

# MONTHLY ECONOMIC INDICATORS

## January 2000

### HIGHLIGHTS

-  **Canada's unemployment rate holds steady at an 18-year low of 6.9% in December.**
-  **Growth slows in October, but output nonetheless advances for the 15th straight month.**
-  **Export growth resumes in October, leading to an increase in Canada's trade surplus.**
-  **The Canadian dollar and stock market both gain sharply toward the end of 1999, but fall back early in the new year.**

### Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$92 B)	756.2	0.1	4.2	Oct
Goods	252.6	-0.1	5.8	Oct
Services	503.7	0.3	3.4	Oct
Composite Index	219	0.5	5.3	Nov
Employment (000's)	14,918	0.3	2.4	Dec
Full-time	12,248	0.3	3.7	Dec
Part-time	2,670	0.0	-3.0	Dec
Unemployment* (%)	6.9	6.9	8.0	Dec
Youth*	13.2	13.2	14.4	Dec
Adult*	5.7	5.7	6.8	Dec
CPI inflation*	2.2	2.3	1.2	Nov
Retail Sales (\$M)	21,852	-1.4	6.5	Oct
Housing Starts (000's)	155.4	0.3	8.4	Dec
Trade Balance* (\$M)	2,670	2,497	1,705	Oct
Exports	30,698	1.2	7.9	Oct
Imports	28,028	0.7	4.8	Oct
M&E	9,509	5.1	7.1	Oct
3-mth Corp. paper* (%)	5.25	5.05	5.02	Jan 5
Long bond yield* (%)	6.49	6.10	5.23	Jan 5
Canadian dollar* (US¢)	68.67	69.29	65.22	Jan 7

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

**This issue's Special Report:  
2000 – 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 INDICATORS

## January 2000

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This report uses data available as of January 12, 2000. It has been prepared by Marianne Blais, Joe Macaluso, Alison McDermott, André Patry and Karen Smith of the Micro-Economic Analysis Directorate, under the direction of Raynald Létourneau and Shane Williamson. The special report in this issue on The Year Ahead was prepared by Joe Macaluso 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 613-995-8452 or through the Internet at [williamson.shane@ic.gc.ca](mailto:williamson.shane@ic.gc.ca).

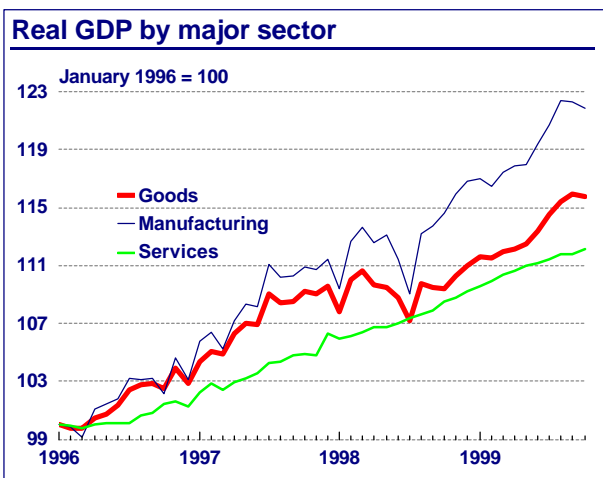
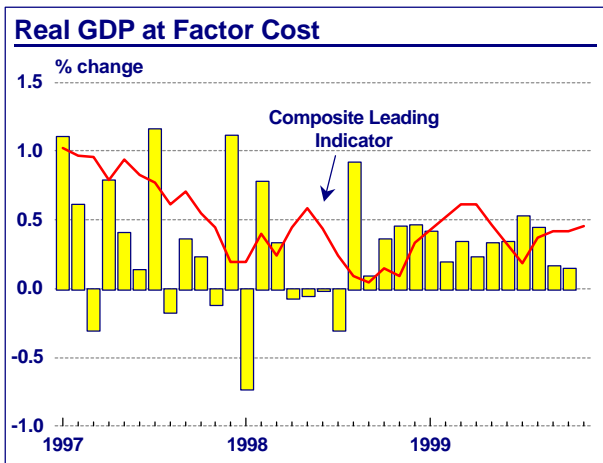


### Real GDP advances at a slower pace in October...

- Real GDP rose 0.1% in October, recording its 15th consecutive monthly increase. Though growth has slowed over the past two months, this represents the longest uninterrupted string of monthly gains in over a decade.

### ...with gains in Services partly offset by losses in Goods

- Goods production declined slightly in October (-0.1%). Losses were concentrated in Manufacturing, where output fell for the second straight month after growing very strongly in previous months. Output in the Logging & Forestry industry also fell, in line with slower construction activity in the United States. Output expanded in all other major groups, including a fourth straight increase in Mining production, supported by higher drilling and rigging activity in the oil patch.
- Production in the Services industries expanded 0.3% in October, led by a major gain in Wholesaling which was spurred by a recovery in computer and software sales. Business Services also registered another solid gain in October. Lower truck sales cut into Retail Trade, while output in the Finance & Insurance industries was held back by low stock market activity.



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

October 1999	\$ millions	monthly change	% Change since last month	% Change since last year
<b>Total Economy</b>	<b>756,167</b>	<b>1,116</b>	<b>0.1</b>	<b>4.2</b>
<b>Business sector</b>	<b>626,708</b>	<b>809</b>	<b>0.1</b>	<b>4.9</b>
<b>Goods</b>	<b>252,561</b>	<b>-379</b>	<b>-0.1</b>	<b>5.8</b>
Agriculture	13,668	59	0.4	6.4
Fishing & Trapping	749	31	4.3	4.6
Logging & Forestry	4,316	-105	-2.4	0.7
Mining*	26,803	51	0.2	2.1
Manufacturing	138,905	-539	-0.4	6.3
Construction	41,954	77	0.2	5.1
Other Utilities	26,166	47	0.2	9.0
<b>Services</b>	<b>503,606</b>	<b>1,495</b>	<b>0.3</b>	<b>3.4</b>
Transport & Storage	35,518	70	0.2	4.6
Communications	26,126	2	0.0	7.1
Wholesale Trade	46,783	1,104	2.4	7.6
Retail Trade	46,489	-521	-1.1	3.9
Finance & Insurance	41,308	-148	-0.4	1.8
Real Estate & Ins. Agent	79,759	-37	-0.0	2.6
Business services	44,458	337	0.8	8.3
Government services	45,920	170	0.4	2.4
Education	40,577	119	0.3	0.1
Health & Social Services	46,915	33	0.1	-1.1
Accommodation & Food	19,831	228	1.2	3.0
Other	29,922	138	0.5	2.5

\*Includes Quarrying and Crude Petroleum & Natural Gas

# THE ECONOMY

## Consumer Spending and Attitudes



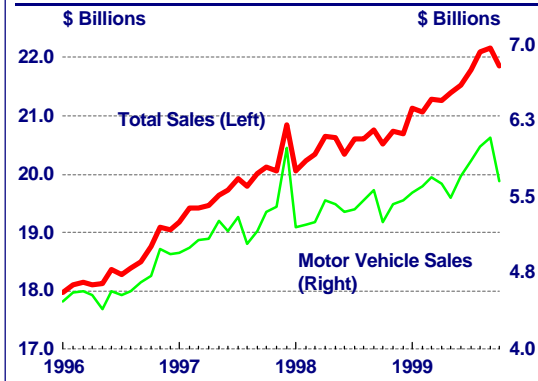
### Consumer spending remains strong in the third quarter...

- Real consumption rose 4.8% (annual rate) in the third quarter, keeping pace with growth recorded since the beginning of the year. Indeed, growth in consumer spending has exceeded 4% in each quarter so far this year.
- Personal disposable income rose 4.8% (annual rate) in the third quarter, its strongest advance so far this year. This gain, coupled with unchanged household debt levels, lowered the debt-to-income ratio by just over one percentage point. However, the personal saving rate was down, falling to 0.3% over the same period.

### ...but retail sales decline in October

- Retail Sales fell 1.4% in October, the first decline in six months. The drop in sales was due mainly to a 4.8% setback in the Automotive sector, which industry sources claim can be at least partly explained by supply not being able to keep pace with demand. Lower sales in the General Merchandise Stores and Food category also contributed to the decline.
- Sales were up in all other major categories, with especially sharp gains in Furniture and Clothing.

### Total Retail and Motor Vehicle Sales



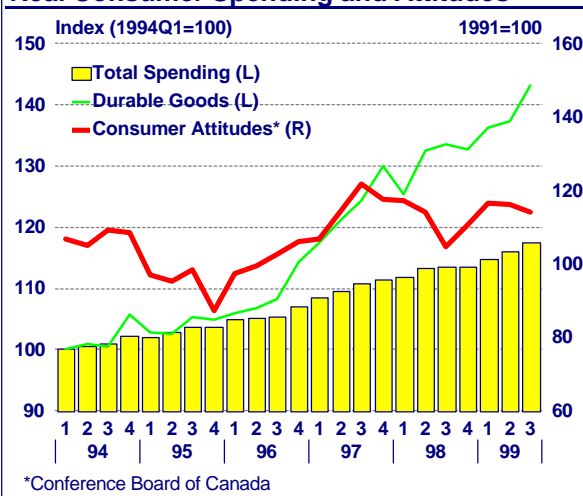
### Retail Sales and Consumer Credit

	October 1999 \$ millions	% Change since	
		last month	last year
<b>Total Retail Sales (S.A.)</b>	21,852	-1.4	6.5
Food	4,909	-0.1	1.8
Drug Stores	1,126	0.2	3.8
Clothing	1,216	4.1	4.0
Furniture	1,195	5.0	12.5
Automotive	8,428	-4.8	8.6
General Merch. Stores	2,574	-0.6	9.6
All other Stores	2,404	1.4	6.1
Total ex. motor vehicles	16,202	0.8	6.1
<b>Consumer Credit (unadjusted)</b>	168,028	0.4	7.4

### Real Consumer Spending and Household Finances

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

### Real Consumer Spending and Attitudes





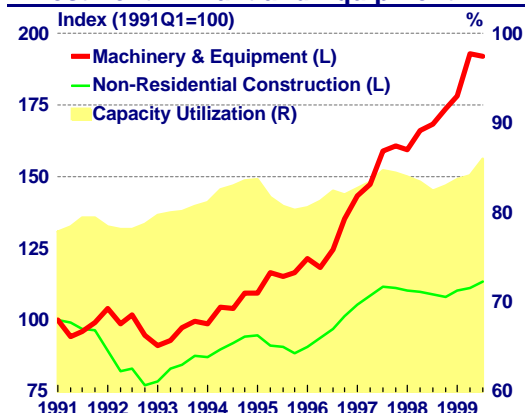
### Business investment slows in the third quarter...

- Growth in business investment slowed to 0.4% (annual rate) in the third quarter, down from 5.5% in the previous period. This slower advance was due in large part to a 1.8% decline in M&E spending, fuelled mainly by lower investment in aircraft and computer purchases.
- Higher investment in non-residential building and engineering structures in the third quarter led to an 8.5% increase in Non-Residential Construction.

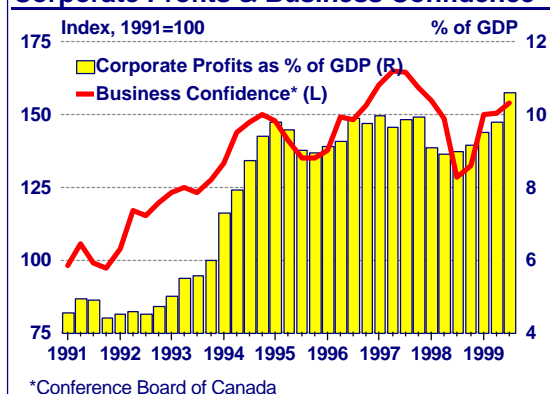
### ...but higher capacity utilization and profits could spur investment

- Capacity utilization in non-farm producing industries reached 86.0% in the third quarter, its highest rate since the 1987-88 economic expansion. Corporate operating profits rose 34.0% (annual rate) in the third quarter, propelled by a sharp increase in non-financial industries.
- Both factors should lead to a further increase in business investment. Indeed, imports of M&E rose 2.0% in October, and non-residential construction also advanced.

### Investment in Plant and Equipment



### Corporate Profits & Business Confidence



### Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	1997	1998	1998 Q4	1999 Q1	1999 Q2	1999 Q3
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1992\$)</b>	59,112	64,701	67,284	69,048	74,708	74,364
% change	22.2	9.5	12.7	10.9	37.0	-1.8
<b>Non-residential Construction (1992\$)</b>	39,079	39,110	38,696	39,448	39,756	40,572
% change	14.0	0.1	-2.4	8.0	3.2	8.5
<b>Capacity Utilization (% , Non-farm goods)</b>	83.8	83.2	83.0	83.7	84.2	86.0
Capacity Utilization (Mfg. sector)	83.7	83.8	84.5	84.9	85.5	87.6
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	146,023.0	132,032.0	138,172.0	144,096.0	147,952.0	159,180.0
% change	20.9	-9.6	64.8	18.3	11.1	34.0
Profits - Non-financial industries	90,839.0	82,442.0	90,592.0	99,012.0	102,880.0	115,684.0
% change	16.5	-9.2	75.9	42.7	16.6	59.9
Profits - Financial industries	55,186.0	49,590.0	47,580.0	45,084.0	45,072.0	43,496.0
% change	29.0	-10.1	45.9	-19.4	-0.1	-13.3
<b>Business Credit</b>	624,004.8	686,483.6	702,366.7	708,707.0	710,032.3	719,229.3
% change	9.2	10.0	3.3	3.7	0.8	5.3



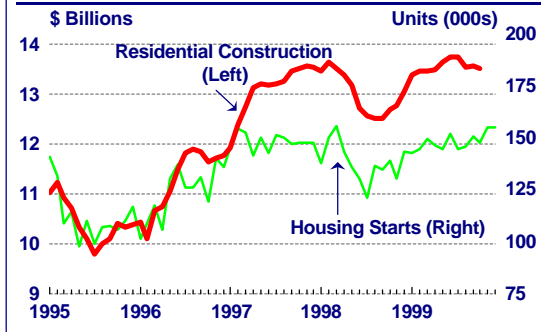
### Residential investment eases in the third quarter...

- After having recorded double-digit rates in each of the first two quarters of the year, growth in business investment in residential structures slowed to 2.5% in the third quarter.
- Spending on alterations and improvements recorded its first quarterly decline this year, while all other major components of residential investment advanced at a slower pace compared to recent quarters.

### ...but should register a gain in the fourth quarter

- Residential construction activity declined in October, the third drop in the last four months. Still, on a year-over-year basis, residential construction was 6.6% higher.
- Residential building permits continue to run well ahead of last year's pace. Construction intentions rose for the second straight month in November, reaching their highest monthly level since the early 1990s.
- Although sales of existing homes appear to have peaked at a very high level, housing starts were up nearly 4% overall in the fourth quarter.

### Housing Activity



### Monthly Housing Indicators

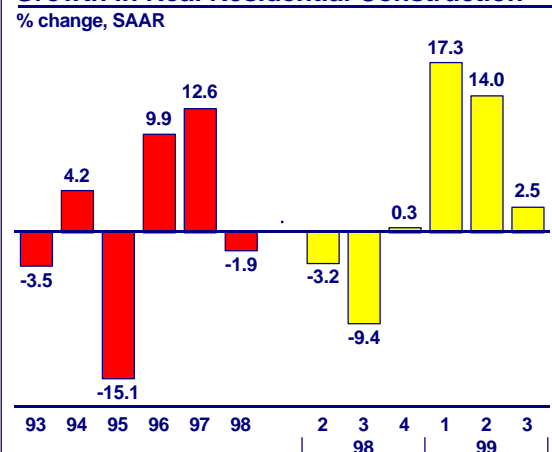
	levels	Change since	
		last month	last year
<b>Residential Construction (1)</b> (\$92M, factor cost basis)	13,522	-0.4%	6.6%
<b>Building Permits, \$M (2)</b>	1,807	1.0%	12.1%
<b>Sales of Existing Homes (2)</b> (# of units)	18,824	-70	
<b>Housing Starts, # of units (3)</b>	155,400	400	12,000
Newfoundland	900	-200	200
Prince Edward Island	300	-100	200
Nova Scotia	2,500	-600	1,200
New Brunswick	1,600	-500	-100
Quebec	20,100	300	0
Ontario	68,600	1,600	14,100
Manitoba	1,600	100	500
Saskatchewan	1,800	200	300
Alberta	21,400	300	-6,600
British Columbia	15,900	-700	2,300

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

### Real Investment in Residential Structures

	\$92 Millions, SAAR (unless otherwise noted)			
	1997	1998	1999 Q2	1999 Q3
<b>Residential Construction</b>	42,348	41,547	44,056	44,336
% change	12.6	-1.9	13.9	2.6
Construction by Business sector	42,223	41,422	43,928	44,200
% change	12.6	-1.9	14.0	2.5
New Housing	21,441	20,695	21,876	22,272
% change	19.5	-3.5	9.9	7.4
Alterations & Improvements	13,315	13,645	14,252	14,016
% change	7.2	2.5	4.3	-6.5
Ownership & Transfer Costs	7,592	7,207	7,928	8,048
% change	4.5	-5.1	49.3	6.2

### Growth in Real Residential Construction



# THE ECONOMY

## Trade and Competitiveness

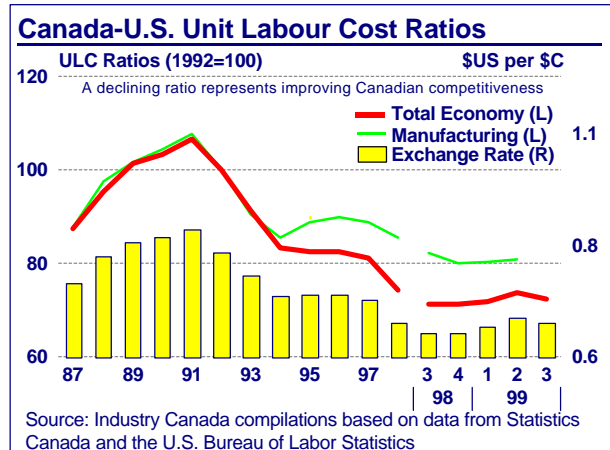
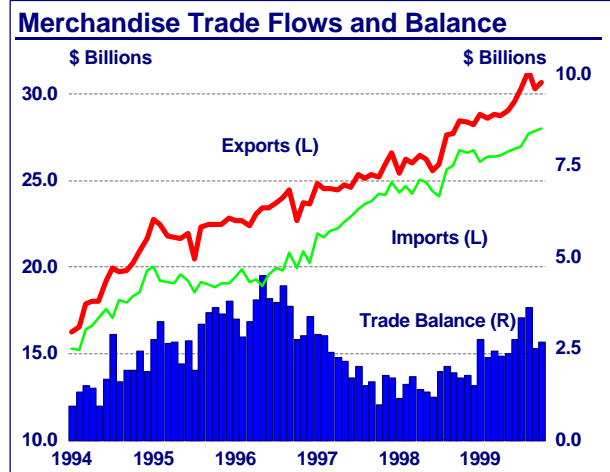


### A revival in exports...

- Exports rose 1.2% in October, partly offsetting a 3.2% decline in September. This recovery was due mainly to higher exports of Industrial Goods (prices for uranium and gold increasing), Automotive Products and M&E.
- Imports were up 0.7% in October, advancing for the ninth consecutive month. The increase was mainly attributable to higher imports of Agricultural Products and M&E, which were boosted by higher purchases of airplanes and portable systems computers.

### ...leads to a higher trade surplus

- The trade surplus rose slightly to \$2.7 billion in October, rebounding from a sharp decline a month earlier, but still below August's three-year high of \$3.6 billion.
- On a year-to-date basis, the cumulative trade balance has reached \$26.9 billion since January, almost 75% higher than that recorded a year ago.



### Merchandise Trade

October 1999	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)	% Change		
	1999 Sept	1999 Oct	1998 Jan-Oct	1999 Jan-Oct		Sept to Oct 1999	Sept to Oct 1999	Oct 98 to Oct 99
<b>Exports</b>	<b>30,326</b>	<b>30,698</b>	<b>265,641</b>	<b>296,288</b>	<b>372</b>	<b>1.2</b>	<b>7.9</b>	
to United States	26,063	26,474	221,160	254,758	411	1.6	10.3	
<b>Imports</b>	<b>27,829</b>	<b>28,028</b>	<b>250,043</b>	<b>269,351</b>	<b>199</b>	<b>0.7</b>	<b>4.8</b>	
from United States	21,238	21,383	192,177	206,555	145	0.7	2.9	
<b>Trade Balance</b>	<b>2,497</b>	<b>2,670</b>	<b>15,598</b>	<b>26,937</b>	<b>173</b>			
with United States	4,825	5,091	28,983	48,203	266			
<b>Exports by Commodity</b>								
Agriculture/Fishing Products	2,176	2,152	20,901	21,253	-24	-1.1	-2.3	
Energy Products	2,753	2,683	20,324	23,559	-70	-2.5	30.5	
Forestry Products	3,285	3,284	29,088	32,130	-1	0.0	9.2	
Industrial Goods & Materials	4,740	4,927	48,117	47,145	187	3.9	4.5	
Machinery & Equipment	7,216	7,361	65,494	69,963	145	2.0	9.5	
Automotive Products	7,907	8,063	61,722	79,700	156	2.0	6.6	
Other Consumer Goods	1,111	1,142	10,247	11,338	31	2.8	5.0	
<b>Imports by Commodity</b>								
Agriculture/Fishing Products	1,469	1,545	14,278	14,761	76	5.2	4.8	
Energy Products	1,065	797	7,381	7,950	-268	-25.2	14.2	
Forestry Products	239	228	2,057	2,263	-11	-4.6	6.5	
Industrial Goods & Materials	5,272	5,296	50,009	50,954	24	0.5	1.2	
Machinery & Equipment	9,045	9,509	83,593	89,587	464	5.1	7.1	
Automotive Products	6,567	6,481	54,332	63,088	-86	-1.3	3.3	
Other Consumer Goods	3,157	3,160	28,314	30,566	3	0.1	6.2	

# LABOUR MARKET TRENDS



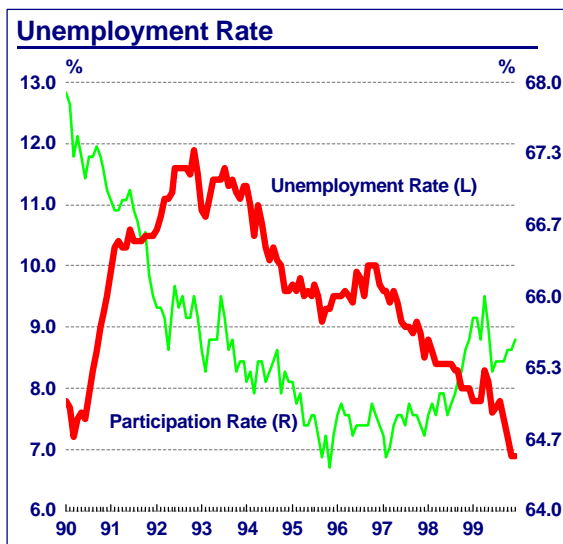
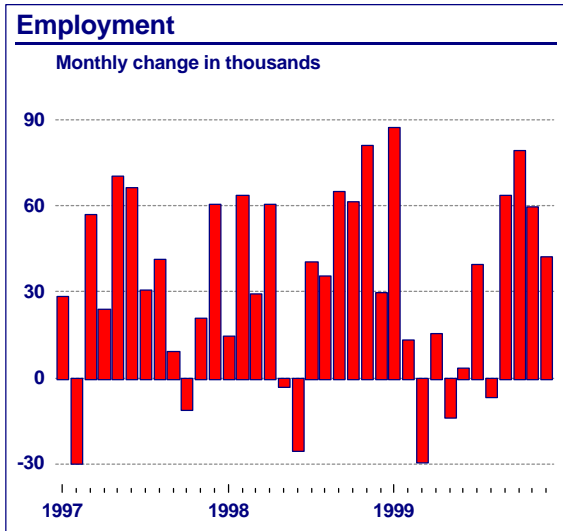
## Employment and Unemployment

### *Employment closes out the year with a fourth straight solid gain...*

- Canada's overall level of employment rose by 42,000 in December, the smallest of four consecutive gains. Net job creation totalled 355,000 overall in 1999, with more than two-thirds of these gains coming in the last four months.
- Full-time employment accounted for all of December's job gains, bringing the total for 1999 to 438,000. The number of part-time jobs fell 83,000 on the year.
- While job growth has been somewhat weaker than in 1998 (2.4% versus 3.2%), the number of hours worked has increased at roughly the same pace (2.8%) in 1999 due to faster growth in full-time employment.

### *...but a rise in the labour force leaves the unemployment rate unchanged at 6.9%*

- December's employment gains were matched by an increase in the labour force (+42,000), leaving the national unemployment rate unchanged at 6.9%. This is down from 8.0% a year ago, and is the lowest unemployment rate since August 1981.
- Unemployment rates held steady in December for adults (5.7%) and youth (13.2%), but both are down on the year.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	1998 December	1999 November	1999 December	last month	last year	year-to- date	last month	last year
<b>Employment</b>	14,563.4	14,876.0	14,918.3	42.3	354.9	354.9	0.3	2.4
<b>Full-time</b>	11,809.7	12,206.3	12,248.0	41.7	438.3	438.3	0.3	3.7
<b>Part-time</b>	2,753.7	2,669.7	2,670.3	0.6	-83.4	-83.4	0.0	-3.0
<b>Youth 15-24</b>	2,181.5	2,235.5	2,254.7	19.2	73.2	73.2	0.9	3.4
<b>Adult 25+</b>	12,381.9	12,640.5	12,663.6	23.1	281.7	281.7	0.2	2.3
<b>Self-employed</b>	2,589.6	2,552.1	2,583.6	31.5	-6.0	-6.0	1.2	-0.2
<b>Unemployment</b>	1,272.2	1,108.5	1,108.7	0.2	-163.5	-163.5	0.0	-12.9
<b>Unemployment Rate</b>	8.0	6.9	6.9	0.0	-1.1	-1.1		
<b>Youth 15-24</b>	14.4	13.2	13.2	0.0	-1.2	-1.2		
<b>Adult 25+</b>	6.8	5.7	5.7	0.0	-1.1	-1.1		
<b>Labour Force</b>	15,835.6	15,984.5	16,026.9	42.4	191.3	191.3	0.3	1.2
<b>Participation Rate</b>	65.6	65.5	65.6	0.1	0.0	0.0		
<b>Employment Rate</b>	60.4	60.9	61.0	0.1	0.6	0.6		





## Industry Overview

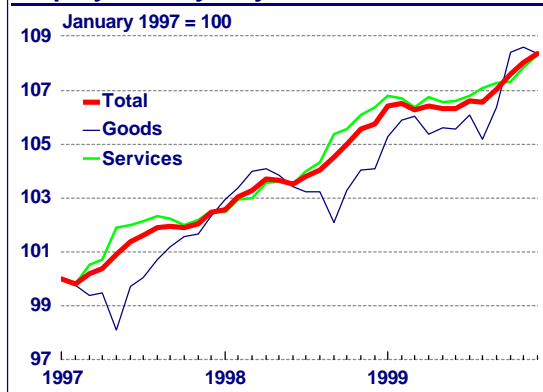
### Services account for most of the December job gains...

- The Service sector added 50,000 new jobs in December, with gains in most major categories. Overall in 1999, job growth has been strongest in Transportation and Management & Administrative Services.
- Employment in the Goods-producing industries fell by 8,000 in December, as modest gains in Manufacturing and Utilities were more than offset by losses in the other major industrial groups. The Manufacturing sector accounted for just over one of every two new jobs economy-wide in 1999, with employment up 8.5% compared to December 1998.

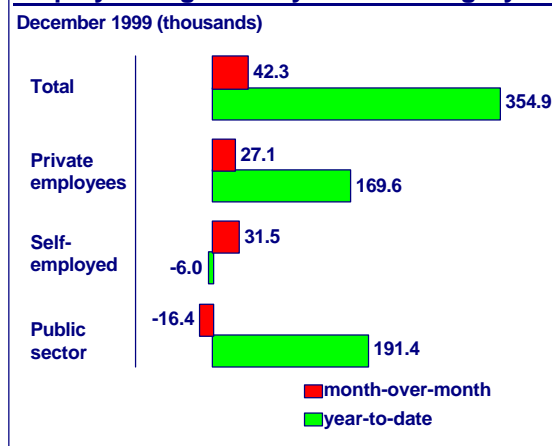
### ...and employment in the private sector extends its recovery

- Paid employment in the private sector rose 27,000 in December, the sixth straight monthly rise. While registering a gain on the month, the number of self-employed remains down on a year-over-year basis.
- Employment in the public sector retreated slightly in December. However, job gains in this sector in 1999 actually outpaced gains in the private sector – for the first time since 1991.

### Employment by major sector



### Employment growth by worker category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	1998 December	1999 November	1999 December	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	3,762.2	3,926.2	3,918.4	-7.8	156.2	156.2	-0.2	4.2
Agriculture	412.2	387.9	377.6	-10.3	-34.6	-34.6	-2.7	-8.4
Other Primary*	280.0	283.0	279.3	-3.7	-0.7	-0.7	-1.3	-0.3
Utilities	115.2	115.0	115.4	0.4	0.2	0.2	0.3	0.2
Construction	813.1	823.8	821.4	-2.4	8.3	8.3	-0.3	1.0
Manufacturing	2,141.7	2,316.4	2,324.7	8.3	183.0	183.0	0.4	8.5
<b>Service-producing</b>	10,801.2	10,949.8	10,999.8	50.0	198.6	198.6	0.5	1.8
Trade	2,241.1	2,286.8	2,301.5	14.7	60.4	60.4	0.6	2.7
Transportation	730.7	796.1	795.4	-0.7	64.7	64.7	-0.1	8.9
FIRE*	898.1	906.0	913.8	7.8	15.7	15.7	0.9	1.7
Professional/Scientific	936.6	920.4	950.4	30.0	13.8	13.8	3.3	1.5
Management/Administrative	487.1	522.0	526.3	4.3	39.2	39.2	0.8	8.0
Educational Services	939.3	993.3	982.5	-10.8	43.2	43.2	-1.1	4.6
Health Care/Social Assistance	1,490.7	1,503.3	1,498.1	-5.2	7.4	7.4	-0.3	0.5
Information/Culture/Recreation	643.3	669.9	656.7	-13.2	13.4	13.4	-2.0	2.1
Accommodation & Food	932.5	945.8	967.2	21.4	34.7	34.7	2.3	3.7
Other Services	731.9	691.4	687.9	-3.5	-44.0	-44.0	-0.5	-6.0
Public Administration	769.9	715.0	720.0	5.0	-49.9	-49.9	0.7	-6.5

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

# LABOUR MARKET TRENDS

## Provincial Overview



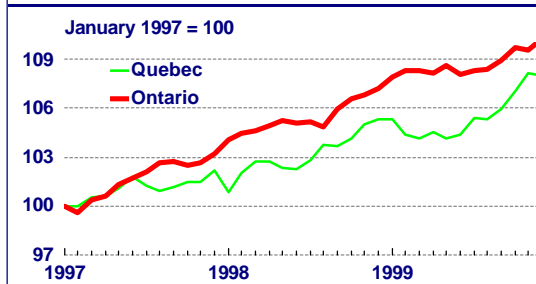
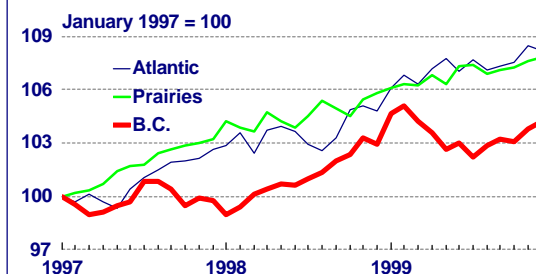
### Ontario, British Columbia and Alberta lead December job gains...

- Most of the total increase in employment for December was attributed to solid gains in Ontario, British Columbia and Alberta.
- Employment was down slightly in New Brunswick, Quebec, Manitoba and Nova Scotia.

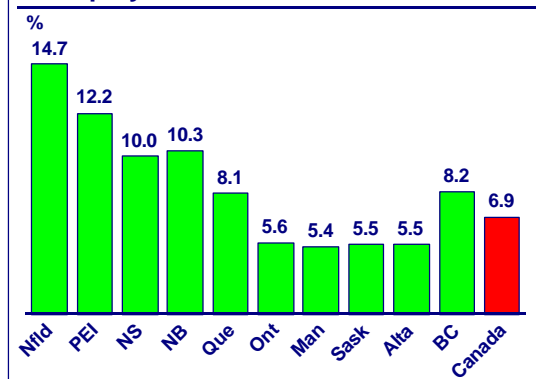
### ...but labour market conditions improve in every region in 1999

- Employment was up in every province in 1999, with particularly strong growth registered by Newfoundland, Prince Edward Island and Nova Scotia.
- With the exception of British Columbia, job growth outpaced growth in the labour force in all provinces, leading to lower unemployment rates across Canada.
- These declines were led by year-over-year declines of 4.0 percentage points in Newfoundland (to 14.7%) and 3.2 points in P.E.I. (to 12.2%).
- Other notable reductions in unemployment rates were in Quebec (-1.9 points to 8.1%), New Brunswick (-3.2 points to 10.3%) and Ontario (-1.3 points to 5.6%).
- In B.C., the unemployment rate was unchanged at 8.2% in December when compared to a year ago.

### Regional employment patterns



### Unemployment Rates -- December 1999



### Provincial Employment and Unemployment Trends

	Employment (thousands)						Unemployment rate (%)		
	Levels 1999 December	Change since last month		Change since last year		Levels	Change since last month		last year
		(000's)	%	(000's)	%		last month	last year	
Canada	14,918.3	42.3	0.3	354.9	2.4	6.9	0.0	-1.1	
Newfoundland	211.7	1.0	0.5	12.1	6.1	14.7	-1.4	-4.0	
P.E.I.	64.8	1.5	2.4	4.8	8.0	12.2	-1.0	-3.2	
Nova Scotia	415.4	-1.4	-0.3	13.7	3.4	10.0	0.4	-0.6	
New Brunswick	337.3	-4.0	-1.2	1.6	0.5	10.3	0.7	-1.3	
Quebec	3,483.9	-3.3	-0.1	86.0	2.5	8.1	-0.3	-1.8	
Ontario	5,869.0	34.5	0.6	162.0	2.8	5.6	0.0	-1.3	
Manitoba	559.5	-2.4	-0.4	6.1	1.1	5.4	0.1	-0.5	
Saskatchewan	483.6	0.6	0.1	2.6	0.5	5.5	0.2	-0.8	
Alberta	1,574.9	7.2	0.5	41.5	2.7	5.5	0.3	-0.2	
B.C.	1,918.3	8.7	0.5	24.7	1.3	8.2	0.2	0.0	

# PRICES and FINANCIAL MARKETS

## Consumer and Commodity Prices



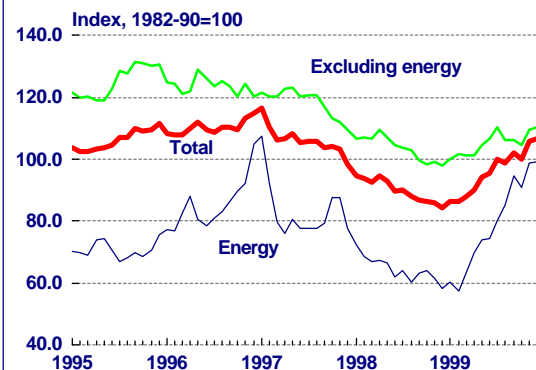
### Prices edge lower in November...

- The annual rate of CPI inflation fell to 2.2% in November. Energy prices are up 11.2% on a year-over-year basis, while transportation costs have increased by 5.2%. Higher prices for food purchased in restaurants, air transportation and tuition fees also contributed to the year-over-year increase in the CPI, while prices for computer equipment and fresh fruit and vegetables declined.
- On a month-over-month basis, consumer prices registered their first decline of the year in November. Energy prices continue to exert a major influence on the overall index, with a 0.9% decline in the Energy component of the index (led by a 1.7% drop in gasoline prices) contributing to the monthly 0.1% drop in the CPI.

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

- When the volatile food and energy components and the impact of indirect taxes are excluded, the "core" rate of inflation fell to 1.5% in November, down slightly from the previous month. This remains within the bottom half of the 1%-3% target range set jointly by the Bank of Canada and the Department of Finance.
- Commodity prices advanced strongly in December. Energy prices are now up 70% on a year-over-year basis.

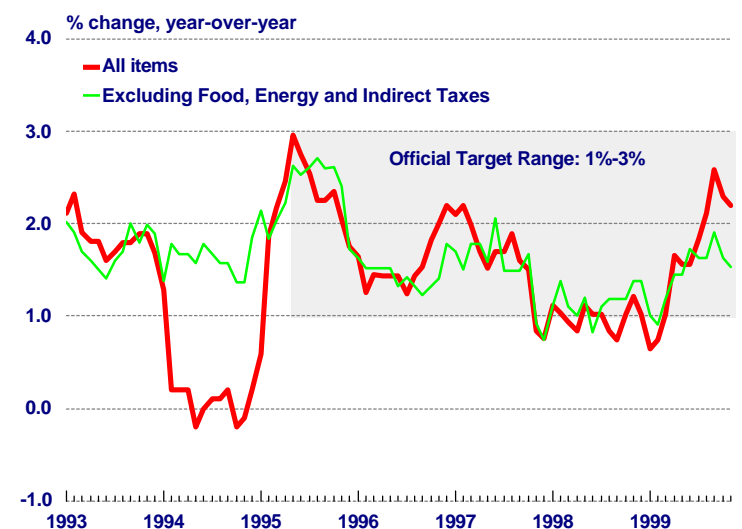
### Commodity Prices (\$U.S. basis)



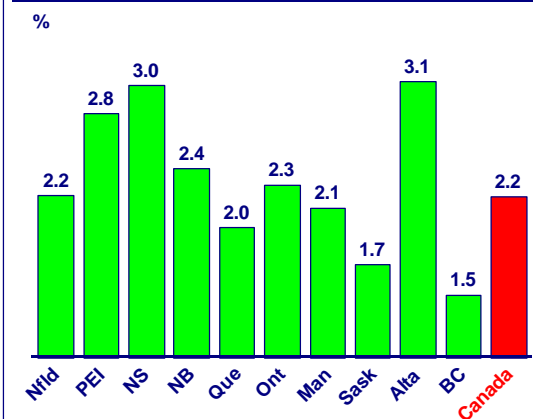
### Consumer Prices

	Index (1992=100)	% Change since	
		last month	last year
<b>All items CPI</b>	111.4	-0.1	2.2
Food	110.6	0.6	0.8
Shelter	105.9	0.1	1.6
Household operations	109.5	-0.1	1.5
Clothing & Footwear	105.4	-1.8	0.9
Transportation	127.3	0.2	5.1
Health & Personal Care	110.5	-0.1	1.5
Recreation, Educ. & Reading	120.3	-1.4	2.6
Alcohol & Tobacco	95.1	0.5	1.7
<b>Excl. Food/Energy/Indirect Taxes</b>	112.4	-0.2	1.5
Energy	115.8	-0.9	11.2
<b>Commodity Prices (December)</b>			
Index, 1982-90=100	106.5	0.9	26.3
Excluding Energy	110.4	0.9	12.5
Energy	99.3	0.6	70.0

### Consumer Price Index



### Provincial CPI Inflation -- November 1999



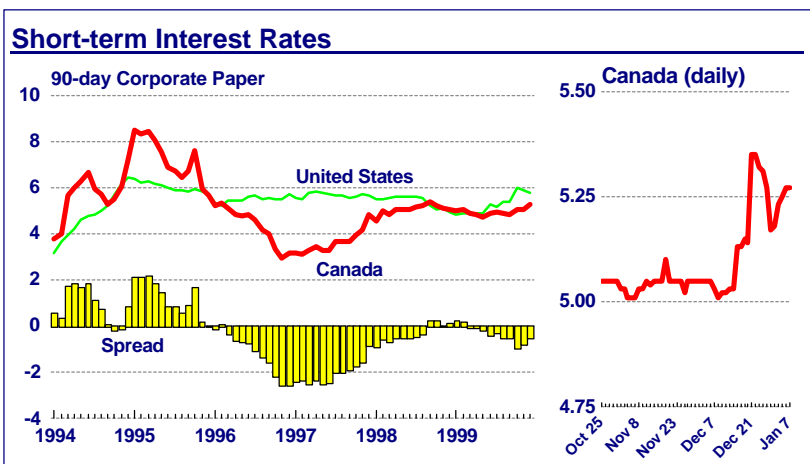


***Bond markets tumble as interest rate fears usher in the Year 2000...***

- Bond markets got off to a rough start in the New Year, as concerns of an impending interest rate increase by the U.S. Federal Reserve drove yields higher on both sides of the border. The upward pressure actually surfaced in December, when U.S. monetary authorities made it clear that their decision not to raise rates was based on a desire to promote liquidity in the face of possible Y2K-related disruptions. As the turnover passed with few disruptions, some analysts expect that the FOMC could raise interest rates by as much as 75 basis points over the first six months of 2000, starting at its next meeting on February 1-2. The strong performance of the Canadian economy may also cause the Bank of Canada to follow suit.

***...leaving both short and long rates up on the year***

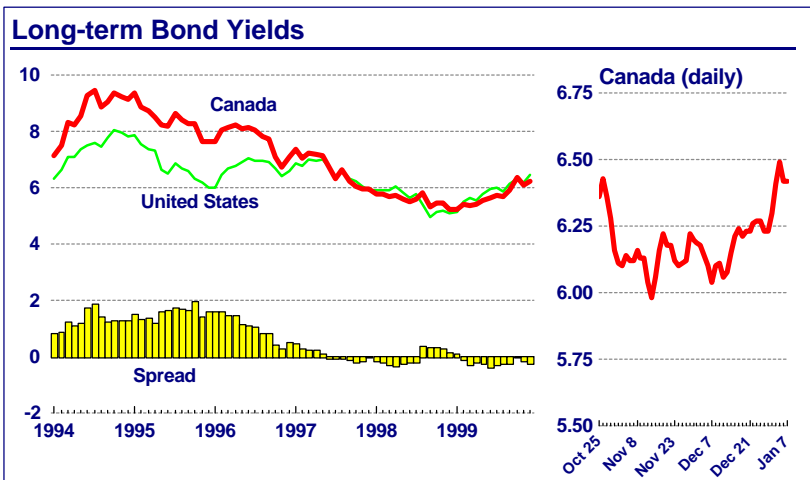
- Short term bonds yields rose as high as 5.35% before closing out December at 5.27%, up 25 basis points on the year. Canadian short rates entered 1999 above their American counterparts, but rose much less quickly over the year, leading to a spread of roughly 50 basis points in Canada's favour at the end of the year.
- Long term rates rose a full 100 basis points in Canada in 1999. Again, Canadian rates rose less sharply than comparable U.S. yields, but the differences were less pronounced in the long-term market, where the yield differential has remained narrow (-0.22) but still in Canada's favour.



**Key Money Market Rates**

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
1998	5.02	0.09	5.23	0.14
1999	5.27	-0.49	6.23	-0.22
July 1999	4.91	-0.26	5.74	-0.27
Aug	4.87	-0.50	5.68	-0.19
Sept	4.83	-0.53	5.91	-0.22
Oct	5.05	-0.93	6.36	0.03
Nov	5.05	-0.80	6.10	-0.12
Dec	5.27	-0.49	6.23	-0.22
Jan 5	5.25	-0.57	6.49	-0.15

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
1998	5.25	6.75	6.20	6.60
1999	5.00	6.50	7.35	8.25
July 1999	4.75	6.25	7.05	7.75
Aug	4.75	6.25	7.05	7.80
Sept	4.75	6.25	6.80	7.70
Oct	4.75	6.25	7.35	8.25
Nov	5.00	6.50	7.35	8.25
Dec	5.00	6.50	7.35	8.25
Jan 5	5.00	6.50	7.35	8.25

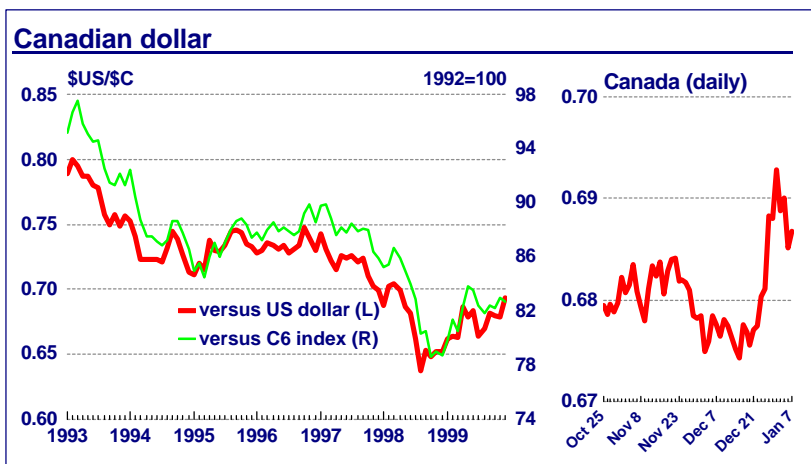


### Stock markets suffer a millennial hangover ...

- Stock markets ended 1999 on a high note, pushing the TSE 300 up 30% on the year. However, stock prices came crashing down in the New Year as fears of interest rate increases sent stocks plummeting in the wake of a smooth Y2K transition. Technology stocks suffered the greatest losses, with the technology-heavy U.S. Nasdaq index experiencing its biggest single-day point drop in its history. Stocks rebounded quickly, however, as a surge in prices for blue-chip and value stocks help indexes recover most of their losses by the end of the week. The TSE 300 ended the week of January 7 at 8429, just below its record high of 8473 reached on December 29, 1999.

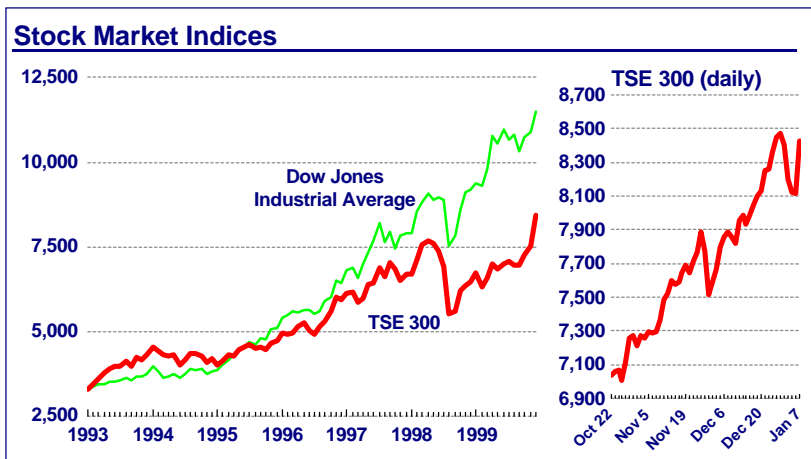
### ...and the Canadian dollar retreats from year-end highs

- The Canadian dollar finished off the year strongly, as a last-minute rally pushed its value up to \$U.S. 0.6929, its highest level in 19 months. Financial market instability and sharply lower commodity prices weakened the dollar early in the new year, however, bringing it down to \$U.S. 0.6867 by January 7, 2000.
- The dollar's slide is not likely to be prolonged, as strong economic fundamentals and firmer world resource prices (including oil and base metals) are expected to provide support for the Canadian currency into the year 2000.



### The Canadian Dollar

(close)	\$US vs. \$Cdn	index vs. C-6 (92=100)	DM vs. \$Cdn	yen vs. \$Cdn
1998	0.6522	78.71	1.082	75.91
1999	0.6929	82.67	1.313	69.66
July 1999	0.6639	82.39	1.267	80.13
Aug	0.6700	81.79	1.236	75.80
Sept	0.6815	82.43	1.261	72.34
Oct	0.6797	82.22	1.237	71.71
Nov	0.6782	82.96	1.291	71.29
Dec	0.6929	82.67	1.313	69.66
Jan 7	0.6867			



### Key Stock Market Indexes

	December Close	% change from	
		last month	last year
<b>TSE 300</b>	<b>8,414</b>	<b>11.8</b>	<b>29.7</b>
Oil & Gas	5,862	2.4	26.2
Metals & Minerals	4,475	17.6	45.8
Utilities	12,564	26.0	69.6
Paper & Forest	5,237	10.3	47.0
Merchandising	5,115	5.0	-9.6
Financial Services	7,410	1.0	-12.1
Gold	4,875	-6.1	-17.7
Price-Earnings Ratio*	40.0	3.3	11.5
<b>S&amp;P 500</b>	<b>1,469</b>	<b>5.8</b>	<b>19.5</b>
<b>Dow Jones</b>	<b>11,497</b>	<b>5.7</b>	<b>25.2</b>

\*columns 2 & 3 reflect change in levels



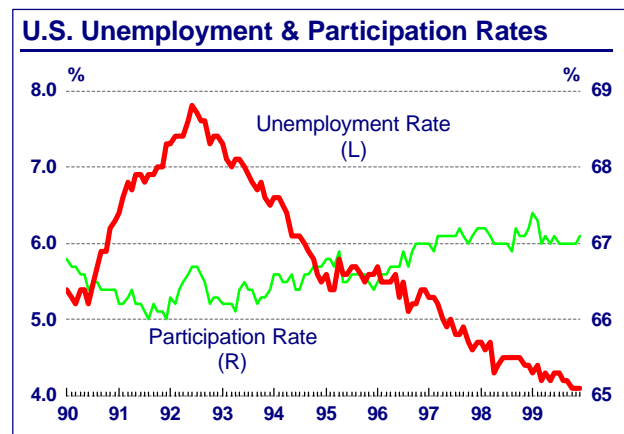
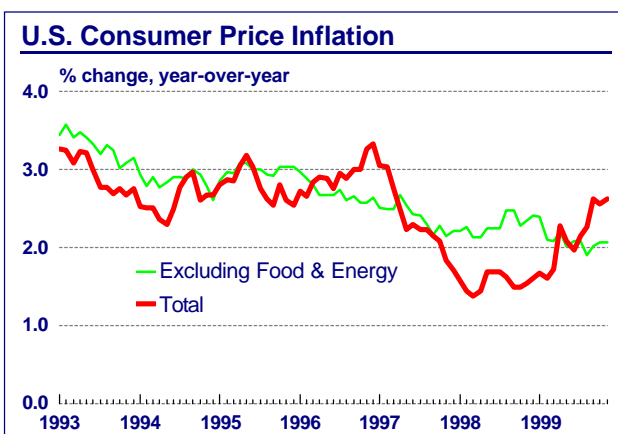
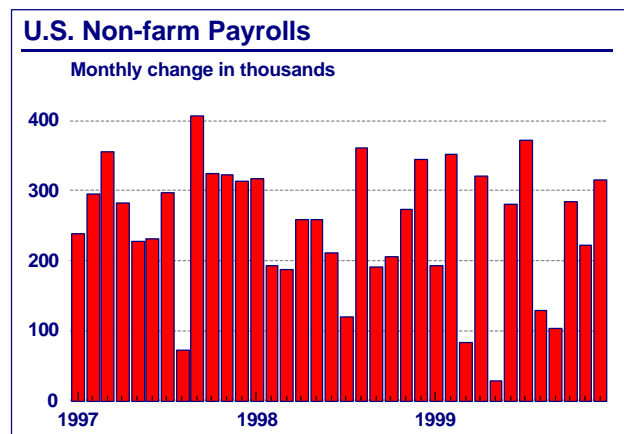
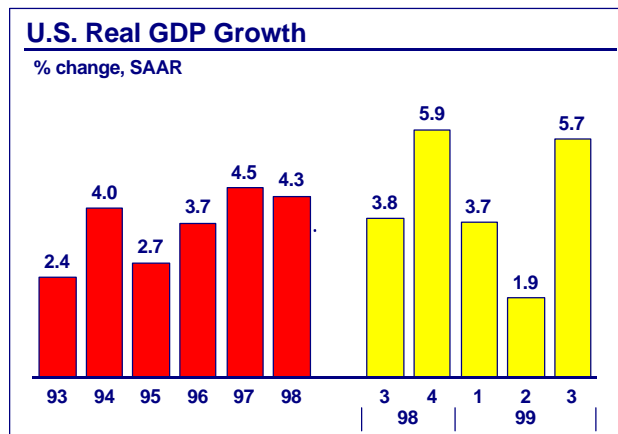
## U.S. Economic Trends

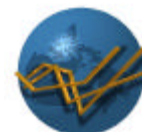
### *The U.S. economy grows at a fast pace in the third quarter...*

- Final estimates indicate that U.S. real GDP surged 5.7% (annual rate) in the third quarter of 1999, following a modest gain in the second quarter. Higher consumer spending, exports and business investment offset strong import growth and lower residential investment in the quarter.
- Employment posted its biggest advance in five months in December, adding 315,000 new jobs. The unemployment rate remained at 4.1% for a third consecutive month, a near 30-year low.
- The U.S. trade deficit soared to a record \$25.9 billion in October. Rising imports (+1.6%), led by computer related goods and crude oil, fuelled the higher deficit, as exports were essentially unchanged (-0.1%). On a year-to-date basis, the trade deficit is up 61% compared to the first ten months of 1998.

### *... but the Fed holds off on a rate increase*

- Uncertainty over the impact of Y2K on financial markets and indications that inflation remains under control prompted the Federal Reserve to hold its key federal funds rate at 5.5% on December 21th. Although consumer prices and hourly earnings have been edging higher in recent months, strong productivity gains have helped keep inflation in check.
- The Fed continues to adopt a neutral bias, but tight labour market conditions coupled with strong economic growth suggest that U.S. monetary policy could tighten in the near future.





## Output

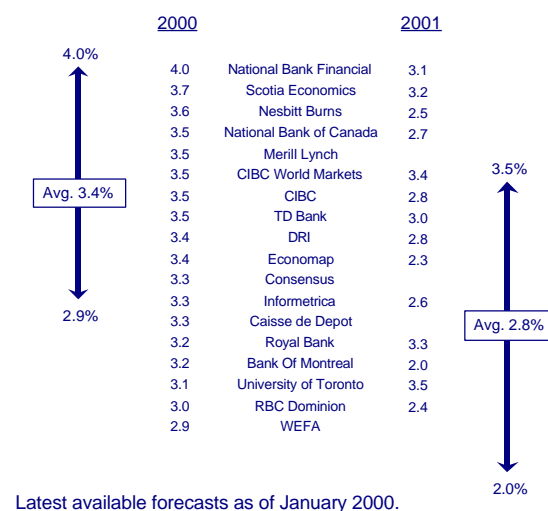
### *The economy will grow strongly in 2000, but at a slower pace than last year*

- The Canadian economy expanded by an estimated 3.8% in 1999, significantly above the 2% rate expected at the beginning of last year.
- The average private sector forecast calls for real GDP growth to slow to 3.4% this year, with none of the forecasters surveyed predicting growth below 2.9%. Output growth is expected to ease up slightly to 2.8% in 2001.
- The main downside risk to this outlook is the potential for significantly-higher interest rates in both Canada and the U.S. should inflationary pressures emerge. Some analysts suggest that a sharp reversal in stock prices could also occur.
- In its December Economic Outlook, the OECD projects that the Canadian economy will grow by 3.0% in 2000 and 2.7% in 2001. Among the G-7 countries, only France is expected to grow at a faster pace on average over the next two years.

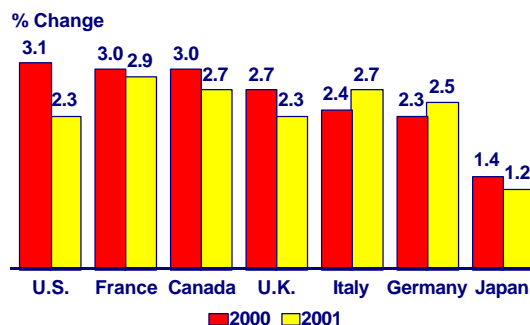
### *Most major industry groups should post healthy gains in the coming year*

- Among the major industry groups, this year's growth is expected to be fastest in the Business Services industry (+7.2%), building on major gains in previous years.
- Canada's Mining sector is also expected to grow sharply (+6.4%), boosted by a sharp recovery in crude oil prices. Activity in the Other Primary industries (Agriculture and Logging & Forestry) is expected to rise at only a modest pace, however.
- Construction and Manufacturing are expected to post solid advances for the second consecutive year. Strong domestic demand should provide a boost to both sectors, while Manufacturing will also benefit from continued growth in the U.S. market.
- In addition to Other Primary industries, Education, Health & Social Services and Government Services are expected to increase, at a relatively slow pace compared to the rest of the economy.

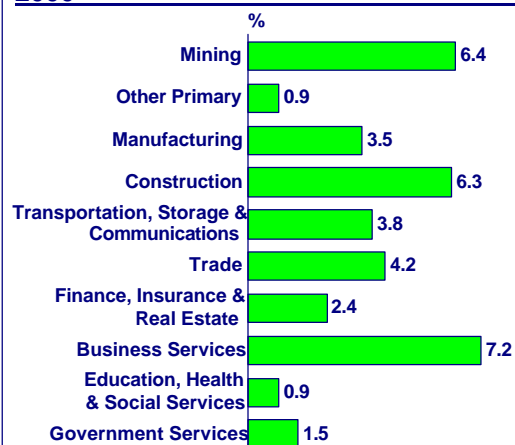
### Outlook for Real GDP Growth



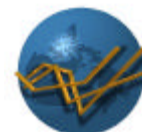
### G-7 Growth Projections: Real GDP



### Forecast Real GDP Growth by Industry, 2000



\*Consensus projections from available private-sector forecasts.



## Households and Consumer Spending

### *Labour markets will cool following a strong performance in 1998 and 1999...*

- Net job creation totalled 384,000 in 1999 (+2.7% on an annual basis), building on a gain of 453,000 new jobs 1998 -- the best performance of the decade.
- Private-sector forecasters expect that employment growth, though still strong, will slow to 2.2% in both 2000 and 2001.
- Employment gains are expected to be largely matched by increases in the labour force, resulting in only a modest improvement in the national unemployment rate over the next two years.
- Still, private-sector forecasters project that the recent strong employment gains and the potential for further tax relief will translate into higher real after-tax incomes. Indeed, the consensus forecast calls for 3.4% growth in real personal disposable incomes in 2000, which (if realized) would be the biggest gain since 1989.

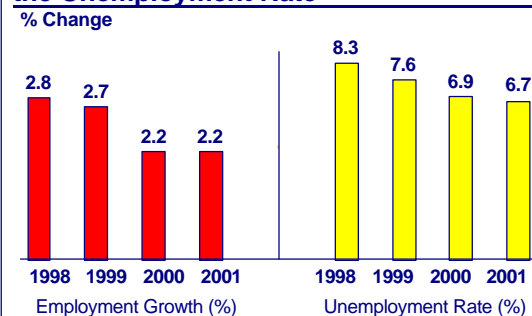
### *...but past employment gains should provide a boost to consumer spending...*

- Higher incomes should allow consumer spending to rise 3.0%, about the same rate as in 1999. A potential risk is that higher interest rates could cool off consumer demand, particularly for big-ticket durable goods.
- After rebounding strongly in 1999, the housing market should post another solid gain this year. Rising incomes and higher consumer confidence are expected to offset the impact of anticipated higher interest rates.

### *...as consumer price inflation remains within the official target range*

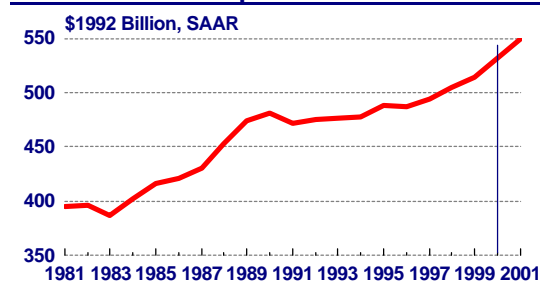
- Higher energy prices have put upward pressure on inflation in recent months. Strong growth has also put upward pressure on prices, although an expected appreciation of the dollar should offset some of these pressures. On the whole, forecasters expect that inflation will remain within the Bank of Canada's official 1-3% target range over the next two years.

### Employment Growth & the Unemployment Rate



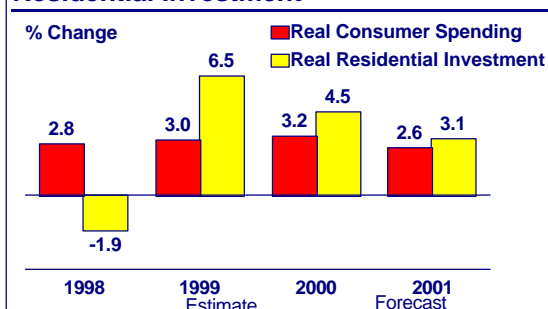
\*Consensus projections from available private-sector forecasts.

### Real Personal Disposable Income\*



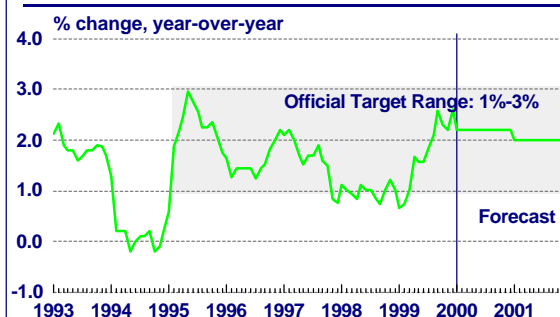
\*Consensus projections from available private-sector forecasts.

### 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: 2000 – The Year Ahead

## Corporate Sector and Investment



### **Corporate profits will continue to rise over the next two years...**

- The robust growth in profits expected this year and next can to a large extent be attributed to continued strong demand in both the domestic and U.S. market.
- The recent rebound in commodity prices should also aid the financial picture of companies in the resource-based industries.

### **...but growth in investment will slow from its fast pace in 1999...**

- An improved profit outlook and generally healthy economic conditions should promote investment growth again this year. Indeed, capacity utilization is at a very high rate, which normally triggers increased investment.
- Business spending on M&E is expected to grow a solid 7.2% this year, but this is nonetheless half the rate recorded in 1999. Purchases of computers and related equipment should ease up, as companies phase out Y2K-related spending.

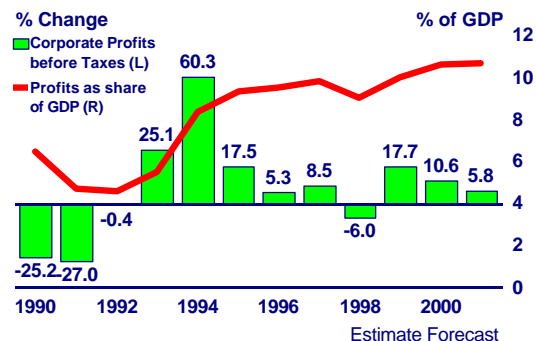
### **...though non-residential construction will be boosted by increased activity in the oil patch**

- Investment in non-residential construction should pick up this year, boosted in particular by increased activity in the oil patch.
- Recent data on non-residential building permits also point to continued strength in spending plans in the institutional and governmental building sectors.

### **Interest rates are likely to rise over the short term**

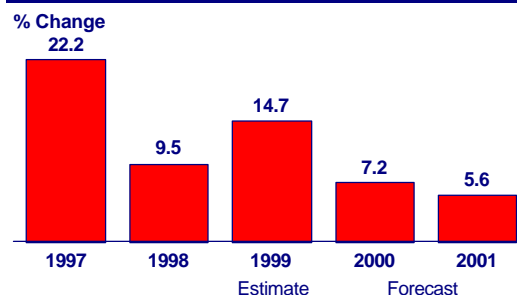
- According to most analysts, interest rates in both Canada and the U.S. will rise early in the new year, as continued strong growth prompts authorities on both sides of the border to tighten monetary conditions in an effort to head-off inflation.

#### **Growth in Corporate Profits**



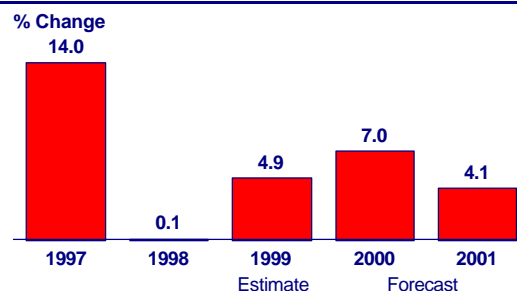
\*Consensus projections from available private-sector forecasts.

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



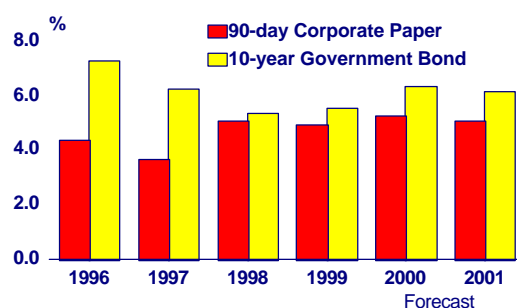
\*Consensus projections from available private-sector forecasts.

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



\*Consensus projections from available private-sector forecasts.

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



\*Consensus projections from available private-sector forecasts.



***The U.S. economy should continue to grow, but at a slower pace...***

- Growth in the U.S. economy is expected to slow to 3.6% in 2000, down from about 4.0% in 1999. The main factor behind the anticipated softening in demand is the potential for higher interest rates as the U.S. Federal Reserve strives to head off inflation.

***...causing Canadian export growth to fall slightly below that for imports***

- Canadian exports are expected to grow more slowly this year, in line with the expected slowdown in the U.S. economy (which accounts for just over 85% of all Canadian exports).
- Exports to the Asia-Pacific region are expected to pick up as these economies rebound from financial crises. The B.C. economy is particularly well-placed to benefit from this turnaround.
- Though import growth should also slow slightly in 2000, it is nonetheless expected to outpace that for exports.

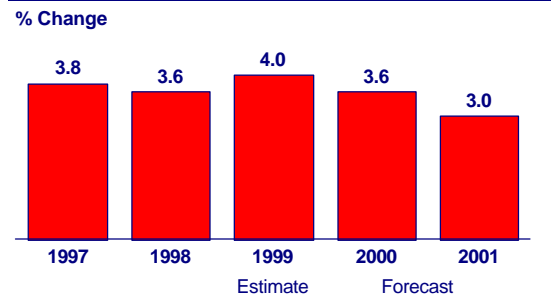
***The current account is expected to be in surplus over the next two years...***

- Canada's current account swung into a surplus in the third quarter of 1999 for the first time since the end of 1996.
- Private-sector forecasters generally expect that the current account will remain in surplus this year and next. From an estimated deficit of \$1.8 billion last year, Canada is expected to post an external surplus of \$2.2 billion in 2000 and \$3.1 billion in 2001.

***...as the Canadian dollar firms***

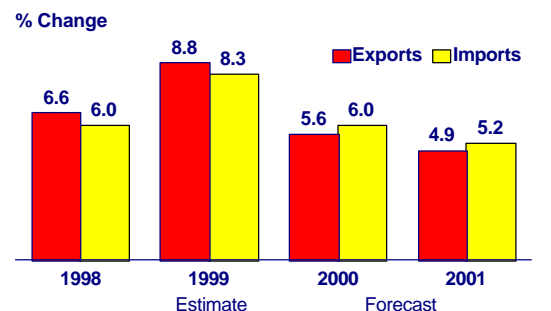
- Firming global commodity prices and greatly-improved economic fundamentals at home are expected to provide underlying support for the Canadian dollar this year and next.
- After averaging US 67½ ¢ in 1999, private sector forecasters expect that the dollar will average roughly US 70¢ this year and nearly 71½ ¢ in 2001.

**U.S. Real GDP Growth**



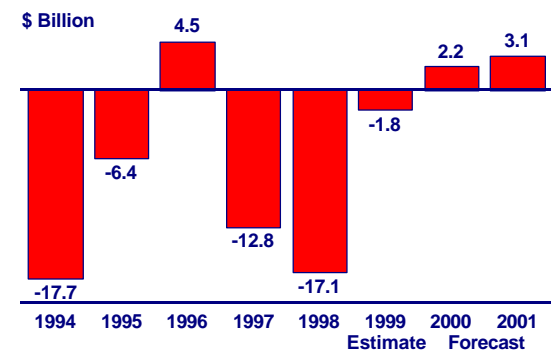
\*Consensus projections from available private-sector forecasts.

**Growth in Real Exports and Imports**



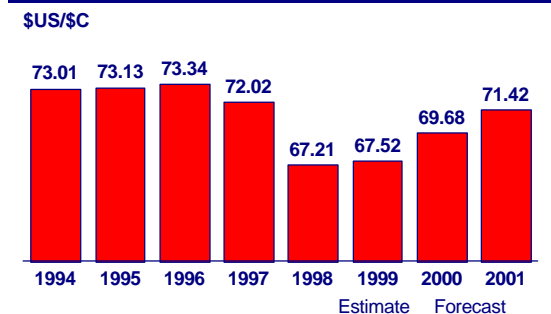
\*Consensus projections from available private-sector forecasts.

**Current Account Balance**

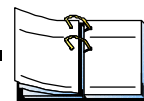


\*Consensus projections from available private-sector forecasts.

**Canadian Dollar**



\*Consensus projections from available private-sector forecasts.

**CANADA**

Survey of Manufacturing – November .....	January 19
International Trade – November .....	January 20
Consumer Price Index – December .....	January 21
GDP at factor cost – November .....	January 31
Business Conditions Survey – January .....	February 1
Labour Force Survey – January .....	February 4
Private and Public Investment Intentions – 2000 .....	February 23
Financial Statistics For Enterprises – 4th Quarter 1999 .....	February 25
National Economic & Financial Accounts – 4th Quarter 1999 .....	February 28
Balance of International Payments – 4th Quarter 1999 .....	February 28
Capacity Utilization Rates – 4th Quarter 1999 .....	March 7

**UNITED STATES**

Consumer Price Index – December .....	January 14
International Trade – November .....	January 20
GDP –4th Quarter 1999, Advance estimate .....	January 28
Federal Open Market Committee meeting .....	February 1,2
Employment Situation – January .....	February 4

Note: the January MEI uses data available as of January 12, 2000