

# MONTHLY ECONOMIC INDICATORS

## January 1999

### HIGHLIGHTS

-  **The Canadian economy finishes 1998 on a strong note, adding close to 200,000 jobs in the fourth quarter.**
-  **Robust job growth drops the unemployment rate down to 8.0% in November and December.**
-  **Output continues to expand in October, but Goods-production remains weak.**
-  **Mortgage rates fall across the board in December, but bond yields rise.**
-  **North American equity markets and the Canadian dollar rally early in the new year.**

### Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$92 B)	720.5	0.2	2.0	Oct
Goods	236.1	-0.0	0.6	Oct
Services	484.3	0.3	2.7	Oct
Composite Index	208.6	0.2	3.5	Nov.
Employment (000's)	14,564	0.2	3.2	Dec
Full-time	11,813	0.1	2.7	Dec
Part-time	2,751	0.6	5.3	Dec
Unemployment* (%)	8.0	8.0	8.6	Dec
Youth*	14.4	14.5	15.8	Dec
Adult*	6.8	6.8	7.2	Dec
CPI inflation*	1.2	1.0	0.8	Nov
Retail Sales (\$M)	20,580	-1.7	2.5	Oct
Housing Starts (000's)	130.6	-6.5	-14.1	Nov
Trade Balance* (\$B)	1,952	1,534	783	Oct
Exports	28,459	4.2	13.0	Oct
Imports	26,507	2.9	8.6	Oct
M&E	8,853	0.9	8.5	Oct
3-mth Corp. paper* (%)	4.98	5.09	4.80	Jan 6
Long bond yield* (%)	5.29	5.47	5.95	Jan 6
Canadian dollar* (US¢)	66.14	65.22	69.91	Jan 8

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

### This issue's Special Report: 1999 – The Year Ahead

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 January 1999 INDICATORS

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This report uses data available as of January 8, 1999. It has been prepared under the direction of Shane Williamson by Dave Dupuis, Joseph Macaluso, Stéfane Marion and Karen Smith of the Micro-Economic Analysis Directorate. The special report in this issue was prepared by Dave Dupuis and Karen Smith. 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).

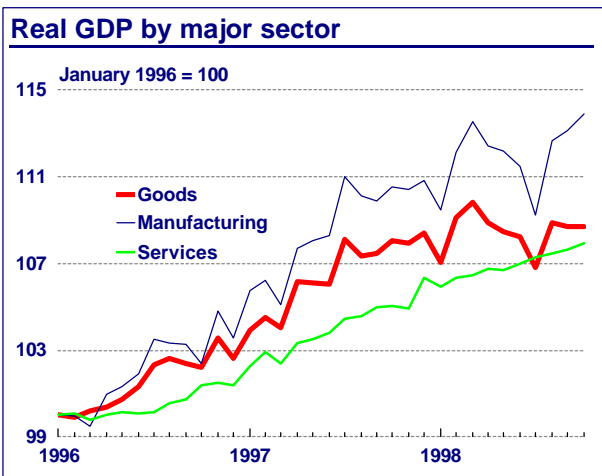
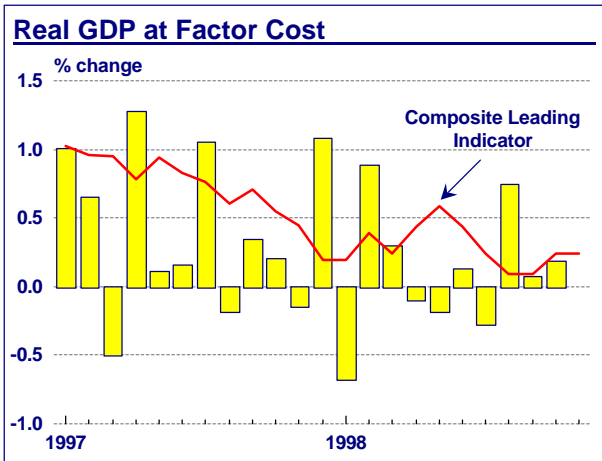


### Output advances overall in October...

- Real GDP increased 0.2% in October, the third straight monthly increase following a prolonged period of weakness earlier in the year.
- Economic activity was boosted by post-strike recoveries in the auto, air transport and education sectors. Activity elsewhere in the economy declined 0.3% on the month.

### ...but the Goods-producing industries remain weak

- Output in the Goods sector was virtually unchanged in October. Higher production in the Automotive sector led to a strong gain in Manufacturing (+0.7%), as General Motors and its suppliers continued to replenish inventories following the settlement of the U.S. strike in August. However, major losses were posted by Mining (the seventh consecutive drop) and Other Utilities.
- Output in the Service sector was up 0.3% in October, as the end of a strike affecting Air Canada boosted Transportation Services while the return of teachers from labour disputes in several Ontario school districts resulted in a gain for Education Services. Wholesale Trade also posted a healthy gain, advancing for the seventh consecutive month. Partly offsetting these gains were losses in Retail Trade and Finance, Insurance & Real Estate.



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

	October 1998		% Change since last	
	level	monthly change	month	year
<b>Total Economy</b>	<b>720,530</b>	<b>1,326</b>	<b>0.2</b>	<b>2.0</b>
<b>Business sector</b>	<b>594,635</b>	<b>691</b>	<b>0.1</b>	<b>2.2</b>
<b>Goods</b>	<b>236,148</b>	<b>-7</b>	<b>-0.0</b>	<b>0.6</b>
Agriculture	11,852	81	0.7	-0.1
Fishing & Trapping	643	-25	-3.7	-13.6
Logging & Forestry	4,680	122	2.7	-5.3
Mining*	26,633	-446	-1.6	-6.7
Manufacturing	129,099	866	0.7	3.0
Construction	39,434	-39	-0.1	1.7
Other Utilities	23,807	-566	-2.3	-2.9
<b>Services</b>	<b>484,382</b>	<b>1,333</b>	<b>0.3</b>	<b>2.7</b>
Transport & Storage	32,713	893	2.8	1.5
Communications	24,670	217	0.9	8.8
Wholesale Trade	43,472	566	1.3	6.0
Retail Trade	44,561	-702	-1.6	2.8
Finance & Insurance	39,810	-278	-0.7	1.2
Real Estate & Ins. Agent	79,173	-116	-0.1	1.7
Business services	41,354	82	0.2	5.8
Government services	42,723	-15	-0.0	0.4
Education	40,156	650	1.6	3.5
Health & Social Services	48,568	57	0.1	0.8
Accommodation & Food	18,462	38	0.2	1.6
Other	28,720	-59	-0.2	1.7

\*Includes Quarrying and Crude Petroleum & Natural Gas

# THE ECONOMY

## Consumer Spending and Attitudes

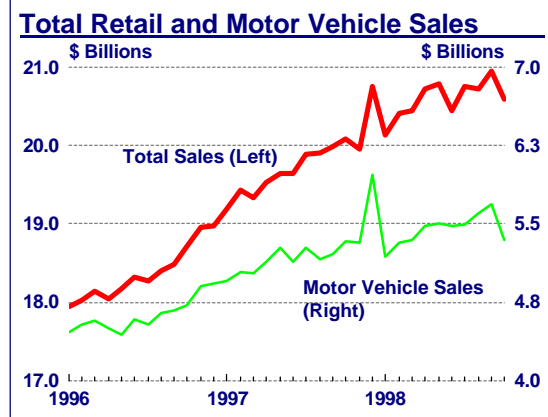


### Consumer spending slows in the third quarter...

- Falling personal disposable income (over the last two quarters) and financial market instability have resulted in a very sharp decline in consumer confidence.
- As a result, 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).
- Consumer spending was 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%.

### ...and remains weak early in the fourth quarter

- The removal of generous incentive programs led to a 10.9% decline in new auto sales in October, and contributed heavily to a 1.7% fall in overall retail sales. However, even excluding auto sales, retail sales were down slightly on the month.
- However, strong employment gains in the fourth quarter may buoy consumer spending late in the year. According to sources in the auto industry, new auto sales picked up in November.



### Retail Sales and Consumer Credit

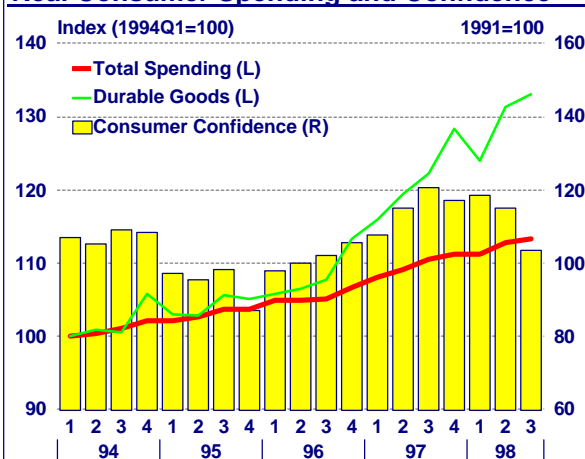
	\$ millions	% Change since	
		last month	last year
<b>Total Retail Sales</b>	20,580	-1.7	2.5
Food	4,800	-0.6	1.9
Drug Stores	1,089	0.8	5.5
Clothing	1,171	0.2	2.9
Furniture	1,059	-0.4	8.7
Automotive	7,821	-4.0	-0.3
General Merch. Stores	2,360	-0.4	5.0
All other Stores	2,280	-0.0	6.8
Total ex. motor vehicles	15,237	-0.1	3.3
<b>Consumer Credit</b>	156,169	1.1	8.3

### 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	25.8	5.7
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





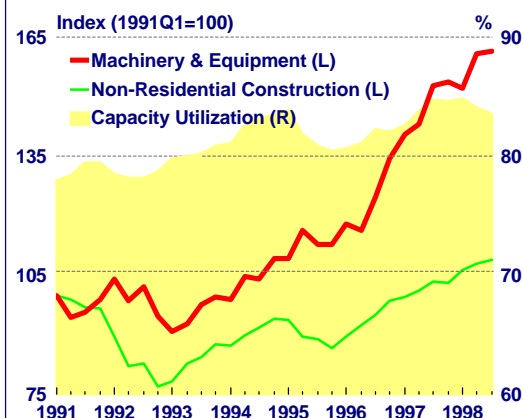
### Investment slows in the third quarter...

- Growth in investment in Machinery & Equipment (M&E) fell back in the third quarter following a sharp gain in the previous period. Non-Residential Construction also posted slower growth in the period, as drilling and exploration activity in the energy sector fell.
- The moderation in investment spending stems from lower business confidence, which fell for the fifth consecutive quarter and registered its largest drop in 17 years.
- Profits rebounded in the third quarter, but are still down substantially on a year-over-year basis. Low commodity prices and weak foreign demand have weakened corporate balance sheets.

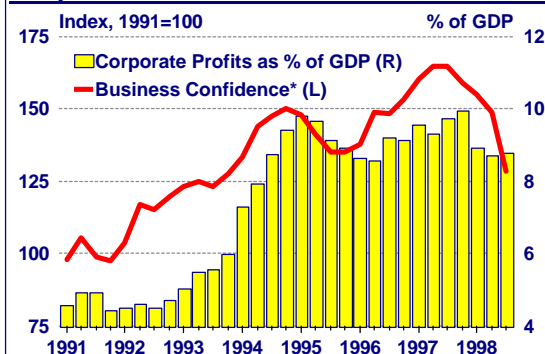
### ...and is unlikely to pick up late in the year

- Imports of M&E were up slightly in October, but some signs of softer demand for business investment were evident. In particular, imports were lower for Aircraft, Other Transportation Equipment and Computers.
- Weakness in Non-Residential Construction also extended early into the fourth quarter. Output in this sector was virtually unchanged in October.

### Investment in Plant and Equipment



### Corporate Profits & Business Confidence



\*Conference Board of Canada

### 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 (1992\$)</b>	47,722	57,057	59,420	58,884	62,160	62,516
% change	9.3	19.6	2.5	-3.6	24.2	2.3
<b>Non-residential Construction (1992\$)</b>	33,608	36,433	36,864	38,052	38,620	38,988
% change	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
% change	-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
% change	-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
% change	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
% change	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

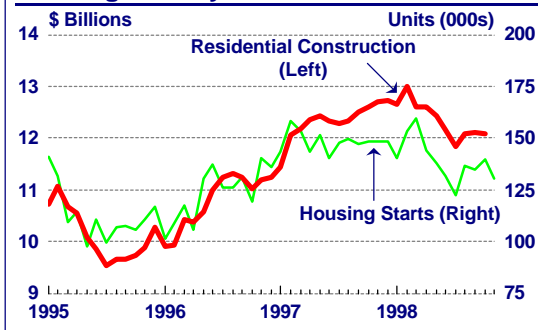
### Spending on new housing falls in the third quarter...

- 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 resale market for existing homes in the third quarter.

### ...with continued weakness expected in the fourth quarter

- In October, the value of residential construction fell to its second-lowest level so far this year. And, after a modest gain in October, housing starts fell 6.5% in November. Lower sales of existing homes in Quebec and in the western provinces have also contributed to the slowdown in the real estate sector.
- Canada Mortgage and Housing Corporation (CMHC) predicts that national housing starts will fall slightly in 1999. Low mortgage rates are expected to be offset by moderate employment growth, slowing population growth (due to lower international immigration) and weak consumer confidence.

### Housing Activity



### Monthly Housing Indicators

	levels	Change since	
		last month	last year
<b>Residential Construction (1)</b> (\$92M, factor cost basis)	12,078	-0.3%	-4.2%
<b>Building Permits, \$M (2)</b>	1,389	-5.8%	-6.3%
<b>Sales of Existing Homes (3)</b> (# of units)	17,719	-64	
<b>Housing Starts, # of units (3)</b>	130,600	-9,100	-21,500
Newfoundland	600	-500	-900
Prince Edward Island	200	-100	-100
Nova Scotia	1,700	-1,600	-500
New Brunswick	1,600	-200	-300
Quebec	19,900	1,100	-100
Ontario	49,400	-4,100	1,200
Manitoba	1,300	-200	100
Saskatchewan	2,000	500	-100
Alberta	20,300	-1,700	-2,500
British Columbia	12,400	-2,300	-13,800

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

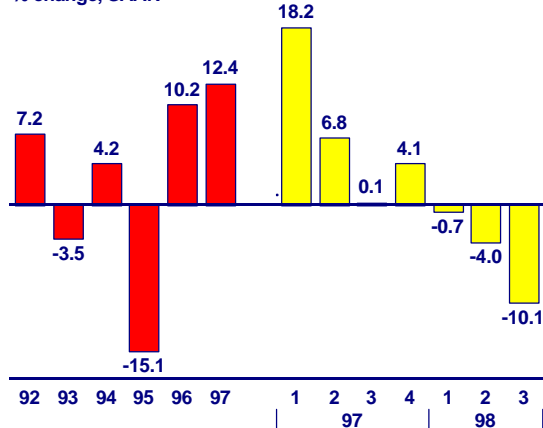
### Real Investment in Residential Structures

\$92 Millions, SAAR (unless otherwise noted)

	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

% change, SAAR







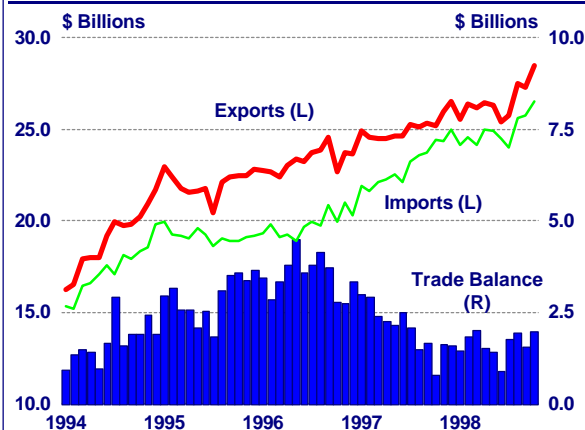
### Export growth outpaces import growth...

- Following a slight decline in September, exports advanced 4.2% in October.
- Most of this rise was due to increased exports to the United States. Exports to Japan continue to trend down and are now 21% lower on a year-over-year basis.
- By commodity, the overall rebound in exports was led by a sharp rise for Automotive Products due in part to an unwinding of a backlog in rail transportation. However, exports of M&E and Forestry Products were also up.
- Imports continued on their upward trend, increasing 2.9% in October. Though gains were widespread, the biggest advances were posted by Automotive Products, Industrial Goods and M&E.

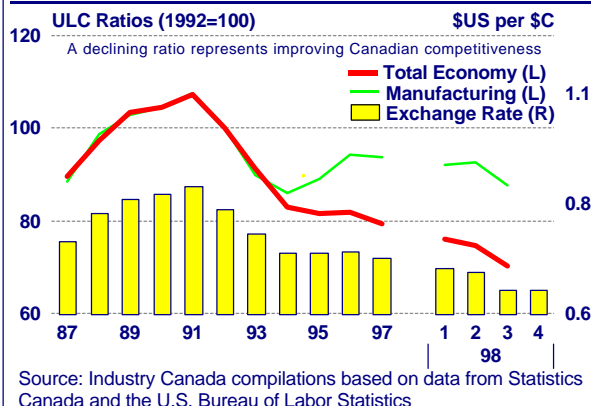
### ...leading to an increase in Canada's trade surplus

- With export growth outpacing import growth, Canada's trade balance advanced \$418 million to \$1.9 billion in October. This represents the second highest surplus recorded so far this year.

### Merchandise Trade Flows and Balance



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



### Merchandise Trade

October 1998	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	1998 September	1998 October	1997 Jan-Oct	1998 Jan-Oct	Sept to Oct 1998	Sept to Oct 1998	Oct 97 to Oct 98	
<b>Exports</b>	<b>27,304</b>	<b>28,459</b>	<b>248,623</b>	<b>265,196</b>	<b>1,155</b>	<b>4.2</b>	<b>13.0</b>	
to United States	23,214	24,077	200,362	221,597	863	3.7	17.3	
<b>Imports</b>	<b>25,770</b>	<b>26,507</b>	<b>227,553</b>	<b>248,998</b>	<b>737</b>	<b>2.9</b>	<b>8.6</b>	
from United States	19,815	20,471	173,093	191,205	656	3.3	10.8	
<b>Trade Balance</b>	<b>1,534</b>	<b>1,952</b>	<b>21,070</b>	<b>16,198</b>	<b>418</b>			
with United States	3,399	3,606	27,269	30,392	207			
<b>Exports by Commodity</b>								
Agriculture/Fishing Products	2,163	2,206	20,354	20,631	43	2.0	2.4	
Energy Products	2,180	2,152	22,438	20,439	-28	-1.3	1.6	
Forestry Products	2,917	3,028	29,017	29,222	111	3.8	7.0	
Industrial Goods & Materials	4,717	4,737	45,870	47,895	20	0.4	3.7	
Machinery & Equipment	6,616	6,741	55,993	65,306	125	1.9	13.2	
Automotive Products	6,771	7,421	57,570	62,105	650	9.6	28.2	
Other Consumer Goods	1,094	1,094	8,788	10,272	0	0.0	19.4	
<b>Imports by Commodity</b>								
Agriculture/Fishing Products	1,412	1,472	12,841	14,232	60	4.2	10.6	
Energy Products	738	737	8,827	7,414	-1	-0.1	-20.5	
Forestry Products	206	212	1,955	2,053	6	2.9	6.8	
Industrial Goods & Materials	5,077	5,178	44,553	49,768	101	2.0	9.5	
Machinery & Equipment	8,772	8,853	75,102	83,639	81	0.9	8.5	
Automotive Products	5,618	6,142	49,716	53,507	524	9.3	12.7	
Other Consumer Goods	2,903	2,932	24,218	28,102	29	1.0	13.0	

# LABOUR MARKET TRENDS



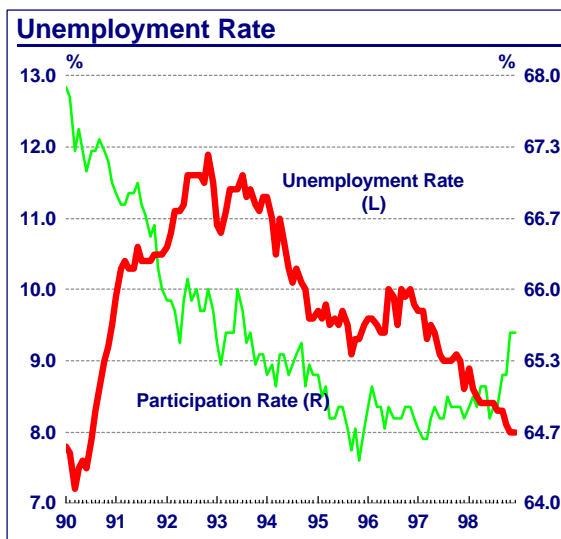
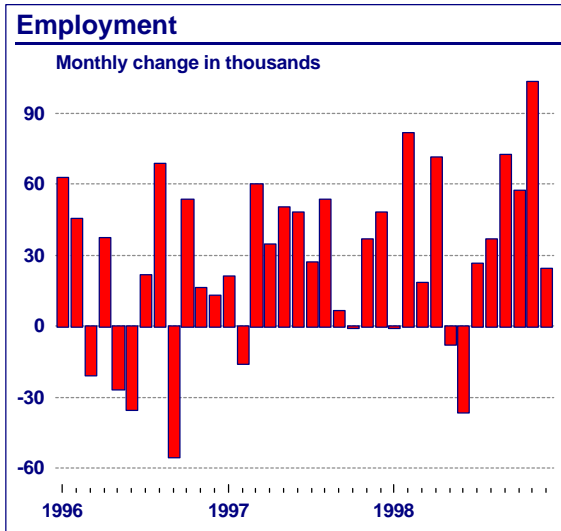
## Employment and Unemployment

### December gains contribute to a very strong job performance overall in 1998...

- Employment rose by 24,000 in December, bringing gains over the past six months to 320,000. For 1998 as a whole, net job gains totalled 449,000, the best annual performance so far this decade.
- The participation rate was 65.6% in December, a gain of 0.8 percentage points on the year. Strong employment growth – particularly over the last half of the year – attracted more people to the labour force.
- Full-time employment increased by 9,000 in December, bringing total gains in 1998 to 311,000 (70% of all net job creation).

### ...and the unemployment rate falls throughout the year

- Although employment was up in December, a larger increase in the labour force resulted in a slight rise in the number of unemployed. Still, the national unemployment rate held firm at 8.0%, the lowest rate since July 1990.
- The youth unemployment rate fell to 14.4% in December, down from 15.8% a year ago. Youth job gains in 1998 (+143,000) are the highest in 20 years.
- Growth in the labour force offset adult employment growth in December, leaving the unemployment rate unchanged at 6.8%. On a year-over-year basis, the adult unemployment rate is down 0.4 percentage points.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	1997 December	1998 November	1998 December	last month	last year	year-to- date	last month	last year
<b>Employment</b>	14,114.8	14,539.8	14,564.2	24.4	449.4	449.4	0.2	3.2
<b>Full-time</b>	11,501.6	11,803.6	11,812.9	9.3	311.3	311.3	0.1	2.7
<b>Part-time</b>	2,613.2	2,736.2	2,751.3	15.1	138.1	138.1	0.6	5.3
<b>Youth 15-24</b>	2,039.2	2,177.7	2,181.7	4.0	142.5	142.5	0.2	7.0
<b>Adult 25+</b>	12,075.6	12,362.0	12,382.5	20.5	306.9	306.9	0.2	2.5
<b>Self-employed</b>	2,476.0	2,609.7	2,594.4	-15.3	118.4	118.4	-0.6	4.8
<b>Unemployment</b>	1,321.3	1,267.8	1,272.8	5.0	-48.5	-48.5	0.4	-3.7
<b>Unemployment Rate</b>	8.6	8.0	8.0	0.0	-0.6	-0.6		
<b>Youth 15-24</b>	15.8	14.5	14.4	-0.1	-1.4	-1.4		
<b>Adult 25+</b>	7.2	6.8	6.8	0.0	-0.4	-0.4		
<b>Labour Force</b>	15,436.1	15,807.6	15,837.0	29.4	400.9	400.9	0.2	2.6
<b>Participation Rate</b>	64.8	65.6	65.6	0.0	0.8	0.8		
<b>Employment Rate</b>	59.2	60.3	60.4	0.1	1.2	1.2		





## Industry Overview

### *The Service sector leads job growth, both in December and for 1998 as a whole...*

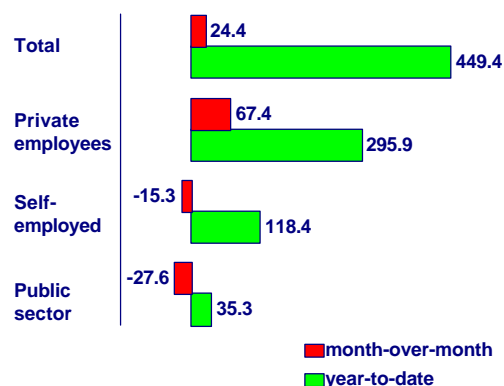
- In December, employment in the Services-producing sector increased by 17,000. For 1998 as a whole, Business & Personal Services posted another strong year, while the pace of job creation picked up considerably for Health & Social Services. Employment was up in all major industry groups on the year.
- In the Goods-producing industries, employment rose 7,000 in December, largely on the strength of a solid increase in Agriculture.
- Manufacturing employment was up slightly overall in 1998, and Construction rebounded strongly from three years of weakness. Employment in the Primary industries was down sharply on the year, reflecting the impact of low commodity prices and weak international demand.

### *...and private-sector, paid employment remains the main source of new jobs*

- The number of paid employees in the private sector increased by 67,000 in December, and accounted for two-thirds of all new jobs in 1998. Self-employment and public-sector employment both fell in December, but were up on the year.

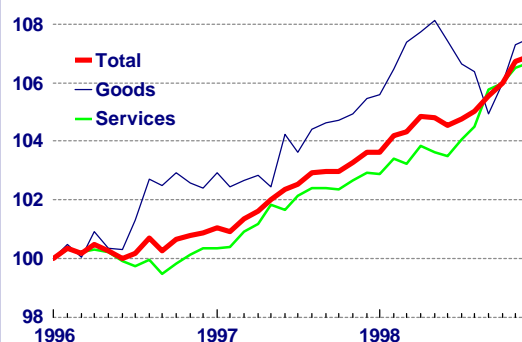
### Employment growth by worker category

December 1998 (thousands)



### Employment by major sector

January 1996 = 100



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	1997 December	1998 November	1998 December	last month	last year	year-to-date	last month	last year
<b>Total</b>	14,114.8	14,539.8	14,564.2	24.4	449.4	449.4	0.2	3.2
<b>Goods-producing</b>	3,829.2	3,897.0	3,904.4	7.4	75.2	75.2	0.2	2.0
Agriculture	414.8	434.9	442.5	7.6	27.7	27.7	1.7	6.7
Mining & Oil Wells	181.2	162.4	156.3	-6.1	-24.9	-24.9	-3.8	-13.7
Other Primary	111.5	98.6	104.1	5.5	-7.4	-7.4	5.6	-6.6
Utilities	142.5	136.4	136.5	0.1	-6.0	-6.0	0.1	-4.2
Manufacturing	2,230.6	2,246.3	2,246.0	-0.3	15.4	15.4	-0.0	0.7
Construction	748.5	818.4	819.0	0.6	70.5	70.5	0.1	9.4
<b>Service-producing</b>	10,285.6	10,642.8	10,659.8	17.0	374.2	374.2	0.2	3.6
TSCO*	922.7	938.8	953.3	14.5	30.6	30.6	1.5	3.3
Wholesale Trade	667.0	681.7	691.3	9.6	24.3	24.3	1.4	3.6
Retail Trade	1,725.2	1,793.8	1,780.9	-12.9	55.7	55.7	-0.7	3.2
FIRE*	806.5	812.4	822.9	10.5	16.4	16.4	1.3	2.0
Education	967.4	977.5	965.7	-11.8	-1.7	-1.7	-1.2	-0.2
Health/Social Serv.	1,449.8	1,496.7	1,514.3	17.6	64.5	64.5	1.2	4.4
Bus. & Personal Serv.	2,965.1	3,154.1	3,158.6	4.5	193.5	193.5	0.1	6.5
Public Administration	781.8	787.8	772.7	-15.1	-9.1	-9.1	-1.9	-1.2

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



## Provincial Overview

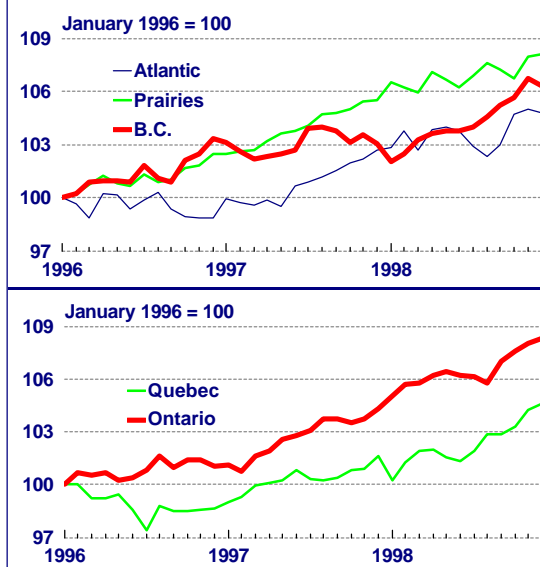
### Ontario and Quebec lead December job gains...

- December's overall job gain was boosted by increases of 19,000 in Ontario and 12,000 in Quebec. In both provinces, however, strong labour force growth resulted in no change to the unemployment rate. Employment growth in Alberta coupled with a falling labour force led to a sharp reduction in this province's unemployment rate.
- Elsewhere, job losses in British Columbia and Newfoundland, Saskatchewan and PEI were reflected in higher unemployment rates.

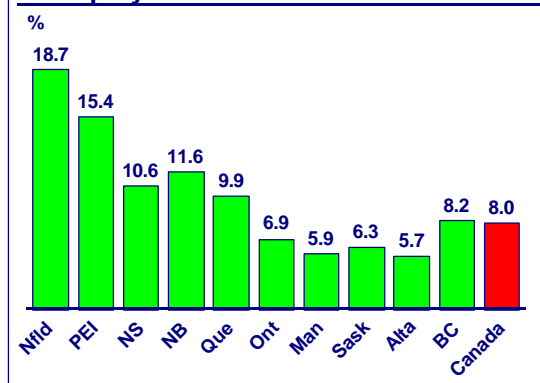
### ...and all provinces but P.E.I. register higher employment on the year

- For the year as a whole, employment increased in every province but Prince Edward Island. And, job growth was 2.9% or higher in 1998 in New Brunswick, Ontario, Alberta, British Columbia and Quebec.
- The largest year-over-year declines in provincial unemployment rates were in Nova Scotia, Ontario and New Brunswick. Despite job growth, the unemployment rate increased in Newfoundland, Saskatchewan and Alberta as the increase in the labour force outpaced employment gains.

### Regional employment patterns



### Unemployment Rates -- December 1998



### Provincial Employment and Unemployment Trends

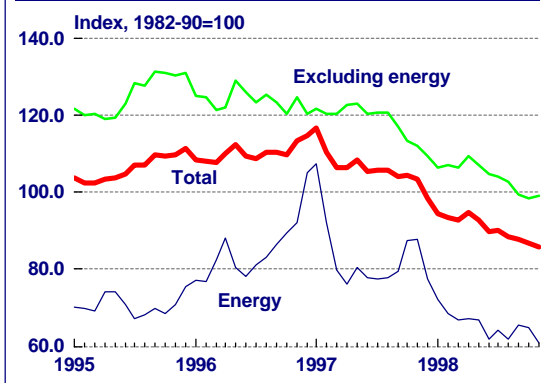
	Employment (thousands)						Unemployment rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since last month		
	1998 December	(000's)	%	(000's)	%		last month	last year	
Canada	14,564.2	24.4	0.2	449.4	3.2	8.0	0.0	-0.6	
Newfoundland	199.4	-3.4	-1.7	3.1	1.6	18.7	0.5	1.1	
P.E.I.	60.2	-0.3	-0.5	-0.6	-1.0	15.4	1.3	1.2	
Nova Scotia	401.8	-1.9	-0.5	4.3	1.1	10.6	-0.4	-1.0	
New Brunswick	336.2	3.7	1.1	13.1	4.1	11.6	0.2	-0.8	
Quebec	3,398.4	12.0	0.4	96.2	2.9	9.9	0.0	-0.5	
Ontario	5,707.0	18.8	0.3	213.1	3.9	6.9	0.0	-0.9	
Manitoba	553.5	1.1	0.2	10.9	2.0	5.9	0.4	-0.1	
Saskatchewan	480.9	-1.5	-0.3	1.6	0.3	6.3	0.4	1.2	
Alberta	1,532.4	4.5	0.3	50.6	3.4	5.7	-0.5	0.1	
B.C.	1,894.5	-8.4	-0.4	57.3	3.1	8.2	0.3	-0.4	



### Inflation remains tame in November...

- The year-over-year rate of CPI inflation was 1.2% in November, up from 1.0% in the previous month. Despite this slight increase, inflation is well below the annual average of 1.6% posted in both 1996 and 1997.
  - Higher prices for cable TV, autos, university tuition, property taxes, travel tours, cigarettes and rent all pushed up CPI inflation in November. On the other hand, lower prices for gasoline, computers, and telephone services put downward pressure on the annual change in the CPI.
  - Inflation excluding food, energy and indirect taxes edged up to 1.4% in November, within the bottom half of the official 1%-3% target range.
  - At the provincial level, inflation ranged from a low of -0.4% in P.E.I. to a high of 2.0% in Saskatchewan.
- ...as underlying cost pressures are weak**
- Underlying inflationary pressures remain subdued. Commodity prices continue to trend lower and were down 17% from their year-ago level in November. And, producer prices were only 0.3% higher from their year-earlier level in November, pushed up only because of the depreciation of the Canadian dollar. Excluding the effect of the exchange rate, producer prices were down 2.4% on the year.

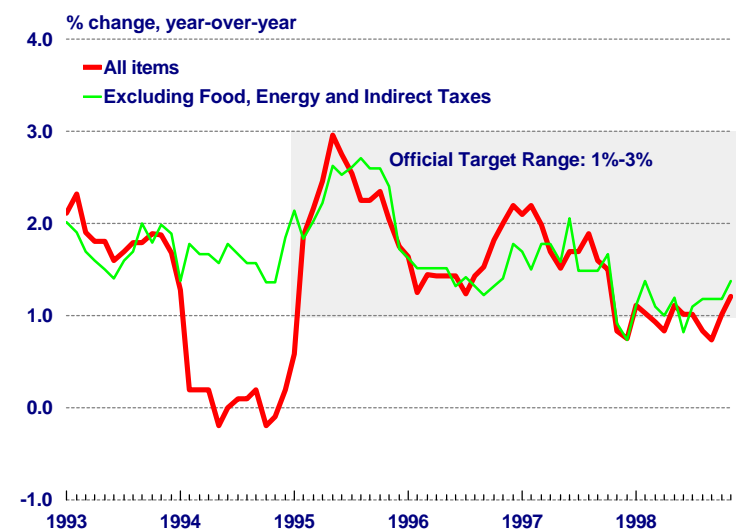
### Commodity Prices (\$U.S. basis)



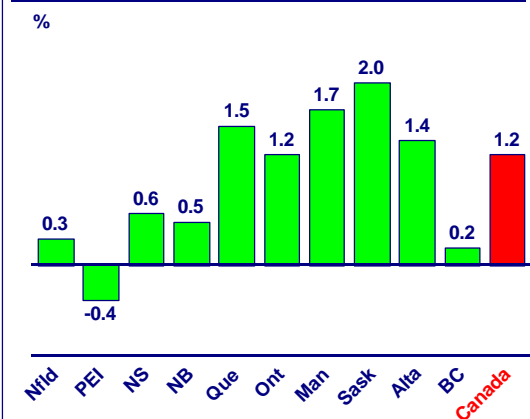
### Consumer Prices

	Index (1992=100)	% Change since	
		last month	last year
<b>November 1998</b>			
<b>All items CPI</b>	109.0	0.0	1.2
Food	109.7	1.1	1.6
Shelter	104.2	0.0	1.0
Household operations	107.9	-0.1	1.3
Clothing & Footwear	104.5	-1.5	1.4
Transportation	121.1	0.5	-0.4
Health & Personal Care	108.9	0.2	2.3
Recreation, Educ. & Reading	117.2	-1.6	2.0
Alcohol & Tobacco	93.5	0.2	3.7
<b>Excl. Food/Energy/Indirect Taxes</b>	110.7	-0.1	1.4
Energy	104.1	-0.7	-3.5
<b>Commodity Prices (November)</b>			
Index, 1982-90=100	85.8	-1.2	-17.0
Excluding Energy	99.2	0.7	-11.3
Energy	60.7	-6.5	-30.8

### Consumer Price Index



### Provincial CPI Inflation -- November 1998



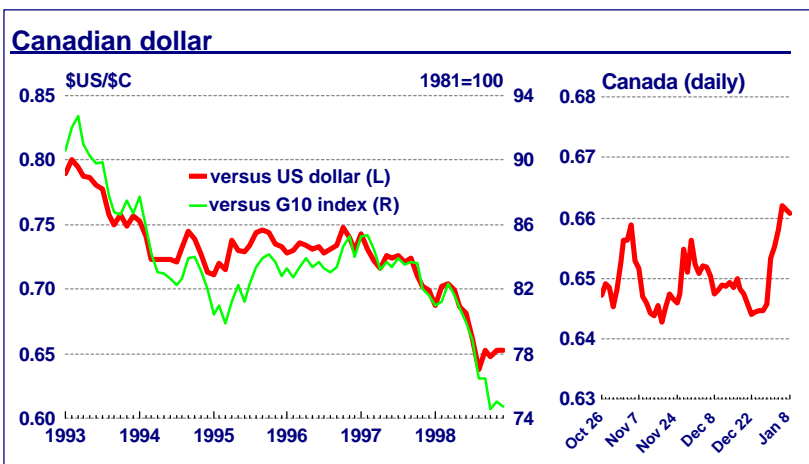


### The Canadian dollar rallies early in January...

- The Canadian dollar hovered around US65¢ through most of last Fall and finished 1998 down about 5 cents on the year. However, the dollar rallied in early January, posting its best three-day performance in more than a decade. The dollar closed near a three-month high of US66.2¢ on January 8, up more than 1½ cents from its end-of-year value.
- The recent surge in the Canadian dollar was sparked by renewed optimism for a quicker economic recovery in Asia and hence, a somewhat more bullish outlook for commodity prices.

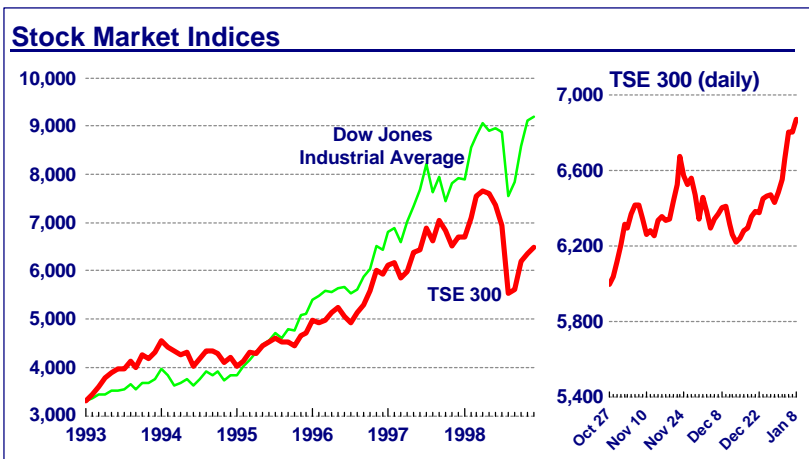
### ...and stock markets also start the new year on a strong note

- Following the U.S. lead, Canadian equities have staged a significant rally since the end of October, recovering about two-thirds of their losses since the sharp fall in stock prices triggered by financial crises in Asia and Russia last summer.
- The TSE, after falling by as much as 32% from its record April high, surged in the last two months of 1998 and ended December down only 3.2% on the year. The TSE rallied further in the first week of the new year, closing on January 8 up on a year-over-year basis but still down 12% from its April peak. By comparison, U.S. stock prices reached new all-time highs early in January.



### The Canadian Dollar

(close)	\$US vs. \$Cdn	index vs. G-10 (81=100)	DM vs. \$Cdn	yen vs. \$Cdn
1997	0.6991	81.62	1.247	90.87
1998	0.6522	74.69	1.082	75.91
1998 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	0.6522	74.69	1.082	75.91
Jan 8	0.6607			



### Key Stock Market Indexes

	December 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 Services	8,196	6.0	3.1
Goods	6,210	-7.5	9.5
Price-Earnings Ratio*	27.3	1.2	5.6
<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

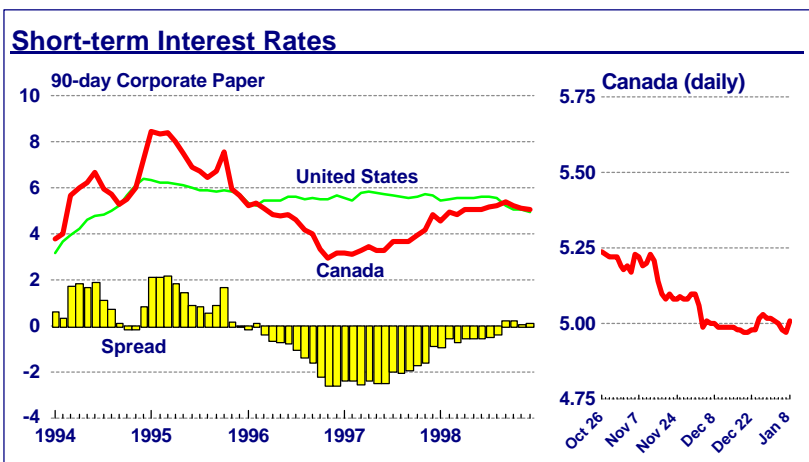


### Bond yields rise...

- Short-term interest rates were little changed during the month of December, the first month of relative stability since the Bank of Canada initiated a series of rate reductions last September.
- Long-term rates, after declining to relatively low levels late in November in anticipation of further easing of interest rates in North America, have edged up since mid-December. Higher yields were prompted by a series of economic releases pointing to stronger-than-expected growth in North America. In addition, as equity markets recovered from earlier losses, an unwinding of the "flight-to-safety" phenomenon has reduced the demand for bonds.

### ... but mortgage rates drop late in December

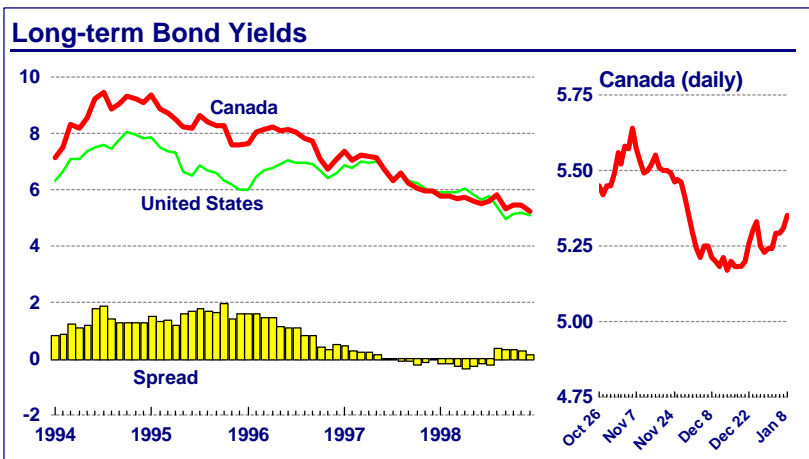
- Chartered banks reduced borrowing costs for homeowners by up to 20 basis points in December — the eighth round of reductions since mortgage rates peaked last summer. The 5-year mortgage rate fell to 6.6%, the lowest level since its introduction in 1969.
- However, the run-up in bond yields early in January suggests that mortgage rates have bottomed-out for now.



### 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
1998 July	5.14	-0.44	5.61	-0.16
Aug	5.22	-0.33	5.83	0.39
Sept	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	5.02	0.09	5.23	0.14
Jan 6	4.98	0.16	5.29	0.12

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



### Key Lending Rates

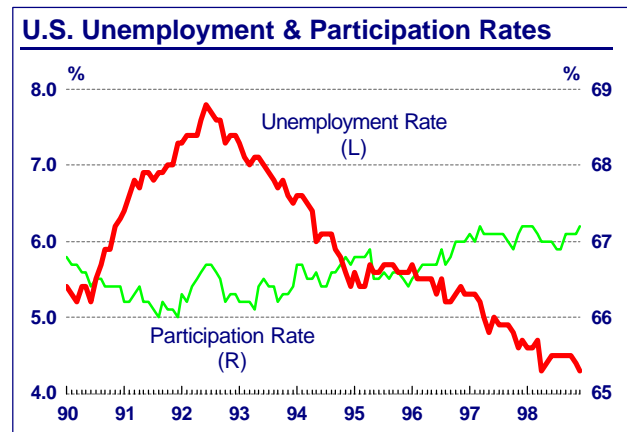
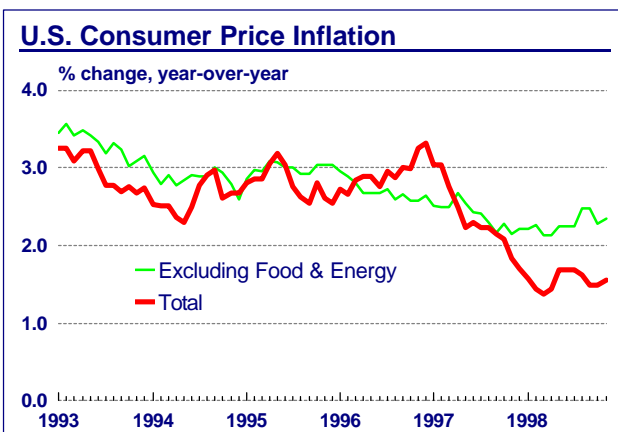
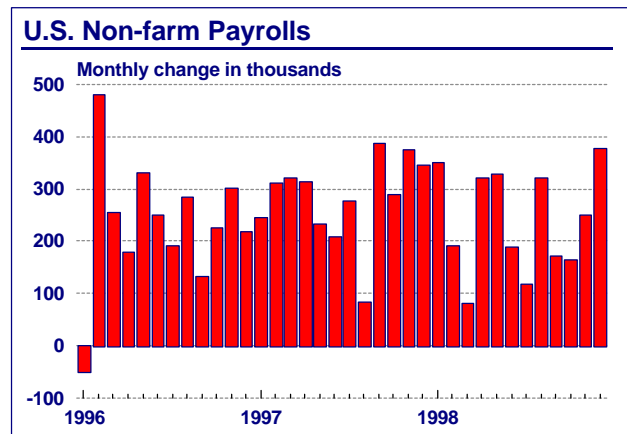
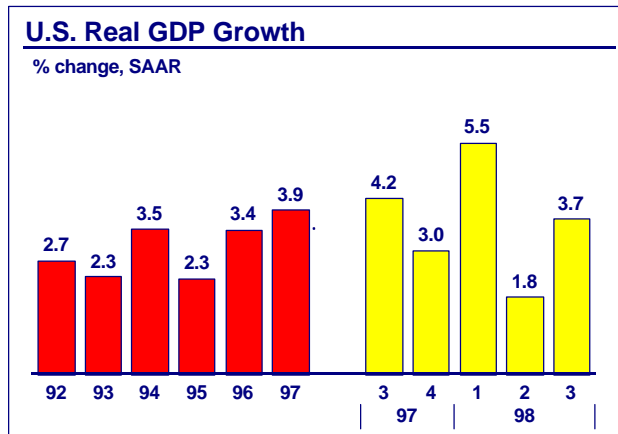
(end of period)	Bank Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
1997	4.50	6.00	6.65	7.05
1998	5.25	6.75	6.20	6.60
1998 July	5.00	6.50	6.55	6.95
Aug	5.00	6.50	6.75	7.15
Sept	5.75	7.25	6.75	7.15
Oct	5.50	7.00	6.50	6.75
Nov	5.25	6.75	6.40	7.15
Dec	5.25	6.75	6.20	6.60
Jan 8	5.25	6.75	6.20	6.60



## U.S. Economic Trends

### The U.S. economy displays surprising strength late in the year

- U.S. payroll employment rose a higher-than-expected 378,000 in December, the largest increase in 15 months. Meanwhile, the unemployment rate fell back to April's 28-year low of 4.3%. For all of 1998, the unemployment rate averaged 4.5%, the lowest annual rate in U.S. peacetime since 1957.
- Final estimates show that the U.S. economy expanded at a downwardly-revised annual pace of 3.7% in the third quarter, up from 1.8% in the second quarter. Robust consumer spending and an upturn in non-farm business inventory investment accounted for virtually all of the increase in GDP. Growth was held back by a further deterioration of the trade balance and lower non-residential business investment.
- The consensus forecast calls for growth of 3.7% in the U.S. for all of 1998. Surging consumer spending has enabled the U.S. economy to continue to expand robustly, even though weakness in the rest of the world is estimated to have subtracted 1.3 percentage points from output growth in 1998. High consumer spending has been sustained by a very strong labour market.
- The Federal Reserve opted to leave interest rates unchanged at its December 22 meeting. Whereas, until recently, the prevailing view was that the Fed would further ease monetary conditions early in 1999, expectations have now turned towards a more passive central bank. The continued robustness of the U.S. economy, increasing labour-market tightness, the recent stock market rebound, and easing credit conditions have convinced analysts that the Fed will hold firm when it next meets on February 2-3.







**Output**

***The economy will post only modest growth over the next two years...***

- The Canadian economy expanded by an estimated 2.9% in 1998, but slowed dramatically over the course of the year.
- The consensus private sector forecast calls for real GDP growth of 2.1% in 1999. While some forecasters predict growth of 1% or less, none expect the Canadian economy to contract in the upcoming year. Output growth is expected to pick up slightly to 2.4% in 2000.
- Downside risks to this outlook include further disruptions in global financial markets and a substantial weakening of the U.S. economy.

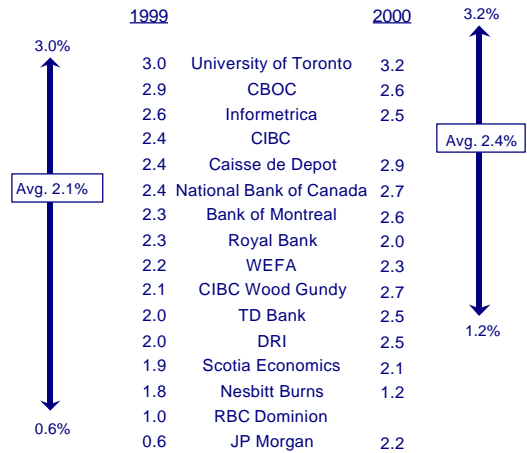
***...but is still expected to outperform other G-7 countries***

- In its December Economic Outlook, the OECD projects that the Canadian economy will grow at the fastest rate among the G-7 – 2.4% in 1999 and 2.9% in 2000.

***Canada's resource-based industries will remain weak, while growth in the Service sector should be strong.***

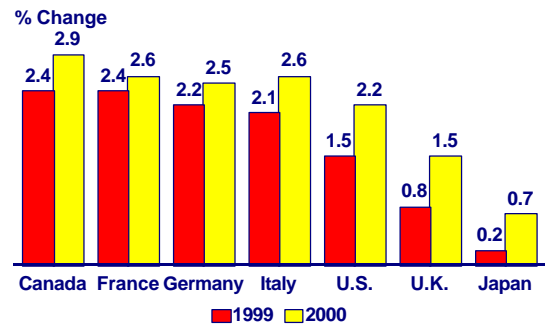
- Canada's resource-based industries have been hit hard by the Asian flu. The consensus view among private-sector forecasters is that this sector will continue to suffer from low commodity prices and stagnant world demand in 1999.
- Within the Service sector, Business Services is expected to post another healthy increase this year, continuing its recent record of strong growth.
- Government-related industries (Education, Health & Social Services and Government Services) will post below-average growth in 1999. However, there is some potential for stronger growth in coming years on priority areas such as Health.

**Outlook for Real GDP Growth**



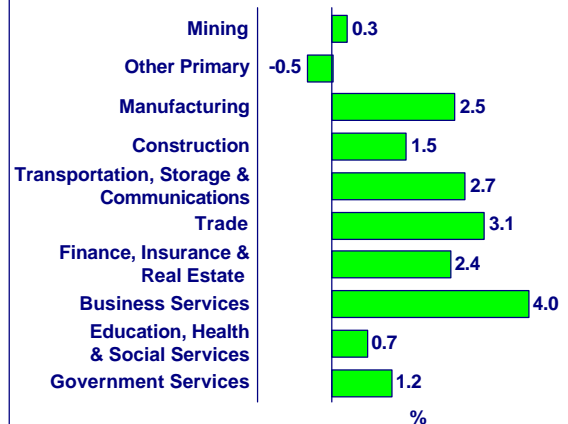
Latest available forecasts as of January 1999.

**G-7 Growth Projections: Real GDP**

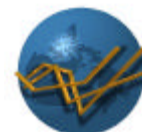


Source: OECD Economic Outlook, December 1998

**Forecast Real GDP Growth by Industry, 1999**



\*Consensus projections from available private-sector forecasts.



## Households and Consumer Spending

### *Labour markets will cool from a very strong performance last year...*

- Net job creation totalled 449,000 in 1998 (or +2.7%), the best annual performance so far this decade. Private-sector forecasters expect that employment growth will slow to 1.8% in 1999, and 1.7% in 2000.
- Slower employment growth should therefore be outpaced by growth in the labour force, resulting in a slight rise in the national unemployment rate in 1999.
- Even so, the strong employment gains recorded late last year, coupled with the expectation of some tax relief should translate into higher real after-tax incomes. Indeed, the consensus forecast calls for an increase of 2.0% in real personal disposable income in 1999, which (if realized) would be the best result in four years.

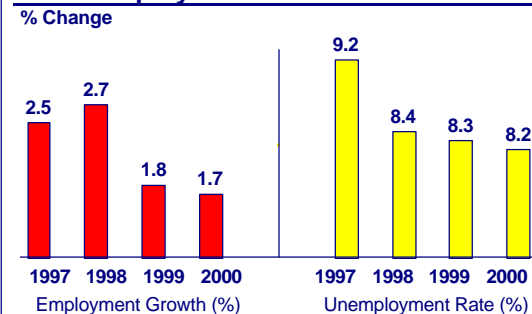
### *...and consumers will be cautious spenders in 1999*

- Consumer spending will rise only slightly in 1999 as recent bouts of financial market turmoil have taken a toll on consumer confidence.
- Household finances have also weakened considerably, as is evident by a sharply declining saving rate and a debt load which now exceeds personal disposable income.
- As consumer spending accounts for almost 60% of GDP, slower spending is a major factor behind forecasts of an economic slowdown in 1999.
- The housing market is expected to rebound slightly from a flat 1998. The positive effects of low mortgage rates are expected to be offset by modest employment growth, lower immigration, and weak consumer confidence.

### *Consumer price inflation will remain within the official target range*

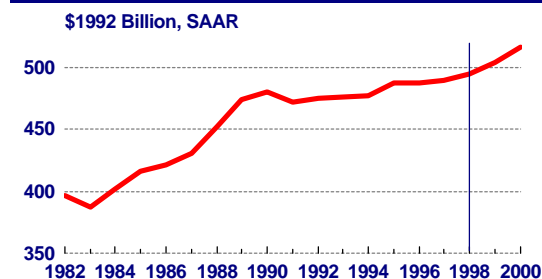
- Inflation will remain under control and within the Bank of Canada's official target range of 1-3%. Although the weaker exchange rate will put upward pressure on measured inflation (through higher import prices), this will be largely offset by continuing low energy prices.

### Employment Growth & the Unemployment Rate



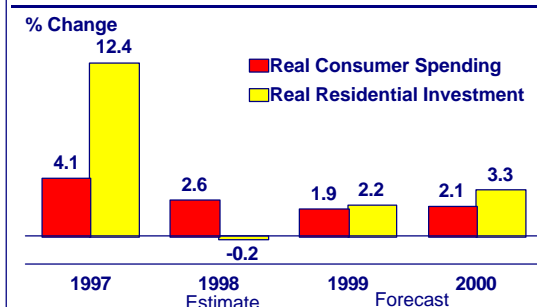
\*Consensus projections from available private-sector forecasts.

### Real Personal Disposable Income\*



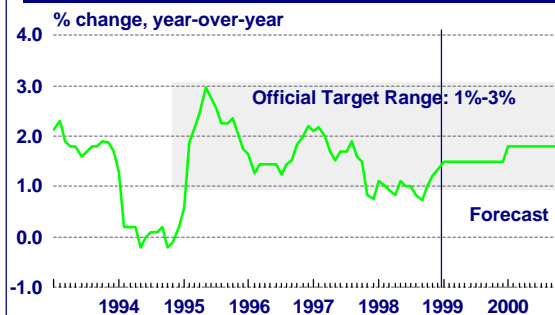
\*Consensus projections from available private-sector forecasts.

### Growth in Real Consumer Spending and Residential Investment



\*Consensus projections from available private-sector forecasts.

### Consumer Price Inflation



\*Consensus projections from available private-sector forecasts.

# SPECIAL REPORT: 1999 – The Year Ahead

## Corporate Sector and Investment



### **Corporate profits are expected to remain flat...**

- The recent fall in corporate profits can to a large extent be attributed to a sharp drop in commodity prices. Increasingly competitive conditions in North American markets have also squeezed profit margins.
- Commodity prices are not expected to rise significantly until demand in Asia strengthens and the excess supply of cheap resources on the world market subsides. These factors, combined with the general slowing of the Canadian economy, will preclude a major recovery in profits.

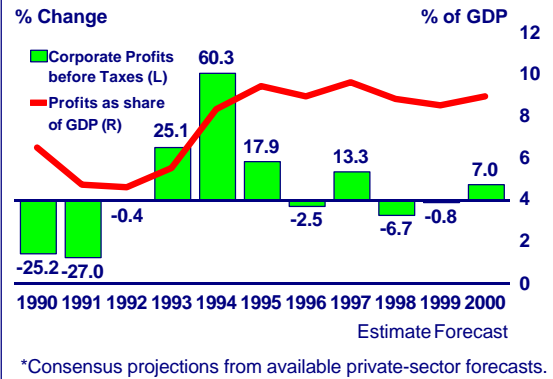
### **...but investment will remain strong as businesses fight the Y2K computer bug**

- Investment in computers and related equipment should remain very strong in 1999 as companies take measures to confront the Y2K bug. However, since much of this spending will be essentially borrowed from the future, investment in computers and related equipment should drop off once the Y2K issue has been dealt with.
- Lower profits (and hence retained earnings – an important source of investment financing for businesses), faltering trade and slowing domestic demand will contribute to weaker investment in industrial machinery and other capital equipment.

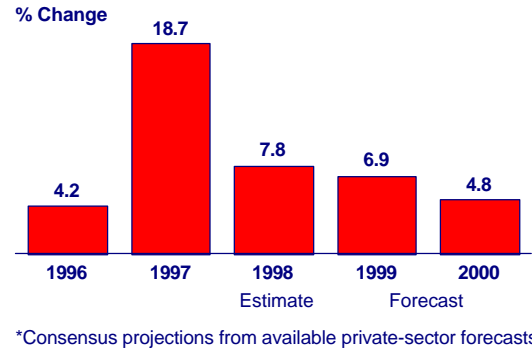
### **Activity in non-residential construction should slow as activity in the oil patch cools**

- Investment in non-residential construction should advance further in 1999, boosted by ongoing projects in the resource sector and infrastructure projects. However, growth will be below that in 1998.
- Low prices for crude oil will reduce conventional drilling activity in the oil patch. However, ongoing activity on the Sable Gas and Terra Nova sites will help sustain overall levels of investment.

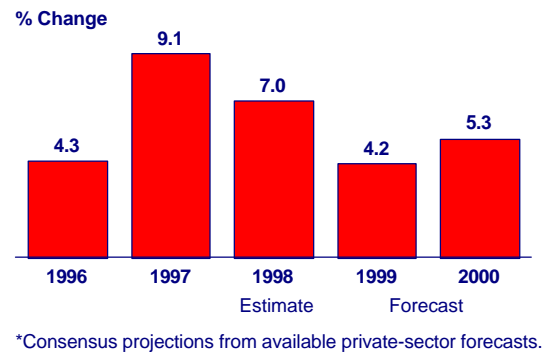
### **Growth in Corporate Profits**



### **Investment in Machinery & Equipment**



### **Investment in Non-residential Construction**





***U.S. economic activity is expected to soften...***

- The U.S. economy is expected to slow markedly in 1999. The strength of the U.S. dollar and weak demand in its major international markets will lead to a severe deterioration in the U.S. trade position. A softening in employment growth may also cut into domestic demand.

***...causing Canadian export growth to slow to a more moderate pace***

- Currently, the U.S. accounts for about 85% of Canadian exports. With an economic slowdown predicted for the U.S., Canadian exports are expected to grow more slowly in 1999 than in recent years.
- Elsewhere, exports to Asia are expected to be remain weak. Also of concern is the recent devaluation of the Brazilian real. This devaluation will lead to reduced exports to Latin America, and perhaps more importantly, stiffer competition for exports entering the important American market.
- These negative impacts on our export performance will be partly offset by the low Canadian dollar.

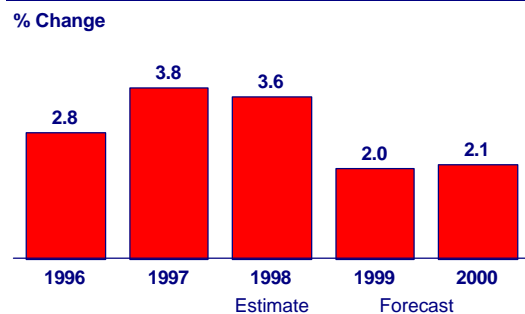
***Still, exports are expected to outpace imports...***

- Import growth is expected to slow in line with weaker domestic demand.
- Indeed, import growth will lag behind that for exports. As a result, Canada's trade sector is expected to contribute to overall growth in 1999.

***...leading to a larger trade surplus and a narrowing Current Account deficit***

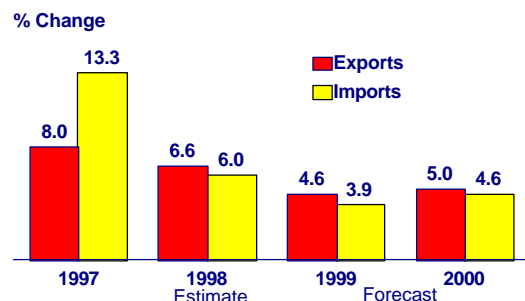
- The improved trade balance will lead to a narrowing of Canada's current account deficit.
- From an estimated \$17.1 billion last year, Canada's external deficit will shrink to \$14.9 billion in 1999 and \$9.7 billion in 2000.

**U.S. Real GDP Growth**



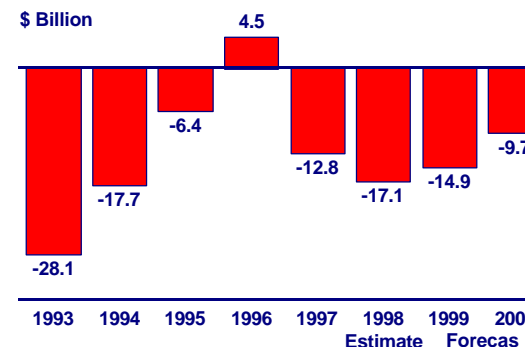
\*Consensus projections from available private-sector forecasts.

**Growth in Real Exports and Imports**



\*Consensus projections from available private-sector forecasts.

**Current Account Balance**



\*Consensus projections from available private-sector forecasts.



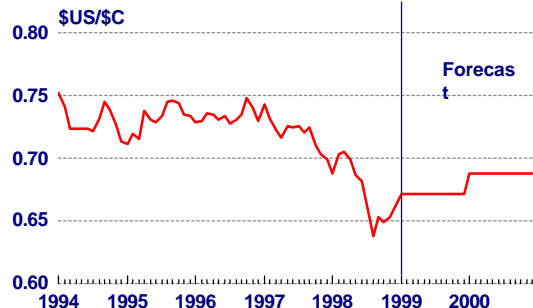
***The dollar is expected to rise only slightly following its collapse in 1998***

- As the Canadian dollar remains closely linked with commodity prices in the eyes of many global investors/traders, there is little prospect of the dollar picking up momentum in 1999.
- The dollar closed out 1998 at U.S. 65.22¢. The consensus private sector forecast calls for the dollar to average 67.1¢ in 1999 and 68.7¢ in 2000.
- A sharper rebound in the Canadian dollar will require stable international financial markets and a strong recovery in commodity prices.
- On January 1, the new euro was created by merging eleven European currencies. Some market watchers believe that the euro will compete with the U.S. dollar as a global reserve currency. This could weaken the U.S. dollar, indirectly strengthening the Canadian currency. The Canadian dollar may also be bolstered by investors seeking to diversify their currency holdings.

***Further cuts in U.S. short-term interest rates could provide room for easing in Canada***

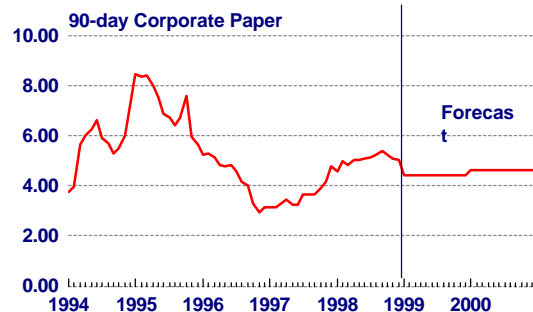
- According to most analysts, the U.S. Federal Reserve is not likely to increase short-term interest rates and could even ease monetary conditions in the first half of the year in an effort to sustain economic growth.
- The Bank of Canada would likely match any cuts in U.S. rates (as it has since September), given that inflation remains low and the economy is in no danger of overheating.
- Long-term rates in Canada and the U.S. should remain flat at very low levels over the next two years.

**Canadian Dollar**



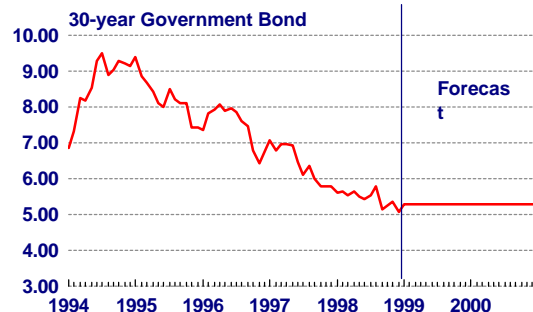
\*Consensus projections from available private-sector forecasts.

**Short-term Interest Rates**



\*Consensus projections from available private-sector forecasts.

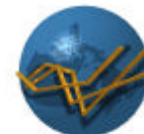
**Long-term Interest Rates**



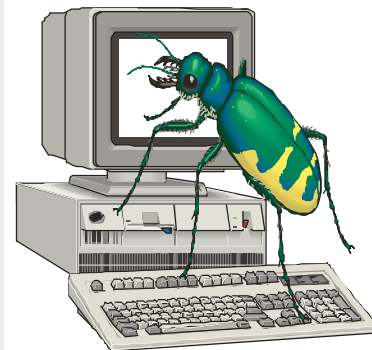
\*Consensus projections from available private-sector forecasts.

## SPECIAL REPORT: 1999 – The Year Ahead

### Annex: Potential Economic Impact of the Year 2000 (Y2K) Bug



- The Y2K bug refers to the possibility of computer systems misreading the two-digit year "00" as 1900 instead of 2000, causing these systems to malfunction or shut down. Microprocessors susceptible to the Y2K bug are also used in items such as elevators, security systems, microwaves, automobiles, power plants and credit cards.
- In its 1998 ranking of 87 countries, the Gartner Group\* concluded that Canada is among 12 countries with the lowest risk to Y2K-induced disruptions in power supplies, water, food, communications and banking. However, Canada remains vulnerable to disruptions in international trade and government services (particularly those administered at the provincial and municipal levels). On a positive note, Canada, along with the United States and Holland, were found to be at least 50% ahead of the rest of the world in terms of fixing the Y2K bug.



#### ***Business investment and consumer spending will be boosted in 1999...***

- Investment in computers and related equipment is expected to rise in 1999 as companies strive to become Y2K compliant. Tax relief measures introduced by Finance Minister Paul Martin last year were aimed at easing the financial burden of becoming Y2K compliant for small and medium size enterprises. Spending to build up levels of key inventories and raw materials is also expected to increase toward the end of 1999. Of course, these types of investments will slow substantially in 2000, as many firms will be essentially borrowing from the future in order to address the Y2K issue in time.
- As media coverage focuses on some of the potentially disruptive effects of the Y2K bug, households are expected to stockpile food and other basic essentials as the end of 1999 approaches. As with businesses, spending will then decline in the year 2000 as stockpiles are drawn down.

#### ***...but financial markets will be on edge***

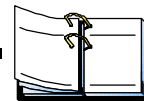
- The Bank of Canada and the U.S. Federal Reserve stand ready to offset any volatility in financial markets related to the Y2K problem. Some analysts fear that investors, worried about the ability of firms to cope with the Y2K bug, will remove funds from the stock market and place them in relatively safer instruments such as government bonds.
- Monetary authorities are also prepared to print more money, as households are expected to withdraw larger than normal amounts of cash from bank machines towards the end of the year in case credit and debit cards do not work early in the new millennium.

#### ***The overall impact on the economy is difficult to assess***

- Treasury Board reports that the total cost of fixing the millennium bug will range from \$30-50 billion. The Canadian Imperial Bank of Commerce estimates that Canada's GDP growth will be 0.3 percentage points (or \$1.5 billion) higher in 1999 as businesses, governments and consumers spend more to combat the Y2K bug. However, it also predicts that most of this effect will be offset in 2000, reducing GDP growth by 0.2 percentage points.
- Of course, there are a number of downside risks for the economy as well. In addition to the economic disruptions caused by malfunctioning computer systems, some analysts fear the harmful effects of a potential slide in the stock market should investors shift their assets into safer instruments. Also, a credit crunch may occur if financial institutions decline loans to businesses that appear at risk to the Y2K bug. Widespread fears about the economic impact of Y2K could in fact become a self-fulfilling prophecy.

\* As quoted by Kathryn May in "Year 2000 bug can bite Canada across borders," The Ottawa Citizen, Thursday, October 29, 1998.





### Key Future Data Releases and Planned Events

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#### CANADA

Survey of Manufacturing – November .....	January 19
Consumer Price Index – December.....	January 20
International Trade – November .....	January 21
GDP at factor cost – November .....	January 29
Business Conditions Survey – January .....	February 2
Labour Force Survey – January .....	February 5
Private and Public Investment Intentions – 1999 .....	February 23
Financial Statistics For Enterprises – 4th Quarter 1998 .....	February 26
National Economic & Financial Accounts – 4th Quarter 1998 .....	March 1
Balance of International Payments – 4th Quarter 1998 .....	March 1

#### UNITED STATES

Consumer Price Index – December .....	January 14
International Trade – November .....	January 21
GDP – 4th Quarter 1998, Advance estimate .....	January 29
Federal Open Market Committee meeting .....	February 2,3
Employment Situation – January .....	February 5

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

The Special Report scheduled for the February MEI is entitled  
"The Canada-U.S Productivity Gap"



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

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