

# ***M***icro-Economic *Monitor*

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**With the special report:  
*A Regional Economic Update***

**Second Quarter, 1996**

Micro-Economic Analysis Directorate, Industry & Science Policy Sector, Industry Canada.  
This document is also available on the Internet at [http://strategis.ic.gc.ca/sc\\_ecnmy/mera/engdoc/04.html](http://strategis.ic.gc.ca/sc_ecnmy/mera/engdoc/04.html)

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# Overview

## ***The economy remains hesitant...***

The economy continued its slow pace of growth in the second quarter.

- Real GDP increased only 1.3% (annual basis) -- which is well below the 2.0% anticipated by most forecasters.

### **Highlights:**

- merchandise exports rebounded from the first quarter -- which contributed to Canada's first current account surplus in twelve years; and
- residential construction increased strongly for the second straight quarter.

### **However:**

- consumer demand was flat;
- investment in machinery and equipment (M&E) declined -- after three years of strong growth;
- non-residential construction continued to be weak; and
- non-farm business inventories were reduced substantially.

***...leaving prospects for the rest of the year mixed.***

**There are few strong indications that the economy is gathering steam.**

- **A revival in consumer demand is key to stronger growth, but this will not occur without solid employment gains in the next few months.**
- **The reduction in inventories may provide a boost to future production, should firms decide to rebuild their stocks -- although it may reflect that business has given up waiting for consumer demand to pick-up.**
- **Trade is a bright spot -- although there is some concern that the U.S. economy may be slowing down.**
- **Residential construction is another bright spot in the economy, as the effects of lower mortgage rates takes hold -- high residential construction could spark an upturn in consumer demand, by increasing household spending on durables such as furniture and appliances.**



**Domestic Scene**

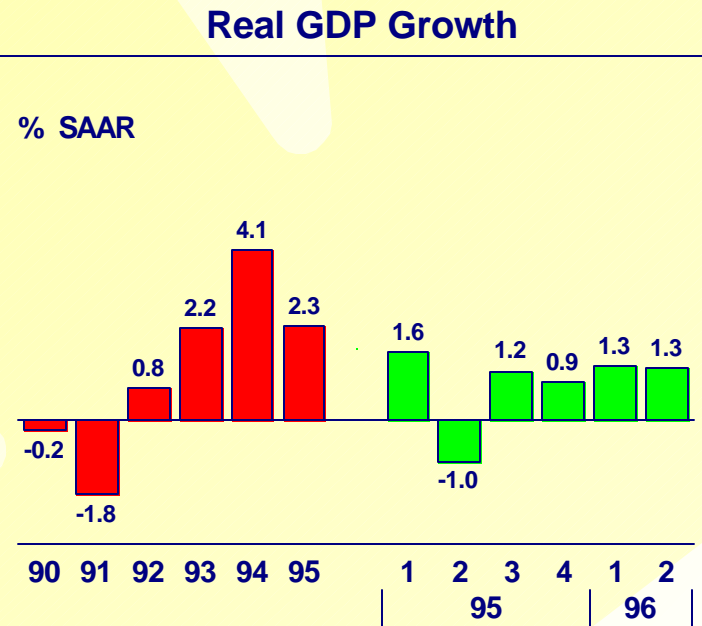
***Real Economic Activity***

## Output increases modestly in the second quarter...

Growth in the first half of the year was quite weak:

- The economy expanded by only 1.3% (annual basis) in the second quarter, showing no improvement over the first quarter's slow rate of growth.

The second-quarter growth was less strong than most private-sector forecasters had anticipated.



Source: Statistics Canada

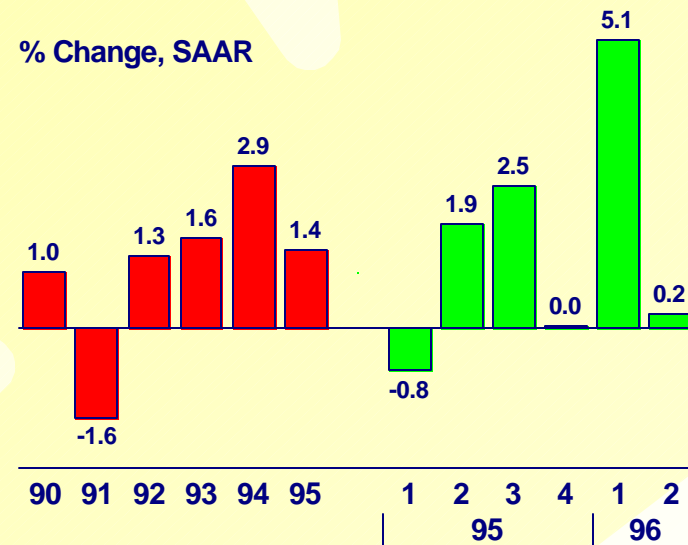
*...held back by weak consumer demand...*

Consumer spending was virtually flat in the second quarter, following a strong first quarter.

Despite lower interest rates, rising job uncertainty has hindered a resurgence in consumer demand.

### Real Consumer Expenditure Growth

% Change, SAAR



Source: Statistics Canada



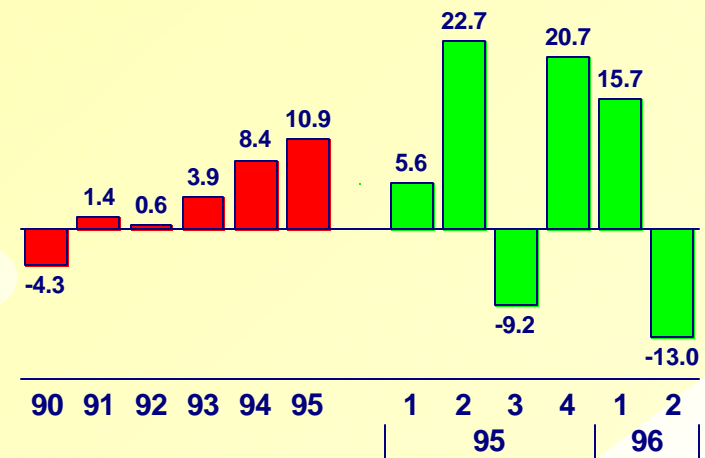
***...an unanticipated decline in investment in M&E...***

**There was a substantial drop in investment in M&E in the first quarter.**

- M&E has been a major source of strength over the past three years.
- The decline was most pronounced in industrial machinery and office machines.

**Real Machinery & Equipment Investment**

% Change, SAAR



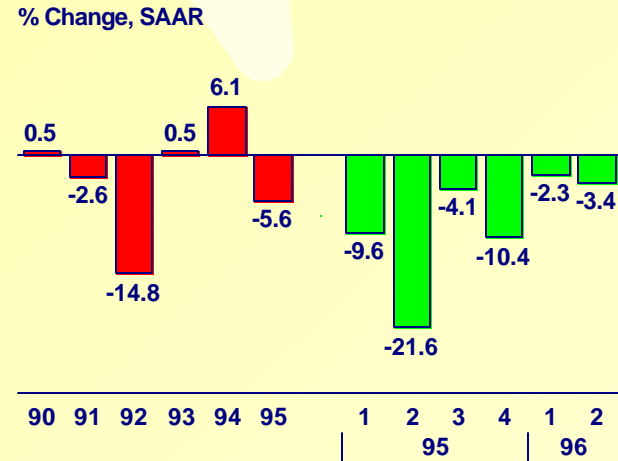
Source: Statistics Canada

**...and continuing weakness in non-residential construction**

**Non-residential construction has been very weak since the beginning of 1995.**

**There are few prospects for a rebound in this sector in the near term.**

**Real Non-residential Construction Growth**



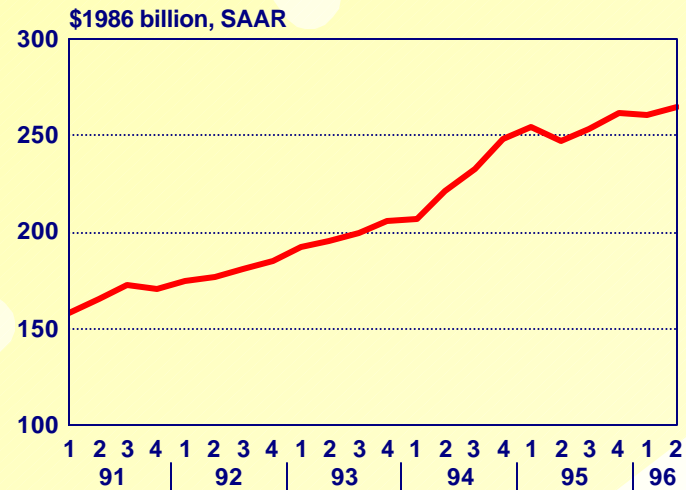
Source: Statistics Canada

***On a positive note, exports are up strongly...***

The trade sector was the economy's main source of strength in the second quarter.

- Exports increased 6.5% (annual basis), more than offsetting a decline in the first quarter.
- The real merchandise trade balance reached \$17.0 billion, the highest since 1985.

**Exports of Goods and Services**



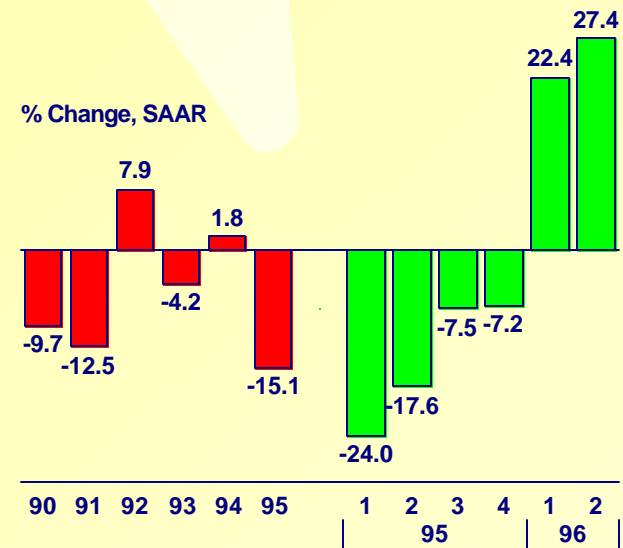
Source: Statistics Canada

## ***...and residential construction continues its rebound***

Following three difficult years, the housing sector is finally showing signs of taking off in 1996.

- The recovery in residential investment that began in the first quarter picked up further momentum in the second quarter.
- The August reduction in mortgage rates should provide a further boost to this sector in the last half of 1996.

### Real Residential Construction Growth



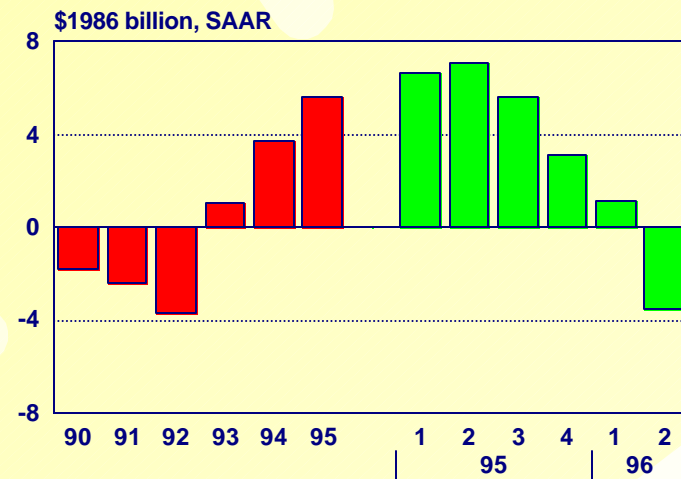
Source: Statistics Canada

## ***The inventory liquidation may bode well for future production***

**Businesses undertook a substantial reduction in their inventories in the second quarter.**

- This inventory liquidation, the first in two and a half years, subtracted 3.0% from output growth in the second quarter.
- However, this may set the stage for higher production in subsequent quarters if stocks are rebuilt.

### **Investment in Business Inventories**



Source: Statistics Canada



**Domestic Scene**

*Income Side*

## ***Labour income rises...***

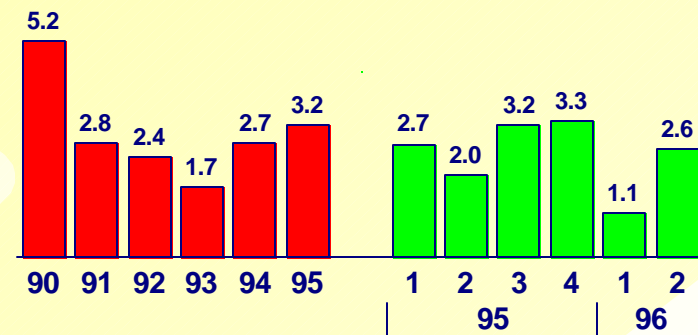
Labour income posted a modest increase in the second quarter, but this was not enough to boost consumer spending.

- Much of the increase was due to the settling of the public-sector strike in Ontario and an auto strike in the U.S. (which forced some layoffs in GM's Canadian operations.)

Disposable income rose only 0.4% (annual rate) due to higher personal income taxes.

### **Labour Income Growth**

% Change SAAR



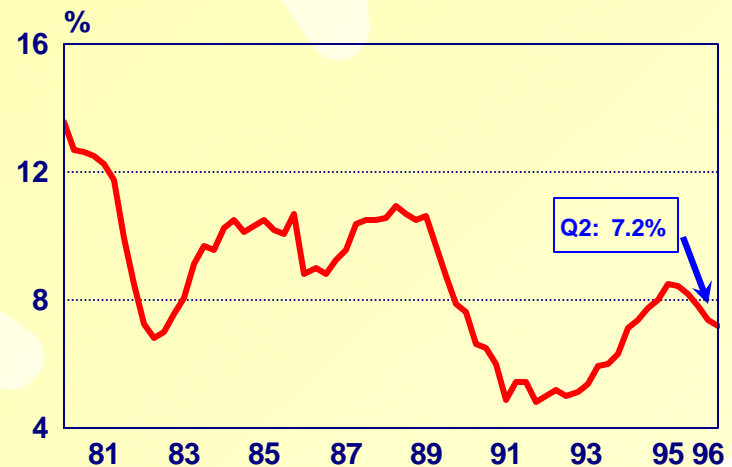
Source: Statistics Canada

***...while corporate profits continue to fall***

**Corporate profits declined further in the second quarter.**

- **This was the fifth consecutive decline in corporate profits.**
- **Falling profits may be one reason behind lower business investment in the second quarter.**

**Ratio of Corporate Profits\* to GDP**



\* Before taxes  
Source: Statistics Canada

**Domestic Scene**

***Price Movements***

## ***Inflation remains very low...***

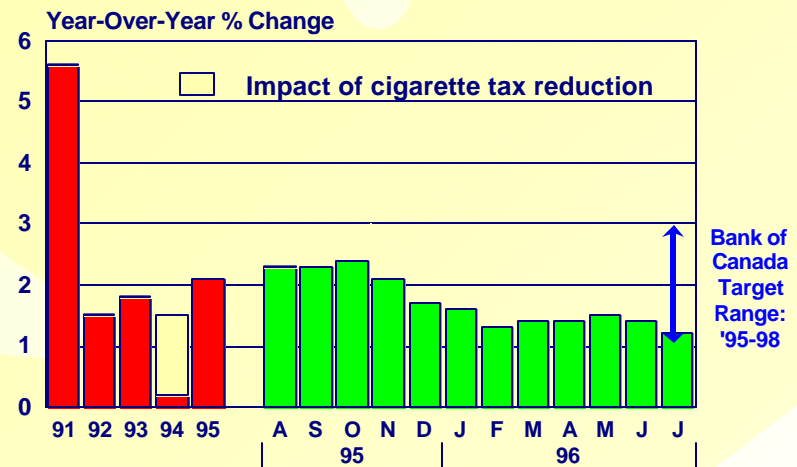
The year-over-year rate of inflation fell to 1.2% in July, down from 1.4% in June. July's increase was:

- the lowest annual increase since January 1995, and
- the eighth consecutive month that inflation has been in the lower half of the Bank of Canada's target range.

Excluding the volatile food and energy components, CPI inflation was 1.4% in July.

Canada's inflation rate remains one of the lowest in the G-7.

### **Consumer Price Index**



Source: Statistics Canada & Bank of Canada



*...thanks in part to lower mortgage interest charges*

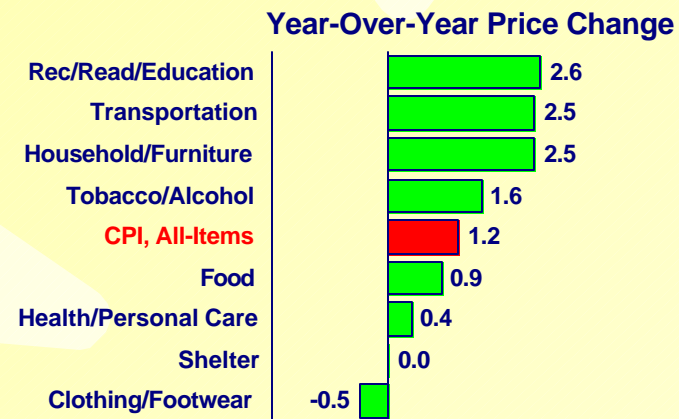
On a year-over-year basis, the most significant price increases in July were for:

- new vehicles
- meat (other than beef)
- travel services
- telephone services
- rental accommodation

Major declines were registered for:

- mortgage interest charges
- new house prices
- fresh vegetables and beef

### Components of CPI: July/96



Source: Statistics Canada

## ***Producer price increases are moderating...***

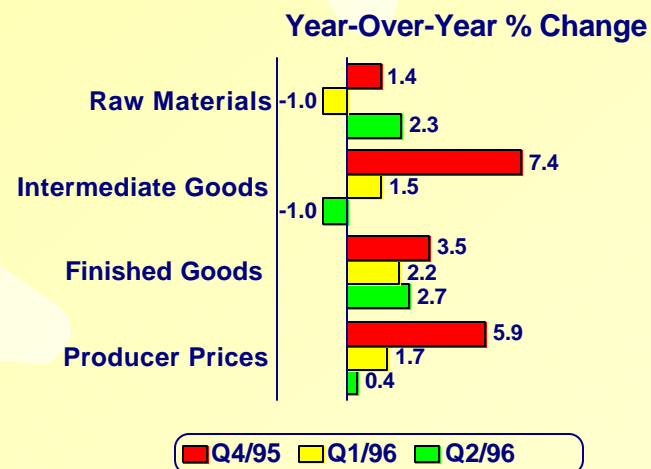
Growth in producer prices has been trending down over the past 18 months.

Prices of intermediate goods actually fell in the second quarter of 1996, while price increases for finished goods continued to be moderate.

Raw materials prices rose in the second quarter of 1996, however.

The medium-term outlook is for continuing softness in producer prices, due to weak demand, both on the domestic front and internationally.

### **Price Chain - 1995/96**



Source: Statistics Canada

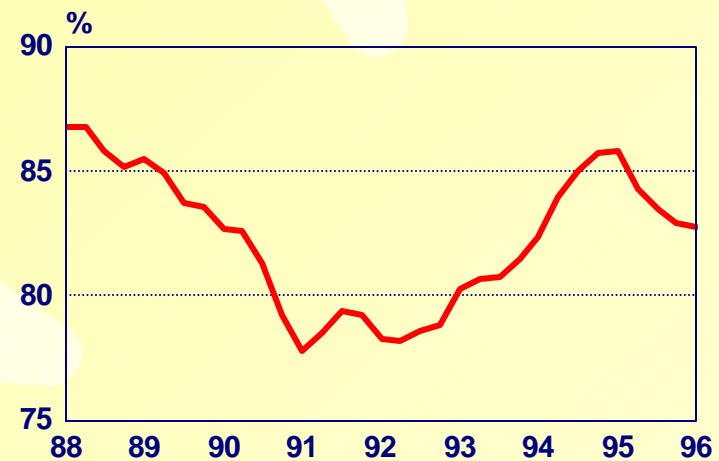
**... as capacity utilization continues to decline**

The capacity utilization rate declined slightly in the first quarter to 82.8%.

Capacity utilization is now three percentage points below its recent peak at the beginning of 1995.

- Sluggish demand, plus heavy investment in high-tech plant and equipment has increased productive capacity and created room for non-inflationary growth.

**Capacity Utilization Rate  
Total Non-farm Goods**



Source: Statistics Canada

**Domestic Scene**

*Labour Situation*

## ***Employment growth stalls...***

After falling 56,000 in June, employment rebounded somewhat in July (+19,000).

So far in 1996, employment has increased by 71,000.

Since March, total employment has fallen by 9,000:

- while full-time employment is up 25,000,
- part-time employment has fallen 34,000.

Employment in the goods-producing industries is up 26,000 in the past four months.\*

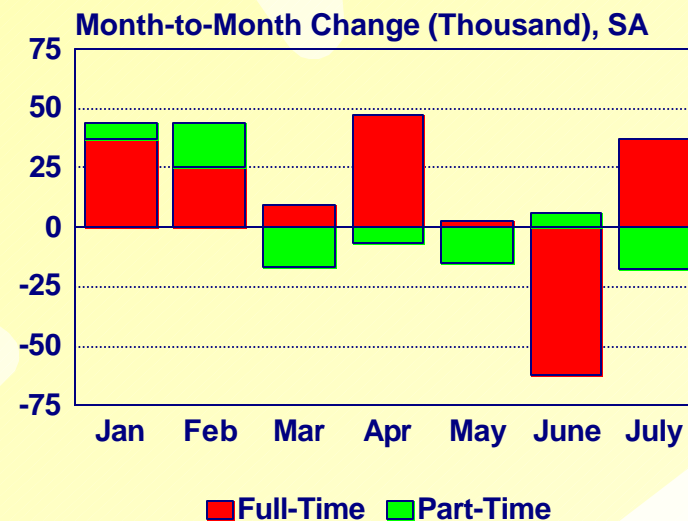
- Manufacturing is up (+54,000)
- Construction is down (-24,000)

Jobs in the service sector are down 49,000 over the same period.\*

- Trade is down (-31,000)
- Public Administration is down (-6,000)

\* Note: Figures on job creation in Goods Production and in Services do not sum to 9,000 since they are gathered on a different basis.

### **Job Creation in 1996**



Source: Statistics Canada



## ***...and the unemployment rate rises...***

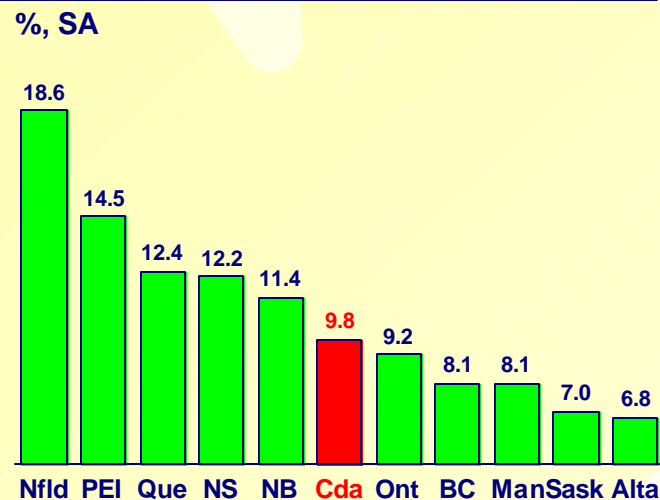
Substantial job losses in June led to a sharply higher unemployment rate, from which we have only partially recovered in July.

- The national unemployment rate reached 10.0% in June, its highest level since October 1994.
- It slightly improved to 9.8% in July.

The Quebec and New Brunswick economies have been particularly hard-hit.

- Since March, Quebec's unemployment rate has increased by 1.5 percentage points, reflecting the loss of 71,000 jobs.
- Over the same period, New Brunswick's unemployment rate increased by 1.4 percentage points.

### Unemployment Rate: July/96



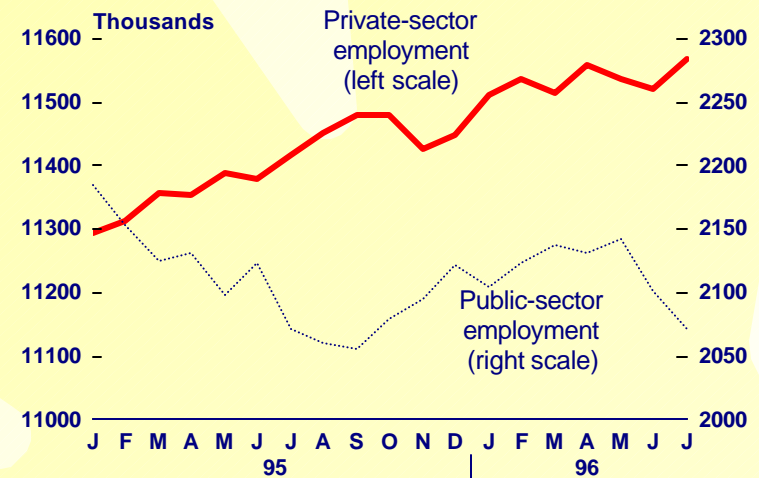
Source: Statistics Canada

**...despite the private sector creating many jobs**

**The private sector continues to create jobs. However, government downsizing has resulted in significant job losses in the public sector, which has offset some of these gains.**

- **Since April, private-sector employment has increased 56,000.**
- **Over this same period, employment in the public sector has fallen 65,000.**

### **Employment: Private vs. Public**



Source: Statistics Canada

**Domestic Scene**

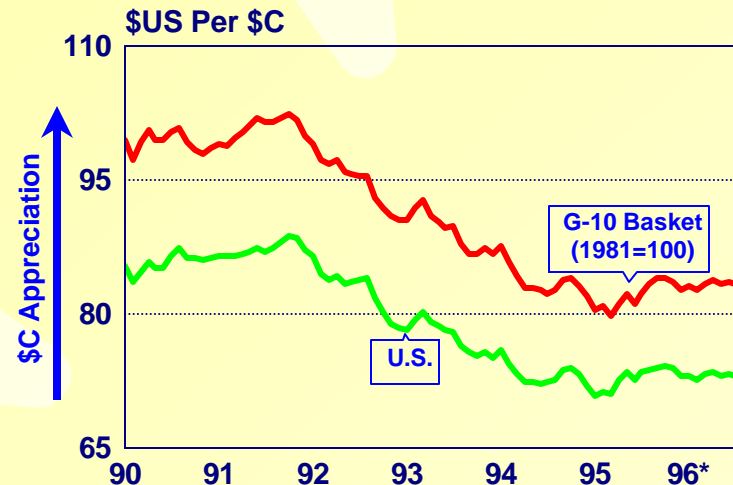
*Financial Variables*

## ***The Canadian dollar remains firm...***

The Canadian dollar has been very stable since the beginning of the year, trading within a narrow band around 73 U.S. cents.

The sharp improvement in Canada's current account balance, and our low inflation performance, bode well for continued stability of the dollar in coming months.

### **Exchange Rates**



\* Until the end of August  
Source: Bank of Canada

***..even as short-term interest rates drop well below U.S. rates***

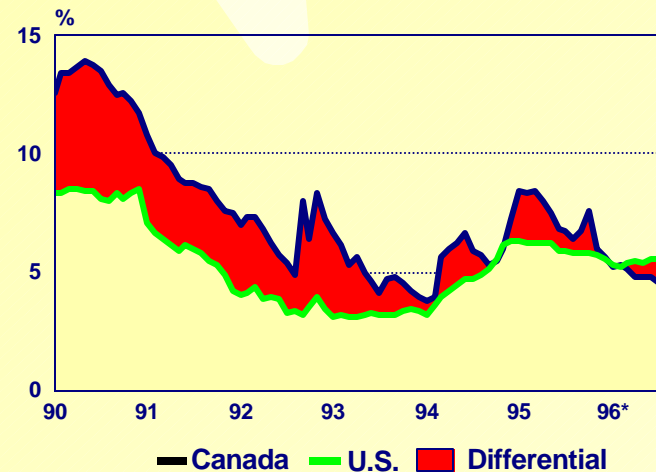
Short-term interest rates in Canada continued to fall throughout the second quarter and into July and August.

- The Bank of Canada has been lowering short-term administered rates aggressively in a bid to jump-start the domestic economy.

The differential between Canada and U.S. rates turned in Canada's favour late in the first quarter, and has widened since.

By the end of August, the Canadian 90-day corporate paper rate was 130 basis points below the comparable U.S. rate -- the largest gap in Canada's favour since 1980.

**Short-Term Interest Rates**



\* Until the end of August

Source: Bank of Canada, 90-day Commercial Paper, last Wednesday in the month



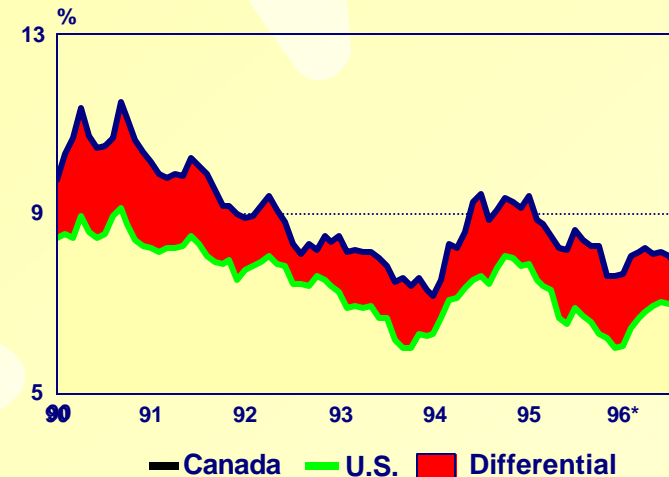
## ***Long-term rates are also down***

Long-term interest rates have been more volatile than short-term rates, largely reflecting the continuing uncertainty over long-term growth prospects in the U.S.

Canadian bond yields rose early in the second quarter, but subsequently fell back as indications of a slowdown in the U.S economy emerged.

Canadian rates remain above comparable U.S. rates, but the gap has narrowed since the first quarter.

### **Long-Term Interest Rates**



\* Until the end of August

Source: Bank of Canada, Government long-term bond, last Wednesday in the month

**Domestic Scene**

***Fiscal Track***

## ***Fiscal situation continues to improve***

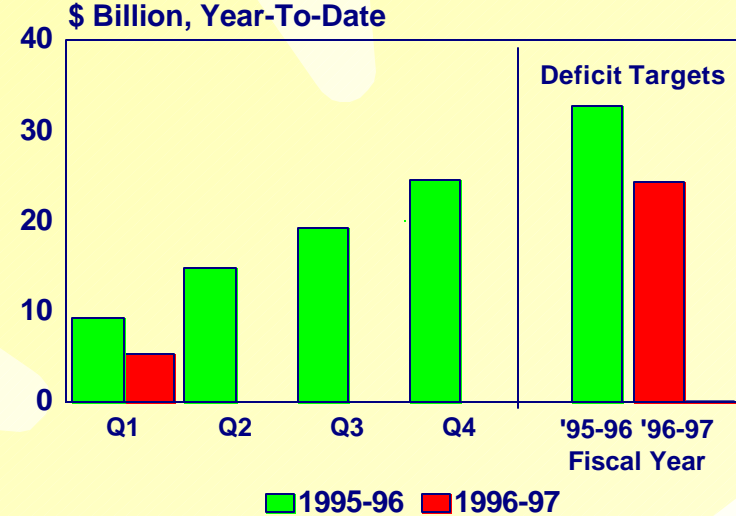
The deficit for the fiscal year 1995-96 was \$24.4 billion -- down \$6.7 billion from the previous year.

Following "end-of-year accounting" adjustments, it is expected that the final deficit will be just below \$30 billion -- well under the deficit target of \$32.7 billion.

So far in the 1996-97 fiscal year, the deficit is running below last year's level. This is due to higher revenues, reduced program spending, and lower debt-servicing charges.

Forecasters are optimistic that the 1996-97 target (of a deficit no greater than 3% of GDP) will be easily reached.

### **Federal Deficit -- Fiscal Year**



Source: Finance Canada

**Domestic Scene**

***Competitiveness***

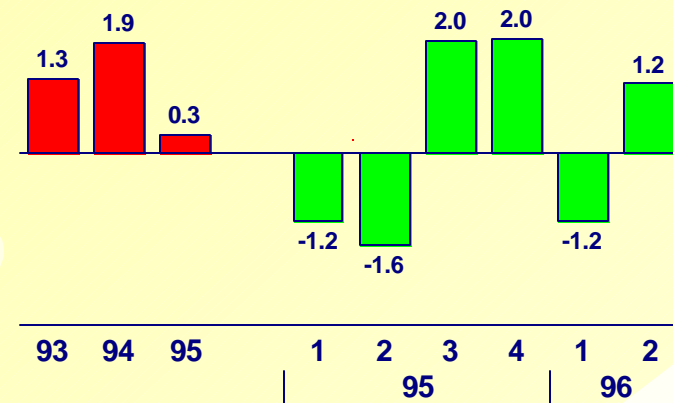
## Labour productivity rebounds...

Labour productivity rebounded in the second quarter, recouping the losses incurred in the first quarter.

- However, the first-quarter losses arose mainly because of the strike in the Ontario public service. Workers on strike are still considered employed and thus are factored into labour productivity calculations even though they produce no output.

### Growth in Labour Productivity

% change, SAAR



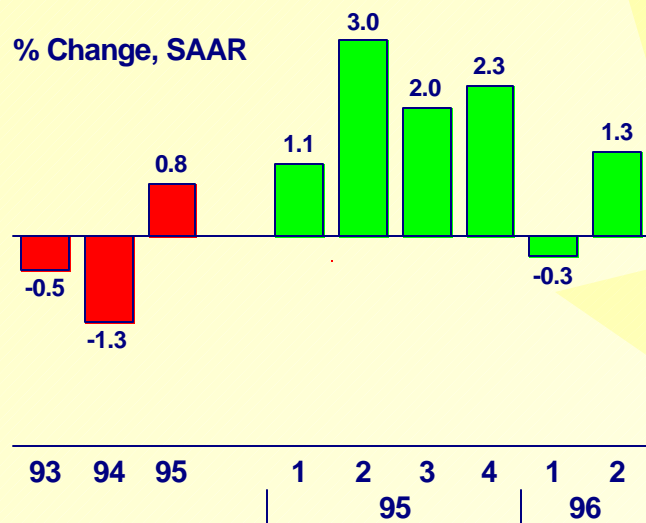
Source: Statistics Canada



**...but labour costs increase**

**Growth in Unit Labour Cost**

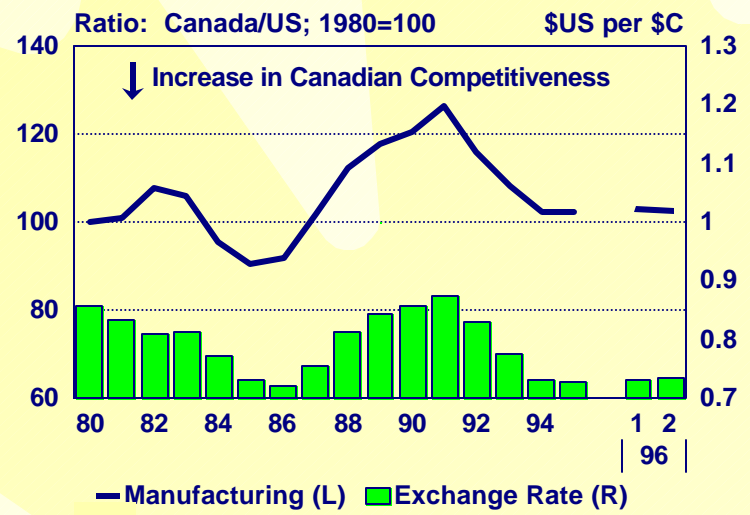
Total Economy



Source: Statistics Canada

**Unit Labour Cost Comparison (\$US)**

Manufacturing Sector



Source: DRI Canada, U.S. Dept. of Labor

**On an economy-wide basis, Canada's unit labour costs increased 1.3% (annual basis) in the second quarter, as labour income rose roughly twice as quickly as output.**

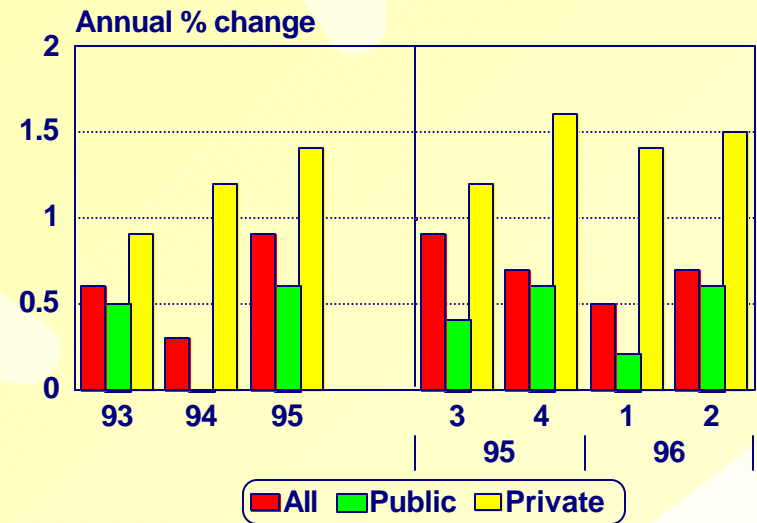
**Relative to the U.S., the competitive position of Canadian manufacturers improved by 0.3% in the second quarter, despite a slight appreciation of the Canadian dollar.**

## However, wage settlements remain low

Wage settlements rose 0.7% (annual basis) in the second quarter of 1996.

- Public-sector settlements increased 0.6%, as governments continued to hold the lid on wage increases.
- Private-sector settlements increased 1.5%, roughly in line with increases in the previous two quarters.
- The highest wage settlements in the first half of 1996 were in the manufacturing (+2.6%) and primary industries (+1.7%).

Wage Settlements\*



\* By large unions (+500 membership)

Source: Human Resources Development Canada

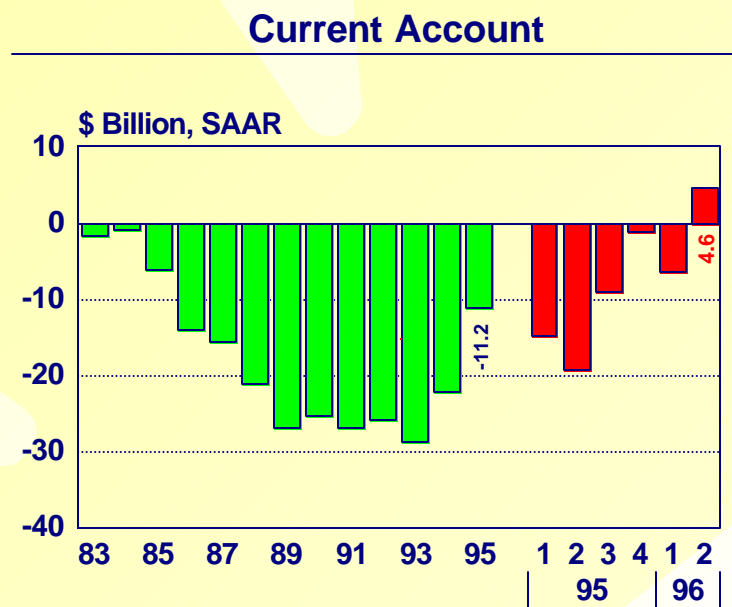
**Domestic Scene**

*International Accounts*

## The current account records its first surplus since 1984...

The current account recorded a surplus of \$1.1 billion (\$4.6 billion on an annual basis) in the second quarter.

- This is the first surplus in almost 12 years.
- Rising exports have led to a steady narrowing of the current account surplus since the end of 1993.



Source: Statistics Canada

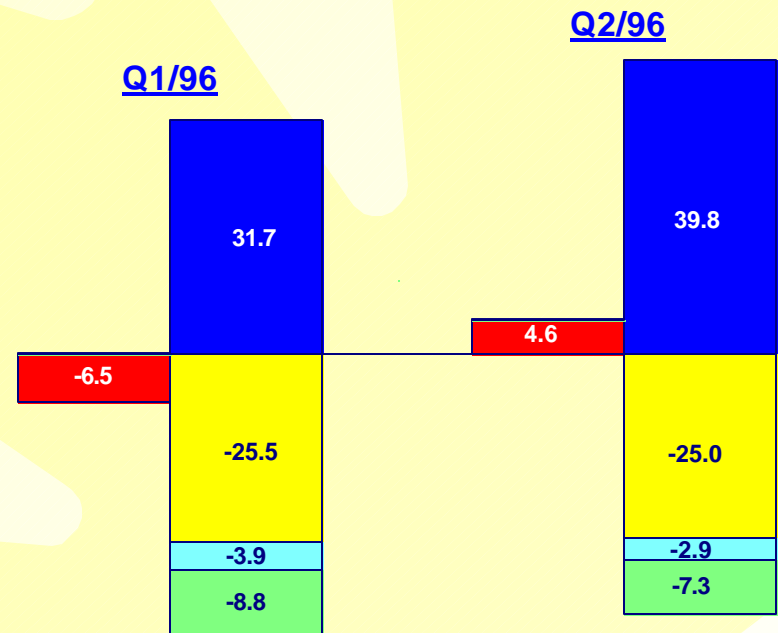
**... as the merchandise trade surplus soars**

### Current Account Balance Composition

\$ Billion, SAAR

The merchandise trade surplus rose to an all-time high of \$40 billion (annual basis), up almost 26% from the previous quarter.

- Exports rose 1.7%, with the largest gains in automotive products, energy products and machinery and equipment.
- Imports fell 1.6%, with imports of machinery and equipment falling the most.



■ Current Account Balance   ■ Merchandise Trade Balance  
■ Net Interest Payments   ■ Travel Deficit   ■ Other

Source: Statistics Canada



**Domestic Scene**

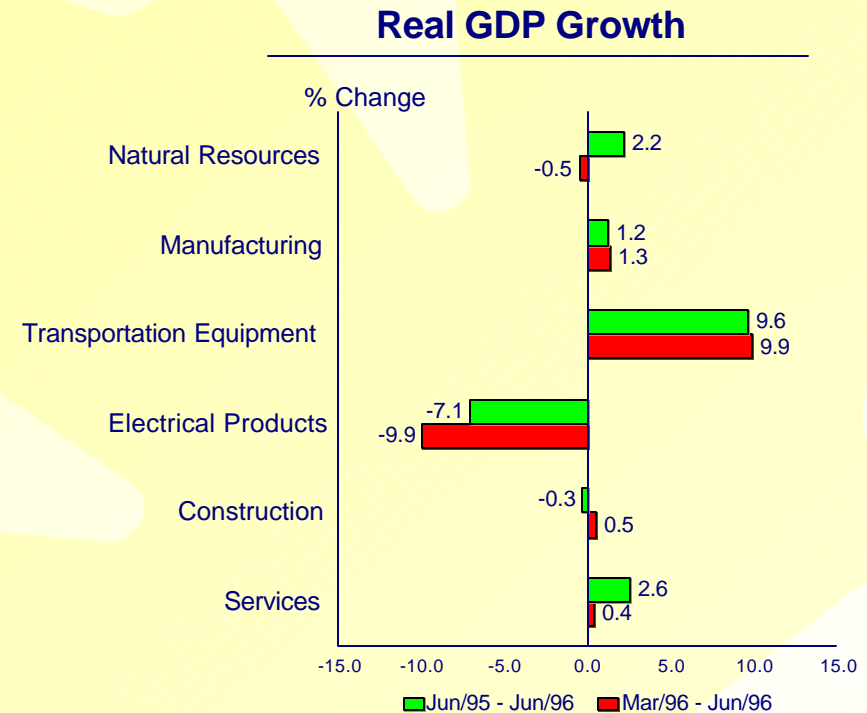
***Sectoral Overview***

## ***Manufacturing continues to grow...***

**Output in the Manufacturing sector posted a small increase in the second quarter.**

- Production of Transportation Equipment continued at a fast clip.**
- Output of Electrical Products has been falling. In recent months, there have been cutbacks in the manufacture of office machinery and communications equipment.**

**Construction registered a modest rise in the second quarter. The increase reflects the pick-up in residential construction.**

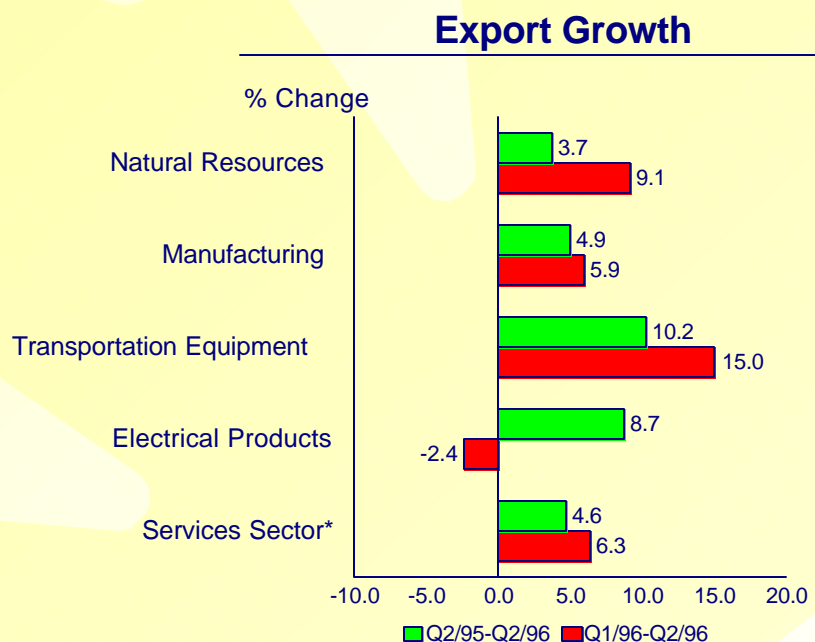


Source: Statistics Canada

**... and widespread and rapid export gains continue...**

**Exports remained strong across most sectors.**

- Exports of natural resource commodities such as energy and forestry products were up in the second quarter.
- Manufacturing posted a modest improvement. Automotive products registered solid export growth while electrical products such as office equipment showed a decline.



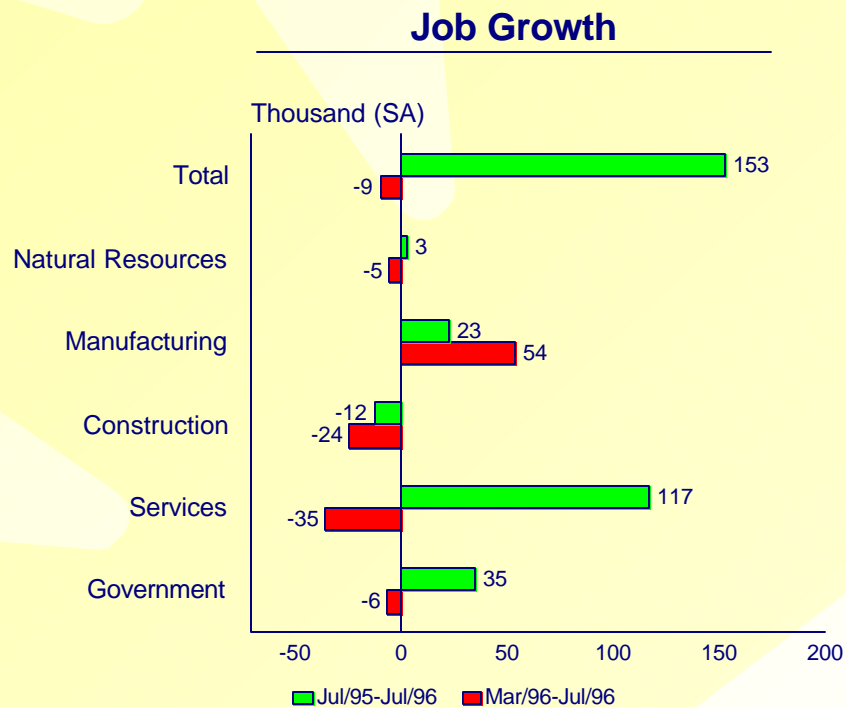
\*Includes Communication, Wholesale and Retail Trade.  
Source: Statistics Canada

***...but jobs show a modest decline***

**Jobs continue to increase in Manufacturing. But these gains were offset by falling employment in other sectors, resulting in an overall decrease in jobs since March.**

**Despite reporting a rise in output from one year ago, Construction has seen its jobs declined over the same period.**

**Employment in Services has been relatively robust over the last year, but retail and wholesale trade took a hit in the second quarter due in part to a sluggish domestic economy.**

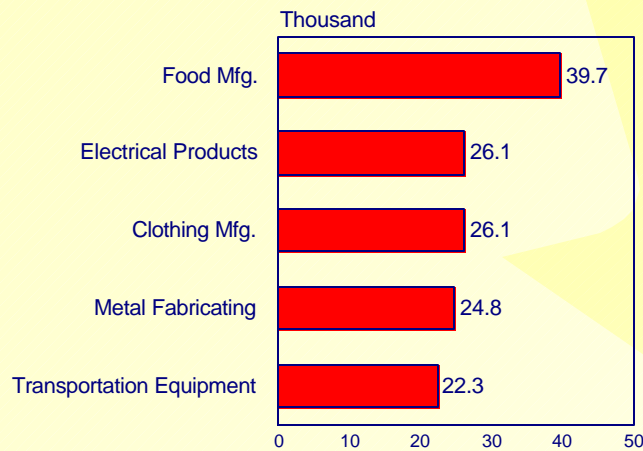


Source: Statistics Canada

## **Manufacturing had widespread gains...**

### **Top Five Performers in Manufacturing**

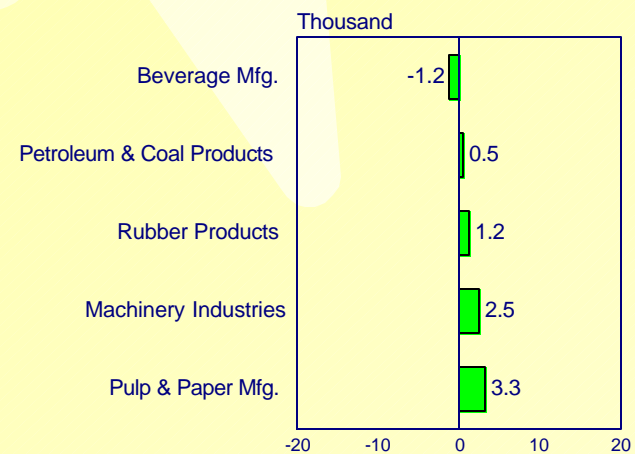
Mar/96 - Jul/96



Source: Statistics Canada

### **Bottom Five Performers in Manufacturing**

Mar/96 - Jul/96



Source: Statistics Canada

**Job gains have been widespread in manufacturing since March. By and large, most industry groupings reported increases.**

**Between March and July, Food Manufacturing showed strong growth (+39,700). Despite falling output and exports, employment in Electrical Products continued to increase.**

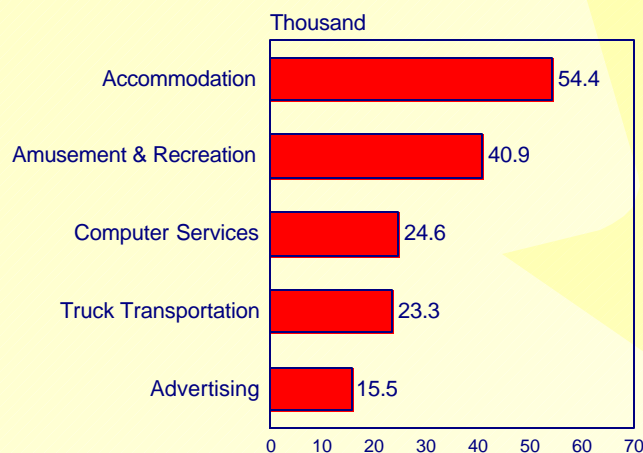
**Beverage Manufacturing posted a slight decline, and some other manufacturers had slow but still positive jobs growth.**



## ***...as did Accommodation and Commercial Services***

### **Top Five Performers in Services**

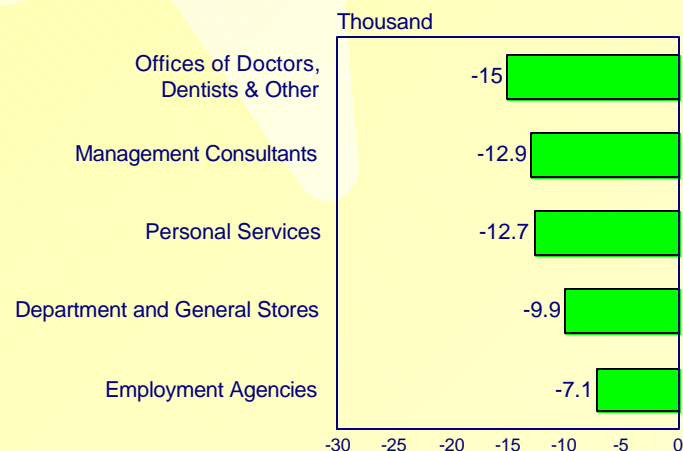
Mar/96 - Jul/96



Source: Statistics Canada

### **Bottom Five Performers in Services**

Mar/96 - Jul/96



Source: Statistics Canada

**Between March and July 1996, 54,400 jobs were created in Accommodation Services. Truck transportation also showed a strong increase in hiring. All the other top performers were in Commercial Services: Amusement & Recreational Services, Computer Services and Advertising Services.**

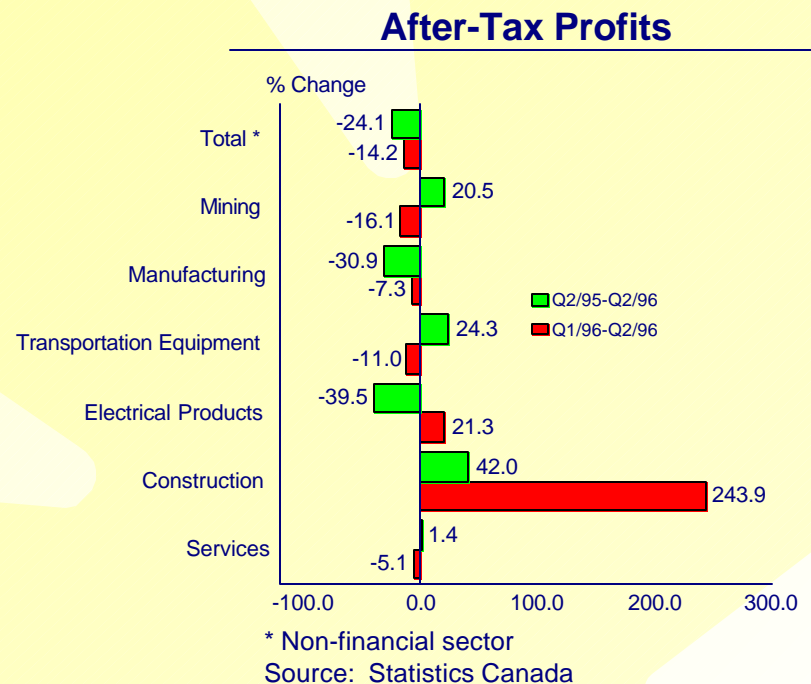
**With the advance of summer, job losses have occurred in the offices of doctors and dentists and by management consultants. The weak domestic economy in the first half of the year has resulted in noticeable job loss in Personal Services and Department Stores and General Stores.**

## Profits slips in most sectors...

Profits for all major sectors were down in the second quarter except in Construction.

Although growth and employment in the Construction sector has been on the decline, Construction posted a strong increase in profits in the second quarter.

The same was true for Electrical Products.

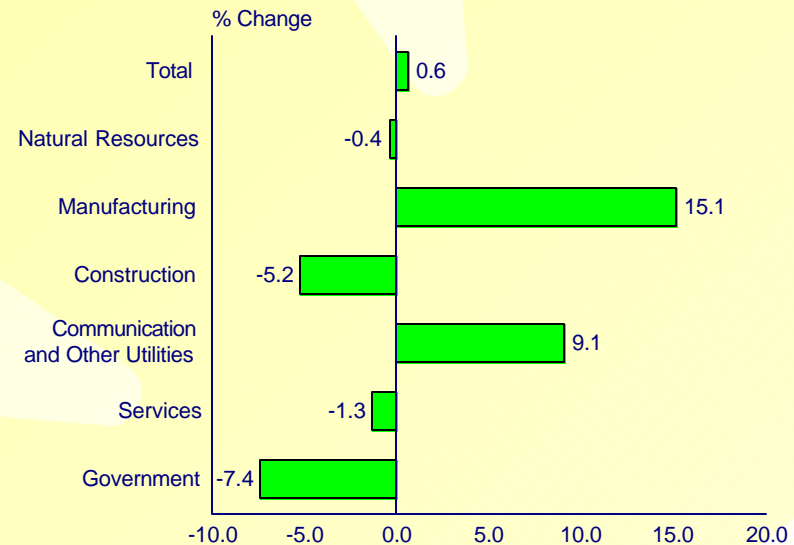


***...but investment to pick up***

According to the most recent Investment Intentions Survey, business and government plan to invest close to \$100 billion in plant and equipment in 1996.

- This is a 2.2% increase from last year.
- Manufacturing and Communication and Other Utilities are expected to show stronger investment.
- It is noteworthy that manufacturers' investment is expected to continue to increase, which bodes well for the future international competitiveness of this sector.

**Plant and Equipment  
Real Investment Intentions\***



\* 1995 preliminary actual to 1996 revised intentions  
Source: Statistics Canada, July 1996



## **A Regional Economic Update**

**This report was prepared in consultation with the  
Trade and Operations Integration and Management Consulting Branch,  
and the Industry Portfolio.**

## ***Introduction***

**The overall health of our economy is inextricably linked to the vitality of our regions. As individual regions become more productive and more competitive, the Canadian economy as a whole also becomes more prosperous.**

**In recent years, all regions have faced a wide variety of domestic and international pressures. Increasingly intense international competition, new technologies, high youth unemployment and continuing change has created an uncertain environment.**

**This feature outlines the recent pace of growth in Canada's regions. It chronicles current trends with respect to trade and industrial structure and probes how well the regions are preparing for future growth. Success in the future will depend on tapping more fully into the global economy, and emerging industries. To some degree, this includes building on their traditional resource strengths. However, it also includes embracing innovative activities associated with the new economy.**

**An illustrative overview of recent, key, regional economic developments and near-term provincial prospects is also presented.**



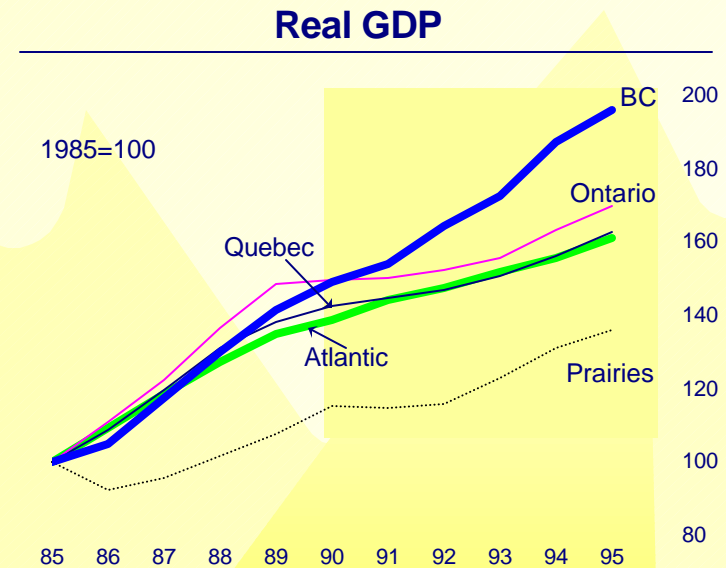
The slide features a light yellow background with a subtle, abstract pattern of darker yellow shapes. A prominent yellow border frames the entire content. In the center, a rounded rectangular box is defined by a double-line border, with the inner line in red and the outer line in blue. Inside this box, the text "Recent Pace of Growth" is displayed in a bold, red, sans-serif font.

**Recent Pace of Growth**

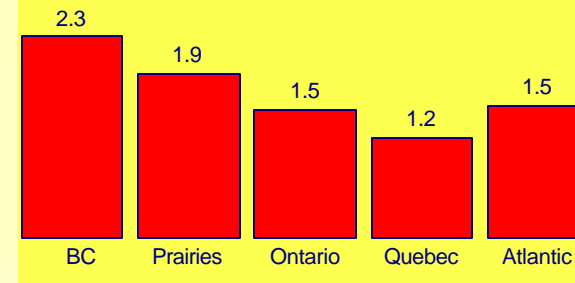
## Canada's regions are growing...

But not at similar rates. While the Prairies had, by far, the lowest growth between 1985 and 1990, they have enjoyed, along with B.C., stronger growth rates during the early 1990s.

- Alberta contributed heavily to the improvement in the Prairies' economy.
- Ontario and Quebec were struck hard by the recession and their recoveries have been slow.
- The Atlantic region has matched Ontario in recent years. However, the Newfoundland economy has actually lost ground (-2.0% on average between 1990 and 1995).



Real GDP Growth, 1990-95  
% per year



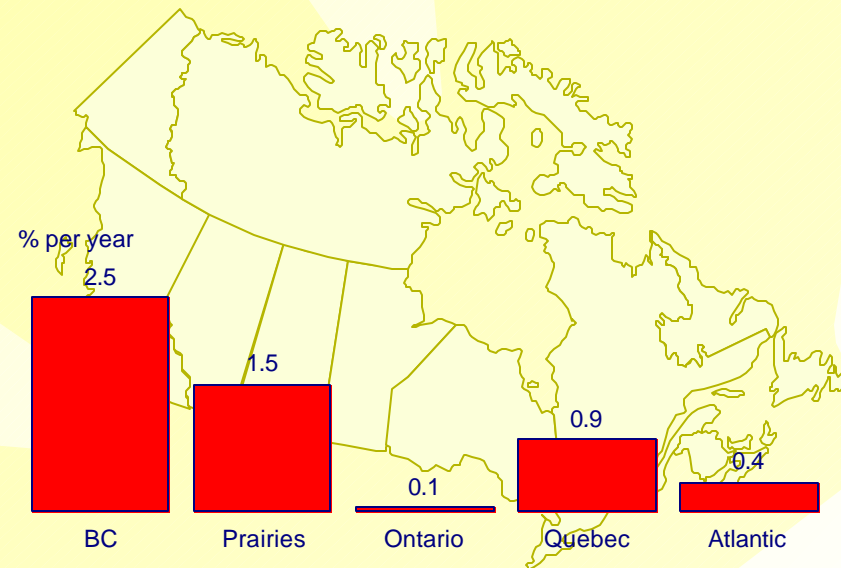
Source: Statistics Canada

***...businesses are increasing...***

**Economic growth has anchored an increase in business starts.**

- **Business growth has been strongest in B.C. (2.5%) and Alberta (2.8%), and weak in Ontario.**
- **Alberta's fast growth has pulled up recent statistics for the Prairies. There was a slight decline in Saskatchewan.**
- **In Atlantic Canada, Newfoundland also showed a slight decline.**

### **Business Starts/Expansion 1993-95**

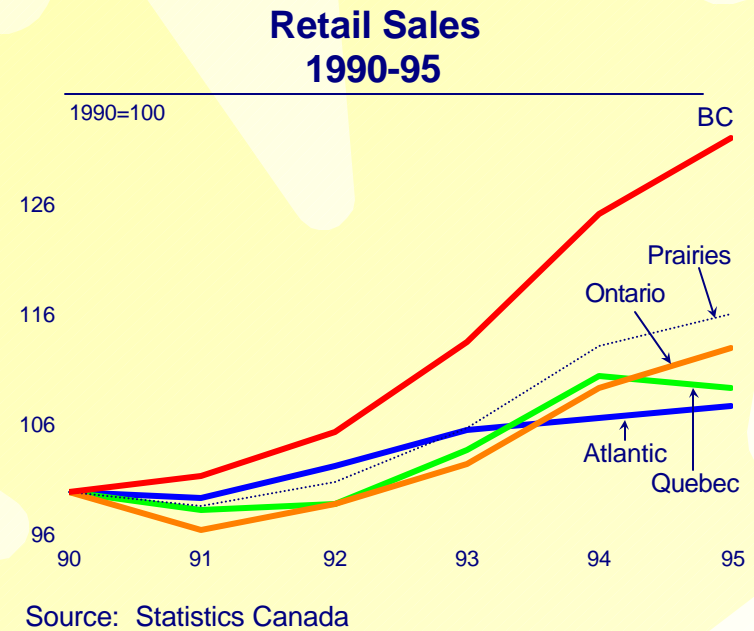


Source: Business Register, Statistics Canada

***...consumer confidence is slowly rising...***

**In keeping with its higher rate of economic and business growth, B.C.'s retail sales have also risen more rapidly than in the other regions.**

- In Atlantic Canada and elsewhere, where the business picture has been less buoyant, consumers spending has not picked-up as fast.**
- Quebec and Nova Scotia showed declines in 1995.**



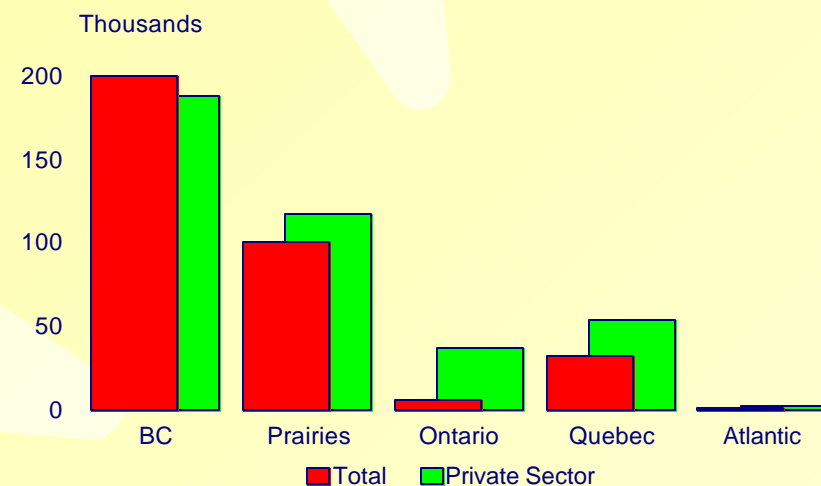
***... and jobs are being created...***

**Despite significant government cut-backs and public sector lay-offs, almost 350,000 jobs were created between 1990 and 1995:**

- the number of jobs in public administration fell by 57,384,
- but the private sector created 406,042 jobs.

**However, 85% of net jobs created during the 1990-95 period were in B.C. and Alberta, providing further evidence that Canada's economic and employment centre of gravity has shifted west in recent years.**

### **Job Creation 1990-95**



Source: Statistics Canada

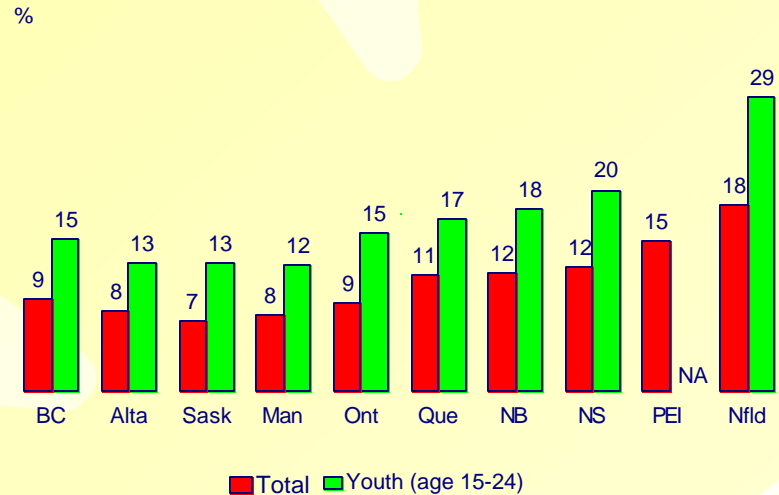


**...but job creation is still slow, especially for youth**

**Youth face particularly high unemployment rates across the country, reflecting a tough job climate in which youth have borne the heavy incidence of weak employment opportunities.**

**- This is despite the fact that today's youth are more highly educated than previous generations.**

### Unemployment Rates 1995



Source: Statistics Canada

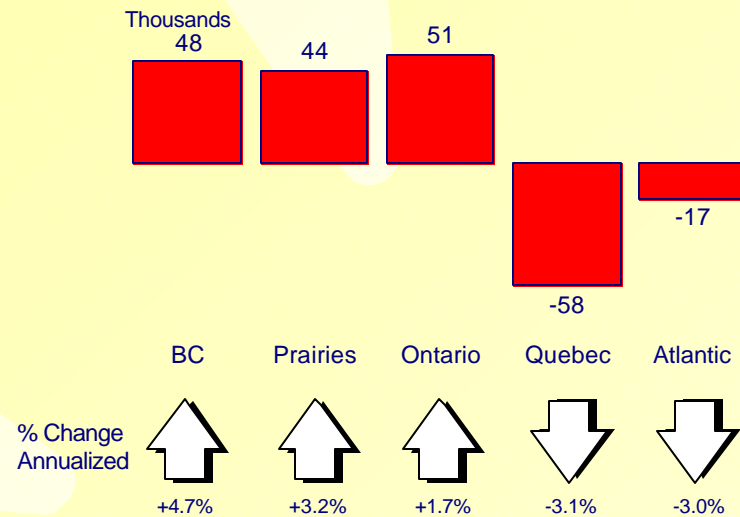
## So far in 1996

Economic growth has continued to edge up, but weakly.

Over the first seven months of the year, job creation has picked up — resulting in over 71,000 new jobs (seasonally-adjusted).\*

Job openings continue to occur in the two western-most provinces and in Ontario.

### Job Creation Dec. 1995-July 1996



Source: Statistics Canada

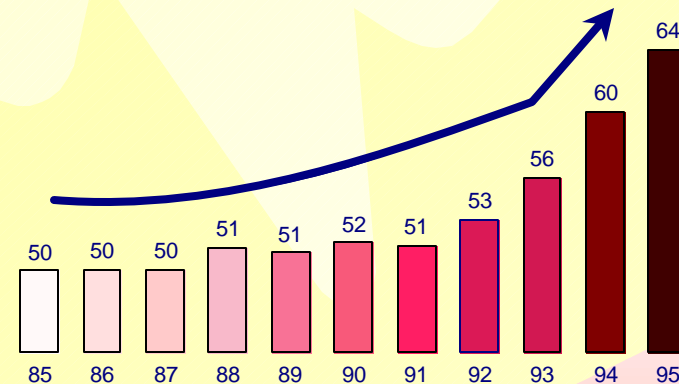
\* Figures in the graph do not sum to 71,000 due to rounding and the unavailability of employment data for the Territories.



## **Current Trends and Developments**

**Provinces are focusing more on exports...**

**Interprovincial and International Exports as a % of GDP**



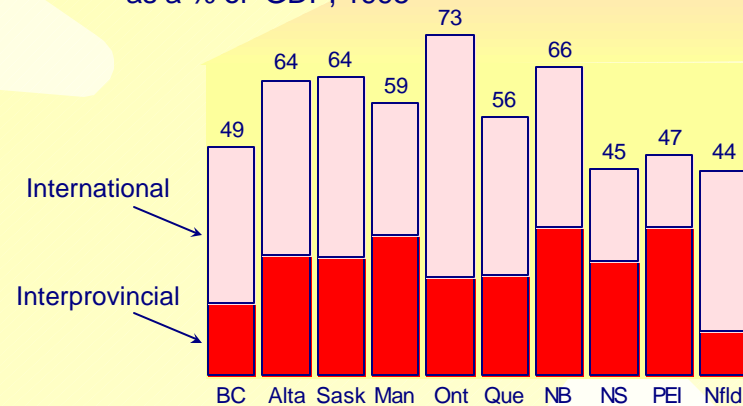
Canada is a very open economy.

Understandably, trade — both among provinces and with other countries — is important for individual regional economies as well.

Rapidly rising exports in the 1990s have underpinned regional growth.

Ontario is the most dependent on exports. But even in Atlantic Canada, which has the lowest ratio of exports to GDP, exports are crucially important.

**Interprovincial and International Exports as a % of GDP, 1995**



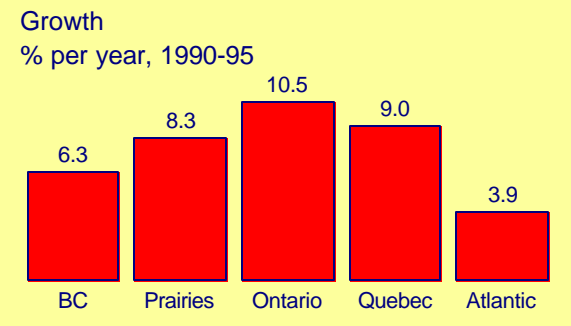
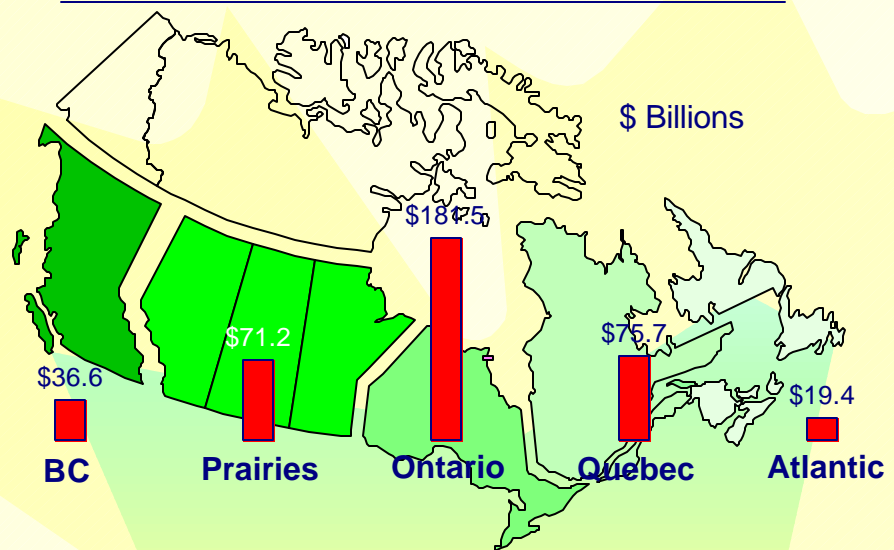
Source: Statistics Canada

**...to international markets...**

In the 1990s, exports to international markets have shown remarkable growth — which reflects a low Canadian dollar and competitive production costs.

- Ontario, Alberta and Quebec had the highest growth rates.
- Atlantic Canada had the least rapid growth, with Nova Scotia and Newfoundland exhibiting the lowest rates. All the other provinces had average growth since 1990 of at least 6%.

**International Exports  
1995**



Source: Statistics Canada



## ... and to other provinces

There has also been rapid growth in interprovincial trade.

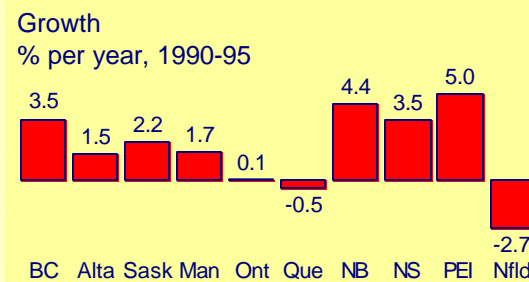
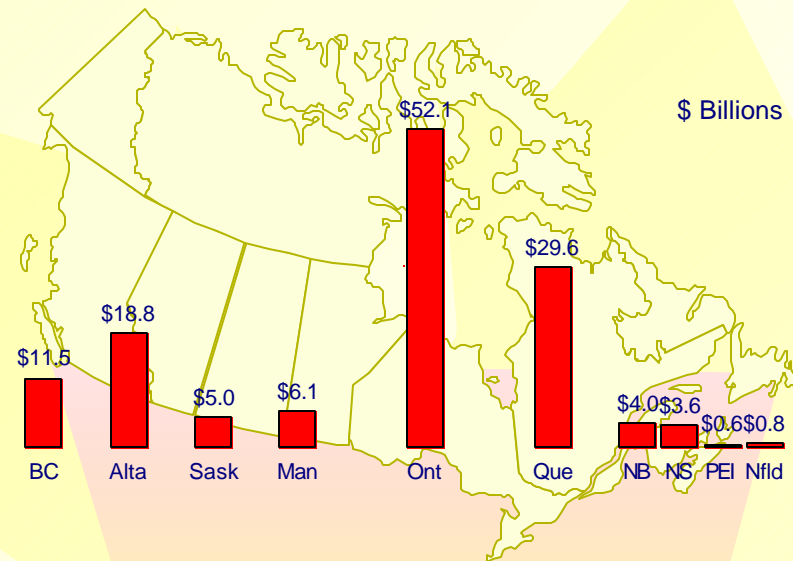
- Since 1990, B.C. and the Atlantic provinces (except Newfoundland) have recorded the largest increases.

Interprovincial trade is more prevalent between neighbouring provinces.

- International exports have recently been growing faster than inter-provincial exports, since domestic demand has been so weak.

- However, research shows that the typical province trades 22 times more with other provinces than with U.S. states of similar size and at similar distance.

## Interprovincial Exports 1995



Source: Statistics Canada

## Exports have been rising faster than imports

Between 1990-95, all but three provinces showed faster growth in total exports (international plus inter-provincial) than imports. These were B.C., Manitoba and Newfoundland.

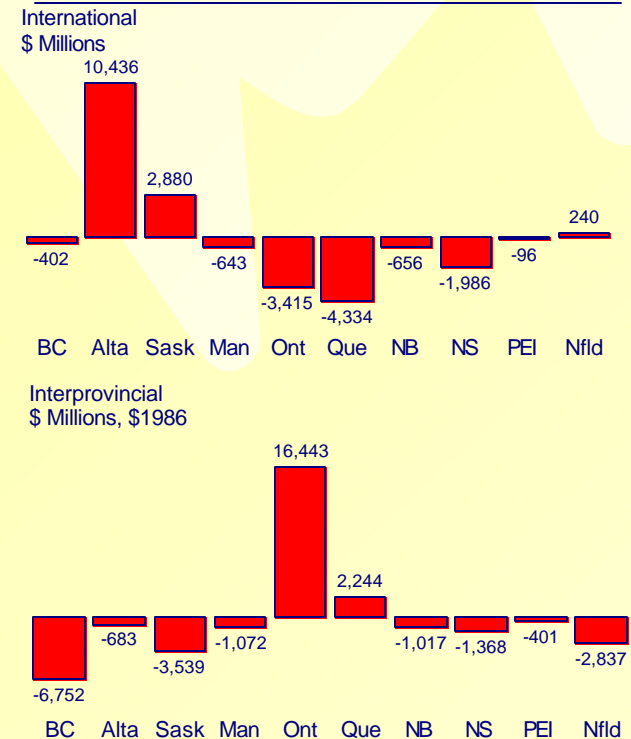
Regardless, in 1995, only two provinces ran international trade surpluses — Alberta and Saskatchewan.

- Exports of energy and grain products contributed heavily to the surplus.

While Quebec and Ontario had the largest international trade deficits, they were the only provinces to have inter-provincial trade surpluses.

- Ontario and Quebec have the greatest export links to both eastern and western Canada.
- All provinces continue to rely heavily on imports from Ontario.

## Trade Balance 1995



Real Growth in Exports and Imports  
% per year, 1990-95

	BC	Alta	Sask	Man	Ont	Que	NB	NS	PEI	Nfld
International Exports	6.3	9.4	6.1	6.3	10.5	9.0	6.3	3.2	6.2	1.4
International Imports	9.1	6.1	6.1	8.1	8.5	5.4	5.8	2.8	8.0	6.0
Interprovincial Exports	3.5	1.5	2.2	1.7	0.1	-0.5	4.4	3.5	5.0	-2.7
Interprovincial Imports	1.4	1.0	2.5	1.2	1.0	0.0	0.2	-2.0	0.5	0.9

M-4

Source: Statistics Canada

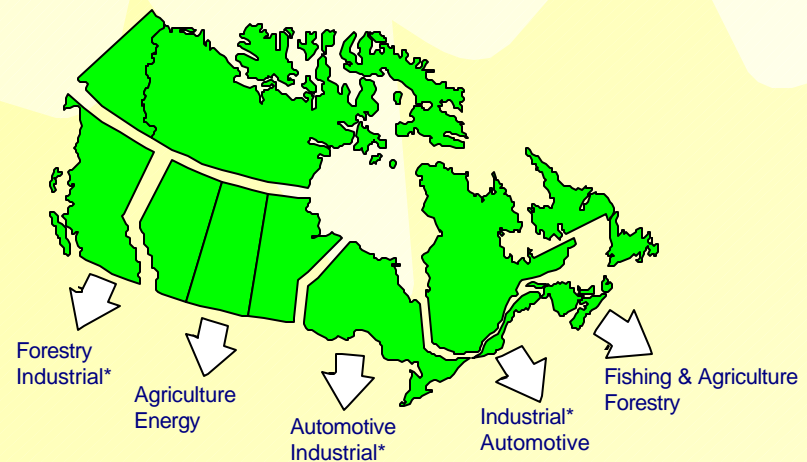
## Exports reflect industrial structure...

To a large extent, exports reflect the regions' industrial make-up:

- Forest products from B.C.
- Oil and petrochemicals from Alberta
- Grain and other agricultural products from the Prairies
- Fisheries and forest products from Atlantic Canada.

Ontario and Quebec have larger manufacturing sectors, including the automotive industry, and market these goods in the U.S. and abroad.

## Key International Exports of Regions 1994



### Key Exports as a Percentage of Total Exports, 1994

BC	Forestry	61.3%	Que	Industrial*	28.3%
	Industrial*	18.6%		Automotive	19.0%
Alta	Energy	60.4%	NB	Forestry	56.0%
	Agriculture	13.7%		Energy	29.4%
Sask	Agriculture	48.0%	NS	Agriculture & Fishing	33.3%
	Industrial*	28.1%		Forestry	18.6%
Man	Agriculture	38.3%	PEI	Agriculture & Fishing	73.0%
	Industrial*	32.4%		Industrial*	12.9%
Ont	Automotive	47.4%	Nfld	Industrial*	34.7%
	Industrial*	39.4%		Forestry	33.4%

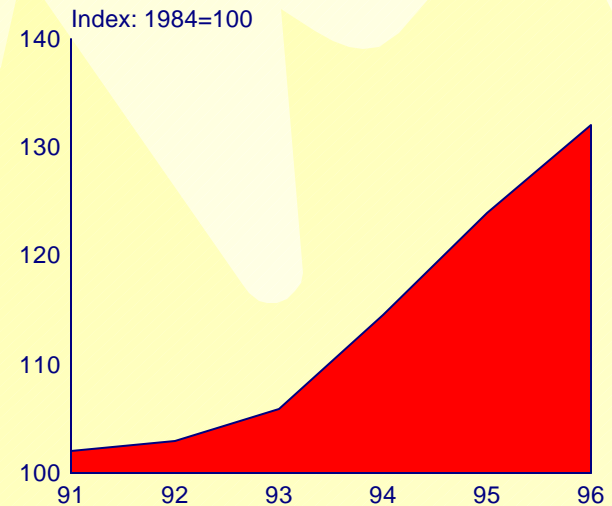
\* Includes M&E and Industrial Goods  
Source: Statistics Canada

## ***...and natural resource strengths***

**Rising commodity prices have played a key role in regional economic fortunes:**

- Foreign demand for metals, grain and pulp and paper was crucial for sustaining economic growth.
- But dependency on raw natural resource activities will not sustain prosperity.

### **Scotiabank Commodity Price Index**



### **Commodity Price Growth**

% per year

	1993	1994	1995
Crude Oil	-5.9	1.2	9.4
Wheat	8.1	17.4	17.5
Pulpwood	3.1	8.5	22.8
Newsprint	6.2	5.8	40.8
Non-ferrous metals	-3.0	27.2	19.6
Aluminum	-0.2	51.3	13.2

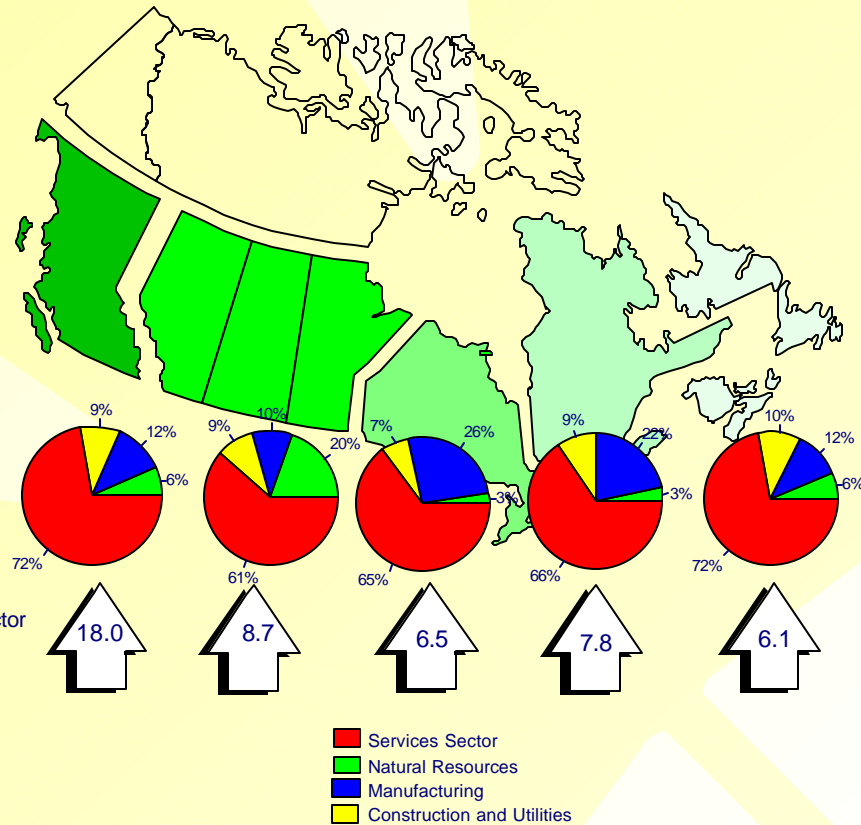
***But the regions are becoming more service-oriented...***

**Industry activities are shifting to services even in regions with strong resource-footings.**

**- However, these services are frequently important to the production, distribution and marketing of goods.**

**While goods still dominate international trade (70%), services play a stronger role in interprovincial trade.**

### GDP by Industry 1995



Source: Statistics Canada



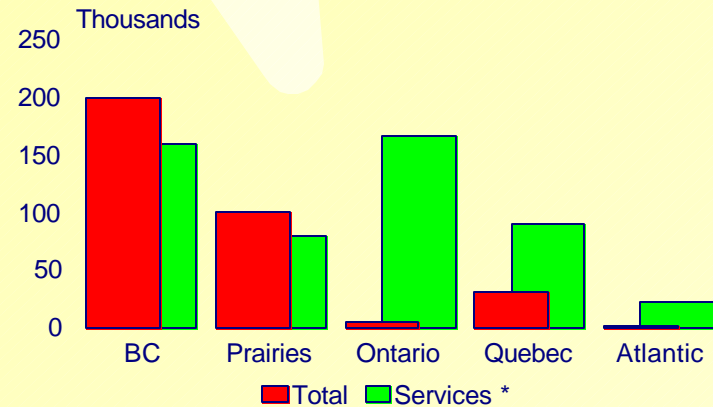
***...causing most new employment to be in services...***

**Employment in services has led job creation in each province.**

**Since 1990, services employment has accounted for all net job creation in Ontario, Quebec and Atlantic Canada. Employment in the goods sector in these provinces has actually fallen.**

**- Goods employment has increased in B.C. and the Prairies, but services has accounted for a substantial majority of their net new jobs.**

**Net Jobs Created  
1990-95**



\* Trade; Finance, Insurance & Real Estate; Community, Business & Personal Services.  
Source: Statistics Canada

**...more knowledge-based...**

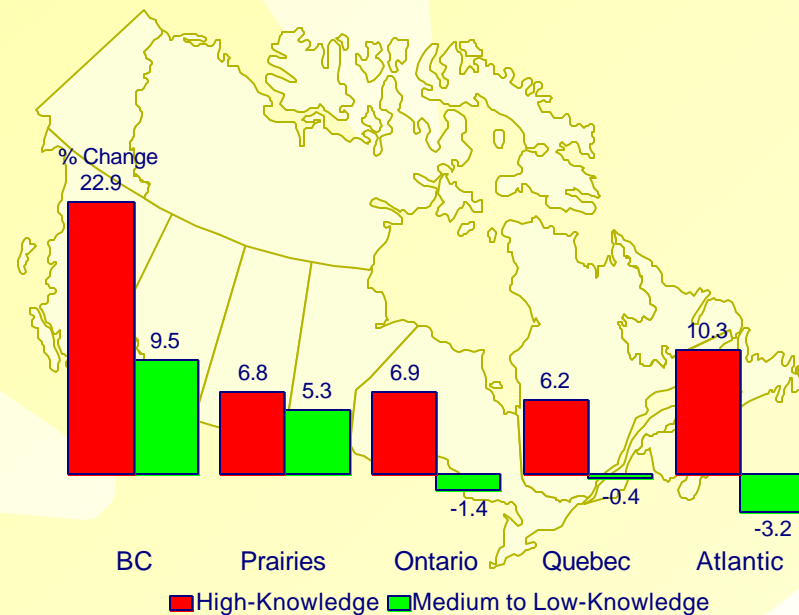
**Industrial activities have been shifting toward high-knowledge activities:**

**As a result, skill levels in the regions have been fast rising.**

**In all regions, high-knowledge industries in goods and services areas comprise the major source of new jobs.**

- In Ontario, Quebec and the Atlantic region there has been an actual reduction in jobs in medium to low-knowledge activities.**

### **Main Source of Employment Growth 1990-95**



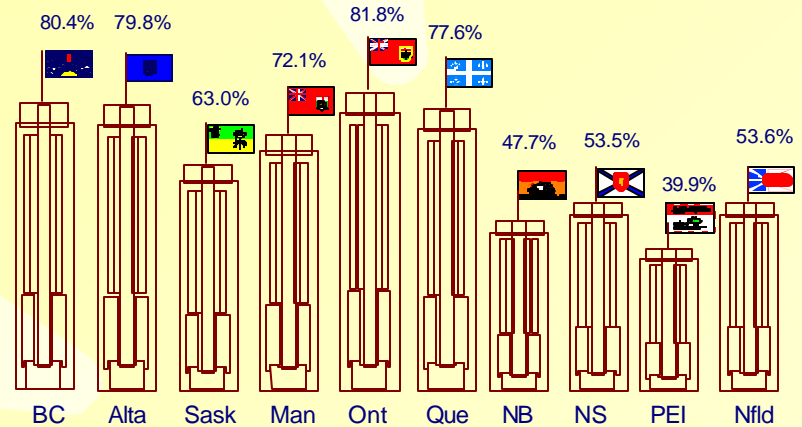
Source: Statistics Canada

**...and urban**

The rise in services has been mirrored in growing urbanization. As well, a high proportion of knowledge-based jobs are found in cities and larger centres.

Atlantic Canada lags behind the other regions in terms of urbanization, but their urban communities still comprise an increasingly important component of their economies.

**Urban as Percent of Population  
1991**

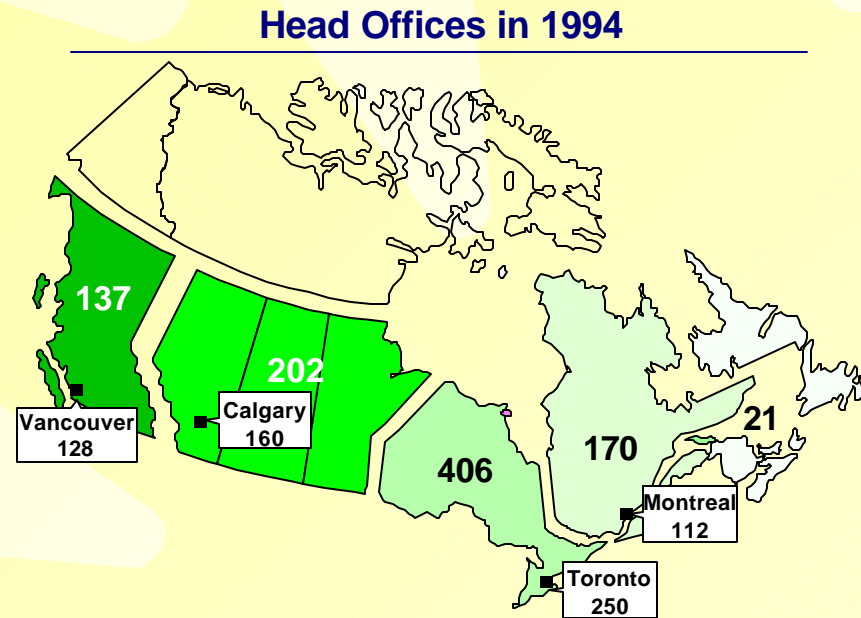


Source: Statistics Canada

## ***Commercial head-offices are shifting west***

**Ontario is still the economic powerhouse of Canada. There has been more rapid business growth elsewhere, but Ontario remains the home of just under half of all major company headquarters in Canada -- most of them are located in the Toronto metropolitan area.**

**Vancouver and Montreal are also key commercial centres, but Calgary currently boasts more head offices than anywhere else in Canada outside Toronto.**



\* Montreal, Toronto and Vancouver areas

Source: Globe & Mail, [Report on Business](#) Top 1000, July 1996



**Laying the Foundation for  
Future Growth**

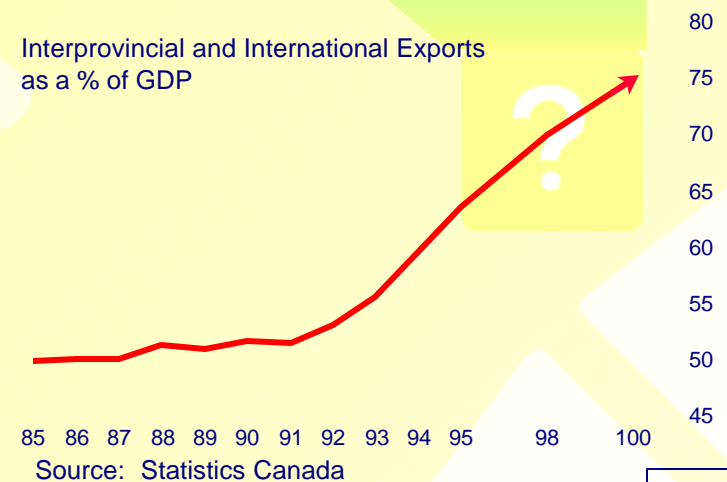
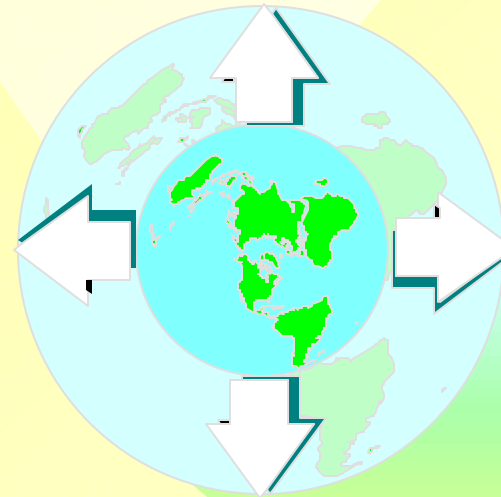


## ***Pursuing larger and more global markets...***

Since trade will continue to be a key driver for future growth, businesses and provinces must seek to further expand their markets.

- Niche product or niche-oriented companies as well as those with alliances with foreign companies with established links in the U.S. and abroad hold the most long-term potential to exploit larger markets.
- A more open North American market, and growing opportunities in the Pacific Rim should encourage international exports.
- A strengthening domestic market and the continued dismantling of provincial barriers will facilitate the expansion of interprovincial exports.

### **Expanding Markets**



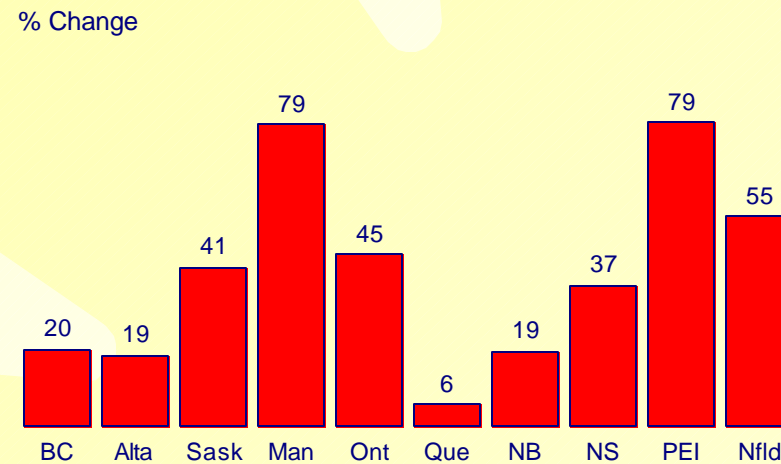
***...and increased investment activity...***

The development and use of the best new equipment and technologies by Canadian firms is central to their success in international markets.

There has been a general rise in all provinces, and across all industries, in M&E investment.

- PEI's sharp rise reflects construction on the Fixed Link and Newfoundland's increase includes Hibernia. Manitoba's manufacturing re-tooled significantly in the 1990s (into higher technology and to meet ISO 9000). Business investment has been lowest in Quebec.

**Growth in M&E Investment  
1990-95**



Source: Statistics Canada

**...involving the use of emerging technologies...**

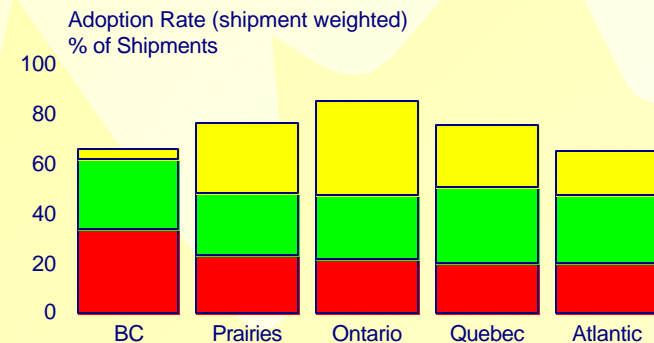
Computer-based technologies have entered all aspects of the manufacturing process, in all regions — especially in larger operations.

- Ontario has the highest adoption rate.
- But the Atlantic region and the Prairies are increasing their use at a fast rate.

In terms of technological competitiveness, Canadian firms report themselves as faring well against foreign competitors.

- In all categories, Ontario's use of technology exceeds the national average.
- The Atlantic region leads in fabrication & assembly and in inspection & communications.
- B.C. and the Prairies are very competitive in design & engineering but lag substantially in fabrication & assembly.

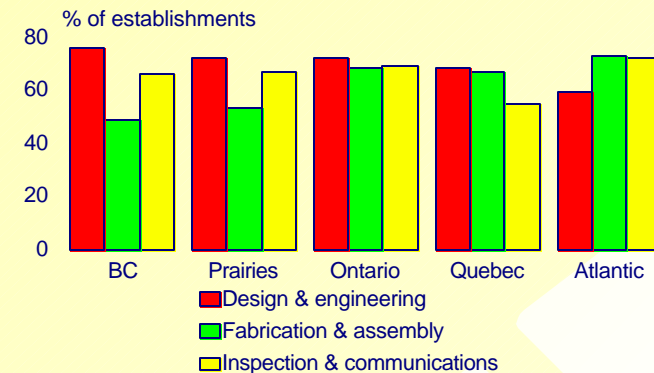
**Technology Adoption  
1993**



No. of Technologies: ■ 1-4 ■ 5-9 ■ 10+

Source: J. Baldwin and D. Sabourin. *Technology Adoption in Canadian Manufacturing*. (1995)

**Technological Competitiveness**



\* Percent of establishments that rank themselves equal to or above foreign competition.

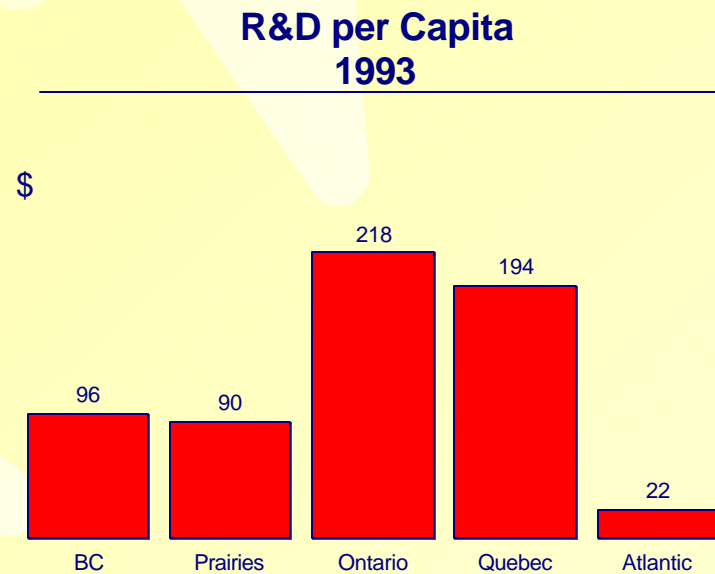
Source: J. Baldwin and D. Sabourin. "Technology and Competitiveness in Canadian Manufacturing Establishments" *Canadian Economic Observer* (May 1996)

**... "new wave" investments...**

**Competitiveness also requires innovation and investment in high-value "soft" factors that involve R&D and mechanisms to implement and market new product lines.**

**The results to date are encouraging.**

- R&D spending has been increasing in the provinces -- although the bulk of these expenditures continues to take place in the central provinces of Ontario and Quebec.**



Source: Statistics Canada

***...more advanced skills...***

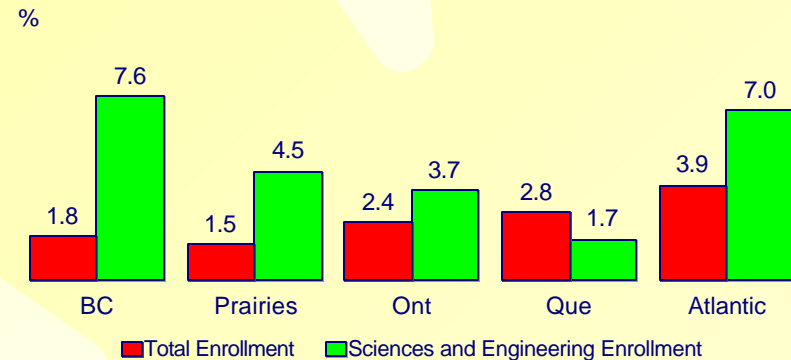
All regions have seen an acceleration in the demand for workers with more education and skills.

- Rising investment, in M&E and new technologies, has put a premium on workers' education and skills to take adequate advantage of new technologies.

More people are pursuing studies beyond high school. The science and engineering field is attracting greater numbers.

- Only in Quebec does the growth in science and engineering enrollment lag behind that for general undergraduate enrollment.

**Full-Time Undergraduate Enrollment  
Annual Growth  
1989/90 - 1993/94**



Note: Sciences and Engineering is composed of Agriculture and Biological Sciences, Engineering and Applied Sciences, and Mathematics and Physical Sciences.

Source: Statistics Canada



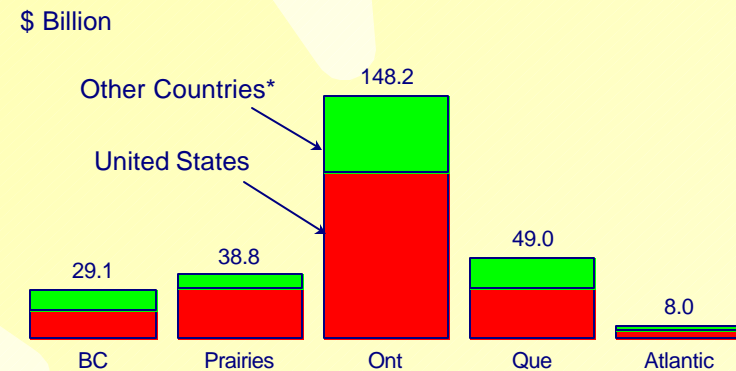
***...and attracting technologically-rich international investment***

**An important source of investment is from foreign firms. Foreign investment is also often a source of advanced technologies, helping the regions to become more innovative.**

**The competition for international investment is keen.**

- The U.S. is Canada's major source of foreign investment, with most targetted to Ontario.**

**Revenues of Foreign-Controlled Businesses In Canada  
1992**



\* Other Countries are Germany, U.K., Japan and France.  
Source: Statistics Canada and Industry Canada

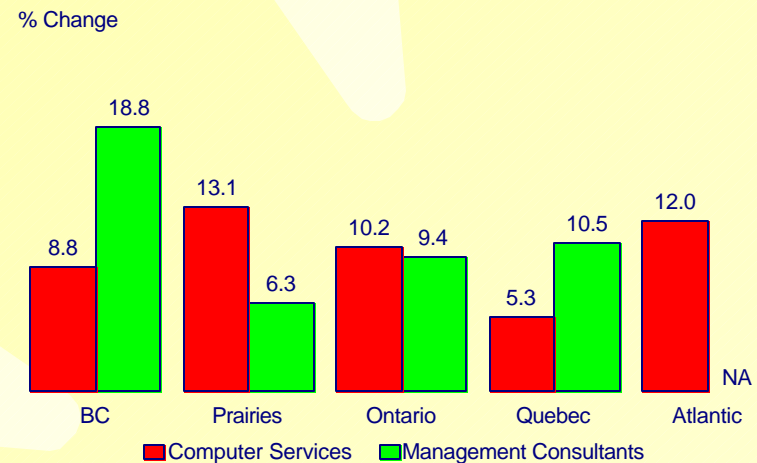
## Embracing new economy sectors...

It's a maxim that dynamic economies must now constantly reinvent themselves and grow through innovation.

There has been a rapid rise in new economy sectors throughout the country:

- **Electronic products — computers and related equipment and communications equipment — have been climbing substantially.**
- **As have business services (computer and management consultants, advertising agencies, personal suppliers and business professionals).**

### Employment Growth in New Economy Sectors 1990-95



Source: Statistics Canada

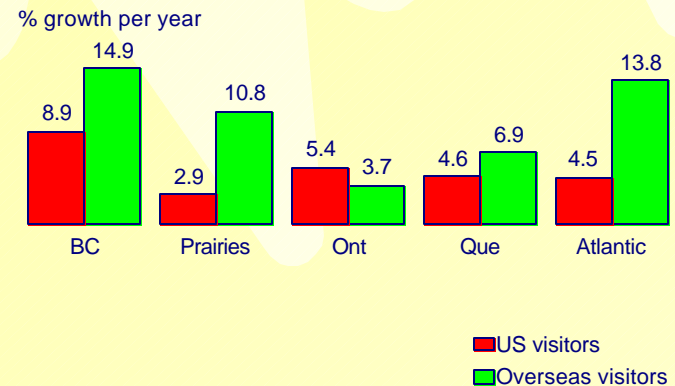
*... and emerging sectors like tourism...*

**Tourism is becoming a significant growth sector, that is pivotal to the well-being of many service industries such as Accommodation & Food and Recreation.**

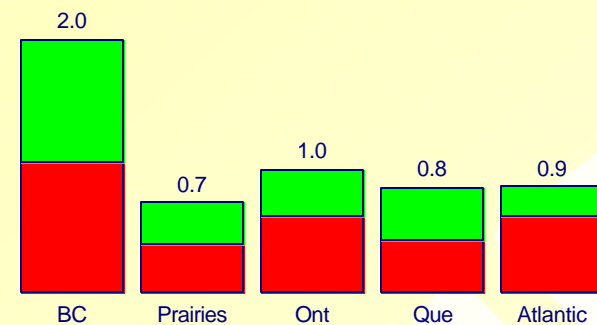
**Tourism-related sectors have an exceptionally young work force.**

**B.C. is a popular destination for tourists especially from abroad. However, both the Atlantic region and the Prairies have also seen a fast rise in visitors from overseas.**

### Tourist Spending 1990-94



As a % of Regional GDP, 1994



Note: Based on visitors staying one or more nights.  
Source: Statistics Canada

**...while encouraging sectors that build on current resource strengths...**

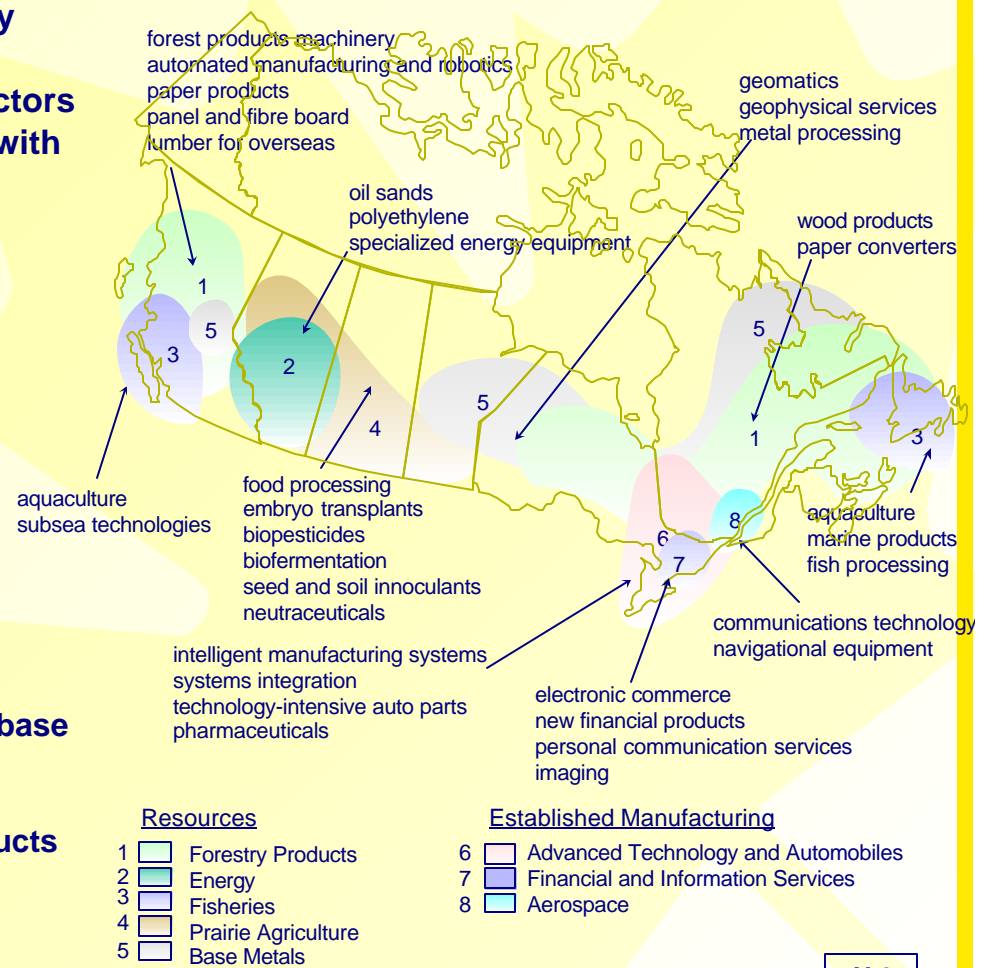
**New or Emerging Activities \***

Regions are also increasingly realizing they can influence their economic destiny by targeting and diversifying into strategic sectors that combine new and emerging activities with their current resource strengths:

- B.C.: value-added mining and forest products, tourism
- Prairies: energy, agriculture, agri-food
- Atlantic: fisheries, forest products, base metal mining

Ontario and Quebec can build on resources and their established manufacturing base:

- Ontario: automobiles, financial and information services, forest products, base metals
- Quebec: aerospace, agri-food, forest products (newsprint and pulp & paper)

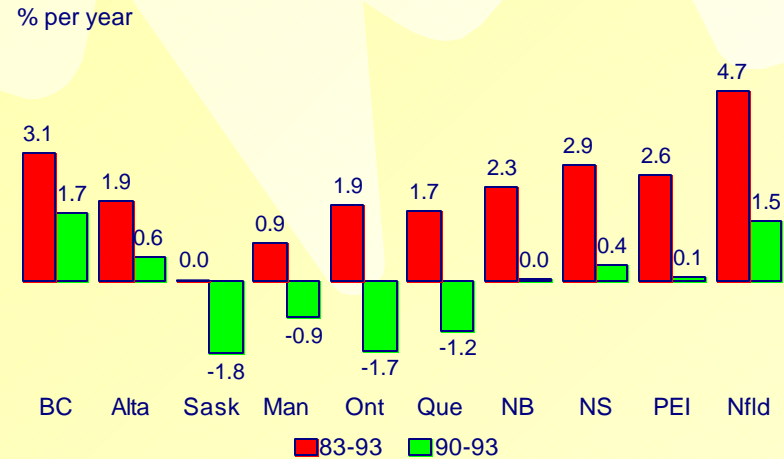


\* These activities happen actively elsewhere in Canada as well, but are examples of endeavours that are adding value-added to resource production and traditional manufacturers.



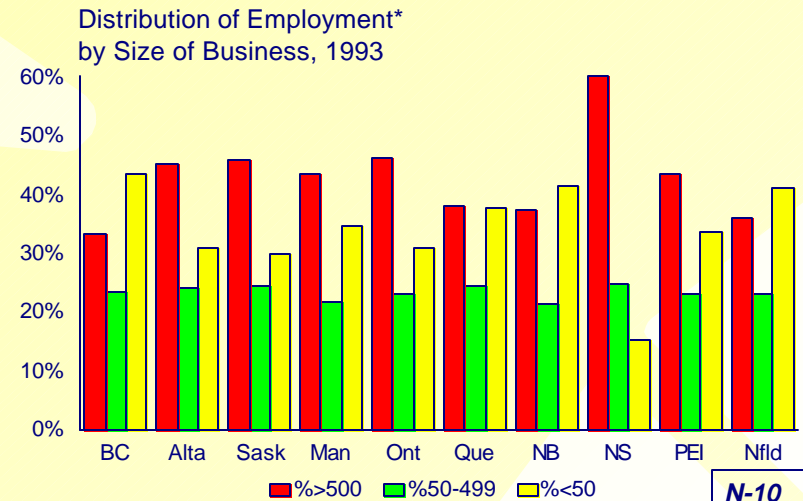
**...and creating an environment for small business to flourish**

**Growth in Business Formation**



Business creation has slowed considerably from the 1980s. Over the last few years, B.C. has had the fastest growth in business formation.

Small firms (employing less than 50 workers) are particularly important employers in B.C., along with some of the smaller provinces, such as Newfoundland, New Brunswick and Manitoba.



\* Average Labour units.  
Source: Statistics Canada and Entrepreneurship Small Business Office, Industry Canada





**The Challenge of Regional  
Differences**

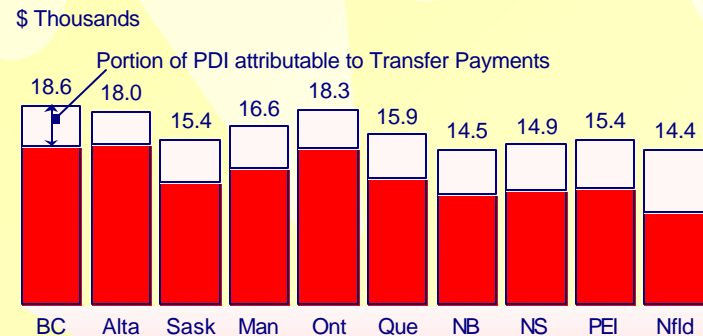
## *Income disparities are diminishing slowly...*

Over the last couple of decades, the Atlantic region has closed some of the differences in per capita income.

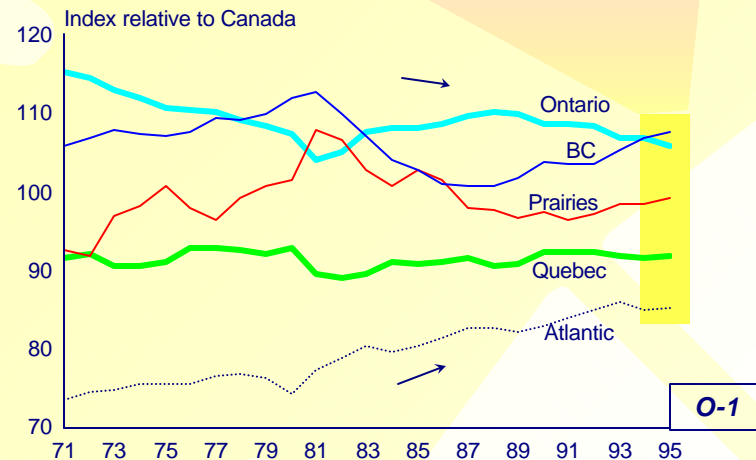
But differences remain.

Redistribution through federal transfers to persons have helped.

### Personal Disposable Income Per Capita 1995



### Personal Disposable Income Per Capita, 1971-95



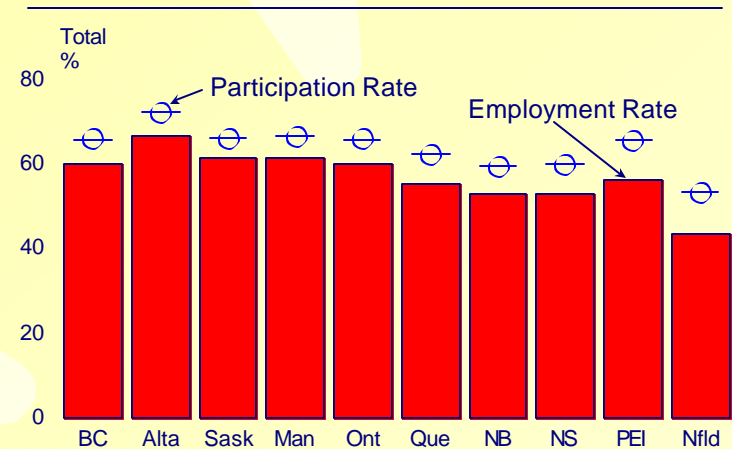
***...and differences persist in employment opportunities...***

The percentage of the population employed in Atlantic Canada is also discernibly below that elsewhere, as is the participation rate (especially in Newfoundland).

- The employment rate for PEI has recently risen as a result of work on the Fixed Link (from 52.9% in 1993 to 56.2% in 1995).

The lack of employment opportunities is particularly serious for young people — it is destructive of their skills and deprives them of productive careers.

### Employment Conditions 1995



Participation Rate: Percentage of population (age 15+) working or looking for work.

Employment Rate: Percentage of population (age 15+) actually working.

Source: Statistics Canada

**... sparking inter-regional migration...**

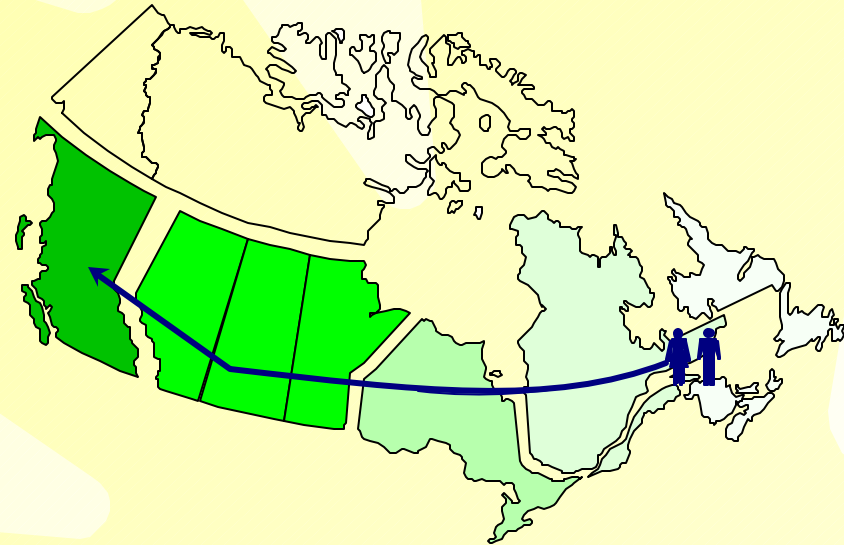
### Inter-regional Migration 1990-95

**Unequal employment opportunities are a major factor in migration.**

**Inter-regional migration has run heavily in favour of B.C. and Alberta.**

**Almost all of the people recently leaving Atlantic Canada have been youth.**

**- The particularly tough job market has caused youth to take their skills and energy elsewhere.**



	BC	Prairies	Ontario	Quebec	Atlantic
<b>Total</b>	223,000	-80,200 (Alberta: +11,700)	-49,900	-65,100	-26,400
<b>Youth</b> (% of total migrants)					
18-24	19.2	12.6	3.4	17.8	77.3
18-29	35.7	29.2	26.5	30.6	93.2

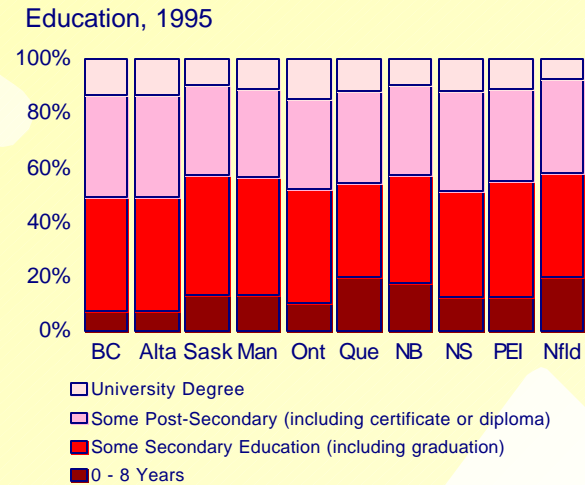
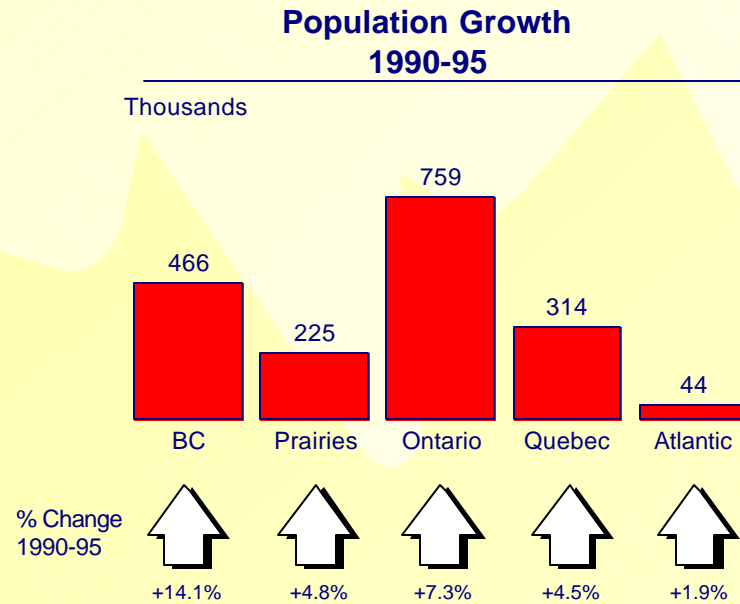
**... and uneven population growth**

Since 1990, population growth has been fastest in B.C. and Alberta (the Prairies excluding Alberta show a slight decline).

The migration of better-educated youth to these growing regions has increased the overall average level of education in these regions.

- A smaller proportion of the population in B.C. and Alberta have "less" than some post-secondary education.

A problem of shrinking and slow growing populations (e.g., Newfoundland and Saskatchewan) is that they limit the upside potential in consumer-sensitive industries like residential construction, and non-durable goods and services.





## Key disparities are sub-regional

Regional comparisons hide important distinctions within regions.

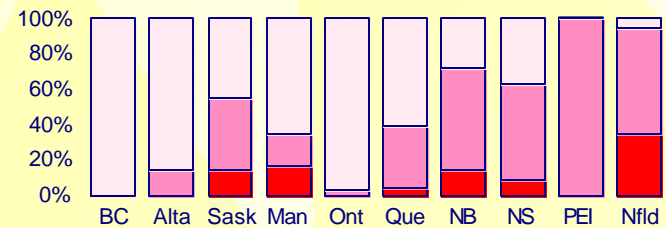
- The Newfoundland economy is not as strong as those of Nova Scotia and New Brunswick.
- In the west, Manitoba and Saskatchewan are not as prosperous as Alberta.

All provinces have distinctly poorer areas (e.g., Cape Breton Island, the Gaspé peninsula, and isolated communities in the West).

- The Atlantic provinces have a higher incidence of moderate to deep disparity.
- Quebec has the highest incidence of low income among families -- 16.4% in 1994.

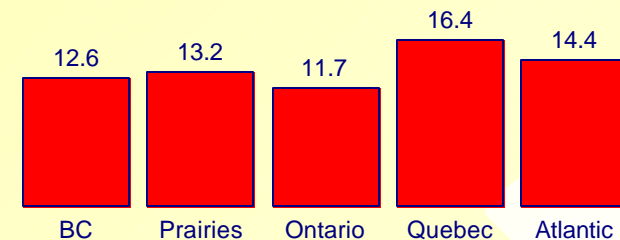
## Incidence of Low Income in the Regions

Population by Level of Disparity, \* 1992



\* Percentage of population in 70% of national average income level  
 ■ Deep Disparity : 70% of national average  
 ■ Moderate Disparity : 75% of national average  
 □ No Disparity : >90% of national average

Incidence of Low Income Families, \* 1994



\* Incidence of low income among families and unattached individuals. Families with incomes below these limits usually spend 54.7% or more of their income on food, shelter, and clothing.

Source: Statistics Canada

**A Time for New Solutions**

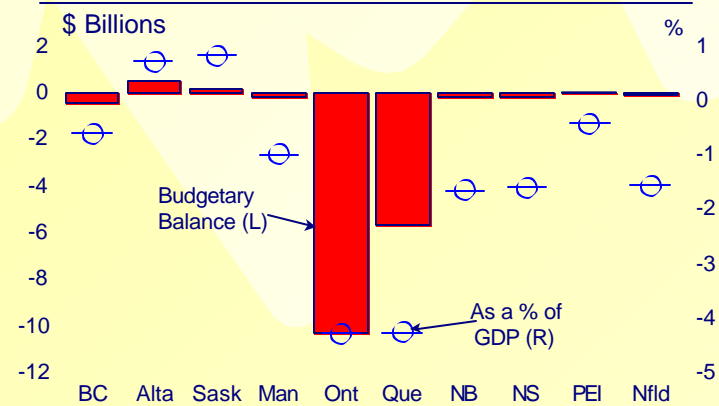
**Provinces are getting their fiscal houses in order...**

Provinces have been strengthening their fiscal capabilities.

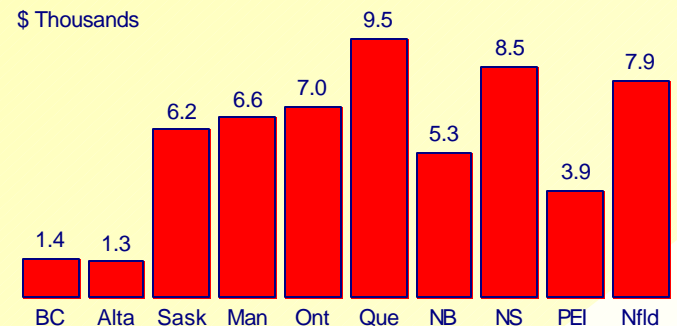
- Ontario and Quebec are the latest to tackle austerity measures to combat their budget situations.

Controlling spending and maintaining revenues have been keys to their success.

**Budgetary Balance 1994/95**



**Net Provincial Debt Per Capita, 1995**



Credit Rating Profiles: AA+ AA A- A+ AA- A+ AA- A- NA BBB+

Source: Statistics Canada, Financial Management System Basis, March 31, 1996, and Standard & Poor's, June 1996

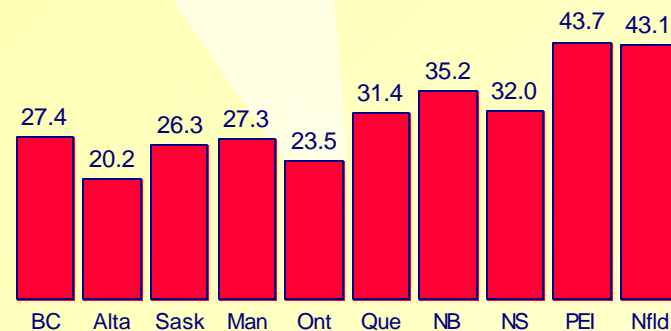
**...and their spending under control**

Provinces have had to make sacrifices — down-sizing their public services, prioritizing health and education expenses and keeping a lid on program expenditures.

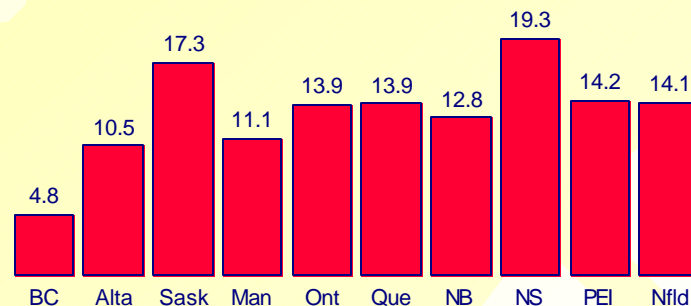
Interest expenses remain a continuing concern.

**Provincial Expenditures  
1994/95**

Total Expenditure  
as a % of Provincial GDP



Interest Expense  
as a % of Expenditures

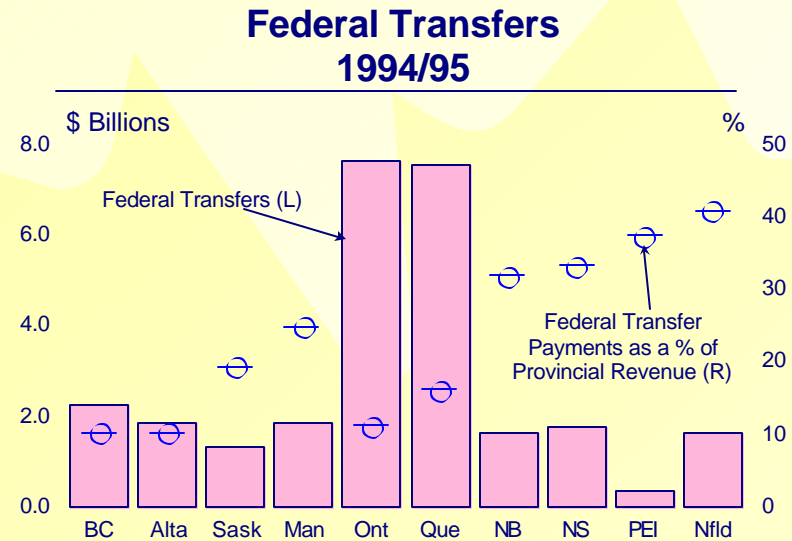


## Federal transfers contribute to reducing regional disparities

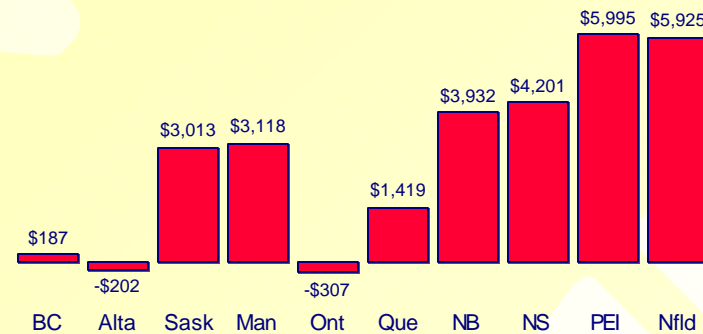
Although provinces are becoming increasingly more self-sufficient and self-reliant, they continue to depend on federal transfers and equalization payments.

- The Atlantic provinces are relatively more dependent on equalization and other federal transfers.

- However, other provinces receive equalization monies (e.g., Manitoba, Saskatchewan and Quebec).



Average Federal Net Spending Per Capita, 1990-94



\* Federal Government net spending is equal to total current expenditures minus direct taxes (plus investment in fixed capital and inventories minus capital consumption allowances.)  
Source: Statistics Canada



***But responding to the challenges of the day  
and the future requires new initiatives...***

**Governments are realizing that financial grants  
and assistance are not a solution to regional  
development or economic growth.**

**Growth is a result of a healthy economic climate  
and dynamic, competitive marketplaces.**

- Getting control of deficits and reducing debt are  
part of gaining a healthy economic climate.**
- So too, are modernizing rules and regulations  
that govern the operation of the market place to  
ensure they promote healthy competition and  
innovation.**

**The federal government has new, special  
initiatives in four key areas...**



***Four key areas:***

- Promoting trade...***
- innovation...***
- and helping SMEs...***
- and youth.***



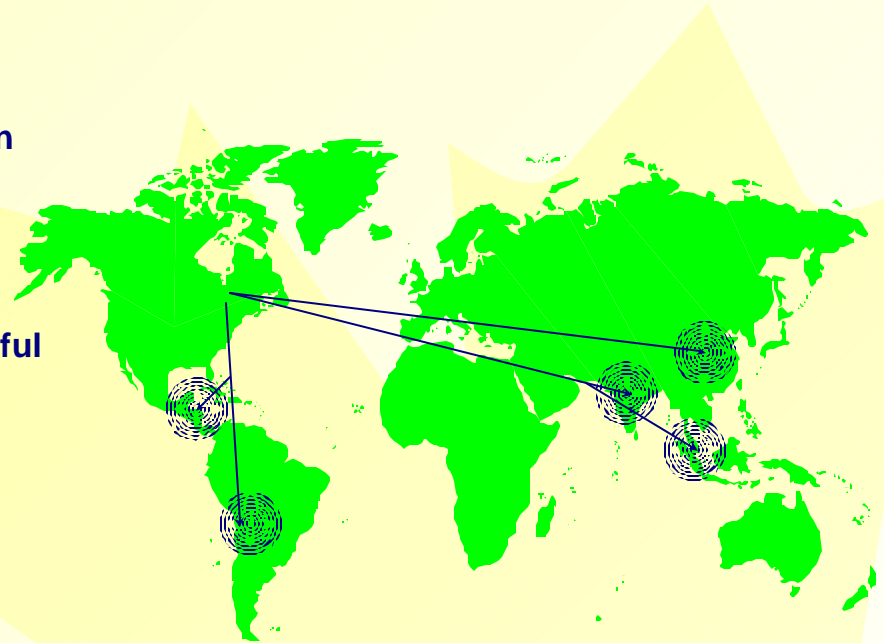
***...to promote trade...***

**Team Canada Trade missions have helped open markets and assist Canadian business to take advantage of opportunities abroad.**

**On the home front, an International Business Strategy aims to double the number of successful Canadian exporters by the year 2000.**

**Ten Regional Trade Networks have been set up, to better provide trade services to especially SMEs, in concert with:**

- National Sector Teams that include provincial government and private sector representatives.**
- International Business Opportunities Centres (which provide trade leads).**
- Improved market information and intelligence (e.g., STRATEGIS, International Business Information Network, WINexports)**



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**Team Canada trade missions have visited China, India, Pakistan, Malaysia and Latin America, and more Team Canada missions are planned for the future.**

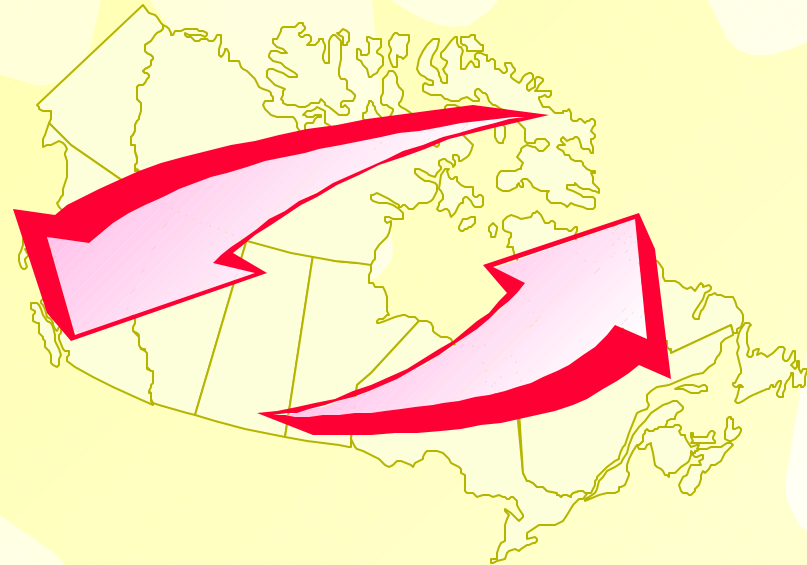
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***... the further opening of domestic markets...***

**The Agreement on Internal Trade and federal and provincial commitment to further liberalize domestic trade will help expand domestic opportunities for firms and will:**

- allow more specialization and efficient production**
- permit more efficient use of resources**
- result in a more dynamic and entrepreneurial climate.**

**This has positive effects for innovation and competitiveness, and allows firms to grow to a size where they might better compete in foreign markets.**



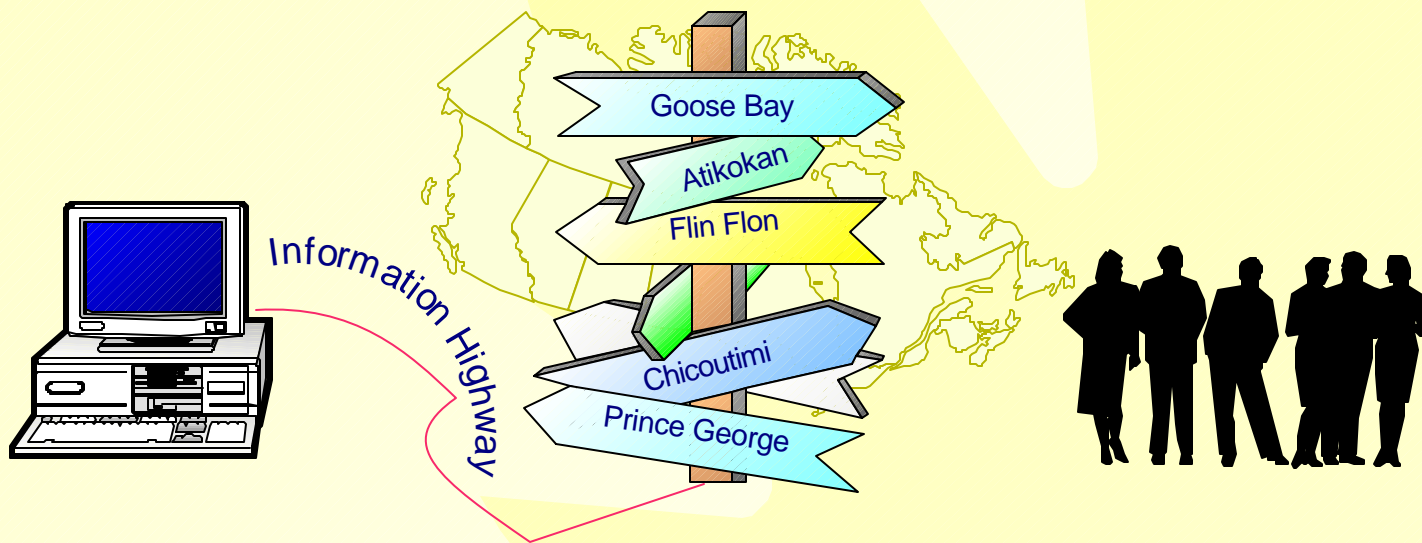
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**The federal government and the provinces are working to further open domestic markets by eliminating many trade barriers.**

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**...and innovation...**

New federal programs to promote the use and development of technology include:



**Technology Partnerships Canada:**

a fund that annually provides \$250 million to lever additional investment from the private sector in strategic technology sectors

**Community Access:**

to provide access to the Information Highway to rural and remote communities.

**Student Connection:**

to employ 2,000 students to connect 50,000 businesses to the Information Highway.



**...with a focus on SMEs and youth...**

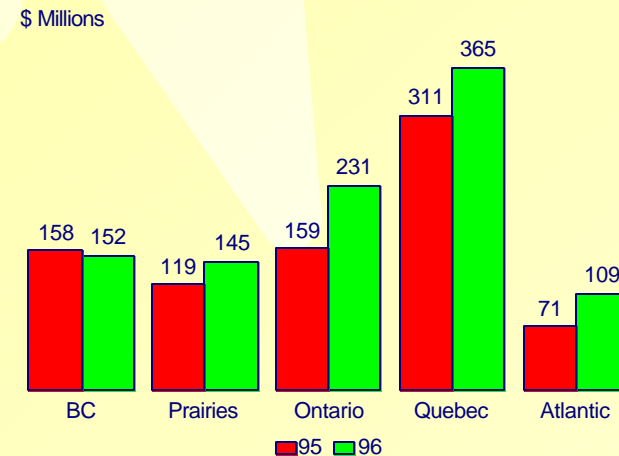
Canada Business Service Centres provide quick and accurate information on government programs, services and selected regulations of interest to SMEs. The 11 Centres, one in each province and the NWT, are the result of cooperative arrangements between federal and provincial governments and the private sector.

The Business Development Bank of Canada leverages bank loans to growing knowledge-based, export oriented SMEs.

Regional Agencies (Atlantic Canada Opportunities Agency, Federal Office of Regional Development (Quebec), and Western Economic Diversification) and Industry Canada's regional offices help SMEs by providing information, mentoring services and assistance in securing financing.

All regions will benefit from an up-coming Youth Employment Strategy, and programs such as SchoolNet, Student Connection, Technology Partnerships Canada, Student Employment Programs, Youth Internship Canada and Youth Service Canada.

**Business Development Bank Activities**



\* Loans and guarantees authorized.

The Business Development Bank of Canada is increasing its financing of SMEs operating in knowledge-based, growth-oriented industries and export markets.



### ***...at the regional and community levels***

A number of initiatives are promoted or administered by Agencies and partners, with community or local areas in mind, including:

- The National Research Council with its Industrial Research Assistance Program that provides assistance to regional endeavours supporting innovation, with a focus on regional and community-based innovation.
- A Federal Provincial Task Force on Science & Technology that includes Industry Canada, the National Research Council and Western Economic Diversification has undertaken to strengthen enabling technology cluster groupings in Western Canada.
- The Atlantic Canada Opportunities Agency works with private and public sector partners to provides a Team Atlantic approach to strengthening the Atlantic region.
- FedNor's 52 Community Futures Development Corporations plan and coordinate community economic development and diversification initiatives and provide counselling services, technical advice and high risk capital to local SMEs.

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**Pulling together...**



**...at the community and regional levels.**

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## **Regional Prospects**

## ***Regional prospects...***

**The next two years should see improving consumer and business confidence. Regional prospects will depend in part on the underlying buoyancy of the U.S. economy, and whether exchange rates remain favourable and commodity prices remain high.**

**B.C.'s growth should remain strong and the Prairies near-term outlook stay up-beat, based on continuing solid performances in their resource sectors.**

**Ontario's economy is poised to pick-up, but unless Quebec's level of business investment improves, growth could remain weak.**

**Atlantic Canada's economy will likely display some short-term weakness associated with the decline in construction related to the Fixed Link and Hibernia, but the completion of these projects plus up-coming construction related to the up-coming Voisey's Bay and Terra Nova projects provide the promise of improved growth for the future.**

**A summary of some major recent developments is provided in Annex 1.**

## What forecasters say...

Major private-sector forecasters see improving economic fundamentals, but growth of less than 2.0% for Canada in 1996.

- The four western provinces are expected to post above-average growth in 1996. Alberta and B.C. are anticipated to continue out-performing the national average in 1997.

- Forecasters also agree that Ontario's growth will rise in 1997, and that Quebec will show below-average growth.

- While Atlantic Canada's economy is expected to grow, PEI and Newfoundland could drop from above-average to below-average as construction ends on Hibernia and the Fixed Link.

### Private Sector Forecasts of Real GDP Growth

	Conference Board Summer 96		WEFA May 96		DRI/McGraw-Hill 2nd Quarter 96		Informetrica Winter 96		Consensus			
	96	97	96	97	96	97	96	97	96	97	96	97
BC	2.6	3.5	2.0	1.7	2.5	3.9	1.2	2.1	2.1	2.8		
Alta	3.1	3.3	2.4	2.8	2.1	3.9	0.9	2.7	2.1	3.2		
Sask	2.5	2.1	2.6	2.4	2.0	2.8	1.2	1.4	2.1	2.2		
Man	2.0	2.5	2.4	1.6	2.1	2.9	0.9	1.3	1.9	2.1		
Ont	1.6	3.0	1.7	1.8	1.3	3.9	2.5	2.3	1.8	2.8		
Que	1.2	1.9	1.5	1.5	1.1	2.9	1.9	1.9	1.4	2.1		
Atlantic			1.7	2.0	1.0	1.9			1.4	2.0		
NB	1.8	2.6					0.7	0.8	1.3	1.7		
NS	0.9	1.9					0.6	0.9	0.8	1.4		
PEI	3.4	(-0.7)					0.8	0.1	2.1	(-0.3)		
Nfld	(-2.4)	0.8					(-0.2)	1.4	(-1.3)	1.1		
Canada	1.8	2.7	1.8	1.9	1.6	3.5	1.8	2.1	1.8	2.6		

Above Average  
 About Average  
 Below Average



## **In conclusion...**

Although the national economy has struggled in the past year and a half, its growth projections appear to be turning around. But focusing solely on the national scene gives an incomplete picture.

### *How have individual regions fared?*

Regionally, the economy performance is stronger in the West. Atlantic Canada and Quebec have fared less well.

### *How are they changing to become more competitive?*

All regions have come to recognize the importance of trade and investment to future growth. Businesses across Canada have been pursuing new and broader export markets, and investing in technology. The need for skilled workers puts an onus on investing in people, and youth in particular.

### *And what are their near-term prospects?*

The West should continue to put in a strong showing, and the Ontario and Atlantic region economies should show some improvement. However, PEI and Newfoundland could see some decline as Hibernia and Fixed Link construction ends. These overall gains should be sufficient to push Canadian growth upward.

Federal initiatives will help firms become more competitive by promoting a pro-entrepreneurial environment , and by providing services needed by business to undertake trade to new markets and commit to further innovation. Creating more employment opportunities for youth — tomorrow's workforce — is also a targeted concern.



## Near-Term Prospects and Recent Developments

General trends: Continuation of government austerity initiatives...Improving consumer and business confidence.

Wild-cards: Underlying buoyance of the U.S. economy...Continuation of favourable exchange rates...Commodity prices remaining high.

	Prospects	Key Developments	Recent Industrial Developments	Comments
BC	Strong	US softwood lumber deal; Salmon cutbacks and cyclical downturn in stocks; Fishing fleet reductions.	Upgrading of forestry and pulp operations; mining investments, and pipeline expansion. A new Vancouver airport terminal will aid business travel and tourism.	Moderation in net in-migration has reduced population growth and demand for housing and consumer goods. Export restrictions on lumber to U.S. softwood market results in need to cultivate exports to other countries. An inventory overhang in pulp and paper has caused reduced production in early 1996.
Prairies	Up-beat	Elimination of Crow's Nest Rate; Western Grain Transition Payments; Favourable grain prices.	Major developments include the new oil sands project and petrochemical investments (eg. In ethylene and polyethylene), pulp mill upgrades: value-added agricultural activities (fertilizer plant expansions, anola crushing, meat processing).	Crow's Nest elimination and Western Grain Transition Payments gives incentive for more value-added food processing and production. Resource-based activities will benefit from strong international demand, low inventory levels and high prices.
Ontario	Improving	Recovery from devastating manufacturing losses that occurred in early part of the 1990s.	The Automotive industry is undergoing plant expansions and upgrades and the aerospace and transportation equipment industry are seeing major new projects (eg. new locomotives for Britain).	Shift to export-driven growth most pronounced especially for computers and autos. Ontario auto assemblers continue to be North American industry leaders. Partial rebound in aerospace industry.
Quebec	Challenged	Weak business investment; Housing starts at 44-year low.	The Resource sector (mining) has been performing steadily. Key manufacturing developments include production of the Washington-Boston high-speed train and Bombardier's Global Express.	Weak business investment. Housing starts likely to pick up and consumer demand to increase.
Atlantic	Vulnerable	Collapse of cod fishery; Groundfish quota reductions; Hibernia construction winding down; Fixed link construction peaked in August;  Voisey's Bay; Terra Nova mining; exploration and oil field development.	The region continues to attract telecommunication investment (including call centres). Agri-food has seen major investment in potato processing. Other important projects include the Sable Island natural gas project, pulp and paper mill upgrades, tourism.	Limited growth is soon expected in fishing resource, but Voisey's Bay, Hibernia and Terra Nova projects are anticipated to result in significant benefits. Fisheries starting to recover (shellfish (snow crab)). Continuing problems at Devco.  Fixed link could encourage tourism sector in PEI. Dramatic increase in exploration activity (oil and gas, east and west shores; metal mining, Voisey's Bay). Blending of provincial sales tax with federal (NS, NB, Nfld).

## ***Any questions or comments?***

**We welcome your questions, comments and suggestions? You can reach us by ...**

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