



MONTHLY ECONOMIC INDICATORS

August 1998

HIGHLIGHTS

-  **Employment rises 27,000 in July, rebounding from losses in the previous two months.**
-  **The unemployment rate holds steady at 8.4%, its lowest rate since August 1990.**
-  **Output declines in May, marking two consecutive months in which the economy failed to grow.**
-  **Exports remain sluggish, but lower imports leads to a larger trade surplus.**
-  **The dollar falls to a series of record lows in July and early August, dragged down by a weaker domestic economy and the Asia Pacific crisis.**

Key Monthly Economic Indicators

		% Change		
		since month	last year	
Real GDP (\$92 B)	710.0	-0.2	3.0	May
Goods	237.4	-0.5	2.8	May
Services	472.6	-0.1	3.1	May
Composite Index	206.7	0.5	5.8	June
Employment (000's)	14,270	0.2	2.1	July
Full-time	11,585	0.1	2.8	July
Part-time	2,685	0.8	-0.4	July
Unemployment* (%)	8.4	8.4	9.0	July
Youth*	15.3	15.9	16.7	July
Adult*	7.1	7.0	7.5	July
CPI inflation*	1.0	1.1	1.7	June
Retail Sales (\$M)	20.9	0.5	6.3	May
Housing Starts (000's)	132.7	-4.6	13.5	June
Trade Balance* (\$B)	1.7	1.2	2.1	May
Exports	26.1	0.0	6.0	May
Imports	24.5	-1.9	8.6	May
M&E	8.1	-2.1	7.9	May
3-mth Corp. paper* (%)	5.28	5.06	3.67	Aug. 7
Long bond yield* (%)	5.61	5.52	6.32	Aug. 7
Canadian dollar* (US¢)	65.71	67.95	72.39	Aug. 7

*Data in levels only – % change not reported.

**This issue's Special Report:
Recent Trends in Canada's Trade Performance**

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 August 7, 1998. It has been prepared by Martine Lajoie, Joseph Macaluso, Stéfane Marion and Shane Williamson of the Micro-Economic Analysis Directorate. The special report in this issue was written by Stéfane Marion and Patrick Taylor. 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.



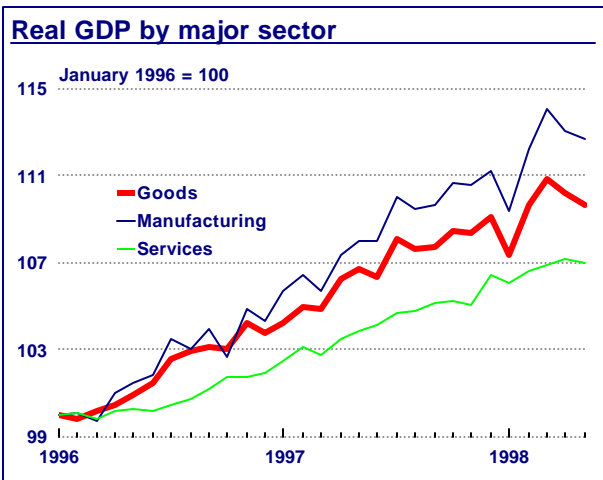
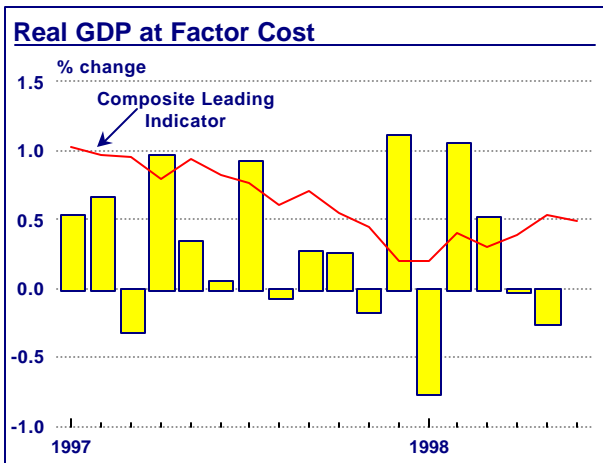
Real GDP by Industry

The economy contracts in May...

- Real GDP was flat in April and edged down in May, marking the first time in two years that the economy failed to grow for two consecutive months. Still, the average level of output so far in the second quarter is 2.0% above the first-quarter average (annual rate).

...largely due to lower production in goods-producing industries

- Output losses in the goods-producing industries accounted for two-thirds of the May decline in total output. Production in the Manufacturing sector was affected by retooling shutdowns in the auto industry, and a quick rebound is unlikely as the GM strike in the U.S. paralyzed most of the company's Canadian operations in June and July. Strike activity at residential building projects also led to lower Construction output – the effects of continued labour unrest is expected to show up in the June data as well. Mining suffered another large drop in output, the fourth loss in five months.
- In the service sector, activity in the Finance industries fell sharply due to a substantial decline in share trading volume. Indications of a turnaround in these trading volumes point to a rebound in this industry in June.



Real GDP at Factor Cost (1992 dollars)

May 1998

	level	monthly change	% Change since last month	year
Total Economy	710,022	-1,767	-0.2	3.0
Business sector	584,053	-1,693	-0.3	3.6
Goods	237,399	-1,183	-0.5	2.8
Agriculture	12,564	34	0.3	1.4
Fishing & Trapping	1,015	37	3.8	10.1
Logging & Forestry	3,927	-138	-3.4	-4.5
Mining*	28,382	-399	-1.4	1.8
Manufacturing	126,682	-422	-0.3	4.3
Construction	40,898	-332	-0.8	4.4
Other Utilities	23,931	37	0.2	-4.3
Services	472,623	-584	-0.1	3.1
Transport & Storage	29,757	-292	-1.0	0.6
Communications	26,362	118	0.4	6.0
Wholesale Trade	42,270	-48	-0.1	7.0
Retail Trade	42,985	13	0.0	6.1
Finance & Insurance	36,221	-631	-1.7	0.9
Real Estate & Ins. Agent	75,785	201	0.3	2.1
Business services	41,431	91	0.2	8.6
Government services	40,359	-49	-0.1	-0.5
Education	40,528	41	0.1	-0.0
Health & Social Services	48,921	-78	-0.2	0.9
Accommodation & Food	19,288	-143	-0.7	5.7
Other	28,716	193	0.7	2.6

*Includes Quarrying and Crude Petroleum & Natural Gas

THE ECONOMY



Consumer Spending and Attitudes

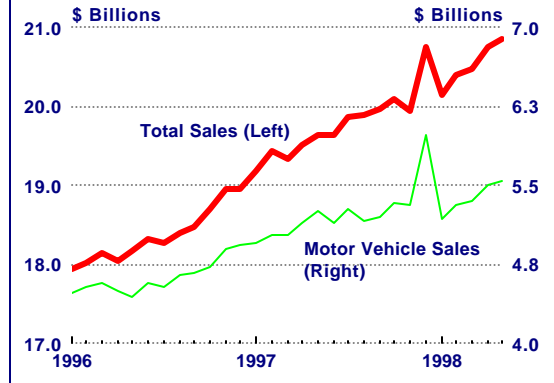
Solid growth in consumer spending in the first quarter...

- Consumer expenditures on goods and services rose 2.6% (annual rate) in the first quarter, building on a similar rise in the fourth quarter.
- This advance was fuelled by increased purchases of semi-durables and services. Spending on durable goods was down sharply, as auto sales retreated from a very high level in the fourth quarter of 1997.
- Household finances improved in the first quarter, with personal income increasing at its fastest pace since early 1990. The saving rate rose to 1.2% after two years of steady declines, and consumer debt relative to income edged down from a record high.

...is likely to be sustained into the second quarter

- Consumer confidence slipped in the second quarter, due mainly to a less favourable assessment of labour market conditions. Lower confidence also reflects ongoing uncertainty over developments in the Asia Pacific and the fate of the Canadian dollar.
- Still, the spending outlook for the second quarter is positive. Consumer confidence – though down – remains high as household balance sheets improve. And, retail sales posted a solid, broad-based advance in May, the fourth increase in as many months.

Total Retail and Motor Vehicle Sales



Retail Sales and Consumer Credit

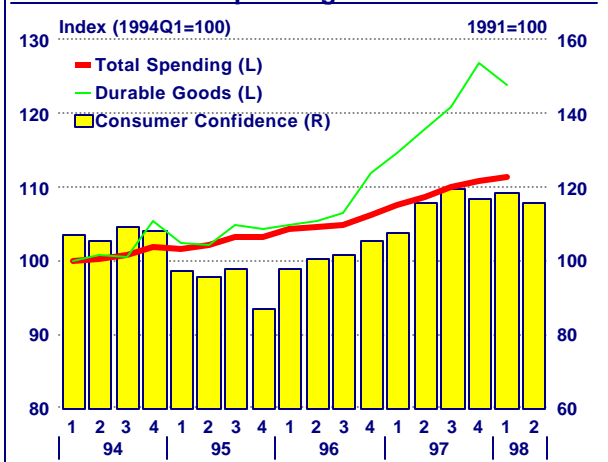
	\$ millions	% Change	
		index last month	last year
Total Retail Sales	20,861	0.5	6.3
Food	4,831	0.2	4.6
Drug Stores	1,105	1.6	9.5
Clothing	1,180	1.0	7.4
Furniture	1,045	2.5	8.2
Automotive	8,072	0.4	4.6
General Merch. Stores	2,371	-0.1	9.5
All other Stores	2,258	0.3	9.7
Total ex. motor vehicles	15,317	0.3	6.6
Consumer Credit	151,372	1.2	10.0

Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	1996	1997	1997 Q4	1998 Q1
Real Consumption (92\$)	451,682	470,177	476,624	479,688
% change	2.4	4.1	2.7	2.6
Durable Goods	54,465	61,020	64,500	62,948
% change	3.7	12.0	21.5	-9.3
Semi-Durable Goods	42,816	44,606	45,220	46,416
% change	0.6	4.2	0.8	11.0
Non-Durable Goods	116,773	117,922	117,608	118,052
% change	2.1	1.0	-3.6	1.5
Services	237,628	246,629	249,296	252,272
% change	2.5	3.8	1.7	4.9
Disposable Income	518,167	523,010	524,576	533,816
% change	1.4	0.9	1.9	7.2
Saving Rate (%)	5.8	1.7	0.1	1.2
Debt-to-Income Ratio (%)	94.2	98.4	100.1	99.6
Consumer Attitudes*	101.2	115.0	116.7	118.5

*Conference Board of Canada

Real Consumer Spending and Confidence





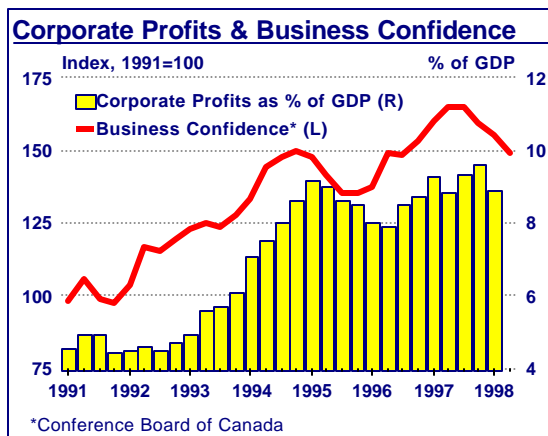
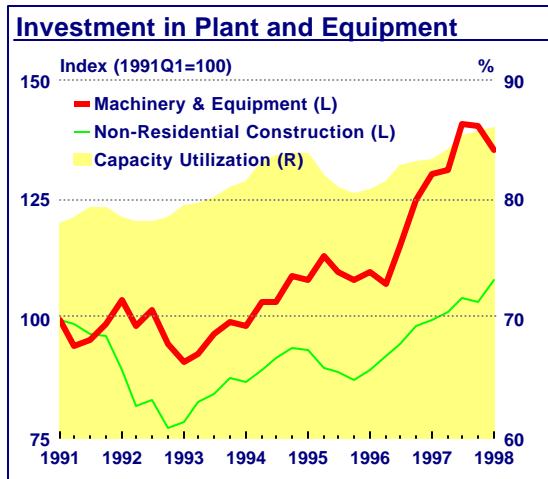
Business Investment in Plant and Equipment

Investment declines in the first quarter...

- Business investment in Machinery & Equipment (M&E) fell sharply in the first quarter, due to lower spending on Industrial Machinery, Motor Vehicles and Agricultural Machinery.
- The drop in M&E investment was partly offset by a strong rise in Non-residential Construction, based on solid gains in the Building and Engineering components.

...and the second-quarter outlook is mixed

- Business confidence declined for the fourth straight period in the second quarter. This decline stemmed mainly from heightened concern over firms' financial positions related to renewed economic instability in Asia and falling commodity prices.
- Even so, Statistics Canada's most recent survey of private and public sector investment intentions indicates that spending on plant and equipment is expected to increase 6.6% overall in 1998, with gains in both M&E and Non-residential Construction.
- Consistent with this result, available indicators for the second quarter are largely positive. Imports of M&E have edged up so far in the quarter, while output in Non-residential Construction in April and May averaged 3.2% higher than the first-quarter level (annual rate).



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	52,368	n/a
<i>% change</i>	4.2	18.7	32.3	-1.3	-14.1	
Non-residential Construction	33,581	36,637	37,332	37,036	38,720	n/a
<i>% change</i>	4.3	9.1	10.7	-3.1	19.5	
Capacity Utilization (% Non-farm goods)	82.1	84.6	85.3	85.7	86.0	n/a
Capacity Utilization (Mfg. sector)	82.5	84.8	85.5	86.0	86.7	n/a
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	96,067	110,682	112,732	116,020	109,104	n/a
<i>% change</i>	-1.1	15.2	21.3	12.2	-21.8	
Profits - Non-financial industries	71,871	82,218	82,656	84,760	81,688	n/a
<i>% change</i>	-6.7	14.4	4.0	10.6	-13.7	
Profits - Financial industries	24,194	28,462	30,072	31,260	27,416	n/a
<i>% change</i>	20.5	17.6	91.1	16.8	-40.8	
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

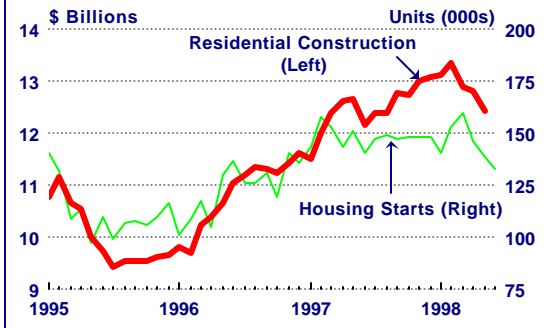
Spending on housing edges down in the first quarter...

- Residential investment in the business sector edged down 0.9% (annual rate) in the first quarter.
- Although activity in the housing sector has slowed from the fast pace set in 1996 and early 1997, residential investment was nonetheless 4.2% above its year-ago level in the first quarter.

...and the outlook points to continued softness in the second quarter

- Housing starts declined through the second quarter of 1998 as labour disruptions slowed construction in Ontario – which normally accounts for more than a third of total housing starts.
- Signs of reduced activity in the housing sector were also evident in monthly GDP figures for April and May, which showed spending on Residential construction down 13.4% compared to the first quarter (annual rate).
- Despite a small rise in June, the total value of residential permits fell 4.3% in the second quarter, with declines in both single- and multi-family units.
- One positive indicator is that sales of existing homes increased by 13.5% in the second quarter.

Housing Activity



Monthly Housing Indicators

	levels	Change since	
		last month	last year
Residential Construction (1)	12,452	-2.9%	-1.6%
(\$92M, factor cost basis)			
Building Permits, \$M (2)	1,429	0.6%	-0.8%
Sales of Existing Homes (2)	22,301		1,840
(# of units, unadjusted data)			
Housing Starts, # of units (3)	132,700	-6,400	15,800
Newfoundland	700	-200	-300
Prince Edward Island	400	100	0
Nova Scotia	2,100	1,300	-100
New Brunswick	1,800	100	-100
Quebec	17,000	-1,100	-2,300
Ontario	46,100	-4,500	2,500
Manitoba	2,400	-600	1,000
Saskatchewan	1,900	-400	200
Alberta	18,800	-4,600	2,400
British Columbia	21,000	3,500	-8,000

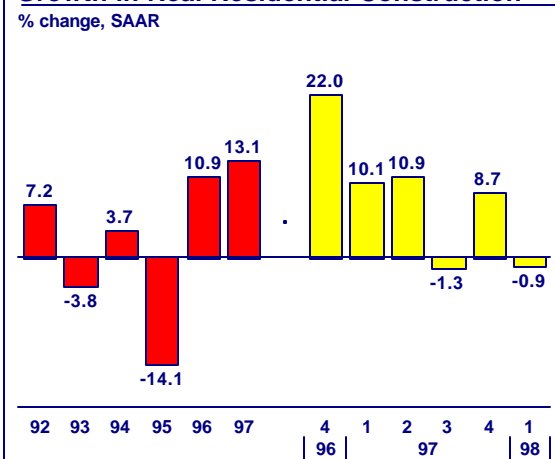
1 - May data; 2 - June data; 3 - June data.

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	1997 Q4	1998 Q1
Residential Construction	38,056	43,038	43,928	43,856
% change	10.8	13.1	8.9	-0.7
Construction by Business sector	37,928	42,912	43,796	43,696
% change	10.9	13.1	8.7	-0.9
New Housing	18,536	21,967	22,896	23,104
% change	8.5	18.5	17.2	3.7
Alterations & Improvements	12,126	13,471	13,844	14,176
% change	7.4	11.1	8.9	9.9
Ownership & Transfer Costs	7,394	7,600	7,188	6,576
% change	23.6	2.8	-13.2	-29.9

Growth in Real Residential Construction





Trade and Competitiveness

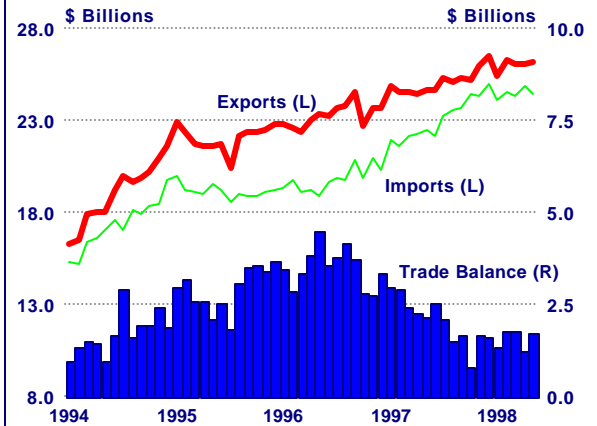
Exports remain flat in May...

- Merchandise exports were unchanged in May, held down by a sharp decline in Automotive exports caused by retooling shutdowns and ongoing transportation problems for deliveries to the U.S. Weak commodity prices also contributed to flat overall export sales in May.
- Imports fell 1.9%, due mainly to lower imports of M&E (consistent with slowing business investment) and a decline in the price of imported crude petroleum. Automotive imports were also down in May in response to weak domestic car sales. This weakness will likely extend into June and July given disruptions caused by the GM strike in the U.S.
- The combination of flat exports and falling imports resulted in a \$1.7 billion merchandise trade surplus in May, up from \$1.2 billion in April.

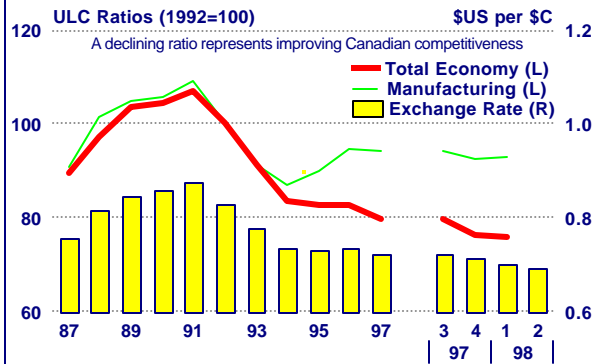
...despite an improving competitive position vis-à-vis the U.S.

- In the first quarter, Canadian unit labour costs improved 4.5% relative to those in the U.S.
- Although the weaker dollar has been an important factor behind recent competitiveness gains, Canadian producers have also been more successful in keeping costs down.

Merchandise Trade Flows and Balance



Canada-U.S. Unit Labour Cost Ratios



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

Merchandise Trade

May 1998	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	1998 April	1998 May	1997 Jan-May	1998 Jan-May	April to May 1998	April to May 1998	May 97 to May 98	
Exports	26,135	26,139	123,079	130,063	4	0.0	6.0	
to United States	21,796	21,713	98,560	107,558	-83	-0.4	9.8	
Imports	24,933	24,465	110,463	122,403	-468	-1.9	8.6	
from United States	18,970	18,912	83,686	93,981	-58	-0.3	11.0	
Trade Balance	1,202	1,674	12,616	7,660	472			
with United States	2,826	2,801	14,874	13,577	-25			
Exports by Commodity								
Agriculture/Fishing Products	2,056	2,100	9,902	10,471	44	2.1	5.8	
Energy Products	1,890	1,988	11,399	9,641	98	5.2	-8.7	
Forestry Products	2,871	2,864	14,642	14,535	-7	-0.2	-2.9	
Industrial Goods & Materials	4,687	4,807	22,707	23,830	120	2.6	6.5	
Machinery & Equipment	6,499	6,439	27,227	31,407	-60	-0.9	14.7	
Automotive Products	6,241	6,035	28,781	30,898	-206	-3.3	6.2	
Other Consumer Goods	998	1,004	4,223	4,846	6	0.6	17.4	
Imports by Commodity								
Agriculture/Fishing Products	1,409	1,424	6,279	6,959	15	1.1	9.4	
Energy Products	735	633	4,530	3,678	-102	-13.9	-23.6	
Forestry Products	198	213	967	1,010	15	7.6	7.0	
Industrial Goods & Materials	5,021	4,940	21,788	24,518	-81	-1.6	11.0	
Machinery & Equipment	8,253	8,081	36,147	40,454	-172	-2.1	7.9	
Automotive Products	5,528	5,433	23,762	27,282	-95	-1.7	13.0	
Other Consumer Goods	2,734	2,819	11,759	13,569	85	3.1	15.7	

LABOUR MARKET TRENDS



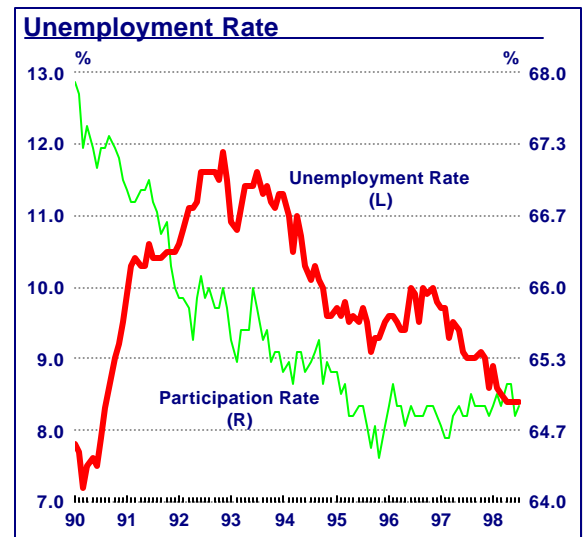
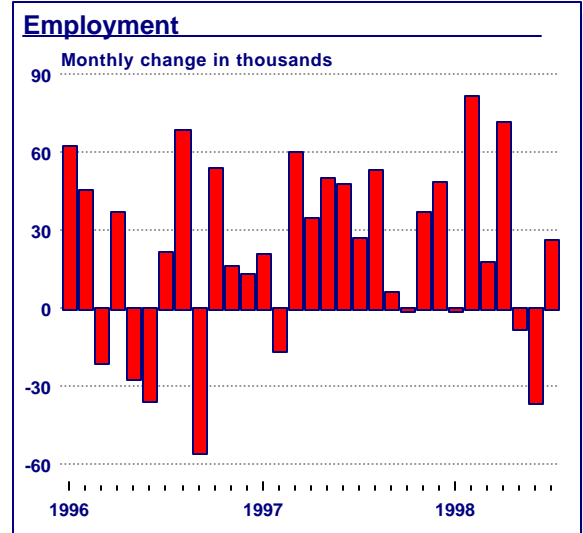
Employment and Unemployment

Employment is up 27,000 in July...

- Following losses in the previous two months, employment rebounded by 27,000 in July. Net job gains over the first seven months of the year total 155,000.
- Youth accounted for most of the July advance, posting an increase of 25,000. The level of adult employment was little changed.
- Much of the July increase was in part-time positions, as full-time employment was up only 6,000. So far this year, full-time gains have been nearly matched by part-time gains. This is in sharp contrast to 1997, when the number of full-time positions increased at a much faster pace than part-time positions.

...but increases in the labour force leave the unemployment rate unchanged at 8.4%

- July's job gains were offset by an increase in the labour force. The national unemployment rate has now held steady at 8.4% since April.
- By major demographic groups, the youth unemployment rate fell 0.6 percentage points to 15.3%. In comparison, the adult unemployment rate edged up 0.1 point to 7.1%.



Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	1997 July	1998 June	1998 July	last month	last year	year-to- date	last month	last year
Employment	13,969.7	14,243.0	14,269.6	26.6	299.9	154.8	0.2	2.1
Full-time	11,274.8	11,578.7	11,585.0	6.3	310.2	83.4	0.1	2.8
Part-time	2,695.0	2,664.3	2,684.6	20.3	-10.4	71.4	0.8	-0.4
Youth 15-24	2,031.1	2,052.0	2,076.8	24.8	45.7	37.6	1.2	2.3
Adult 25+	11,938.7	12,191.0	12,192.8	1.8	254.1	117.2	0.0	2.1
Self-employed	2,512.0	2,477.7	2,499.7	22.0	-12.3	23.7	0.9	-0.5
Unemployment	1,381.1	1,301.9	1,310.5	8.6	-70.6	-10.8	0.7	-5.1
Unemployment Rate	9.0	8.4	8.4	0.0	-0.6	-0.2		
Youth 15-24	16.7	15.9	15.3	-0.6	-1.4	-0.5		
Adult 25+	7.5	7.0	7.1	0.1	-0.4	-0.1		
Labour Force	15,350.9	15,544.8	15,580.0	35.2	229.1	143.9	0.2	1.5
Participation Rate	64.8	64.8	64.9	0.1	0.1	0.1		
Employment Rate	58.9	59.4	59.4	0.0	0.5	0.2		



Industry Overview

Self-employment rises sharply...

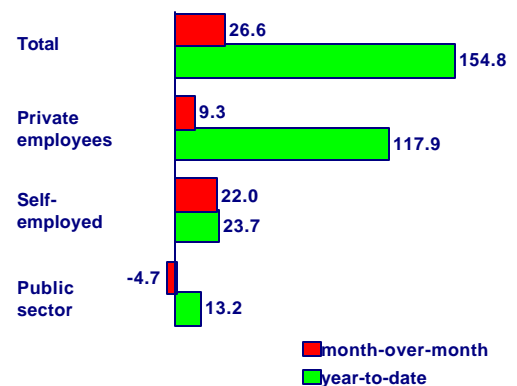
- The number of self-employed workers increased by 22,000 in July, following a rather lackluster performance in the first half of the year.
- Public sector employment fell slightly on the month, but remains up so far in 1998.

...as gains in Retail Trade and other Service industries offset losses in Manufacturing...

- A sharp rise in employment in Retail Trade in July – the first significant increase in a year – led an overall 56,000 gain for the service sector as a whole. Finance industries also posted a large increase in employment, following four straight monthly declines.
- Employment in the goods-producing sector fell 29,000, paced by the loss of 34,000 jobs in Manufacturing. Some of these losses can be attributed to the General Motors strike in the U.S., which has led to some 15,000 temporary layoffs in manufacturing in Ontario. Employment rose in the Construction industry in July, only partly offsetting losses incurred over the first six months of the year.

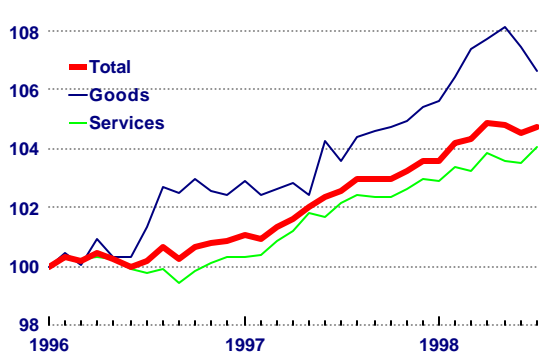
Employment growth by worker class

July 1998 (thousands)



Employment by major sector

January 1996 = 100



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	1997 July	1998 June	1998 July	last month	last year	year-to-date	last month	last year
Total	13,969.7	14,243.0	14,269.6	26.6	299.9	154.8	0.2	2.1
Goods-producing	3,762.5	3,901.6	3,872.7	-28.9	110.2	43.5	-0.7	2.9
Agriculture	417.8	429.6	430.3	0.7	12.5	15.5	0.2	3.0
Mining & Oil Wells	173.8	172.4	173.8	1.4	0.0	-7.4	0.8	0.0
Other Primary	116.4	119.1	117.9	-1.2	1.5	6.4	-1.0	1.3
Utilities	141.5	139.1	131.9	-7.2	-9.6	-10.6	-5.2	-6.8
Manufacturing	2,170.7	2,299.1	2,264.8	-34.3	94.1	34.2	-1.5	4.3
Construction	742.2	742.4	754.0	11.6	11.8	5.5	1.6	1.6
Service-producing	10,207.3	10,341.3	10,396.9	55.6	189.6	111.3	0.5	1.9
TSCO*	886.2	923.6	908.0	-15.6	21.8	-14.7	-1.7	2.5
Wholesale Trade	660.2	675.5	679.9	4.4	19.7	12.9	0.7	3.0
Retail Trade	1,753.7	1,713.4	1,748.1	34.7	-5.6	22.9	2.0	-0.3
FIRE*	788.4	763.1	776.8	13.7	-11.6	-29.7	1.8	-1.5
Education	964.0	965.4	961.8	-3.6	-2.2	-5.6	-0.4	-0.2
Health/Social Serv.	1,421.2	1,461.3	1,472.7	11.4	51.5	22.9	0.8	3.6
Bus. & Personal Serv.	2,920.8	3,036.0	3,037.4	1.4	116.6	72.3	0.0	4.0
Public Administration	812.7	803.2	812.2	9.0	-0.5	30.4	1.1	-0.1

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



Provincial Overview

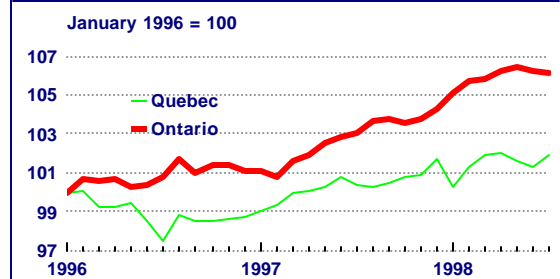
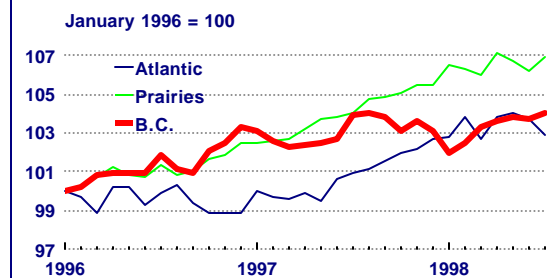
Quebec and Manitoba lead national job gains...

- By province, Quebec and Manitoba posted the largest net job gains in July. For Quebec, a 19,000 jump in employment erased cumulated losses over the first six months of the year. Manitoba's increase was the first significant rise in nearly a year in that province.
- Notable job losses occurred in Newfoundland (the first following four consecutive gains) and Ontario, where employment has remained flat over the past three months following a very strong performance through 1997 and early 1998.
- So far this year, employment is up in all provinces except New Brunswick and Saskatchewan.

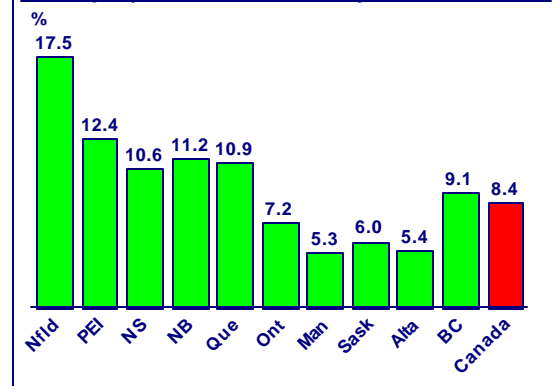
...yet Quebec and Newfoundland face the largest jumps in the unemployment rate

- Job losses in Newfoundland led to a sharp increase in its unemployment rate in July. Although employment increased strongly in Quebec, an even bigger rise in the labour force led to an increase in its unemployment rate.
- Despite a modest drop in employment, a large increase in the labour force pushed up the unemployment rate in New Brunswick by more than one full percentage point to 11.2% in July. Manitoba's rate fell 0.4 percentage points to 5.3%, and is now the lowest among all provinces.

Regional employment patterns

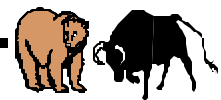


Unemployment Rates -- July 1998



Provincial Employment and Unemployment Trends

	Employment (thousands)						Unemployment rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since last month		
	1998 July	(000's)	%	(000's)	%		last month	last year	
Canada	14,269.6	26.6	0.2	299.9	2.1	8.4	0.0	-0.6	
Newfoundland	197.4	-5.0	-2.5	8.2	4.3	17.5	0.9	-1.5	
P.E.I.	62.4	0.3	0.5	1.1	1.8	12.4	-0.7	-2.0	
Nova Scotia	401.3	-1.9	-0.5	9.1	2.3	10.6	0.1	-0.9	
New Brunswick	318.4	-1.7	-0.5	0.5	0.2	11.2	-1.1	-1.1	
Quebec	3,310.3	18.6	0.6	51.1	1.6	10.9	0.3	-0.3	
Ontario	5,590.0	-3.2	-0.1	162.1	3.0	7.2	0.1	-1.0	
Manitoba	547.1	7.4	1.4	13.7	2.6	5.3	-0.4	-1.4	
Saskatchewan	476.0	1.3	0.3	-0.8	-0.2	6.0	0.0	0.2	
Alberta	1,513.2	6.5	0.4	53.4	3.7	5.4	-0.1	-0.4	
B.C.	1,853.5	4.3	0.2	1.5	0.1	9.1	-0.3	0.4	



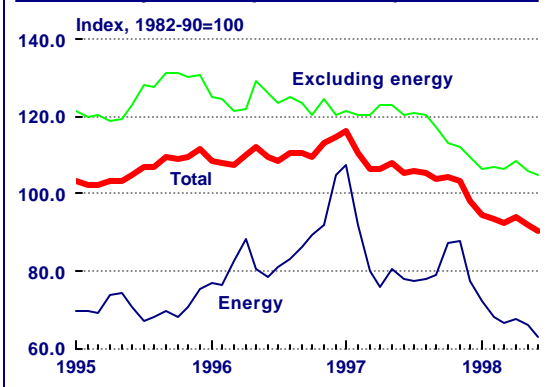
Inflation edges down to 1.0% in June...

- The annual rate of CPI inflation fell 0.1 percentage points to 1.0% in June. Compared to last year, the largest price hikes were for food, tuition, natural gas, telephone services and tobacco products. These increases were partly offset by lower costs for gasoline, mortgage interest charges and computers.
- "Core" inflation, which excludes indirect taxes and the volatile food and energy components, fell to 0.8% in June, below the official 1-3% target band established jointly by the Bank of Canada and the Department of Finance.
- Underlying inflationary pressures remain subdued. Commodity prices are down sharply compared to last year and producer prices remain well-behaved.

...with the lowest rates in P.E.I., B.C. and Newfoundland

- The overall price level in Prince Edward Island was down 0.7% on a year-over-year basis in June. A major decline in shelter costs for this province can be traced to declining house prices and home insurance costs. Inflation is also quite low in Newfoundland and British Columbia.
- June's highest measured inflation rate was in Saskatchewan (1.8%), where inflation has been boosted by a large increase in property taxes over the past year.

Commodity Prices (\$U.S. basis)



Consumer Prices

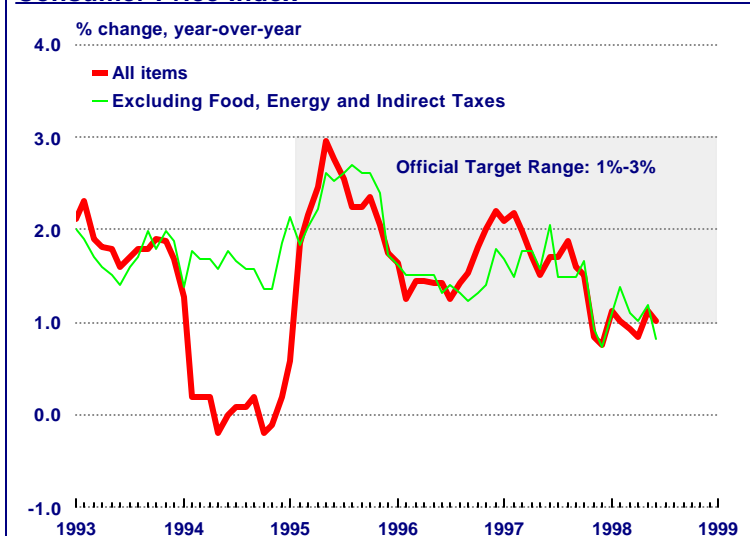
June 1998

	Index (1992=100)	% Change	
		since month	last year
All items CPI	108.8	0.1	1.0
Food	110.2	0.7	2.1
Shelter	103.5	0.0	0.2
Household operations	108.0	-0.4	1.5
Clothing & Footwear	103.2	0.1	0.7
Transportation	120.7	0.0	-0.7
Health & Personal Care	108.2	0.0	1.8
Recreation, Educ. & Reading	118.5	0.2	2.2
Alcohol & Tobacco	92.6	0.0	3.5
CPI excl. Food & Energy	108.8	-0.1	1.0
Energy	105.1	-0.1	-3.0

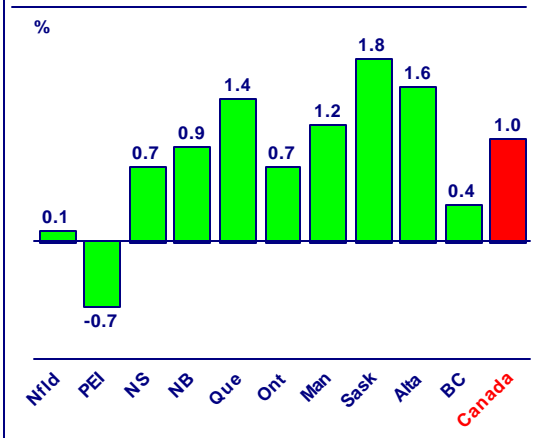
Commodity Prices (June)

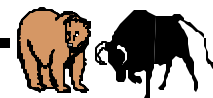
Index, 1982-90=100	90.2	-2.1	-14.4
Excluding Energy	104.7	-1.0	-12.9
Energy	63.0	-5.1	-19.0

Consumer Price Index



Provincial CPI Inflation -- June 1998



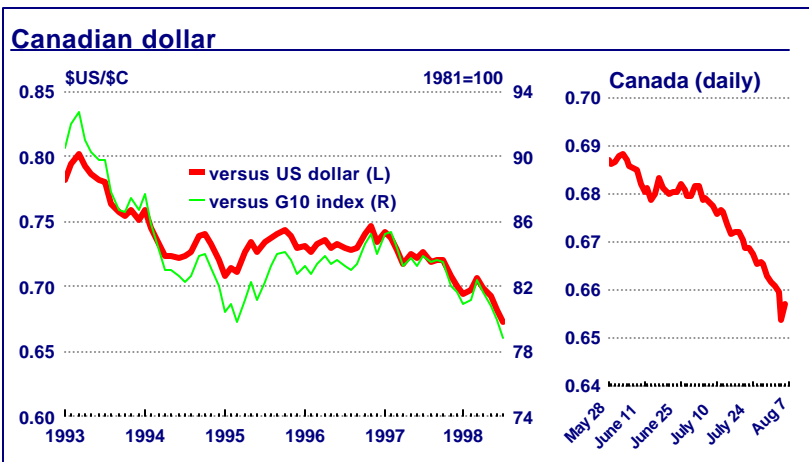


The dollar's fall picks up steam in July and early August...

- The decline in the value of the Canadian dollar accelerated in late July and early August. Prior to August 7, the dollar had posted successive record lows in 21 of 22 trading days, culminating in a fall of more than half a cent on August 6 to US¢65.39 (the biggest one-day drop since 1995). The dollar recovered somewhat on August 7, as the Canadian central bank intervened heavily in foreign exchange markets in what media reports termed an "assault" against traders who had been betting against the dollar day after day.
- The intense pressure on the Canadian dollar stems from both domestic and international factors. A number of poor economic reports contributed to the negative sentiment, prompting expectations that a weakening economy would prevent the Bank of Canada from raising interest rates in support of the currency. In addition, political instability in Japan has led observers to believe that a quick turnaround of the Asia Pacific crisis would not occur, which would prolong the downward pressure on global commodity prices.

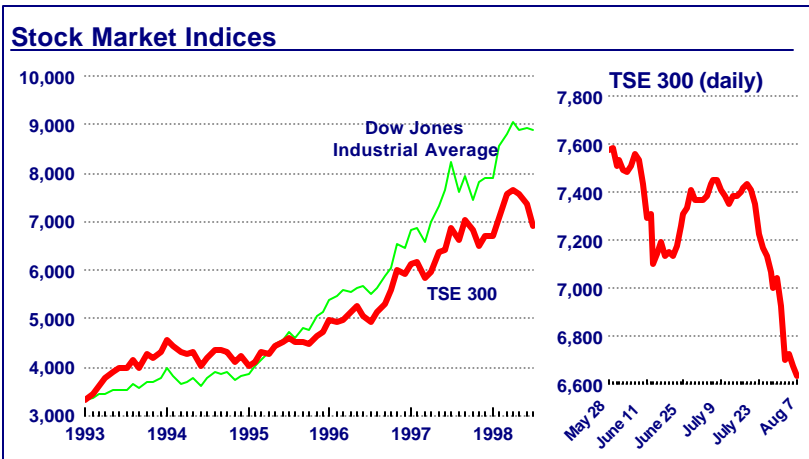
...and stock prices suffer their biggest declines in months

- Slowing profit growth and fears that the financial crisis in the Asia Pacific would lead to further declines led to a sharp fall-off in stock prices in Canada and the U.S in July and early August. Indeed, on August 4 the TSE 300 index lost 3.3% of its value, the biggest one-day decline since early January. In Canada, the fall in Canadian stock prices has been led by commodity and banking issues.



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 Feb	0.7024	81.19	1.264	87.71
Mar	0.7043	82.35	1.290	91.11
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
August 7	0.6571			



Key Stock Market Indexes

	July Close	% change from	
		last month	last year
TSE 300	6,931	-5.9	0.8
Oil & Gas	5,581	-8.1	-21.1
Metals & Minerals	3,226	-9.6	-40.7
Utilities	7,607	-4.6	34.4
Paper & Forest	4,091	-6.4	-25.7
Merchandising	6,191	-6.4	3.3
Financial	9,414	-5.5	26.2
Services	5,394	-11.3	-38.9
Price-Earnings Ratio*	29.6	-2.9	6.5
S&P 500	1,121	-1.2	17.4
Dow Jones	8,883	-0.8	8.0

*columns 2 & 3 reflect change in levels

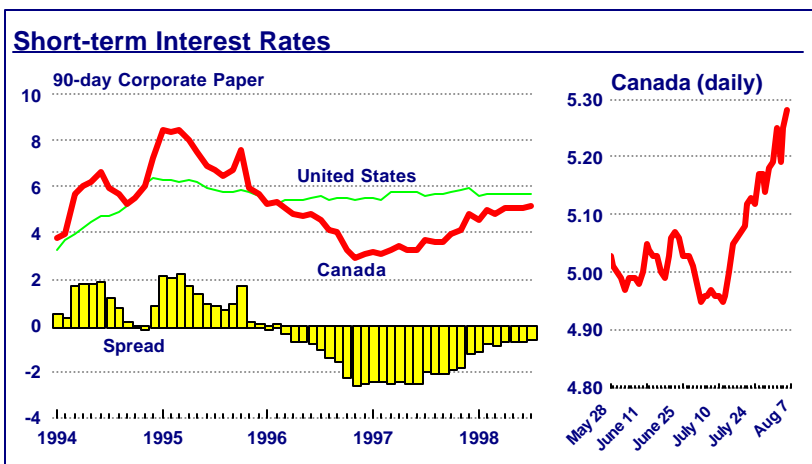


Mortgage rates rise across the board late in July...

- While the Bank of Canada's trend-setting Bank Rate has not increased since January, the declining value of the Canadian dollar has put upward pressure on market-determined short-term interest rates.
- Citing increases in the cost of raising funds due to the falling dollar, Canada's major banks raised their one-year and five-year mortgage rates by 20 basis points on July 31. However, the Chartered Banks' prime lending rate was unchanged at 6.5%.

...and long-term bond yields also edge up

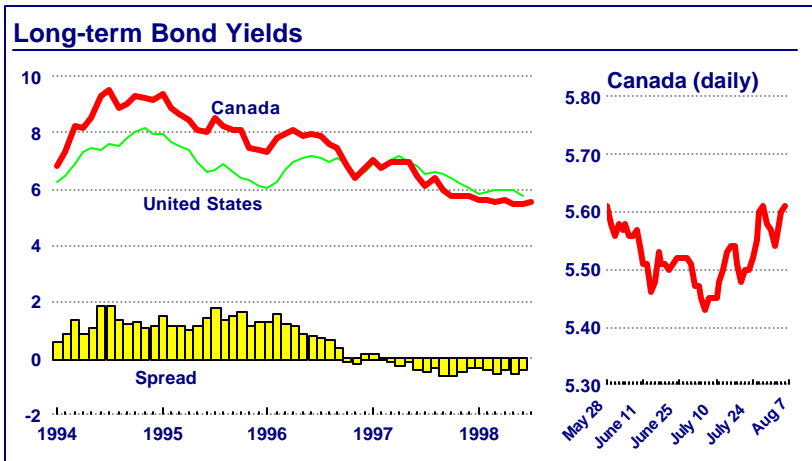
- Canadian long-term interest rates also edged up in July despite evidence that the economy was slowing. Bond yields were pushed up as concern over the plight of the Canadian dollar made securities denominated in Canadian dollars less attractive to international investors.
- As U.S. bond yields have remained steady, the gap between Canadian and U.S. long-term rates (in Canada's favour) has narrowed somewhat.



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 Feb	4.96	-0.69	5.78	-0.14
Mar	4.84	-0.80	5.70	-0.23
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
August 5	5.19	-0.48	5.56	-0.09

A negative spread indicates that Canadian rates are below their U.S. counterparts.



Key Lending Rates

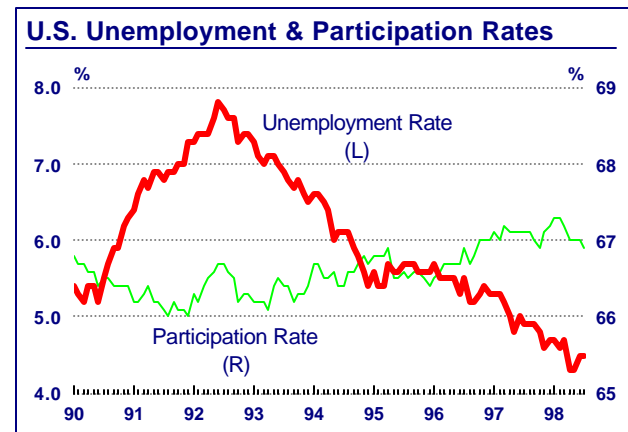
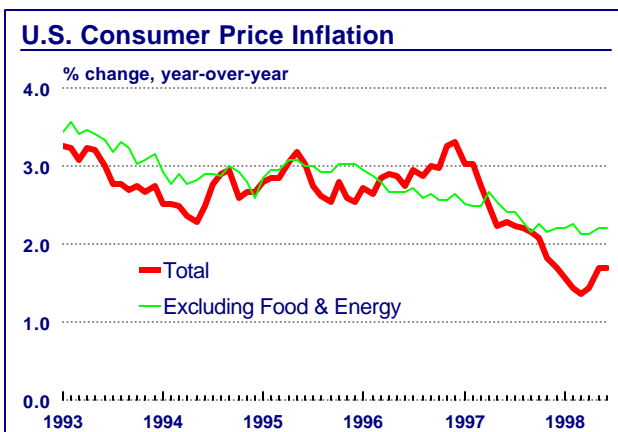
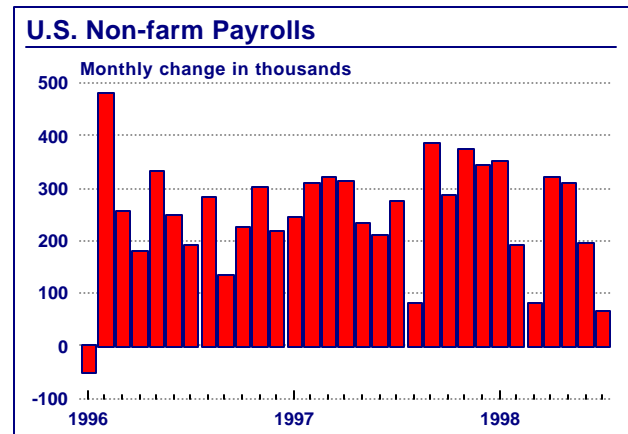
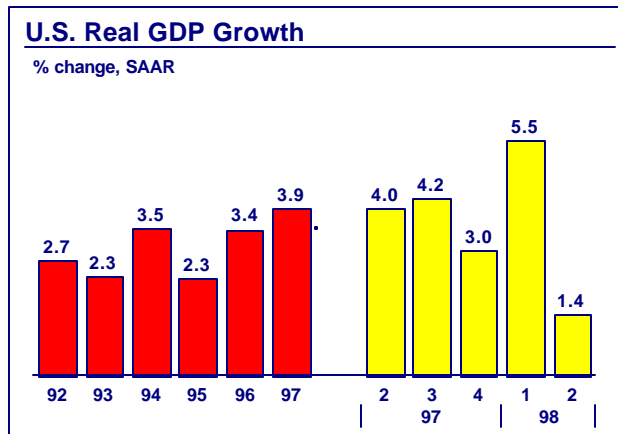
(end of period)	Bank Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
1996	3.25	4.75	5.20	6.95
1997	4.50	6.00	6.65	7.05
1998 Feb	5.00	6.50	6.40	6.85
Mar	5.00	6.50	6.40	6.85
Apr	5.00	6.50	6.55	6.95
Ma	5.00	6.50	6.55	6.95
June	5.00	6.50	6.55	6.95
July	5.00	6.50	6.55	6.95
August 5	5.00	6.50	6.75	7.15

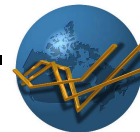


U.S. Economic Trends

Highlights...

- Advance estimates show that U.S. output expanded at an annual pace of 1.4% in the second quarter, down markedly from 5.5% in the first quarter. Despite the slowdown, the second-quarter outcome was still well above expectations (the consensus forecast called for no growth) and came on the heels of the strongest GDP report in two years. Final domestic demand remained the main engine of growth in the second quarter (+6.3%), buoyed by robust consumer spending and strong increases in M&E investment and residential building. Output growth was moderated by a sharp downturn in inventory investment and lower exports.
- Though non-farm payroll employment edged up only 66,000 in July, this weak outcome is related primarily to strike activity, not slowing economic activity. Indeed, two strikes and related parts shortages in the auto sector led to a large drop in Manufacturing employment (-176,000), which partly offset a substantial increase in Retail Trade and gains in other service-producing industries and Construction. The unemployment rate held steady at 4.5% in July; it has been below 5.0% since July 1997.
- Despite sustained growth, inflation remains subdued. The GDP deflator was up 1.0% from its year-ago level in the second quarter, the smallest increase in more than three decades. The annual rate of CPI inflation was 1.7% in June, unchanged from May, while core inflation excluding the volatile food and energy components remained at 2.2%.
- Against this background of slower growth and low inflation, the Federal Reserve is expected to leave interest rates unchanged at the upcoming Federal Open Market Committee meeting on August 18.





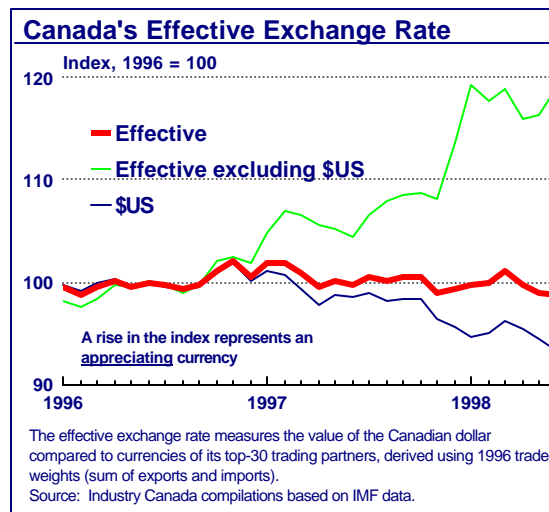
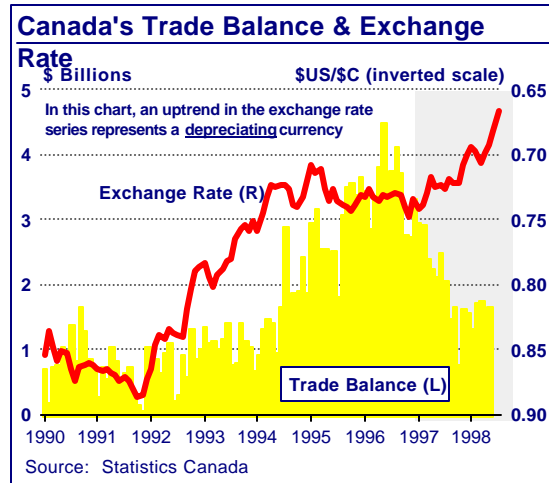
Recent Trends in Canada's Trade Performance

A shrinking trade surplus has been accompanied by a weakening dollar...

- The Canadian dollar has dropped more than 10% against its U.S. counterpart since the beginning of 1997. All else the same, one would expect that a lower dollar would have improved Canada's trade balance by raising exports and lowering imports.
- Indeed, this standard relationship held true over the 1992-1995 period. More recently, however, the falling Canadian dollar has been accompanied by a narrowing of Canada's merchandise trade surplus.
 - Canada's surplus stood at \$1.7 billion in May, down from nearly \$3.0 billion at the beginning of 1997.

...but the dollar has not fallen against all trading partners

- One factor contributing to the breakdown in this relationship is that the dollar has not fallen against all international currencies. In fact, Canada's effective exchange rate has remained relatively stable over the past year and a half. The effective exchange rate is a weighted index of the Canadian dollar that reflects the importance of all countries to Canadian trade.
 - As of June 1998, Canada's effective exchange rate had fallen only 3% since the beginning of 1997. The 10% depreciation against the U.S. dollar (which has a weight of roughly 0.8 in the index), was partly offset by a 14% appreciation against all other currencies.
 - For example, the Canadian dollar rose more than 8% against the Yen and 1.7% against the Deutchmark.

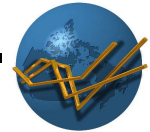


Canada's Trade Balance and Selected Exchange Rates

	Trade Balance (\$ millions)	Effective Exchange Rate (96=100)				
		\$US/\$C	G-30	G-30 ex. US\$	Yen/\$C	DM/\$C
1997 Q1	2,755	0.74	101.57	106.09	89.18	1.22
Q2	2,278	0.72	99.75	104.99	86.19	1.24
Q3	1,730	0.72	100.39	107.67	85.16	1.30
Q4	1,323	0.71	99.59	110.13	88.94	1.25
1998 Q1	1,595	0.70	100.22	118.60	89.53	1.27
Q2	1,438*	0.69	99.11	117.09	93.74	1.24
Jul	n.a.	0.67	n.a.	n.a.	94.69	1.21

* April-May average

For the effective exchange rate indices, an increase denotes an appreciation of the Canadian dollar



Recent Trends in Canada's Trade Performance

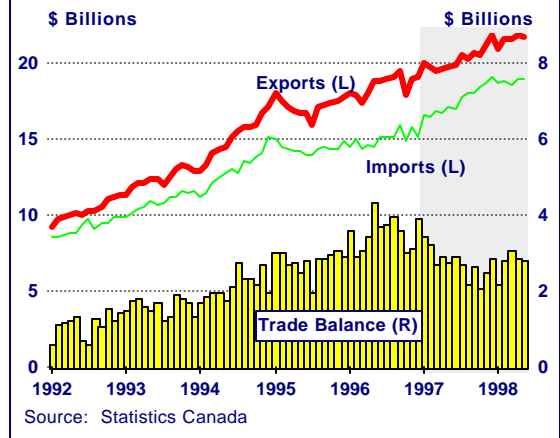
Exports to the U.S. remain strong...

- Buoyed by the lower dollar and continued strong growth in the U.S., exports to U.S. markets have remained on a significant uptrend over the past year.
- The slight deterioration of the trade surplus with the U.S. since the beginning of 1997 is therefore due mainly to Canada's increased demand for imports.
 - This reflects the more recent pick-up in economic activity in Canada. Imports of investment-related goods from the U.S. were particularly strong through 1997 as Canadian firms added to capacity.

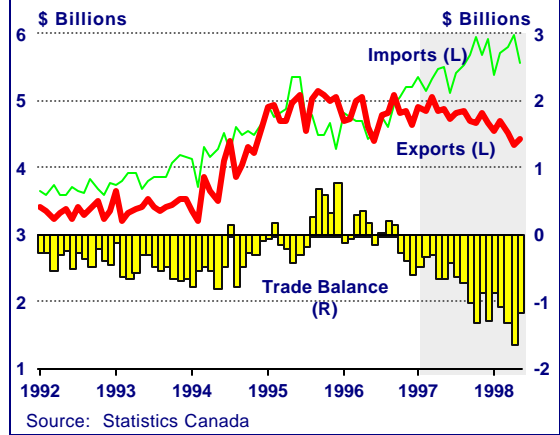
...but demand from the Asia Pacific falters

- While sales to the U.S. remain strong, exports to all other countries are down 10% over the past year. This drop in exports has been concentrated in South-East Asia, which accounts for roughly 8% of total Canadian merchandise exports.
 - The Asia Pacific economies have been rocked by a series of stock market and currency crises, leading to a marked deterioration in economic conditions in this region.
- Thus, most of the decline in Canada's trade surplus over the past year and a half can be attributed to trading partners other than the U.S.
 - Indeed, Canada's trade deficit with countries other than the U.S. reached a record \$1.6 billion in April, before recovering somewhat in May.

Merchandise Trade with the U.S.



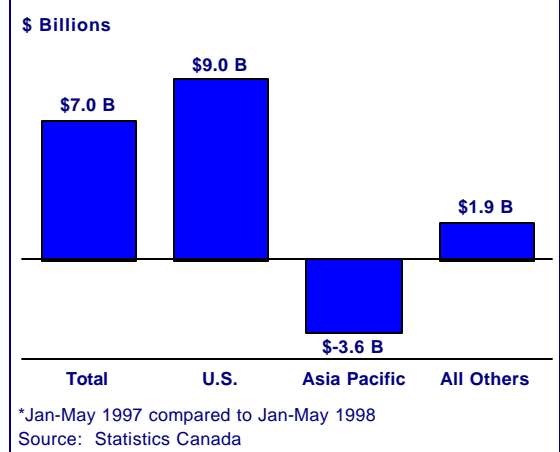
Merchandise Trade with Other Countries



Canada's Merchandise Trade Flows

		Jan-May 1997	Jan-May 1998	\$ change	% change
\$ Billions					
All Countries	Exports	123,071	130,063	6,984	5.7
	Imports	110,463	122,403	11,940	10.8
	Balance	12,616	7,660	-4,956	
United States	Exports	98,560	107,558	8,998	9.1
	Imports	83,686	93,981	10,295	12.3
	Balance	14,874	13,577	-1,297	
Asia Pacific	Exports	10,210	6,656	-3,554	-34.8
	Imports	12,437	14,425	1,988	16.0
	Balance	-2,227	-7,769	-5,542	
All Other Countries	Exports	14,309	15,849	1,540	10.8
	Imports	14,340	13,997	-343	-2.4
	Balance	-31	1,852	1,883	

Exports by Region: Year-to-Date Change*





Recent Trends in Canada's Trade Performance

The Asia Pacific crisis has also depressed commodity prices...

- The Asia Pacific region is a very large consumer of base metals and other natural resources. Slumping demand in these countries has therefore triggered sharp drops in commodity prices important to Canada (including gold, nickel, zinc, copper, and wood products).
- According to an index published by the Bank of Canada, commodity prices have fallen more than 22% since the beginning of 1997.

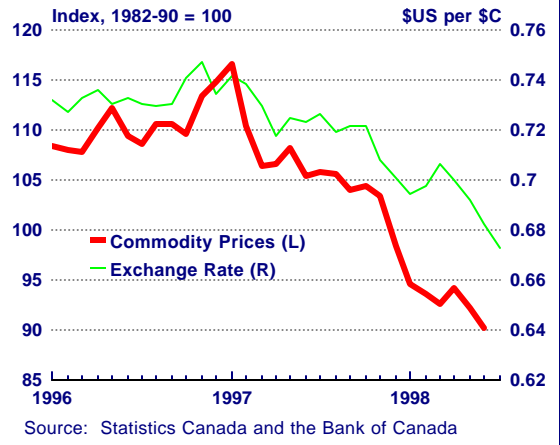
...which lowers the value of our exports

- Close to 40% of Canada's exports draw on its natural resource base. As a result, falling commodity prices have slowed the growth in Canadian exports.
- In fact, the dollar value of exports has increased at a much slower pace than the volume of exports (export levels adjusted to control for changes in price).
 - Using current dollars, Canadian merchandise exports increased 5% from January 1997 to May 1998. Over this same period, export volumes rose 8.5%.
 - Industries such as Crude Petroleum, Lumber and Metals Ores and Alloys have been hit especially hard over the past year by falling prices.

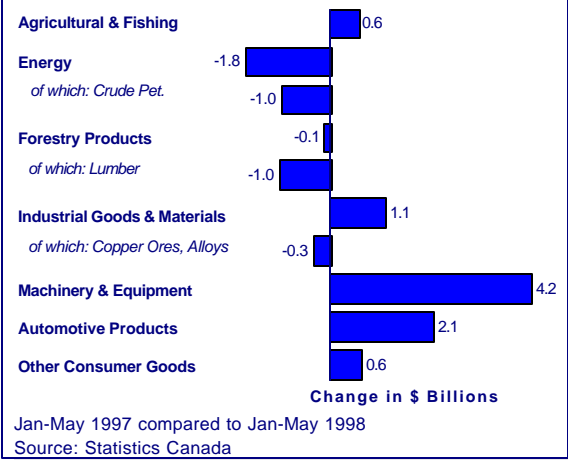
...and contributes to Canada's narrowing trade surplus

- Given that Canada's exports are more resource-intensive than are our imports, Canada's terms of trade have deteriorated because of the sharp drop in commodity prices. That is, export prices have tended to decline faster than import prices.
 - This has been a key factor behind Canada's declining trade surplus. In current dollars, the surplus has fallen by \$1.3 billion since January 1997 (i.e., by nearly 45%). When expressed in constant dollars, this translates into a decline of \$0.3 billion (roughly 13%).
- Lower commodity prices can impact on firm profit levels, which ultimately has real effects in terms of reduced investment and employment.

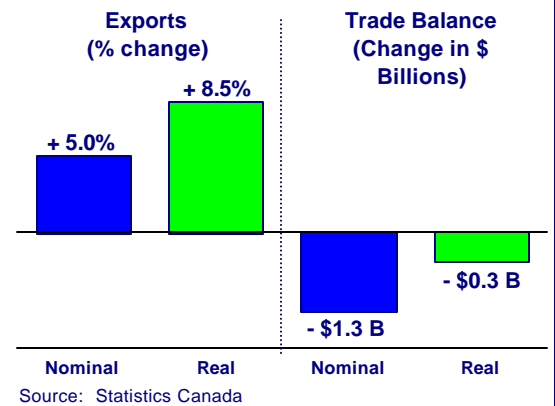
Commodity Price Index and the Dollar



Commodity Exports*: Year-to-date Change

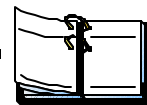


Change in Exports and Trade Balance January 1997 to May 1998



COMING UP

Key Future Data Releases and Planned Events



CANADA

International Trade -- June	August 18
Consumer Price Index -- July	August 19
Financial Statistics for Enterprises -- 2nd Quarter 1998	August 20
National Economic & Financial Accounts -- 2nd Quarter 1998	August 31
Balance of International Payments -- 2nd Quarter 1998	August 31
GDP at factor cost -- June	August 31
Labour Force Survey -- August	September 4
Industrial Capacity Utilization Rates, 2nd Quarter 1998	September 8

UNITED STATES

Federal Open Market Committee meeting	August 18
Consumer Price Index -- July	August 18
International Trade -- June	August 18
GDP -- 2nd Quarter 1998, preliminary estimate	August 27
Employment Situation -- August	September 4
Federal Open Market Committee meeting	September 29

Note: the August MEI uses data available as of August 7, 1998

The Special Report scheduled for the September MEI is entitled
"Rising Skill Intensity in Canada: Evidence and Explanations"



Micro Economic Policy Analysis
Analyse de la politique micro-économique
