



CANADA'S ECONOMIC NEWS

Date: October 24, 2007

MACROECONOMIC INDICATORS

National Real GDP (monthly)...

increased 0.2% in July, following gains of 0.3% and 0.2% in May and June respectively. The rise in July was largely the result of strength in the services industries (+0.3%) which easily offset a 0.1% decline in the goods industries. In terms of specific sectors, a significant gain was posted in wholesale trade with other increases reported in manufacturing, construction, oil and gas exploration, and the financial sector. These gains offset declines in oil and gas extraction, forestry, retail trade, utilities, and the accommodation and food services sectors. (September 28)

Provincial and Territorial Real GDP (preliminary 2006)...

rose in all provinces and territories in 2006. Growth was the strongest in Alberta (+6.8%), more than double the national average (+2.7%) as the continuous rise in oil prices throughout the year, stimulated investment in the oil sands, which in turn benefited most areas of the economy. British Columbia took second place (+3.6%) due to a rise in world demand for pulp and paper products, higher forestry output and an invigorated construction industry linked largely to investment surrounding the 2010 Winter Olympics. Manitoba ranked third in provincial economic growth (+3.3%) as the best growing conditions in three years in 2006 gave rise to robust canola and wheat exports. (April 25)

The Current Account Surplus...

increased \$2.2 billion in the second quarter to \$8.4 billion on a seasonally adjusted basis. This gain was mainly the result of the third consecutive increase of the surplus on trade in goods which is now at \$16.3 billion, its highest level since the fourth quarter of 2005. (August 30)

The Bank of Canada...

is maintaining its target for the overnight rate at 4.5%, where it has been since July 11th, when it was raised from 4.25%, a level in place since May 6th, 2006. Despite tighter credit conditions, including the appreciation of the Canadian dollar to as high as US\$1.03, momentum in domestic demand in Canada is expected to remain strong. The combined effect of a weaker U.S. outlook and a stronger Canadian dollar implies, however, that net exports will exert a more significant drag on the economy in 2008 and 2009 than previously expected. As a result, the Canadian economy is projected to grow by 2.6% in 2007, 2.3% in 2008, and 2.5% in 2009. This implies that aggregate supply and demand will move back into balance in early 2009. Both core and total CPI inflation are projected to return to 2% in the second half of 2008. So therefore, the bank judges that the current level of the target for the overnight rate is consistent with achieving the inflation target over the medium term. (October 16)

***Corporate Profits (before taxes)...**

as a percentage of GDP, increased by 1.5% (annualized) in the second quarter of 2007, after declining at an annualized 2.4% in the previous quarter. (August 31)

Personal Disposable Income...

increased 0.8% (annualized) in the second quarter, the fourth consecutive quarterly gain after rising at an annualized 2.1% in the previous quarter. (August 31)

Employment...

rose 0.3% from August to September with the addition of an estimated 51,000 jobs, more than twice that of the previous month. So far in 2007, employment increased by 1.7% (+283,000), a rate of growth higher than that observed over the first nine months of 2006 (+1.3%). With the majority of September's employment gains in full-time employment, core-age workers (persons aged 25-54), experienced their first significant employment increase (+40,000) since the beginning of the year. Workers over the age of 55 also showed employment strength, gaining 23,000 additional jobs in September. So far this year, employment among this group has been grown at a faster pace (+5.6%) than for people in the core age group. On a sector basis, the largest employment gains were in educational services (+24,800), followed by public administration (+21,500); professional, scientific and technical services (+17,700); and agriculture (+13,200). The unemployment rate dipped down 0.1 percentage points to 5.9%, the lowest level since November 1974. (October 5)

**The Conference Board of
Canada's Index of Business
Confidence...**

rose 4.5 points to 106.7 (2002=100.0) in the second quarter following a 6.0-point drop in the first quarter from a two-year high in the fourth quarter of 2006. The survey, completed during a three-week period ending during the first week of July, reflects optimism among respondents regarding the financial position of their firms with the majority believing that the present is the best time to invest in anticipation of robust profitability expectations in the next six months. (July 23)

**The Conference Board of
Canada's Index of Consumer
Confidence...**

edged up by a modest 0.4 points in September to 99.9 (2002=100). The increase was driven largely by positive outcomes to three key questions: current financial conditions, future job market conditions and major purchases. In terms of current financial conditions, when asked if their family was better or worse off financially compared to six months ago, 24.3% of respondents indicated they were better off - up 0.5 percentage points from August. This response offset a 0.2 percentage point increase in the proportion of respondents who indicated they were worse off (13.2% to 13.4%), hence resulting in an overall improvement in the balance of opinion on current financial conditions. With regard to consumer optimism regarding future job market conditions in the next six months, 23.1% felt there would be more jobs - down only 0.1 percentage point from August. The proportion of respondents who felt that there would be fewer jobs fell by 0.5 percentage points to 15.8%, thus pushing up the balance of opinion on future job market conditions. With respect to the major purchases question, 52.3% of those surveyed indicated that now was a good time to undertake a major purchase - an increase of 2.2 percentage points from the previous month. Those who felt that now was a bad time to make a major purchase stood at 35.9% - a 0.5 percentage point increase from August. (October 15)

**The Composite Index of
Leading Indicators...**

rose 0.4% in September, a minor improvement on its 0.3% gain in August. Household spending again remained the main source of growth as indicated by a 5.3% rise in the housing index, the largest gain in almost six years, due to higher housing starts. Spending on durable goods also accelerated as did consumer demand for services. Financial market conditions also improved in September as evidenced by a rebound in the stock market due to widespread gains. (October 15)

**Private and Public Investment
Intentions...**

are expected to increase 5.8% in 2007, following three years of strong growth. Businesses and governments plan to spend \$230.1 billion on non-residential construction and machinery and equipment in 2007. Of this amount, \$121.4 billion is for non-residential construction and \$108.7 billion for machinery and equipment, equivalent to a gain of 7.1% and 4.5% respectively compared to 2006. (February 28, 2007)

SECTORAL INDICATORS

Housing Starts...

rose to 278,200 units in September from 232,700 units in August, at a seasonally adjusted rate. September's seasonally adjusted rate of urban starts of 244,400 units represented a 22.9% gain from August. Urban multiple starts jumped 47.5% to 154,100 units in August, while singles edged down 4.3% to 90,300 units. Rural starts in September were estimated at a seasonally adjusted rate of 33,800 units. (October 9)

The Value of Building Permits...

exceeded the \$6-billion mark for the fourth straight month in August with strong performances in both the residential and non-residential sectors. Municipalities issued permits worth \$6.3 billion, up 1.4% from \$6.2 billion in July. The value of residential permits stood at a robust \$3.9 billion in August, clearly reflecting a very healthy residential sector in Canada, unlike that in the U.S. Within Canada's residential sector, an increase in single-family permits offset a decline in the multiple family component. In the non-residential sector, municipalities issued \$2.4 billion worth of building permits, up 4.3% from July. The value of institutional and commercial permits increased, while industrial permits fell 8.6%. Still, industrial intentions remained above the monthly average so far this year. (October 4)

Investment in residential structures...

increased 7.0% in the second quarter to a new record level of \$22.8 billion, compared to the same quarter in 2006. Most of the increase was again focussed towards renovations investments which rose 9.1% to \$9.9 billion, the highest quarterly level on record. Also substantially contributing to the overall strength in residential investment was new residential construction which climbed 6.1% to \$11.0 billion over the second quarter of 2006. Within this category, single-family investment made the largest monetary contribution, rising 3.8% to \$6.8 billion. Apartment/condominium construction increased 9.1% to \$2.5 billion, while investment in double and row housing showed impressive gains of 19.8% and 9.3% respectively. In addition to renovation spending and investment in new residential construction, acquisition costs also increased, rising 2.2% to \$1.9 billion. (September 4)

Investment in non-residential building construction...

rose at an annual rate of 19.6% in the third quarter to \$10.4 billion - the eighteenth consecutive quarterly gain and a new record high. This new increase was due to the continuing construction activity of new office buildings in Ontario, Quebec and Alberta. Nationally, all three major components reported gains in the third quarter, most notably the commercial component, which registered a 20.8% (annualized) investment increase to \$6.2 billion. Investment in the institutional component rose 21.2% (annualized) to \$2.7 billion, while investment in the industrial component increased 12.4% (annualized) to \$1.5 billion. Other factors stimulating the non-residential sector include a strong labour market, high profits recorded by Canadian corporations, healthy retail and wholesale sectors, declining vacancy rates in large urban centres and Western Canada's robust economy. (October 12)

The Industrial Capacity Utilization Rate...

defined as the ratio of an industry's actual output to its estimated potential output, registered its second consecutive quarterly increase in the second quarter of 2007 with capacity utilization edging up slightly to 83.0% from 82.8% in the first quarter. Strength originated largely from manufacturing, fabricated metal products, computer and electronic products and machinery. (September 13)

New Motor Vehicle Sales...

increased 2.8% in August to 143,606 units following three months of declines. This new increase was largely the result of a rebound in truck sales (minivans, sport-utility vehicles, light and heavy trucks, vans and buses) with Ontario and Quebec accounting for almost 95% of this increase. Truck sales advanced 4.9% to 70,399 vehicles in August, partially offsetting two months of sales declines. Passenger car sales edged up 0.8% to 73,2006 vehicles after a 2.3% drop in July. The latter increase was driven by a 1.6% sales gain in North American-built cars to 46,801 units. Sales of overseas-built passenger cars, on the other hand, fell 0.7% in August. (October 15)

Retail Sales..

edged up 0.7% in August to an estimated \$34.5 billion following consecutive declines in June and July. Increases were reported by all the major retail sectors led primarily by sales by new car dealers (+3.0%), pharmacies and personal care stores (+1.8%), furniture, home furnishings and electronic stores (+1.5%), clothing and accessories stores (+1.4%) and miscellaneous retailers (+1.4%). (October 23)

* National accounts basis.

*** Canada's Economic News is a bi-weekly report compiled by the Strategy & Analysis Division (IPS) of the Invest in Canada Bureau (IIP). This report uses data from a variety of official sources, primarily Statistics Canada, Canada Mortgage and Housing Corporation and the Conference Board of Canada. It provides current economic information that could assist you in your investment marketing activities. Please note that the report focuses primarily on positive economic news within selected macroeconomic and sectoral indicators. It is not intended to be a balanced presentation of the current economic situation.

Invest in Canada Bureau (IIP) Contact

Arif Mahmud

Tel: (613) 944-3154

Email: Arif.Mahmud@international.gc.ca