
CURRENT ECONOMIC CONDITIONS IN CANADA

The performance of the Canadian economy in 1986 was much stronger than that of its major trading partners. Real gross domestic product rose 3.1 per cent, interest rates declined to levels not seen in about 10 years, inflation remained stable and employment growth outpaced that in other major OECD countries by a considerable margin. Output growth during 1986 was slower than in 1985 due, in part, to smaller increases in final domestic demand. Nevertheless, the household sector continued to be a key source of growth.

Canada experienced a high rate of job creation in 1986. Total employment grew 2.9 per cent, the strongest increase since 1980. The rate of unemployment averaged 9.6 per cent compared to 10.5 per cent in 1985. In the first four months of 1987, employment continued to increase strongly reaching 11,850,000 persons. Since July 1986, employment has risen at a pace of over 32,000 jobs per month. The labour force has followed this strong upward movement and the unemployment rate rose slightly to 9.6 per cent in the first quarter. In April the unemployment rate dropped to 9.3 per cent, its lowest level in five years.

Real economic growth slowed significantly in the second half of 1986 due to a sharp reduction in inventory investment from the unsustainable pace of the first half. However, consumer demand remained relatively strong and the merchandise trade balance improved significantly. Residential investment continued to be buoyant and housing starts stayed above 200,000 units (annual rate). In the first quarter of 1987, housing starts were up sharply and monthly real gross domestic product at factor cost points to strong output growth in the quarter.

The current account balance deteriorated in 1986 due to a reduction in the merchandise trade surplus and a decline in Canada's terms of trade. However, the merchandise trade balance improved in the fourth quarter and again in the first quarter of 1987.

Price increases have averaged 4.1 per cent in 1986, about the same rate as in 1985. Inflation in Canada was higher than in the US in 1986 mainly due to a smaller decline in general energy prices, increased indirect taxes and faster increases in food prices in Canada. An encouraging sign is the current low level of wage settlements, especially in the private sector where the increase in base wage rates was 2.0 per cent in

the fourth quarter of 1986. In April, CPI inflation was 4.5 per cent.

The Canadian dollar has shown considerable strength early in 1987, rising just over 4 cents US to values above US \$0.76. This strength has resulted in substantial interest rate decline. The Bank Rate fell to levels not seen since the 1973-1974 period. In recent weeks the dollar has depreciated somewhat and interest rates have risen.