Micro-Economic Monitor

Fourth Quarter 2001

Micro-Economic Analysis Directorate, Policy Sector, Industry Canada
This document is also available on the Internet at http://strategis.ic.gc.ca/sc_ecnmy/mera/engdoc/04.html

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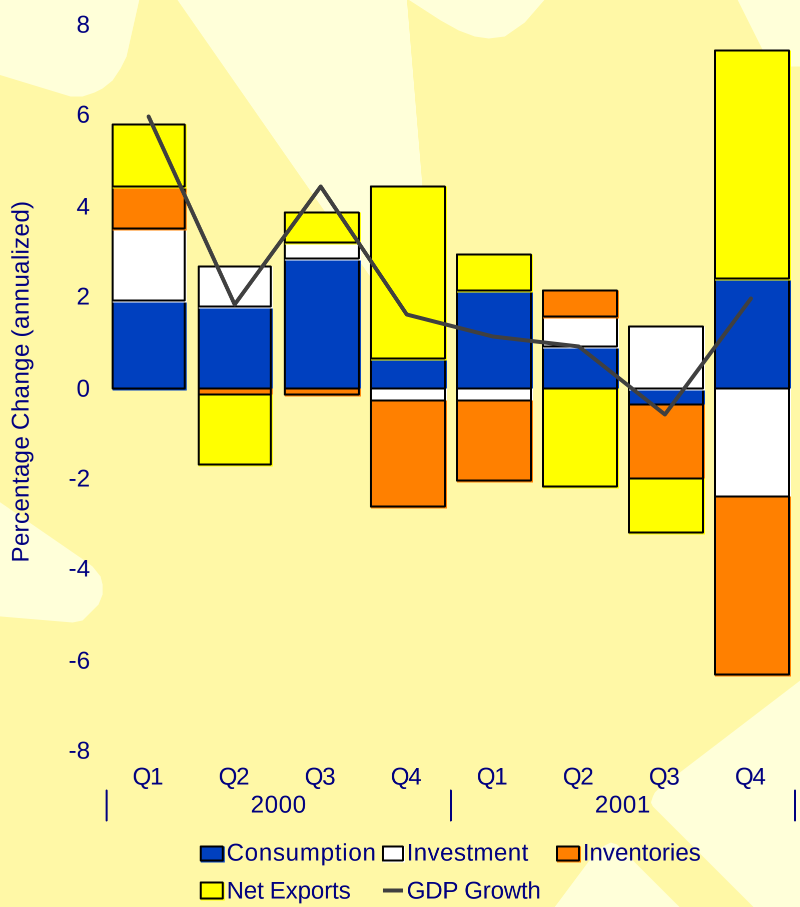
Overview

The economy rebounds in the fourth quarter...

Real GDP rebounded 2.0 % in the fourth quarter of last year, following a modest decline in the previous quarter. Consumers were the major drivers behind the economy, as reflected by a sharp increase in consumer spending and residential investment. This was supported by low interest rates and a sharp increase in real disposable income, the later of resulting from both lower taxes and higher labour income. Real exports fell, but imports dropped even more, resulting in net exports contributing substantially to growth.

Business investment fell sharply in light of falling profits and low capacity utilization rates. With business inventory liquidation continuing in the fourth quarter, an increase in demand should be translated in an increase in production. This bodes well for continued growth in the short term.

Contributions to Quarterly Real GDP Growth (Annualized)



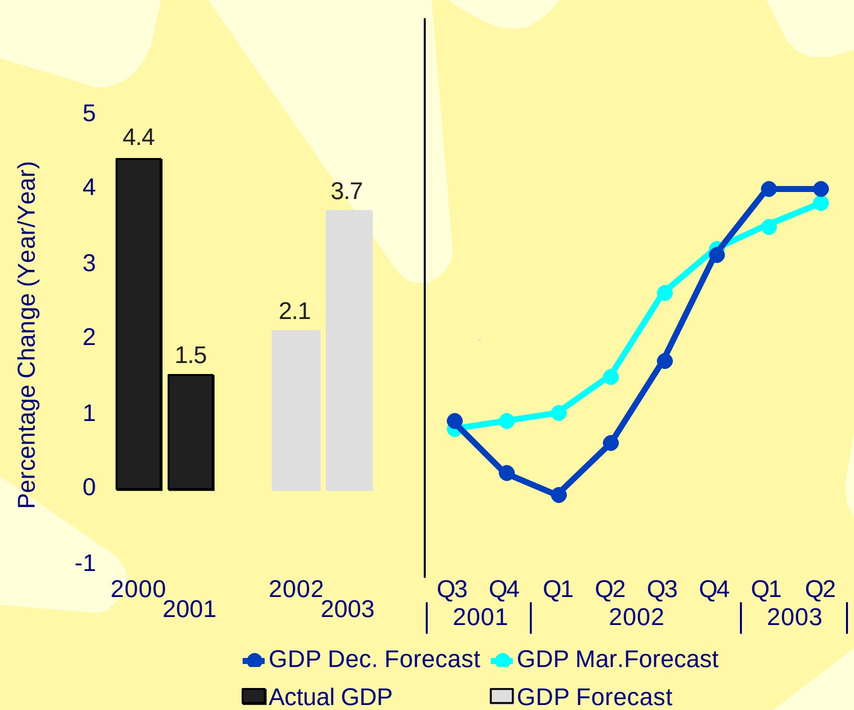
Leading to an upward revision to growth outlook

Economic conditions have turned out to be much stronger than forecasted a few months ago. In light of these developments, forecasters are revising their growth outlook up for this year.

According to the March issue of Consensus Forecasts, Canadian real GDP growth is expected to strengthen through the year, with growth averaging 2.1% in 2002 and 3.7% in 2003. This is a better growth outlook than expected in the December issue. The US outlook has also been revised up, with growth expected to average 2.1% in 2002 and 3.5% in 2003.

With the economy on the mend in both Canada and the United States, monetary authorities have stopped lowering interest rates. They are expected to raise interest rates in the second half of this year when growth gathers momentum.

Real GDP Growth Outlook



Source: Consensus Forecasts

Domestic Scene

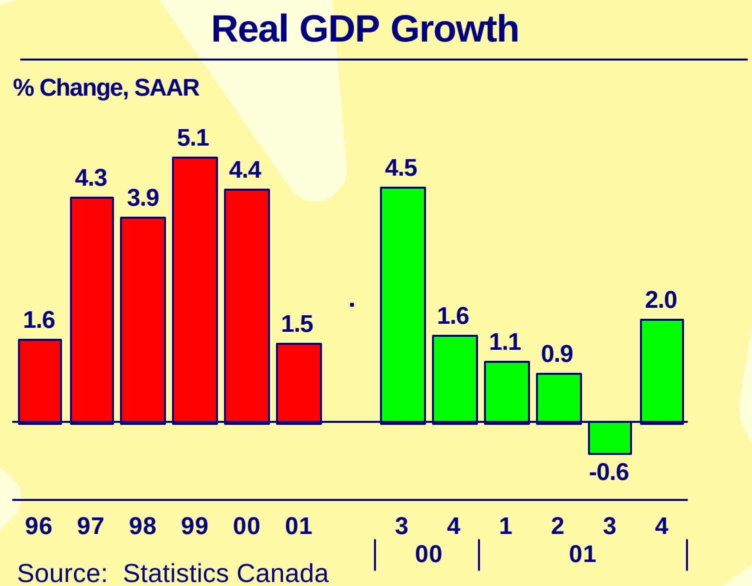
Real Economic Activity

The economy rebounded in the fourth quarter...

Real GDP rose sharply by 2.0% (annual rate) in the fourth quarter of 2001, rebounding from a decline of 0.6% in the previous quarter and recording the strongest quarterly growth of 2001.

- **Consumer spending fuelled growth in the economy, while business investment and exports remained weak.**

Overall, growth for 2001 was 1.5%, down sharply from 4.4% in 2000 and the weakest annual growth since 1992.



Source: Statistics Canada

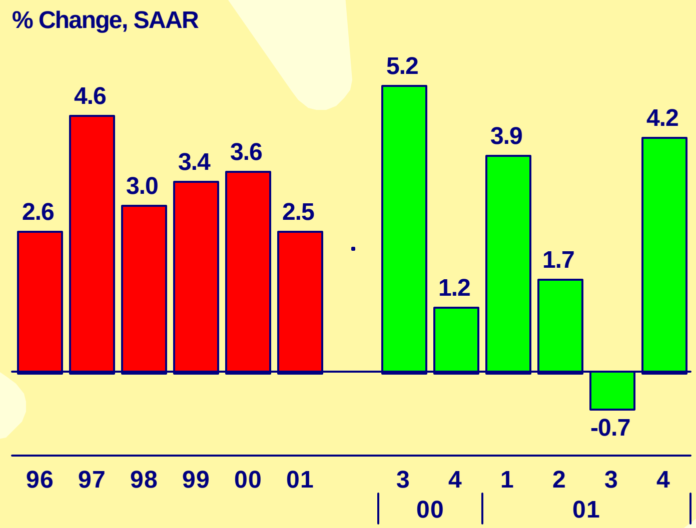
Real GDP growth in the fourth quarter was well above market expectations. In the US, real GDP rose 1.4% in the fourth quarter, after contracting 1.3% in the third quarter.

...driven by strong consumer spending...

Consumer spending rebounded by 4.2% (annual rate) in the fourth quarter, more than reversing the 0.7% decline recorded in the previous quarter.

- **The rise was led by a sharp increase in spending on motor vehicles and household furnishings. This reflects solid personal income growth, historically low interest rates, significant dealer incentives and strong growth in new housing.**

Real Consumer Expenditure Growth



Source: Statistics Canada

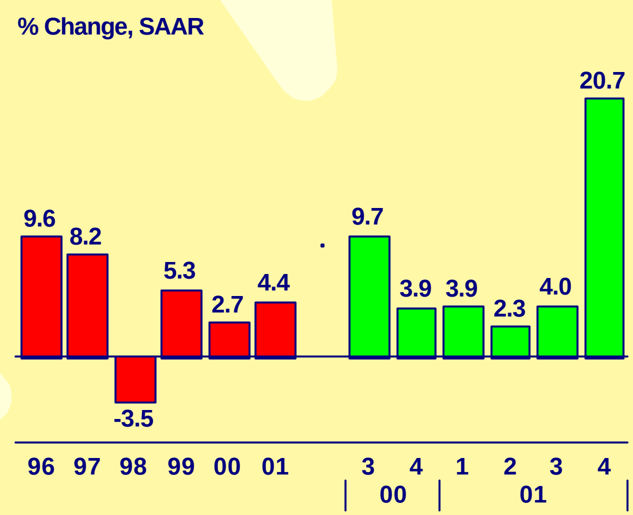
...and a robust housing market.

Residential investment increased strongly by 20.7% in the fourth quarter.

- **New housing construction, issues of permits and sales of existing homes recorded advances.**

Strong income growth, unseasonably mild weather and low mortgage rates contributed to the strong growth.

Real Residential Construction Growth



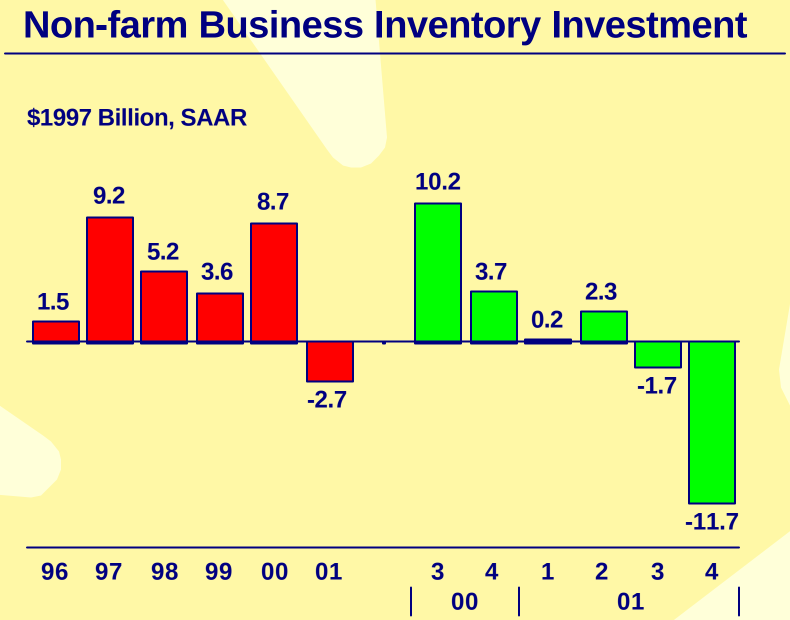
Source: Statistics Canada

However, a sharp decline in inventories dragged down growth.

Business inventory liquidation continued at a much faster pace, in the fourth quarter, subtracting 3.8 percentage points from real GDP growth.

- Maufacturers of durable goods and the retail motor vehicle industry led the decumulation. Retailers also continued to draw down their stocks.

- With the large draw down of inventory, the economy-wide stock to sales ratio fell for the first time since the first quarter of 2000.



Source: Statistics Canada

Exports fell for the fifth consecutive quarter...

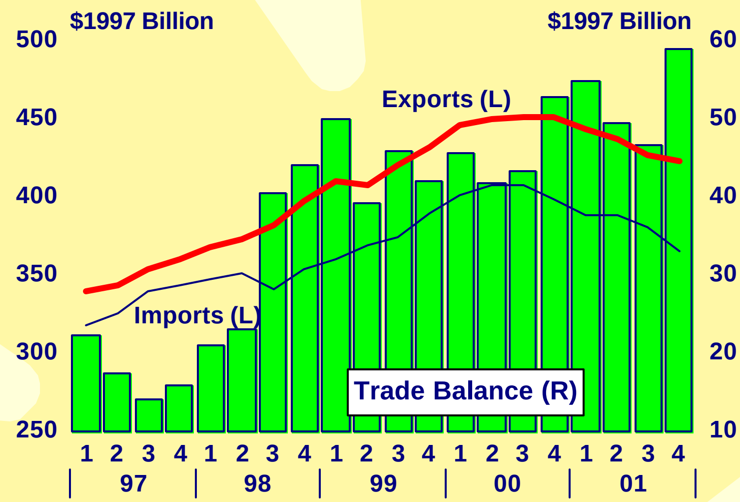
Reflecting weak US demand, real exports declined by 3.2% in the fourth quarter, marking the fifth consecutive decline.

- Weakness was evident in machinery and equipment (telecommunications), automotive, energy and forest products.

Real imports dropped by 5.6% reflecting declines in energy, machinery and equipment and spending by Canadians travelling abroad.

As a result of the steeper decline in imports, net real trade rose, contributing 5.2 percentage points to real GDP growth in the fourth quarter.

Real Exports and Imports of Goods & Services



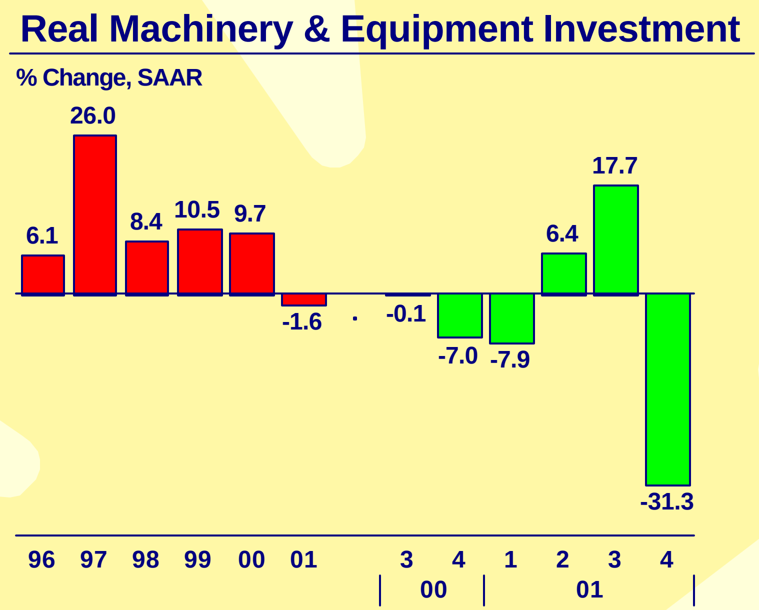
Source: Statistics Canada

...and investment in M&E plunged.

Business investment in Machinery and Equipment (M&E) plunged 31.3% in the fourth quarter.

- **However, much of this drop reflects a return to more normal levels following the delivery of a floating drilling rig in Nova Scotia that boosted investment in the third quarter.**

- **Declining corporate profits continue to dampen investment.**



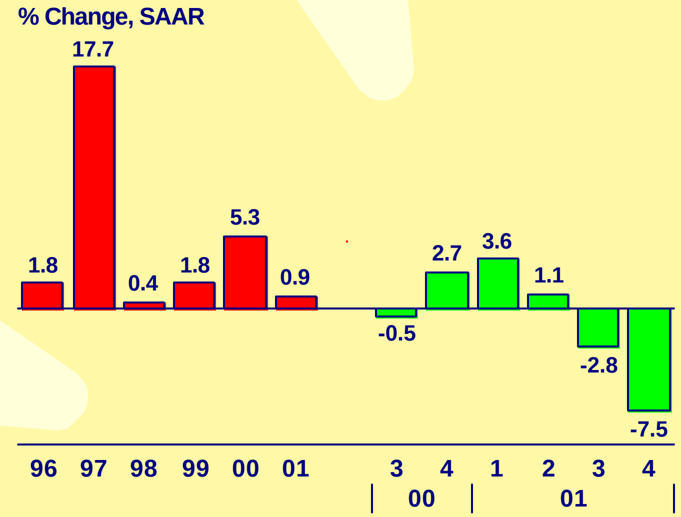
Source: Statistics Canada

Non-residential construction fell again

Non-residential construction activity fell by 7.5% in the fourth quarter recording the largest quarterly decline since the second quarter of 1995.

- **Declines were most noticable in building and engineering construction.**

Real Non-residential Construction Growth



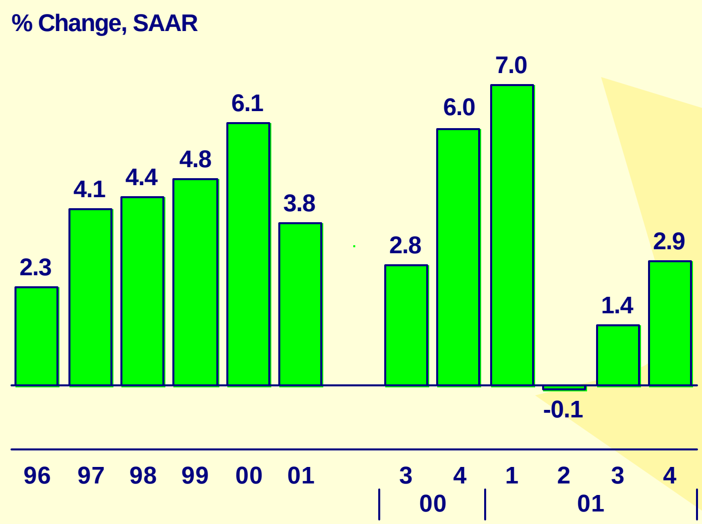
Source: Statistics Canada

Domestic Scene

Income Side

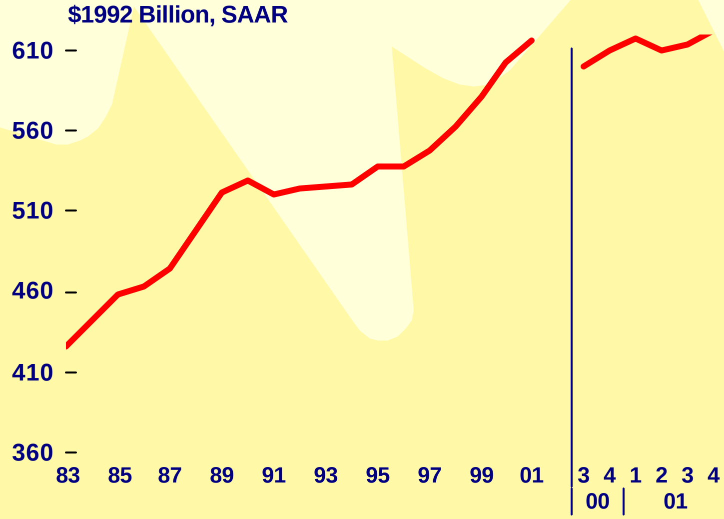
Disposable income rises sharply in the fourth quarter...

Growth in Personal Income



Source: Statistics Canada

Real Personal Disposable Income*



*Converted to real dollars using the chain price index for personal expenditure on goods and services.
Source: Statistics Canada and Industry Canada

Personal income growth strengthened to 2.9% in the fourth quarter from 1.4% in the previous quarter, as stronger growth in employment income and transfers from the government (reflecting higher employment insurance benefits) more than offset a decline in investment income.

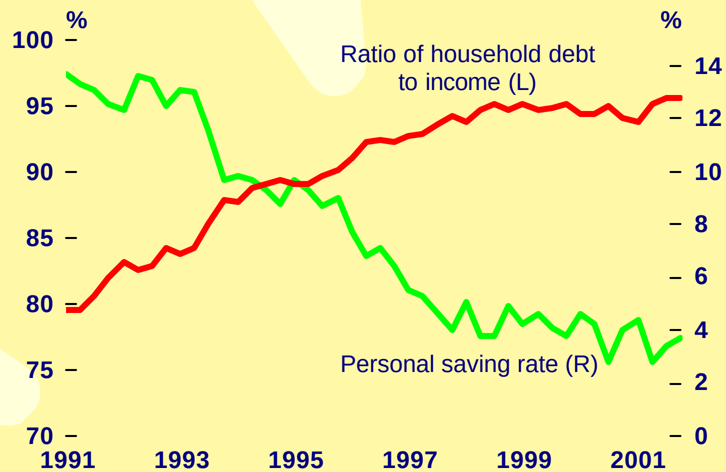
Personal income taxes declined significantly for the second straight quarter, pushing disposable income up 5.3%, its strongest gain in three quarters. This, combined with a modest decline in consumer prices, raised real personal disposable income by 5.7% in the fourth quarter, up from 2.0% in the third. In 2001, real personal disposable income rose 1.3% above its level in 2000, to a record high.

...helping consumers raise their saving rate further

As disposable income outpaced consumer spending, the personal saving rate rose to 3.7% from 3.4% in the previous quarter. The saving rate averaged 3.6% in 2001, down from 3.9% in 2000 and a new record low.

With consumer and mortgage debt levels increasing in proportion with income, the household debt-to-income ratio held steady at 95.6% in the fourth quarter.

Personal Debt and Saving Rate



Source: Statistics Canada

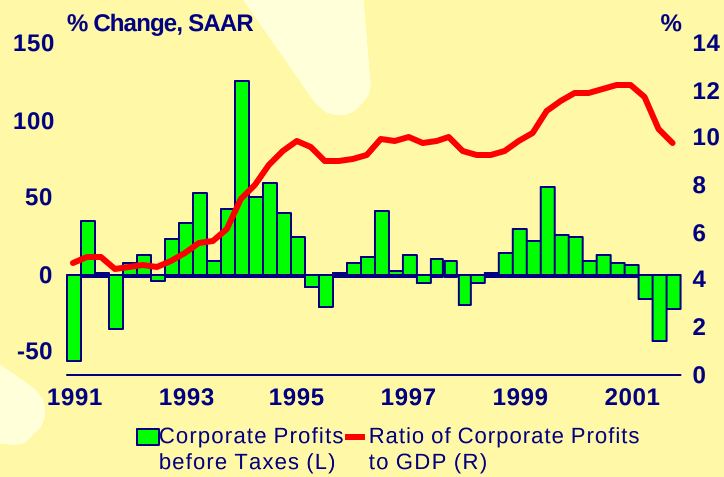
Corporate profits are still weak

Corporate profits continued to fall in the fourth quarter, down 20.5% (annual rate) after falling 42.4% in the previous quarter.

- **According to the Quarterly Financial Statistics for Enterprises, the declines were broad-based – 15 of the 24 broad industry groups lost ground in the fourth quarter. Oil & Gas extraction and petroleum and coal producers led the decline, while retailers saw the largest profit gains.**

The profit share of GDP has fallen by more than 2 percentage points in the last three quarters to 9.8%.

Corporate Profits



Source: Statistics Canada

Domestic Scene

Price Movements

Inflation remains quiescent, despite a rise in January CPI inflation...

Year-over-year CPI inflation averaged 1.1% in the fourth quarter, down from 2.7% in the third quarter, as falling energy costs reduced consumer prices related to shelter and transportation expenses.

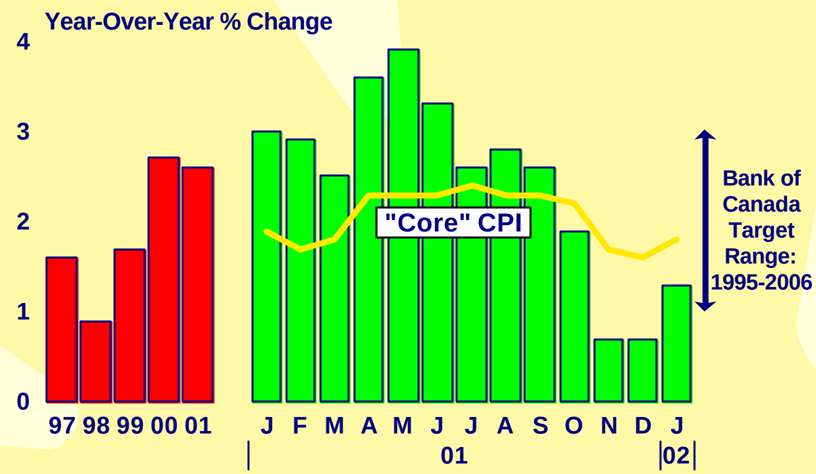
- Energy costs fell 8.9% on average in the fourth quarter compared to a rise of 3.6% in the previous quarter.

Meanwhile, GDP prices fell 0.9% from the fourth quarter of 2000 after remaining unchanged in the previous quarter. In 2001, GDP inflation was 1.2%, down from 3.7% in 2000.

In January, consumer inflation rose to 1.3% from 0.7% in the previous two months, but was still well below the 2.6% inflation of 2001 as a whole.

- "Core" inflation – which excludes the most volatile components of the overall index and the impact of indirect taxes – rose to 1.8% in January from 1.6% in December, still within the official 1-3% target range.

Consumer Price Index



Source: Statistics Canada & Bank of Canada

In May 2001, the Bank of Canada and the Finance Department announced the renewal of the inflation target for monetary policy until 2006. The Bank also refined its measure for the underlying trend in inflation as measured by "core" inflation.
The "Core" CPI excludes prices for fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products as well as indirect taxes.

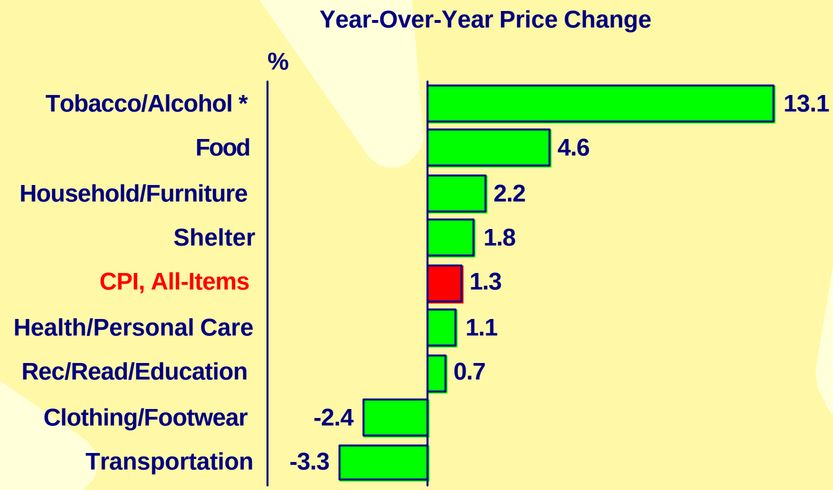
...driven in part by a continued increase in food prices

The rise in January reflected a slower decline in energy prices and higher food prices.

- **Only inflation in shelter and food price was higher than in the previous month. Fresh vegetable prices soared in January, driven by the worst US harvests since 1974. Further pressure came from transportation costs, which fell by a smaller amount than in December. Dampening the overall rise was an even sharper drop in clothing prices than in the previous month.**

- **Excluding food and energy prices, consumer price inflation was 1.7%, up from 1.6% in December.**

Components of CPI: January 2002



Source: Statistics Canada

* In April, a federal-provincial tax on cigarettes was introduced, effectively rising the level of the Tobacco & Alcohol price index. The effect of this tax will continue to be reflected in year-over-year inflation until April 2002.

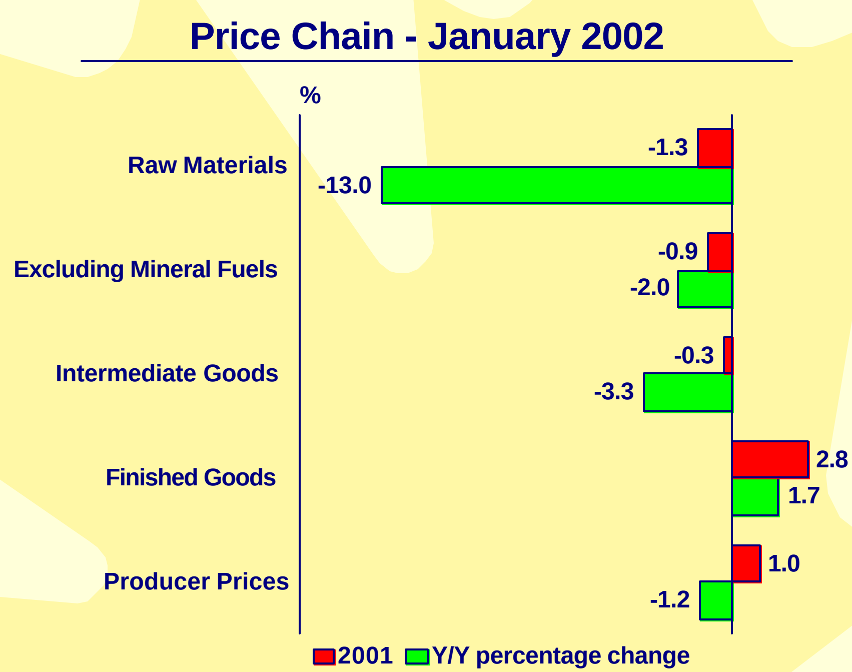
Input producer prices decline further on weak demand

Industrial product prices – those received by producers at the factory gate – fell 1.2% in January compared with January 2000, the fourth consecutive month of decline. This decline, however, was at a slower pace than December's fall of 2.4%.

- **Petroleum & coal product and pulp & paper product prices were largely responsible for the decline. This decline was partially offset by higher prices for motor vehicles, lumber products and food.**

Manufacturers paid 13.0% less for their raw materials in January than they did a year ago, the sixth consecutive month of decline.

- **On a month-over-month basis, both industrial products (+0.9%) and raw material (+2.6%) prices rose, reflecting in part the further decline in the Canadian dollar, higher crude oil prices resulting from production cuts by the OPEC and higher lumber prices due to increased construction activity.**



Source: Statistics Canada

Domestic Scene

Labour Situation

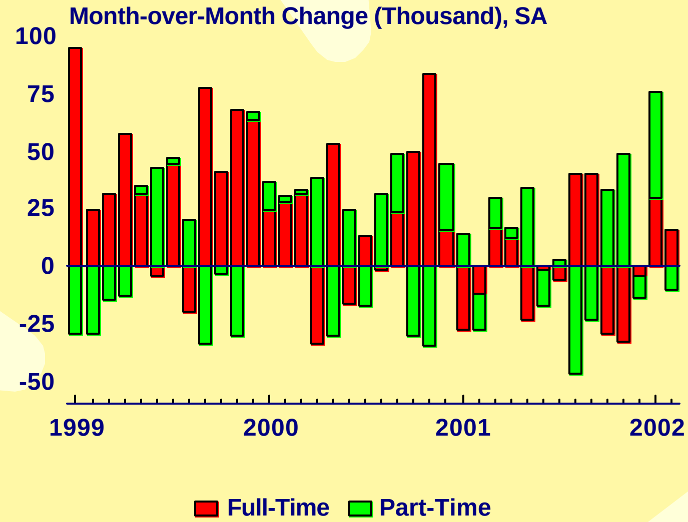
Employment conditions are improving...

Employment was up 82,000 in the first two months of 2002, reflecting strong gains in January (+76,000).

After declining in the fourth quarter of 2001, full-time employment increased for a second consecutive month in February and was responsible for the creation of 46,000 jobs so far this year.

Recent improvement in employment conditions follows a period of lacklustre performance in 2001 during which part-time employment rose by 39,000 and full-time employment fell by 26,000.

Employment Growth



Source: Statistics Canada

...reflecting job gains in the private sector

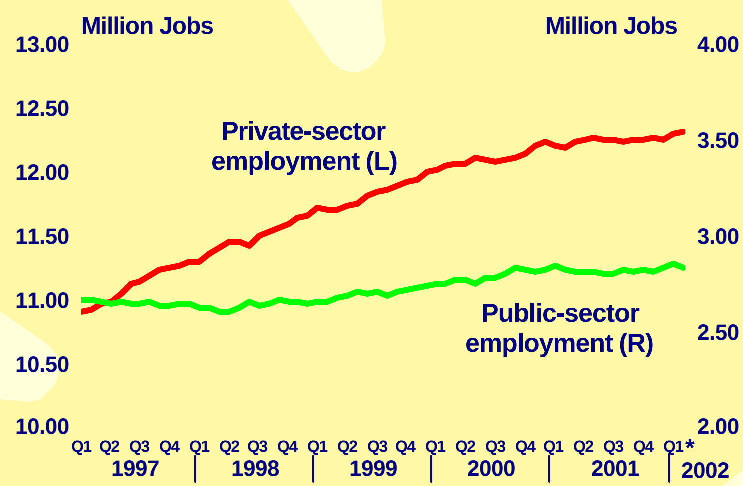
The private sector (+74,000) has created almost all the jobs since the beginning of the year.

- **Paid employment increased by 20,000 in February, the fourth consecutive monthly increase.**
- **Self-employment has gained 9,000 jobs since January but it has followed a steep downward trend for over two years now.**

Since the end of 2000, the private sector has been the source of 85,000 jobs, compared with 10,000 jobs created in the public sector.

In February, employment in the public sector fell 21,000, reflecting job losses in Health Care & Social Assistance and Education.

Employment: Private vs. Public



Source: Statistics Canada

*Data for the first quarter of 2002 includes only the months of January and February.

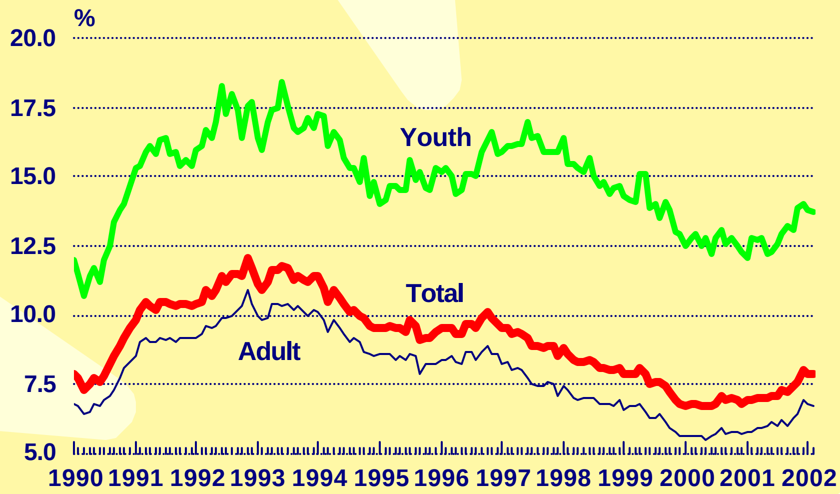
Nonetheless, the unemployment rate stays up

Despite recent employment growth, the unemployment rate in Canada has fallen marginally to just below the 8 percent-mark since December, as increases in the labour force has grown at a similar pace than employment.

There was weakness in youth employment in 2001. Despite the recent gains, the unemployment rate is still 1.1 percentage points higher than the rate recorded 12 months ago.

Adult unemployment posted slight declines in the last three months, after increasing for most of 2001.

Unemployment Rates



Source: Statistics Canada

Recent job gains are concentrated in Ontario, Quebec, New Brunswick and Saskatchewan

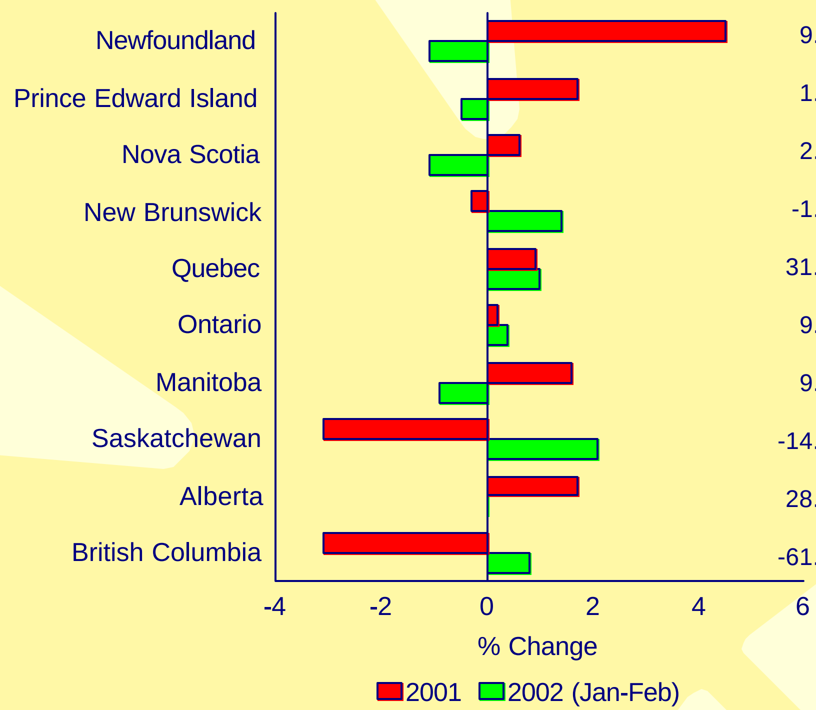
In the Atlantic region, all provinces except New Brunswick posted losses in the first two months of the year. In Nova Scotia, employment has continued to decline, bringing the losses to 7,000 since November 2001.

Since the beginning of the year, the highest employment gains have been recorded in Quebec and Ontario, the latter being pushed up by strong gains in the manufacturing sector in February (+42,000).

The recent gains in Saskatchewan follow job losses in 2001 while Manitoba has lost 5,000 in the last two months. In Alberta, losses recorded in February more than offset the gains posted in January. The largest decline was in natural resources where employment has fallen 10,000 since September.

In B.C., despite the net job gains of 16,000 in the first two months of this year, the employment is still 46,000 below its level of March 2001.

Employment Growth by Province, February 2002



Province	2001	2002*
Newfoundland	9.2	-2.4
Prince Edward Island	1.1	-0.3
Nova Scotia	2.6	-4.7
New Brunswick	-1.1	4.6
Quebec	31.4	36.4
Ontario	9.2	26.7
Manitoba	9.1	-4.9
Saskatchewan	-14.8	10.0
Alberta	28.2	0.6
British Columbia	-61.4	15.8

Source: Statistics Canada

*Figures for 2002 are year-to-date (Jan-Feb)

The unemployment rate is rising in several provinces, particularly in the Atlantic region

The unemployment rate was up in six of ten provinces in February.

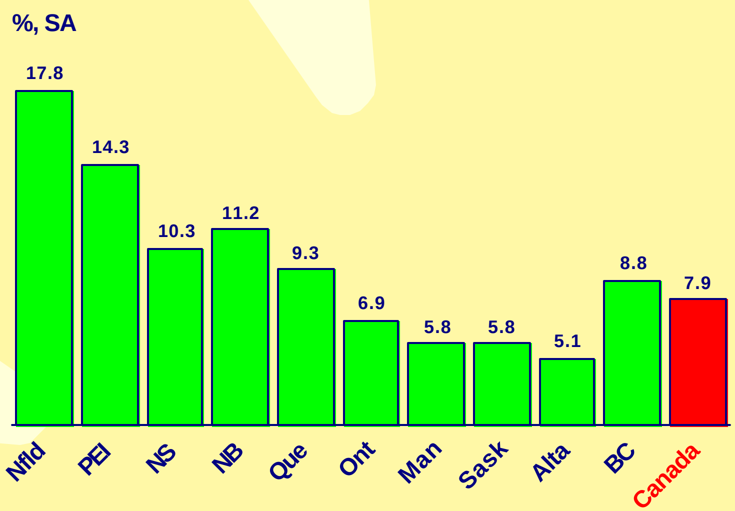
The jobless rate rose in all the Atlantic provinces, except in New Brunswick where it edged down to 11.2%. The most notable increase has been posted in P.E.I., pushed up by a strong rise in the labour force.

Positive results in employment reduced Ontario's unemployment rate to 6.9%, returning to its level of December. Despite a slight increase in employment, there was more people looking for a job in Quebec, increasing the unemployment rate to 9.3% in February.

The jobless rate fell in Saskatchewan as the employment strengthened after a lacklustre performance in 2001 while the unemployment rate in Manitoba increased 0.7 percentage point to 5.8%.

Despite decreasing slightly to 8.8%, the unemployment rate in B.C. is almost 2 percentage points higher than the rate recorded at the end of 2000.

Unemployment Rates: February 2002



Source: Statistics Canada

Domestic Scene

Financial Variables

With the economy on the mend, North American monetary authorities keep interest rates unchanged

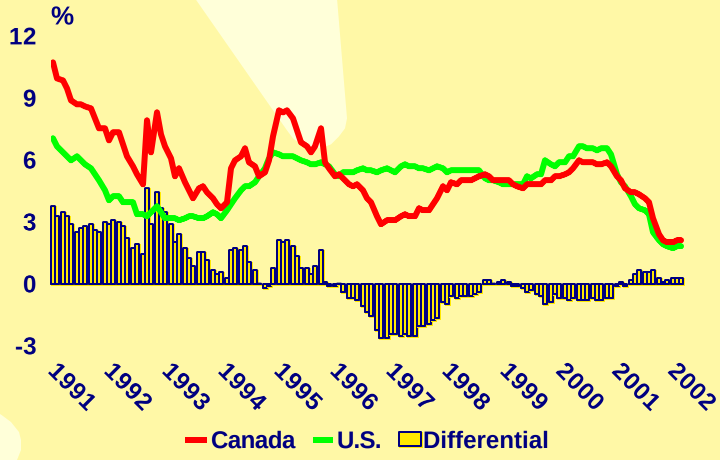
The Bank of Canada left its target for the overnight rate unchanged on March 5 at 2.0%, the lowest level in more than four decades.

- **Since January last year, the cumulative reduction was 375 basis points, with a 200 bps reduction after the September 11th events.**

- **At its latest meeting in late January, the U.S. Federal Reserve left the Fed Funds rate unchanged at 1.75%, following a total reduction of 475 bps since January 2001.**

In line with these developments, Canadian short-term interest rates have already bottomed out, with the 90-day commercial paper closing out at 2.2% on March 5th, up from a low of 1.8% in mid-January.

Short-Term Interest Rates



Last data point plotted: February 27, 2002

Source: Bank of Canada, 90-day Commercial Paper, last Wednesday in the month

Bond yields are trending up amid expectations of higher policy rates later this year

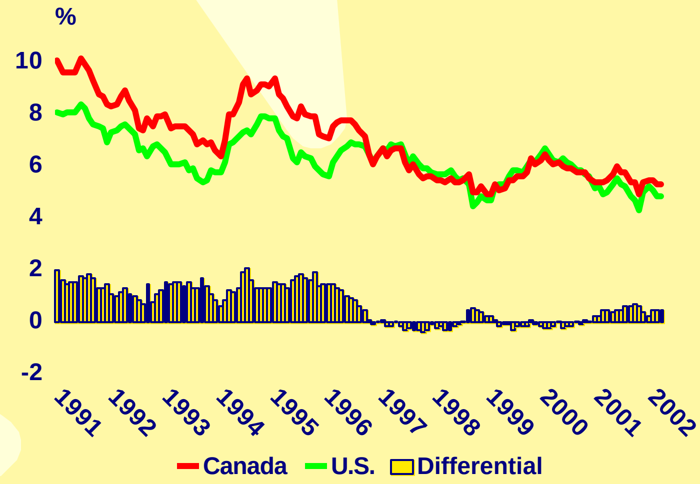
Long-term interest rates have moved higher over the last few months as investors shifted some funds away from the bond market and into the equities market on improving economic conditions and prospects and an increasing probability that monetary authorities will begin raising policy rates in the second half of the year.

- **After declining to a low of 5.3% early last November, long-term interest rates have been trending up.**

- **Canadian bond yields were at 5.8% on March 5, up from 5.6% one month before.**

- **U.S. long-term Treasury bonds stood at 5.7% on March 5th, up from 5.4% one month before.**

Long-Term Interest Rates



Last data point plotted: February 27, 2002

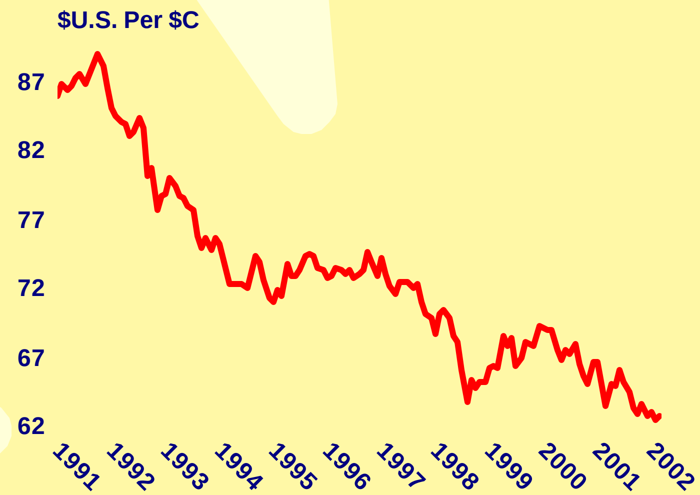
Source: Bank of Canada, Government of Canada 10-year bond yield, last Wednesday in the month

The Canadian dollar hovers around the US63¢ mark after sliding to a new record low

The Canadian dollar set a new historical low of US62.0¢ on January 18, but has since recovered to just above the US63.0¢ mark. The recent recovery reflects a string of upbeat economic news in Canada and a rebound in commodity prices in response to improving global economic conditions and prospects, particularly in the United States.

- The dollar closed out at US63.2¢ on March 7th.

Canada-U.S. Exchange Rate



Last data point plotted: March 1, 2002

Source: Bank of Canada

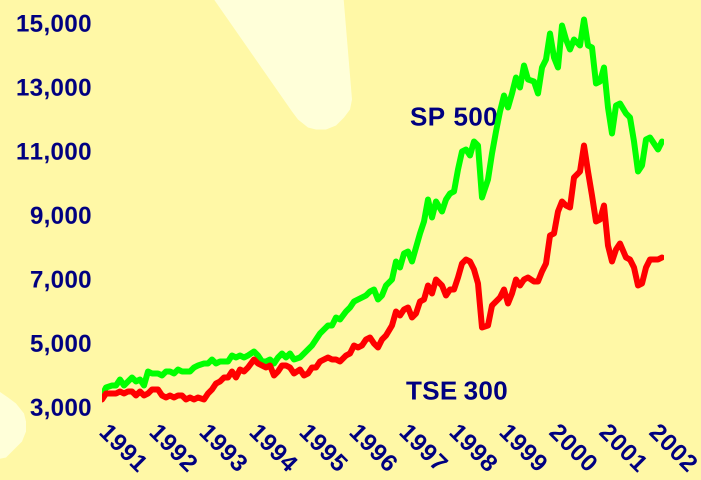
Stock markets recover in recent weeks on good economic news

After surging from September's lows, North American equity indices were unsettled in the first two months of 2002, pressured by outflows toward bond markets amid concerns about corporate accounting practices unleashed by the Enron fiasco. More recently, however, as investors regained some confidence in light of reports of improving economic activity, equity markets have moved up.

- The TSE 300 and the SP 500 both climbed over 20% between last September and the recent highs early in January but subsequently suffered some losses.

- The TSE 300 and the SP 500 closed out at 7958 and 1158, respectively on March 7th, up about 5% from their mid-February levels.

Stock Market Indices



Last data point plotted: March 1, 2002

Source: Statistics Canada

Domestic Scene

Fiscal Track

Federal finances on track for surplus despite the slowing economy

For 2000-01, the federal government recorded a budgetary surplus of $17.1 billion. This was the fourth consecutive annual surplus.

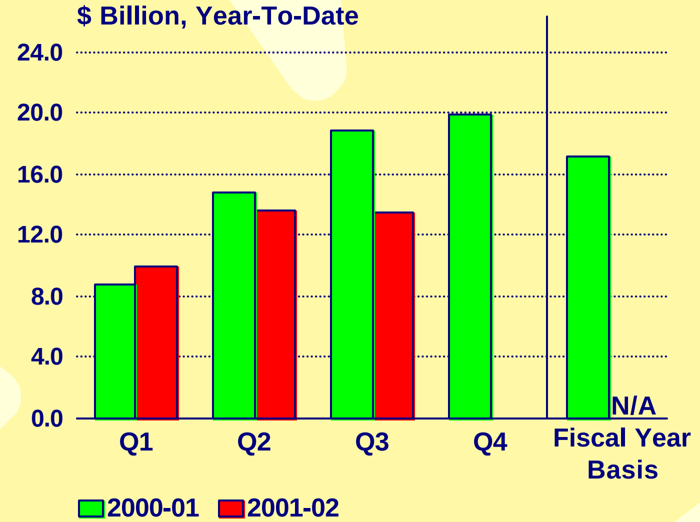
- **The net public debt has declined $35.8 billion in the past four years to $547.4 billion, lowering the debt-to-GDP ratio from its peak of 70.7% in 1995-96 to 51.8% last year.**

The federal government has posted a surplus of $13.4 billion over the first 9 months of the 2001-02 fiscal year, compared to $18.8 billion reported for the same period in the previous fiscal year.

- **The lower surplus reflects the ongoing impact of tax cuts and spending initiatives introduced in the past few budgets as well as the effect of the slowing economy.**

Over the past year, the significant economic slowdown has led to deterioration in provincial governments fiscal situation. B.C. and all the Atlantic provinces, except New Brunswick, should record a deficit in the 2001-02 fiscal year. However, the other provinces and territories, including Quebec and Ontario, are still expected to post balanced budgets or surpluses.

Federal Budgetary Balance



Source: Department of Finance

Domestic Scene

Competitiveness

Growth in unit labour costs remains low...

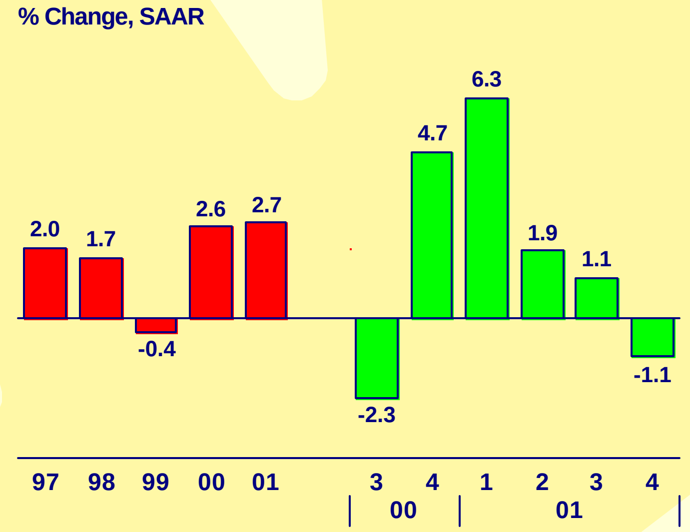
Unit labour costs in the business sector decreased 1.1% (annual rate) in the fourth quarter, the first drop since the third quarter of 2000.

- **A 1.9% (annual rate) increase in labour productivity, as measured by output per hour, more than offset the rise in wages and salaries.**

On an annual basis, unit labour costs rose 2.7% in 2001, a pace similar to that of the previous year.

- **Labour productivity advanced 1.2% in 2001, down from 1.5% in 2000.**

Growth in Unit Labour Costs*



* For the business sector, using Statistics Canada methodology.

...helping firms improve their competitive position

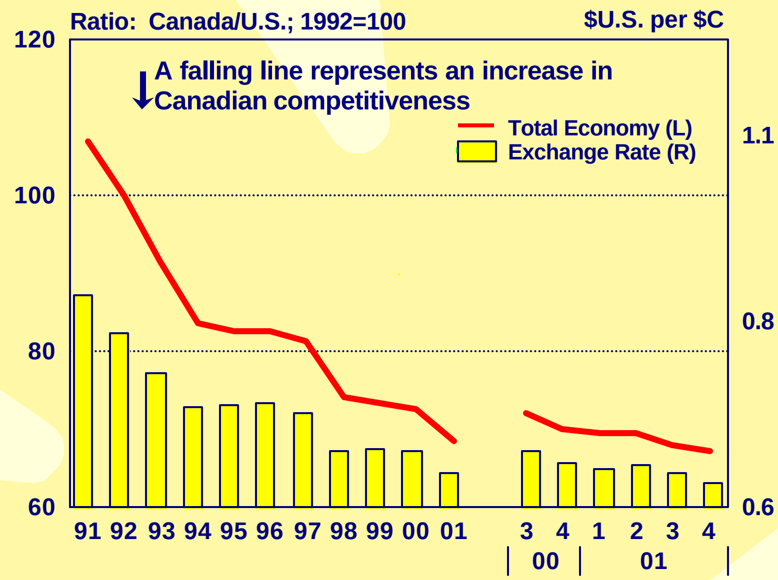
Canadian firms' competitiveness continued to improve in the fourth quarter relative to their U.S counterparts, leading to an overall improvement in 2001.

Unit labour costs were down 5.4% from 2000 relative to the U.S. on a same currency basis.

- **This decline in relative costs was largely as a result of a weaker Canadian dollar, which fell to an average of US$0.64 in 2001 from $0.67 in 2000.**

- **Lower wage increase in Canada than in the United States also helped improve Canada's competitive position.**

Unit Labour Cost Comparison ($US)



Source: Industry Canada estimates based on data from the U.S. Bureau of Labor Statistics & Statistics Canada

Domestic Scene

International Accounts

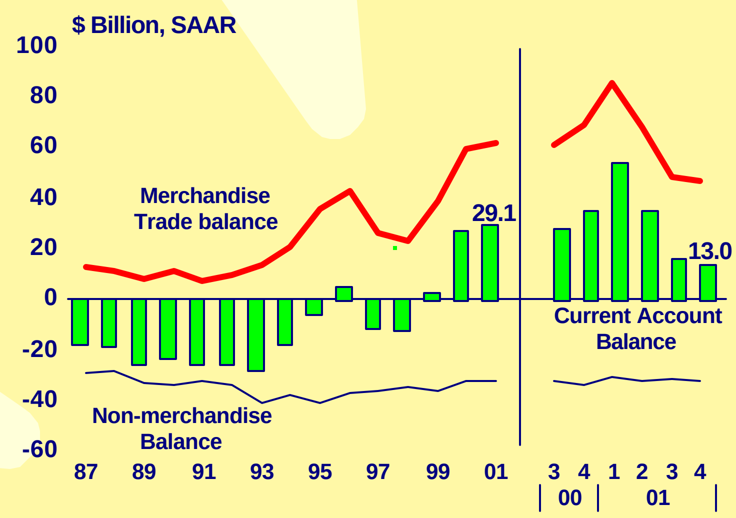
Current account surplus continues to decline in the fourth quarter...

Canada's current account surplus fell to an annualized $13.0 billion in the fourth quarter of 2001, marking the third consecutive quarterly decrease.

- **The surplus for 2001 as a whole rose $1.2 billion from 2000 to a record high of $29.1 billion or 2.7% of the GDP.**

On the capital and financial account, Canadian direct investment abroad, at $9.3 billion, represented the smallest quarterly outflow since the third quarter of 2000. However, in 2001, Canadian investors injected $57.3 billion into foreign economies, the second highest direct investment on record. Foreign direct investment of $12.9 billion flowed into the Canadian economy in the fourth quarter, bringing the annual total to $42.8 billion. Meanwhile foreign portfolio investors acquired more than $20 billion worth of Canadian portfolio securities in the fourth quarter, after divesting some of their holdings in the third.

Current Account & Trade Balances



The merchandise trade balance represents net exports of goods.

The non-merchandise trade balance represents net exports of services plus net receipts of investment income and transfers.

Source: Statistics Canada

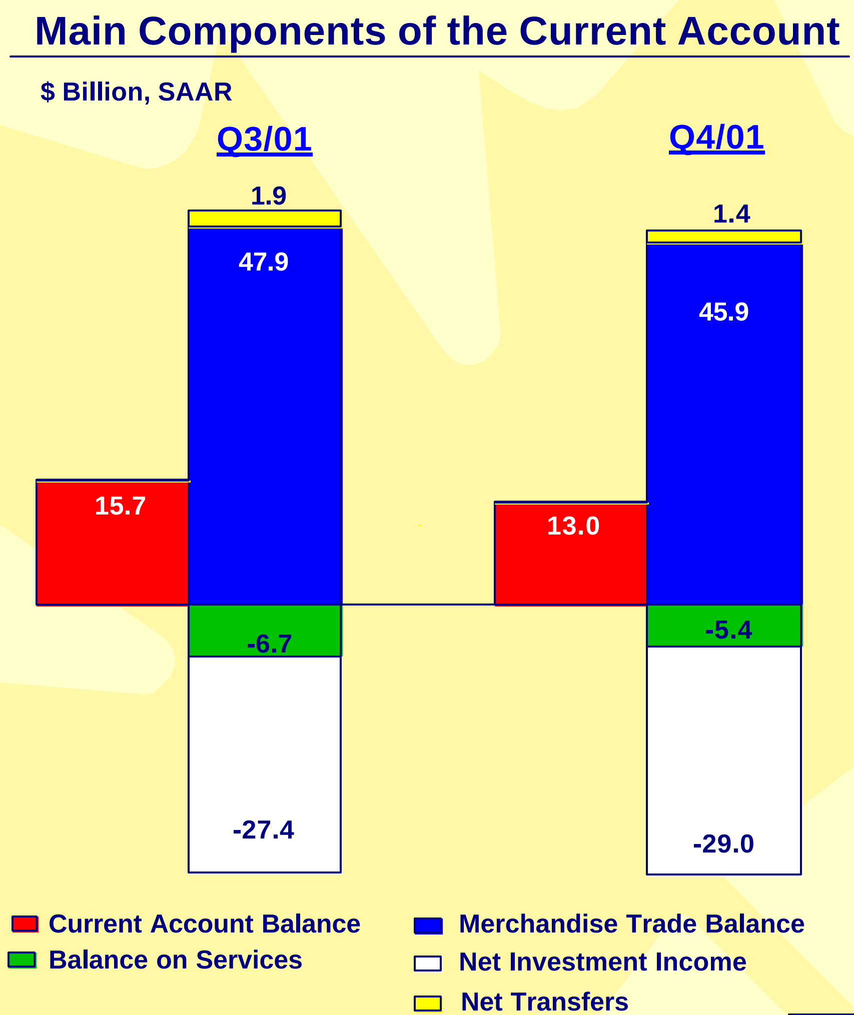
...due to a smaller goods surplus

The merchandise trade surplus declined to an annualized $45.9 billion in the fourth quarter, down $2 billion from the previous quarter. This primarily reflected lower exports, which was pulled down by lower energy prices.

- **The surplus averaged $61.5 billion in 2001, an increase of $2.2 billion from 2000.**

The deficit on services declined largely due to the travel deficit falling to a 15-year low (a result of a reduction in spending by Canadians travelling to the U.S.) Canada's deficit on investment income rose in the fourth quarter, primarily from lower profits on Canadian direct investments abroad.

In 2001, the travel deficit was half that of 2000, while the deficit on investment income widened.



Source: Statistics Canada

Lower exports of high-tech equipment and a slump in exports to Japan in 2001...

Merchandise exports totalled $413.1 billion in 2001, down 2.2% from 2000.

- **Weakness in Machinery & Equipment, specifically with regard to Telecommunications, led the decline. Forestry Products, and Automotive products also lost ground. Energy exports continued to rise, but at a much slower pace than in 2000, reflecting falling prices and declining international demand.**

In contrast to 2000, merchandise exports to other countries was down in 2001, most notably to Japan where the economic outlook remains bleak.

Merchandise Exports, 2001

	$ Billion	% Change, 2000-2001
Total	413.1	-2.2
By Trade Partner		
U.S.	351.1	-2.4
Japan	9.4	-9.2
E.U.	21.9	-0.9
All Others	30.8	0.5
By Principal Commodity		
Agricultural & Fishing Products	30.8	12.6
Energy Products	55.3	4.5
Forestry Products	38.6	-7.5
Industrial Goods & Materials	66.3	0.5
Machinery & Equipment	98.8	-7.6
Automotive Products	92.7	-5.3
Other Consumer Goods	15.8	6.7

Source: Statistics Canada

...produces a much smaller gain in Canada's trade surplus

Merchandise imports fell 3.5% in 2001. In terms of commodity, the declines were widespread, led primarily by lower imports of Machinery & Equipment, Automotive, and Forestry Products. These losses offset a significant gain in the imports of Agricultural & Fishing Products.

- **With a smaller decline in exports relative to imports, Canada's trade surplus rose $3.3 billion to $62.6 billion in 2001, compared to a gain of nearly $21 billion last year.**

- **Regionally, Canada's surplus with the U.S. more than accounted for the total increase.**

Merchandise Imports, 2001

	$ Billion	% Change, 2000-2001
Total	350.5	-3.5
By Trade Partner		
U.S.	255.1	-4.7
Japan	10.6	-9.6
E.U.	35.0	4.8
All Others	49.8	-1.3
By Principal Commodity		
Agricultural & Fishing Products	20.4	9.7
Energy Products	17.7	-0.9
Forestry Products	2.9	-5.8
Industrial Goods & Materials	68.5	-2.9
Machinery & Equipment	112.4	-8.4
Automotive Products	72.5	-6.3
Other Consumer Goods	42.9	7.1

Balance by Trade Partner, 2001

	$ Billion	Change ($Billion) 2000-2001
Total	62.6	3.3
U.S.	96.0	4.1
Japan	-1.2	0.2
E.U.	-13.1	-1.8
All Others	-19.0	0.8

Source: Statistics Canada

Domestic Scene

Sectoral Overview

Goods production continued to decline while Services industries rose further

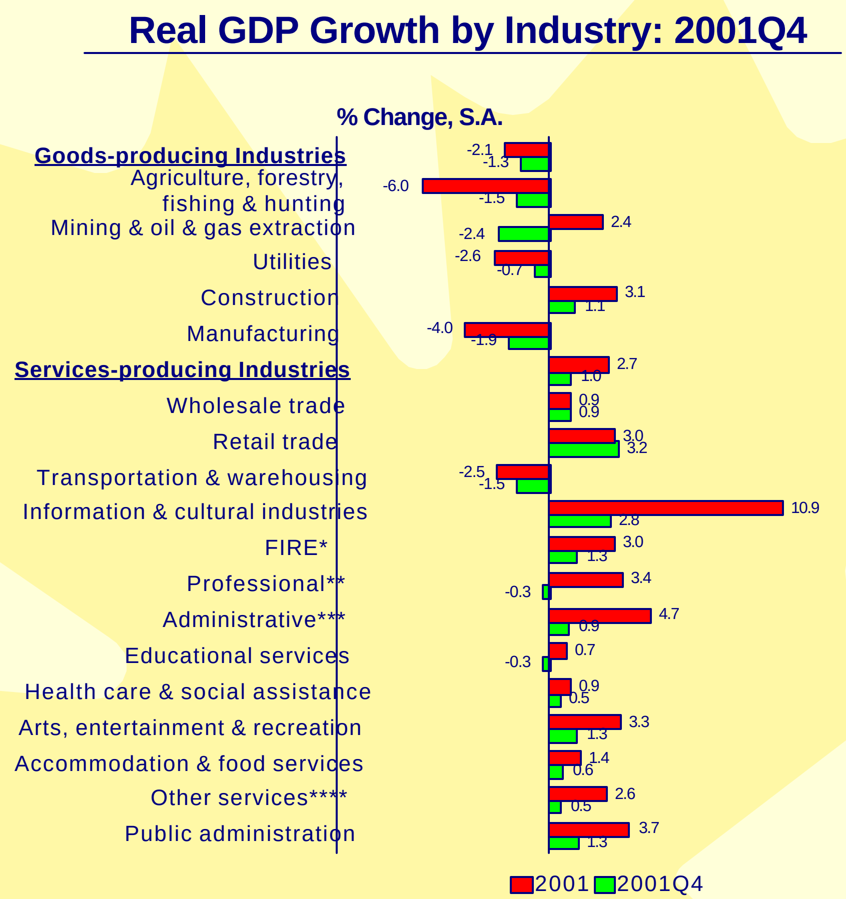
In the fourth quarter of 2001, output in the Goods-producing sector fell 1.3%, the fifth consecutive quarterly decline. In 2001, output dropped 2.1%, the first annual decrease since 1992.

- **Manufacturing production posted a drop of 4.0% in 2001. Fifteen of the 21 major groups lowered production over the year, led by producers of information & communication technology (ICT) components.**

- **Mining & Oil & Gas Extraction suffered from falling energy prices in the latter half of 2001, but rose 2.4% for the year as a whole. Low interest rates has continued to stimulate Construction activity.**

Output in the Services industries was up 1.0% in the fourth quarter. For the year as a whole, output increased 2.7%, after rising 4.3% in 2000.

- **Information & Cultural services were driven by strong demand for ICT services while Retail Trade was pushed up by new motor vehicle sales. Transportation & Warehousing fell further as the air transportation industry continued to struggle.**



Source: Statistics Canada

*Includes Finance & insurance, real estate & renting & leasing & management of companies & enterprises
**Includes Professional, scientific & technical services
***Includes Administrative & support, waste management & remediation services
****except public administration

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Corporate operating profits fell in 2001

In line with the slowing economy, corporate operating profits fell 20.7% in 2001, offsetting all the gains recorded in 2000. Overall, profits declined in 16 of the 24 broad industry groups. Profits have fallen in five of the past six quarters, and were 33% below their peak reached in the second quarter of 2000.

Manufacturers' operating profits declined 33.6% in 2001, reflecting the prolonged slump for high-tech products. Despite lower profits in the second half of 2001, Mineral Fuels industry posted an increase of 12.6% for the year as a whole.

Profits in Transportation & Warehousing fell sharply in 2001 as revenues in the airline industry plunged after the September 11th events.

Profits dropped 39.3% in the Financial sector. Profits in the Funds and Other Financial Vehicles sector plummeted 72.9% in 2001, largely due to losses on the sales of investment securities. In 2000, this sector posted a 30.9% increase in profits.

Corporate Operating Profits

	2001 Level ($M)	Difference 2000-2001 ($M)	Difference 2000-2001 (%)
Total - All Industries	**156,839**	**-40,894**	**-20.7**
Total Non-Financial	**121,317**	**-17,931**	**-12.9**
Agriculture, forestry, fishing & hunting	1,962	-80	-3.9
Mineral fuels	21,997	2,454	12.6
Mining except mineral fuels	2,332	-776	-25.0
Utilities	2,789	454	19.4
Construction	3,017	-985	-24.6
Manufacturing industries	35,368	-17,895	-33.6
Wholesale trade industries	8,366	-257	-3.0
Retail trade industries	8,700	-66	-0.8
Transportation and warehousing	2,742	-2,347	-46.1
Information and cultural industries	7,331	-564	-7.1
Real estate, rental and leasing	10,308	1,637	18.9
Professional/Scientific	1,999	871	77.2
Management of companies	8,039	-273	-3.3
Other services to business	2,999	111	3.8
Education services	137	-11	-7.4
Health care and social assistance	1,547	90	6.2
Arts, entertainment and recreation	351	53	17.8
Accommodation and food services	24	41	-241.2
Other services	1,309	-387	-22.8
Total Financial	**35,522**	**-22,966**	**-39.3**
Depository credit intermediation	14,937	-822	-5.2
Non-depository credit intermediation	4,808	1,192	33.0
Insurers	4,095	-908	-18.1
Funds and other financial vehicles	7,816	-21,021	-72.9
Other financial intermediaries	3,865	-1,406	-26.7

Source: Statistics Canada

Capital spending is expected to fall in 2002

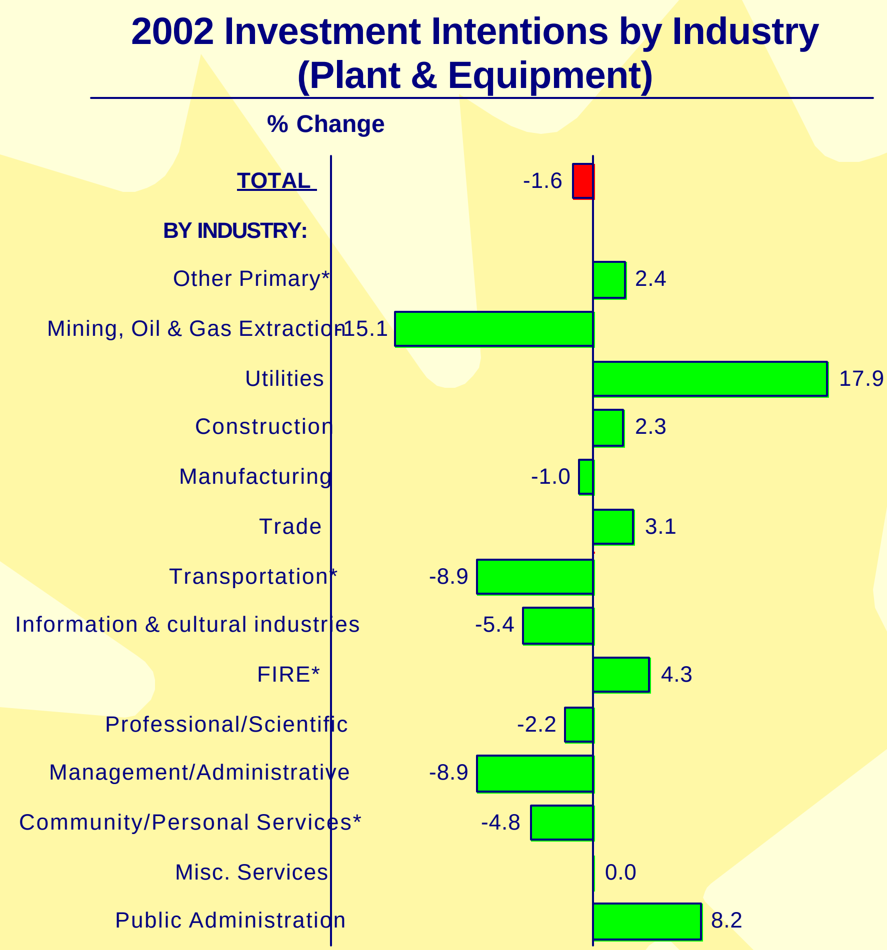
According to the February release of private and public investment intentions, capital spending on plant and equipment is expected to decrease 1.6% in 2002, the first decline since 1993. The scaling back of investment reflects weak corporate profits and low capacity utilization rates.

- Non-Residential construction investment is expected to decline 5.0% while Machinery & Equipment should rise 1.2%.

By industry, capital spending in Oil & Gas Extraction is expected to fall sharply (-18.7%).

Investment in the Manufacturing sector is expected to decrease 1.0% this year, after falling 18.1% in 2001.

On the positive side, investment in the Public Administration and Utilities are expected to increase, the latter being driven by spending in electric facilities.



Source: Statistics Canada Survey of public and private investment intentions

*Other Primary: Agriculture, Forestry, Fishing & Hunting;
Transportation includes warehousing;
FIRE: Finance, Insurance, Real Estate & Leasing;
Community/Personal Services: Education and Health & Social Services.

Employment in the manufacturing sector rebounded in the first two months of 2002...

Employment in the Goods-producing industries is up 81,000 over the first two months of the year, after loosing 109,000 jobs in 2001.

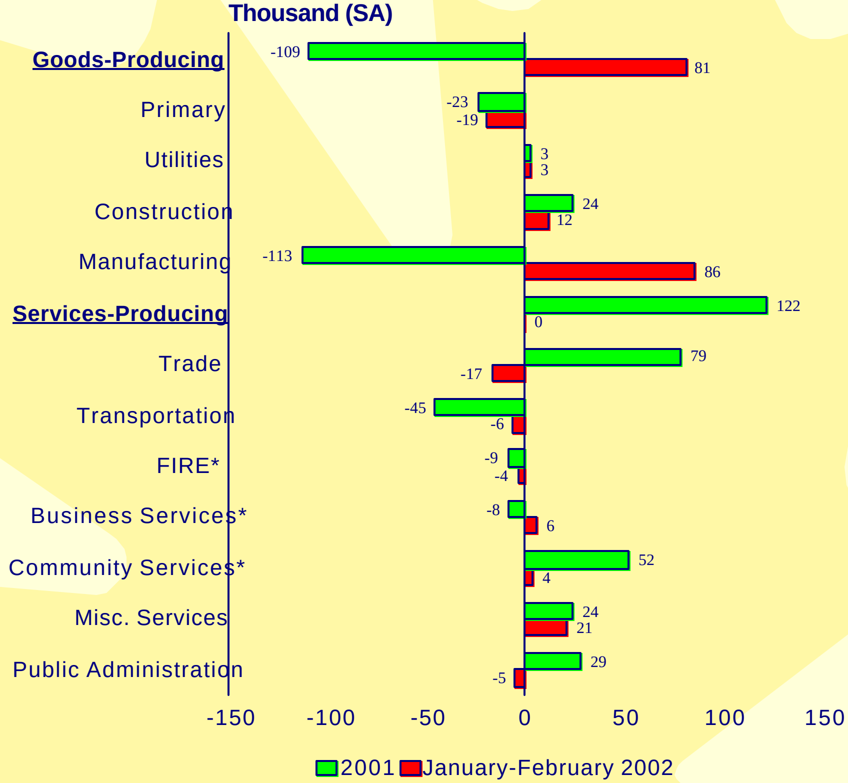
- **These gains were largely concentrated in the Manufacturing sector (+86,000). Still, factory employment is 26,000 below its peak of December 2000. The Primary sector posted the largest decline.**

In the Services-producing industries, losses in February were offset by similar gains in the previous month. However, over the last twelve months the Service sector has been the only source of job creation in Canada.

- **After being the main engine of growth in 2001, the Trade sector has lost 17,000 net jobs since the beginning of this year.**

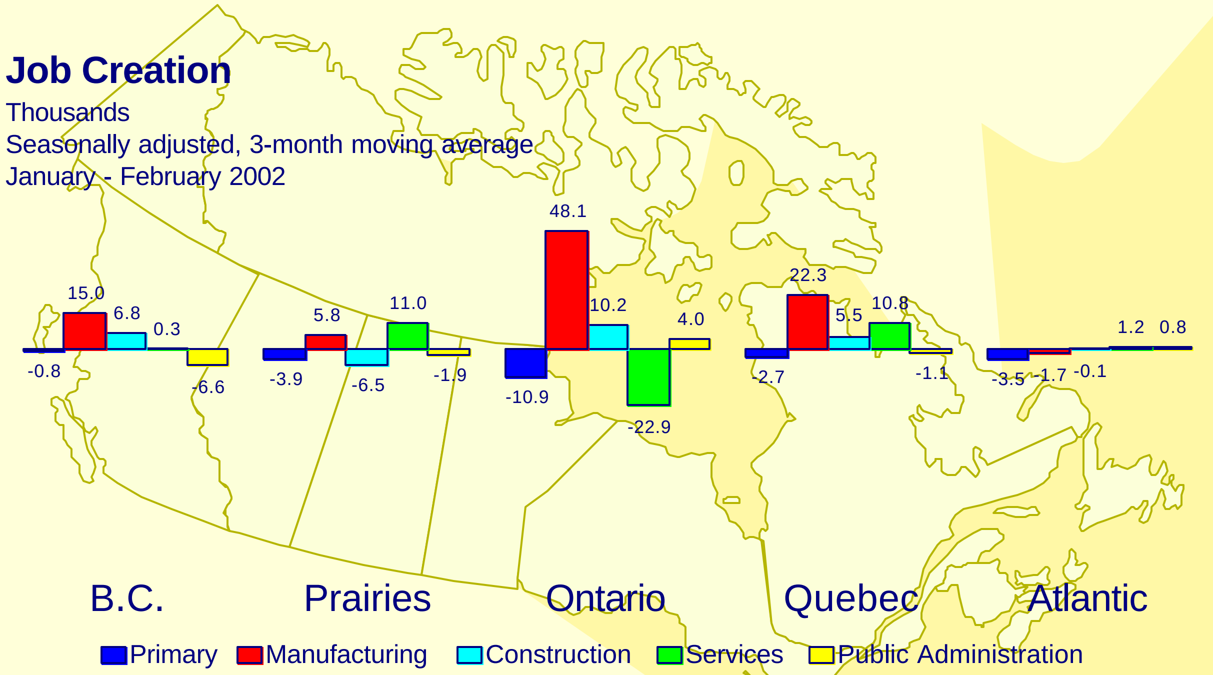
- **The largest gains so far this year have been recorded in Accommodation and Food services (+16,000).**

Job Growth by Industry



*FIRE: Finance, Insurance, Real Estate and Leasing
Business Services: Management, Administrative, Professional, Scientific & Technical Services
Community Services: Educational Services, Health & Social Assistance.

...and was concentrated in Quebec, Ontario and B.C.



On a year-to-date basis, Manufacturing employment increased in all regions except in the Atlantic. The highest gains were concentrated in Quebec, Ontario and B.C. Jobs in the Primary sector fell in all regions as the agriculture sector declined further and low energy prices dampened activities in the oil & gas sector.

Employment in Services increased in every region of the country except in Ontario where losses were concentrated in health care & social assistance. Gains in Construction employment have taken place mainly in Ontario and B.C., while the number of jobs in the Public Administration sector fell mainly in the Prairies and B.C.

Wage settlements eased in the fourth quarter but were up in most industry groups in 2001

Wage settlements in the fourth quarter (+3.0%) were below the rate reached in the third quarter (+3.4%), but was almost 2 percentage points higher than the CPI inflation.

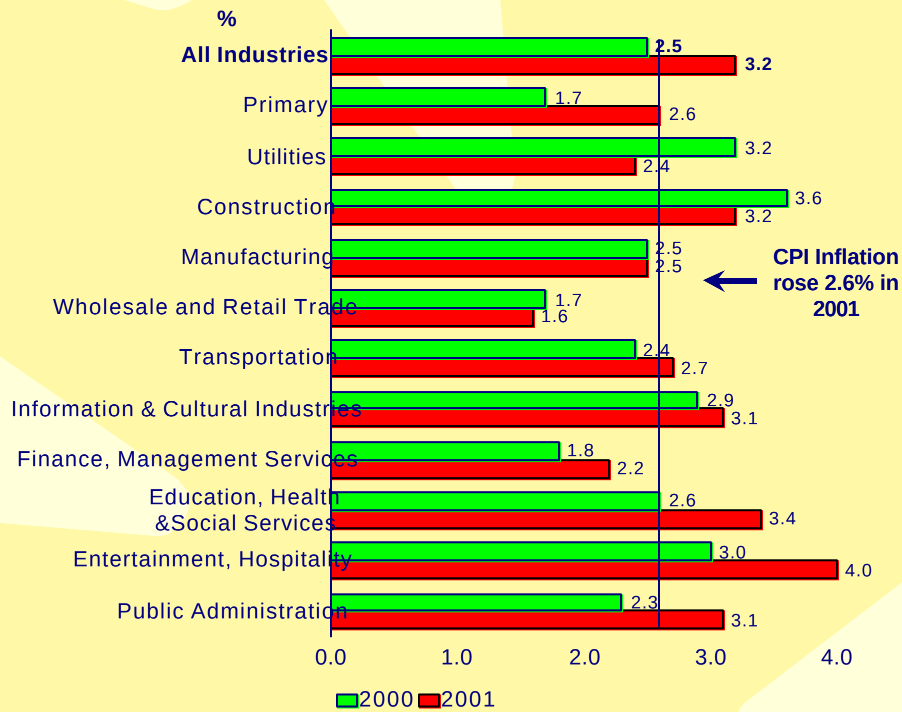
Despite the slowing economy in 2001, wage settlements rose to 3.2%, up 0.7 percentage point above the pace set in 2000 and the highest rate since 1991.

- **Wage settlements were down in Utilities, Trade and Construction but were up or unchanged in all other major groups.**

- **Settlements in seven of eleven industry groups were at or above the CPI inflation (+2.6%).**

For a second consecutive year, Public-sector wage settlements (+3.3%) were above those in the Private sector (+2.9%).

Wage Settlements by Industry



Effective average annual adjustments in base wage rates from major collective bargaining agreements.

Source: Human Resources Development Canada

Capacity utilization falls for the sixth straight quarter

Capacity utilization fell to 80.3% in the fourth quarter of 2001 and was attributed to lower output in most industrial groups. This was the sixth consecutive quarterly decline, which brought the capacity use 6 percentage points below its recent peak recorded in the second quarter of 2000.

Manufacturing capacity utilization declined further in the fourth quarter, almost 8 percentage points lower than the rate posted in the beginning of 2000.

- **Lower rates were posted in 15 of 21 industry groups in the fourth quarter. Prolonged weakness in the high tech sector has led to significant drops in capacity use in the Computer & Electronic and Electrical sectors throughout the year.**

Outside of Manufacturing, capacity utilization increased only in Construction in the fourth quarter as low interest rates boosted demand for housing. The trade dispute with the U.S. continued to have adverse effect on output and capacity utilization in Forestry & Logging, while capacity use in Oil & Gas fell further amid falling energy prices. Milder-than-usual weather reduced heating needs in the Electric power industry.

Capacity Utilization: Non-farm Goods-producing Industries

	Level (%) 2001	Change 2001/2000	Level (%) 2001Q4	Change 01Q4/01Q3	10-year Average
Total industrial	**82.4**	**-3.6**	**80.3**	**-1.2**	**82.2**
Forestry & logging	83.2	-4.9	78.4	-2.6	82.7
Mining & oil & gas extraction	77.4	-1.5	74.3	-2.6	79.5
Electric power *	87.5	-1.0	85.4	-0.6	83.1
Construction	89.5	-0.8	89.2	0.2	82.5
Total Manufacturing	**80.9**	**-5.1**	**78.7**	**-1.3**	**82.7**
Food	81.6	0.7	82.2	0.7	80.5
Beverage & tobacco products	77.7	-1.8	77.0	-1.0	80.1
Textiles	79.7	-3.0	76.2	-3.7	80.4
Textile mills	80.9	-2.7	78.3	-2.0	83.3
Textile product mills	78.0	-3.4	73.4	-5.9	79.7
Clothing	82.7	-1.3	77.7	-4.4	82.4
Leather & allied products	74.5	1.8	70.5	-8.9	74.3
Wood products	82.1	-3.0	81.0	-0.9	85.8
Paper	89.1	-3.0	88.2	0.8	90.0
Printing & related support activities	76.1	-3.4	72.2	-3.6	78.1
Petroleum and coal products	95.2	1.6	95.8	1.2	91.2
Chemical	78.5	-1.6	74.1	-2.0	82.2
Plastic & rubber products	80.6	-4.5	79.9	0.1	83.1
Non-metallic mineral products	77.4	-2.4	75.7	0.9	76.5
Primary metal	86.3	-4.2	85.7	0.0	89.4
Fabricated metal products	80.7	-3.5	78.5	-2.1	79.1
Machinery	79.3	-4.4	78.1	-0.9	79.5
Computer & electronic products	70.9	-25.2	61.3	-5.1	80.1
Electrical equipment	74.8	-17.4	66.5	-5.5	83.1
Transportation equipment	84.5	-4.5	84.8	-0.6	83.7
Furniture & related products	78.8	-6.0	71.9	-3.6	79.9
Miscellaneous manufacturing	80.3	-3.2	76.2	-4.3	81.6

*Electric power generation, transmission & distribution
Source: Statistics Canada

For Further Information

We welcome your questions, comments and suggestions? You can reach us by ...

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The *Micro-Economic Monitor* is prepared on a quarterly basis by the Micro-Economic Policy Branch of Industry Canada. The Monitor provides a quick and easy-to-read update on Canada's economic performance. It also provides topical in-depth reports on current economic issues from a micro-economic perspective. This report uses data available as of March 8, 2002.

The current analysis update was prepared by Marianne Blais, Stéphane Crépeau, Anik Dufour, Joseph Macaluso, Arif Mahmud and Karen Smith, under the direction of Hossein Rostami. Translation has been provided by Lucie Larocque, and Sue Hopf is responsible for administrative support.

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