

MONTHLY ECONOMIC INDICATORS

July 1998

HIGHLIGHTS

-  **Employment falls 36,000 in June, the first major drop in a year and a half.**
-  **Still, the unemployment rate holds steady at 8.4%, its lowest rate since August 1990.**
-  **Output edges down in April, spurred by declines in Manufacturing and Business Services.**
-  **Weak Asian demand slows export growth, lowering Canada's merchandise trade surplus.**
-  **The Canadian dollar falls to a new all-time low, buffeted by the Asian financial crisis abroad and weak job figures at home.**

Key Monthly Economic Indicators

		% Change		
		since month	last year	
Real GDP (\$92 B)	711.8	-0.0	3.5	Apr
Goods	239.0	-0.5	3.8	Apr
Services	472.9	0.2	3.4	Apr
Composite Index	205.8	0.5	6.1	May
Employment (000's)	14,286	-0.3	2.2	June
Full-time	11,579	-0.5	2.2	June
Part-time	2,646	0.7	1.8	June
Unemployment* (%)	8.4	8.4	9.1	June
Youth*	15.9	15.7	17.4	June
Adult*	7.0	7.0	7.5	June
CPI inflation*	1.1	0.8	1.5	May
Retail Sales (\$M)	20.6	1.0	5.7	Apr
Housing Starts (000's)	132.7	-4.6	13.5	June
Trade Balance* (\$B)	1.2	1.8	2.2	Apr
Exports	26.0	0.1	6.4	Apr
Imports	24.8	2.6	11.7	Apr
M&E	8.2	4.9	11.1	Apr
3-mth Corp. paper* (%)	4.96	5.06	3.27	Jul.10
Long bond yield* (%)	5.45	5.66	6.73	Jul.10
Canadian dollar* (US¢)	67.63	68.13	72.44	Jul.10

*Data in levels only – % change not reported.

**This issue's Special Report:
Canadian Foreign Direct Investment Trends in the 1990s**

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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MONTHLY ECONOMIC INDICATORS

July 1998

CONTENTS

The Economy	Page
<i>Real GDP by Industry</i>	3
<i>Consumer Spending and Attitudes</i>	4
<i>Business Investment in Plant and Equipment</i>	5
<i>Housing</i>	6
<i>Trade and Competitiveness</i>	7
<i>Provincial Economic Accounts: Review of 1997</i>	8
 Labour Market Trends	
<i>Employment and Unemployment</i>	9
<i>Industry Overview</i>	10
<i>Provincial Overview</i>	11
 Prices and Financial Markets	
<i>Consumer and Commodity Prices</i>	12
<i>Short-term and Long-term Interest Rates</i>	13
<i>Exchange Rates and Stock Markets</i>	14
 The United States Economy	
<i>U.S. Economic Trends</i>	15
 THIS ISSUE'S SPECIAL REPORT:	
Canadian Foreign Direct Investment Trends in the 1990s	16
 Coming Up...	
<i>Key Future Data Releases/Planned Events</i>	20

This report uses data available as of July 10, 1998. It has been prepared by Martine Lajoie, Raynald Létourneau, Joseph Macaluso, Stéfane Marion and Shane Williamson of the Micro-Economic Analysis Directorate. The special report was written by Ashfaq Ahmad, Jenness Gillard and Aaron Sydor of Strategic Investment Analysis. 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.



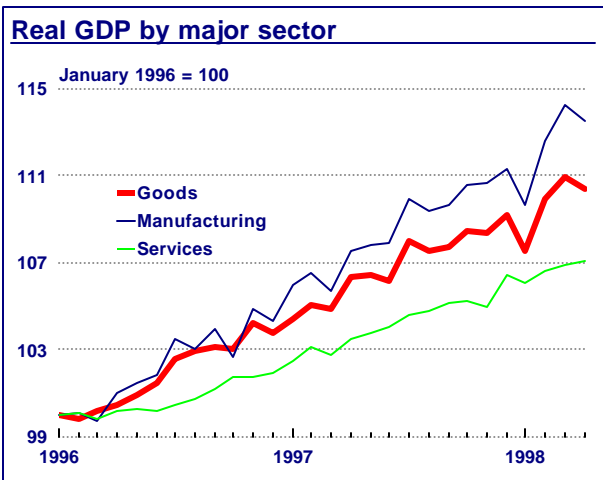
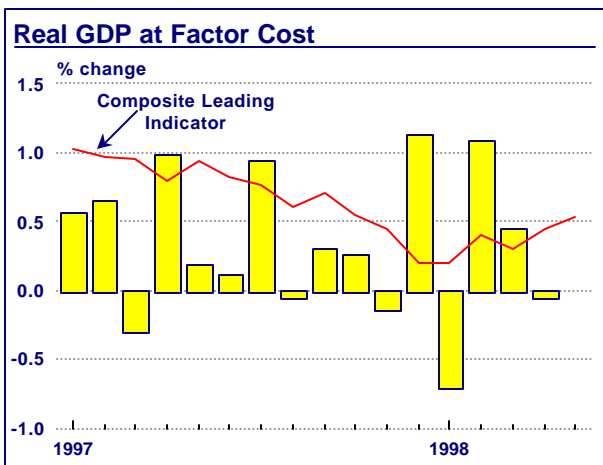
Real GDP by Industry

The economy pauses in April...

- Real GDP was virtually unchanged in April, following a solid rebound from January's ice storm in the two previous months.
- Despite this pause, output in April remained 2.5% above its first-quarter average (annual rate). And, though down from the fast pace set in early 1997, the composite leading indicator has picked up considerably in recent months, led by growth in its financial markets components.

...as output in the Manufacturing sector drops sharply

- The goods-producing side of the economy contracted 0.5% in April, with losses concentrated in Manufacturing. Auto parts shortages and plant shutdowns due to oversupply of some models contributed to the large drop in output. Output was also lower in Mining – the third drop in four months – and Logging & Forestry, two industries particularly exposed to falling demand in the Asian Pacific.
- Production expanded 0.2% in the service sector. Large gains were posted by Finance, Insurance & Real Estate and Retail Trade, but output of Business Services fell – the first drop in two years.



Real GDP at Factor Cost (1992 dollars)

April 1998

	level	monthly change	% Change since last month	year
Total Economy	711,847	-329	-0.0	3.5
Business sector	585,665	-553	-0.1	4.3
Goods	238,974	-1,119	-0.5	3.8
Agriculture	12,530	18	0.1	1.1
Fishing & Trapping	978	46	4.9	12.2
Logging & Forestry	3,951	-174	-4.2	-1.7
Mining*	28,903	-116	-0.4	3.0
Manufacturing	127,595	-875	-0.7	5.6
Construction	41,255	-17	-0.0	5.9
Other Utilities	23,762	-1	-0.0	-5.1
Services	472,873	790	0.2	3.4
Transport & Storage	29,996	-198	-0.7	1.6
Communications	26,364	227	0.9	6.5
Wholesale Trade	42,204	55	0.1	7.4
Retail Trade	42,734	399	0.9	6.5
FIRE**	112,536	438	0.4	2.4
Business services	41,269	-273	-0.7	8.4
Government services	40,539	103	0.3	-0.4
Education	40,515	96	0.2	0.1
Health & Social Services	49,012	-42	-0.1	1.3
Accommodation & Food	19,183	68	0.4	5.4
Other	28,521	-83	-0.3	2.5

*Includes Quarrying and Crude Petroleum & Natural Gas

**Finance, Insurance & Real Estate

THE ECONOMY



Consumer Spending and Attitudes

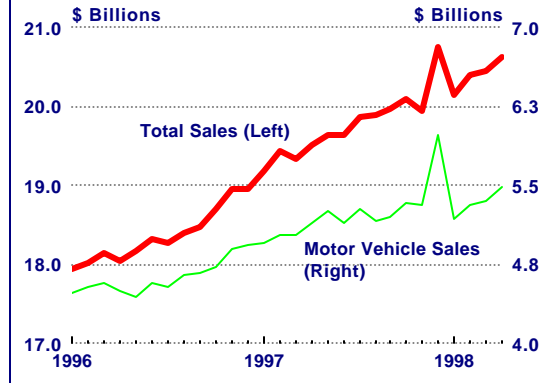
Consumer spending grows at a sustainable pace in the first quarter...

- 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 (boosted by generous dealer incentives).
- 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.

...and the outlook for subsequent periods is mainly positive

- The spending outlook for the second quarter is mainly positive. Buoyed by strong income gains, consumer confidence remains at high levels. Retail sales picked-up in April, led by a robust increase in motor vehicle sales.
- Although labour market conditions have greatly improved, job losses in May and June could affect consumer confidence in coming months.

Total Retail and Motor Vehicle Sales



Retail Sales and Consumer Credit

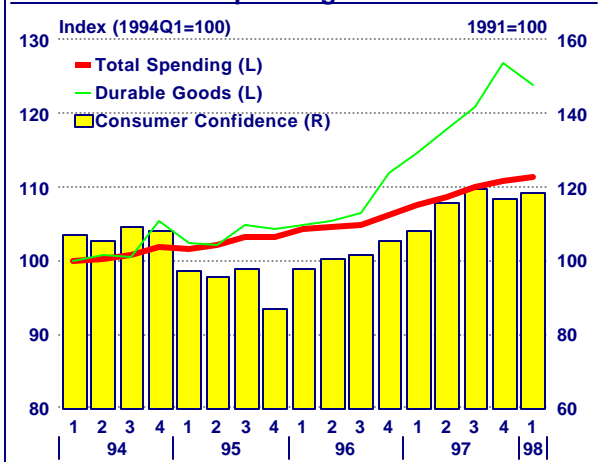
	% Change		
	\$ millions	index	last year
April 1998			
Total Retail Sales	20,640	1.0	5.7
Food	4,793	0.6	4.3
Drug Stores	1,076	0.7	5.6
Clothing	1,166	-0.5	6.1
Furniture	1,012	-0.7	6.3
Automotive	8,004	2.3	4.7
General Merch. Stores	2,356	0.7	10.0
All other Stores	2,234	-1.1	7.8
Total ex. motor vehicles	15,155	0.4	5.4
Consumer Credit	149,554	1.0	9.4

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





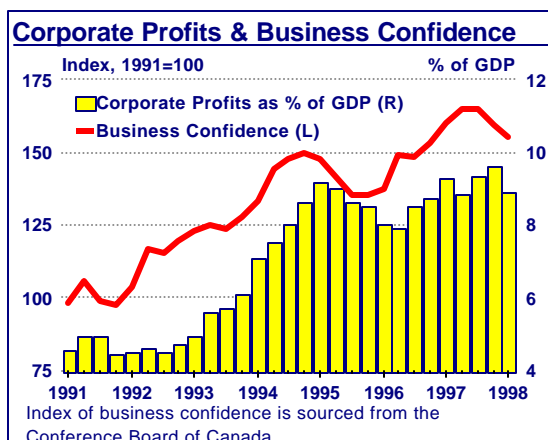
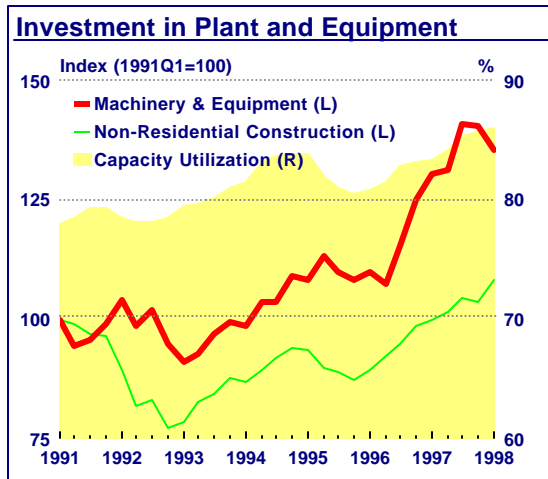
Business Investment in Plant and Equipment

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.
- This drop in M&E investment was partly offset by a strong increase in Non-Residential Construction, based on solid gains in both the Building and Engineering components.

...as business confidence and profits slip

- Business confidence declined for the third straight period in the first quarter of 1998, held back by falling commodity prices, the Asian crisis and fears of future hikes in interest rates.
- Corporate operating profits fell for the first time in two years, led by reduced revenues in the oil patch and lower profits for Property & Casualty Insurers (in the aftermath of the January ice storm).
- Still, early indicators for business investment in the second quarter are positive. In April, imports of M&E rebounded while Non-Residential Construction stood 2.7% above its first quarter average (annual rate).



Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	1996	1997	1997 Q1	1997 Q2	1997 Q3	1997 Q4
BUSINESS INVESTMENT						
Machinery & Equipment	44,310	52,586	50,876	54,568	54,396	52,368
<i>(1997Q1)</i> <i>% change</i>	4.2	18.7	3.0	32.3	-1.3	-14.1
Non-residential Construction	33,581	36,637	36,396	37,332	37,036	38,720
<i>(1997Q1)</i> <i>% change</i>	4.3	9.1	7.0	10.7	-3.1	19.5
Capacity Utilization (% Non-farm goods)	82.1	84.6	84.1	85.3	85.7	86.0
Capacity Utilization (Mfg. sector)	82.5	84.8	84.1	85.5	86.0	86.7
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	96,067	110,682	107,420	112,732	116,020	109,104
<i>(1997Q1)</i> <i>% change</i>	-1.1	15.2	3.3	21.3	12.2	-21.8
Profits - Non-financial industries	71,871	82,218	81,844	82,656	84,760	81,688
<i>% change</i>	-6.7	14.4	11.7	4.0	10.6	-13.7
Profits - Financial industries	24,194	28,462	25,576	30,072	31,260	27,416
<i>% change</i>	20.5	17.6	-18.8	91.1	16.8	-40.8
Total Business Credit	570,611	620,736	611,256	627,690	647,392	660,959
<i>% change</i>	5.0	8.8	10.2	11.2	13.2	8.6
Index of Business Confidence*	147.0	162.3	165.0	164.9	159.2	155.0

*Conference Board of Canada



Housing

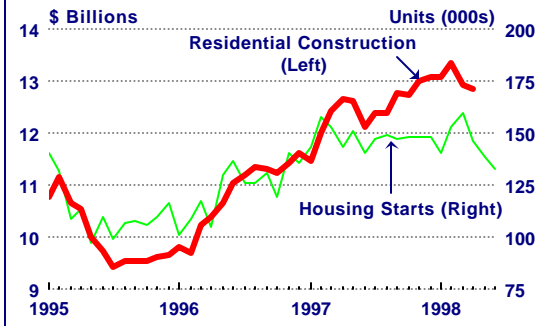
Spending on housing edges down in the first quarter...

- Residential investment in the business sector edged down 0.9% (annual rate) in the first quarter. An increase in new construction and alterations & improvement was offset by a large drop in ownership transfer costs (real-estate commissions).
- 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 in Ontario slowed construction in that province – which normally accounts for more than a third of total housing starts.
- The value of residential building permits declined for the second consecutive month in May, due to a drop in building intentions for single-family housing.
- Softer conditions in the housing sector were also evident in the monthly GDP release for April, which showed residential construction down 0.6% on the month.

Housing Activity



Monthly Housing Indicators

	levels	Change since	
		last month	last year
Residential Construction (1)	12,853	-0.6%	1.3%
(\$92M, factor cost basis)			
Building Permits, \$M (2)	1,418	-8.6%	-7.0%
Sales of Existing Homes (2)	23,343		1,100
(# 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

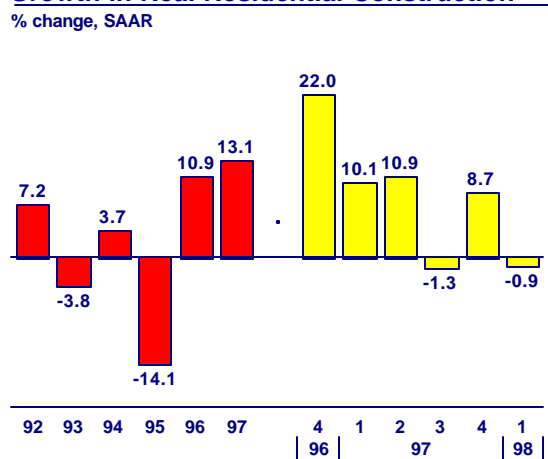
1 - April data; 2 - May data; 3 - June data.

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

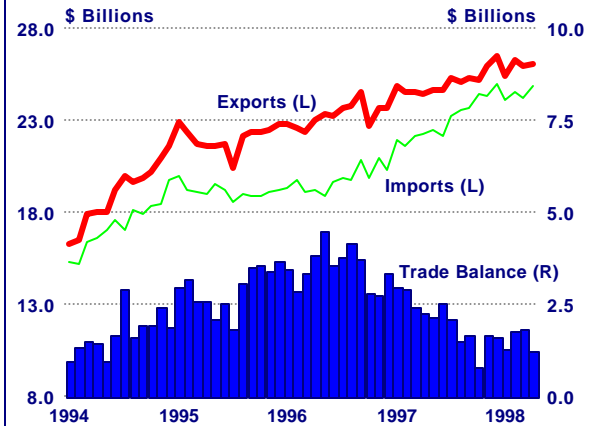
The trade surplus narrows...

- The merchandise trade surplus was \$1.2 billion in April, down \$600 million from the month before.
- Exports edged up only 0.1%, held back by falling commodity prices, anemic Asian demand, and delays in exports of passenger cars shipped by rail.
- Imports rose 2.6% in April, led by a jump in purchases of Machinery & Equipment (notably for Aircraft & Parts and Railway Equipment). Imports of low-priced steel from Asia also registered a strong increase during the month.

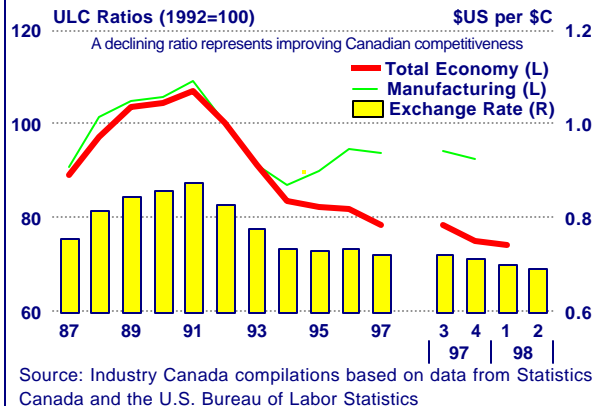
...even though our competitive position vis-à-vis the U.S. is improving

- 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. The continued weakness of the Canadian dollar may help domestic producers attain further competitiveness gains.

Merchandise Trade Flows and Balance



Canada-U.S. Unit Labour Cost Ratios



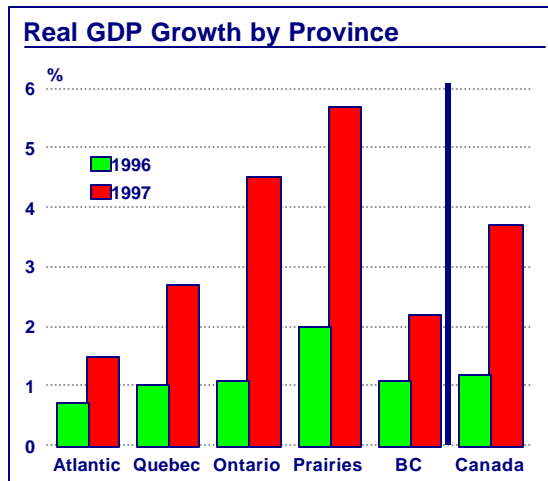
Merchandise Trade

April 1998	Levels (\$ millions)		Year-to-date (\$ millions)		Change March to April 1998	% Change	
	1998 March	1998 April	1997 Jan-April	1998 Jan-April		March to April 1998	March to April 1998
Exports	26,023	26,045	98,431	103,782	22	0.1	6.4
to United States	21,530	21,853	78,783	85,861	323	1.5	11.3
Imports	24,216	24,843	87,935	97,721	627	2.6	11.7
from United States	18,557	18,916	66,648	75,018	359	1.9	12.8
Trade Balance	1,807	1,202	10,496	6,061	-605		
with United States	2,973	2,937	12,135	10,843	-36		
Exports by Commodity							
Agriculture/Fishing Products	2,050	2,077	7,916	8,394	27	1.3	1.6
Energy Products	1,799	1,791	9,221	7,398	-8	-0.4	-11.4
Forestry Products	2,924	2,870	11,692	11,674	-54	-1.9	-1.4
Industrial Goods & Materials	4,795	4,667	18,195	18,989	-128	-2.7	1.1
Machinery & Equipment	6,268	6,478	21,615	24,948	210	3.4	17.0
Automotive Products	6,330	6,291	23,101	24,993	-39	-0.6	11.5
Other Consumer Goods	965	1,000	3,367	3,847	35	3.6	16.7
Imports by Commodity							
Agriculture/Fishing Products	1,373	1,412	4,977	5,534	39	2.9	12.0
Energy Products	737	728	3,701	3,097	-9	-1.2	-16.5
Forestry Products	198	197	768	796	-1	-0.8	-2.0
Industrial Goods & Materials	4,828	5,028	17,336	19,592	200	4.1	15.3
Machinery & Equipment	7,834	8,217	28,657	32,133	383	4.9	11.1
Automotive Products	5,577	5,523	18,955	21,870	-54	-1.0	16.0
Other Consumer Goods	2,688	2,714	9,323	10,717	26	1.0	13.8



All regions shared the significant increase in economic activity in Canada in 1997, albeit to varying degrees.

- Growth was concentrated in the Prairies and Ontario. Saskatchewan and Alberta enjoyed banner years, supported by a strong energy sector, while Manitoba posted another robust performance in 1997.
- Growth in Ontario accelerated, rising to 4.5% in 1997. The economy's strength was widespread, with the automotive and high-tech manufacturing sectors contributing most to the overall advance.
- Quebec's economy also gained momentum in 1997, but its growth remained below the national average due to slower growth in final domestic demand. On a sectoral basis, the strong performance of high-tech industries was partially offset by output declines in the public and primary sectors.
- Similarly, British Columbia (+2.2%) recorded its third consecutive year of growth below the national average. Goods production declined on the year, notably in logging and related industries.
- The Nova Scotia economy expanded at 1.8% in 1997 with growth essentially attributable to the private sector. The Newfoundland economy benefited from the beginning of the oil production at Hibernia, a post-strike recovery in iron ore production, more tourism and increased fish landings.
- In P.E.I., increased activity in food processing industries as well as telecommunications more than offset a sharp decline in non-residential construction following the completion of the Confederation Bridge. Growth in New Brunswick, at 1.1% in 1997, was concentrated in business services, telecommunications and wholesale trade.



Annual Growth Rate of Provincial GDP at Market Prices (1992 dollars)

<i>per cent</i>	1993	1994	1995	1996	1997
Newfoundland	1.5	3.8	1.3	-1.6	1.4
Prince Edward Island	2.1	5.3	5.2	3.9	1.2
Nova Scotia	0.7	0.6	1.8	0.6	1.8
New Brunswick	3.3	2.0	1.9	1.7	1.1
Quebec	2.7	2.8	1.2	1.0	2.7
Ontario	1.1	4.7	3.3	1.1	4.5
Manitoba	0.5	3.9	1.8	2.3	3.4
Saskatchewan	6.1	5.3	0.8	3.5	5.2
Alberta	6.7	4.2	1.4	1.4	6.5
British Columbia	3.6	3.9	1.2	1.1	2.2
Canada	2.5	3.9	2.2	1.2	3.7



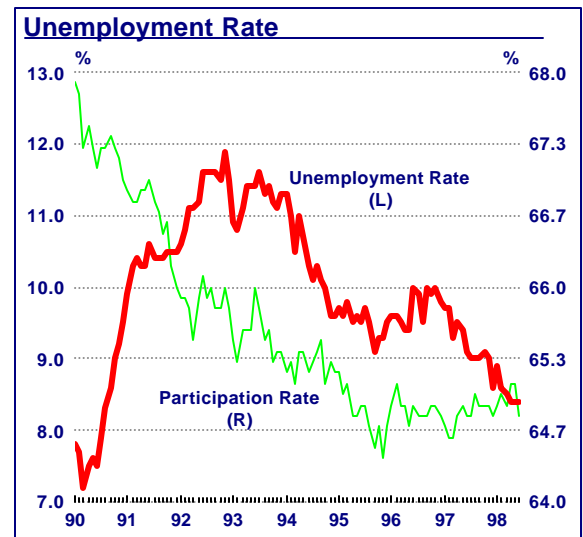
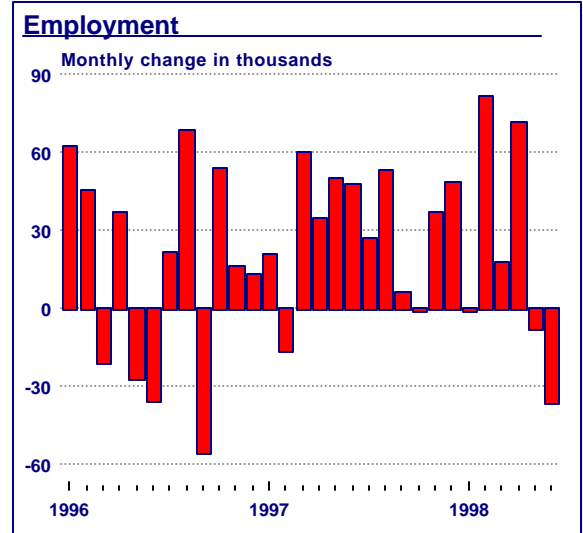
Employment and Unemployment

Employment falls 36,000 in June...

- Employment fell 36,000 in June, the first significant loss in a year and a half. This followed a more modest 7,000 decline in May.
- The number of full-time positions fell 54,000 in June, but was partly offset by the creation of 18,000 additional part-time jobs. Although down in June, full-time jobs still account for 95% of total net job growth since the beginning of 1997.
- By major demographic groups, the heaviest job losses in June were suffered by youth (-30,000). Adult employment was also down, however.

...but the unemployment rate holds steady at 8.4%

- Job losses in June were matched by an even larger fall in the labour force, leaving the unemployment rate unchanged at 8.4% (holding steady since April at its lowest level since August 1990).
- The adult unemployment rate remained at 7.0%, but the youth rate edged up 0.2 basis points to 15.9%.
- Despite strong increases in employment over the past twelve months, the labour force participation rate (64.8%) is the same as that of one year ago.



Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	1997 June	1998 May	1998 June	last month	last year	year-to- date	last month	last year
Employment	13,942.3	14,278.9	14,243.0	-35.9	300.7	128.2	-0.3	2.2
Full-time	11,324.6	11,632.9	11,578.7	-54.2	254.1	77.1	-0.5	2.2
Part-time	2,617.7	2,645.9	2,664.3	18.4	46.6	51.1	0.7	1.8
Youth 15-24	2,013.0	2,081.5	2,052.0	-29.5	39.0	12.8	-1.4	1.9
Adult 25+	11,929.4	12,197.4	12,191.0	-6.4	261.6	115.4	-0.1	2.2
Self-employed	2,514.6	2,490.9	2,477.7	-13.2	-36.9	1.7	-0.5	-1.5
Unemployment	1,395.4	1,307.0	1,301.9	-5.1	-93.5	-19.4	-0.4	-6.7
Unemployment Rate	9.1	8.4	8.4	0.0	-0.7	-0.2		
Youth 15-24	17.4	15.7	15.9	0.2	-1.5	0.1		
Adult 25+	7.5	7.0	7.0	0.0	-0.5	-0.2		
Labour Force	15,337.8	15,585.9	15,544.8	-41.1	207.0	108.7	-0.3	1.3
Participation Rate	64.8	65.1	64.8	-0.3	0.0	0.0		
Employment Rate	58.9	59.6	59.4	-0.2	0.5	0.2		



Industry Overview

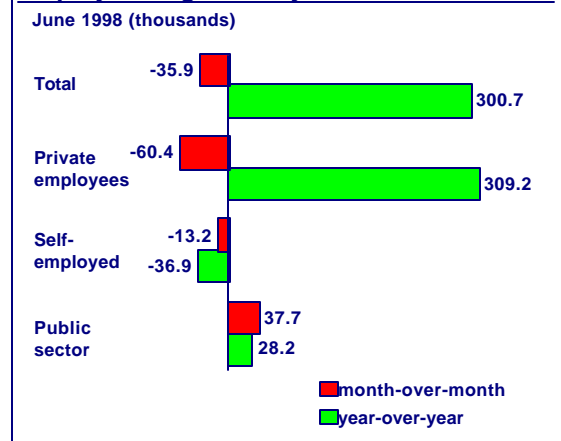
Job losses are driven by Agriculture and Business & Personal Services...

- Employment in the Agricultural sector fell 23,000 in June. However, most of this decline could reflect adjustments used by Statistics Canada to remove seasonal variations from the data – warm weather in April and May displaced job opportunities that typically arise only in June in this sector.
- The number of jobs in Business & Personal Services also fell, but is up sharply on a year-over-year basis.
- A notable gain was posted by Educational Services. Manufacturing recorded modestly-higher employment, despite the impact of temporary layoffs in some auto plants resulting from a major U.S. strike at GM.

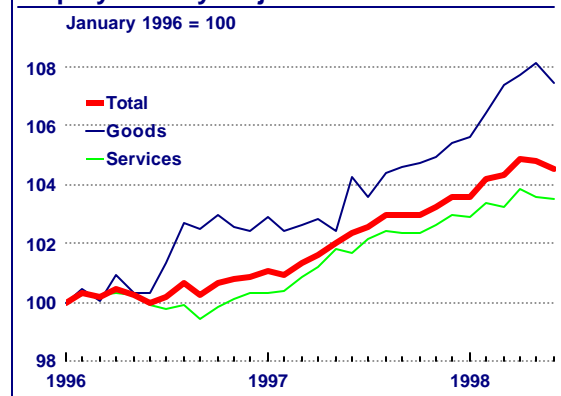
...but employment in the public sector is up

- Public sector employment rose 38,000 in June, the first major increase this year. Gains were concentrated in Community Services, particularly in British Columbia.
- Private-sector paid employment dropped 60,000 on the month, but only partly offsetting strong advances earlier in the year.

Employment growth by worker class



Employment by major sector



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	1997 June	1998 May	1998 June	last month	last year	year-to-date	last month	last year
Total	13,942.3	14,278.9	14,243.0	-35.9	300.7	128.2	-0.3	2.2
Goods-producing	3,785.5	3,925.7	3,901.6	-24.1	116.1	72.4	-0.6	3.1
Agriculture	422.3	452.3	429.6	-22.7	7.3	14.8	-5.0	1.7
Mining & Oil Wells	176.1	174.3	172.4	-1.9	-3.7	-8.8	-1.1	-2.1
Other Primary	114.3	118.6	119.1	0.5	4.8	7.6	0.4	4.2
Utilities	137.3	141.6	139.1	-2.5	1.8	-3.4	-1.8	1.3
Manufacturing	2,184.8	2,291.9	2,299.1	7.2	114.3	68.5	0.3	5.2
Construction	750.6	747.0	742.4	-4.6	-8.2	-6.1	-0.6	-1.1
Service-producing	10,156.9	10,353.1	10,341.3	-11.8	184.4	55.7	-0.1	1.8
TSCO*	895.0	925.4	923.6	-1.8	28.6	0.9	-0.2	3.2
Wholesale Trade	656.5	677.4	675.5	-1.9	19.0	8.5	-0.3	2.9
Retail Trade	1,723.2	1,720.9	1,713.4	-7.5	-9.8	-11.8	-0.4	-0.6
FIRE*	785.1	770.3	763.1	-7.2	-22.0	-43.4	-0.9	-2.8
Education	960.2	937.4	965.4	28.0	5.2	-2.0	3.0	0.5
Health/Social Serv.	1,421.7	1,451.7	1,461.3	9.6	39.6	11.5	0.7	2.8
Bus. & Personal Serv.	2,917.0	3,057.9	3,036.0	-21.9	119.0	70.9	-0.7	4.1
Public Administration	798.1	812.0	803.2	-8.8	5.1	21.4	-1.1	0.6

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



Provincial Overview

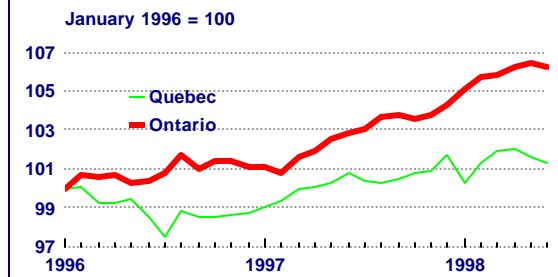
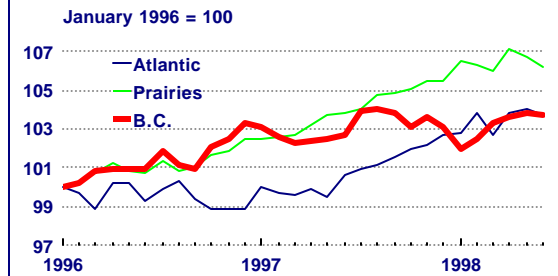
Employment is down in most provinces in June...

- June employment losses were widespread, with only Newfoundland and Prince Edward Island posting job gains on the month.
- The biggest declines were in Ontario, Quebec and Alberta. However, the current level of employment in Ontario and Alberta is more than 3% above its year-ago level.
- On a year-over-year basis, employment is up in every province except Saskatchewan.

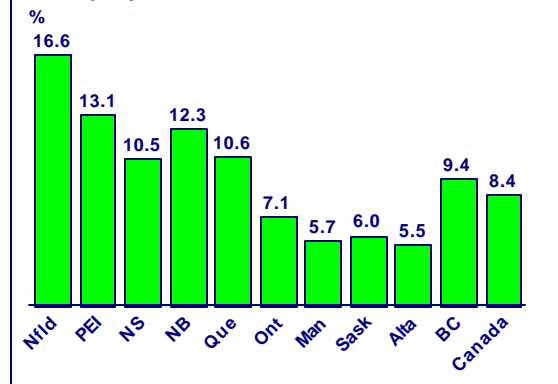
...and Saskatchewan and Manitoba face the largest jumps in the unemployment rate

- In June, the biggest increases in the unemployment rate occurred in Saskatchewan (up 0.6 percentage points to 6.0%) and Manitoba (+0.4 to 5.7%).
- Notable declines were registered in Prince Edward Island and New Brunswick, but unemployment rates in most other provinces were little changed.
- Compared to last June, only British Columbia's unemployment rate is higher (+0.8 points to 9.4%), where labour force gains have outpaced employment gains by a 2:1 ratio.

Regional employment patterns

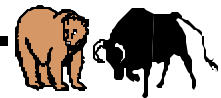


Unemployment Rates -- June 1998



Provincial Employment and Unemployment Trends

	Employment (thousands)						Unemployment rate		
	Levels	Change since last month		Change since last year		Levels	Change since last month		last year
	1998 June	(000's)	%	(000's)	%		month	year	
Canada	14,243.0	-35.9	-0.3	300.7	2.2	8.4	0.0	-0.7	
Newfoundland	202.4	2.9	1.5	12.8	6.8	16.6	-0.2	-2.2	
P.E.I.	62.1	0.1	0.2	1.7	2.8	13.1	-0.4	-1.6	
Nova Scotia	403.2	-4.5	-1.1	12.2	3.1	10.5	0.1	-1.6	
New Brunswick	320.1	-1.0	-0.3	3.0	0.9	12.3	-0.4	-0.6	
Quebec	3,291.7	-8.0	-0.2	16.8	0.5	10.6	0.1	-0.5	
Ontario	5,593.2	-14.3	-0.3	177.6	3.3	7.1	0.0	-1.4	
Manitoba	539.7	-3.4	-0.6	2.3	0.4	5.7	0.4	-1.1	
Saskatchewan	474.7	-1.9	-0.4	-0.7	-0.1	6.0	0.6	0.0	
Alberta	1,506.7	-5.2	-0.3	56.2	3.9	5.5	-0.2	-0.2	
B.C.	1,849.2	-0.6	-0.0	18.8	1.0	9.4	-0.3	0.8	



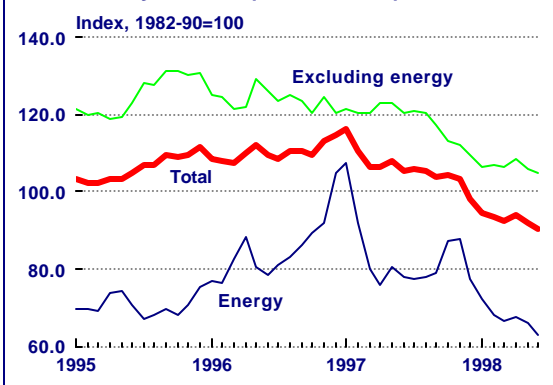
Inflation rises to 1.1% in May...

- The annual rate of CPI inflation was 1.1% in May, up from 0.8% the previous month.
- On a year-over-year basis, prices were down for Transportation (mainly because of lower gas prices). Clothing prices were flat, and other major groups recorded higher prices on the year.
- "Core" inflation, which excludes indirect taxes and the volatile food and energy components, rose to 1.2% in May. This remains near the bottom end of the official 1-3% target band established by the Bank of Canada and Department of Finance.
- Underlying inflationary pressures remain subdued. In particular, commodity prices were down 14% on average in May compared to a year ago.

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

- In May, prices were down 0.8% compared to last year in Prince Edward Island. British Columbia and Newfoundland also posted very low inflation rates.
- Inflation was highest in Saskatchewan (+1.7%) and Quebec (+1.6%).

Commodity Prices (\$U.S. basis)



Consumer Prices

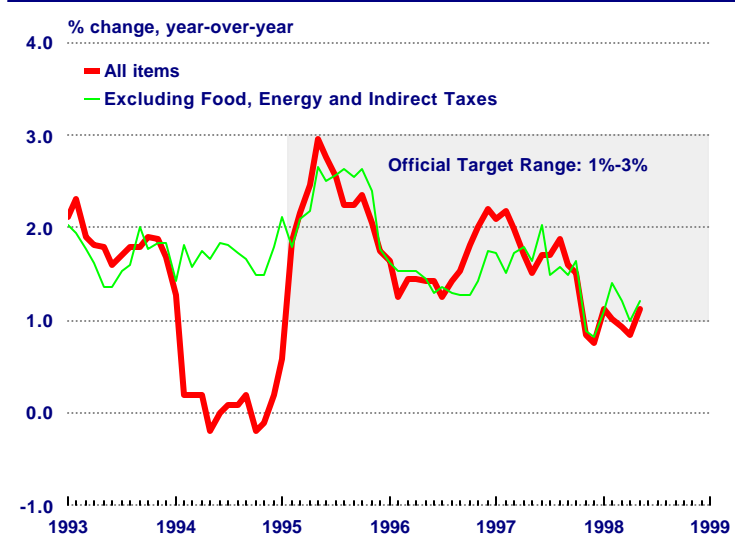
May 1998

	Index (1992=100)	% Change	
		since month	last year
All items CPI	108.7	0.4	1.1
Food	109.4	0.5	1.8
Shelter	103.5	0.0	0.3
Household operations	108.4	0.0	1.7
Clothing & Footwear	103.1	-0.7	0.0
Transportation	120.7	0.4	-0.3
Health & Personal Care	108.2	0.5	2.1
Recreation, Educ. & Reading	118.3	1.6	3.1
Alcohol & Tobacco	92.6	0.4	3.7
CPI excl. Food & Energy	108.9	0.2	1.4
Energy	105.2	1.4	-2.5

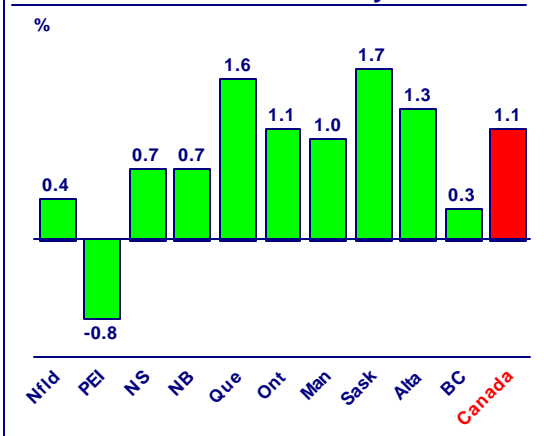
Commodity Prices (June 1998)

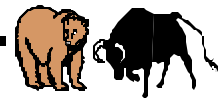
Index, 1982-90=100	90.2	-2.1	-14.4
Excluding Energy	104.7	-1.0	-12.9
Energy	63.0	-5.1	-19.0

Consumer Price Index



Provincial CPI Inflation -- May 1998



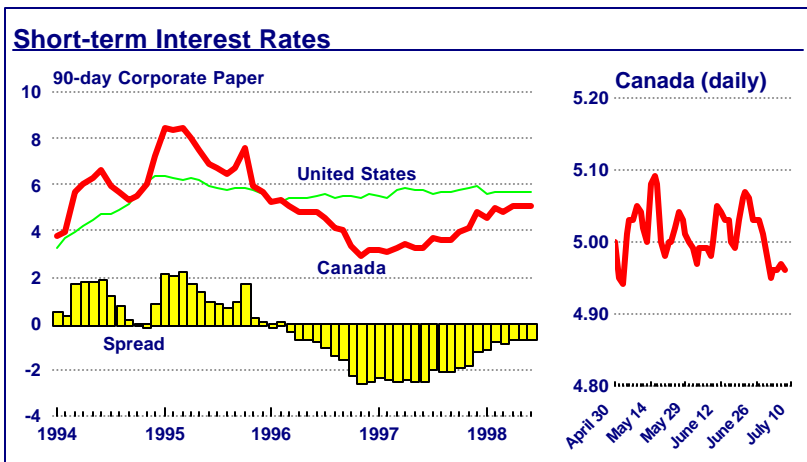


Canadian 30-year bond falls to a record low yield...

- Renewed financial market turmoil in the Asia Pacific has increased demand for the relative safety of North American government-backed securities. This increased demand has resulted in a steady lowering of bond yields on both sides of the border in recent months.
- Indeed, the 30-year Government of Canada Bond yield fell to 5.43% on July 7, the lowest since it was introduced in the early 90's.

...while short-term rates drift lower

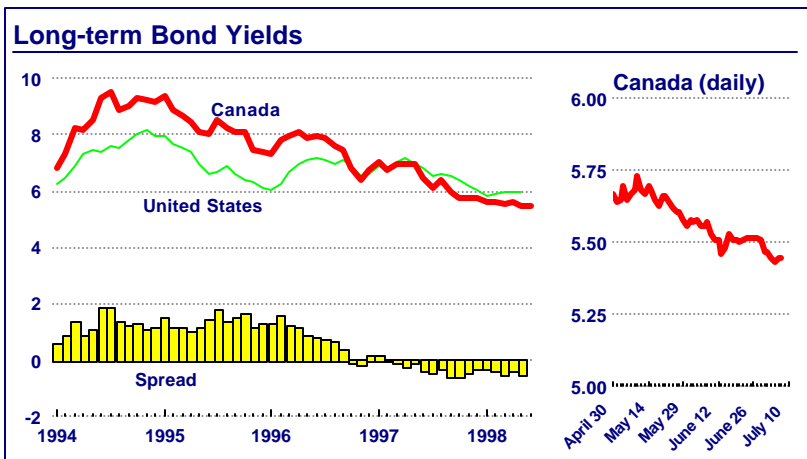
- Following some modest upward pressure late in June, short-term money market rates edged down in the first two weeks of July amid indications that economic growth in U.S. and Canada would slow to a sustainable, non-inflationary pace.
- The Bank of Canada's trend-setting Bank Rate was last increased on January 30. The Chartered Banks' prime lending rate has similarly been unchanged over this period.



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 Jan	4.56	-1.05	5.81	-0.13
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 8	4.97	-0.68	5.45	-0.17

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 Jan	5.00	6.00	6.40	6.85
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
May	5.00	6.50	6.55	6.95
June	5.00	6.50	6.55	6.95
July 8	5.00	6.50	6.55	6.95

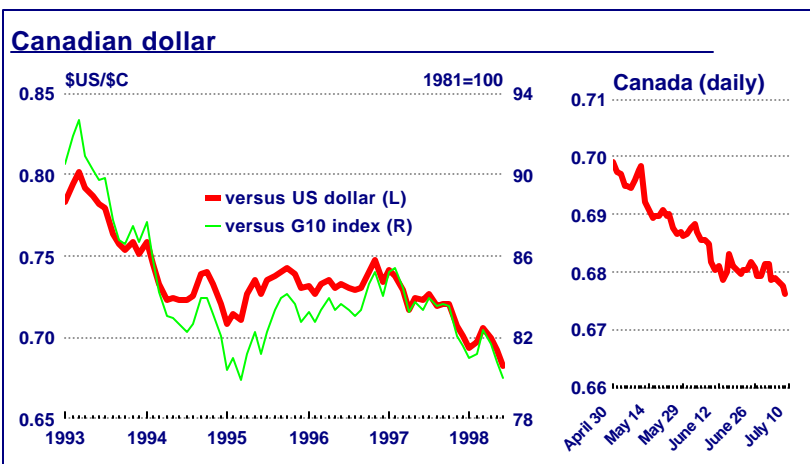


The dollar falls to another record low...

- The Canadian dollar has weakened steadily since April. This weakness stems mainly from renewed instability in the Asian economies, which has prompted a flight of capital to the "safe haven" U.S. dollar and reduced global demand (and hence prices) for commodities.
- Successive record lows for the dollar were set on July 9 and July 10. Further indications of instability in Japan and the weak domestic job figures (suggesting that the Bank of Canada would be reluctant to raise rates in defense of the currency) pushed the dollar down to yet another all-time low close of US¢67.63 on July 10.
- The Canadian dollar is now almost a full cent lower than in late January, when the Bank of Canada last raised interest rates to support the weakening currency.

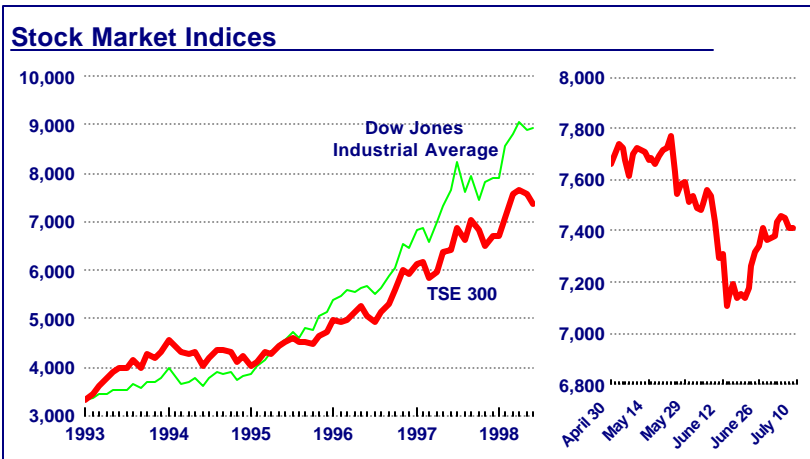
...but stock markets recover from mid-month losses

- A selloff in Asian markets in mid-June also put downward pressure on North American stock markets. While prices in the U.S. have since more than recovered initial losses, Canadian stock prices are still down on the month.



The Canadian Dollar

(close)	\$US vs. \$Cdn	index vs. G-10 (81=100)	DM vs. \$Cdn	yen vs. \$Cdn
1996	0.7296	84.00	1.14	83.64
1997	0.6991	81.62	1.25	90.87
1998 Jan	0.6870	80.98	1.26	89.82
Feb	0.7024	81.19	1.26	87.71
Mar	0.7043	82.35	1.29	91.11
Apr	0.6988	81.63	1.27	92.21
May	0.6863	80.83	1.23	93.37
June	0.6813	79.96	1.22	95.71
July 10	0.6763			



Key Stock Market Indexes

	June Close	% change from	
		last month	last year
TSE 300	7,367	-2.9	14.4
Oil & Gas	6,070	-1.7	-10.7
Metals & Minerals	3,568	-3.0	-30.4
Utilities	7,976	-4.6	51.9
Paper & Forest	4,368	-8.5	-15.4
Merchandising	6,616	2.7	17.2
Financial	9,968	-1.2	44.2
Services	6,079	-6.4	-26.8
Price-Earnings Ratio*	32.5	-1.3	10.4
S&P 500	1,134	3.9	28.1
Dow Jones	8,952	0.6	16.7

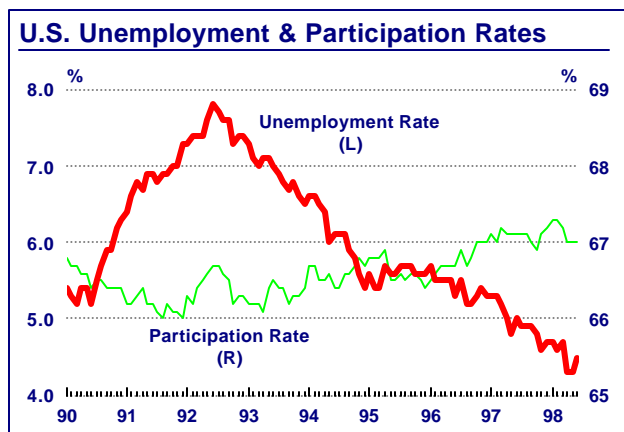
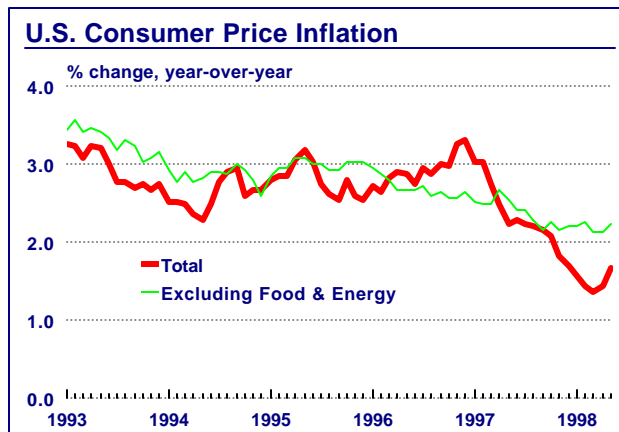
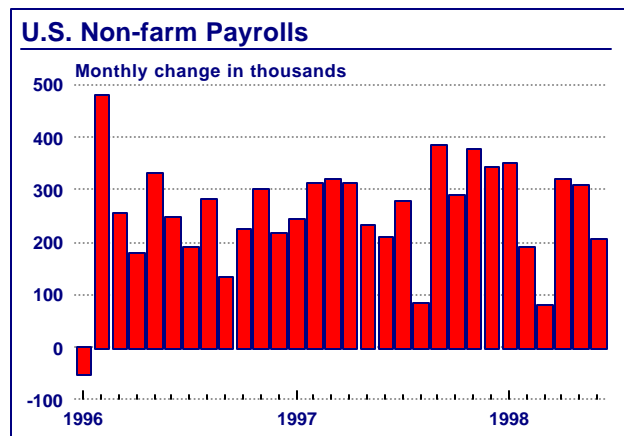
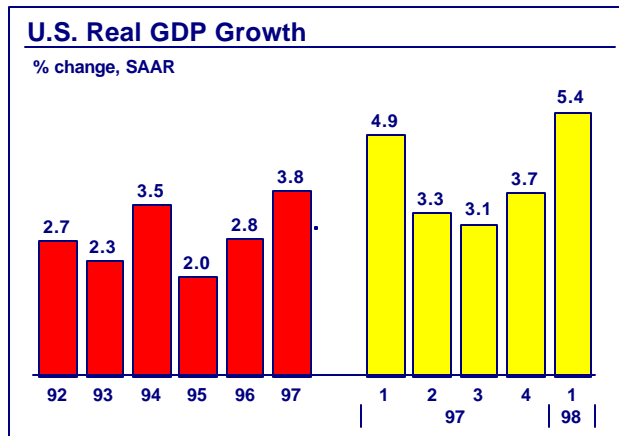
*columns 2 & 3 reflect change in levels

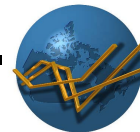


U.S. Economic Trends

Highlights...

- Final estimates show that U.S. output expanded at an annual pace of 5.4% in the first quarter, the fastest rate of growth in almost two years and second-largest in ten years. This acceleration in real GDP growth reflected a sharp upturn in final domestic demand (+7.6%), due to higher consumer expenditures and strong increases in M&E investment, residential building and inventory investment. Output growth was moderated by higher imports and downturns in exports and government spending.
- Despite sustained growth, inflation remains subdued. The GDP deflator was up 1.4% from its year-ago level in the first quarter, the smallest increase in more than 30 years. On a year-over-year basis, CPI inflation was 1.7% in May, up slightly from April. Core inflation excluding the volatile food and energy components edged up to 2.2%.
- Non-farm payroll employment expanded by 205,000 in June, below the average monthly increase of 243,000 so far this year. The U.S. unemployment rate edged up to 4.5%, but remains near the 28-year low of 4.3% reached in April and May.
- The Federal Open Market Committee opted to hold interest rates steady at its July 1 meeting amid continued economic turmoil in Asia and uncertainties in the outlook for growth and inflation in the U.S. Despite the stability of short-term interest rates, monetary conditions have tightened over the past year due to the significant appreciation of the U.S. dollar.





Canadian Foreign Direct Investment Trends in the 1990s

Canada's FDI orientation is considerably higher than other G7 countries...

- Canada's orientation toward foreign direct investment (FDI) can be represented by the value of the total stock of inward FDI (FDI in Canada) and Canadian direct investment abroad (CDIA) relative to GDP.
- By this measure, Canada's total FDI orientation exceeded 40% of GDP in 1996, more than double that in other G7 countries.

...and has risen faster in the 1990s

- In fact, the gap between Canada's overall FDI orientation and that for the G7 as a whole widened considerably in the 1990s.
- Most important in this regard was the increase in the stock of CDIA which was valued at 14.5% of GDP in 1990, but rose to 21.6% by 1996, an increase of roughly seven percentage points.
 - Over this same period, the average value of this ratio for the G7 rose by less than two percentage points, from 9.9% of GDP to 11.7%.

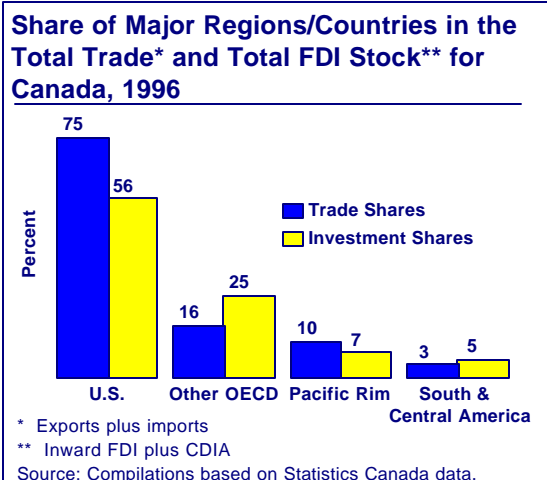
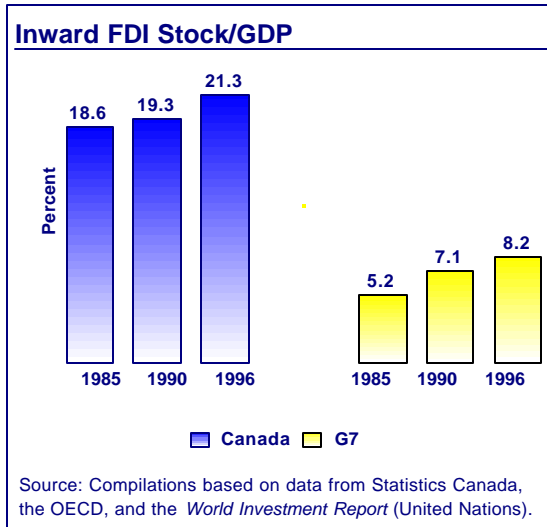
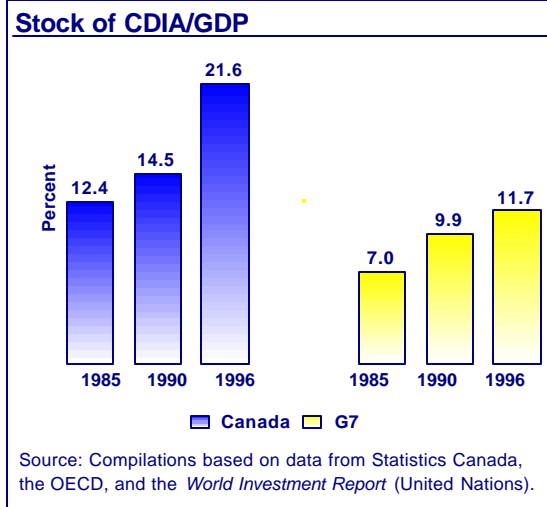
This bodes well for Canada's future competitiveness...

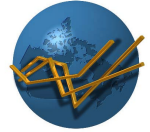
- Growth in Canada's overall FDI orientation from 1990 to 1996 was more than three times greater than that of the other G7 countries (9.1 percentage points compared to 2.9 percentage points).
 - This sharp rise in the two-way investment orientation is indicative of greater product specialization in the Canadian economy, and bodes well for future gains in productivity and competitiveness.

...and trade performance

- Trade and FDI activity are highly correlated. Countries or regions who trade extensively with Canada also account for high shares in our total FDI.
- The high degree of complementarity between trade and FDI is reflected in the high degree of intra-company trade by foreign subsidiaries. An estimated 70% of exports by U.S.-controlled firms in Canada is conducted on an intra-company basis.
- Canada's overall trade and investment shares with Pacific Rim and South and Central American countries are smaller. Improved investment linkages with non-OECD countries would strengthen our trade linkages with them.

Total FDI Stock as share of GDP: Canada and the G7





Canadian Foreign Direct Investment Trends in the 1990s

For the first time ever, Canada became a net capital exporter in 1996...

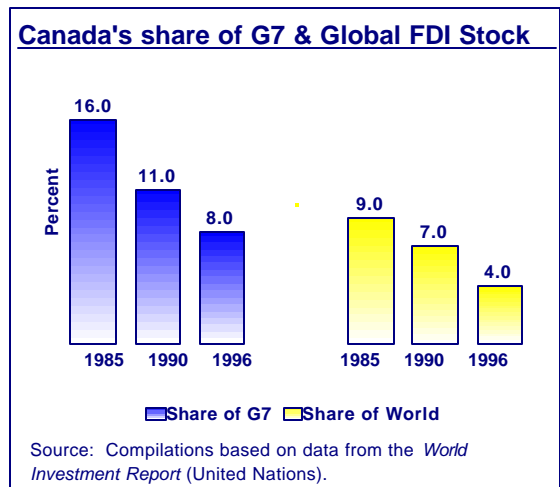
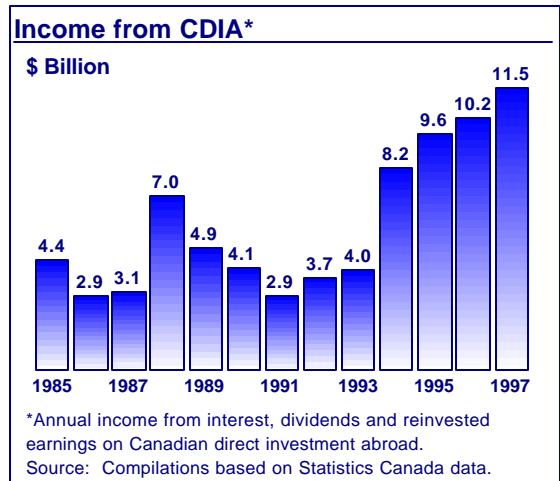
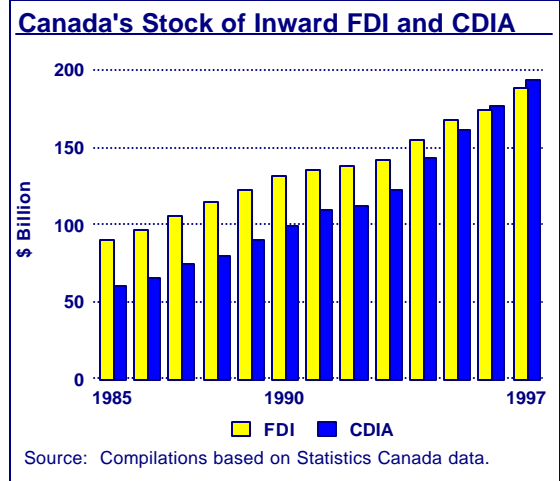
- CDIA has grown considerably faster than FDI in the 1990s.
 - From 1990 to 1997, CDIA stock grew by an average 10% per year, double the growth rate of inward FDI stock.
- And, for the first time in Canada's history, the stock of CDIA surpassed the inward FDI stock in 1996.
 - By 1997, the stock of CDIA (\$194 billion) was 3% higher than the total stock of FDI in Canada (\$188 billion).
 - By comparison, the value of the stock of CDIA was only two-thirds that of FDI in Canada in 1985.
- The trend toward liberalization of foreign investment regimes in the developing world has significantly contributed to the rapid expansion of outward FDI.
 - Indeed, outward FDI has increased at a much faster pace than inward FDI in all G7 countries.

...leading to a sharp increase in investment income from abroad

- Canadian receipts of direct investment income have increased sharply in conjunction with the dramatic increase in FDI.
- In fact, direct investment income from abroad rose to a record-high \$11.5 billion in 1997.

Canada is losing its share of global FDI

- While FDI flows into Canada rose sharply, global FDI flows increased at an even faster pace. As a result, Canada's share of global inward FDI stock fell from 7.0% in 1990 to 4.0% in 1996.





Canadian Foreign Direct Investment Trends in the 1990s

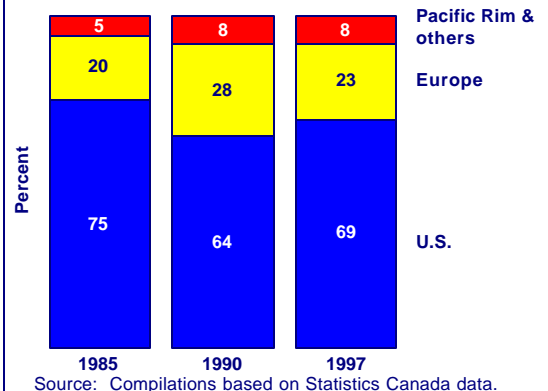
The U.S. has been the dominant source of FDI so far in the 1990s...

- Approximately 70% percent of cumulative net FDI flows to Canada in the 1990s originated from the U.S., compared to roughly one-third in the 1982-1989 period.
- These trends reversed the previous steady decline in the importance of the U.S. as a source of FDI *stock* in Canada, raising its share from 64% percent in 1990 to 69% percent in 1997.

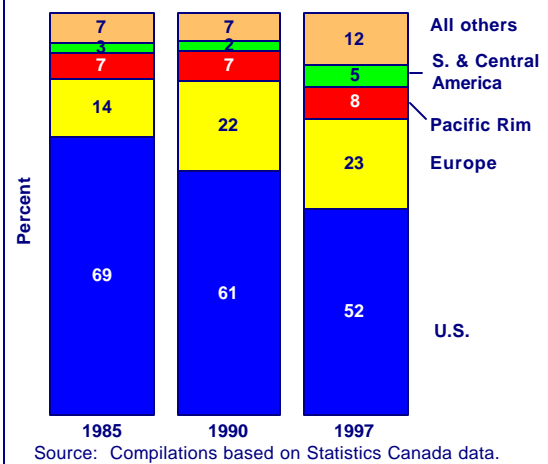
...but the destination of CDIA is diversifying

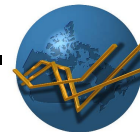
- Only two-fifths of Canada's CDIA flows were destined for the U.S. in the 1990s, down from just over two-thirds in the 1982-1989 period.
- Non-OECD countries (especially developing economies in the Asia Pacific and Latin America) more than doubled their share of CDIA flows from 14% in 1990 to 31% in 1997. Consequently, their share of our outward FDI stock increased by 9 percentage points over the same period to reach 25% in 1997.

Geographic Distribution of the Inward FDI Stock in Canada



Geographic Distribution of CDIA Stock





Canadian Foreign Direct Investment Trends in the 1990s

Services industries attract an increasing share of inward FDI...

- Consistent with underlying global investment trends, Canada's service sector is attracting a greater share of inward FDI.
- Between 1985 and 1997, the importance of service industries in Canada's inward FDI stock increased by 3 percentage points to 27%. In contrast, the share of total FDI stock accounted for by resource and resource-based industries fell from 32% to 22%.
- Although increasing, the share of services in the stock of inward FDI still remains significantly below its overall share in the economy (roughly two-thirds at present).

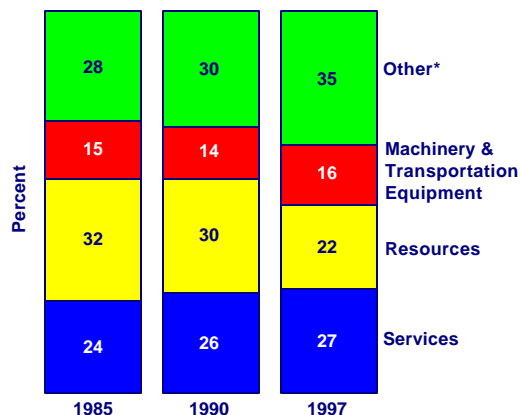
...and also account for a large share of CDIA

- The stock of CDIA has become strongly oriented toward the service sector.
- In fact, service industries accounted for nearly half (or 47%) of Canada's CDIA stock in 1997, up 18 percentage points compared to 1985. This shift has occurred largely at the expense of resource-based industries and other industries (excluding machinery and transportation equipment).

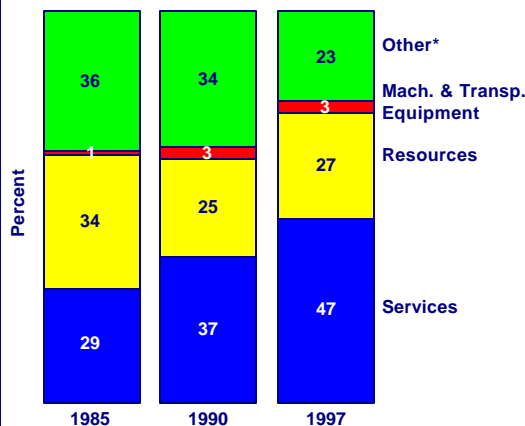
Foreign firms are major players in several industries

- The share of foreign-controlled operating revenues exceeds 50% in the Chemical & Chemical Products, Electrical & Electronic Products and Transportation Equipment industries.
- In terms of growth, this share has increased most in Chemicals & Chemical Products and Transportation Equipment between 1988 and 1995 (rising 6 percentage points in both industries). The share of foreign-controlled revenues fell more than 3 percentage points in the Energy sector.

Industry Distribution of Inward FDI Stock



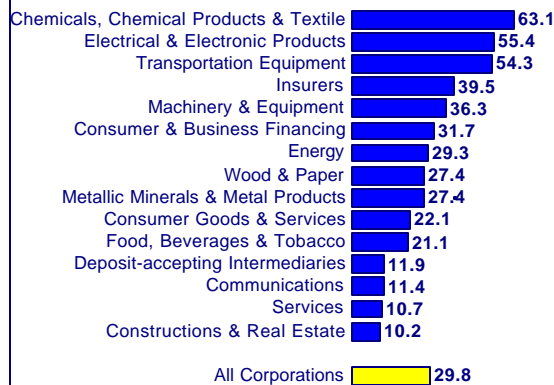
Industry Distribution of CDIA Stock



Source: Compilations based on Statistics Canada data.

*Other Industries include: Food, Beverages & Tobacco; Chemicals, Chemical Products & Textiles; Electrical & Electronic Products; Construction and related activities; and Communications

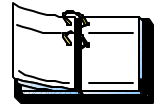
Share of Foreign-Controlled Operating Revenues by Industry, 1995



Source: Compilations based on Statistics Canada data.

COMING UP

Key Future Data Releases and Planned Events



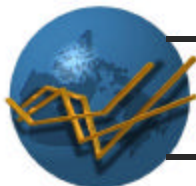
CANADA

Consumer Price Index -- June	July 16
International Trade -- May	July 17
Private and Public Investment Intentions (Revised)	July 22
GDP at factor cost -- May	July 31
Business Conditions Survey -- July	August 4
Labour Force Survey -- July	August 7
International Trade -- June	August 18
Consumer Price Index -- July	August 19
Quarterly Financial Statistics for Enterprises -- 1998Q2	August 20
National Accounts, Balance of Payments -- 1998Q2	August 31

UNITED STATES

Consumer Price Index -- June	July 14
International Trade -- May	July 17
Employment Cost Index -- 1998Q2	July 30
GDP -- 1998Q2, advance estimate	July 31
Employment Situation -- July	August 7
Federal Open Market Committee meeting	August 18

The Special Report scheduled for the August MEI is entitled
"Recent Trends in Canada's Trade Performance"



Micro Economic Policy Analysis
Analyse de la politique micro-économique
