

# MONTHLY ECONOMIC INDICATORS

## December 1999

### HIGHLIGHTS

-  **Canada's unemployment rate falls to an 18-year low of 6.9% in November, with strong employment gains for the third straight month.**
-  **Output rises 4.7% (annual rate) in the third quarter, boosted by strong demand at home and in the United States.**
-  **The Bank of Canada raises its key lending rate by 25 basis points on November 19 as the economy gathers strength.**
-  **Canadian stock prices reach a new all-time high in November but the dollar retreats on fears of higher U.S. interest rates.**

### Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$92 B)	755.1	0.2	4.4	Sept
Goods	253.2	0.7	6.0	Sept
Services	501.9	0.0	3.6	Sept
Composite Index	218.3	0.5	5.1	Oct
Employment (000's)	14,876	0.4	2.4	Nov
Full-time	12,206	0.7	3.5	Nov
Part-time	2,670	-1.1	-2.5	Nov
Unemployment* (%)	6.9	7.2	8.0	Nov
Youth*	13.2	14.0	14.5	Nov
Adult*	5.7	5.9	6.7	Nov
CPI inflation*	2.3	2.6	1.0	Oct
Retail Sales (\$M)	22,199	0.4	6.9	Sept
Housing Starts (000's)	155.1	5.1	18.8	Nov
Trade Balance* (\$M)	2,522	3,635	1,840	Sept
Exports	30,347	-3.2	9.5	Sept
Imports	27,825	0.4	7.5	Sept
M&E	9,007	-1.0	2.7	Sept
3-mth Corp. paper* (%)	5.05	5.05	5.09	Dec 1
Long bond yield* (%)	6.19	6.36	5.47	Dec 1
Canadian dollar* (US¢)	67.59	67.82	65.23	Dec 3

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

**This issue's Special Report:  
1999 - 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 1999**

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This report uses data available as of December 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 1999 – The Year in Review was prepared by Julie Dubois and Alison McDermott. 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

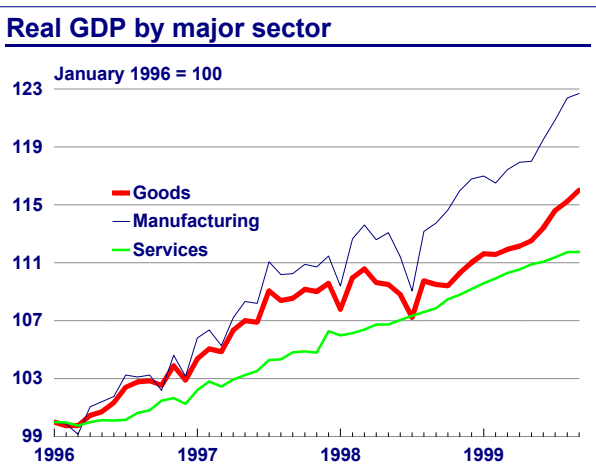
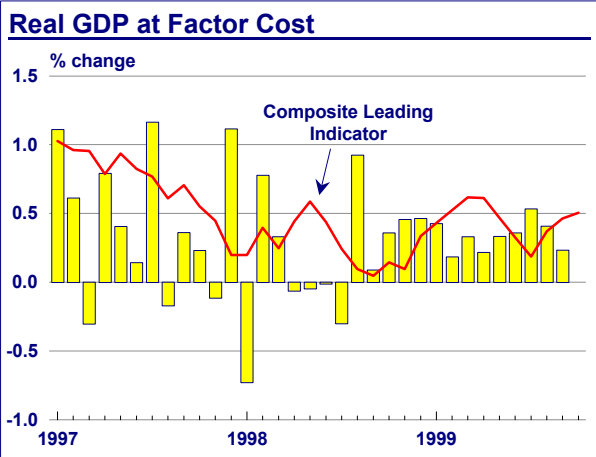


### Real GDP records its 14th consecutive advance in September...

- Real GDP advanced 0.2% in September, about half the pace of the previous three months. This was the fourteenth consecutive monthly increase, extending the longest uninterrupted string of monthly gains in over a decade.

### ...driven mainly by gains in the Goods-producing industries

- Growth was concentrated in the Goods-producing industries in September with production rising 0.7%. While output expanded in most major categories, the largest gain was in Mining (only its third increase so far this year), as higher oil prices spurred drilling and rigging activity. Elsewhere, a 15% rise in electricity exports to the United States boosted Other Utilities production. Following three monthly gains in excess of 1.0%, Manufacturing rose a modest 0.3% as production of autos fell back.
- Output in the Services industries was essentially unchanged in September. This weaker performance resulted from a sharp loss in Wholesale Trade – as demand for computer equipment and software slowed – and lower production in Finance & Insurance and Retail Trade. These losses were offset by advances in the other major categories, led by continued strong growth in Business Services and notable gains in Transportation & Storage and Other Services.



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

	\$ millions	monthly change	% Change since last	
			month	year
<b>September 1999</b>				
<b>Total Economy</b>	<b>755,075</b>	<b>1,764</b>	<b>0.2</b>	<b>4.4</b>
<b>Business sector</b>	<b>625,968</b>	<b>1,577</b>	<b>0.3</b>	<b>5.2</b>
<b>Goods</b>	<b>253,199</b>	<b>1,686</b>	<b>0.7</b>	<b>6.0</b>
Agriculture	13,510	26	0.2	5.4
Fishing & Trapping	674	-22	-3.2	-11.0
Logging & Forestry	4,421	16	0.4	4.9
Mining*	26,744	627	2.4	-1.1
Manufacturing	139,890	367	0.3	7.9
Construction	41,915	239	0.6	5.3
Other Utilities	26,045	433	1.7	5.9
<b>Services</b>	<b>501,876</b>	<b>78</b>	<b>0.0</b>	<b>3.6</b>
Transport & Storage	35,413	237	0.7	6.3
Communications	26,038	114	0.4	8.0
Wholesale Trade	45,816	-815	-1.7	9.5
Retail Trade	47,083	-59	-0.1	4.3
Finance & Insurance	41,548	-149	-0.4	1.9
Real Estate & Ins. Agent	79,670	65	0.1	2.4
Business services	43,965	293	0.7	7.8
Government services	45,690	153	0.3	2.0
Education	40,444	13	0.0	1.2
Health & Social Services	46,885	35	0.1	-1.2
Accommodation & Food	19,568	33	0.2	2.0
Other	29,756	158	0.5	1.7

\*Includes Quarrying and Crude Petroleum & Natural Gas

# THE ECONOMY

## Consumer Spending and Attitudes



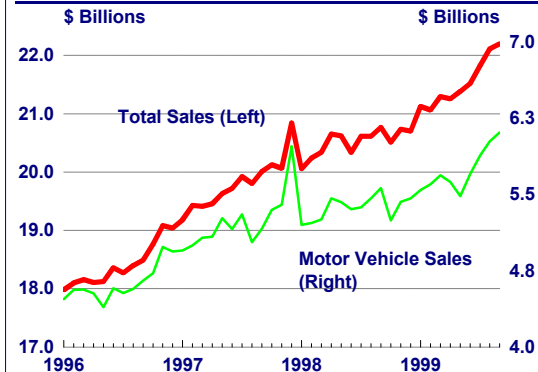
### Real consumer spending growth remains strong in the third quarter...

- Real consumption rose 4.8% (annual rate) in the third quarter, keeping pace with growth recorded since the beginning of the year. Indeed, growth in consumer spending has exceeded 4% in each quarter so far this year.
- Increases were largest for consumer durables (boosted by higher purchases of motor vehicles) but spending increased across all major categories, including services, semi-durables, and non-durables.

### ...and disposable income surges

- Personal disposable income recorded its strongest quarterly advance so far this year, increasing 4.8% in the third quarter.
- Household debt levels were essentially unchanged in the quarter, leading to a drop of almost one percentage point in the debt-to-income ratio. However, the saving rate edged down to 0.3% in the third quarter.

### Total Retail and Motor Vehicle Sales



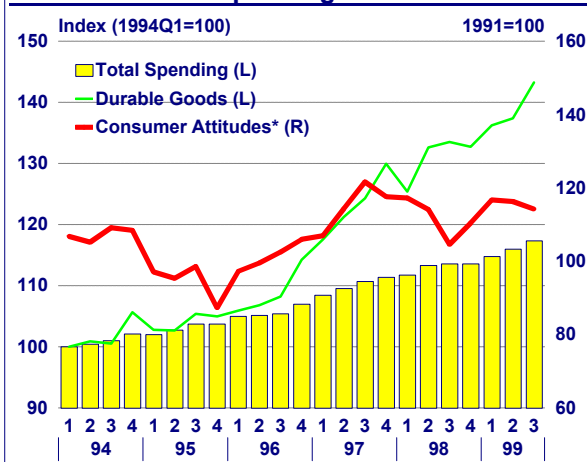
### Retail Sales and Consumer Credit

	September 1999 \$ millions	% Change since	
		last month	last year
<b>Total Retail Sales (S.A.)</b>	22,199	0.4	6.9
Food	4,907	-0.2	1.8
Drug Stores	1,122	0.2	4.1
Clothing	1,168	-2.6	0.2
Furniture	1,141	-0.9	8.4
Automotive	8,881	1.1	10.2
General Merch. Stores	2,616	1.6	11.6
All other Stores	2,364	-0.3	5.1
Total ex. motor vehicles	16,088	-0.0	5.8
<b>Consumer Credit (unadjusted)</b>	168,052	1.0	8.4

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	1997	1998	1999 Q2	1999 Q3
<b>Real Consumption (92\$)</b>	472,867	485,906	498,600	504,440
% change	4.2	2.8	4.3	4.8
Durable Goods	62,823	66,801	70,032	73,008
% change	13.3	6.3	3.5	18.1
Semi-Durable Goods	44,334	46,526	47,376	48,024
% change	4.3	4.9	2.4	5.6
Non-Durable Goods	118,293	119,521	121,476	121,572
% change	1.3	1.0	1.6	0.3
Services	247,417	253,058	259,716	261,836
% change	3.4	2.3	6.1	3.3
<b>Disposable Income</b>	534,728	552,778	564,848	571,456
% change	3.1	3.4	3.0	4.8
<b>Saving Rate (%)</b>	2.8	2.3	0.9	0.3
<b>Debt-to-Income Ratio (%)</b>	96.4	98.3	100.4	99.3

### Real Consumer Spending and Attitudes



\*Conference Board of Canada



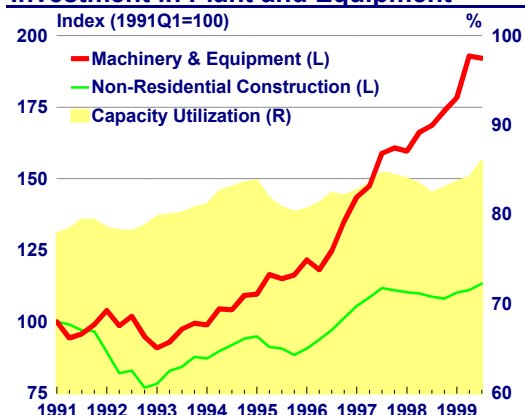
### Business investment slows down in the third quarter...

- Growth in business investment in plant and equipment slowed to 0.4% (annual rate) in the third quarter, down from 5.5% in the previous quarter. The slower advance was due to a 1.8% decline in M&E spending, fuelled by lower investment in aircraft and computers.
- Higher investment in non-residential building and engineering structures in the third quarter resulted in an increase of 8.5% (annual rate) in Non-Residential Construction. This was the third consecutive increase following five straight declines.

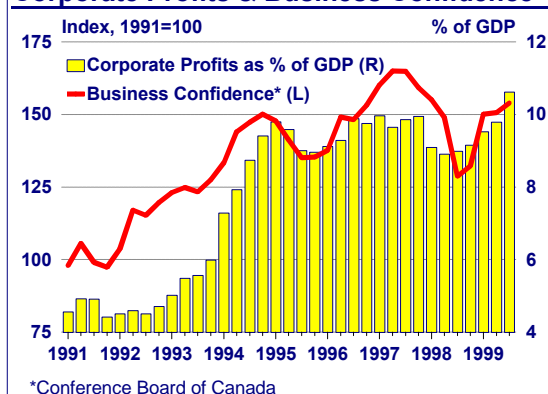
### ...but higher capacity utilization and stronger profits bode well for future investments

- Capacity utilization in non-farm producing industries jumped up to 86.0% in the third quarter, its highest rate since the 1987-88 economic expansion.
- Corporate operating profits rose 34.0% (annual rate) in the third quarter, propelled by a sharp increase in profits of non-financial industries. The strong pick up in profits is due to firming commodity prices and strong domestic and U.S. demand for Canadian products.

### Investment in Plant and Equipment



### Corporate Profits & Business Confidence



### Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	1997	1998	1998 Q4	1999 Q1	1999 Q2	1999 Q3
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1992\$)</b>	59,112	64,701	67,284	69,048	74,708	74,364
% change	22.2	9.5	12.7	10.9	37.0	-1.8
<b>Non-residential Construction (1992\$)</b>	39,079	39,110	38,696	39,448	39,756	40,572
% change	14.0	0.1	-2.4	8.0	3.2	8.5
<b>Capacity Utilization (% , Non-farm goods)</b>	83.8	83.2	83.0	83.7	84.2	86.0
Capacity Utilization (Mfg. sector)	83.7	83.8	84.5	84.9	85.5	87.6
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	146,023	132,032	138,172	144,096	147,952	159,180
% change	20.9	-9.6	64.8	18.3	11.1	34.0
Profits - Non-financial industries	90,839	82,442	90,592	99,012	102,880	115,684
% change	16.5	-9.2	75.9	42.7	16.6	59.9
Profits - Financial industries	55,186	49,590	47,580	45,084	45,072	43,496
% change	29.0	-10.1	45.9	-19.4	-0.1	-13.3
<b>Business Credit</b>	624,005	686,484	702,367	708,707	710,032	719,229
% change	9.2	10.0	3.3	3.7	0.8	5.3



### Residential investment slows down in the second quarter...

- After recording double-digit growth rates in the first two quarters of the year, business investment in residential structures slowed to 2.5% (annual rate) in the third quarter.
- Investment in alterations and improvements decreased for the first time in a year, partly explaining this slower growth. All other major components of residential investment advanced at a slower pace compared to recent quarters.

### ...but is likely to pick up again in the fourth quarter

- Residential investment is likely to pick up in the fourth quarter, as economic growth remains solid and labour market conditions improved further in November.
- Although sales of existing homes were down in October, residential construction intentions were up 14.4% in October, the biggest monthly increase since early 1990.
- Moreover, housing starts increased sharply in November, more than offsetting a loss in the previous month.

### Housing Activity



### Monthly Housing Indicators

	levels	Change since	
		last month	last year
<b>Residential Construction (1)</b> (\$92M, factor cost basis)	13,637	0.4%	9.0%
<b>Building Permits, \$M (2)</b>	1,776	14.4%	26.7%
<b>Sales of Existing Homes (2)</b> (# of units)	18,924	-1,143	
<b>Housing Starts, # of units (3)</b>	155,100	7,500	24,500
Newfoundland	1,100	300	500
Prince Edward Island	400	100	200
Nova Scotia	3,100	-100	1,400
New Brunswick	2,100	700	500
Quebec	19,800	-1,400	-100
Ontario	67,000	7,500	17,100
Manitoba	1,500	-1,200	200
Saskatchewan	1,600	-600	-500
Alberta	21,200	-800	1,000
British Columbia	16,600	3,000	4,300

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

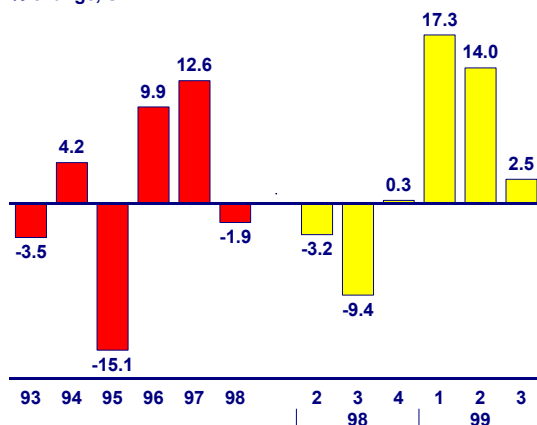
### Real Investment in Residential Structures

\$92 Millions, SAAR (unless otherwise noted)

	1997	1998	1999 Q2	1999 Q3
<b>Residential Construction</b>	42,348	41,547	44,056	44,336
% change	12.6	-1.9	13.9	2.6
Construction by Business sector	42,223	41,422	43,928	44,200
% change	12.6	-1.9	14.0	2.5
New Housing	21,441	20,695	21,876	22,272
% change	19.5	-3.5	9.9	7.4
Alterations & Improvements	13,315	13,645	14,252	14,016
% change	7.2	2.5	4.3	-6.5
Ownership & Transfer Costs	7,592	7,207	7,928	8,048
% change	4.5	-5.1	49.3	6.2

### Growth in Real Residential Construction

% change, SAAR



# THE ECONOMY

## Trade and Competitiveness



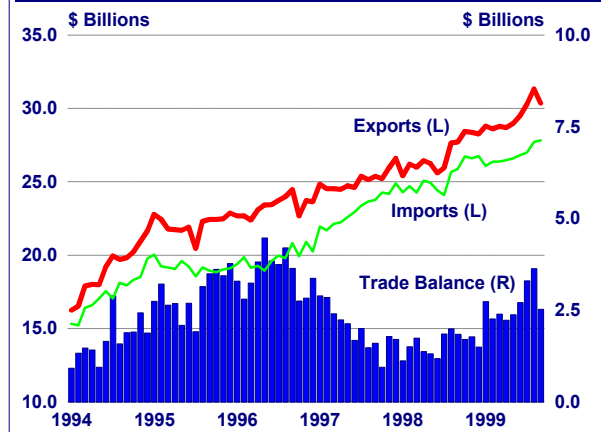
### Lower exports of Automotive Products...

- Exports fell 3.2% in September, registering their first decline since April. This sluggish performance was related to a sharp fall in exports of Automotive Products, which dropped 10.4% following a solid 15.7% advance in August. Exports of Industrial Goods & Materials were also down on the month. The largest gain was recorded in Energy Products, driven by higher prices for crude oil.
- Imports rose 0.4% in the month, fuelled by a solid increase in Energy Products related to higher prices and inventory stockpiling for the winter. Major declines were recorded in the Automotive Products and Machinery & Equipment categories.

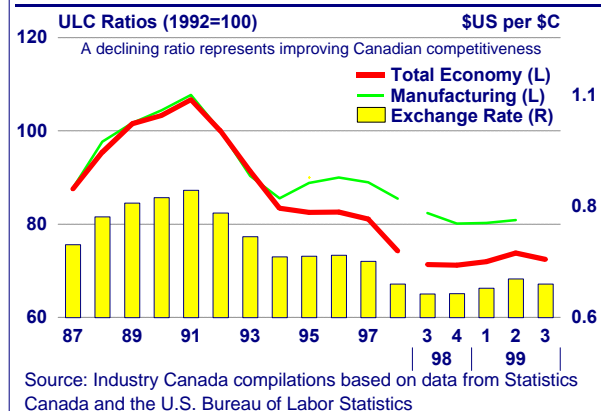
### ...contribute to a lower trade surplus

- The trade balance fell for the first time in five months, recording a surplus of \$2.5 billion in September. This is down from a three year high of \$3.6 billion in August.
- However, the cumulative trade surplus of \$24 billion over the January-September period is almost twice that recorded over the same period a year earlier.

### Merchandise Trade Flows and Balance



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



### Merchandise Trade

September 1999	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change
	1999 August	1999 Sept	1998 Jan-Sept	1999 Jan-Sept	Aug. to Sept 1999	Aug. to Sept 1999	Sept 98 to Sept 99
<b>Exports</b>	<b>31,347</b>	<b>30,347</b>	<b>237,198</b>	<b>265,388</b>	<b>-1,000</b>	<b>-3.2</b>	<b>9.5</b>
to United States	27,164	26,146	197,150	228,191	-1,018	-3.7	11.4
<b>Imports</b>	<b>27,712</b>	<b>27,825</b>	<b>223,304</b>	<b>241,245</b>	<b>113</b>	<b>0.4</b>	<b>7.5</b>
from United States	21,095	21,129	171,393	185,048	34	0.2	6.0
<b>Trade Balance</b>	<b>3,635</b>	<b>2,522</b>	<b>13,894</b>	<b>24,143</b>	<b>-1,113</b>		
with United States	6,069	5,017	25,757	43,143	-1,052		
<b>Exports by Commodity</b>							
Agriculture/Fishing Products	2,135	2,140	18,698	18,991	5	0.2	-0.8
Energy Products	2,658	2,770	18,268	20,898	112	4.2	29.7
Forestry Products	3,297	3,296	26,082	28,874	-1	0.0	13.0
Industrial Goods & Materials	4,939	4,741	43,400	42,218	-198	-4.0	0.6
Machinery & Equipment	7,175	7,206	58,769	62,423	31	0.4	8.6
Automotive Products	8,854	7,931	54,157	71,663	-923	-10.4	13.0
Other Consumer Goods	1,138	1,106	9,159	10,186	-32	-2.8	1.7
<b>Imports by Commodity</b>							
Agriculture/Fishing Products	1,479	1,460	12,804	13,196	-19	-1.3	2.0
Energy Products	887	1,136	6,683	7,238	249	28.1	56.7
Forestry Products	233	238	1,843	2,037	5	2.1	15.5
Industrial Goods & Materials	5,193	5,246	44,776	45,665	53	1.0	3.1
Machinery & Equipment	9,100	9,007	74,712	79,914	-93	-1.0	2.7
Automotive Products	6,728	6,593	48,059	56,647	-135	-2.0	15.2
Other Consumer Goods	3,068	3,152	25,338	27,395	84	2.7	7.7



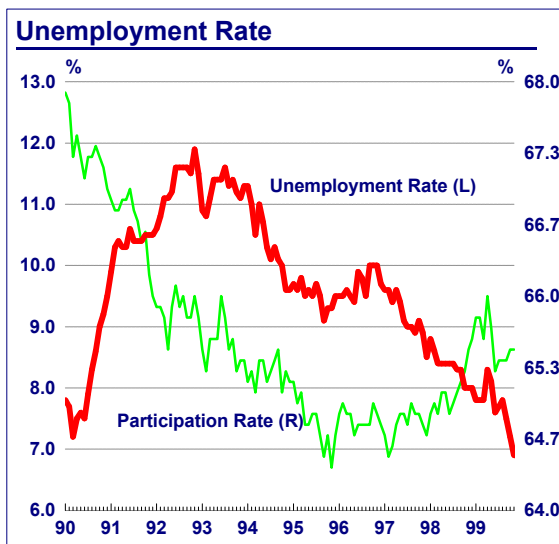
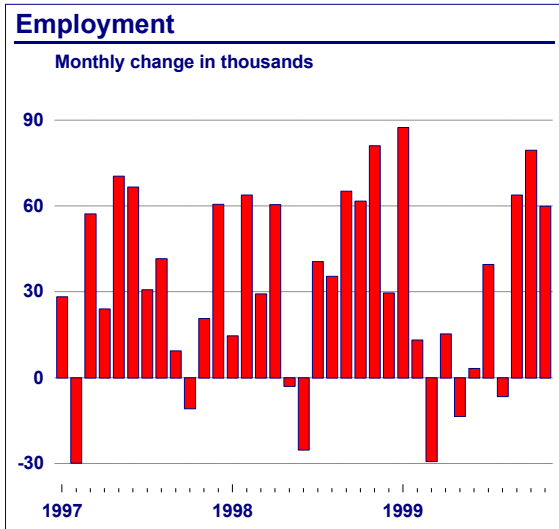
## Employment and Unemployment

### Employment posts its third straight solid gain in November...

- The Canadian economy created 60,000 jobs in November, the third consecutive solid gain following a sustained period of weakness earlier in the year.
- In keeping with recent trends, full-time employment gained at the expense of part-time work during the month. Total employment is up 313,000 so far this year, with full-time employment rising by 397,000 and the number of part-time jobs falling 84,000.
- While total employment growth has been weaker than last year (2.1% versus 3.0%), the number of hours worked has increased at the same 2.2% pace.

### ...pushing the unemployment rate down to an 18-year low of 6.9%

- The strong jobs performance in November lowered the national unemployment rate by 0.3 percentage points to 6.9%. This is the lowest unemployment rate since August 1981.
- The adult unemployment rate fell to 5.7% in November, down 0.2 points from the previous month. The youth unemployment rate was down 0.8 points to 13.2%.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	1998 November	1999 October	1999 November	last month	last year	year-to- date	last month	last year
<b>Employment</b>	14,533.8	14,816.1	14,876.0	59.9	342.2	312.6	0.4	2.4
<b>Full-time</b>	11,795.9	12,117.5	12,206.3	88.8	410.4	396.6	0.7	3.5
<b>Part-time</b>	2,737.9	2,698.6	2,669.7	-28.9	-68.2	-84.0	-1.1	-2.5
<b>Youth 15-24</b>	2,173.2	2,219.7	2,235.5	15.8	62.3	54.0	0.7	2.9
<b>Adult 25+</b>	12,360.6	12,596.4	12,640.5	44.1	279.9	258.6	0.4	2.3
<b>Self-employed</b>	2,604.4	2,533.4	2,552.1	18.7	-52.3	-37.5	0.7	-2.0
<b>Unemployment</b>	1,262.7	1,148.3	1,108.5	-39.8	-154.2	-163.7	-3.5	-12.2
<b>Unemployment Rate</b>	8.0	7.2	6.9	-0.3	-1.1	-1.1		
<b>Youth 15-24</b>	14.5	14.0	13.2	-0.8	-1.3	-1.2		
<b>Adult 25+</b>	6.7	5.9	5.7	-0.2	-1.0	-1.1		
<b>Labour Force</b>	15,796.5	15,964.4	15,984.5	20.1	188.0	148.9	0.1	1.2
<b>Participation Rate</b>	65.5	65.5	65.5	0.0	0.0	-0.1		
<b>Employment Rate</b>	60.3	60.8	60.9	0.1	0.6	0.5		





## Industry Overview

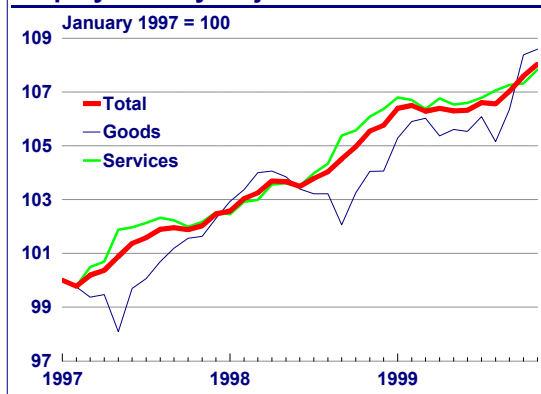
### Services account for most of the November job gains...

- Widespread gains in the Service sector (+52,000) accounted for most of November's job growth. The largest increases were posted by Transportation and Professional, Scientific & Technical Services. Employment in Public Administration fell sharply, and is now down 7.9% on a year-over-year basis.
- Employment in Goods-production edged up 8,000 on the month. Solid gains in Construction and Natural Resource-related industries were largely offset by losses in Manufacturing and Utilities. Manufacturing employment, though down on the month, is up 8.0% compared to last November.

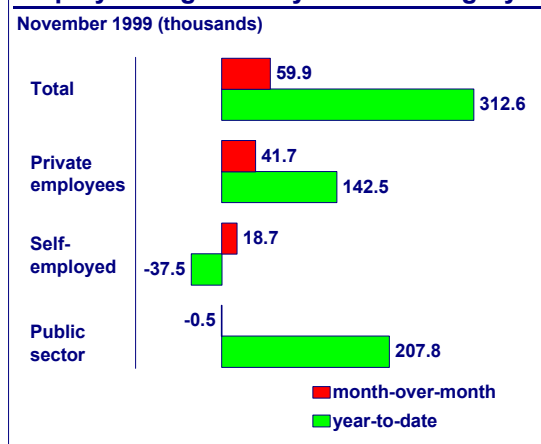
### ...as private sector employment continues to rebound

- The number of paid employees in the private sector increased by 42,000 in November, the fifth straight monthly rise. This string of advances was preceded by five straight months of declines.
- Employment in the public sector edged down slightly in November, but is still up sharply on a year-to-date basis. In fact, unlike in previous years, job gains in this sector have outpaced those in the private sector so far this year.

### Employment by major sector



### Employment growth by worker category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	1998 November	1999 October	1999 November	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	3,761.9	3,918.6	3,926.2	7.6	164.3	164.0	0.2	4.4
Agriculture	406.4	385.2	387.9	2.7	-18.5	-24.3	0.7	-4.6
Other Primary*	279.6	272.3	283.0	10.7	3.4	3.0	3.9	1.2
Utilities	116.3	128.7	115.0	-13.7	-1.3	-0.2	-10.6	-1.1
Construction	815.7	794.0	823.8	29.8	8.1	10.7	3.8	1.0
Manufacturing	2,144.0	2,338.5	2,316.4	-22.1	172.4	174.7	-0.9	8.0
<b>Service-producing</b>	10,771.8	10,897.5	10,949.8	52.3	178.0	148.6	0.5	1.7
Trade	2,243.6	2,282.3	2,286.8	4.5	43.2	45.7	0.2	1.9
Transportation	709.4	774.6	796.1	21.5	86.7	65.4	2.8	12.2
FIRE*	881.4	912.5	906.0	-6.5	24.6	7.9	-0.7	2.8
Professional/Scientific	931.3	903.8	920.4	16.6	-10.9	-16.2	1.8	-1.2
Management/Administrative	490.9	513.0	522.0	9.0	31.1	34.9	1.8	6.3
Educational Services	955.8	994.7	993.3	-1.4	37.5	54.0	-0.1	3.9
Health Care/Social Assistance	1,481.3	1,497.4	1,503.3	5.9	22.0	12.6	0.4	1.5
Information/Culture/Recreation	647.1	661.7	669.9	8.2	22.8	26.6	1.2	3.5
Accommodation & Food	929.5	942.4	945.8	3.4	16.3	13.3	0.4	1.8
Other Services	724.9	685.7	691.4	5.7	-33.5	-40.5	0.8	-4.6
Public Administration	776.5	729.3	715.0	-14.3	-61.5	-54.9	-2.0	-7.9

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



## Provincial Overview

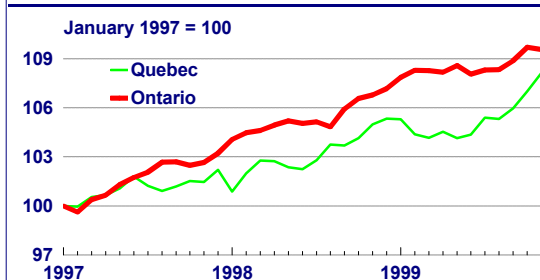
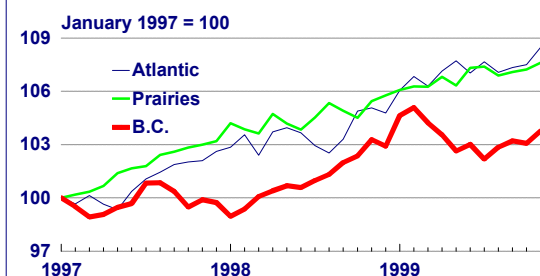
### Quebec and British Columbia lead in job growth...

- Most of the total net increase in employment for November can be attributed to major gains in Quebec (+36,000) and British Columbia (+13,000).
- Employment was down slightly in Ontario and Saskatchewan. All other provinces registered higher employment on the month.

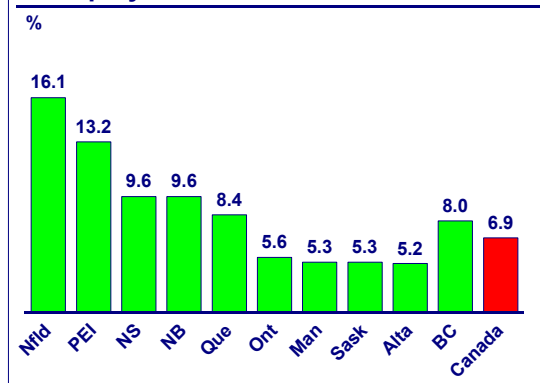
### ...but employment conditions improve in most provinces

- The unemployment rate fell in all provinces except British Columbia and Alberta in November. The B.C. unemployment rate increased to 8.0%, as sizeable employment gains were outpaced by an even larger increase in the labour force. Alberta's unemployment was unchanged at 5.2%.
- Strong job gains lowered Quebec's unemployment rate by 0.7 percentage points to 8.4%, its lowest rate since 1976. Despite modest job losses in Ontario and Saskatchewan, declines in the labour force pushed down unemployment rates in these two provinces.
- All Atlantic provinces recorded lower unemployment rates in November on the strength of solid job gains.

### Regional employment patterns



### Unemployment Rates -- November 1999



### Provincial Employment and Unemployment Trends

	Employment (thousands)				Unemployment rate (%)			
	Levels	Change since last month		Change since last year		Levels	Change since last month	
	1999 November	(000's)	%	(000's)	%			last year
Canada	14,876.0	59.9	0.4	342.2	2.4	6.9	-0.3	-1.1
Newfoundland	210.7	1.3	0.6	7.6	3.7	16.1	-0.4	-2.1
P.E.I.	63.3	1.1	1.8	3.0	5.0	13.2	-0.3	-0.9
Nova Scotia	416.8	2.6	0.6	13.4	3.3	9.6	-0.3	-1.4
New Brunswick	341.3	4.2	1.2	8.4	2.5	9.6	-0.3	-1.8
Quebec	3,487.2	35.8	1.0	100.9	3.0	8.4	-0.7	-1.4
Ontario	5,834.5	-7.2	-0.1	147.5	2.6	5.6	-0.4	-1.3
Manitoba	561.9	3.2	0.6	9.9	1.8	5.3	-0.1	-0.2
Saskatchewan	483.0	-0.2	-0.0	1.2	0.2	5.3	-0.7	-0.6
Alberta	1,567.7	6.2	0.4	41.4	2.7	5.2	0.0	-0.9
B.C.	1,909.6	12.8	0.7	8.9	0.5	8.0	0.6	0.2

# PRICES and FINANCIAL MARKETS

## Consumer and Commodity Prices



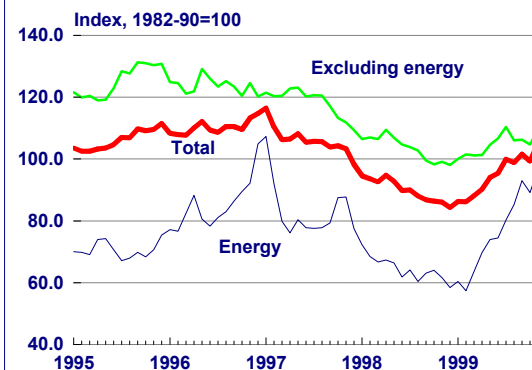
### Inflation edges down in October...

- The year-over-year rate of CPI inflation was 2.3% in October, down slightly from 2.6% in September but still well above rates registered early in the year.
- Higher energy prices are responsible for most of the recent pick-up in inflation. In October, increases in prices for fuel oil, natural gas and gasoline lifted the energy component by 11.5% on a year-over-year basis. Higher prices for automobiles and university tuition also contributed to the year-over-year increase in the CPI, while lower prices for computer equipment and telephone services exerted downward pressure on the index.
- Commodity prices jumped up 5.7% in November, bringing the year-over-year increase to 22.0%. A spike in energy prices led the monthly rise, but non-energy prices were also up.

### ...leaving the "core" rate well within the official target range

- When the volatile food and energy components and the impact of indirect taxes are excluded, the "core" rate of inflation fell to 1.6% in October. This remains within the bottom half of the 1%-3% target range set jointly by the Bank of Canada and the Department of Finance.

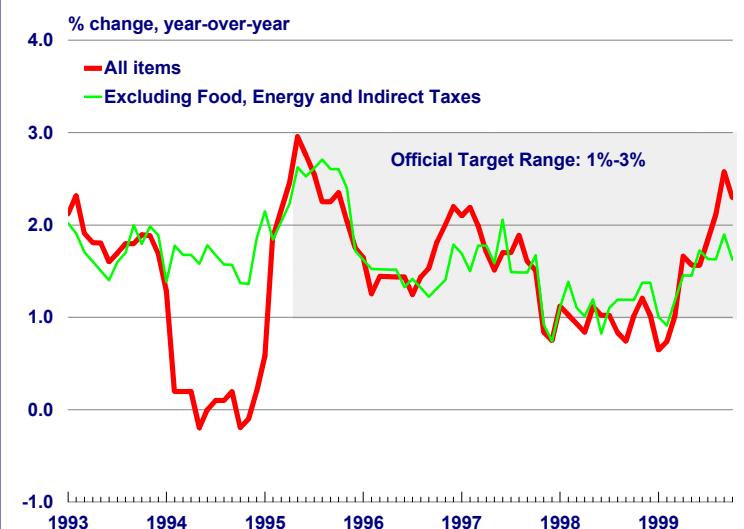
### Commodity Prices (\$U.S. basis)



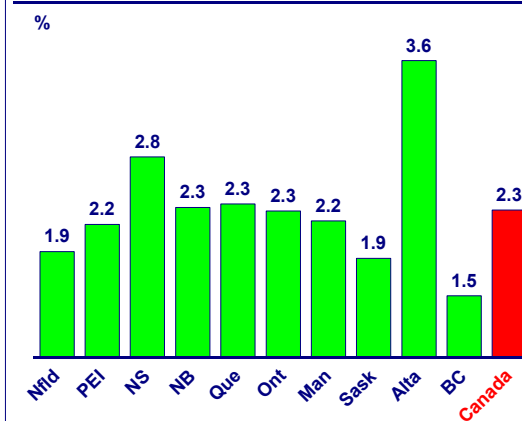
### Consumer Prices

	Index (1992=100)	% Change since	
		last month	last year
<b>October 1999</b>			
<b>All items CPI</b>	111.5	0.1	2.3
Food	109.9	0.1	1.3
Shelter	105.8	0.2	1.5
Household operations	109.6	0.1	1.5
Clothing & Footwear	107.3	0.1	1.1
Transportation	127.1	0.1	5.5
Health & Personal Care	110.6	0.0	1.7
Recreation, Educ. & Reading	122.0	-0.3	2.4
Alcohol & Tobacco	94.6	0.0	1.4
<b>Excl. Food/Energy/Indirect Taxes</b>	112.6	-0.1	1.6
Energy	116.8	1.2	11.5
<b>Commodity Prices (November)</b>			
Index, 1982-90=100	105.0	5.7	22.0
Excluding Energy	109.5	4.6	10.5
Energy	96.7	8.4	56.7

### Consumer Price Index



### Provincial CPI Inflation -- October 1999



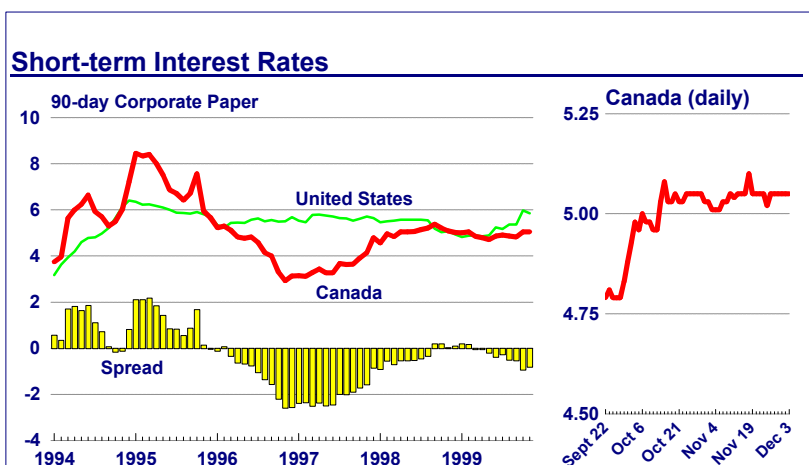


### The Bank of Canada raises rates for the first time since August 1998...

- The Bank of Canada raised the trend-setting Bank Rate by 25 basis points to 5.0% on November 18, the first increase in over a year. The Bank of Canada's move reflects the growing strength of the domestic economy and a similar increase in the U.S. federal funds rate.
- Although November's increase triggered a quarter-point increase in the Prime Lending rate, Canadian short term rates have been relatively stable since early October. Moreover, the spread between short term and long term rates has narrowed in the U.S., indicating that further increases in short rates in North American money markets are not expected to be large.

### ...but rates in Canada remain below comparable U.S. rates

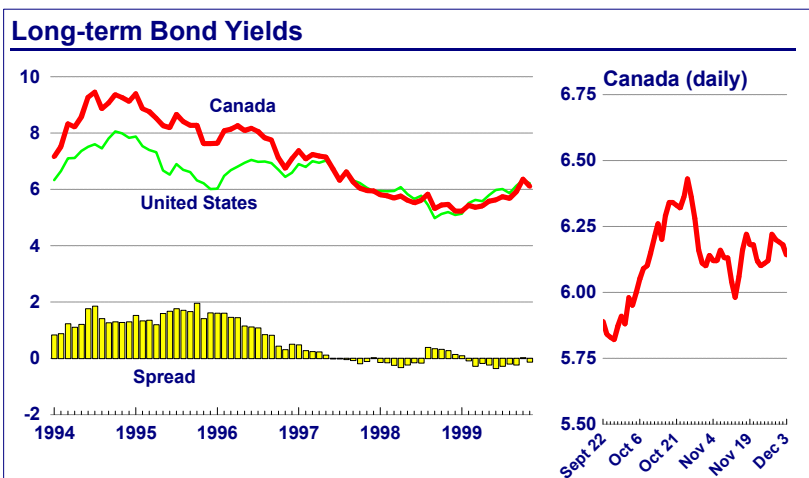
- Interest rates are currently lower in Canada on both the long and short end of the yield curve. Canadian short-term bonds were 85 basis points below their U.S. counterparts on December 1. On the long end, Canadian rates moved roughly in step with their American counterparts throughout November, closing the period 11 basis points below comparable U.S. yields.



#### 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
Jun 1999	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	5.05	-0.93	6.36	0.03
Nov	5.05	-0.80	6.10	-0.12
Dec 1	5.05	-0.85	6.19	-0.11

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
Jun 1999	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	4.75	6.25	7.35	8.25
Nov	5.00	6.50	7.35	8.25
Dec 1	5.00	6.50	7.35	8.25

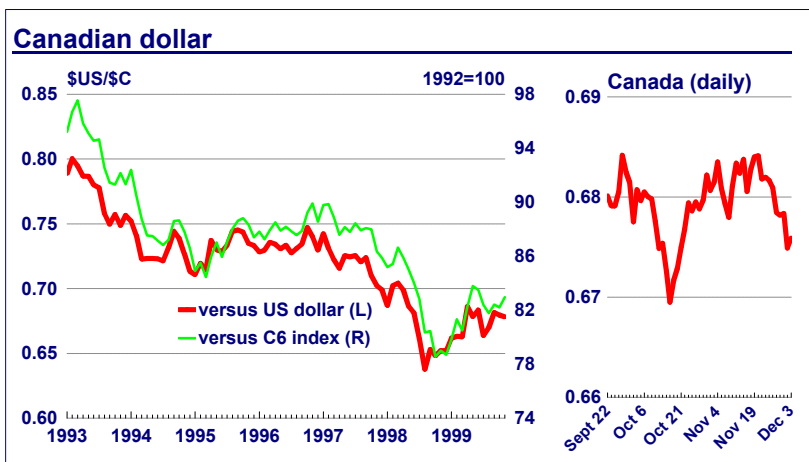


### The stock market reaches a record high in November...

- The TSE 300 index climbed steadily in November, breaking through the previous intra day record of 7835 to reach a new high of 7889 on November 26. Stock prices subsequently retreated as interest rate jitters resurfaced briefly toward the end of the month, but then quickly recovered with the release of a modest U.S. jobs report which eased worries of inflation in the U.S. Technology and utility stocks made the biggest gains on the month, while gold and energy stocks fell back.

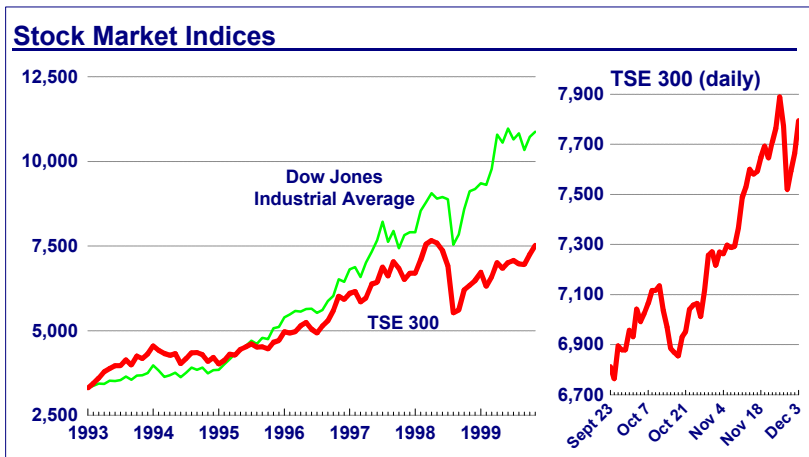
### ...but the Canadian dollar retreats from earlier gains

- After holding firm above the U.S. 68¢ mark over much of the first half of November, the Canadian dollar tumbled towards the end of the month. As a result, the dollar closed on December 3 at \$U.S. 0.6759.
- The dollar's slide appears to be linked to fears of higher interest rates in the U.S. Improving economic fundamentals in Canada – strong growth, low inflation, and unemployment at its lowest rate since August 1991 – are expected to provide support to the Canadian dollar in coming months. The dollar should also benefit from firming commodity prices and a strengthening of the Asia Pacific economies.



### 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
Jun 1999	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	0.6797	82.22	1.237	71.71
Nov	0.6782	82.96	1.291	71.29
Dec 3	0.6759			



### Key Stock Market Indexes

	November Close	% change from	
		last month	last year
<b>TSE 300</b>	<b>7,523</b>	<b>3.7</b>	<b>18.6</b>
Oil & Gas	5,723	-5.6	19.1
Metals & Minerals	3,806	-2.4	20.1
Utilities	9,974	8.4	44.1
Paper & Forest	4,747	-4.6	30.1
Merchandising	4,871	0.4	-8.8
Financial Services	7,335	0.8	-10.5
Goods	5,192	-5.8	-16.4
Price-Earnings Ratio*	36.8	7.1	9.5
<b>S&amp;P 500</b>	<b>1,389</b>	<b>1.9</b>	<b>19.3</b>
<b>Dow Jones</b>	<b>10,878</b>	<b>1.4</b>	<b>19.3</b>

\*columns 2 & 3 reflect change in levels



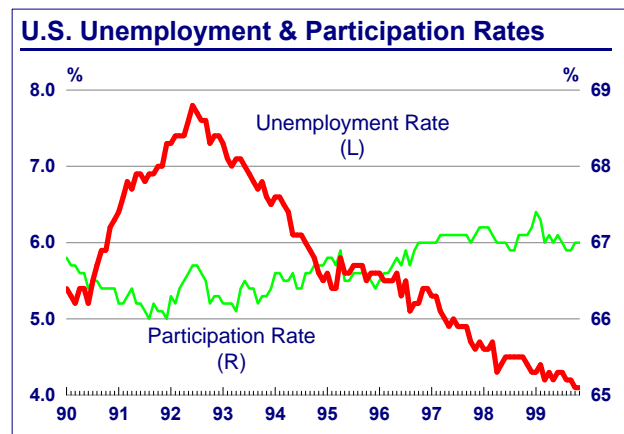
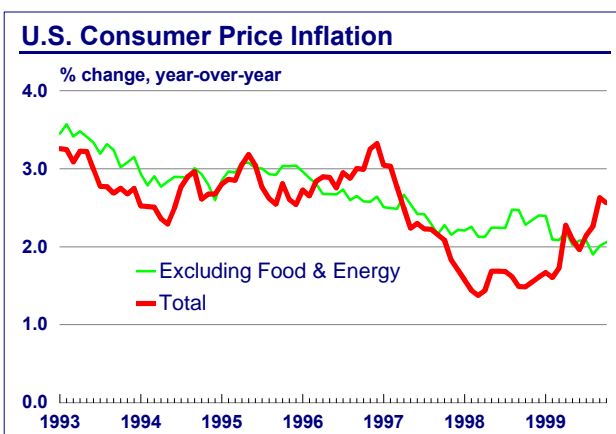
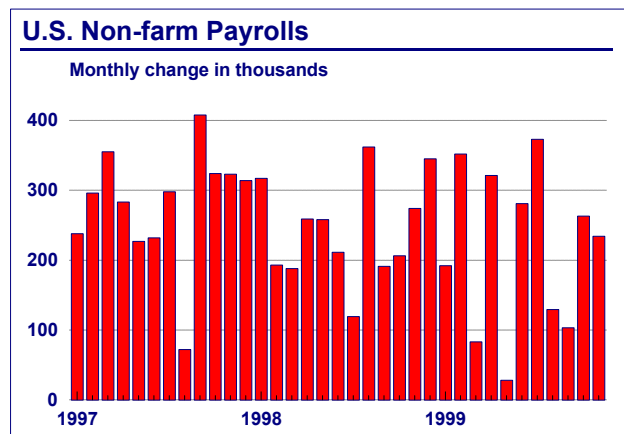
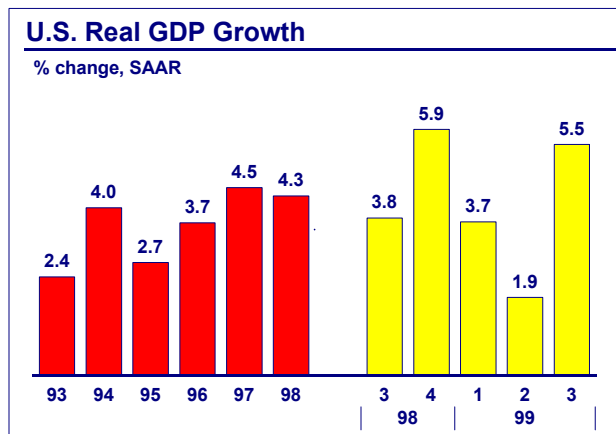
## U.S. Economic Trends

### The U.S. economy roars along in the third quarter...

- Preliminary data indicates that U.S. real GDP surged by 5.5% (annual rate) in the third quarter of 1999, revised up from the advance estimate of 4.8%. Solid gains in consumer spending, exports and business investment all contributed to the economy's best performance so far this year. Strong import growth and lower residential investment moderated the overall gain.
- The U.S. trade deficit widened to \$24.4 billion in September, the third largest level on record. This increase was fuelled by higher imports (+0.1%) and lower exports (-0.9%). Surging imports from China boosted the deficit with that country to a record \$6.9 billion on the month.
- U.S. employment continued to advance in November, with the addition of 234,000 jobs on an economy-wide basis. The unemployment rate was unchanged at 4.1%, its lowest level in almost 30 years.

### ... as the Fed boosts interest rates to head off inflation

- Most indicators suggest that inflation remains tame. The CPI advanced 0.2% in October, average hourly earnings edged up only 0.1% in November, and productivity accelerated at a fast pace in the third quarter (+4.2%). However, tight labour market conditions persuaded the Federal Reserve to increase its key federal funds rate by 25 basis points to 5.5% on November 16th.





## Trends in Output and Income

### Economic growth in 1999 has been strong...

- Led by growth in exports and consumer spending, real GDP increased by 4.7% (annual rate) in the third quarter of 1999.
- With the strong third quarter results, real GDP is up 3.6% over the first nine months of 1999 compared with the same period last year, with strength in both domestic demand and international trade. Growth in the Canadian economy is expected to come in around 3.7% for 1999 as a whole, well above last year's pace of 3.1%.

### ...and widespread across industries

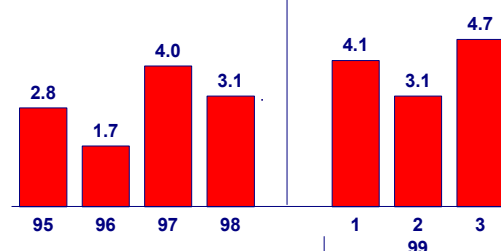
- Strong demand at home and in the U.S. has led to a sharp pick-up in Manufacturing activity (particularly in the Motor Vehicle industry). Indeed, this sector is currently growing about 60% faster than last year, and is on pace to record its best year since 1994, when output advanced 7.7%.
- Production is down overall in the Primary industries so far this year, with losses in both Fishing & Trapping and Mining, Quarrying & Oil Wells. The Agriculture and Logging & Forestry industries have benefited from a recovery in the demand and prices for natural resources. Construction activity has picked up following a flat performance in 1998.
- Growth in the Service-Producing industries has been broad-based in 1999. Output gains have been led by higher demand for Telecommunication Services, while Trade and Business Services have also continued to record solid growth.

### Household finances nonetheless remain weak

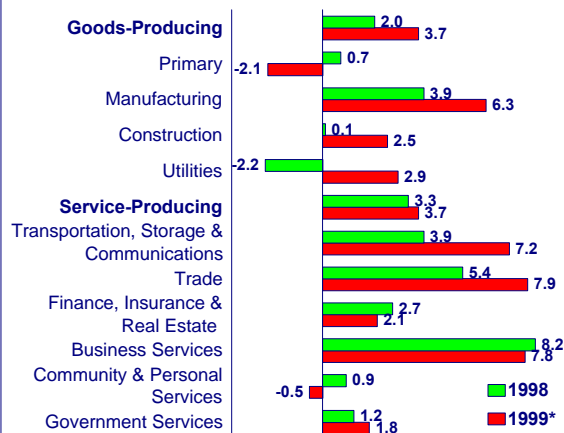
- Again in 1999, personal consumption increased faster than personal income. As a result, household finances continued to weaken.
- Household debt reached a record high of 100.4% of income in the second quarter of 1999 before falling back slightly in the following period. The personal saving rate dropped to an all-time low of 0.3% in the third quarter of the year.

#### Real GDP Growth

% Change, SAAR



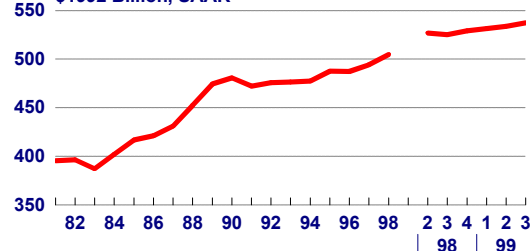
#### Real GDP Growth by Industry



\* Jan-Sept 1999 compared to Jan-Sept 1998

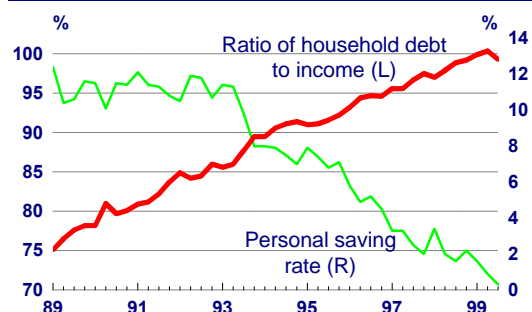
#### Real Personal Disposable Income\*

\$1992 Billion, SAAR



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

#### Personal Debt and Saving Rate



# SPECIAL REPORT: 1999 – The Year in Review

## Trends in Consumption, Investment and International Trade



### The strong economy provides a boost to consumer confidence...

- The worst effects of the 1998 Asian crisis – notably a sharp fall in the Canadian dollar and stock prices, as well as a run-up in interest rates – have now largely passed. Stronger economic activity in 1999 has boosted the confidence of consumers who steadily increased their spending on goods and services throughout the year.
- Growth in consumer spending has exceeded 4% (annual rate) in each of the first three quarters of the year. These gains have been dominated by strong demand for durable goods, including higher sales of motor vehicles.

### ...and supports a surge in business investment...

- Business investment in M&E is up 13.9% over the first nine months of 1999 compared with the same period last year. Higher business profits as well as Y2K-related spending on computers have contributed to this strong growth.
- Following a weak performance in 1998, residential construction started the year off strongly before slowing somewhat in the third quarter. A recovery in non-residential construction activity in 1999 reflects in part a significant increase in investment in the public sector.

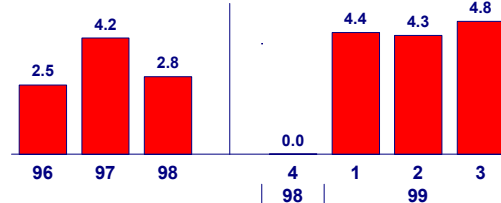
### ...as the trade balance improves

- So far this year, exports have grown nearly twice as fast as imports. As a result, Canada's trade surplus for the first three quarters of 1999 reached \$24.1 billion, more than twice the balance recorded over the same period last year.
- Exports to the U.S. have continued to grow strongly, whereas exports to Japan and all other countries were down for the second straight year.

### Real Consumer Spending

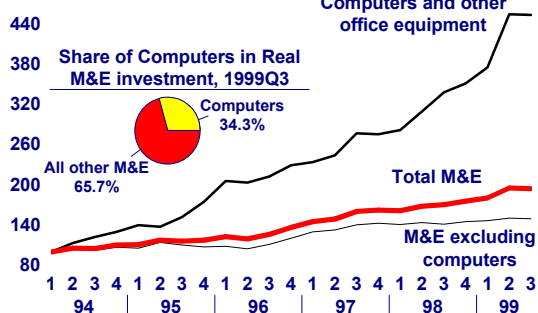
% Change, SAAR

Total Spending



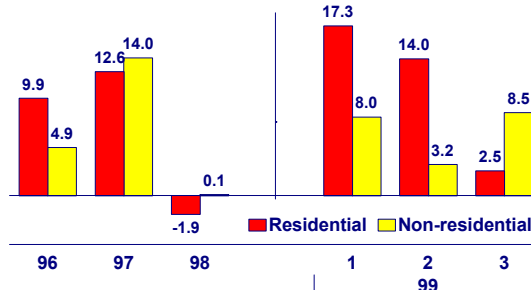
### Real Investment in Machinery and Equipment

Index, 1994Q1=100



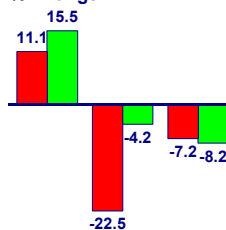
### Real Residential and Non-residential Investment

% Change, SAAR



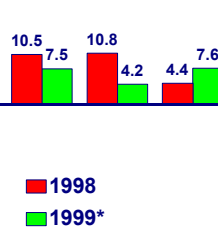
### Export Growth

% Change



### Import Growth

% Change



U.S. Japan Other  
Destination of Cdn. Exports

U.S. Japan Other  
Source of Cdn. Imports

\* Jan-Sept 1998 compared to Jan-Sept 1999





## Labour Market Trends

### Employment picks up late in the year...

- After having posted the best performance in a decade last year – a net gain of 453,000 jobs – employment growth was sluggish early in 1999. However, job gains have picked up sharply since September. The Canadian economy generated 313,000 new jobs in the first eleven months of 1999, two-thirds of these over the September-November period.
- Strong growth in employment dropped the national unemployment rate to 6.9% in November, its lowest rate since August 1981.

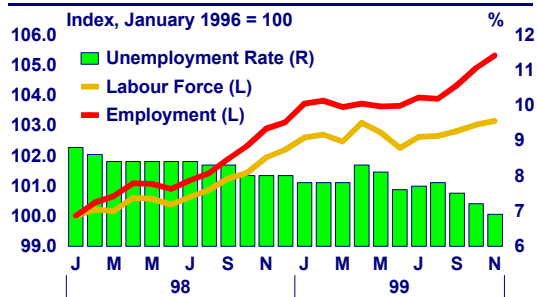
### ...in both the Goods and Service sectors

- In contrast to 1998, employment growth has been shared fairly equally between the Goods and Service sectors this year. Employment gains in the Goods sector have been concentrated in Manufacturing, especially computer and electronic products manufacturing.
- Employment growth in the Service sector is widespread, with Community Services and Transportation & Storage registering the largest increases. The overall gain in this sector would have been larger if not for job losses in Public Administration.
- Contrary to the general trend observed since 1993, the public sector has led job gains so far in 1999, owing to growth in such areas as health, education, and social services. The number of self-employed workers is down so far on the year.

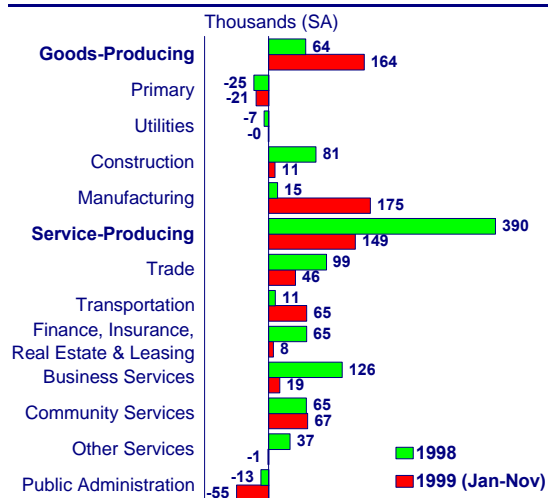
### Gains have been especially large in the Atlantic provinces and Quebec

- Newfoundland has led all provinces in employment growth since the start of the year, followed closely by Prince Edward Island. Job growth in Nova Scotia and Quebec is also well above the national average.
- Saskatchewan and British Columbia have had the lowest employment growth so far this year.

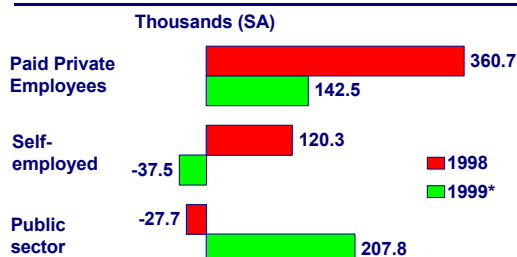
### Employment, Labour Force and the Unemployment Rate



### Job Growth

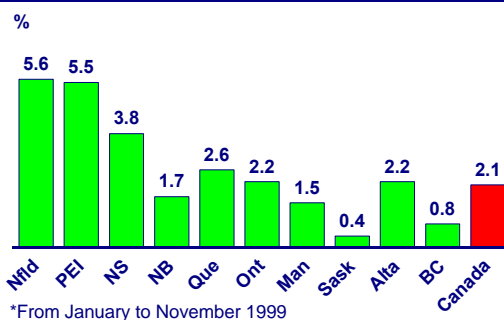


### Employment growth by worker category



\*1999 includes data from January to November inclusive.

### Employment Growth -- 1999\*



\*From January to November 1999



## Financial Market Trends

### *The Canadian dollar recovers from an all-time low...*

- The Canadian dollar has slowly rebounded from its all-time low of US 63.31¢ in August 1998 at the height of the Asia-Pacific crisis. The growing strength of the domestic economy and a rebound in commodity prices related to an improved outlook in the Asia-Pacific region have fuelled a resurgence in the dollar, particularly since August. However, its rise has been interrupted by several sharp falls linked to potential movements in U.S. and Canadian interest rates.
- The Canadian dollar closed at US 67.60¢ on December 8, down from a mid-year high of US 69.13¢ in early May, but still up more than two cents on the year.

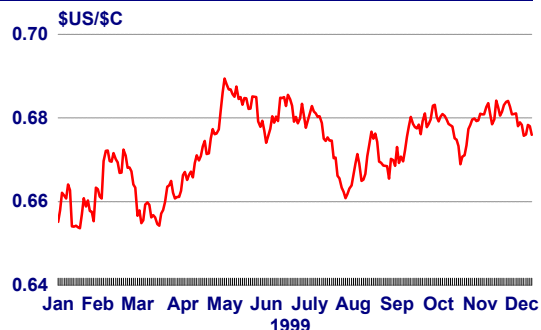
### *...as interest rates drift upwards...*

- Two successive cuts to the trend-setting Bank Rate early in the year lowered short-term rates to 4.5% in May. Soon thereafter, however, growing fears of U.S. inflation drove up interest rates at both the long and the short end of the yield curve.
- The U.S. Federal Reserve raised its key rate in June, August, and November. The Bank of Canada hiked rates in November, to head off inflationary pressures at home.
- Long-term rates, which have trended up throughout the year, were up 87 basis points over the year, as of December 8. Short-term rates finished this period at roughly the same level as the beginning of the year.

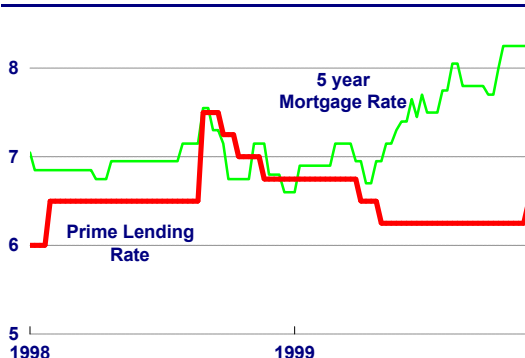
### *...and stock prices reach new heights*

- The Canadian stock market has slowly regained the ground it lost during last year's financial market crisis, when tumbling stock prices set the TSE 300 index back 20% in August 1998. Markets enjoyed a particularly strong rally towards the second half of 1999, boosted by a robust performance in the technology sector and a surge in the price of gold, energy and other commodities. The index gained over a thousand points between August and the end of November, reaching a new all-time high of 7889.
- Despite the strong showing over the year, Canadian stocks still failed to match U.S. gains. The Dow Jones was up 23% on the year as of December 8, compared to growth of 19% in the TSE.

#### Canadian Dollar



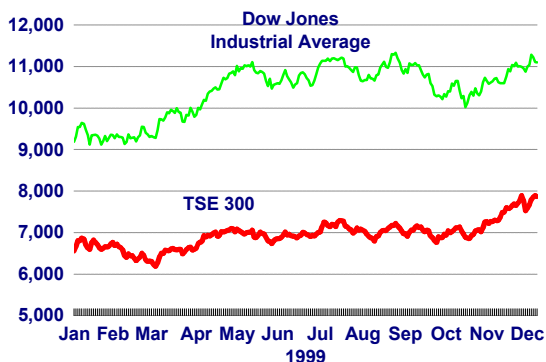
#### Bank and Prime Rates



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

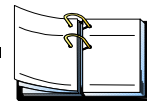


#### North American Stock Markets



## COMING UP

### Key Future Data Releases and Planned Events



#### CANADA

Survey of Manufacturing – October .....	December 15
International Trade – October .....	December 16
Consumer Price Index – November .....	December 17
GDP at factor cost – October .....	December 24
Labour Force Survey – December .....	January 7
Business Conditions Survey – January .....	February 1
Private and Public Investment Intentions – 2000 .....	February 23
Financial Statistics For Enterprises – 4th Quarter 1999 .....	February 25
National Economic & Financial Accounts – 4th Quarter 1999 .....	February 28
Balance of International Payments – 4th Quarter 1999 .....	February 28
Capacity Utilization Rates – 4th Quarter 1999 .....	March 7

#### UNITED STATES

Consumer Price Index – November .....	December 14
International Trade – October .....	December 16
Federal Open Market Committee meeting .....	December 21
GDP – 3rd Quarter 1999, Final .....	December 22
Employment Situation – December .....	January 7

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

The Special Report scheduled for the January MEI is entitled  
"2000: The Year Ahead"