

MONTHLY ECONOMIC INDICATORS

October 1998

HIGHLIGHTS

-  **Employment rises by 73,000 in September despite sharp losses in Manufacturing.**
-  **Still, the unemployment rate holds steady at 8.3% due to a large increase in the labour force.**
-  **Lower Goods production results in the fourth consecutive monthly drop in total output in July.**
-  **The trade surplus rises on the strength of falling imports and higher exports.**
-  **Domestic financial markets remain volatile, but interest rates are trending down.**

Key Monthly Economic Indicators

		% Change		
		since month	last year	
Real GDP (\$92 B)	705.1	-0.3	1.1	July
Goods	232.0	-1.1	-1.1	July
Services	473.1	0.1	2.3	July
Composite Index	207.3	0.0	4.6	Aug
Employment (000's)	14,379	0.5	2.5	Sept
Full-time	11,645	0.2	2.4	Sept
Part-time	2,734	2.0	2.9	Sept
Unemployment* (%)	8.3	8.3	9.0	Sept
Youth*	14.7	14.5	16.4	Sept
Adult*	7.1	7.2	7.6	Sept
CPI inflation*	0.8	1.0	1.9	Aug
Retail Sales (\$M)	20,695	1.4	4.1	July
Housing Starts (000's)	135.4	-1.4	-8.0	Sept
Trade Balance* (\$B)	1,552	900	2,052	July
Exports	25,631	0.6	1.3	July
Imports	24,079	-2.1	3.6	July
M&E	8,462	0.2	8.9	July
3-mth Corp. paper* (%)	5.34	6.00	3.64	Oct 7
Long bond yield* (%)	5.40	5.74	5.99	Oct 7
Canadian dollar* (US¢)	64.86	63.61	72.41	Oct 9

*Data in levels only – % change not reported.

**This issue's Special Report:
Intrafirm Trade of Foreign Subsidiaries in Canada**

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.



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This report uses data available as of October 9, 1998. It has been prepared by Dave Dupuis, Joseph Macaluso, Stéfane Marion and Shane Williamson of the Micro-Economic Analysis Directorate. The special report in this issue was written by Rick Cameron. 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.



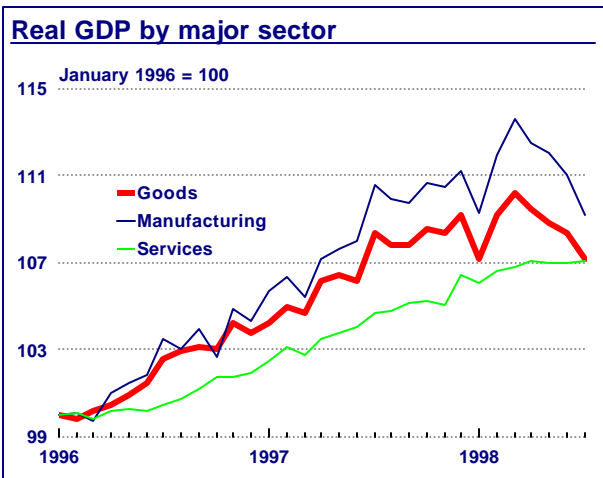
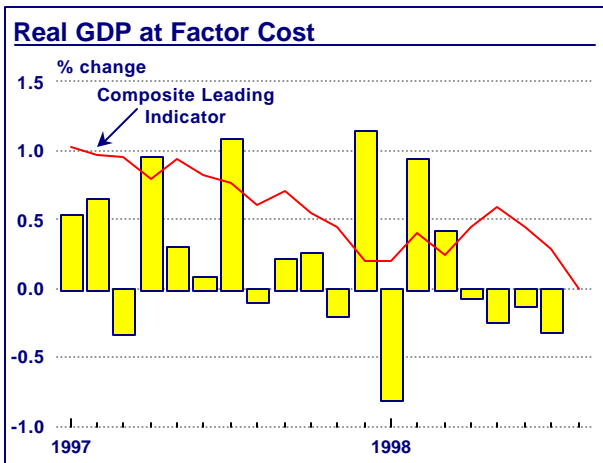
Real GDP by Industry

Output declines again in July...

- Real GDP dropped 0.3% in July – the fourth consecutive monthly decline – leaving output 0.7% below its March 1998 peak. Weakness in the economy may persist in coming months, as the composite leading indicator was flat in August.

...as labour disputes continue to hinder Goods production

- Widespread losses in the Goods-producing industries accounted for July's decline in total output. In Manufacturing, a strike by GM workers in the US played a key role in reducing production. Although the strike was resolved late in the month, employment figures for August and September indicate that this sector remains very weak.
- Elsewhere in the Goods-producing industries, activity in the Mining industry fell 1.7% due to weak conditions in the oil and gas sector. Logging recorded its ninth straight monthly decline, while output in the Construction industry was flat.
- In the Service sector, output has levelled-off in the past three months. Healthy gains in Retail Trade, Accommodation & Food, Communications, and Business Services were offset by losses in Transportation & Storage and Finance & Insurance.



Real GDP at Factor Cost (1992 dollars)

June 1998

	level	monthly change	% Change since last month	year
Total Economy	705,073	-2,207	-0.3	1.1
Business sector	579,173	-2,259	-0.4	1.4
Goods	231,964	-2,648	-1.1	-1.1
Agriculture	12,010	8	0.1	-1.2
Fishing & Trapping	887	-13	-1.4	0.1
Logging & Forestry	3,534	-108	-3.0	-16.8
Mining*	28,098	-491	-1.7	-2.2
Manufacturing	122,773	-2,089	-1.7	-1.3
Construction	39,843	-18	-0.0	1.2
Other Utilities	24,819	63	0.3	-0.3
Services	473,109	441	0.1	2.3
Transport & Storage	29,590	-477	-1.6	-0.9
Communications	26,472	167	0.6	5.7
Wholesale Trade	42,428	10	0.0	4.7
Retail Trade	42,637	636	1.5	4.1
Finance & Insurance	36,569	-255	-0.7	0.9
Real Estate & Ins. Agent	75,914	60	0.1	1.9
Business services	42,022	174	0.4	8.0
Government services	40,414	41	0.1	-0.2
Education	40,474	-63	-0.2	-0.3
Health & Social Services	48,861	23	0.0	0.7
Accommodation & Food	19,137	171	0.9	3.6
Other	28,591	-46	-0.2	1.4

*Includes Quarrying and Crude Petroleum & Natural Gas

THE ECONOMY



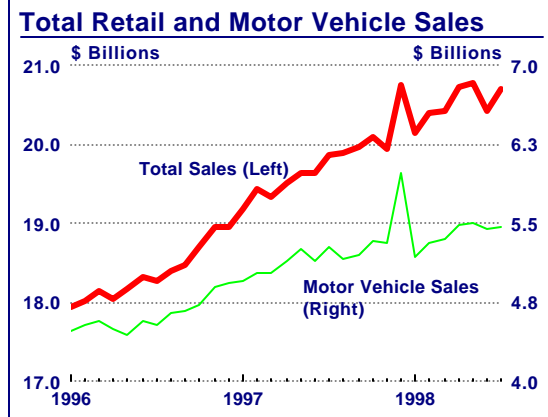
Consumer Spending and Attitudes

Surging consumer spending in the second quarter...

- Following a pause early in 1998, consumer spending surged 5.5% (annual rate) in the second quarter, growing at its fastest pace in 1½ years.
- About half of this gain was due to higher sales of new motor vehicles. Excluding motor vehicles, personal consumption increased roughly 3.5% (annual rate) in each of the first two quarters of the year.

...may not be sustained into the last half of the year

- The second-quarter rise in consumer spending was financed by lower personal savings and increased borrowing. Buoyant consumer spending is therefore unlikely to be sustained without a pick-up in disposable income. Consumer confidence fell sharply in the third quarter, shaken by the impact of global financial turmoil on the domestic economy.
- Based on available data, the outlook for the third quarter is mixed. Retail sales rebounded in July, but not enough to offset the decline that occurred in June.
- Automotive sales, largely responsible for surging consumer spending in the second quarter, were down in July. Sources in the industry suggest that sales will fall further in August.



Retail Sales and Consumer Credit

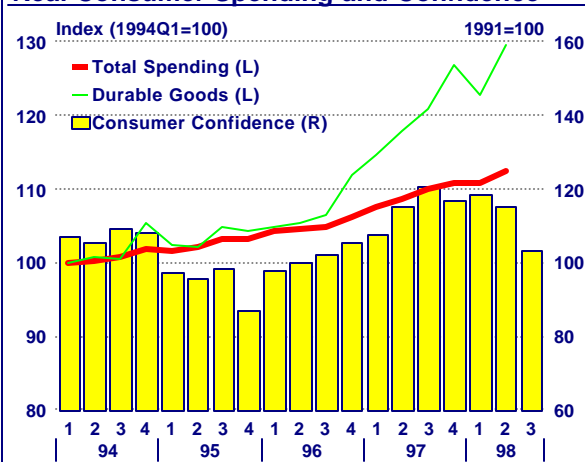
	\$ millions	% Change	
		index	last year
July 1998			
Total Retail Sales	20,695	1.4	4.1
Food	4,848	0.1	4.2
Drug Stores	1,104	1.2	7.6
Clothing	1,167	3.3	4.9
Furniture	1,071	2.5	11.0
Automotive	7,945	0.9	2.1
General Merch. Stores	2,347	4.3	6.2
All other Stores	2,213	1.3	4.0
Total ex. motor vehicles	15,232	1.8	4.3
Consumer Credit	153,310	0.9	10.2

Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	1996	1997	1998 Q1	1998 Q2
Real Consumption (92\$)	451,682	470,177	477,388	483,856
% change	2.4	4.1	0.6	5.5
Durable Goods	54,465	61,020	62,400	65,880
% change	3.7	12.0	-12.4	24.2
Semi-Durable Goods	42,816	44,606	46,596	46,584
% change	0.6	4.2	12.7	-0.1
Non-Durable Goods	116,773	117,922	117,732	118,668
% change	2.1	1.0	0.4	3.2
Services	237,628	246,629	250,660	252,724
% change	2.5	3.8	2.2	3.3
Disposable Income	518,167	523,010	531,632	524,576
% change	1.4	0.9	5.5	-0.2
Saving Rate (%)	5.8	1.7	1.2	-0.7
Debt-to-Income Ratio (%)	94.2	98.4	100.1	101.5
Consumer Attitudes*	101.2	115.0	118.4	115.8

*Conference Board of Canada

Real Consumer Spending and Confidence





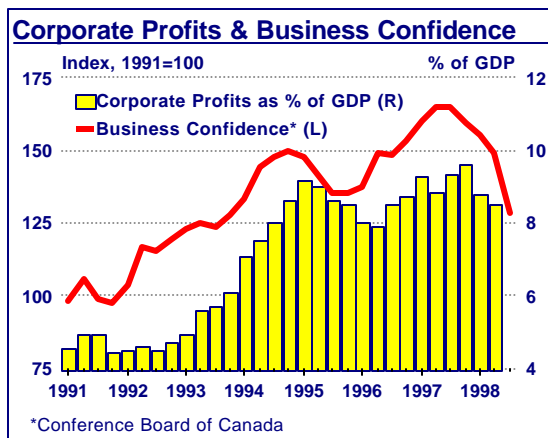
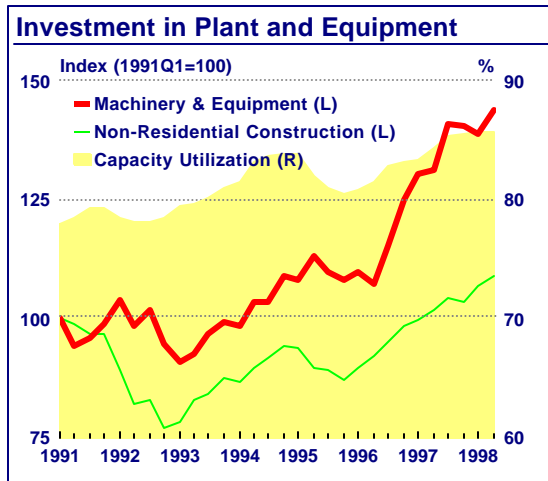
Business Investment in Plant and Equipment

Investment rebounds in the second quarter...

- Business investment in Machinery & Equipment (M&E) rose sharply in the second quarter, rebounding from declines in the previous two periods. Non-residential Construction slowed somewhat in the second quarter, but nonetheless posted a strong result.

...but lower business confidence may lead to a slowdown in the third quarter

- Business confidence fell by a record amount in the third quarter. Profits have fallen sharply in the past two quarters, hit hard by low commodity prices and weak foreign demand.
- Indeed, available data point to a slowdown in business investment in the third quarter. Imports of M&E were essentially unchanged in July after rising strongly in the second quarter.
- A slowdown in non-residential construction was due partly to striking crane and heavy equipment operators in Ontario, offsetting growth in that sector elsewhere in the country in July.
- Industries reduced their rate of capacity use slightly in the second quarter, reflecting slower economic growth. This represents the first decrease in capacity utilization in two years.



Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	1996	1997	1997 Q3	1997 Q4	1998 Q1	1998 Q2
BUSINESS INVESTMENT						
Machinery & Equipment	44,310	52,586	54,568	54,396	53,752	55,612
<i>% change</i>	4.2	18.7	32.3	-1.3	-4.7	14.6
Non-residential Construction	33,581	36,637	37,332	37,036	38,284	38,956
<i>% change</i>	4.3	9.1	10.7	-3.1	14.2	7.2
Capacity Utilization (% Non-farm goods)	82.1	84.6	85.4	85.5	85.7	85.6
Capacity Utilization (Mfg. sector)	82.5	84.9	85.8	85.8	86.2	86.2
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	96,067	110,682	112,732	116,020	107,816	102,852
<i>% change</i>	-1.1	15.2	21.3	12.2	-25.4	-17.2
Profits - Non-financial industries	71,871	82,218	82,656	84,760	79,676	73,896
<i>% change</i>	-6.7	14.4	4.0	10.6	-21.9	-26.0
Profits - Financial industries	24,194	28,462	30,072	31,260	28,140	28,956
<i>% change</i>	20.5	17.6	91.1	16.8	-34.3	12.1
Business Credit	570,653	620,412	627,130	646,767	660,392	674,568
<i>% change</i>	5.0	8.7	10.9	13.1	8.7	8.9
Index of Business Confidence*	147.0	162.3	164.9	159.2	155.0	148.9

*Conference Board of Canada



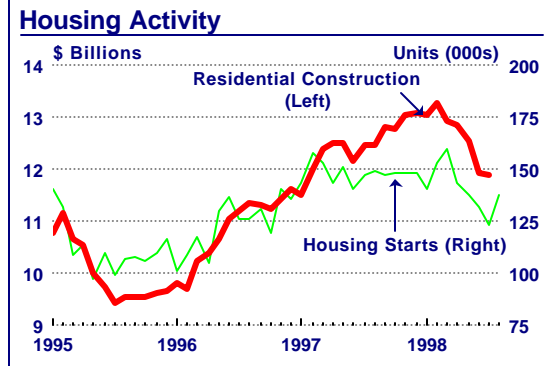
Housing

Spending on housing is down in the second quarter...

- Spending on Residential Construction declined in the second quarter, marking the third time in the past four quarters that activity in this sector has fallen.
- Though real estate commissions on sales of existing homes were up, new construction fell sharply. In addition to a general softening in housing demand, strike activity in some key trades contributed to the weak results.

...with mixed signals for the third quarter

- Monthly GDP figures for July show spending on residential construction down 4.4% compared to the second quarter.
- Housing starts rebounded in August and September due to the end of several building trades strikes in southern Ontario. However, third-quarter results are still 4.3% below the second-quarter average.
- Sales of existing homes remained virtually unchanged in August for the third month in a row, despite a modest mortgage rate increase at the beginning of the month.
- The total value of residential building permits surged 6.4% in August, after declining in four of the past five months.



Monthly Housing Indicators

	levels	Change since	
		last month	last year
Residential Construction (1) (\$92M, factor cost basis)	11,910	-0.2%	-4.5%
Building Permits, \$M (2)	1,483	6.4%	1.5%
Sales of Existing Homes (2) (# of units)	19,002	-30	
Housing Starts, # of units (3)	135,400	-1,900	-11,800
Newfoundland	1,200	-300	-200
Prince Edward Island	200	-300	0
Nova Scotia	3,200	-200	1,400
New Brunswick	1,200	-800	-800
Quebec	17,800	-1,200	-2,300
Ontario	47,700	-800	-1,400
Manitoba	2,300	800	100
Saskatchewan	2,900	800	200
Alberta	20,500	900	3,000
British Columbia	17,700	-800	-6,900

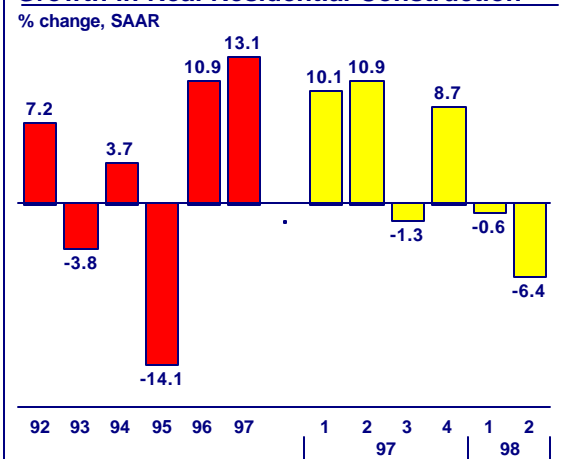
1 - July data; 2 - August data; 3 - September data.

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

Real Investment in Residential Structures

\$92 Millions, SAAR (unless otherwise noted)	1996	1997	1998 Q1	1998 Q2
Residential Construction	38,056	43,038	43,880	43,164
% change	10.8	13.1	-0.4	-6.4
Construction by Business sector	37,928	42,912	43,732	43,020
% change	10.9	13.1	-0.6	-6.4
New Housing	18,536	21,967	23,028	21,744
% change	8.5	18.5	2.3	-20.5
Alterations & Improvements	12,126	13,471	14,176	14,140
% change	7.4	11.1	9.9	-1.0
Ownership & Transfer Costs	7,394	7,600	7,188	6,676
% change	23.6	2.8	-25.6	41.4

Growth in Real Residential Construction





Trade and Competitiveness

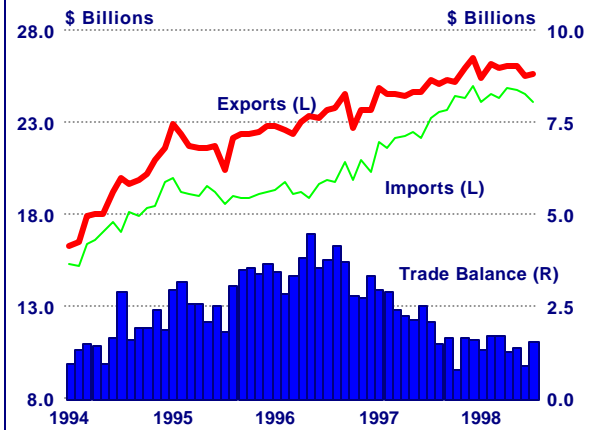
Exports recover slightly in July...

- Merchandise exports increased 0.6% in July, following a large decline in June. Automotive Product exports decreased for the fourth consecutive month, mainly due to plant closures in the industry. Strong gains were posted by M&E and Energy Products (in particular, natural gas).
- Exports to Japan fell in July, and are now down 50% compared to their 1996 peak. However, Canadian exports to Europe and the United States were up.

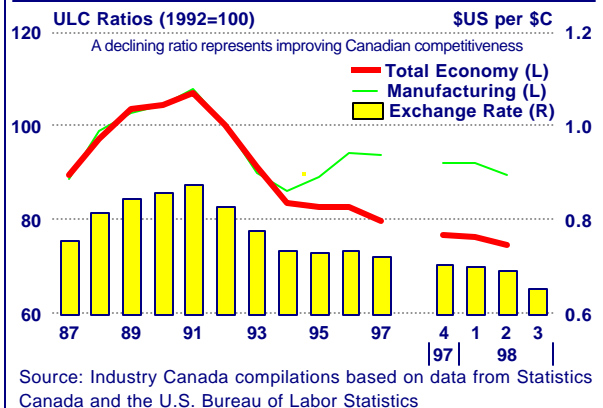
...but imports continue to fall, leading to a higher trade surplus

- Imports were down 2.1% in July, the third straight monthly decline. The main factor in this drop was a sharp decline in imports of Automotive Products, again due to strike-related plant closures.
- Given slightly-higher exports and lower imports, Canada's merchandise trade surplus increased to \$1.6 billion in July, up from \$0.9 billion the previous month.
- The sharp fall in the Canadian dollar in the third quarter should lead to a considerable improvement in Canada's competitive position against the U.S.

Merchandise Trade Flows and Balance



Canada-U.S. Unit Labour Cost Ratios



Merchandise Trade

July 1998	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	1998 June	1998 July	1997 Jan-Jul	1998 Jan-Jul	June to July 1998	June to July 1998	July 97 to July 98	
Exports	25,483	25,631	172,998	180,933	148	0.6	1.3	
to United States	21,258	21,583	138,941	150,348	325	1.5	5.4	
Imports	24,583	24,079	155,847	171,203	-504	-2.1	3.6	
from United	18,670	18,284	118,531	130,939	-386	-2.1	2.6	
Trade Balance	900	1,552	17,151	9,730	652			
with United States	2,558	3,299	20,410	19,409	741			
Exports by Commodity								
Agriculture/Fishing Products	2,009	1,968	13,953	14,340	-41	-2.0	-3.0	
Energy Products	1,961	2,147	15,796	13,941	186	9.5	-0.7	
Forestry Products	2,868	2,867	20,496	20,246	-1	-0.0	-0.6	
Industrial Goods & Materials	4,873	4,792	32,043	33,490	-81	-1.7	-0.1	
Machinery & Equipment	6,447	6,813	38,538	44,729	366	5.7	18.1	
Automotive Products	5,405	4,993	40,289	40,904	-412	-7.6	-15.7	
Other Consumer Goods	1,050	1,053	5,925	6,983	3	0.3	25.5	
Imports by Commodity								
Agriculture/Fishing Products	1,456	1,443	8,881	9,868	-13	-0.9	7.0	
Energy Products	792	699	6,197	5,278	-93	-11.7	-18.0	
Forestry Products	212	209	1,358	1,433	-3	-1.4	4.9	
Industrial Goods & Materials	4,898	5,018	30,645	34,438	120	2.4	11.5	
Machinery & Equipment	8,444	8,462	51,050	57,480	18	0.2	8.9	
Automotive Products	4,849	4,392	33,894	36,197	-457	-9.4	-14.3	
Other Consumer Goods	2,860	2,876	16,573	19,327	16	0.6	17.8	

LABOUR MARKET TRENDS



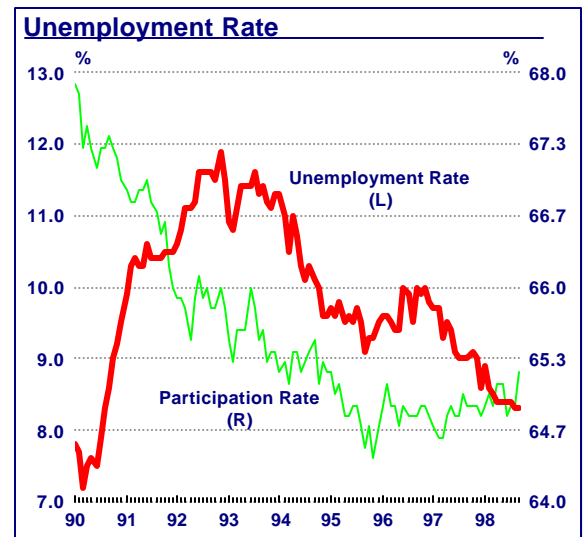
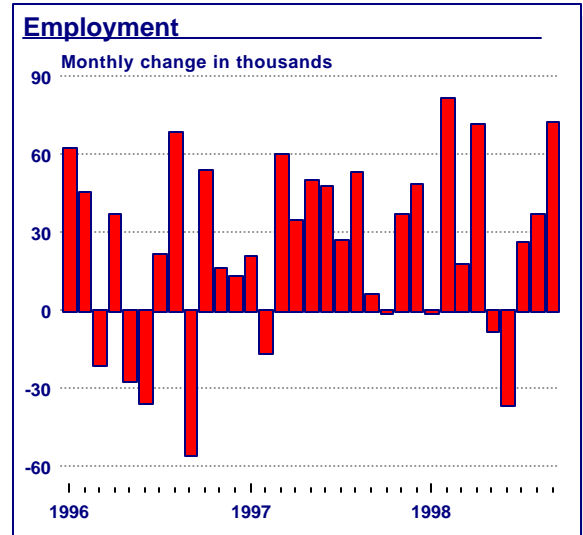
Employment and Unemployment

Employment surges by 73,000 in September...

- Employment advanced sharply in September (+73,000), bringing total job gains since the beginning of the year to 264,000.
- The September gain was the largest in eight months, but three out of four new jobs created were part-time positions. So far this year, part-time employment has risen at a much faster pace than full-time employment.
- Youth accounted for more than half of September's overall increase in employment, building on strong gains in the previous two months.

...but the unemployment rate is unchanged at 8.3%

- Job gains were offset by an increase in the number of persons seeking work, leaving the national unemployment rate unchanged at 8.3% in September – the lowest since August 1990.
- The adult unemployment rate edged down slightly to 7.1% on the month. Despite a sizeable hike in employment, the unemployment rate for youth rose 0.2 percentage points to 14.7% due to an even bigger jump in the youth labour force.



Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	1997 September	1998 August	1998 September	last month	last year	year-to- date	last month	last year
Employment	14,029.9	14,306.4	14,379.2	72.8	349.3	264.4	0.5	2.5
Full-time	11,373.0	11,626.7	11,644.9	18.2	271.9	143.3	0.2	2.4
Part-time	2,656.8	2,679.7	2,734.4	54.7	77.6	121.2	2.0	2.9
Youth 15-24	2,047.6	2,098.5	2,141.5	43.0	93.9	102.3	2.0	4.6
Adult 25+	11,982.2	12,207.9	12,237.7	29.8	255.5	162.1	0.2	2.1
Self-employed	2,517.9	2,555.4	2,577.3	21.9	59.4	101.3	0.9	2.4
Unemployment	1,384.6	1,298.7	1,301.2	2.5	-83.4	-20.1	0.2	-6.0
Unemployment Rate	9.0	8.3	8.3	0.0	-0.7	-0.3		
Youth 15-24	16.4	14.5	14.7	0.2	-1.7	-1.1		
Adult 25+	7.6	7.2	7.1	-0.1	-0.5	-0.1		
Labour Force	15,414.5	15,605.0	15,680.5	75.5	266.0	244.4	0.5	1.7
Participation Rate	64.9	64.9	65.2	0.3	0.3	0.4		
Employment Rate	59.1	59.5	59.8	0.3	0.7	0.6		



Industry Overview

More than half of September's job gains are in the public sector...

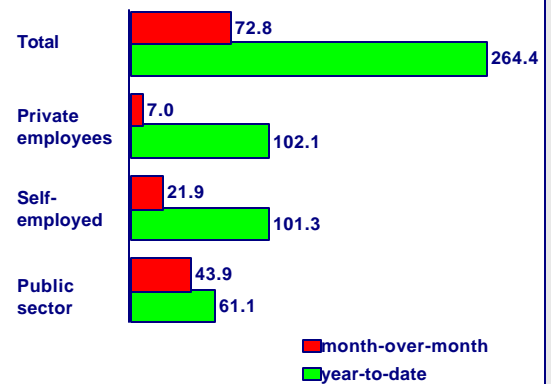
- Employment in the public sector increased by 44,000 in September, the biggest monthly gain since 1990. In contrast, the number of paid employees in the private sector edged up by only 7,000.
- With an increase of 22,000 in September, the number of self-employed has risen by 122,000 since April.

...but employment in the Goods-producing sector is down sharply

- Employment in the Goods-producing industries fell by 53,000 in September. Manufacturing lost 53,000 jobs, the largest of three consecutive monthly declines.
- The Mining sector, hit hard by sharply-lower commodity prices, also recorded job losses on the month.
- In contrast to the weak Goods sector, employment in Services was up 126,000 in September, boosted by a sharp gain in Business & Personal Services (+110,000). Other notable increases were posted by Health & Social Services and Finance, Insurance & Real Estate.

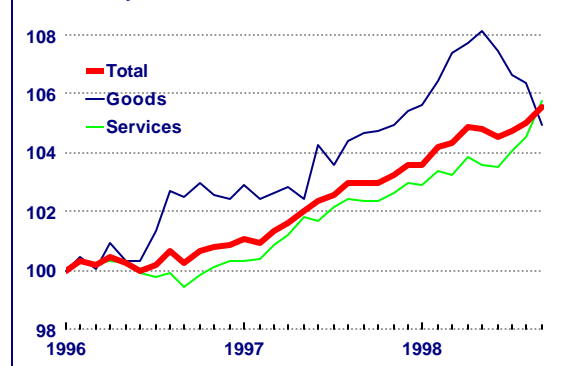
Employment growth by worker category

September 1998 (thousands)



Employment by major sector

January 1996 = 100



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	1997 September	1998 August	1998 September	last month	last year	year-to- date	last month	last year
Total	14,029.9	14,306.4	14,379.2	72.8	349.3	264.4	0.5	2.5
Goods-producing	3,799.6	3,863.6	3,810.7	-52.9	11.1	-18.5	-1.4	0.3
Agriculture	413.7	446.1	446.4	0.3	32.7	31.6	0.1	7.9
Mining & Oil Wells	184.2	171.8	158.8	-13.0	-25.4	-22.4	-7.6	-13.8
Other Primary	121.7	107.3	106.8	-0.5	-14.9	-4.7	-0.5	-12.2
Utilities	140.3	129.5	134.7	5.2	-5.6	-7.8	4.0	-4.0
Manufacturing	2,190.8	2,242.2	2,189.0	-53.2	-1.8	-41.6	-2.4	-0.1
Construction	749.0	766.7	775.1	8.4	26.1	26.6	1.1	3.5
Service-producing	10,230.2	10,442.8	10,568.5	125.7	338.3	282.9	1.2	3.3
TSCO*	917.0	911.2	916.9	5.7	-0.1	-5.8	0.6	-0.0
Wholesale Trade	653.7	686.2	685.3	-0.9	31.6	18.3	-0.1	4.8
Retail Trade	1,739.6	1,768.3	1,777.3	9.0	37.7	52.1	0.5	2.2
FIRE*	799.0	770.9	785.1	14.2	-13.9	-21.4	1.8	-1.7
Education	967.0	977.8	987.3	9.5	20.3	19.9	1.0	2.1
Health/Social Serv.	1,421.3	1,472.4	1,489.4	17.0	68.1	39.6	1.2	4.8
Bus. & Personal Serv.	2,948.5	3,056.9	3,140.4	83.5	191.9	175.3	2.7	6.5
Public Administration	784.2	799.0	786.8	-12.2	2.6	5.0	-1.5	0.3

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



Provincial Overview

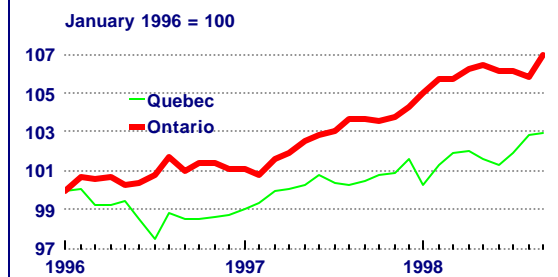
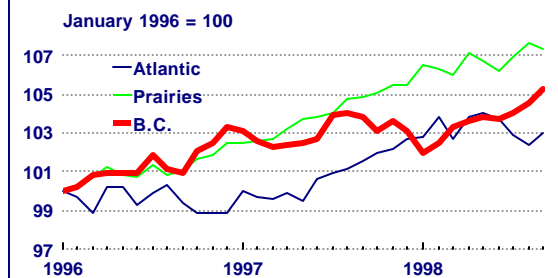
Ontario leads September job gains...

- Employment was up 62,000 in Ontario in September, the first major increase in this province since April. Five other provinces also posted a net gain on the month, including an increase of 12,000 jobs in British Columbia.
- A loss of 5,000 jobs was reported for Alberta, while Manitoba, Nova Scotia and Saskatchewan each posted declines of 2,000 jobs.

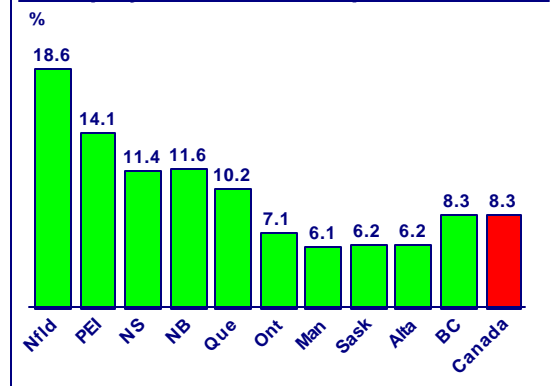
...but unemployment rates are up sharply in Nova Scotia, PEI, Alberta and Manitoba

- In September, Nova Scotia's unemployment rate jumped up 0.8 points to 11.4%. The impact of job losses was compounded by growth in the labour force.
- Lower employment also contributed to sharply higher unemployment rates in Manitoba and Alberta. In Prince Edward Island, the unemployment rate increased because of a large increase in the labour force (employment was up on the month).
- The unemployment rate edged down 0.1 percentage points in Ontario, and fell 0.3 points in Newfoundland, New Brunswick, Quebec, Saskatchewan and British Columbia.

Regional employment patterns



Unemployment Rates -- September 1998

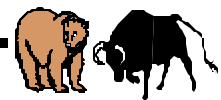


Provincial Employment and Unemployment Trends

	Employment (thousands)						Unemployment rate (%)		
	Levels 1998 September	Change since last month		Change since last year		Levels	Change since		
		(000's)	%	(000's)	%		last month	last year	
Canada	14,379.2	72.8	0.5	349.3	2.5	8.3	0.0	-0.7	
Newfoundland	194.6	4.2	2.2	1.3	0.7	18.6	-0.3	0.8	
P.E.I.	61.1	0.4	0.7	-0.1	-0.2	14.1	0.7	0.5	
Nova Scotia	400.3	-1.8	-0.4	6.3	1.6	11.4	0.8	-0.4	
New Brunswick	324.3	3.1	1.0	6.0	1.9	11.6	-0.3	-0.2	
Quebec	3,342.6	1.8	0.1	80.5	2.5	10.2	-0.3	-1.1	
Ontario	5,634.6	62.1	1.1	171.8	3.1	7.1	-0.1	-1.0	
Manitoba	547.3	-2.3	-0.4	7.7	1.4	6.1	0.5	-0.5	
Saskatchewan	476.4	-1.6	-0.3	0.3	0.1	6.2	-0.3	0.3	
Alberta	1,522.6	-4.7	-0.3	50.2	3.4	6.2	0.7	0.6	
B.C.	1,875.4	11.6	0.6	25.2	1.4	8.3	-0.3	-0.7	

PRICES and FINANCIAL MARKETS

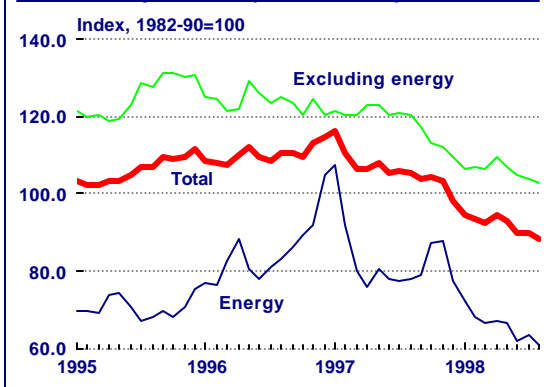
Consumer and Commodity Prices



Inflation edged down to 0.8% in August...

- The annual rate of CPI inflation was 0.8% in August, down from 1.0% in July. This was the tenth consecutive month of CPI growth between 0.7% and 1.1%.
 - "Core" inflation, which excludes indirect taxes and the volatile food and energy components, was 1.4% in August, in the bottom-half of the official 1-3% target band established jointly by the Bank of Canada and the Department of Finance.
 - Compared to last year, the largest price hikes in August were for tuition, cigarettes, piped gas, food and travel tours. These increases were partly offset by decreases in gasoline and computer prices, and lower mortgage interest costs.
 - Underlying inflationary pressures remain subdued. In August, commodity prices remained on a downtrend and producer prices were virtually unchanged from their year-ago levels.
- ...with the lowest rate in P.E.I.**
- In August, sharply lower shelter costs pushed the overall price level down 1.1% on a year-over-year basis in Prince Edward Island. Inflation was also quite low in Newfoundland, Nova Scotia and British Columbia.
 - Inflation in the Prairie provinces was significantly above the national average in August.

Commodity Prices (\$U.S. basis)



Consumer Prices

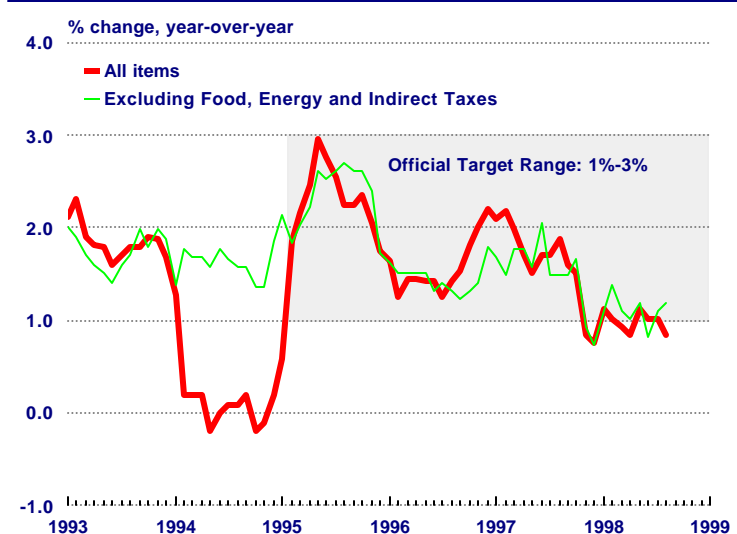
August 1998

	% Change		
	Index (1992=100)	since last month	last year
All items CPI	108.8	0.0	0.8
Food	109.2	-0.6	1.4
Shelter	103.7	0.1	0.6
Household operations	107.9	-0.1	1.4
Clothing & Footwear	104.7	2.0	1.1
Transportation	120.2	-0.2	-1.5
Health & Personal Care	108.4	0.0	2.3
Recreation, Educ. & Reading	119.3	-0.1	2.2
Alcohol & Tobacco	93.0	0.2	3.9
CPI excl. Food & Energy	109.2	0.2	1.4
Energy	104.0	-0.2	-5.2

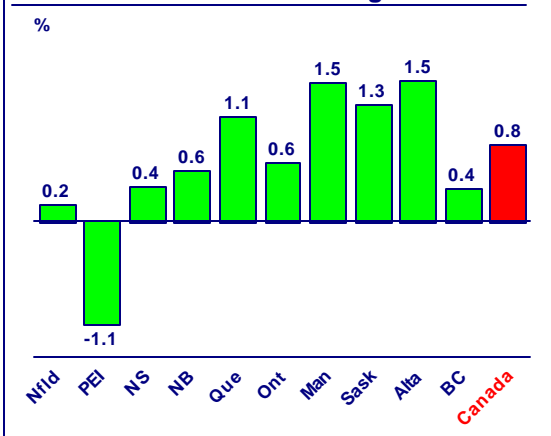
Commodity Prices (August)

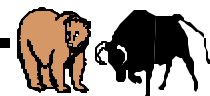
Index, 1982-90=100	88.2	-1.9	-16.5
Excluding Energy	102.6	-1.3	-14.9
Energy	61.2	-4.1	-21.3

Consumer Price Index



Provincial CPI Inflation -- August 1998



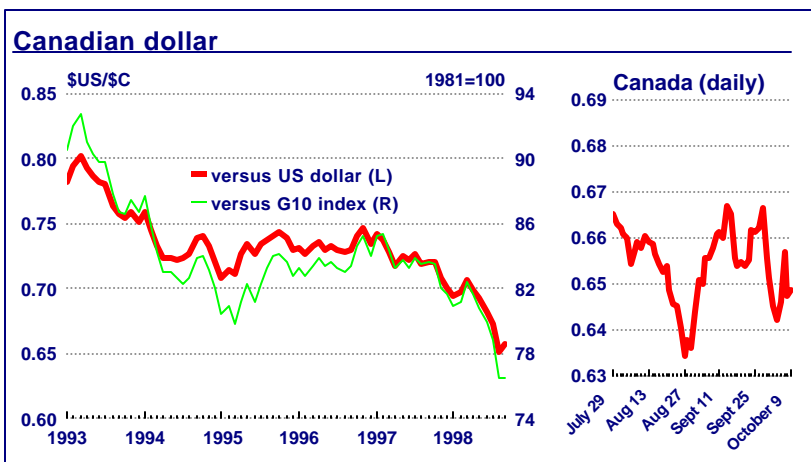


The Canadian dollar remains volatile...

- The Canadian dollar has been on a roller coaster ride in September and early October. Following the Bank of Canada's decision to lower interest rates in step with the U.S., the dollar plunged nearly one full cent on September 30 – its biggest one-day drop in three years. The dollar then rebounded by more than a cent on October 7 – its largest one-day jump in a decade – buoyed by Japan's announcement of a significant economic-stimulus package and expectations that U.S. interest rates might be headed lower. The dollar closed at US64.86¢ on October 9, down from as high as US66.68¢ in mid-September.

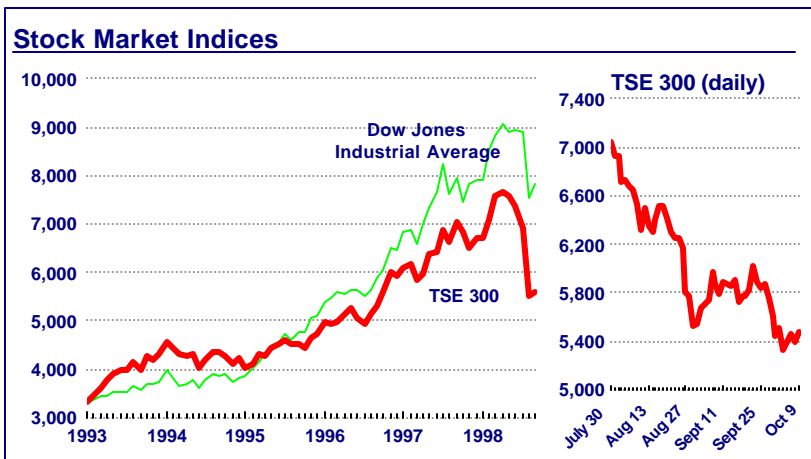
...while North American stock markets trend down

- Global market turmoil, falling commodity prices and lower corporate profits continue to trigger substantial volatility in Canadian stock prices. Following its biggest monthly loss since 1987 in August, the TSE 300 edged up through most of September. However, North American equity markets fell sharply on September 30, in reaction to a smaller-than-anticipated decline in U.S. interest rates.
- The TSE index has trended down early in October, reaching a two-year low of 5336 on October 5. Though the market has subsequently recouped some of these losses, it was nonetheless down 23.1% compared to its year-ago level on October 9.



The Canadian Dollar

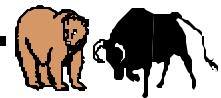
(close)	\$US vs. \$Cdn	index vs. G-10 (81=100)	DM vs. \$Cdn	yen vs. \$Cdn
1996	0.7296	84.00	1.139	83.64
1997	0.6991	81.62	1.247	90.87
1998 Apr	0.6988	81.63	1.268	92.21
May	0.6863	80.83	1.228	93.37
June	0.6813	79.96	1.223	95.71
July	0.6614	78.82	1.207	94.69
Aug	0.6376	76.50	1.164	94.15
Sept	0.6531	76.48	1.117	88.39
Oct. 9	0.6486			



Key Stock Market Indexes

	% change from		
	September Close	last month	last year
TSE 300	5,614	1.5	-20.3
Oil & Gas	5,246	19.3	-31.5
Metals & Minerals	2,936	17.4	-39.3
Utilities	5,835	-8.8	3.0
Paper & Forest	3,354	5.4	-34.1
Merchandising	5,129	3.4	-16.3
Financial	6,679	-1.3	-14.4
Services	6,540	54.7	-27.8
Price-Earnings Ratio*	23.9	0.6	0.1
S&P 500	1,017	6.2	7.4
Dow Jones	7,843	4.0	-1.3

*columns 2 & 3 reflect change in levels

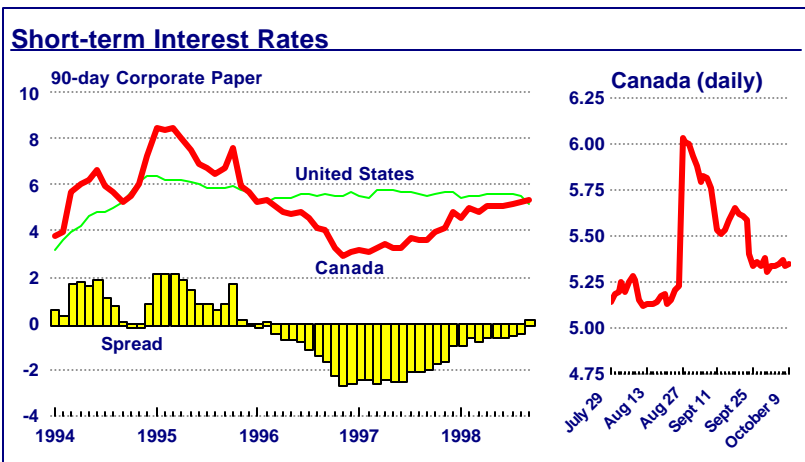


The Bank of Canada lowers interest rates...

- On September 29, the Bank of Canada lowered its trend-setting Bank Rate by 25 basis points (bp) to 5.75%, matching the reduction in U.S. interest rates announced by the Federal Reserve. Prior to this easing, the Bank of Canada had raised the Bank Rate 100bp late in August in a bid to bolster confidence in the Canadian dollar.

...easing credit conditions for consumers and businesses

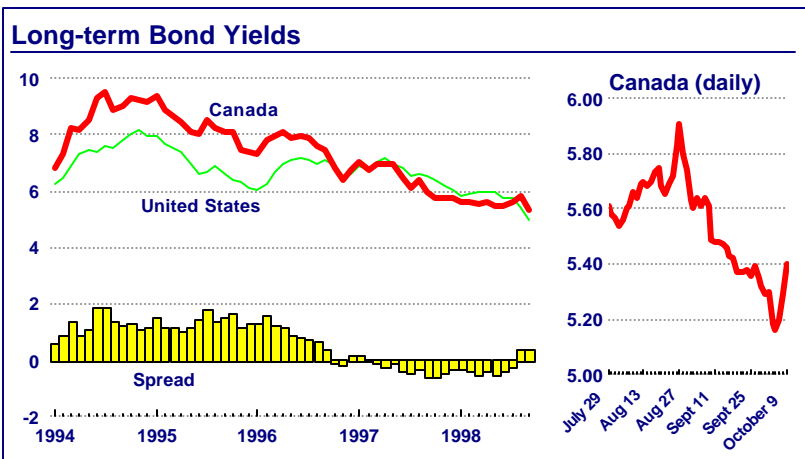
- The Bank's latest move prompted corresponding declines in consumer and business lending rates, including a 25bp drop in the prime rate. Long rates have fallen steadily since the end of August, leading to across-the-board reductions in mortgage rates ranging from 40bp for the five-year rate to 70bp for the one-year rate. In fact, the benchmark five-year mortgage rate is currently near a 20-year low.
- There is widespread expectation among financial market analysts that the U.S. Federal Reserve will further lower short-term interest rates when it next meets in November, which could allow other central banks to do the same. These expectations are reflected in the current pricing of the U.S. yield curve. As of October 9, the 30-year U.S. bond yield stood below the Fed funds rate.



Key Money Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
1996	3.13	-2.42	7.09	0.51
1997	4.80	-1.17	5.95	0.03
1998 Apr	5.04	-0.63	5.76	-0.31
May	5.04	-0.61	5.61	-0.22
June	5.06	-0.60	5.52	-0.13
July	5.14	-0.53	5.61	-0.15
Aug	5.22	-0.44	5.83	0.41
Sept	5.38	0.19	5.32	0.21
Oct. 7	5.36	0.15	5.20	0.37

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



Key Lending Rates

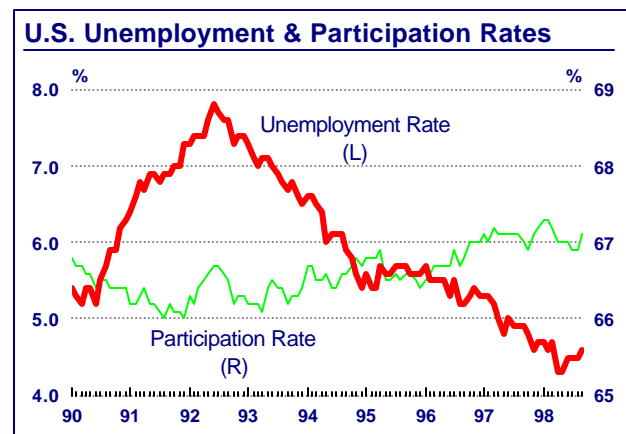
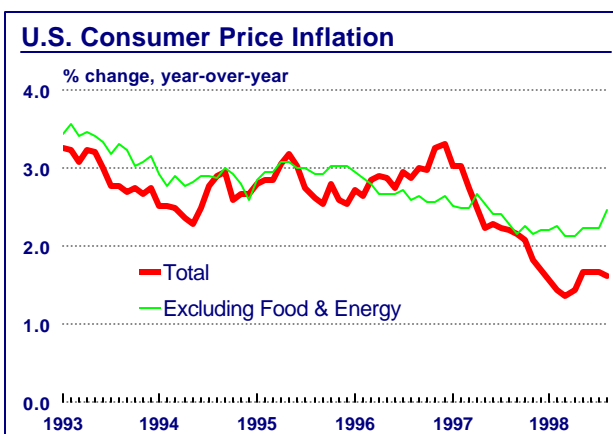
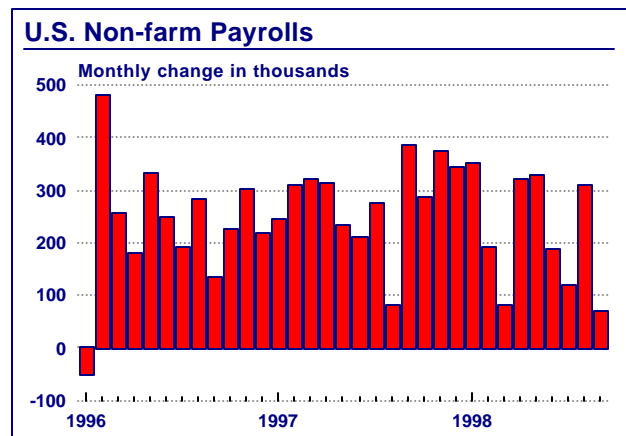
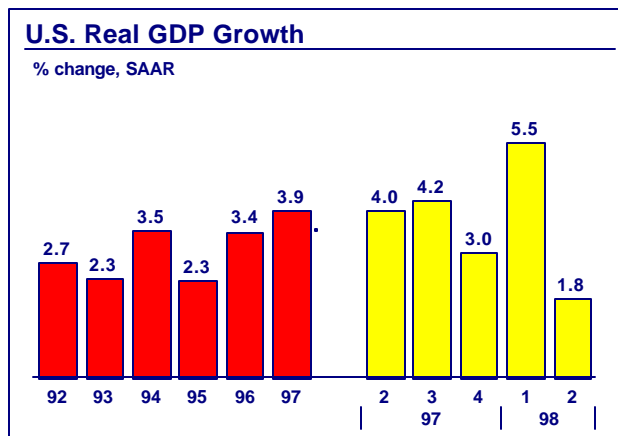
(end of period)	Bank Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
1996	3.25	4.75	5.20	6.95
1997	4.50	6.00	6.65	7.05
1998 Apr	5.00	6.50	6.55	6.95
May	5.00	6.50	6.55	6.95
June	5.00	6.50	6.55	6.95
July	5.00	6.50	6.55	6.95
Aug	6.00	7.50	7.45	7.55
Sept	5.75	7.25	6.75	7.15
Oct. 7	5.75	7.25	6.50	6.75

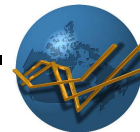


U.S. Economic Trends

Signs of a cooling U.S. economy prompt a cut in official interest rates

- Final estimates show that the U.S. economy expanded at an annual pace of 1.8% in the second quarter, down from 5.5% in the first quarter. Final domestic demand remained the main engine of growth, buoyed by robust consumer spending and strong increases in M&E investment and residential building.
- The robust performance of the U.S. economy over the last year has led to a better-than-expected improvement in the federal government's fiscal position. For the fiscal year ending September 30 (FY1998), President Clinton announced a surplus of \$70 billion -- the first in nearly 30 years. This outcome was well above the White House's last official estimate (in May) of a \$39 billion surplus.
- Available data for the third quarter suggest that the U.S. economy is cooling off. In September, non-farm payroll employment rose 69,000, the smallest gain in nearly three years, and the unemployment rate edged up to 4.6%. Total hours worked, a good indicator of GDP growth, was up 1.1% in the third quarter, an increase similar to that registered in the second quarter.
- The Federal Reserve announced a 25 basis point reduction in short-term interest rates at the Federal Open Market Committee (FOMC) meeting on September 29. This move, prompted by the recent changes in the global economy and adjustments in U.S. financial markets, marked the first easing in U.S. monetary policy in over 2½ years (January '96). The widespread view among market analysts is that ongoing developments in the global economy and world equity markets will prompt further easing by the Federal Reserve at its next FOMC meeting on November 17.





Intrafirm Trade of Foreign Subsidiaries in Canada

Foreign-controlled firms are growing in importance in Canada

- The share of total revenues held by foreign subsidiaries has been rising steadily over the 1990s, reaching almost 30 per cent in 1995.
 - This compares to a share of 25% in 1989.

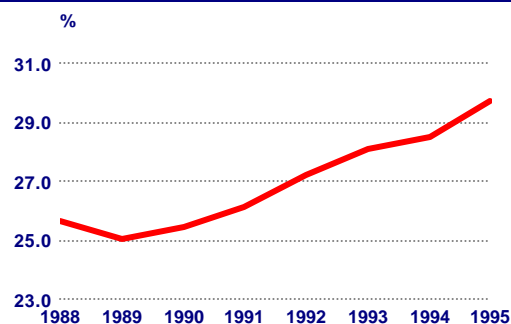
They are heavily concentrated in Ontario...

- Foreign-controlled firms have a greater tendency to locate in Ontario than in other provinces – even more than domestic firms do.
 - Ontario-based firms account for more than half (53%) of all revenues earned by foreign subsidiaries in Canada (compared with 38% for domestic firms).
 - Quebec accounts for an additional 17% of foreign-controlled revenues, followed by Alberta (12%) and British Columbia (11%).

...and are far more trade oriented than domestic firms

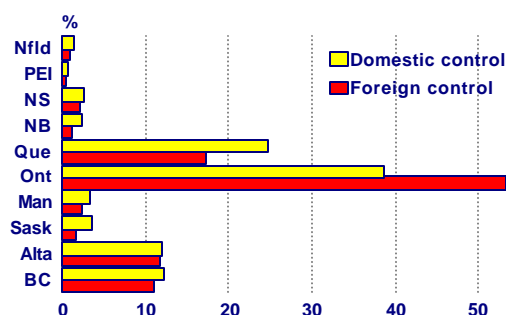
- The degree of trade orientation can be measured by comparing the level of exports and imports relative to total sales.
- Available data indicate that foreign-controlled firms are much more trade-oriented than their domestic counterparts.
 - The export orientation of foreign subsidiaries is more than double that of domestic firms (20.7% compared to 9.9% in 1992).
 - Similarly, the import orientation of foreign subsidiaries is significantly higher than that of their domestic counterparts. The ratio of imports to total sales was 22.7% for foreign-controlled firms in 1992, nearly three times as large as for domestic firms (8.1%).

Share of Corporate Revenues accounted for by Foreign-controlled firms



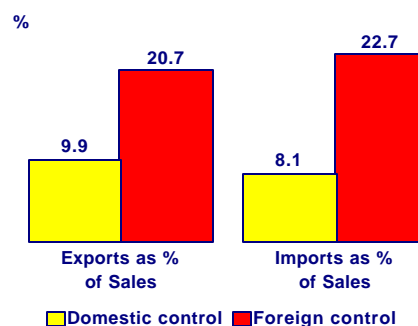
Source: Statistics Canada -- matrix 3296

Provincial distribution of corporate revenues, by control, 1991

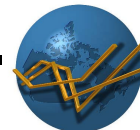


Source: Statistics Canada Cat. No. 61-222

Degree of trade orientation: domestic vs foreign firms, 1992



Source: Statistics Canada



Intrafirm Trade of Foreign Subsidiaries in Canada

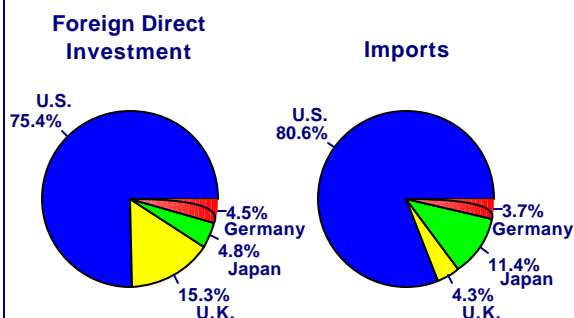
U.S. subsidiaries dominate imports by multinationals...

- Germany, Japan, Britain, and the U.S. account for some 85% of Canadian inward FDI stock, with the U.S. dominating the holdings of these major foreign investors.
- Among these countries, U.S. subsidiaries are responsible for four-fifths of all imports by foreign-controlled firms. In fact, the U.S. share of imports (81%) exceeds their investment share (75%).
 - Imports by Japanese subsidiaries also outperform their relative FDI stock position. German and British subsidiaries under-import relative to their FDI share.

...and play an important role in intrafirm imports

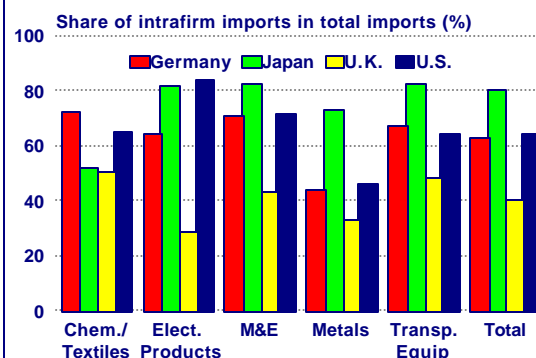
- Intrafirm imports by foreign subsidiaries account for 65% of their total imports into Canada. Japanese subsidiaries exhibit particularly high levels of intrafirm imports in sectors in which they participate.
- By industry, the relative share of intrafirm imports is highest in M&E and Transportation Equipment.
- Data in the table below indicate that the parent country is typically the most important source of intrafirm imports in most sectors. U.S. affiliates also tend to be an important source of imports.
 - For example, 59% of German intrafirm M&E imports are sourced from Germany, while a further 20% are sourced from U.S. affiliates.
 - Note that in the Food sector – where distance and perishability are factors – the U.S. is the prime source of intrafirm imports.

Shares of inward FDI stock and intrafirm imports by foreign-controlled firms, U.S., Japan, Germany and the U.K., 1990-92 averages



Source: Statistics Canada

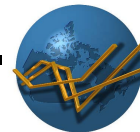
Average intrafirm import shares, selected industries, 1990-92



Source: Statistics Canada

Distribution of Intrafirm Imports in Canada, by Regional Source and by Country of Control (1990-92)

Country of Control: Source of imports:	Germany		Japan		United Kingdom		United States
	Germany	U.S.	Japan	U.S.	U.K.	U.S.	U.S.
	<i>per cent</i>						
<i>Chemicals/Textiles</i>	35.6	57.9	79.4	15.5	34.4	53.2	90.9
<i>Electrical Products</i>	81.5	13.5	67.2	11.5	38.8	46.6	71.0
<i>Machinery & Equipment</i>	58.7	20.4	85.6	9.2	25.2	56.6	89.1
<i>Metallic Minerals</i>	62.4	18.2	86.0	12.3	76.2	20.2	92.7
<i>Transportation Equipment</i>	77.1	10.1	79.1	20.2	86.4	8.3	93.4
<i>Consumer Goods</i>	30.2	52.6	82.6	10.0	68.6	27.0	78.4
<i>Food, Bev. & Tobacco.</i>	5.2	75.3	12.8	47.3	5.0	87.1	81.1
<i>All Industries</i>	57.5	30.6	77.9	17.1	40.9	49.2	87.7



Intrafirm Trade of Foreign Subsidiaries in Canada

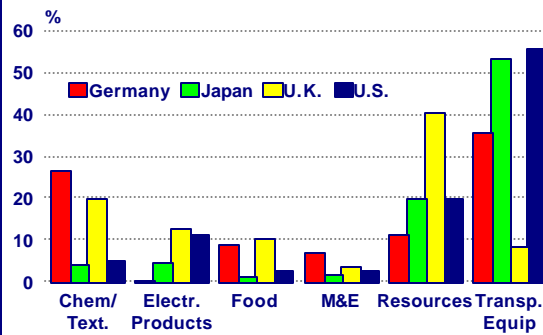
Exports of foreign-controlled firms are concentrated in a few sectors (notably Transportation Equipment)...

- By industry, the largest source of Canadian exports from U.S., Japanese and German-controlled firms is Transportation Equipment (including motor vehicles).
 - Indeed, more than one-half of exports from both U.S. and Japanese subsidiaries are in Transportation Equipment.
- For U.S. subsidiaries, the top three sectors – Transportation Equipment, Resources and Electrical Products – account for a combined 87% of all exports.
 - In the other countries, about three-quarters of all exports by foreign-controlled firms are sourced from the top three sectors.
- Resource-based products rank among the top-three exports for Canadian subsidiaries by country of control (and is the number one export for the U.K.)

...as are intrafirm exports to the U.S...

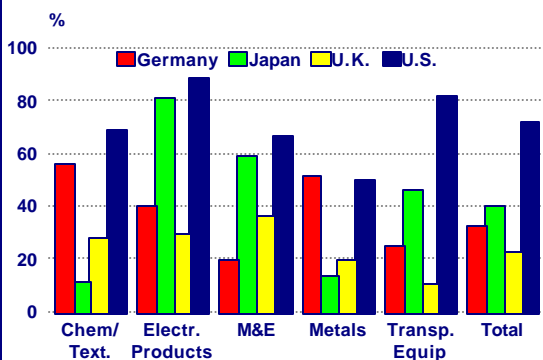
- Data on intrafirm exports are available only for exports to the U.S. Note that for non-U.S. subsidiaries, intrafirm export shares to the U.S. will be lower than intrafirm imports because sales relations with the parent firm are excluded.
- These data indicate that intrafirm export activity is higher in the high-tech and high value added sectors of the economy.

Share of exports by foreign-controlled firms by industry, 1990-92

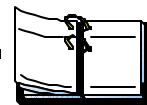


Source: Statistics Canada

Exports to U.S.-based affiliates as share of total exports to U.S., 1990-92



Source: Statistics Canada



Key Future Data Releases and Planned Events

CANADA

Economic and Fiscal Update (Dept. of Finance)	October 14
International Trade -- August	October 20
Consumer Price Index -- September	October 21
GDP at factor cost -- August	October 30
Business Conditions Survey	November 2
Labour Force Survey -- October	November 6
Financial Statistics for Enterprises, 3rd Quarter, 1998	November 20
National Economic & Financial Accounts, 3rd Quarter, 1998	November 30
Balance of International Payments, 3rd Quarter, 1998	November 30
Monetary Policy Report (Bank of Canada)	November

UNITED STATES

Consumer Price Index -- September	October 16
International Trade -- August	October 20
GDP -- 3rd Quarter 1998, advance estimate	October 30
Employment Situation -- October	November 6
Federal Open Market Committee meeting	November 17

Note: the October MEI uses data available as of October 9, 1998

The Special Report scheduled for the November MEI is entitled
"Recent Jumps in Patenting Activities in Canada"



Micro Economic Policy Analysis
Analyse de la politique micro-économique
