

# MONTHLY ECONOMIC INDICATORS

## December 1998

### HIGHLIGHTS

-  **Employment surges by 103,000 in November, bringing total gains this year to 425,000.**
-  **The unemployment rate falls to 8.0%, the lowest rate in 8½ years.**
-  **Output edges up in September, led by further gains in Manufacturing.**
-  **Consumer spending and investment slow in the third quarter.**
-  **Financial markets rally as the Bank of Canada cuts interest rates for the third time since September.**

### Key Monthly Economic Indicators

		% Change		
		since month	last year	
Real GDP (\$92 B)	719.2	0.1	2.1	Sept
Goods	236.6	0.1	1.3	Sept
Services	482.6	0.1	2.4	Sept
Composite Index	207.3	0.1	3.3	Oct
Employment (000's)	14,540	0.7	3.4	Nov
Full-time	11,804	0.6	3.5	Nov
Part-time	2,736	1.1	3.0	Nov
Unemployment* (%)	8.0	8.1	9.0	Nov
Youth*	14.5	14.7	16.1	Nov
Adult*	6.8	6.8	7.6	Nov
CPI inflation*	1.0	0.7	1.5	Oct
Retail Sales (\$M)	20,964	1.1	4.9	Sept
Housing Starts (000's)	139.6	3.6	-8.7	Oct
Trade Balance* (\$B)	1,621	1,901	1,658	Sept
Exports	27,178	-0.6	7.2	Sept
Imports	25,557	0.4	7.9	Sept
M&E	8,738	1.3	9.5	Sept
3-mth Corp. paper* (%)	5.06	5.22	4.14	Dec 2
Long bond yield* (%)	5.24	5.45	5.78	Dec 2
Canadian dollar* (US¢)	65.17	65.23	70.23	Dec 4

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

**This issue's Special Report:  
1998: The Year in Review**

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

## December 1998

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This report uses data available as of December 4, 1998. It was produced under the direction of Shane Williamson by Dave Dupuis, Joseph Macaluso and Stéfane Marion of the Micro-Economic Analysis Directorate of Industry Canada. The special report in this issue was prepared by Dave Dupuis. 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 613-954-3494 or through the Internet at [williamson.shane@ic.gc.ca](mailto:williamson.shane@ic.gc.ca).



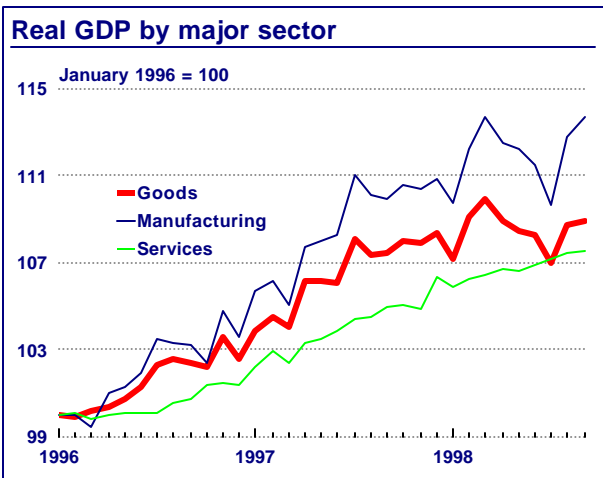
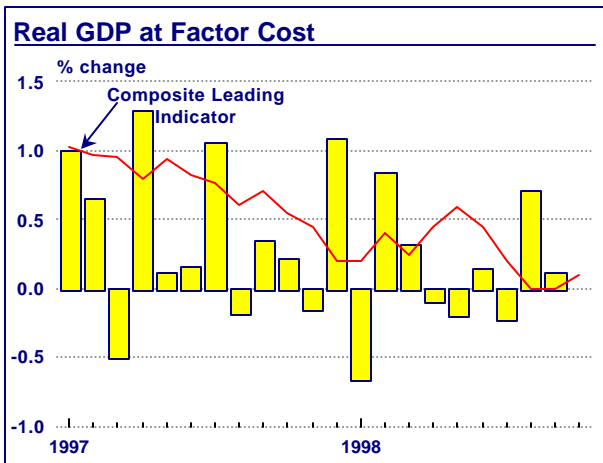
## Real GDP by Industry

### Output edges up in September...

- Real GDP increased 0.1% in September. This follows a substantial 0.7% increase in August, which was preceded by four relatively weak months.

### ...as Manufacturing advances for the second straight month

- Overall, output in the Goods-producing sector was up 0.1% in September due in large part to widespread gains in Manufacturing (+0.8%). Within the Manufacturing industries, strong advances were posted by Transportation Equipment, Machinery and Wood Products.
- Most other major groups in the Goods-producing sector were down on the month. In particular, the Mining industry, still feeling the effects of low commodity prices, saw activity decline for the sixth consecutive month. Construction activity has declined in six of the past seven months, hurt by strikes in key building trades in Ontario and generally weak demand.
- Output in the Service sector was also up marginally in September (+0.1%). Notable gains were posted in Communications, Retail Trade (buoyed by auto sales) and Business Services. A strike at Air Canada contributed to sharply lower output in Transportation & Storage, while strikes and lockouts in Ontario resulted in a decline in Education services.



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

	September 1998			
	level	monthly change	% Change since last month	year
<b>Total Economy</b>	<b>719,242</b>	<b>763</b>	<b>0.1</b>	<b>2.1</b>
<b>Business sector</b>	<b>594,056</b>	<b>959</b>	<b>0.2</b>	<b>1.0</b>
<b>Goods</b>	<b>236,615</b>	<b>335</b>	<b>0.1</b>	<b>1.3</b>
Agriculture	11,782	-24	-0.2	1.7
Fishing & Trapping	732	8	1.1	-7.5
Logging & Forestry	4,158	-69	-1.6	-15.0
Mining*	27,137	-156	-0.6	-4.4
Manufacturing	128,881	1,039	0.8	3.5
Construction	39,149	-27	-0.1	1.2
Other Utilities	24,776	-436	-1.7	0.6
<b>Services</b>	<b>482,627</b>	<b>428</b>	<b>0.1</b>	<b>2.4</b>
Transport & Storage	31,811	-529	-1.6	-0.7
Communications	24,548	383	1.6	9.0
Wholesale Trade	42,557	65	0.2	6.2
Retail Trade	45,288	355	0.8	4.9
Finance & Insurance	40,319	182	0.5	2.5
Real Estate & Ins. Agent	79,006	12	0.0	1.8
Business services	41,249	258	0.6	5.9
Government services	42,586	-94	-0.2	-0.2
Education	39,540	-238	-0.6	-1.7
Health & Social Services	48,518	101	0.2	1.0
Accommodation & Food	18,462	-126	-0.7	0.6
Other	28,743	59	0.2	2.1

\*Includes Quarrying and Crude Petroleum & Natural Gas

# THE ECONOMY



## Consumer Spending and Attitudes

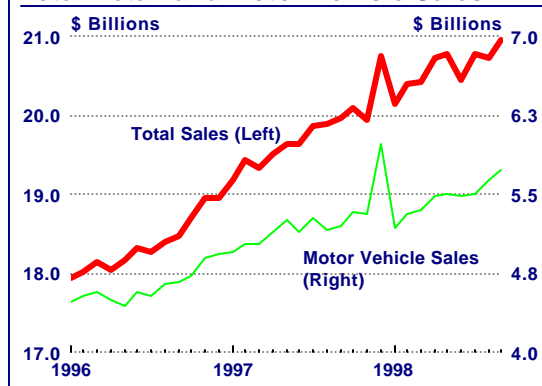
### Consumer spending slows in the third quarter...

- Growth in consumer spending slowed to 2.2% (annual rate) in the third quarter, reflecting a sharp slowdown in spending on durable goods (particularly autos). Growth in other major categories was also modest.

### ...held back by worsening household finances and falling consumer confidence

- Labour unrest was partially responsible for modest income gains in the third quarter, with personal income growing at its slowest rate since the beginning of 1994. And, due to higher income tax collections, disposable income fell for the second straight quarter.
- Increased consumer spending was therefore financed by a combination of lower personal savings and increased borrowing in the third quarter. The savings rate fell to a record low of -0.8%, while the debt-to-income ratio rose to an all-time high of 101.6%.
- A sharp fall in stock prices and the low value of the Canadian dollar led to a large drop in consumer confidence in the third quarter. However, confidence may improve in the fourth quarter – financial markets have stabilized in recent months and employment growth has picked up late in the year.

**Total Retail and Motor Vehicle Sales**



**Retail Sales and Consumer Credit**

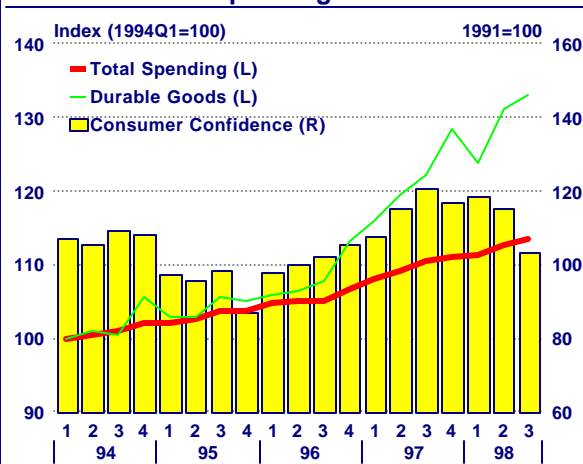
September 1998	\$ millions	% Change	
		index	last year
<b>Total Retail Sales</b>	20,964	1.1	4.9
Food	4,819	0.8	2.3
Drug Stores	1,080	-2.0	4.5
Clothing	1,174	-0.1	3.9
Furniture	1,057	-0.0	9.1
Automotive	8,195	1.4	5.2
General Merch. Stores	2,372	3.0	6.8
All other Stores	2,268	1.4	6.9
Total ex. motor vehicles	15,229	0.8	3.1
<b>Consumer Credit</b>	155,876	0.2	9.9

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	1996	1997	1998 Q2	1998 Q3
<b>Real Consumption (92\$)</b>	453,130	471,525	484,644	487,336
% change	2.3	4.1	5.6	2.2
Durable Goods	55,205	61,926	66,896	67,828
% change	4.1	12.2	5.9	1.4
Semi-Durable Goods	42,661	44,485	46,604	46,764
% change	0.8	4.3	0.3	1.4
Non-Durable Goods	116,948	118,644	119,800	120,640
% change	1.7	1.5	3.6	2.8
Services	238,316	246,470	251,344	252,104
% change	2.5	3.4	2.8	1.2
<b>Disposable Income</b>	519,105	529,082	539,700	538,988
% change	1.5	1.9	0.0	-0.5
<b>Saving Rate (%)</b>	5.4	2.2	0.3	-0.8
<b>Debt-to-Income Ratio (%)</b>	94.1	97.3	100.2	101.6
<b>Consumer Attitudes*</b>	101.2	115.0	115.0	103.3

\*Conference Board of Canada

**Real Consumer Spending and Confidence**





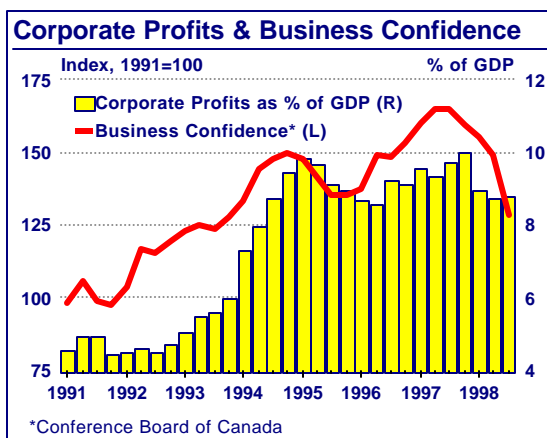
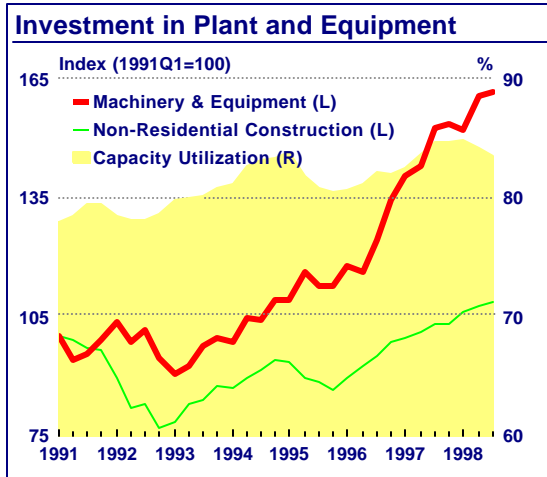
## Business Investment in Plant and Equipment

### Investment slows in the third quarter...

- Growth in business investment in Machinery & Equipment (M&E) fell back in the third quarter from a sharp gain in the previous period. With the modest third-quarter results, M&E investment has now registered slow or negative growth in three of the last four quarters.
- Non-Residential construction also posted slower growth in the third quarter, as drilling activity in the oil patch fell. Still, the overall outlook remains positive, with the value of Non-Residential building permits reaching an 8½ year high in the quarter.

### ...as business confidence continues to fall

- Business confidence fell by a record amount in the third quarter, and for the fifth consecutive quarter.
- Although profits rebounded in the third quarter, they are still down substantially on a year-over-year basis. Low commodity prices and weak foreign demand have weakened corporate balance sheets.
- Lower profits have led corporations to rely increasingly on borrowing (through both short-term paper and in equity markets) to finance investment.



### Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	1996	1997	1997 Q4	1998 Q1	1998 Q2	1998 Q3
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment</b>	47,722	57,057	59,420	58,884	62,160	62,516
<i>(1997Q3)</i> <i>% change</i>	9.3	19.6	2.5	-3.6	24.2	2.3
<b>Non-residential Construction</b>	33,608	36,433	36,864	38,052	38,620	38,988
<i>(1997Q3)</i> <i>% change</i>	4.7	8.4	-1.8	13.5	6.1	3.9
<b>Capacity Utilization (% Non-farm goods)</b>	81.5	83.9	84.6	84.8	84.1	83.5
Capacity Utilization (Mfg. sector)	82.5	84.9	85.6	86.3	85.8	85.3
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	96,067	110,682	116,020	107,816	98,752	102,452
<i>(1997Q3)</i> <i>% change</i>	-1.1	15.2	12.2	-25.4	-29.6	15.9
Profits - Non-financial industries	71,871	82,218	84,760	79,676	72,760	76,436
<i>% change</i>	-6.7	14.4	10.6	-21.9	-30.5	21.8
Profits - Financial industries	24,194	28,462	31,260	28,140	25,992	26,012
<i>% change</i>	20.5	17.6	16.8	-34.3	-27.2	0.3
<b>Business Credit</b>	570,832	621,441	648,179	662,030	675,076	692,953
<i>% change</i>	5.0	8.9	13.1	8.8	8.1	11.0
<b>Index of Business Confidence*</b>	147.0	162.3	159.2	155.0	148.9	128.6

\*Conference Board of Canada



## Housing

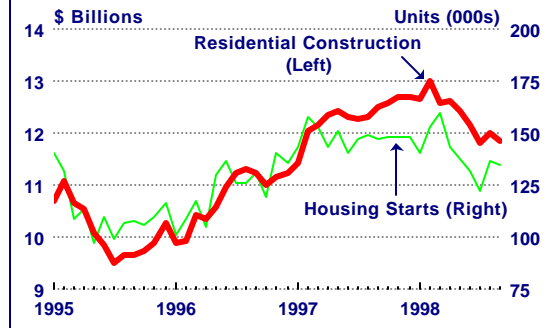
### Spending on new housing falls in the third quarter...

- Residential investment fell 10.1% in the third quarter – the third straight decline – with lower spending on both new housing and renovation activity.
- Third-quarter results were affected by labour disruptions in some housing trades in the important southern Ontario market, but weakness extended throughout most regions of the country.
- However, transfer costs on sales of existing homes were up sharply, reflecting strength in the market for existing homes.

### ...and the outlook remains weak

- Some market indicators are encouraging – in particular, new housing prices are steady and mortgage rates remain low. However, the very active resale market, high vacancy rates in the rental market in most urban centres, and lower consumer confidence are all contributing to lower demand for new houses.
- Indeed, the total value of residential building permits declined in the third quarter, and were down sharply in October. Lagging single-family dwelling construction intentions are responsible for the slow-down in activity that has occurred since the beginning of the year.
- Canada Mortgage and Housing Corporation (CMHC) predicts that national housing starts will fall slightly in 1999.

### Housing Activity



### Monthly Housing Indicators

	levels	Change since	
		last month	last year
<b>Residential Construction</b> (1)	11,855	-1.3%	-5.1%
(\$92M, factor cost basis)			
<b>Building Permits, \$M</b> (2)	1,389	-5.8%	-6.3%
<b>Sales of Existing Homes</b> (3)	17,645	-685	
(# of units)			
<b>Housing Starts, # of units</b>	139,600	4,900	-13,300
Newfoundland	1,100	-100	-300
Prince Edward Island	300	100	-100
Nova Scotia	3,300	100	1,600
New Brunswick	1,800	600	300
Quebec	18,800	1,000	1,300
Ontario	53,400	5,400	0
Manitoba	1,500	-800	-500
Saskatchewan	1,500	-1,400	-100
Alberta	22,000	1,500	2,500
British Columbia	14,700	-3,000	-13,500

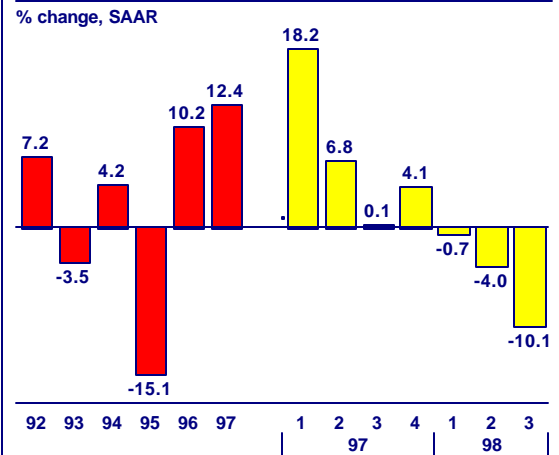
1 - September data; 2 - October data; 3 - October data.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association

### Real Investment in Residential Structures

\$92 Millions, SAAR (unless otherwise noted)	1996	1997	1998 Q2	1998 Q3
<b>Residential Construction</b>	37,729	42,385	42,384	41,276
% change	10.1	12.3	-3.9	-10.1
Construction by Business sector	37,567	42,229	42,228	41,120
% change	10.2	12.4	-4.0	-10.1
New Housing	17,977	21,383	21,024	19,692
% change	7.3	18.9	-14.1	-23.0
Alterations & Improvements	12,415	13,426	13,984	13,876
% change	7.6	8.1	-5.6	-3.1
Ownership & Transfer Costs	7,337	7,576	7,376	7,708
% change	23.1	3.3	39.4	19.3

### Growth in Real Residential Construction





## Trade and Competitiveness

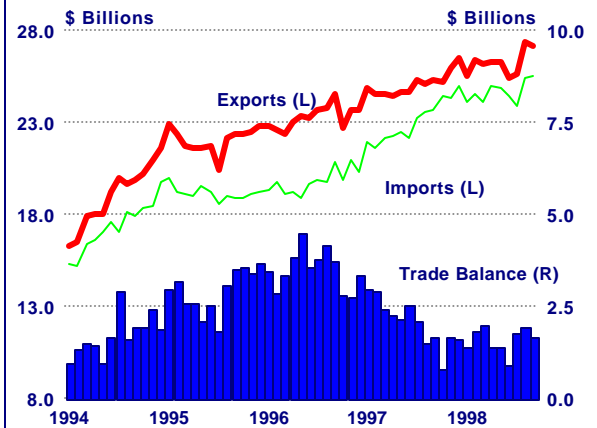
### Imports gain slightly while exports edge lower...

- Following a large jump in August, imports increased 0.4% in September. Imports of Automotive Products continued to rebound from the G.M. strike in the U.S., recording the second straight month of strong growth.
- Elsewhere, Aircraft & Aircraft Parts fuelled growth in imports of M&E, which have now posted gains in each of the last six months.
- Exports fell 0.6% in September, but are 7.2% higher on a year-over-year basis largely due to a sharp gain in August.
- Exports of M&E fell 2.9% in September – the biggest drop this year – and exports of Industrial Goods also fell substantially. Exports of Agricultural Products were higher and Automotive Products made gains as the sector continued to recover from strike-induced layoffs.

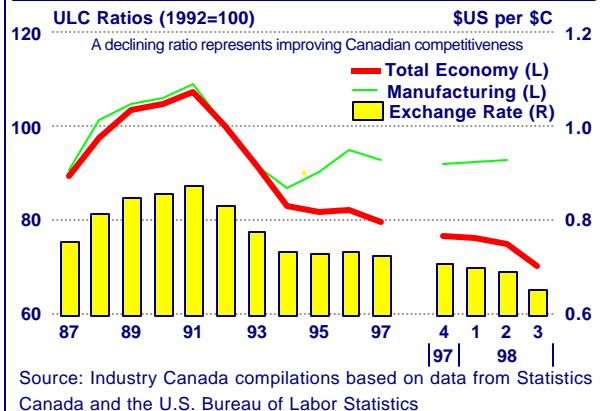
### ...leading to a small drop in Canada's trade surplus

- With import growth outpacing export growth, Canada's trade balance fell to \$1.6 billion in September, from a downwardly-revised \$1.9 billion in the previous month.

### Merchandise Trade Flows and Balance



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



### Merchandise Trade

September 1998	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change
	1998 August	1998 Septembe	1997 Jan-Sep	1998 Jan-Sep	Aug to Sept 1998	Aug to Sept 1998	Sept 97 to Sept 98
<b>Exports</b>	27,350	27,178	223,435	236,156	-172	-0.6	7.2
to United States	23,289	23,039	179,833	197,109	-250	-1.1	11.5
<b>Imports</b>	25,449	25,557	203,149	222,127	108	0.4	7.9
from United	19,571	19,683	154,624	170,444	112	0.6	9.2
<b>Trade Balance</b>	1,901	1,621	20,286	14,029	-280		
with United States	3,718	3,356	25,209	26,665	-362		
<b>Exports by Commodity</b>							
Agriculture/Fishing Products	1,964	2,174	18,199	18,396	210	10.7	0.6
Energy Products	2,122	2,169	20,320	18,251	47	2.2	-4.3
Forestry Products	2,961	2,916	26,190	26,176	-45	-1.5	2.2
Industrial Goods & Materials	4,876	4,718	41,302	43,160	-158	-3.2	0.8
Machinery & Equipment	6,834	6,633	50,036	58,450	-201	-2.9	12.2
Automotive Products	6,463	6,636	51,780	54,336	173	2.7	16.2
Other Consumer Goods	1,068	1,104	7,871	9,190	36	3.4	22.1
<b>Imports by Commodity</b>							
Agriculture/Fishing Products	1,472	1,409	11,510	12,751	-63	-4.3	7.1
Energy Products	740	764	7,900	6,696	24	3.2	-9.7
Forestry Products	205	206	1,757	1,840	1	0.5	3.5
Industrial Goods & Materials	5,042	5,031	39,822	44,517	-11	-0.2	9.9
Machinery & Equipment	8,624	8,738	66,944	74,675	114	1.3	9.5
Automotive Products	5,357	5,482	44,266	47,171	125	2.3	5.6
Other Consumer Goods	2,950	2,903	21,625	25,186	-47	-1.6	15.1



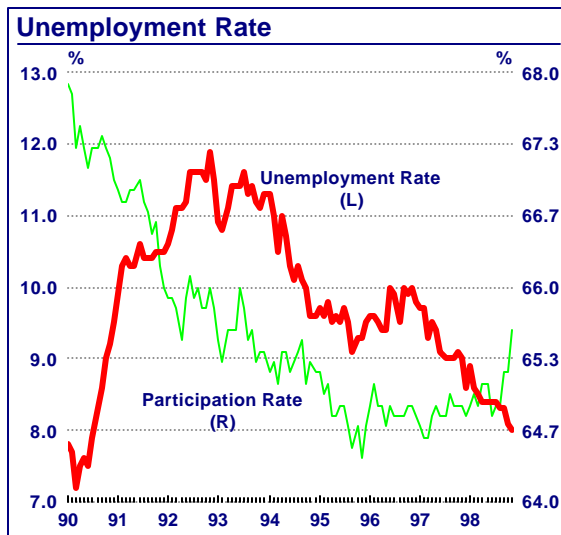
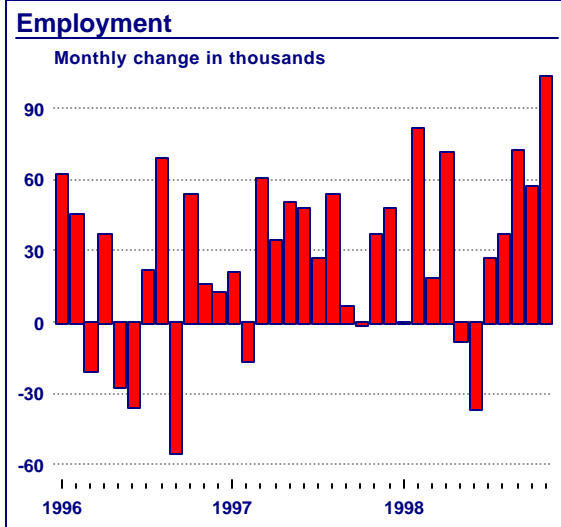
## Employment and Unemployment

### Employment posts its biggest jump in four years in November...

- Employment increased by 103,000 in November, the biggest single monthly advance since November 1994. Following losses in May and June, employment has risen in each of the past five months for a total net gain of 297,000 jobs.
- The employment rate rose to 60.3% in November, marking the first time since the 1990-91 recession that this rate has exceeded 60%.
- Full-time employment has increased by 159,000 over the past two months, accounting for more than half of the growth in full-time employment so far this year.

### ...as the unemployment rate falls to 8.0%

- Despite sharply-higher employment, the number of unemployed was essentially unchanged due to a sizeable increase in the labour force. Still, November's unemployment fell 0.1 percentage points to 8.0%, the lowest rate since July 1990.
- Large job gains lowered the unemployment rate for youth by 0.2 points to 14.5%.
- However, growth in the labour force completely offset job gains for adult women and adult men, leaving their unemployment rates unchanged at 6.6% and 7.0%, respectively.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	1997 November	1998 October	1998 November	last month	last year	year-to- date	last month	last year
<b>Employment</b>	14,066.4	14,436.4	14,539.8	103.4	473.4	425.0	0.7	3.4
<b>Full-time</b>	11,409.8	11,728.8	11,803.6	74.8	393.8	302.0	0.6	3.5
<b>Part-time</b>	2,656.6	2,707.6	2,736.2	28.6	79.6	123.0	1.1	3.0
<b>Youth 15-24</b>	2,039.4	2,126.2	2,177.7	51.5	138.3	138.5	2.4	6.8
<b>Adult 25+</b>	12,027.0	12,310.2	12,362.0	51.8	335.0	286.4	0.4	2.8
<b>Self-employed</b>	2,468.5	2,592.9	2,609.7	16.8	141.2	133.7	0.6	5.7
<b>Unemployment</b>	1,383.4	1,265.0	1,267.8	2.8	-115.6	-53.5	0.2	-8.4
<b>Unemployment Rate</b>	9.0	8.1	8.0	-0.1	-1.0	-0.6		
<b>Youth 15-24</b>	16.1	14.7	14.5	-0.2	-1.6	-1.3		
<b>Adult 25+</b>	7.6	6.8	6.8	0.0	-0.8	-0.4		
<b>Labour Force</b>	15,449.7	15,701.5	15,807.6	106.1	357.9	371.5	0.7	2.3
<b>Participation Rate</b>	64.9	65.2	65.6	0.4	0.7	0.8		
<b>Employment Rate</b>	59.1	59.9	60.3	0.4	1.2	1.1		





## Industry Overview

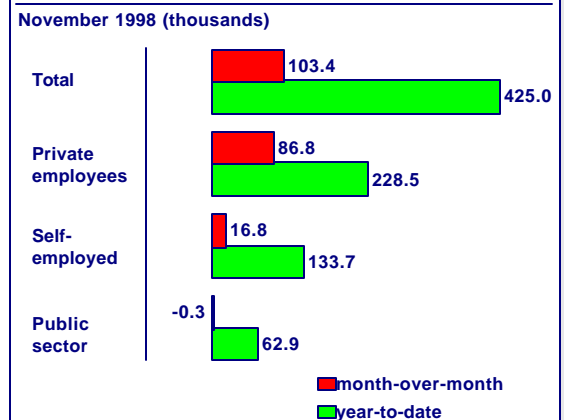
### November job gains are shared by the Goods- and Service-producing sectors...

- Employment in the Goods-producing industries rose 48,000 in November, with all major industrial groupings except Agriculture posting job gains.
- Within the Goods sector, Construction registered the largest gain on the month (+27,000), the fifth straight month of growth. Employment in Manufacturing was up for the second straight month, and has now recovered half of the job losses recorded over the July to September period.
- Employment in the Services-producing industries increased by 55,000 in November, led by gains in Business & Personal Services and Retail Trade. Job losses in Transportation followed a sharp gain in the previous month.

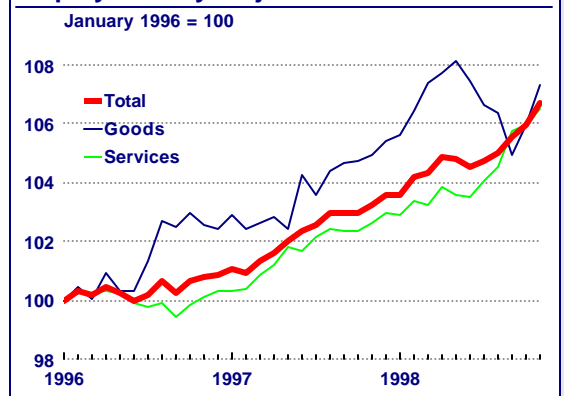
### ...and the private sector accounts for all of the increase

- Public-sector employment was little changed in November, but remains up on a year-to-date basis.
- The number of paid employees in the private sector increased by 87,000 in November. Self-employment was also higher on the month.

### Employment growth by worker category



### Employment by major sector



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	1997 November	1998 October	1998 November	last month	last year	year-to- date	last month	last year
<b>Total</b>	14,066.4	14,436.4	14,539.8	103.4	473.4	425.0	0.7	3.4
<b>Goods-producing</b>	3,809.7	3,848.6	3,897.0	48.4	87.3	67.8	1.3	2.3
Agriculture	419.0	438.8	434.9	-3.9	15.9	20.1	-0.9	3.8
Mining & Oil Wells	181.0	152.5	162.4	9.9	-18.6	-18.8	6.5	-10.3
Other Primary	110.3	101.1	98.6	-2.5	-11.7	-12.9	-2.5	-10.6
Utilities	141.5	133.4	136.4	3.0	-5.1	-6.1	2.2	-3.6
Manufacturing	2,206.4	2,231.7	2,246.3	14.6	39.9	15.7	0.7	1.8
Construction	751.5	791.2	818.4	27.2	66.9	69.9	3.4	8.9
<b>Service-producing</b>	10,256.7	10,587.9	10,642.8	54.9	386.1	357.2	0.5	3.8
TSCO*	917.2	960.6	938.8	-21.8	21.6	16.1	-2.3	2.4
Wholesale Trade	667.5	673.6	681.7	8.1	14.2	14.7	1.2	2.1
Retail Trade	1,719.3	1,758.5	1,793.8	35.3	74.5	68.6	2.0	4.3
FIRE*	806.6	811.8	812.4	0.6	5.8	5.9	0.1	0.7
Education	972.9	983.4	977.5	-5.9	4.6	10.1	-0.6	0.5
Health/Social Serv.	1,418.7	1,505.6	1,496.7	-8.9	78.0	46.9	-0.6	5.5
Bus. & Personal Serv.	2,975.2	3,112.5	3,154.1	41.6	178.9	189.0	1.3	6.0
Public Administration	779.3	781.8	787.8	6.0	8.5	6.0	0.8	1.1

\*TSCO: Transportation, storage and communication; FIRE: Finance, Insurance and Real Estate



## Provincial Overview

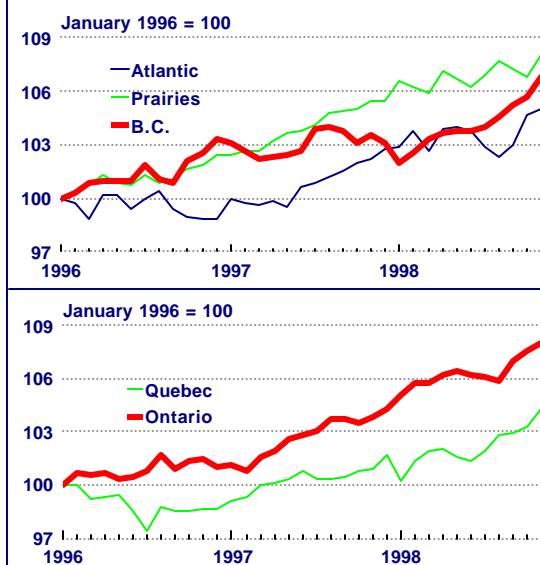
### Quebec leads November job gains...

- In November, employment rose by 31,000 in Quebec, bringing year-to-date gains for this province to 84,000.
- Most other provinces also posted higher employment on the month, including increases of 21,000 in Ontario and 20,000 in British Columbia.
- Newfoundland and Nova Scotia were the only two provinces to register net job losses in November.

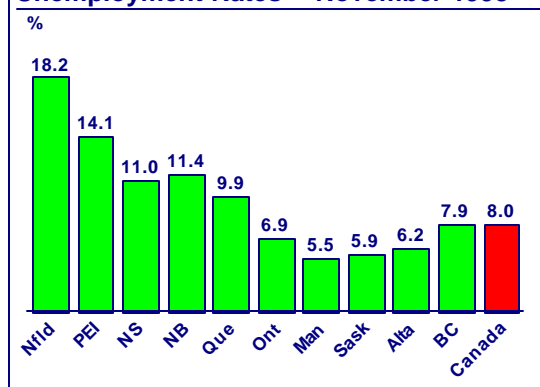
### ...but its unemployment rate rises

- Although employment was up sharply in Quebec, these gains were offset by a larger increase in the labour force. As a result, Quebec's unemployment rate rose 0.2 percentage points to 9.9% in November.
- Significant declines in unemployment rates occurred in Manitoba and Saskatchewan. In both cases, employment growth exceed increases in the number of new job seekers.
- More modest reductions in unemployment rates were registered in Ontario, Alberta and British Columbia.

### Regional employment patterns

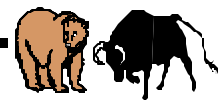


### Unemployment Rates -- November 1998



### Provincial Employment and Unemployment Trends

	Employment (thousands)						Unemployment rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since last month		
	1998 November	(000's)	%	(000's)	%		last month	last year	
Canada	14,539.8	103.4	0.7	473.4	3.4	8.0	-0.1	-1.0	
Newfoundland	202.8	-1.7	-0.8	7.3	3.7	18.2	0.1	0.9	
P.E.I.	60.5	0.6	1.0	0.0	0.0	14.1	0.0	-0.9	
Nova Scotia	403.7	-0.3	-0.1	8.5	2.2	11.0	0.3	-0.5	
New Brunswick	332.5	4.0	1.2	11.1	3.5	11.4	0.0	-1.1	
Quebec	3,386.4	31.3	0.9	107.8	3.3	9.9	0.2	-1.0	
Ontario	5,688.2	21.0	0.4	222.6	4.1	6.9	-0.1	-1.4	
Manitoba	552.4	6.2	1.1	11.3	2.1	5.5	-0.6	-0.9	
Saskatchewan	482.4	6.5	1.4	0.7	0.1	5.9	-0.5	0.1	
Alberta	1,527.9	15.7	1.0	47.3	3.2	6.2	-0.2	0.5	
B.C.	1,902.9	20.0	1.1	56.8	3.1	7.9	-0.1	-1.0	



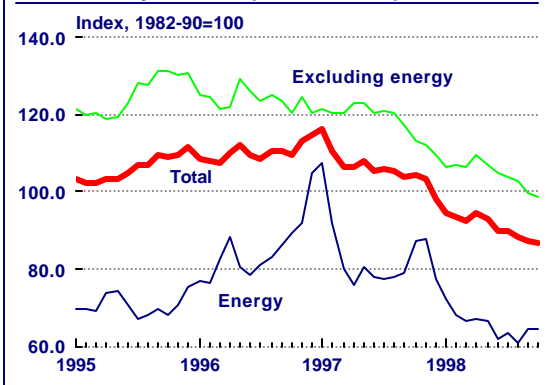
### Inflation remains subdued in October...

- The year-over-year rate of CPI inflation was 1.0% in October, up 0.3 percentage point from September, but still well below the annual average of 1.6% registered in both 1996 and 1997.
- Compared to last year, higher prices for food, university tuition, natural gas and property taxes put upward pressure on the general price level. The impact of these price hikes was partly offset by sharply-lower prices for gasoline and computer equipment.
- Inflation excluding Food, Energy and Indirect Taxes remained at 1.2% in October, close to the bottom end of the official 1%-3% target range.
- Underlying inflationary pressures remain subdued. Producer prices were only 0.7% higher compared to their year-ago levels in the third quarter, pushed up only because of the depreciating Canadian dollar (which boosts prices of goods commonly quoted in U.S. dollars). Excluding the effect of the exchange rate, producer prices were down 2.4% on the year.

### ...across all provinces

- Inflation ranged from a low of -0.6% in P.E.I. to a high of 1.8% in Manitoba in October. So far in 1998, inflation is down markedly from its 1997 average in all provinces except Quebec and Saskatchewan – where it remains near its average from a year ago.

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



### Consumer Prices

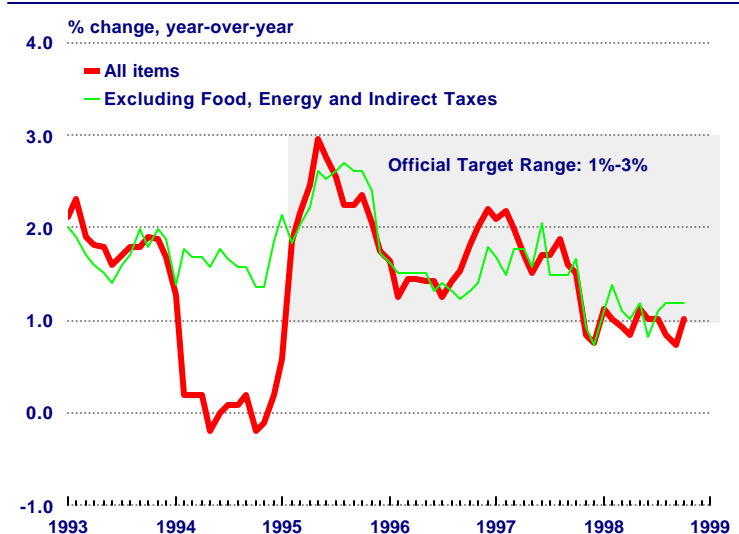
October 1998

	% Change		
	Index (1992=100)	since last month	last year
<b>All items CPI</b>	109.0	0.4	1.0
Food	108.5	0.2	1.4
Shelter	104.2	0.6	1.0
Household operations	108.0	-0.5	0.9
Clothing & Footwear	106.1	1.6	1.3
Transportation	120.5	0.5	-0.7
Health & Personal Care	108.7	0.2	2.4
Recreation, Educ. & Reading	119.1	0.1	1.8
Alcohol & Tobacco	93.3	0.1	3.8
<b>Excl. Food/Energy/Indirect Taxes</b>	110.8	0.2	1.2
Energy	104.8	2.1	-3.9

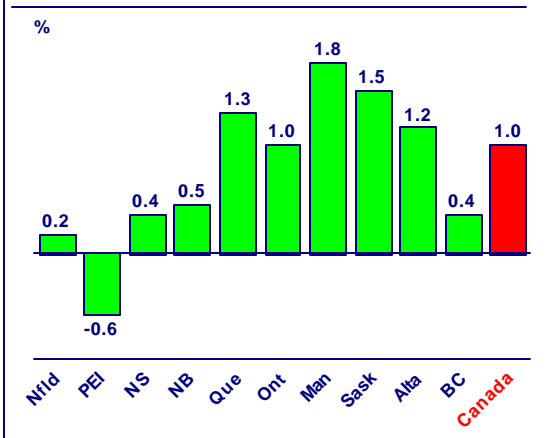
### Commodity Prices (October)

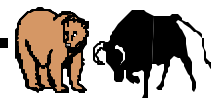
Index, 1982-90=100	86.6	-0.9	-17.0
Excluding Energy	98.5	-1.0	-13.1
Energy	64.5	-0.3	-26.3

### Consumer Price Index



### Provincial CPI Inflation -- October 1998



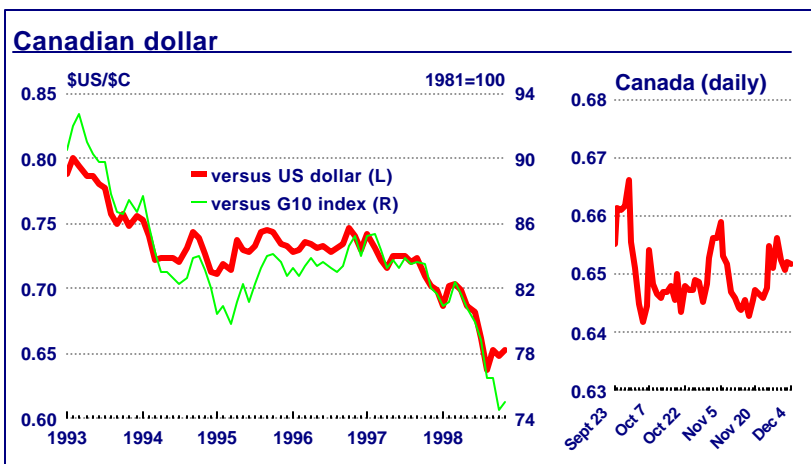


### The Canadian dollar stabilizes...

- Following a short-lived rally early in November, the Canadian dollar subsequently fell back, hovering between the US64-65¢ range as it had for much of October.
- The dollar strengthened early in December due to a stronger-than-expected employment report for November, and further interest rates cuts in European countries. However, a further decline in commodity prices, which hit a 12-year low in November, mitigated against a stronger rally of the dollar. The dollar closed at US65.17¢ on December 4, close to its month-ago level, but still down almost five cents from a year earlier.

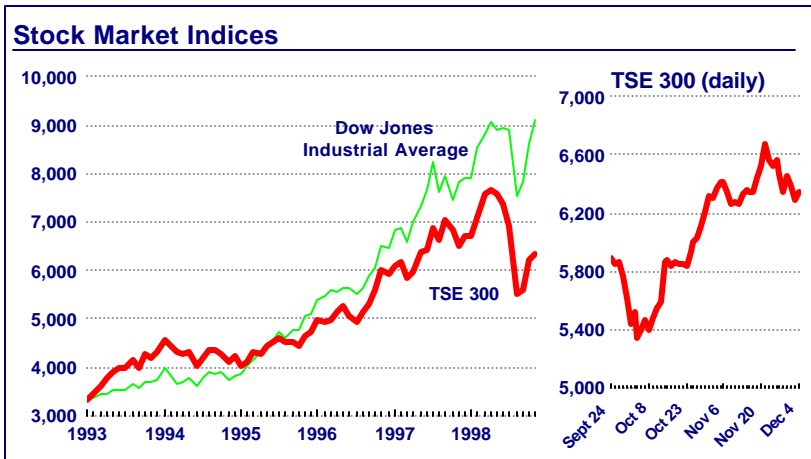
### ...and stock markets rally

- North American equity markets have recovered to varying degrees from the sharp fall in stock prices triggered by financial crises in Asia and Russia last summer. Stock prices on both sides of the border have rallied since mid-October, buoyed by interest rate cuts in the U.S. and Canada.
- Canadian stock prices, however, have recovered more slowly than their U.S. counterparts. As of December 4, the TSE 300 index was down about 20% from its peak in April. By comparison, U.S. stock prices have completely recouped early losses, reaching new all-time highs.



### The Canadian Dollar

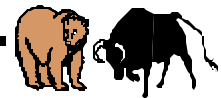
(close)	\$US vs. \$Cdn	index vs. G-10 (81=100)	DM vs. \$Cdn	yen vs. \$Cdn
1996	0.7296	84.00	1.139	83.64
1997	0.6991	81.62	1.247	90.87
1998 June	0.6813	79.96	1.223	95.71
July	0.6614	78.82	1.208	94.69
Aug	0.6376	76.50	1.164	94.15
Sept	0.6531	76.48	1.117	88.38
Oct	0.6481	74.58	1.060	78.10
Nov	0.6523	75.03	1.093	78.17
Dec 4	0.6517			



### Key Stock Market Indexes

	November Close	% change from	
		last month	last year
<b>TSE 300</b>	<b>6,344</b>	<b>2.2</b>	<b>-2.6</b>
Oil & Gas	4,805	-11.6	-27.5
Metals & Minerals	3,169	2.3	-19.5
Utilities	6,920	2.8	18.9
Paper & Forest	3,650	2.2	-7.6
Merchandising	5,342	4.5	-4.8
Financial	8,196	6.0	3.1
Services	6,210	-7.5	9.5
Price-Earnings Ratio*	27.3	2.0	4.8
<b>S&amp;P 500</b>	<b>1,164</b>	<b>6.0</b>	<b>21.9</b>
<b>Dow Jones</b>	<b>9,117</b>	<b>6.1</b>	<b>16.5</b>

\*columns 2 & 3 reflect change in levels

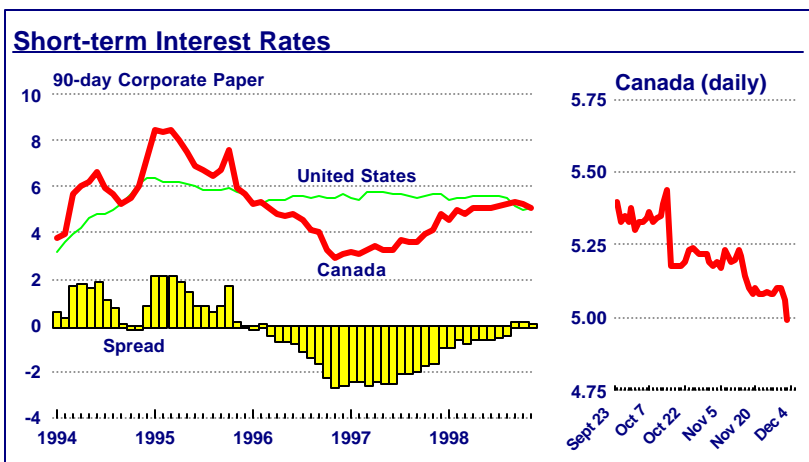


### *The Bank of Canada lowers its Bank Rate for the third time in seven weeks...*

- On November 18, the Bank of Canada lowered its trend-setting Bank Rate by 25 basis points to 5.25%, matching a similar cut in U.S. interest rates announced the previous day. This latest move by the Bank of Canada marked the third quarter-point decline in the Bank Rate since the end of September.
- These recent reductions have offset three-quarters of the one percentage point increase in the Bank Rate engineered late in August to support the Canadian dollar.

### *...easing lending conditions for consumers and businesses*

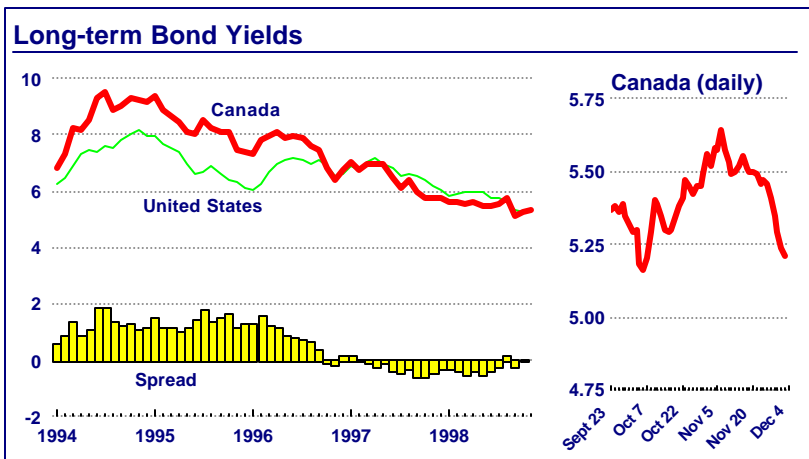
- In step with the three reductions in the Bank Rate, commercial banks reduced their prime lending rates – the benchmark for many consumer and commercial loans – from 7.50% late in August to the current 6.75%. The 5-year mortgage rate has also fallen 75 basis points over this period.
- Long-term bond yields, which had been pushed up in October by the rebound in stock markets, have retreated more than 40 basis points since early November as further declines in commodity prices have led to a more benign outlook for inflation. Deflationary concerns have also arisen with the potential for increased global economic turmoil.



### Key Money Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
1996	3.13	-2.55	7.09	0.50
1997	4.80	-0.85	5.95	0.02
1998 June	5.06	-0.52	5.52	-0.14
July	5.14	-0.44	5.61	-0.16
Aug	5.22	-0.33	5.83	0.39
Sep	5.38	0.19	5.32	0.34
Oct	5.22	0.19	5.45	0.32
Nov	5.09	0.02	5.47	0.28
Dec 2	5.06	-0.04	5.24	0.21

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



### Key Lending Rates

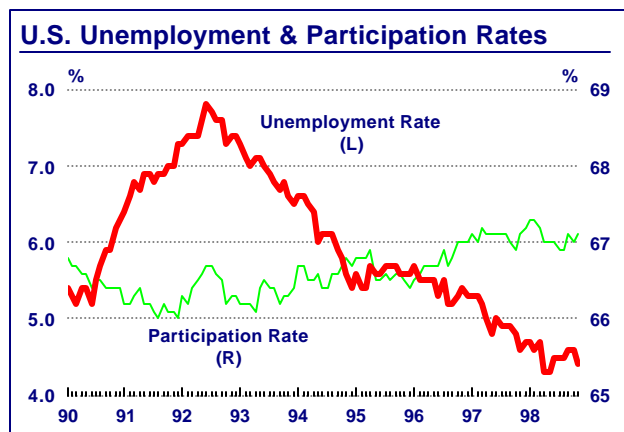
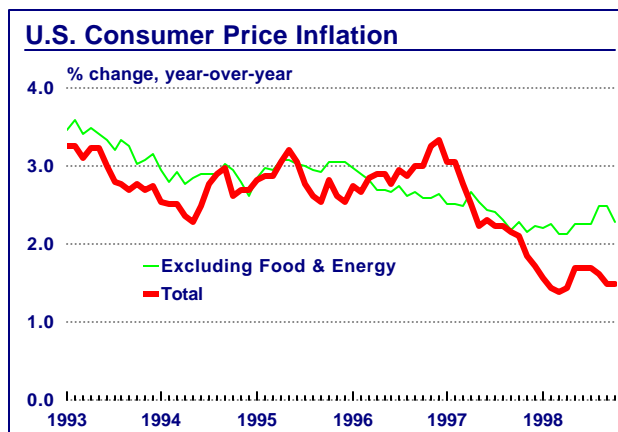
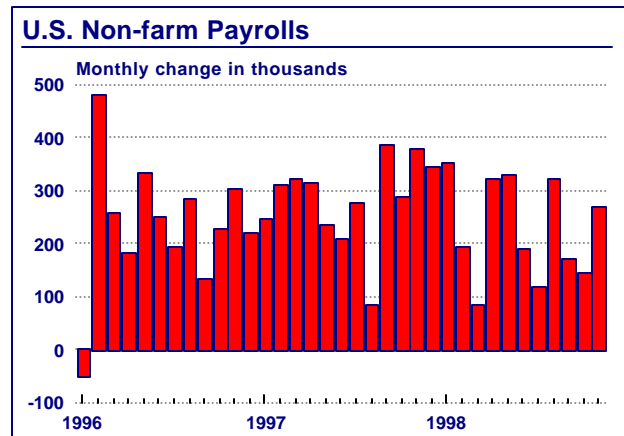
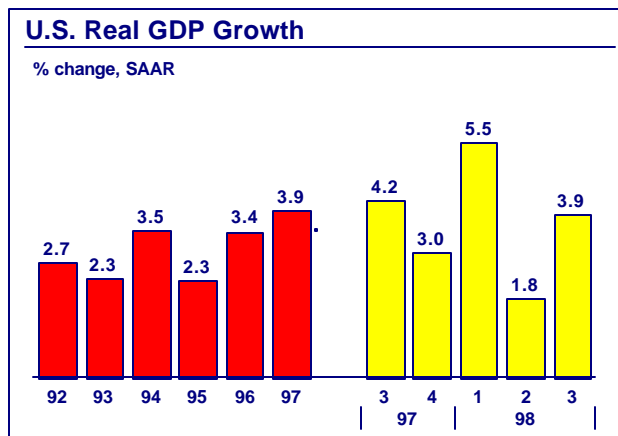
(end of period)	Bank Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
1996	3.25	4.75	5.20	6.95
1997	4.50	6.00	6.65	7.05
1998 June	5.00	6.50	6.55	6.95
July	5.00	6.50	6.55	6.95
Aug	6.00	7.50	7.45	7.55
Sept	5.75	7.25	6.75	7.15
Oct	5.50	7.00	6.50	6.75
Nov	5.25	6.75	6.40	7.15
Dec 2	5.25	6.75	6.40	6.80



## U.S. Economic Trends

### *The U.S. economy grows strongly in the third quarter, but could be poised for a slowdown*

- Preliminary estimates show that the U.S. economy expanded at an upwardly-revised annual pace of 3.9% in the third quarter, compared to 1.8% in the second quarter. Robust consumer spending and a sharp jump in non-farm inventories accounted for virtually all of the increase in GDP. Growth was held back by a deterioration of the trade balance and a drop in non-residential business investment.
- Against this background, conditions in the U.S. labour market have yet to ease. Payroll employment rose a higher-than-anticipated 267,000 in November, while the unemployment rate fell to 4.4%, near April's 28-year low of 4.3%. There are increasing signs, however, that the U.S. economy may be poised for a slowdown, including tighter lending conditions, declining profit growth, slowing production, and increased capacity.
- Only one month after its last rate cut, the Federal Reserve announced an additional 25 basis-point reduction in short-term interest rates on November 17. This latest move, the third since the end of September, was justified by ongoing strains in financial markets conditions. However, with this latest reduction the Fed stated that, "financial conditions can reasonably be expected to be consistent with fostering sustained economic expansion while keeping inflationary pressures subdued." As such, the consensus among market analysts is that the Fed will refrain from further easing when it next meets on December 22.





## Trends in Output and Income

**The economy grew strongly early in the year, but has tailed off in the second and third quarters...**

- Following a solid first quarter, real GDP grew by less than 2% (annual rate) in the second and third quarters of 1998.
- As a result, private sector forecasters have scaled back their predictions for output growth in 1998. Early in the year, the consensus view was that the Canadian economy would expand by 3.4% in 1998; forecasters now widely expect growth to come in below 3.0%.

### ...particularly in the Goods Sector

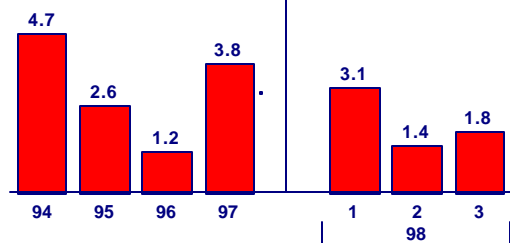
- Output growth is down this year across most major industry groups, but especially in the Goods-Producing sector.
- Within the Primary industries, Logging & Forestry and Mining activity have both been hit hard by low commodity prices and weak global demand. Output of Utilities was depressed by the January ice storm that struck major parts of Eastern Canada.
- In Manufacturing, the G.M. strike in the U.S. led to sharply-lower production in June and July. Construction activity has also been affected by a series of strikes in key housing trades in southern Ontario.
- Services-Producing industries have fared somewhat better so far in 1998, including continued strong growth in Business Services and Trade. However, output has grown only slowly in Community & Personal Services, and is down for Government Services.

### Household finances continue to deteriorate

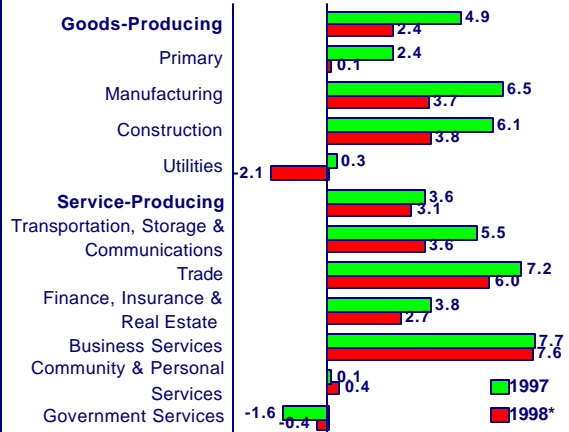
- Personal income growth slowed dramatically in line with the faltering economy over the middle half of the year. And, given higher income tax collections, disposable income actually fell in the second and third quarters of 1998.
- The deterioration of household finances evident since the early 1990s has extended into 1998, with the personal savings rate falling below zero and the debt-to-income ratio reaching an all-time high.

### Real GDP Growth

% Change, SAAR



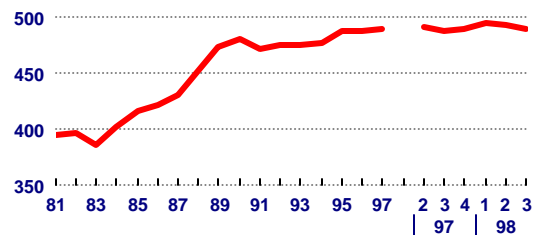
### Real GDP Growth by Industry



\* Jan-Sept 1998 compared to Jan-Sept 1997

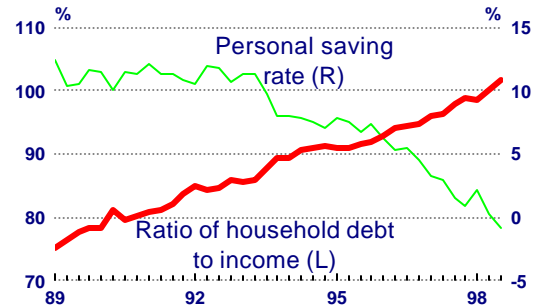
### Real Personal Disposable Income\*

\$1992 Billion, SAAR



\* Converted to real dollars using the chain price index for personal expenditure on goods and services.

### Personal Debt and Saving Rate





## Trends in Consumption, Investment and International Trade

### Consumer spending patterns are disrupted by volatile auto sales

- Consumption patterns have been quite uneven so far in 1998, owing to wide fluctuations in sales of new motor vehicles. Boosted by generous incentive programs, high auto sales in the last quarter of 1997 contributed to weaker spending in the first quarter of this year. And, roughly half of the second quarter increase in total spending was due to higher auto sales (also due to dealer incentives).
- Growth in underlying consumer demand (i.e., spending excluding motor vehicles) has fallen steadily this year. This slowdown is consistent with falling consumer confidence, which has been battered by financial market instability and deteriorating household finances.

### Business investment weakens as profits fall...

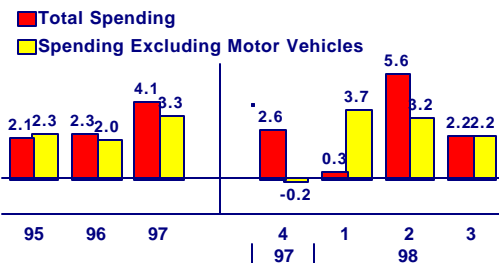
- Lower profits and slower growth have taken their toll on business confidence and investment spending in 1998. Investment in M&E surged in the second quarter (24.2% annualized), but growth has been weak or negative in three of the last four quarters. However, spending on computers has continued to rise throughout 1998.
- The first quarter surge in non-residential construction was largely attributable to the repair efforts following the January ice storm. Construction activity in the oil patch has weakened in response to falling oil prices.
- Residential construction was strong in 1996 and 1997, but has declined in each of the first three quarters of 1998. Labour market disruptions contributed to the poor performance in the third quarter.

### ...while the trade balance declines

- Exports to the US have continued to grow strongly, but exports to Japan and other Asian economies are down on a year-to-date basis as these countries struggle with severe financial crises. Since most exports to the US are finished goods while those to other countries tend to be resource-intensive, the overall share of higher value-added products in total exports has increased.
- Import growth has outpaced export growth in 1998. As a result, Canada's trade surplus over the first nine months of the year stood at \$14.0 billion, down from \$20.3 billion for the same period last year.

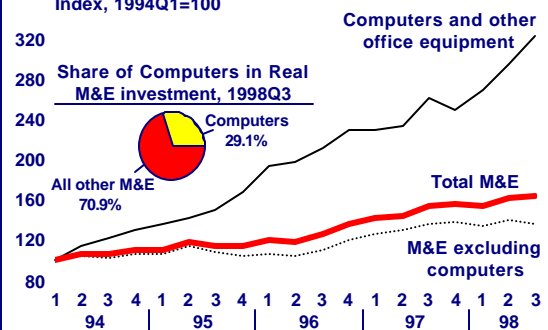
### Real Consumer Spending

% Change, SAAR



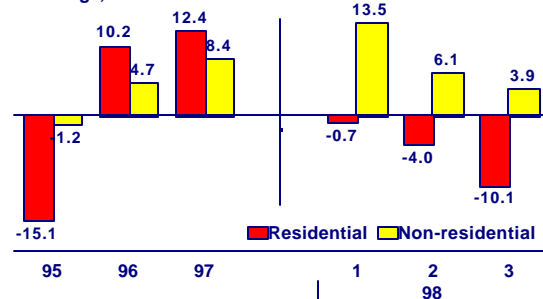
### Real Investment in Machinery and Equipment

Index, 1994Q1=100



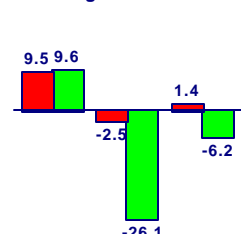
### Real Residential and Non-residential Investment

% Change, SAAR



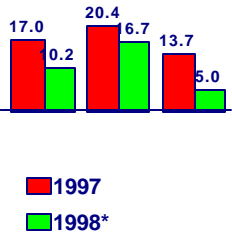
### Export Growth

% Change



### Import Growth

% Change



U.S. Japan Other U.S. Japan Other  
Destination of Cdn. Exports Source of Cdn. Imports  
\* Imports Jan-Sept 1998 compared to Jan-Sept 1997



# SPECIAL REPORT: 1998 – Year in Review

## Market Trends



### A strong year for employment gains...

- Employment growth slowed in the second quarter, but has since picked up considerably. The Canadian economy has created a total of 425,000 new jobs through the first 11 months of 1998, compared to a net gain of 372,000 jobs in all of 1997. Should year-to-date gains hold firm in December, overall job gains for 1998 will be the highest in 11 years.
- The national unemployment rate fell to 8.0% in November, its lowest rate in 8½ years. This is down 0.6 percentage points from the end of last year.

- The year-to-date improvement in the unemployment rate would have been even greater if not for a substantial increase in the labour force.

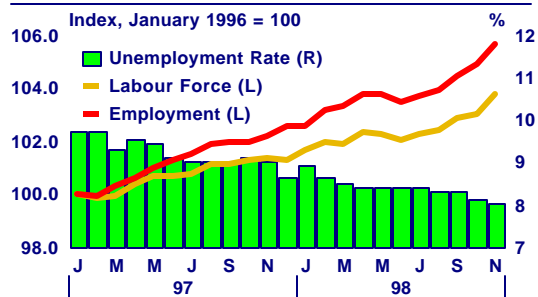
### ...is led by sharp gains in the Service sector...

- Employment in the Service industries is up 357,000 so far in 1998, with most of these gains occurring over the latter half of the year. All major groups have posted gains on the year, led by Business & Personal Services and Trade.
- By comparison, job creation in the Goods sector has been modest this year. Losses in the Primary industries and flat employment levels in Manufacturing have contributed to this weak overall performance. One bright spot is Construction, where job gains so far this year total 70,000, this industry's best showing since 1994.
- Employment in the public sector has rebounded this year, but employment in the private sector is growing at a faster overall rate. Compared to last year, however, 1998 job gains for paid employees in the private sector have fallen behind the pace set last year, while self-employment has picked up.

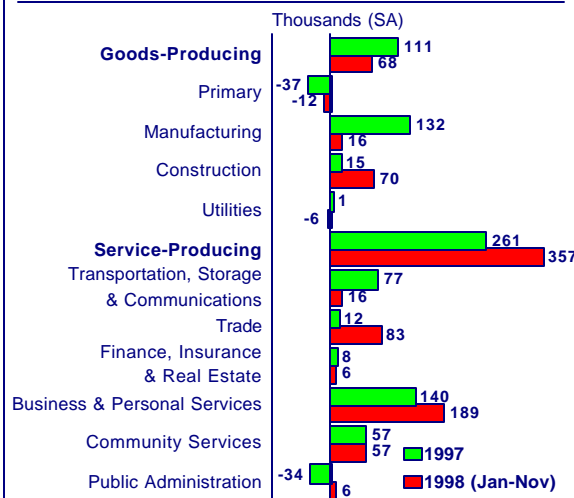
### ...and is shared across most regions

- In percentage terms, British Columbia has led all provinces so far this year in employment growth (+3.6%), followed by Ontario and Newfoundland.
- Prince Edward Island is the only province to have experienced net job losses over the first eleven months of the year (-0.5%). However, employment growth has also been modest in Saskatchewan (+0.6%).

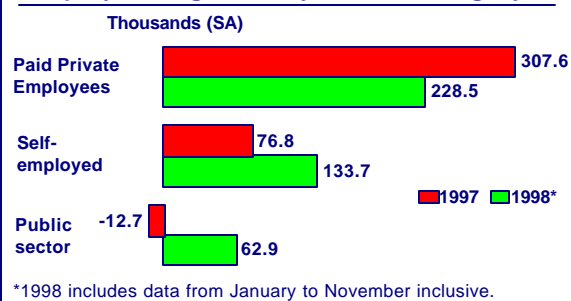
### Employment, Labour Force and the Unemployment Rate



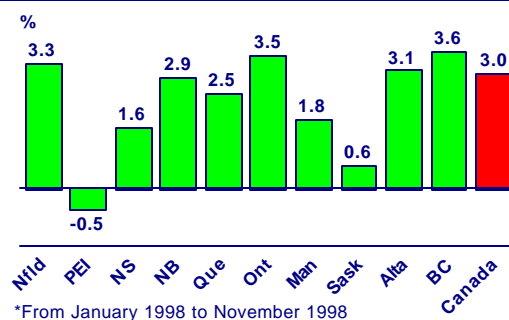
### Job Growth



### Employment growth by worker category



### Employment Growth -- 1998\*





### *Global turmoil drives down the Canadian dollar...*

- Political and economic instability in Asia spilled over into other countries late in the summer, prompting a renewed flight of international capital to the "safe haven" U.S. dollar. The Asia-Pacific crisis has also led to dramatically-lower commodity prices. Both factors combined to put intense downward pressure on the Canadian dollar.
- The Canadian dollar closed at a new all-time low of US63.31¢ on August 27, down from nearly 71¢ in mid-March. It has recovered somewhat since hitting this record low, but is still down sharply on the year.

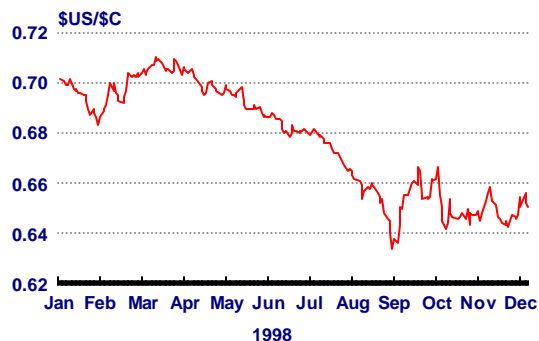
### *...prompts the Bank of Canada to raise interest rates...*

- Canadian short-term interest rates trended up over the first three quarters of the year. This trend was reinforced in late August when the Bank of Canada raised its key trend-setting Bank Rate by one full percentage point to defend the weakening dollar.
- While short rates rose over the first three quarters of the year, long-term rates edged lower throughout this period. In fact, long-term rates actually fell below short-term rates late in August (an inverted yield curve), and held this position for much of September and October.
- Since September, the Bank of Canada has quickly matched three interest rate cuts in the U.S. for a total of 75 basis points, which has led to some easing in market-determined interest rates.

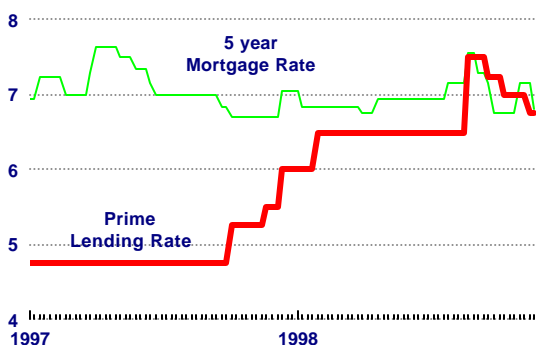
### *...and sparks a sell-off in stock markets*

- The effects of the Asian flu also spilled over into stock markets. In August, at the height of the financial market crisis, the TSE 300 index fell 20%, its biggest monthly loss since October 1987. Stock prices in the U.S. fared somewhat better, but still encountered heavy losses in August.
- North American stock markets have rallied late in the year, boosted by a series of unexpected interest rate cuts by the U.S. Federal Reserve. Canadian stock prices climbed 11% in October, the best monthly performance in 14 years. However, unlike in the U.S., the TSE 300 has not regained all the ground lost over the summer months.

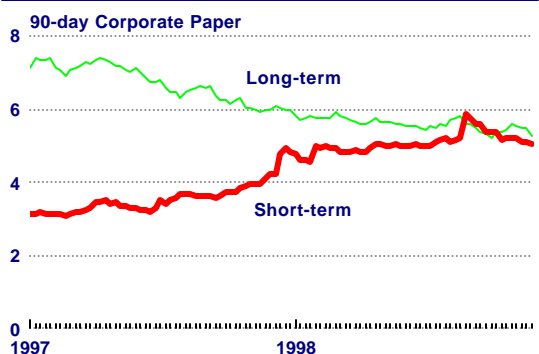
#### Canadian Dollar



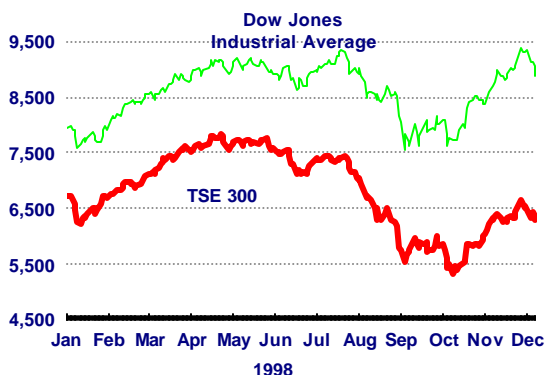
#### Bank and Prime Rates

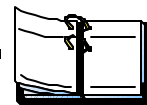


#### Short-term and Long-term Interest Rates



#### North American Stock Markets





### Key Future Data Releases and Planned Events

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#### CANADA

Survey of Manufacturing -- October .....	December 16
International Trade -- October .....	December 17
Consumer Price Index -- November.....	December 18
GDP at factor cost -- October .....	December 24
Labour Force Survey -- December .....	January 8
Business Conditions Survey -- January .....	February 2
Private and Public Investment Intentions -- 1999 .....	February 23
Financial Statistics For Enterprises, 1st Quarter, 1999 .....	February 26
National Economic and Financial Accounts, 4th Quarter, 1998 .....	March 1
Balance of International Payments, 4th Quarter, 1998 .....	March 1

#### UNITED STATES

Federal Open Market Committee meeting .....	December 22
Consumer Price Index -- November .....	December 15
International Trade -- October .....	December 17
GDP -- 3rd Quarter 1998, Final .....	December 23
Employment Situation -- December .....	January 8

Note: the December MEI uses data available as of December 4, 1998

The Special Report scheduled for the January MEI is entitled  
"1999: The Year Ahead"



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***Micro Economic Policy Analysis***  
***Analyse de la politique micro-économique***

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