

# MONTHLY ECONOMIC INDICATORS

October 1999

## HIGHLIGHTS

-  **A surge in employment lowers the national unemployment rate to 7.5% in September, a nine-year low.**
-  **Output posts its biggest gain of the year in July, boosted by sharply-higher production in Manufacturing.**
-  **The trade surplus rises to a 2½-year high in July, as export growth outpaces that of imports.**
-  **Inflation rises above 2% in August, boosted by a sharp rise in energy prices.**
-  **Higher commodity prices support a rally in the Canadian dollar through much of September.**
-  **Fears of an interest rate hike push up interest rates early in October.**

## Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$92 B)	748.7	0.4	4.6	July
Goods	248.0	0.6	6.0	July
Services	500.7	0.3	3.9	July
Composite Index	215.7	0.2	4.0	Aug
Employment (000's)	14,737	0.4	2.4	Sept
Full-time	12,033	0.6	3.2	Sept
Part-time	2,704	-0.3	-1.1	Sept
Unemployment* (%)	7.5	7.8	8.3	Sept
Youth*	14.5	13.7	14.7	Sept
Adult*	6.2	6.6	7.0	Sept
CPI inflation*	2.1	1.8	0.8	Aug
Retail Sales (\$M)	21,737	1.3	5.5	July
Housing Starts (000's)	152.7	3.7	13.4	Sept
Trade Balance* (\$M)	3,174	2,746	1,849	July
Exports	30,037	1.8	15.8	July
Imports	26,863	0.3	11.5	July
M&E	8,942	-1.0	5.4	July
3-mth Corp. paper* (%)	5.00	4.87	5.38	Oct 6
Long bond yield* (%)	6.05	5.68	5.32	Oct 6
Canadian dollar* (US¢)	67.98	68.15	65.31	Oct 8

\*Data in levels only – % change not reported.

This issue's Special Report:  
Canada's Tourism Industry

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at [http://strategis.ic.gc.ca/sc\\_ecnmy/mera/engdoc/03.html](http://strategis.ic.gc.ca/sc_ecnmy/mera/engdoc/03.html).



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# MONTHLY ECONOMIC INDICATORS

## October 1999

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This report uses data available as of October 8, 1999. It has been prepared by Marianne Blais, Joe Macaluso, Alison McDermott, André Patry and Karen Smith of the Micro-Economic Analysis Directorate, under the direction of Raynald Létourneau and Shane Williamson. The special report in this issue on Canada's tourism industry was prepared by Shauna Martin. All information is taken from public sources, primarily Statistics Canada, the Bank of Canada and the Canada Mortgage and Housing Corporation. Please address comments to Shane Williamson at 613-995-8452 or through the Internet at [williamson.shane@ic.gc.ca](mailto:williamson.shane@ic.gc.ca).

# THE ECONOMY

## Real GDP by Industry

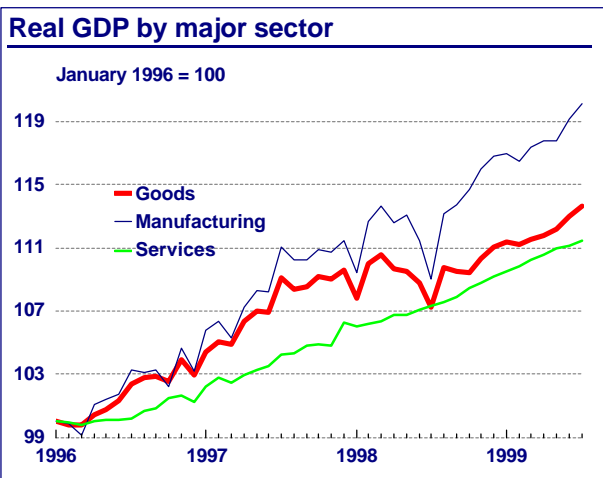
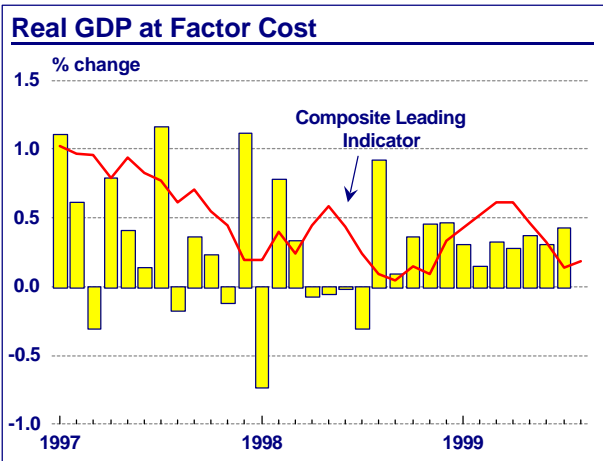


### Real GDP posts its sharpest gain this year...

- Real GDP at factor cost increased 0.4% in July, the twelfth consecutive monthly increase and the longest stream of uninterrupted growth in over a decade. The July advance represents the strongest growth so far this year.

### ...led by a surge in Manufacturing and widespread gains in Services

- Goods-producing industries advanced 0.6% overall in July. Broad-based gains in Manufacturing (+0.8%) accounted for more than one-third of this gain, with 16 of 22 major industry groups increasing production. Warm weather boosted electricity use and residential building activity remained strong, offsetting declines elsewhere in the Goods sector. Mining output fell despite higher production in the oil & gas sector.
- Output in the Services-producing industries rose 0.3% in July, keeping pace with gains in the previous months of this year. Major gains by retailers (boosted by strong demand for cars and trucks), and wholesalers (driven mainly by sales of computers and software), led the growth in Services. Business services posted yet another solid increase, fuelled by growth in computer and consulting services.



### Real GDP at Factor Cost (1992 dollars)

July 1999	\$ millions	monthly change	% Change since last month	% Change since last year
<b>Total Economy</b>	<b>748,676</b>	<b>3,194</b>	<b>0.4</b>	<b>4.6</b>
<b>Business sector</b>	<b>619,933</b>	<b>3,151</b>	<b>0.5</b>	<b>5.5</b>
<b>Goods</b>	<b>248,033</b>	<b>1,497</b>	<b>0.6</b>	<b>6.0</b>
Agriculture	13,028	-13	-0.1	1.5
Fishing & Trapping	778	-42	-5.1	-4.5
Logging & Forestry	4,316	43	1.0	5.1
Mining*	25,801	-102	-0.4	-5.8
Manufacturing	136,950	1,111	0.8	10.1
Construction	41,313	108	0.3	3.8
Other Utilities	25,847	392	1.5	4.6
<b>Services</b>	<b>500,643</b>	<b>1,697</b>	<b>0.3</b>	<b>3.9</b>
Transport & Storage	34,858	-38	-0.1	4.8
Communications	26,274	251	1.0	13.5
Wholesale Trade	46,679	369	0.8	12.7
Retail Trade	46,574	428	0.9	3.5
Finance & Insurance	41,413	136	0.3	1.7
Real Estate & Ins. Agent	79,330	26	0.0	2.3
Business services	43,711	395	0.9	8.8
Government services	45,760	163	0.4	2.6
Education	40,407	38	0.1	-0.3
Health & Social Services	46,497	-134	-0.3	-1.6
Accommodation & Food	19,512	-38	-0.2	0.3
Other	29,628	101	0.3	2.2

\*Includes Quarrying and Crude Petroleum & Natural Gas

# THE ECONOMY

## Consumer Spending and Attitudes



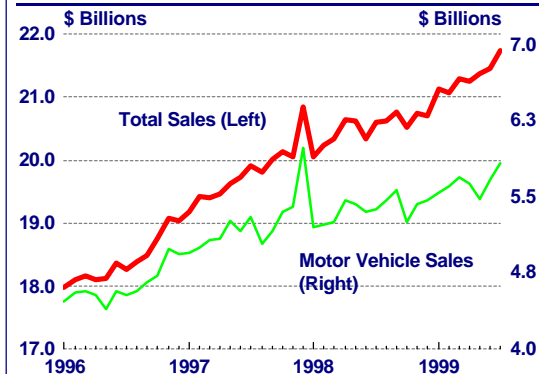
### Growth in consumer spending moderates in the second quarter...

- Real consumption rose 3.0% (annual rate) in the second quarter, down from growth of 4.2% in the first quarter. Strong spending on services more than offset weaker expenditures on goods.
- Disposable income increased by 2.6% in the quarter, failing once again to keep pace with higher spending. As a result, the saving rate fell to 1.4% – the lowest on record – while the household debt-to-income ratio rose to a record 100.2%.

### ...but retail sales rise sharply in July

- Total retail sales increased 1.3% in July, the strongest growth in six months. Gains were widespread as sales increased in five of the seven major groups. Nearly two-thirds of the advance was in the Automotive sector, as higher sales of new motor vehicles and higher gasoline prices more than offset lower sales of parts and services.
- Major gains were also registered by Clothing stores (after a sharp decline in June), and General Merchandise stores.
- Higher department store sales in August suggest that the momentum in total retail sales may be maintained.

### Total Retail and Motor Vehicle Sales



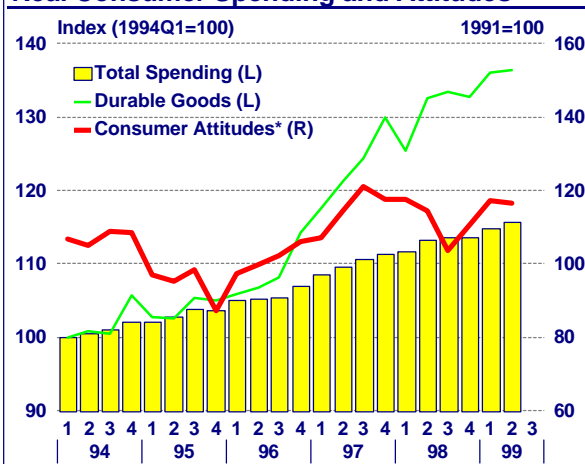
### Retail Sales and Consumer Credit

	July 1999 \$ millions	% Change since	
		last month	last year
<b>Total Retail Sales (S.A.)</b>	21,737	1.3	5.5
Food	4,885	-0.0	0.9
Drug Stores	1,121	0.8	2.4
Clothing	1,212	3.1	3.9
Furniture	1,154	-0.3	7.8
Automotive	8,469	2.0	7.4
General Merch. Stores	2,535	2.1	8.5
All other Stores	2,361	0.5	6.6
Total ex. motor vehicles	15,905	0.7	4.4
<b>Consumer Credit (unadjusted)</b>	164,928	0.7	7.2

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	1997	1998	1999 Q1	1999 Q2
<b>Real Consumption (92\$)</b>	472,867	485,906	493,244	496,868
% change	4.2	2.8	4.2	3.0
Durable Goods	62,823	66,801	69,360	69,524
% change	13.3	6.3	10.5	0.9
Semi-Durable Goods	44,334	46,526	47,096	47,296
% change	4.3	4.9	4.9	1.7
Non-Durable Goods	118,293	119,521	120,952	121,180
% change	1.3	1.0	4.2	0.8
Services	247,417	253,058	255,836	258,868
% change	3.4	2.3	2.6	4.8
<b>Disposable Income</b>	534,728	552,778	562,680	566,368
% change	3.1	3.4	3.1	2.6
<b>Saving Rate (%)</b>	2.8	2.3	1.9	1.4
<b>Debt-to-Income Ratio (%)</b>	96.4	98.3	99.6	100.2

### Real Consumer Spending and Attitudes



\*Conference Board of Canada

# THE ECONOMY

## Business Investment in Plant and Equipment

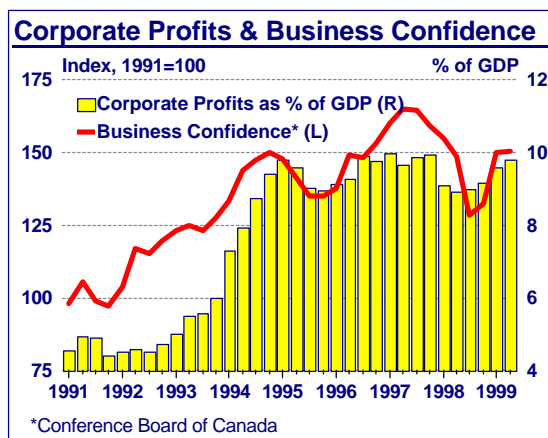
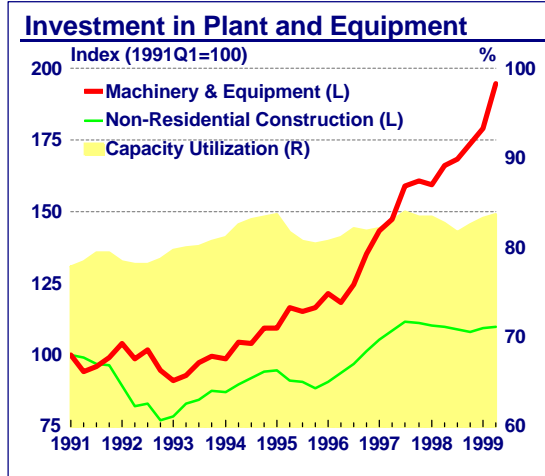


### Business investment surges in the second quarter...

- Business investment in M&E grew 40.5% (annual rate) in the second quarter, the highest increase since 1991. Growth was widespread, although purchases of computers related to the Y2K compliance were an important factor behind this strong investment performance.
- Higher building construction resulted in growth of 1.5% in Non-residential Construction. Engineering construction fell in the second quarter due to reduced oil and gas drilling.

### ...but this momentum is likely to ease in the third quarter

- Lower spending on commercial and industrial projects led to a decline in non-residential construction in July.
- Moreover, imports of M&E decreased 1.0%, following three monthly increases. Lower imports of airplanes and machinery by automobile manufacturers are partly responsible for this drop.



### Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	1997	1998	1998 Q3	1998 Q4	1999 Q1	1999 Q2
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1992\$)</b>	59,112	64,701	65,308	67,284	69,320	75,464
% change	22.2	9.5	5.9	12.7	12.7	40.5
<b>Non-residential Construction (1992\$)</b>	39,079	39,110	38,932	38,696	39,128	39,272
% change	14.0	0.1	-3.8	-2.4	4.5	1.5
<b>Capacity Utilization (% , Non-farm goods)</b>	83.2	82.7	81.8	82.6	83.3	83.8
Capacity Utilization (Mfg. sector)	83.6	83.8	82.5	84.8	85.5	86.2
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>						
% change						
Profits - Non-financial industries						
% change						
Profits - Financial industries						
% change						
<b>Business Credit</b>	625,859	688,937	699,279	705,050	711,760	713,830
% change	9.3	10.1	10.2	3.3	3.9	1.2

NOTE: Statistics Canada is making significant changes to the Quarterly Survey of Financial Statistics for Enterprises. For this reason, data are preliminary and may be subject to significant revision.

# THE ECONOMY

## Housing



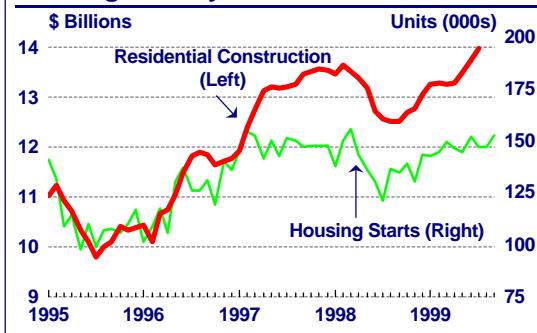
### Residential investment rebounds in the first half of the year...

- Residential investment advanced 15.4% (annual rate) in the second quarter, following an 18.6% rise in the first quarter. Strong increases in the first half of this year follow a period of sustained weakness in 1998.
- All major components of residential investment registered significant gains. Sales of existing homes were particularly strong, but new housing construction and renovation activity were also up.

### ...and this momentum continues in the third quarter

- Residential construction increased 1.8% in July, the ninth advance in the last ten months.
- Despite a decline in the value of building permits in August (the first decline in four months), permits are running well above year-ago levels.
- Sales of existing homes have fallen in both July and August. However, the number of housing starts increased in September, leading to a 1.7% increase overall in the third quarter.
- Despite this mixed data, solid economic activity and improving labor market conditions should help sustain the strong housing market in the third quarter.

### Housing Activity



### Monthly Housing Indicators

	levels	Change since	
		last month	last year
<b>Residential Construction (1)</b> (\$92M, factor cost basis)	13,979	1.8%	11.2%
<b>Building Permits, \$M (2)</b>	1,663	-4.2%	11.4%
<b>Sales of Existing Homes (2)</b> (# of units)	20,200	-311	
<b>Housing Starts, # of units (3)</b>	152,700	5,500	18,100
Newfoundland	800	-100	-400
Prince Edward Island	300	0	100
Nova Scotia	2,300	1,000	-800
New Brunswick	2,100	400	900
Quebec	27,100	10,500	9,200
Ontario	60,500	-1,500	12,000
Manitoba	1,500	-500	-800
Saskatchewan	3,100	700	200
Alberta	18,800	-5,800	-1,400
British Columbia	13,800	800	-3,600

1 - July data; 2 - August data; 3 - September data.  
Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association

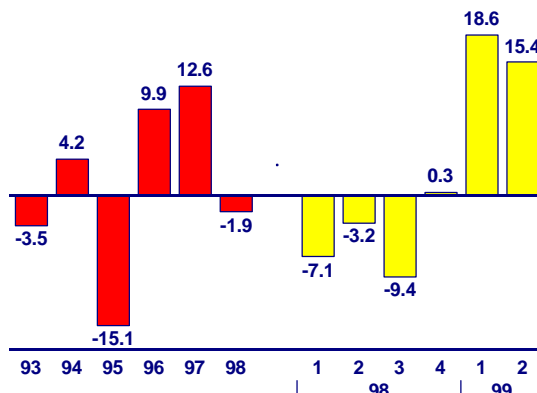
### Real Investment in Residential Structures

\$92 Millions, SAAR (unless otherwise noted)

	1997	1998	1999 Q1	1999 Q2
<b>Residential Construction</b>	42,348	41,547	42,760	44,316
% change	12.6	-1.9	18.6	15.4
Construction by Business sector	42,223	41,422	42,632	44,188
% change	12.6	-1.9	18.6	15.4
New Housing	21,441	20,695	21,436	21,916
% change	19.5	-3.5	22.6	9.3
Alterations & Improvements	13,315	13,645	14,104	14,356
% change	7.2	2.5	16.6	7.3
Ownership & Transfer Costs	7,592	7,207	7,220	8,044
% change	4.5	-5.1	11.4	54.1

### Growth in Real Residential Construction

% change, SAAR



# THE ECONOMY

## Trade and Competitiveness



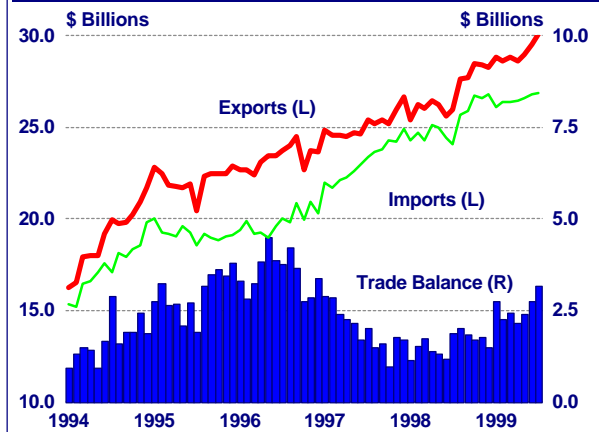
### Export growth outpaces that for imports...

- Exports surged 1.8% in July, keeping pace with the previous month's solid gain. Strong increases in exports of Forestry and Energy Products were the major contributors to this healthy growth. Exports of M&E also grew significantly, due to growing sales of computer and controlling equipment. Automotive Products posted a decline but are up strongly on a year-over-year basis.
- Merchandise imports rose 0.3% in July. Most categories recorded modest increases, with the exception of Energy Products and M&E which experienced declines (the latter following three consecutive monthly increases).

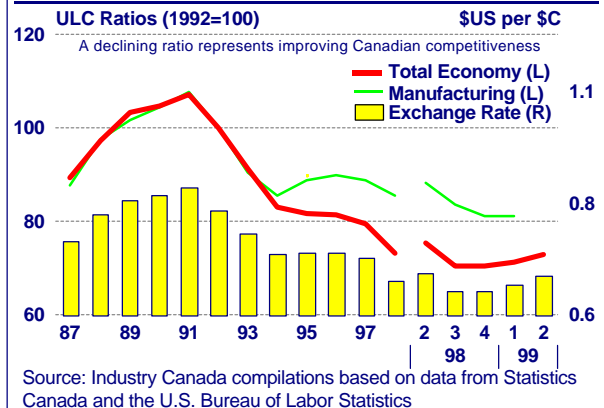
### ...pushing up the trade surplus to a 2 1/2 year high

- The merchandise trade surplus increased \$0.4 billion to \$3.2 billion in July, its highest monthly level since December 1996. This improvement was based solely on trade with the United States.

### Merchandise Trade Flows and Balance



### Canada-U.S. Unit Labour Cost Ratios



### Merchandise Trade

July 1999	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change
	1999 June	1999 July	1998 Jan-July	1999 Jan-July	June to July 1999	June to July 1999	
<b>Exports</b>	<b>29,516</b>	<b>30,037</b>	<b>181,836</b>	<b>203,298</b>	<b>521</b>	<b>1.8</b>	<b>15.8</b>
to United States	25,297	26,137	150,259	174,694	840	3.3	20.3
<b>Imports</b>	<b>26,771</b>	<b>26,863</b>	<b>171,771</b>	<b>185,394</b>	<b>92</b>	<b>0.3</b>	<b>11.5</b>
from United States	20,329	20,708	131,719	142,573	379	1.9	12.6
<b>Trade Balance</b>	<b>2,745</b>	<b>3,174</b>	<b>10,065</b>	<b>17,904</b>	<b>429</b>		
with United States	4,968	5,429	18,540	32,121	461		
<b>Exports by Commodity</b>							
Agriculture/Fishing Products	2,159	2,167	14,517	14,746	8	0.4	9.2
Energy Products	2,421	2,652	13,978	15,273	231	9.5	25.0
Forestry Products	3,144	3,423	20,181	22,298	279	8.9	18.0
Industrial Goods & Materials	4,718	4,677	33,816	32,384	-41	-0.9	-3.4
Machinery & Equipment	7,035	7,249	45,304	48,035	214	3.0	4.1
Automotive Products	7,781	7,595	40,534	54,775	-186	-2.4	51.7
Other Consumer Goods	1,139	1,126	7,005	7,939	-13	-1.1	5.6
<b>Imports by Commodity</b>							
Agriculture/Fishing Products	1,445	1,467	9,902	10,278	22	1.5	1.6
Energy Products	842	798	5,198	5,152	-44	-5.2	31.7
Forestry Products	224	229	1,432	1,562	5	2.2	10.1
Industrial Goods & Materials	4,987	5,042	34,607	35,168	55	1.1	0.1
Machinery & Equipment	9,033	8,942	57,354	61,776	-91	-1.0	5.4
Automotive Products	6,208	6,270	36,783	43,157	62	1.0	42.1
Other Consumer Goods	3,032	3,078	19,435	21,168	46	1.5	6.0



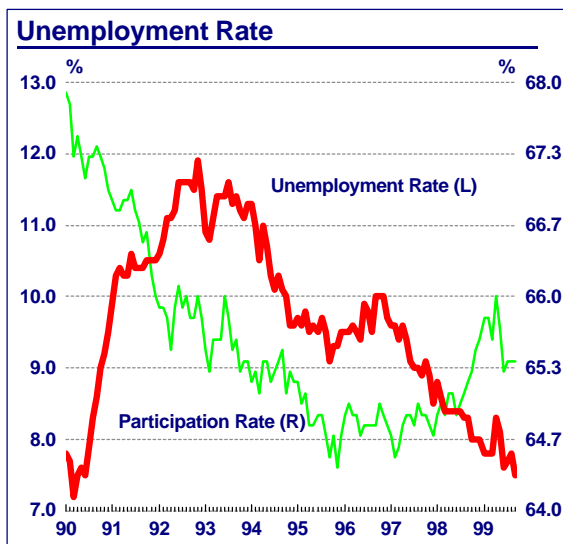
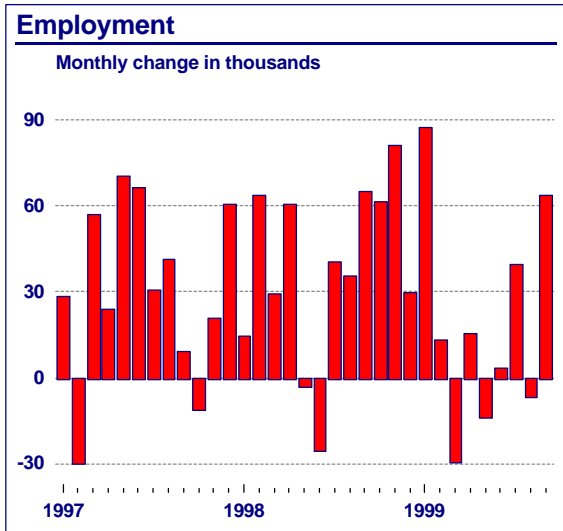
## Employment and Unemployment

### A big employment gain in September...

- Employment increased by 64,000 in September, the biggest monthly gain since last January.
- September's job growth was all in full-time work (+73,000), as part-time employment decreased. On a year-over-year basis, full-time employment was up 3.2% while part-time employment fell 1.1%.
- Adult employment was up 37,000 on the month, with gains for both men and women. Youth employment rose by 27,000, more than offsetting a drop in the previous month.

### ...lowers the unemployment rate to a nine-year low

- Job gains drove the national unemployment rate down 0.3 percentage points to 7.5% in September, its lowest level since June 1990.
- With only a modest rise in the labour force, the participation rate held steady at 65.4%, the same as in the previous two months but below April's 66.0% rate.
- Despite a sharp job gain, the youth unemployment rate jumped up 0.8 percentage points to 14.5% due to an even larger increase in the labour force. The adult unemployment rate fell 0.4 points to 6.2% in September.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	1998 September	1999 August	1999 September	last month	last year	year-to- date	last month	last year
<b>Employment</b>	14,391.1	14,672.8	14,736.6	63.8	345.5	173.2	0.4	2.4
<b>Full-time</b>	11,656.2	11,959.8	12,032.6	72.8	376.4	222.9	0.6	3.2
<b>Part-time</b>	2,734.9	2,713.0	2,704.0	-9.0	-30.9	-49.7	-0.3	-1.1
<b>Youth 15-24</b>	2,143.8	2,177.4	2,203.9	26.5	60.1	22.4	1.2	2.8
<b>Adult 25+</b>	12,247.3	12,495.4	12,532.8	37.4	285.5	150.9	0.3	2.3
<b>Self-employed</b>	2,584.5	2,541.0	2,529.0	-12.0	-55.5	-60.6	-0.5	-2.1
<b>Unemployment</b>	1,296.7	1,233.1	1,195.2	-37.9	-101.5	-77.0	-3.1	-7.8
<b>Unemployment Rate</b>	8.3	7.8	7.5	-0.3	-0.8	-0.5		
<b>Youth 15-24</b>	14.7	13.7	14.5	0.8	-0.2	0.1		
<b>Adult 25+</b>	7.0	6.6	6.2	-0.4	-0.8	-0.6		
<b>Labour Force</b>	15,687.8	15,906.0	15,931.8	25.8	244.0	96.2	0.2	1.6
<b>Participation Rate</b>	65.2	65.4	65.4	0.0	0.2	-0.2		
<b>Employment Rate</b>	59.8	60.3	60.5	0.2	0.7	0.1		





## Industry Overview

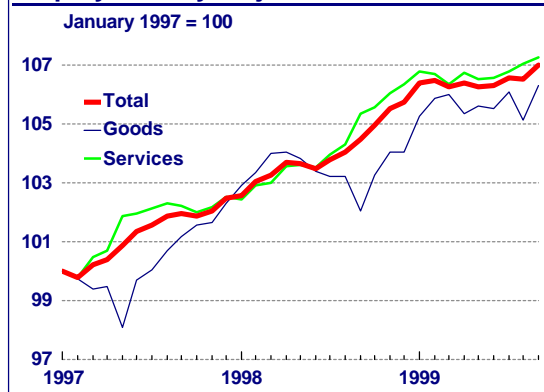
### Two-thirds of September job gains are in Manufacturing and Construction...

- Employment in the Goods-producing industries rose by 43,000 in September, with the Manufacturing and Construction sectors accounting for most of the growth.
- The number of jobs in the Service sector increased by only 21,000, as major gains in Accommodation & Food, Information, Culture & Recreation Services, and Health & Social Services were largely offset by a considerable drop in Management, Administration & Other Support Services.

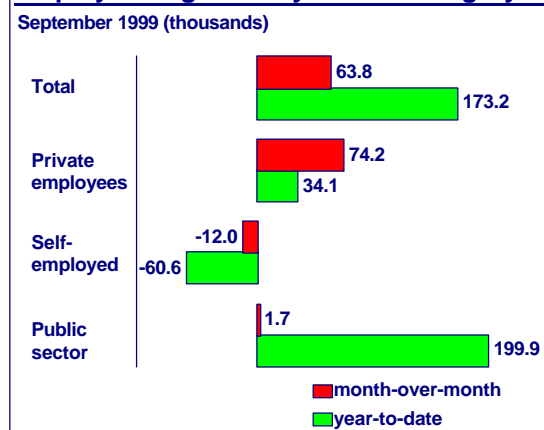
### ...as employment in the private sector registers a substantial gain

- The number of paid employees in the private sector rose by 74,000 in September, offsetting losses incurred earlier in the year. The number of self-employed fell 12,000 on the month, and remains down on a year-to-date basis.
- Public-sector employment increased by 2,000 in September, bringing gains so far this year to 200,000. This very strong performance follows the loss of 28,000 public-sector jobs in 1998.

### Employment by major sector



### Employment growth by worker category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	1998 September	1999 August	1999 September	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	3,690.1	3,801.9	3,844.7	42.8	154.6	82.5	1.1	4.2
Agriculture	427.0	393.4	393.6	0.2	-33.4	-18.6	0.1	-7.8
Other Primary*	285.4	257.0	262.9	5.9	-22.5	-17.1	2.3	-7.9
Utilities	115.4	132.8	129.5	-3.3	14.1	14.3	-2.5	12.2
Construction	777.2	757.6	775.4	17.8	-1.8	-37.7	2.3	-0.2
Manufacturing	2,085.1	2,261.2	2,283.4	22.2	198.3	141.7	1.0	9.5
<b>Service-producing</b>	10,701.0	10,870.9	10,891.9	21.0	190.9	90.7	0.2	1.8
Trade	2,205.1	2,266.9	2,271.3	4.4	66.2	30.2	0.2	3.0
Transportation	690.8	768.8	771.6	2.8	80.8	40.9	0.4	11.7
FIRE*	856.2	900.7	909.6	8.9	53.4	11.5	1.0	6.2
Professional/Scientific	919.7	901.0	894.5	-6.5	-25.2	-42.1	-0.7	-2.7
Management/Administrative	503.9	534.2	506.8	-27.4	2.9	19.7	-5.1	0.6
Educational Services	964.8	994.6	993.7	-0.9	28.9	54.4	-0.1	3.0
Health Care/Social Assistance	1,494.8	1,484.6	1,497.3	12.7	2.5	6.6	0.9	0.2
Information/Culture/Recreation	638.8	647.8	666.7	18.9	27.9	23.4	2.9	4.4
Accommodation & Food	915.8	929.9	953.5	23.6	37.7	21.0	2.5	4.1
Other Services	724.6	703.6	696.7	-6.9	-27.9	-35.2	-1.0	-3.9
Public Administration	786.4	738.8	730.3	-8.5	-56.1	-39.6	-1.2	-7.1

\*Other Primary: Forestry, Fishing, Mining, Oil & Gas; Transportation includes warehousing; FIRE: Finance, Insurance, Real Estate & Leasing.

# LABOUR MARKET TRENDS

## Provincial Overview



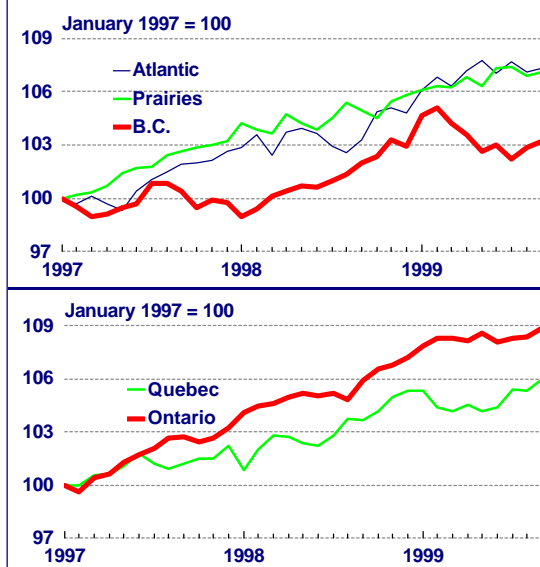
### Ontario and Quebec lead job gains in September...

- Employment was higher in all provinces in September, except for small declines in Manitoba and Prince Edward Island. The largest job gains were posted by Ontario (+29,000) and Quebec (+21,000).
- Ontario's gain follows little movement in employment over the past six months. For Quebec, September's increase represents all the net job gains for the province so far this year.

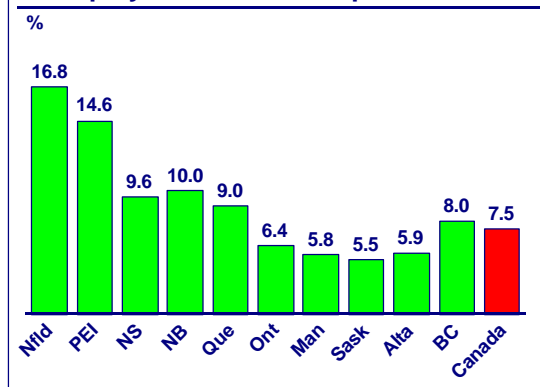
### ...as unemployment rates fall in Quebec and the Western provinces

- Quebec's unemployment rate fell 0.8 points to 9.0% in September, as the sizeable increase in employment was accompanied by a drop in the labour force.
- The unemployment rate was unchanged at 6.4% in Ontario, as the large employment gain was matched by an increase in the labour force.
- Unemployment rates were higher throughout Atlantic Canada, as job gains (and slight loss in PEI) were more than offset by rising labour forces. Still, unemployment rates in Atlantic Canada are down sharply on a year-over-year basis in Newfoundland, Nova Scotia and New Brunswick.
- In the Prairies and British Columbia, unemployment rates all fell in September.

### Regional employment patterns



### Unemployment Rates -- September 1999



### Provincial Employment and Unemployment Trends

	Employment (thousands)						Unemployment rate (%)		
	Levels 1999 September	Change since last month		Change since last year		Levels	Change since last month		last year
		(000's)	%	(000's)	%		last month	last year	
Canada	14,736.6	63.8	0.4	345.5	2.4	7.5	-0.3	-0.8	
Newfoundland	207.5	2.5	1.2	11.9	6.1	16.8	0.3	-1.7	
P.E.I.	60.3	-0.4	-0.7	-0.6	-1.0	14.6	1.0	0.4	
Nova Scotia	416.3	0.1	0.0	16.0	4.0	9.6	1.0	-1.7	
New Brunswick	337.2	0.4	0.1	11.1	3.4	10.0	0.2	-1.6	
Quebec	3,418.2	20.9	0.6	73.5	2.2	9.0	-0.8	-1.1	
Ontario	5,798.1	28.8	0.5	157.9	2.8	6.4	0.0	-0.7	
Manitoba	556.5	-1.2	-0.2	9.1	1.7	5.8	-0.2	-0.4	
Saskatchewan	484.1	3.3	0.7	6.9	1.4	5.5	-0.4	-0.7	
Alberta	1,559.1	2.7	0.2	37.0	2.4	5.9	-0.3	-0.4	
B.C.	1,899.4	6.7	0.4	22.6	1.2	8.0	-0.6	-0.2	

# PRICES and FINANCIAL MARKETS

## Consumer and Commodity Prices



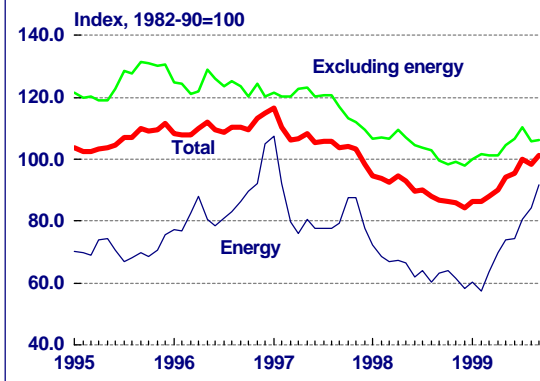
### Inflation rises above 2% in August...

- The year-over-year rate of CPI inflation increased to 2.1% in August, up from 1.8% in July. This is the largest year-over-year increase since February 1997.
- After hovering around the lower bound target of 1% since the end of 1997, inflation has picked up in recent months. Since April, the annual CPI inflation rate has averaged approximately 1.7%.

### ...fuelled by sharply-higher energy prices

- Much of the upward pressure came from the energy component of the index, which was up 9.4% on a year-over-year basis.
- Higher automobile prices also contributed to the increase, while lower prices for computer equipment and supplies and telephone services put downward pressure on the index.
- When the volatile food and energy components and the impact of indirect taxes are excluded, the "core" inflation rate falls to 1.6% in August, within the bottom half of the 1%-3% target range set jointly by the Bank of Canada and the Department of Finance.
- Commodity prices resumed their upward trend in September after a slight drop in August. Most of this increase came from a surge in energy prices.

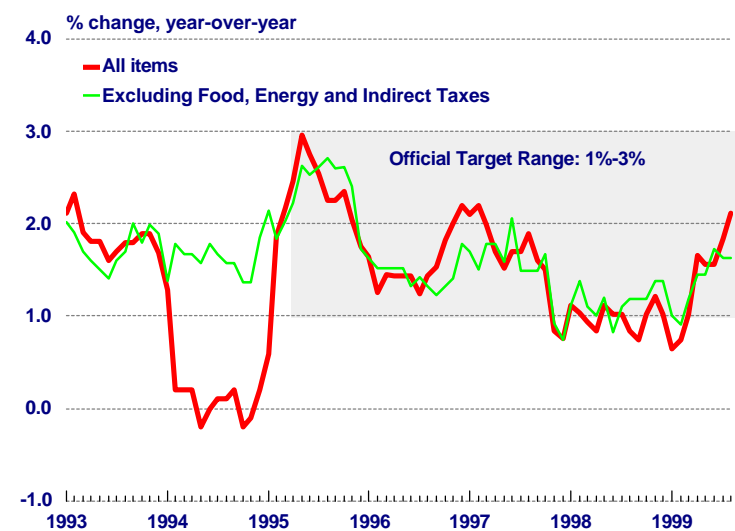
### Commodity Prices (\$U.S. basis)



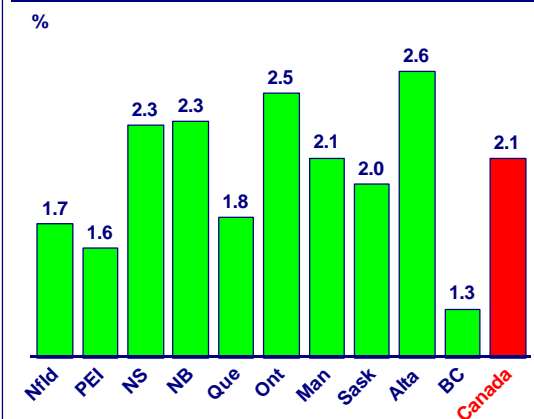
### Consumer Prices

	Index (1992=100)	% Change since	
		last month	last year
<b>All items CPI</b>	111.1	0.3	2.1
Food	110.4	-0.8	1.1
Shelter	105.0	0.2	1.3
Household operations	109.1	-0.1	1.1
Clothing & Footwear	106.3	1.7	1.5
Transportation	126.4	1.4	5.2
Health & Personal Care	110.5	0.0	1.9
Recreation, Educ. & Reading	121.7	0.1	2.0
Alcohol & Tobacco	94.6	-0.1	1.7
<b>Excl. Food/Energy/Indirect Taxes</b>	112.3	0.2	1.6
Energy	113.8	3.5	9.4
<b>Commodity Prices (September)</b>			
Index, 1982-90=100	101.1	2.7	16.5
Excluding Energy	106.2	0.3	6.7
Energy	91.6	8.7	45.4

### Consumer Price Index



### Provincial CPI Inflation -- August 1999



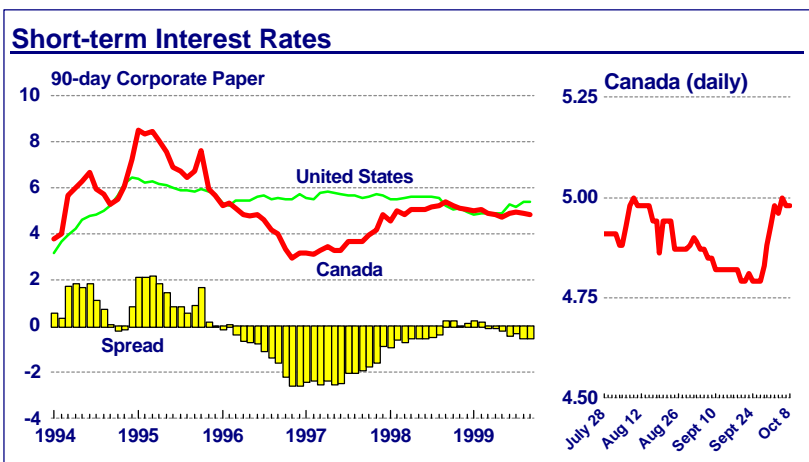


### Bond markets are stable throughout much of September...

- Bond yields began the month of September on a downward trend, as a calmer inflation outlook and a slumping stock market in the U.S. lowered expectations of interest rate increases by the U.S. Federal Reserve and the Bank of Canada. Mortgage rates dropped by as much as a quarter point on September 27.

### ...but the return of US inflation fears push up rates early in October

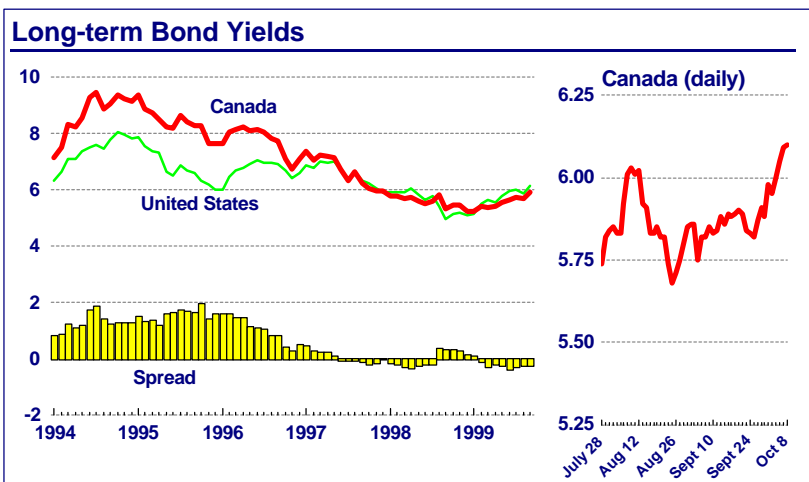
- However, rising concerns over U.S. inflation and the rapid rise of the Japanese yen exerted strong upward pressure on long-term bond yields early in October. These pressures were intensified by the U.S. Federal Reserve's decision to adopt a tightening bias on October 5, sending long term bond yields to a six-week high. Short-term rates also rose in both Canada and the US, in anticipation of a future Fed move.
- Long term bond yields rose more strongly in Canada between the close in August and October 6, narrowing the spread between Canadian and U.S. rates to 12 basis points. However, as U.S. short-term rates increased more strongly than comparable Canadian rates, the Canada - U.S. spread nearly doubled to 93 basis points on the short end.



### Key Money Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
1997	4.80	-0.85	5.95	0.02
1998	5.02	0.09	5.23	0.14
Apr 1999	4.80	-0.05	5.41	-0.17
May	4.71	-0.19	5.58	-0.22
June	4.86	-0.38	5.63	-0.35
July	4.91	-0.26	5.74	-0.27
Aug	4.87	-0.50	5.68	-0.19
Sept	4.83	-0.53	5.91	-0.22
Oct 6	5.00	-0.93	6.05	-0.12

A positive spread indicates that Canadian rates are above their U.S. counterparts.



### Key Lending Rates

(end of period)	Bank Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
1997	4.50	6.00	6.65	7.05
1998	5.25	6.75	6.20	6.60
Apr 1999	5.00	6.50	6.30	6.95
May	4.75	6.25	6.30	7.30
June	4.75	6.25	6.75	7.70
July	4.75	6.25	7.05	7.75
Aug	4.75	6.25	7.05	7.80
Sept	4.75	6.25	6.80	7.70
Oct 6	4.75	6.25	6.80	7.70

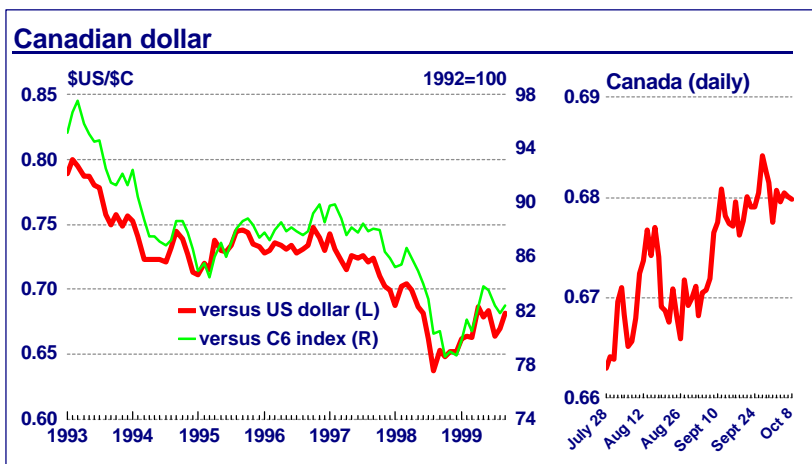


### The stock market fluctuates in September...

- The TSE 300 experienced wide swings in September, finishing the period at 6958 – down from its August close of 6971, but well above its recent low of 6763. Concerns about inflation, weak corporate earnings in the high-tech sector and possible interest-rate increases by the Federal Reserve continue to place downward pressure on North American markets, with the Fed tightening on August 24th initiating stock market declines. The recovery in the index in late September came largely from a surge in gold stocks, which rose 24% on the month. Gold prices rose sharply on September 28 after European central banks announced a five-year moratorium on gold sales from official reserves.

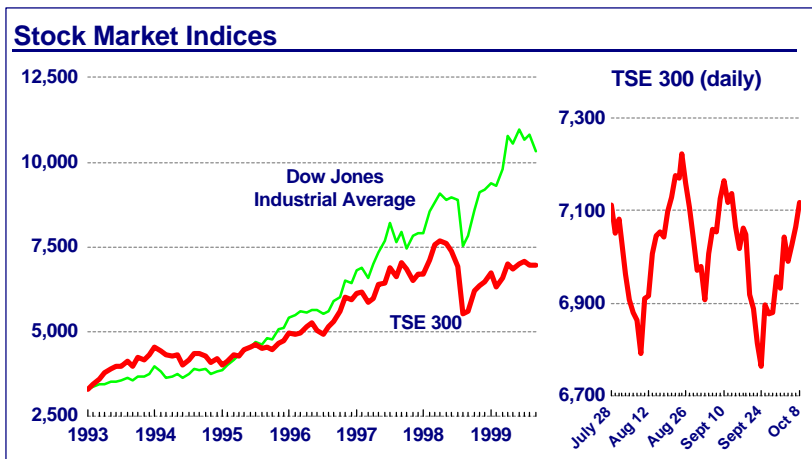
### ...but the Canadian dollar gains ground against the U.S.

- The Canadian dollar continues to hold its strength against the US dollar and other major foreign currencies (with the exception of the Japanese yen), supported by the rising prices of gold and other commodities. The dollar reached an eleven week high of \$US 0.6842 on September 28 before falling back somewhat.



### The Canadian Dollar

(close)	\$US vs. \$Cdn	index vs. C-6 (92=100)	DM vs. \$Cdn	yen vs. \$Cdn
1997	0.6991	85.87	1.247	90.87
1998	0.6522	78.71	1.082	75.91
Apr 1999	0.6863	82.26	1.229	80.49
May	0.6784	83.80	1.259	83.35
June	0.6835	83.50	1.283	82.17
July	0.6639	82.39	1.267	80.13
Aug	0.6700	81.79	1.236	75.80
Sept	0.6815	82.43	1.261	72.34
Oct 8	0.6798			



### Key Stock Market Indexes

	September Close	% change from last month	% change from last year
<b>TSE 300</b>	<b>6,958</b>	<b>-0.2</b>	<b>23.9</b>
Oil & Gas	6,254	-4.9	19.2
Metals & Minerals	3,907	-3.5	33.1
Utilities	7,860	1.9	34.7
Paper & Forest	4,864	-2.0	45.0
Merchandising	5,071	-2.7	-1.1
Financial Services	6,702	-4.7	0.3
Gold	6,403	23.7	-2.1
Price-Earnings Ratio*	28.1	-6.7	4.2
<b>S&amp;P 500</b>	<b>1,283</b>	<b>-2.9</b>	<b>26.1</b>
<b>Dow Jones</b>	<b>10,337</b>	<b>-4.5</b>	<b>31.8</b>

\*columns 2 & 3 reflect change in levels



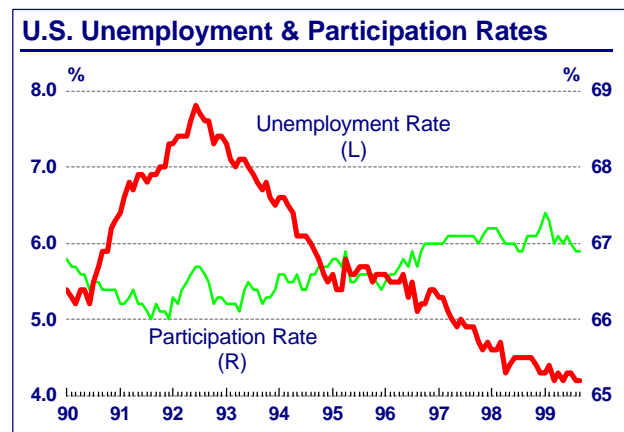
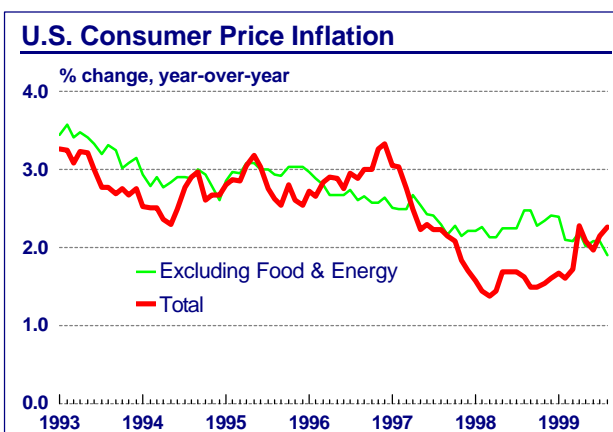
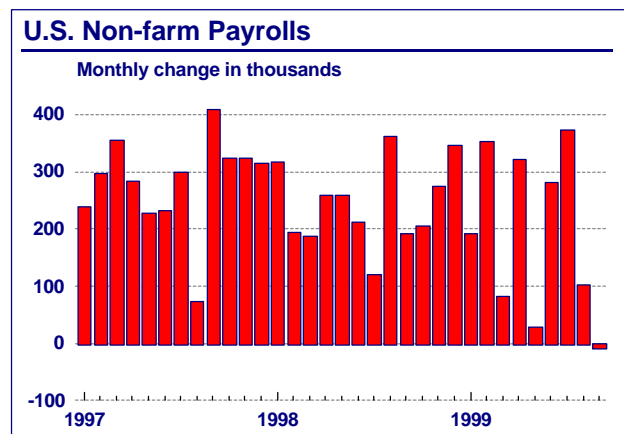
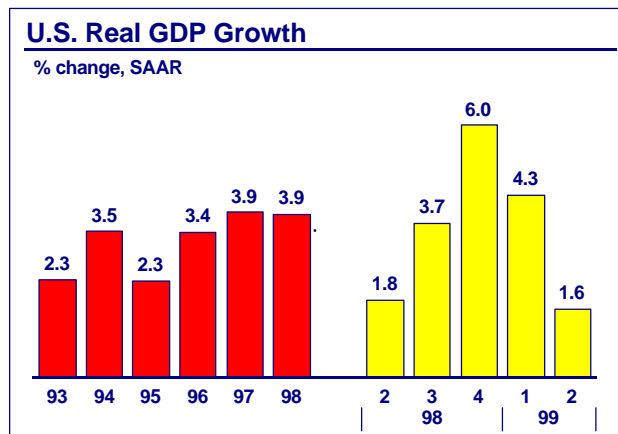
## U.S. Economic Trends

### Although the U.S. economy slows markedly in the second quarter...

- Final estimates indicate that U.S. real GDP increased 1.6% (annual rate) in the second quarter of 1999, down from 4.3% in the previous quarter and the slowest growth rate in four years. Production was boosted by strong consumer spending, but lower inventory investment and strong import growth moderated overall growth.
- U.S. employment was essentially unchanged in September, held back by the effects of Hurricane Floyd (which the BLS estimates temporarily subtracted 58,000 jobs on the month). The unemployment rate held steady at 4.2%, indicating that labor market conditions remain tight.
- The U.S. trade deficit widened to a record \$25.2 billion in July, as imports jumped up 1.0% while exports increased only slightly (+0.5%).

### ... the Fed adopts a bias toward future tightening

- Although inflation remains relatively tame, average hourly earnings, a key indicator of inflationary pressures, rose 0.5% in September – the largest monthly gain since 1989.
- Interest rates were left unchanged at the Federal Open Market Committee's October 5 meeting, but growing concern over the outlook for inflation prompted the Federal Reserve to adopt a bias toward future tightening. This statement of bias is used to signal the likely direction of the Fed's next rate move.





**Canada's tourism industry has experienced strong growth in the 1990s...**

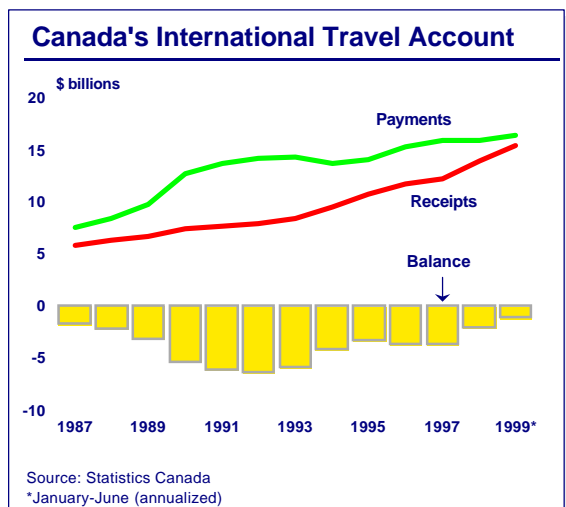
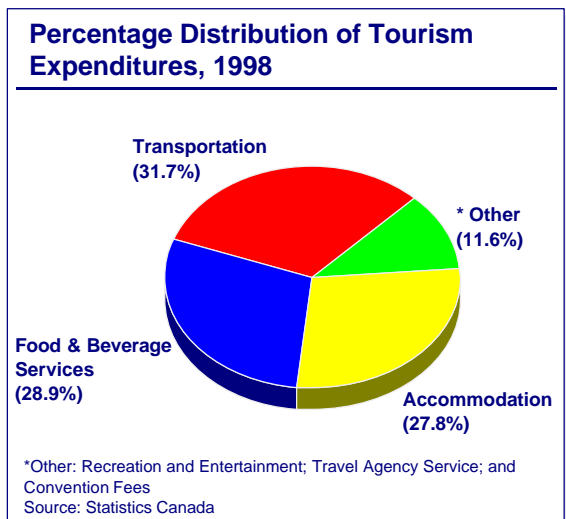
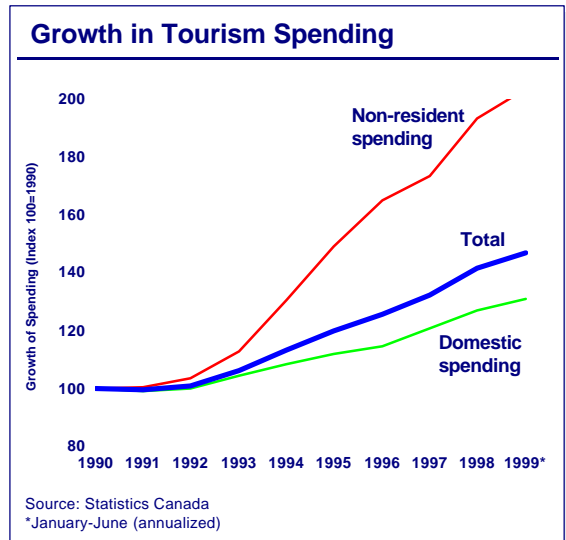
- Domestic and foreign tourists spent over \$47 billion in tourism activities in Canada in 1998 – up 7% over 1997 and roughly 45% above the 1990 level. Tourism outlays continued to grow in the first half of 1999, but at a slower pace compared with 1998 as a whole.
- Although domestic demand still accounts for the largest share of total spending (70%). International visitors have dominated growth in tourism spending throughout the 1990s. Non-resident spending has doubled, compared to an increase of 31% for domestic travellers.
- Canada welcomed almost 19 million international visitors last year for stays of one night or longer – an all-time high for Canada.

**...with spending and employment gains across all sectors**

- All tourism sectors have benefitted from increased demand. Demand for Food and Beverage Services increased 13% in 1998, the largest gain in any category. This sector now accounts for 29% of total spending, the second largest after Transportation.
- Over 60,000 new jobs were generated by tourism activities in 1998, bringing total employment in the industry to 531,600 workers.
- Employment growth in the tourism sector has outpaced that of the total economy for three consecutive years (an average of 2.5% per annum compared with 1.9% economy-wide).

**Canada's travel deficit is currently at its lowest level in more than ten years**

- Historically, Canadians have spent more travelling abroad than foreigners have spent on travel in Canada.
- However, with total receipts rising at a faster rate than payments to foreigners over the '90s, this gap has been narrowing.
- In 1998, the Canada's travel account deficit fell to \$2.0 billion – its lowest level in 10 years.





**SPECIAL REPORT**

**Canada's Tourism Industry**

***The U.S. has been responsible for the growth in non-resident tourism...***

- Americans continue to visit Canada in record numbers. Indeed, throughout the 1990s, U.S. travel expenditures more than doubled – rising at a faster rate than that by all other countries.
- The U.S. accounts for nearly half of international tourism expenditures in Canada.
  - Americans injected \$6.7 billion into the Canadian economy in 1998 through tourism spending – a 13% increase over 1997.

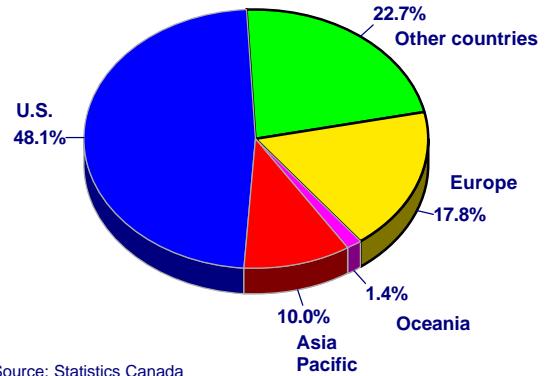
***...with trips by Americans to Canada now exceeding Canadians trips to the U.S.***

- After peaking at \$US 0.87 in 1991, the Canadian dollar fell to \$US 0.65 by the end of 1998. This fall helps explain the steady rise in American travel to Canada in the 1990s.
  - U.S. trips across the border have increased by 26% over the 90s.
- But, Canadian trips to the U.S. seem much more sensitive to variations in the exchange rates – Canadian trips to the U.S. have been nearly cut in half since 1991.
- In 1998, for the first time since 1986, more Americans travelled to Canada than vice versa.

***Business travel has increased at a particularly fast pace***

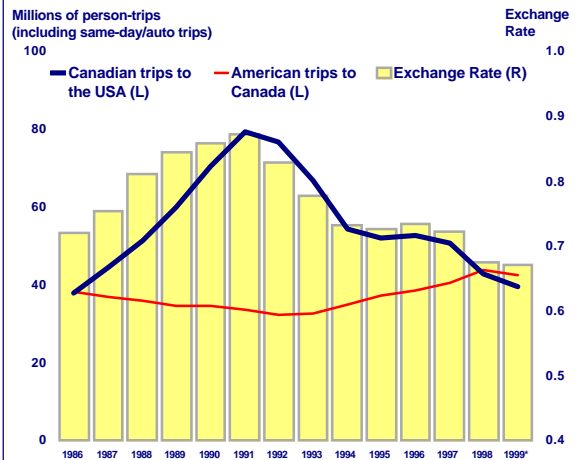
- The Open Skies Agreement, which was initiated February 24, 1995, has facilitated both business and vacation travel to the U.S.
- In 1998, approximately 1.4 million overnight trips involved business meetings, a 50% jump over 1990 levels.
  - American business travellers comprised a larger volume of air passenger traffic to Canada than non-business travellers.

**Distribution of International Tourism Expenditures by Country of Origin, 1998**



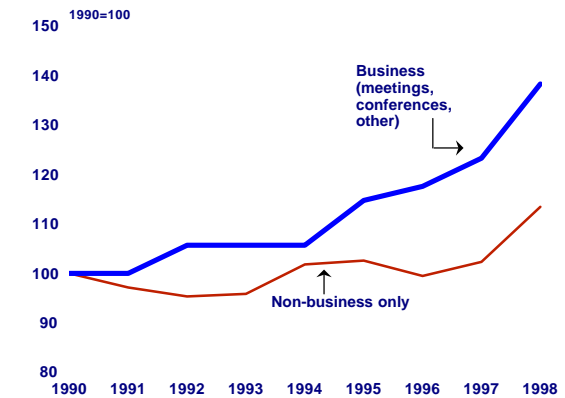
Source: Statistics Canada

**Total Travel Flow Between Canada & US**



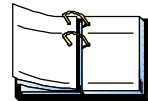
Source: Statistics Canada  
\*January-June (annualized)

**Characteristics of Travel from the U.S.**



Source: Statistics Canada





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**Key Future Data Releases and Planned Events****CANADA**

Consumer Price Index – September .....	October 19
International Trade – August .....	October 20
Survey of Manufacturing – August .....	October 26
GDP at factor cost – August .....	October 29
Business Conditions Survey – October .....	November 2
Economic and Fiscal Update (Dept. of Finance) .....	November 2
Labour Force Survey – October .....	November 5
National Economic & Financial Accounts – 3rd Quarter 1999 .....	November 30
Balance of International Payments – 3rd Quarter 1999 .....	November 30
Monetary Policy Report (Bank of Canada) .....	November
Financial Statistics For Enterprises – 3rd Quarter 1999 .....	December 6
Capacity Utilization Rates – 3rd Quarter 1999 .....	December 7

**UNITED STATES**

Consumer Price Index – September .....	October 19
International Trade – August .....	October 20
GDP – 3rd Quarter 1999, Advance .....	October 28
Employment Situation – October .....	November 5
Federal Open Market Committee meeting .....	November 16

Note: the October MEI uses data available as of October 8, 1999