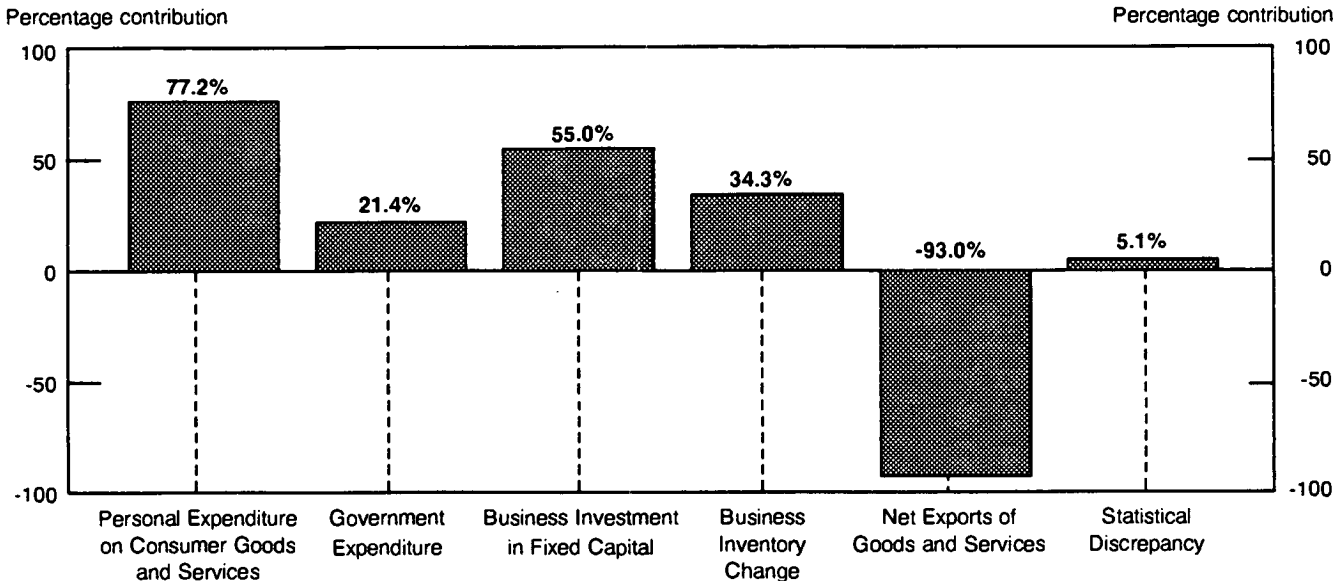
Components of Demand

Capital spending led the economy again in 1989, as it did in the previous four years. Investment growth was sustained by rapid growth in domestic demand, high levels of capacity utilization in many manufacturing industries, lower equipment prices and the general need for plant modernization in an increasingly competitive world economy. The investment boom continued despite declining profitability and lower export demand, although recent information does indicate that capital outlays in 1989 grew less rapidly than earlier spending intentions data had suggested.

Business purchases of machinery and equipment rose 10.7% in volume terms in 1989, after increases averaging 15.9% annually in the previous four years. Two-thirds of the increase in 1989 occurred in the office machines component, while spending on transportation equipment declined. Business non-residential construction investment growth slowed to 3.6% following a 12.1% rise in 1988. Building construction rose substantially while engineering construction remained at a level similar to that of 1988 as weakness in the oil and gas sector offset moderate increases elsewhere.

Chart 5

Contributions to Real GDP Growth in 1989¹



¹ This chart shows the change in each major component of GDP at 1981 prices expressed as a percentage of the change in total GDP at 1981 prices.

Residential construction activity increased 4.1% in 1989, a rate similar to that of 1988. Housing starts dipped slightly to 215,382, completions edged up marginally to 217,371 and the volume of new construction work-put-in-place increased 3.2%. The increase applied primarily to single dwellings, as construction of multiple unit dwellings and apartments declined modestly. Spending on alterations and improvements to existing dwellings rose 6.0% and real estate commissions increased 3.2%, both measured in constant dollar terms. The housing market was buoyed by strong growth in personal disposable income and was especially active in Western Canada. A 200-basis point increase in the average one-year chartered bank mortgage rate exercised a moderating influence.

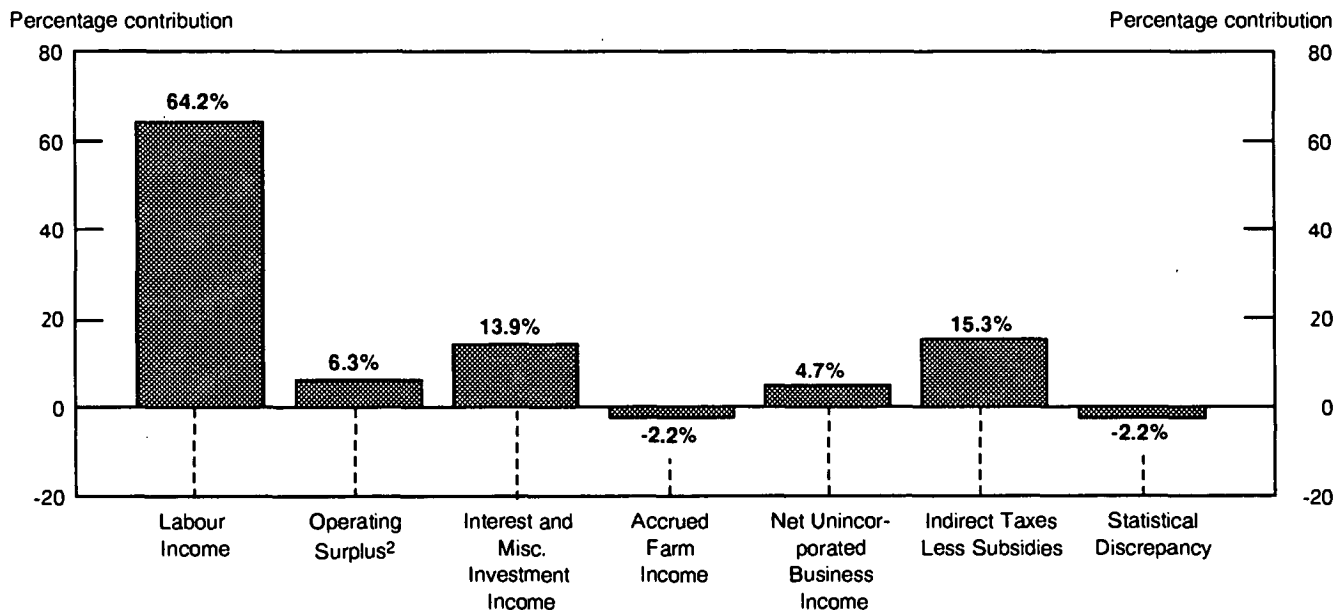
Consumer expenditure and saving both increased substantially in 1989, as incomes rose substantially. Personal disposable income grew 10.4% while the implicit price index for personal expenditure rose 4.6%, implying a hefty increase in real incomes of 5.5%. Personal saving was encouraged by higher effective interest yields and the saving rate rose from 9.2% in 1988 to 10.2% in 1989.

Consumer goods purchases rose 7.2% in current dollars and spending on services increased 10.7%. The corresponding increases in volume terms were 2.9% and 5.3% respectively. Within the goods component, spending rose most rapidly for durable goods other than motor vehicles, and for fuels. New automobile purchases declined, contrasting with the general upward movement of consumer demand. Within the services component, expenditure in most components advanced strongly. Gross paid and imputed rents rose 4.9% and net international travel expenditure, influenced by the higher value of the Canadian dollar, increased sharply.

Government current expenditure on goods and services continued to rise more slowly than other major demand components. The volume increase in 1989 was 2.2%, similar to the 2.1% average annual increase recorded through the decade of the 1980s as a whole. In current dollars the increases were 5.2% for the federal government, 6.1% for the provincial governments, 7.5% for the local governments and 7.4% for the rest of the government sector (consisting of hospitals and the Canada and Quebec Pension Plans).

Chart 6

Contributions to Growth in GDP at Market Prices in 1989¹



¹ This chart shows the change in each major component of GDP at market prices expressed as a percentage of the change in total GDP at market prices.

² Operating surplus includes corporation profits before taxes, the inventory valuation adjustment and capital consumption allowance.

Business non-farm inventories accumulated at a slightly faster pace in 1989 compared to 1988. The rate of accumulation was quite moderate in the first half of the year and picked up in the second half. Most of the buildup took place in the wholesale and retail trade sectors. Inventory investment by manufacturers was less than in 1988.

Farm inventories and grain in commercial channels, which dropped sharply in volume terms in the previous two years, rebounded in 1989. The swing was due to a much-improved crop and a marked drop in grain export sales.

Canada's exports dropped 0.9% in 1989, reflecting slower economic growth in the United States and reduced competitiveness as a result of the appreciation of the Canadian dollar. Exports of merchandise fell 0.7% following a 10.0% increase the previous year. There was a small increase in the first quarter and the remaining quarters each recorded volume declines. The small annual decrease reflected lower export volumes of wheat, crude petroleum, forestry products and passenger cars, offset in part by gains in natural gas, metal ores and

machinery and equipment. As in 1988, export sales to Japan and parts of Europe increased substantially. Exports of services fell 3.6% in 1989 due primarily to lower expenditures by foreign visitors to Canada and reduced demand for Canadian business services.

Imports recorded a large 7.2% volume increase in 1989, the seventh straight year in which real imports grew by more than 7%. Once again, the strength was associated with Canada's machinery and equipment investment boom and the continuing strength in consumer spending. A further 1.6% drop in import prices, as measured by the implicit price index for imports of goods and services, provided additional incentive for Canadians to purchase goods and services from other countries. The price decline brought merchandise import prices to a level 1.6% below that of 1981. The Canadian dollar appreciated 4.0% vis-a-vis the United States dollar in 1989, bringing the total appreciation against that currency since 1986 to 17.3%. The dollar also rose in relation to other major currencies: 12.9% versus the British pound, 11.5% against the French franc and the German mark, and 11.7% vis-a-vis the Japanese yen.

The rise in imports was widespread across commodity groups, although imports of automotive products dropped. Imports of services were up 5.0% in real terms due in part to increased traveling by Canadians abroad.

Net exports of goods and services swung from a surplus of \$3.8 billion in 1988 to a deficit of \$2.4 billion in 1989 (in current dollars). Partly as a result of this change, the total balance of payments deficit on current account rose to \$19.7 billion in 1989 from \$10.3 billion in 1988.

Price Indexes

The rate of inflation in 1989 as measured by the GDP implicit price index was 4.8%, up from 4.0% in 1988. Weight shifts within the index continued to hold down its overall rate of increase. The chain price indexes, which provide a better measure of pure price change, indicate an inflation rate of 5.2%, up from 4.8% in 1988. The highest rates of price increase were recorded in the residential and non-residential construction indexes, as was also the case in 1988. The chain indexes for personal expenditure and government expenditure rose more moderately, by 4.9% and 4.3% respectively. Prices for machinery and equipment rose only slightly in 1989, due in large part to lower office equipment prices coupled with the continuing appreciation of the Canadian dollar compared to other major currencies. The chain indexes indicate a further substantial improvement in the overall terms of trade in 1989, since import prices rose less than export prices.

Chain Price Indexes in 1989

(Percentage change)

	1989
Personal expenditure	4.9
Government expenditure	4.3
Residential investment	6.4
Non-residential construction	5.7
Machinery and equipment investment	1.2
Exports	2.5
Less: imports	0.5
Gross domestic product*	5.2

* Excludes value of physical change in inventories.

Components of Income

Labour income rose 9.3% in 1989 as paid hours worked grew 2.5% (using Labour Force Survey data) and average compensation per employee-hour rose

6.6%. Wages and salaries grew strongly in the first half of the year, partly because of large retroactive payments, and somewhat less rapidly in the second half when retroactive pay was a less significant factor and there was more strike activity. Real output per employee-hour rose about 0.4% and unit labour costs grew 6.2%.

Personal income rose 9.2% in the year. Personal disposable income rose 10.4%, boosted by the reduction in unemployment insurance contribution rates which took effect at the beginning of the year.

Corporate profits before taxes dropped \$1.8 billion or 2.8% in 1989. The decrease followed two strong years in which profits increased at a 17.4% average annual rate. Interest and miscellaneous investment income rose a substantial 14.4%, reflecting higher interest rates and increased personal saving.

The accrued net income of farm operators from farm production declined 20.7% in 1989 after a substantial 37.9% increase in 1988. The drop reflected higher expenses, lower subsidies and weak grain sales following the 1988 drought. Non-farm unincorporated business income increased 6.5% as net rental income rose 4.5% and other unincorporated business income grew 7.7%.

The total government sector deficit on a national accounts basis jumped from \$15.9 billion in 1988 to \$22.0 billion in 1989. The federal government deficit rose \$3.2 billion and the provincial government sector balance swung from a surplus of \$1.8 billion to a slight deficit of \$1.1 billion. Total government sector expenditures rose 7.8% while total revenues grew 6.0%.

Output by Industry

Gross domestic product at factor cost, which is derived by estimating value added by industry, rose 2.9% in 1989. Goods production grew 2.5% and services output rose 3.1%. Growth was strongest in communications, agriculture and related services, construction, finance, insurance and real estate and community, business and personal services. Production in the fishing and trapping, mining, quarrying and oil wells and utilities industries declined.

Available in CANSIM: matrices 6641-6642, 6701-6740 and 6826-6827.

The fourth quarter 1989 edition of *National Income and Expenditure Accounts* (13-001, \$18/\$72) is scheduled for release in April. A computer printout containing 44 tables of unadjusted and seasonally adjusted NIEA data plus supplementary analytical tables is also available on the day of release from the Income and Expenditure Accounts Division at a price of \$35 per quarter or \$140 for an annual subscription.

Users can purchase the complete quarterly national accounts dataset on microcomputer diskettes for \$25 per quarter or \$100 for an annual subscription.

For further information contact Karen Wilson (613-951-0439) or Michel Pascal (613-951-3797), Income and Expenditure Accounts Division. □

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

	I	II	III	IV	1989	IV 1989/ III 1989	1989/ 1988
	(\$ millions)					% Change at Quarterly Rates	
Wages, salaries and supplementary labour income ¹	344,424	353,208	360,380	366,768	356,195	1.8	9.3
Corporation profits before taxes	64,224	60,632	59,624	57,532	60,503	-3.5	-2.8
Interest and miscellaneous investment income	51,476	52,508	51,564	53,032	52,145	2.8	14.4
Accrued net income of farm operators from farm production	4,056	3,976	4,932	3,148	4,028	-36.2	-20.7
Net income of non-farm unincorporated business, including rent	35,456	35,792	35,960	36,504	35,928	1.5	6.5
Inventory valuation adjustment	-5,008	-4,076	-1,052	-528	-2,666	524 ²	-99 ²
Net domestic income at factor cost	494,628	502,040	511,408	516,456	506,133	1.0	7.7
Indirect taxes less subsidies	70,280	71,584	72,292	75,060	72,304	3.8	11.1
Capital consumption allowances	72,128	72,284	73,600	74,856	73,217	1.7	7.1
Statistical discrepancy	-2,364	-2,816	-3,660	-3,628	-3,117		
Gross Domestic Product at market prices	634,672	643,092	653,640	662,744	648,537	1.4	7.8

¹ Includes military pay and allowances

² Actual change in millions of dollars

Gross Domestic Product, Expenditure Based

(Seasonally Adjusted at Annual Rates)

	I	II	III	IV	1989	IV 1989/ III 1989	1989/ 1988
	At current price (\$ millions)					% Change at Quarterly Rates	
Personal expenditure on consumer goods and services	369,024	378,280	384,588	392,764	381,164	2.1	8.8
Durable goods	57,392	58,672	58,812	59,676	58,638	1.5	7.3
Semi-durable goods	37,024	38,136	38,652	38,776	38,147	0.3	7.1
Non-durable goods	98,724	101,624	102,736	104,196	101,820	1.4	7.2
Services	175,884	179,848	184,388	190,116	182,559	3.1	10.7
Government current expenditure on goods and services	116,988	118,868	120,848	122,340	119,761	1.2	6.5
Government investment in fixed capital	14,356	14,968	15,500	16,284	15,277	5.1	11.5
Government investment in inventories	284	-100	4	-220	-8	-224 ¹	-26 ¹
Business investment in fixed capital	127,832	127,256	127,116	130,080	128,071	2.3	8.8
Residential	48,916	46,632	47,780	49,652	48,245	3.9	10.3
Plant and equipment	78,916	80,624	79,336	80,428	79,826	1.4	7.9
Business investment in inventories	824	4,040	4,932	4,344	3,535	-588 ¹	2,038 ¹
Exports of goods and services	162,532	160,624	157,620	156,840	159,404	-0.5	1.4
Deduct: Imports of goods and services	159,528	163,660	160,624	163,320	161,783	1.7	5.4
Statistical discrepancy	2,360	2,816	3,656	3,632	3,116		
Gross Domestic Product at market prices	634,672	643,092	653,640	662,744	648,537	1.4	7.8
Final Domestic Demand	628,200	639,372	648,052	661,468	644,273	2.1	8.4
At 1981 prices (\$ millions)							
Personal expenditure on consumer goods and services	254,152	257,016	258,080	261,512	257,690	1.3	4.0
Durable goods	44,756	45,256	45,080	45,776	45,217	1.5	3.3
Semi-durable goods	26,440	27,036	27,124	27,116	26,929	0.0	2.7
Non-durable goods	66,656	67,024	66,788	67,464	66,983	1.0	2.8
Services	116,300	117,700	119,088	121,156	118,561	1.7	5.3
Government current expenditure on goods and services	79,904	79,992	80,768	81,232	80,474	0.6	2.2
Government investment in fixed capital	12,408	12,720	13,028	13,712	12,967	5.3	8.4
Government investment in inventories	212	-72	4	-160	-4	-164 ¹	-18 ¹
Business investment in fixed capital	108,580	108,316	107,380	110,608	108,721	3.0	6.9
Residential	32,448	31,020	31,508	32,664	31,910	3.7	4.1
Plant and equipment	76,132	77,296	75,872	77,944	76,811	2.7	8.2
Business investment in inventories	688	4,492	5,088	3,900	3,542	-1,188 ¹	4,397 ¹
Exports of goods and services	152,464	150,968	150,472	150,176	151,020	-0.2	-0.9
Deduct: Imports of goods and services	153,048	156,340	155,440	159,316	156,036	2.5	7.2
Statistical discrepancy	1,712	2,024	2,596	2,552	2,221		
Gross Domestic Product at market prices	457,072	459,116	461,976	464,216	460,595	0.5	2.9
Final Domestic Demand	455,044	458,044	459,256	467,064	459,852	1.7	4.5
Implicit Price Indexes							
Personal expenditure on consumer goods and services	145.2	147.2	149.0	150.2	147.9	0.8	4.6
Durable goods	128.2	129.6	130.5	130.4	129.7	-0.1	3.8
Semi-durable goods	140.0	141.1	142.5	143.0	141.7	0.4	4.3
Non-durable goods	148.1	151.6	153.8	154.4	152.0	0.4	4.3
Services	151.2	152.8	154.8	156.9	154.0	1.4	5.1
Government current expenditure on goods and services	146.4	148.6	149.6	150.6	148.8	0.7	4.2
Government investment in fixed capital	115.7	117.7	119.0	118.8	117.8	-0.2	2.9
Business investment in fixed capital	117.7	117.5	118.4	117.6	117.8	-0.7	1.8
Residential	150.8	150.3	151.6	152.0	151.2	0.3	6.0
Plant and equipment	103.7	104.3	104.6	103.2	103.9	-1.3	-0.2
Exports of goods and services	106.6	106.4	104.8	104.4	105.6	-0.4	2.3
Deduct: Imports of goods and services	104.2	104.7	103.3	102.5	103.7	-0.8	-1.6
Gross Domestic Product at market prices	138.9	140.1	141.5	142.8	140.8	0.9	4.8
Final Domestic Demand	138.1	139.6	141.1	141.6	140.1	0.4	3.8

¹ Actual change in millions of dollars

Canada's Balance of International Payments

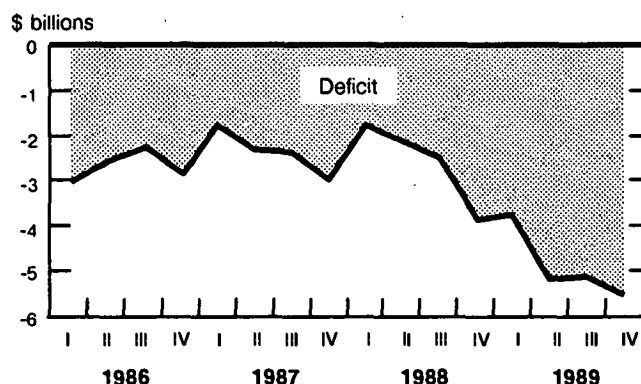
Fourth Quarter 1989

Highlights

The current account deficit, on a seasonally adjusted basis, remained large for the third consecutive quarter, reaching a new record. The merchandise trade surplus continued to decline, to reach its lowest level since the mid-1970s. The deficit on non-merchandise transactions declined, reflecting lower net dividend payments.

In the capital account, which is not seasonally adjusted, non-residents invested heavily in Canada, in the form of portfolio investment in bonds and stocks and in direct investment. The Canadian dollar continued to appreciate against the United States dollar, but weakened against other major currencies.

Current Account Balance (Seasonally Adjusted)

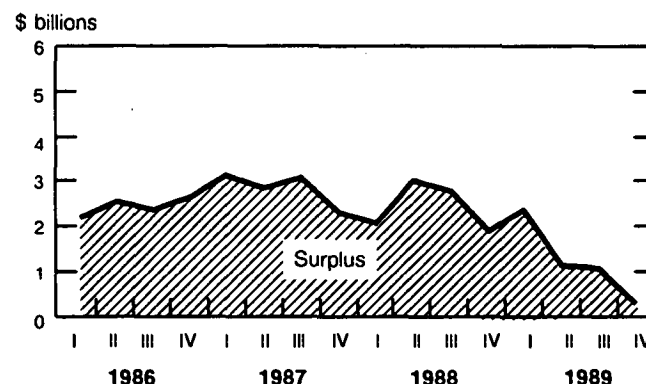


Current Account (Seasonally Adjusted)

- The current account reached a deficit of \$5.6 billion, up from \$5.1 billion in the previous quarter. A reduction in the merchandise trade surplus from \$1.0 billion to \$0.2 billion was partly offset by a decrease in the non-merchandise deficit to \$5.8 billion from \$6.2 billion.

- Merchandise imports increased by \$0.5 billion (1.6%) to \$33.8 billion. Machinery and equipment and cars led the increase in imports.

Merchandise Trade Balance (Seasonally Adjusted)



- Merchandise exports declined by \$0.3 billion (0.8%), to \$34.0 billion. Though small, this represented the third consecutive quarterly decrease in exports. Lower exports of metals and ores, auto parts and refined petroleum products were partly offset by gains in wheat, trucks and lumber.
- The deficit on investment income narrowed by \$0.4 billion, to \$5.2 billion. Higher receipts of dividends from abroad coupled with lower dividend payments abroad accounted for the decrease in the deficit.

Current and Capital Accounts (Unadjusted)

- The current account deficit totalled \$4.8 billion, up from \$3.8 billion in the fourth quarter of 1988. A decline in the merchandise trade surplus was partly offset by a lower deficit on investment income.

- Among financial liabilities, non-residents continued to invest heavily in Canadian bonds, purchasing \$6.2 billion in the current quarter, as the interest rate differential between Canada and the United States widened in favour of Canada. Net foreign investment in Canadian stocks remained strong at \$1.3 billion.
- Foreign direct investment in Canada gave rise to a net inflow of \$2.3 billion, half of which went for acquisitions of existing enterprises in Canada.
- Among Canadian claims, large outflows continued to be recorded on direct investment abroad. A net investment of \$1.2 billion in the current quarter went largely to finance take-overs.

Among Canadian claims, direct investment abroad remained high. The Canadian dollar appreciated against the United States dollar and other major currencies.

Current Account

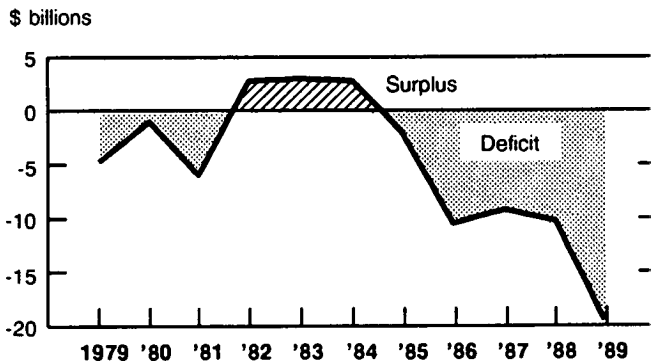
- The current account deficit totalled a record \$19.7 billion, up from approximately \$10 billion in each of the previous three years. The merchandise trade surplus declined for the second consecutive year to \$4.7 billion in 1989. The deficit on non-merchandise transactions, which had hovered around \$20 billion in each of the previous three years, climbed to \$24.3 billion.

1989 Annual

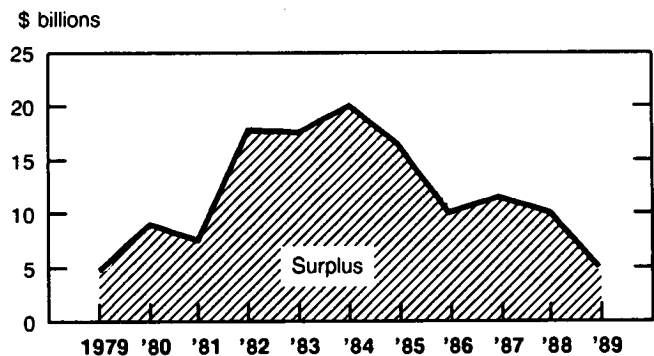
The current account deficit approached \$20 billion, nearly double that of the previous year. The surplus on merchandise trade was halved, dropping to its lowest level since 1979. Exports edged up whereas imports continued to advance at a relatively higher rate. Among service transactions, the travel deficit rose considerably, especially with the United States. Higher interest payments accounted for the larger deficit on the investment income account.

In the capital account, non-residents invested heavily in Canadian bonds and stocks. Net Canadian borrowings from foreign banks were at a record level.

Current Account Balance, Annual



Merchandise Trade Balance, Annual



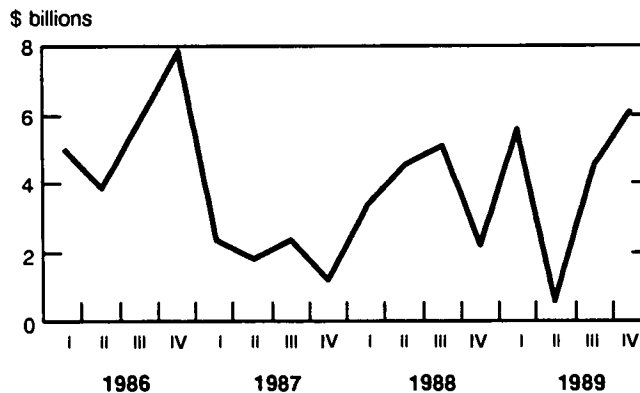
- Merchandise imports advanced for the seventh consecutive year to reach \$134.3 billion. Machinery and equipment led the increase, followed by industrial materials and consumer goods; imports of automotive and aircraft products declined.
- After two years of steady growth, merchandise exports advanced moderately (1.2%) to \$138.9 billion. Sales of machinery and equipment increased whereas exports of wheat, newsprint and autos decreased.

- Geographically, most of the decline in the merchandise trade surplus in 1989 was with the United States and countries other than the OECD.
- The deficit on travel climbed to a record \$3.5 billion, of which \$2.3 billion was with the United States.
- The deficit on the investment income account increased by \$4 billion to \$22.4 billion. The increase largely reflected higher interest payments on money market instruments and other borrowing abroad.
- Though at a lower rate than in the previous two years, receipts from inheritances and immigrants' funds continued to increase, reaching \$6.3 billion. The increase in the transfers surplus to \$5.1 billion was largely due to a rise in receipts of immigrants' funds.

Capital Account

- Among financial liabilities, non-residents increased their holdings of Canadian bonds by \$17 billion, compared to \$15 billion in 1988. Non-residents invested heavily in outstanding Government of Canada bonds. Total foreign holdings of Canadian bonds reached \$162 billion at the end of 1989, which represented some 30% of outstanding Canadian bonds.

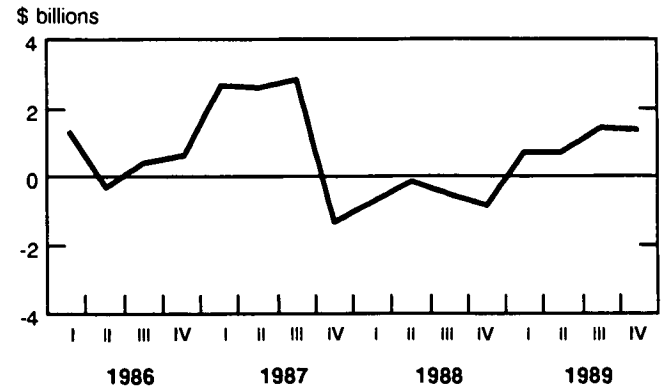
Foreign Investment in Canadian Bonds (Net Flow)



- Non-residents invested, on a net basis, \$4.1 billion in Canadian stocks. This investment,

which more than offset the net sell-off of \$2.4 billion in 1988 remained, however, well below the record \$6.6 billion invested in 1987.

Foreign Investment in Canadian Stocks (Net Flow)



- Borrowings from foreign banks produced a net inflow of \$6 billion, bringing to over \$10 billion net borrowings in the last three years.
- Foreign direct investment in Canada resulted in a substantial net inflow for the third consecutive year. The net investment in the current year, which amounted to \$3.4 billion, was widely distributed geographically; there was, however, a net disinvestment from the United Kingdom.
- Among financial assets, the net outflow of Canadian direct investment abroad amounted to \$4.5 billion, in line with the strong investments recorded over the past decade. The net investment in the current year was more widely distributed geographically, in contrast to recent years when it went predominantly to the United States.
- Canadian investors purchased, on a net basis, a record \$1.6 billion of foreign bonds, largely United States securities. Gross trading activity in foreign bonds has been strong since 1984.
- Canada's international reserves recorded a small increase in 1989 (\$346 million), following the large build-up in the previous two years. During the year, the monetary authorities reduced foreign

currency debt by \$2.7 billion. Canada's international reserves stood at a record U.S. \$16.8 billion at the end of the year.

- A statistical discrepancy (the balancing item between the recorded estimates of current and capital accounts) was equivalent to a net debit of \$2.8 billion.
- The Canadian dollar appreciated against the United States dollar, continuing the upward trend

observed since late 1986. It averaged 84.45 U.S. cents, up from 81.24 U.S. cents in 1988.

Available on CANSIM: matrices 147, 1364, 2343-2349 and 2353-2355 (for quarterly data); 1369-1370, 2333-2339 and 2354-2355 (for annual data).

For further information, contact Lucie Laliberté (613-951-9050), Balance of Payments, International and Financial Economics Division. □

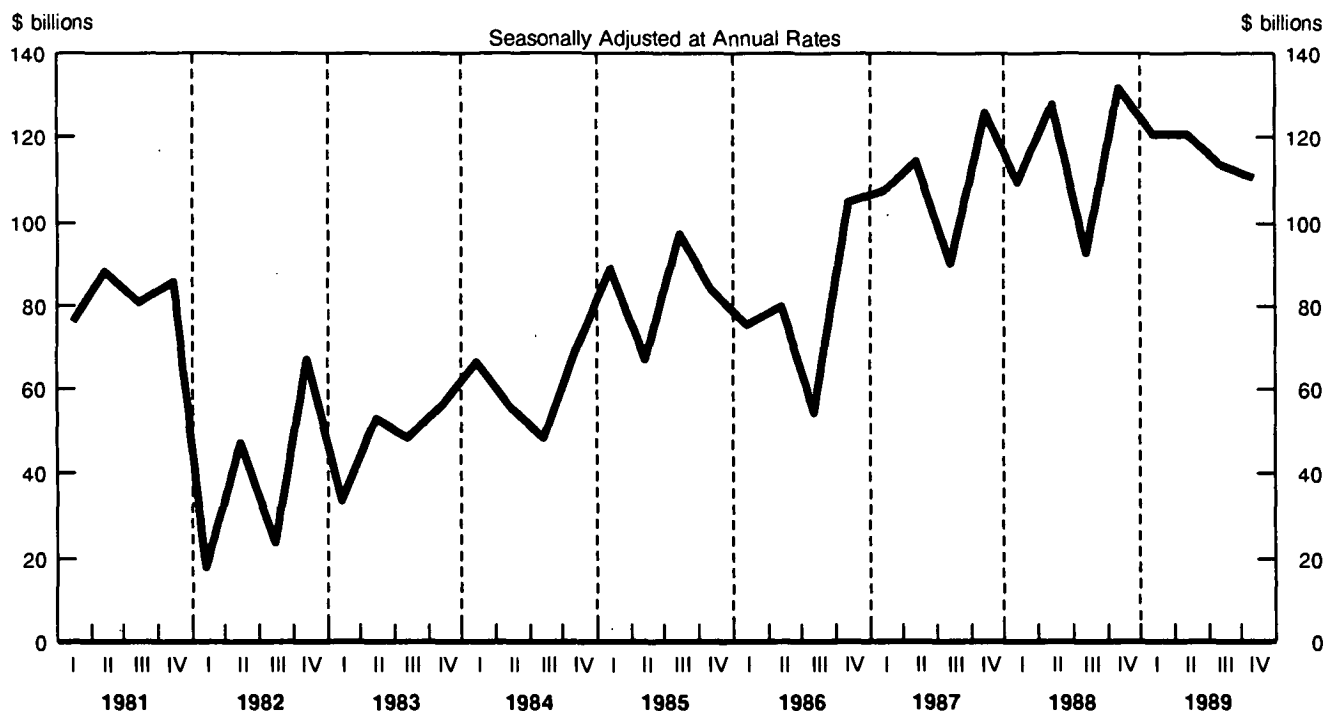
Canada's Balance of International Payments – Summary
(\$ millions)

	1988	1989				1988	1989
	IV	I	II	III	IV		
Seasonally Adjusted							
Current account balances							
Merchandise	1,904	2,335	1,086	1,027	231	9,809	4,679
Non-merchandise:							
Services	-1,548	-1,584	-1,845	-1,779	-1,848	-5,983	-7,057
Investment income ¹	-5,389	-5,927	-5,572	-5,645	-5,218	-18,412	-22,362
Transfers	1,139	1,437	1,123	1,263	1,259	4,270	5,082
Total non-merchandise	-5,798	-6,074	-6,295	-6,161	-5,808	-20,124	-24,337
Total current account	-3,894	-3,738	-5,209	-5,133	-5,577	-10,316	-19,659
Unadjusted							
Current account balance	-3,797	-6,150	-5,509	-3,198	-4,802	-10,316	-19,659
Capital account²							
Canadian claims on non-residents, net flows:							
Canadian direct investment abroad ¹	-1,590	224	-2,344	-1,207	-1,165	-7,900	-4,492
Foreign portfolio securities	-186	-108	208	-2,251	-221	-1,103	-2,372
Other claims	563	-1,882	383	-1,277	-772	-12,782	-3,549
Total Canadian claims, net flows	-1,213	-1,766	-1,753	-4,735	-2,159	-21,786	-10,413
Canadian liabilities to non-residents, net flows:							
Foreign direct investment in Canada ¹	503	-1,783	2,291	669	2,252	5,081	3,430
Canadian portfolio securities	1,325	6,288	1,227	6,004	7,492	13,007	21,010
Other liabilities	3,591	3,153	4,791	-509	992	15,842	8,427
Total Canadian liabilities, net flows	5,420	7,658	8,309	6,164	10,736	33,929	32,867
Total net capital flow	4,207	5,892	6,556	1,428	8,577	12,144	22,453
Statistical discrepancy	-410	257	-1,047	1,769	-3,775	-1,828	-2,795

¹ Excludes retained earnings.

² A minus sign (-) denotes an outflow of capital resulting from an increase in claims on non-residents or a decrease in liabilities to non-residents.

Funds Raised on Credit Markets by Domestic Non-financial Sectors



Financial Flow Accounts

Fourth Quarter and Annual, 1989 (Seasonally Adjusted)

In the fourth quarter of 1989, the volume of financial activity, as measured by funds raised in credit markets by non-financial sectors, decreased 2.5% from the previous quarter. Non-financial private corporations and the federal government reduced their demands for funds, while the personal sector and other levels of government increased their borrowing. Funds raised by the non-financial sectors during the year 1989 were up 1% over 1988.

Households' indebtedness in the form of consumer credit rose by \$8.2 billion during the year, compared to \$9.7 billion in 1988; mortgages rose by \$24.2 billion, slightly more than in the previous year. This new borrowing increased the level of consumer credit and mortgage debt combined by 10.8% during 1989, compared to 12.6% during 1988. While the rate of increase moderated, growth in debt outpaced gains in income. The level of indebtedness was

Note to Users

The financial data in the accompanying table are based on the Financial Market Summary Table of the Financial Flow Accounts. Seasonally adjusted data for borrowing are available from 1977. The full detail of the Financial Flow Accounts, showing the acquisition of capital and financial assets and the borrowing of all sectors of the economy, will be released on March 8 on CANSIM and in publication 13-014.

equivalent to 74.7% of personal disposable income at the end of 1989, a record high, up from 73.3% at the end of 1988.

Non-financial private corporations raised \$50 billion during 1989, up 27% from a year earlier. The increased financing requirement reflected continuing strength in fixed capital investment, as well as reduced profits, or internal funding ability. Net new issues of common and preferred stocks during the year totalled \$10.5 billion; the volume of new issues since the second quarter has remained near pre-October 1987 levels.

Federal government borrowing in 1989 dropped sharply from the previous year. The level of Canada Savings Bonds outstanding was reduced by \$11.3 billion, or 20% of the total. Net new issues of marketable bonds were down, while Treasury bill issues were increased. Other levels of government

increased their borrowing and also favored shorter-term borrowing.

For further information, contact Gerry Gravel or Patrick O'Hagan (613-951-9043), Financial Flows Section, International and Financial Economics Division. □

Financial Market Summary Table

(Seasonally Adjusted at Annual Rates)
Millions of Dollars

	1988	1989				
	Annual	I	II	III	IV	Annual
Persons and Unincorporated Business						
Funds Raised	41,362	46,724	30,592	35,880	38,700	37,974
of which:						
Consumer Credit	9,718	8,908	7,664	8,504	7,812	8,222
Bank Loans	4,915	4,196	912	6,660	-856	2,728
Other Loans	2,734	6,412	-364	32	5,496	2,894
Mortgages	24,013	27,196	22,520	20,788	26,392	24,224
Non-financial Private Corporations						
Funds Raised	39,246	51,312	56,796	48,240	43,400	49,937
by:						
Bank Loans	3,811	7,180	26,652	-3,284	220	7,692
Other Loans	4,490	17,060	-3,232	8,628	2,000	6,114
Short-term Paper	11,248	12,912	744	8,848	4,976	6,870
Mortgages	9,490	9,748	6,900	13,180	13,152	10,745
Bonds	5,970	-2,520	14,508	8,412	11,552	7,988
Stocks	4,237	6,932	11,224	12,456	11,500	10,528
Non-financial Government Enterprises						
Funds Raised	875	4,064	3,900	-184	1,292	2,268
Federal Government						
Funds Raised	28,821	13,916	24,240	24,284	19,304	20,436
of which:						
Treasury Bills	20,004	18,340	34,548	15,560	27,864	24,078
Marketable Bonds	9,952	9,504	1,864	8,640	13,688	8,424
Canada Savings Bonds	-124	-13,292	-11,200	280	-21,032	-11,311
Other Levels of Government						
Funds Raised	8,814	7,604	7,760	9,216	11,748	9,082
of which:						
Short-Term Paper	-1,083	-604	1,632	5,220	3,208	2,364
Provincial Government Bonds	7,200	8,032	4,072	4,744	7,296	6,036
Municipal Government Bonds	1,541	468	792	208	1,544	753
Total Borrowing by Domestic Non-financial Sectors	119,118	123,620	123,288	117,436	114,444	119,697
Consumer Credit	9,718	8,908	7,664	8,504	7,812	8,222
Bank Loans	9,175	10,044	27,040	2,708	188	9,995
Other Loans	6,946	22,028	-2,684	5,704	6,104	7,788
Treasury Bills	20,004	18,340	34,548	15,560	27,864	24,078
Short-Term Paper	10,675	13,860	1,176	16,492	5,052	9,145
Mortgages	33,490	36,948	29,408	33,964	39,536	34,964
Bonds	25,458	6,600	14,932	22,084	16,388	15,001
Stocks	3,652	6,892	11,204	12,420	11,500	10,504

Real Gross Domestic Product at Factor Cost by Industry

December 1989 (Seasonally Adjusted)

Monthly Overview

Gross Domestic Product at factor cost, at 1981 prices, increased 0.2% in December, following a 0.5% gain in November and a 0.3% decline in October. Output in December stood 2.0% above the level of the corresponding month of last year; the increase in output was 1.5% for goods producing industries and 2.3% for services producing industries.

Goods Producing Industries

Output of goods producing industries rose 0.2% in December 1989, after a 0.4% increase in November. Most of the growth was due to a 5.9% output increase in the public utilities industry. Smaller production increases were reported in manufacturing and forestry industries. Output declined in construction, mining, agriculture and fishing.

The major contributor to the December output gain was the electric power systems industry. Electric power generation jumped 6.2% in December, following a gain of 0.7% in November. Demand for electricity increased sharply due to extremely cold temperatures throughout most provinces in the latter part of November and most of December. A similar gain was also recorded in gas distribution systems, mainly due to increased consumption of natural gas in the residential market.

Following a 0.5% gain in November, manufacturing output rose 0.2% due mostly to production increases in electrical products, transportation equipment, food products, and non-metallic mineral products. In the electrical products industry, increased output by producers of office, store and business machines accounted for most of the growth.

A year-end surge in automobile and truck production resulted in the strongest month-to-month production increase (6.2%) for motor vehicle manufacturers since January 1989. During the month, several major producers announced large-scale layoffs and plant shutdowns to take effect at the beginning of January 1990 to adjust automobile and truck inventories. Preliminary January production data suggest motor vehicle output will decline significantly below the December level. Domestic unit sales of North American produced automobiles rose 4.1%, while December automobile exports fell to the lowest level of the year.

Offsetting the gain by motor vehicle manufacturers was a 2.0% decline in output by producers of motor vehicle parts and accessories. In December, production fell to its lowest level of the year.

Construction industry output fell 0.5%; declines were reported in residential construction, non-residential building construction, road and highway construction and other engineering construction.

Mining output fell 0.8%, mostly the result of decreased crude petroleum and natural gas production.

Services Producing Industries

Services producing industries advanced 0.1% in December, in contrast to a 0.5% gain in November. Most of the rise in services producing industries originated in wholesale trade and community, business and personal services industries and, to a lesser extent, communication industries. Output of finance, insurance and real estate industries and retail trade was unchanged from the November level. Transportation and storage industries declined 2.5%.

Substantial gains were reported by wholesalers of food products, petroleum products, industrial machinery and equipment, apparel and electrical machinery and equipment.

Output of community, business and personal services industries rose 0.6%, due to gains in accommodation and food service industries, business services, and amusement and recreation services.

In communication industries, most of the growth originated among telecommunication carriers.

Output in finance, insurance and real estate industries was unchanged from the previous month as gains in banks, trust companies, finance companies and insurance carriers were offset by declines in stock exchanges, security brokers and dealers, and real estate and insurance agencies.

In retail trade, increases by service stations and garages, automobile parts and accessories stores, and food stores were offset by decreases for new motor vehicle dealers and furniture and appliance stores.

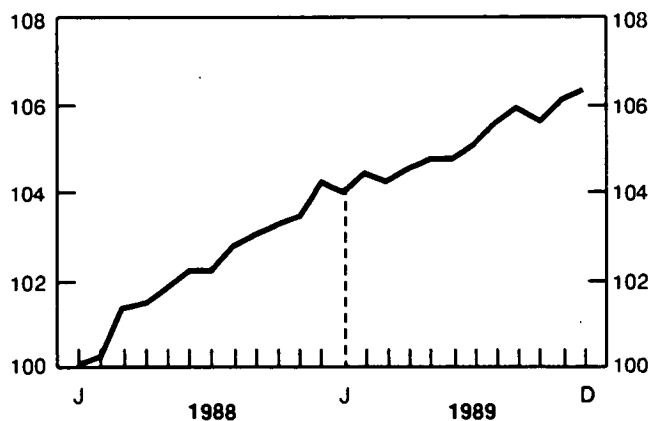
Output of transportation and storage industries declined 2.5%, as a result of decreases in water, pipeline, air, railway, and truck transport and grain elevators. Lower grain movement through storage-handling facilities and railway and water transport systems accounted for much of the decline. A strike by seaway pilots disrupted traffic on the St. Lawrence River through most of the month.

Gross Domestic Product

Seasonally Adjusted at Annual Rates at 1981 Prices

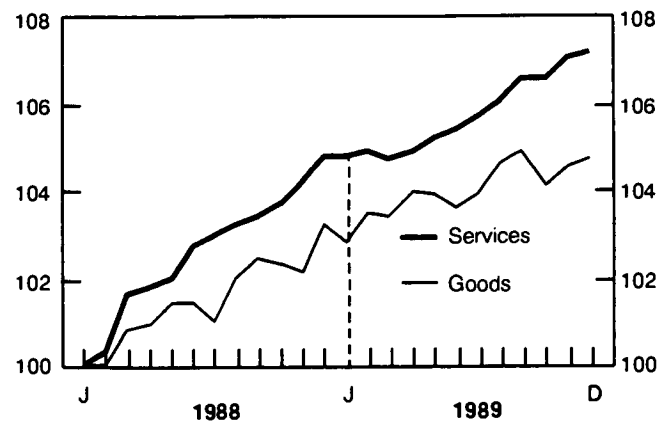
Total Economy

Index (January 1988 = 100)



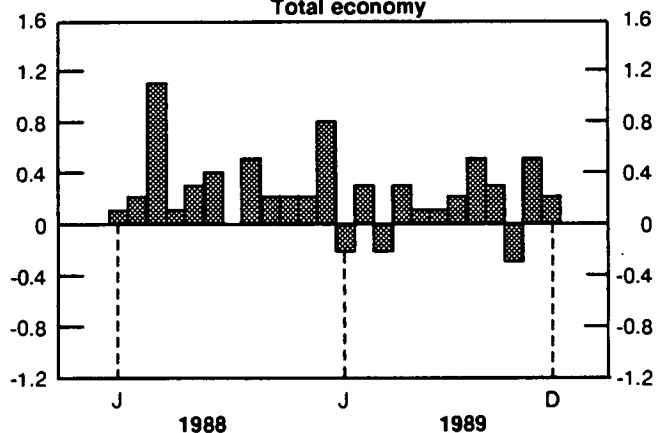
Goods and Services

Index (January 1988 = 100)



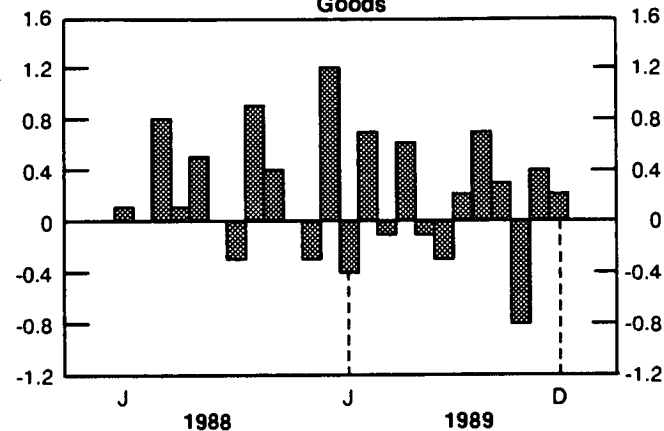
% change

Total economy



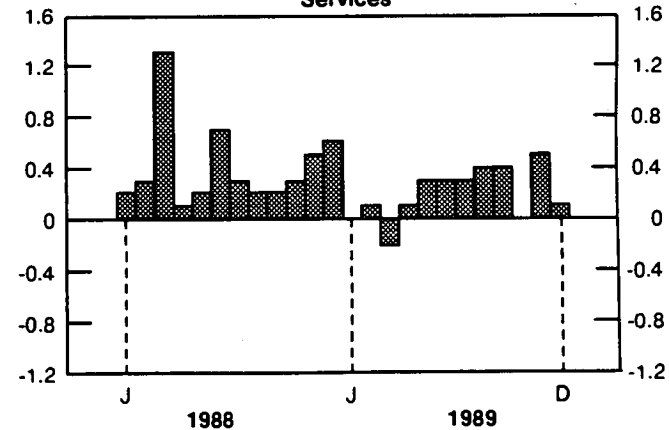
% change

Goods



% change

Services



A 4.9% decrease in pipeline transport was attributed to lower throughput of natural gas destined for the export market. In December, natural gas exports fell nearly 10% to the lowest level since February.

Note to Users: Data have been revised back to January 1989.

Order the December 1989 issue of *Gross Domestic Product by Industry* (15-001, \$12.10/\$121), scheduled for release in March. See "How to Order Publications."

For further information on this release, contact Ron Kennedy (613-951-3673), Industry Measures and Analysis Division. □

Available on CANSIM: matrices 4664-4668.

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

Monthly
(Seasonally Adjusted at Annual Rates)
(\$ millions)

	1988	1989			
	December	September	October	November	December
Total Economy	408,145.5	414,941.3	413,720.2	415,637.4	416,331.1
Business Sector:					
Agricultural and related services industries	8,811.9	10,248.6	10,049.8	9,923.7	9,771.3
Fishing and trapping industries	827.0	655.0	601.0	579.6	553.7
Logging and forestry industry	2,995.5	2,774.2	2,726.3	2,653.2	2,753.8
Mining, quarrying and oil well industries	23,202.5	23,467.3	22,944.0	23,184.1	23,004.5
Manufacturing industries	78,299.3	79,167.2	78,550.1	78,955.5	79,109.7
Construction industries	31,744.7	32,172.5	32,513.9	32,635.1	32,463.0
Transportation and storage industries	19,434.6	19,920.6	19,605.9	19,719.9	19,225.7
Communication industries	13,104.7	14,142.1	14,351.0	14,479.4	14,568.2
Other utility industries	11,474.9	11,395.9	11,219.4	11,338.6	12,003.4
Wholesale trade industries	25,504.7	25,289.4	25,035.3	25,258.3	25,609.5
Retail trade industries	26,540.6	26,422.6	26,149.8	26,426.2	26,433.4
Finance, insurance and real estate	59,781.3	61,352.8	61,491.8	61,788.0	61,807.5
Community, business and personal services	41,646.7	42,543.5	42,743.0	42,877.6	43,116.8
Non-business sector:					
Mining industries	75.7	71.9	74.3	70.7	69.5
Manufacturing industries	48.0	48.0	48.0	48.0	48.0
Forestry services industry	328.6	331.7	336.5	335.3	335.3
Transportation industries	1,564.5	1,593.8	1,585.4	1,592.6	1,579.4
Communication industries	50.4	46.8	48.0	44.4	44.4
Water systems industry	559.1	565.3	568.9	568.9	571.3
Insurance and other finance industry	416.2	431.7	431.7	434.1	437.7
Government service industry	24,111.4	24,593.7	24,656.1	24,695.8	24,746.2
Community and personal services industries	37,623.2	37,706.7	37,990.0	38,028.4	38,078.8
Special aggregations:					
Business sector:	343,368.4	349,551.7	347,981.3	349,819.2	350,420.5
- goods	157,355.8	159,880.7	158,604.5	159,269.8	159,659.4
- services	186,012.6	189,671.0	189,376.8	190,549.4	190,761.1
Non-business sector	64,777.1	65,389.6	65,738.9	65,818.2	65,910.6
- goods	682.8	685.2	691.2	687.6	688.8
- services	64,094.3	64,704.4	65,047.7	65,130.6	65,221.8
Goods producing industries	158,038.6	160,565.9	159,295.7	159,957.4	160,348.2
Services producing industries	250,106.9	254,375.4	254,424.5	255,680.0	255,982.9
Industrial production industries	113,659.5	114,715.6	113,404.7	114,165.8	114,806.4
Non-durable manufacturing industries	33,210.8	33,521.0	33,475.4	33,520.9	33,508.4
Durable manufacturing industries	45,088.5	45,646.2	45,074.7	45,434.6	45,601.3

DATA AVAILABILITY ANNOUNCEMENTS

Electric Power Statistics

December 1989

Net generation of electric energy in Canada in December 1989 increased 4.4% over the corresponding month last year, to 48 749 gigawatt hours (GWh). Exports decreased 31.1% to 1 285 GWh, while imports climbed from 667 GWh to 1 911 GWh.

Year-to-date figures show net generation at 482 158 GWh, down 1.4% from the previous year's period. Exports, at 22 089 GWh, were down 35.2%, while imports, at 12 724 GWh, were up 100.7%.

Available on CANSIM: matrices 3987-3999.

The December 1989 issue of *Electric Power Statistics* (57-001, \$9/\$90) will be available the second week of March. See "How to Order Publications".

For further information on this release, contact Dave Madsen (613-951-9823), Energy Section, Industry Division. ■

Telephone Statistics

December 1989

Canada's 13 major telephone systems reported monthly revenues of \$1,087.9 million in December 1989, up 6.9% over December 1988.

Operating expenses were \$833.8 million, a decrease of 0.3% from December 1988. Net operating revenue was \$254.1 million, an increase of 40.3% over December 1988.

Available on CANSIM: matrix 355.

The December 1989 issue of *Telephone Statistics* (56-002, \$7.90/\$79) is scheduled for release the week of March 5. See "How to Order Publications".

For further information on this release, contact J.R. Slattery (613-951-2205), Services Division. ■

Railway Carloadings

Seven-day Period Ending February 14, 1990

Revenue freight loaded by railways in Canada during the week totalled 4.6 million tonnes, an increase of 2.4% over the same period last year.

Piggyback traffic increased 3.7% and the number of cars loaded increased 2.1% over the same period last year.

The tonnage of revenue freight loaded to date this year is 8.4% higher than that loaded in the previous year.

Note to Users: Piggyback traffic includes trailers and containers on flat cars. Piggyback traffic numbers are included in total carload traffic. All 1989 figures have been revised.

For further information on this release, contact Angus MacLean (613-951-2484), Surface Transport Unit, Transportation Division. ■

Steel Primary Forms (Steel Ingots)

Week Ending February 24, 1990

Preliminary estimates indicate that Canadian steel primary forms production for the week ending February 24, 1990 totalled 275 554 tonnes, an increase of 9.4% over the preceding week's total of 251 794 tonnes, but down 11.7% from the year-earlier level of 311 966 tonnes.

The cumulative total in 1990 was 2 093 029 tonnes, a decrease of 13.6% from 2 421 717 tonnes for the same period in 1989.

For further information on this release, contact Greg Milsom (613-951-9827), Industry Division. ■

PUBLICATIONS RELEASED

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