

TABLE 1.3
Canadian Economic Indicators
 (1994 compared to 1993)

Real (inflation-adjusted) indicators	Percentage
Economic growth	4.5
Disposable income	1.0
Business investment	6.0
Machinery and equipment investment	10.3
Other Indicators	Percentage
Consumer Price Index	0.2
Exports	21.0
Imports	17.7
Flows of foreign direct investment (FDI) into Canada	16.9
Employment growth	2.0
Unemployment rate*	10.4
Increase in average hourly earnings**	1.4
Productivity**	0.4
Corporate pre-tax profits	41.2
Prime lending rate*	6.9

* annual average

** total business sector

Sources: Conference Board of Canada, *Canadian Outlook* (Winter, 1995); Royal Bank of Canada, *Econoscope* (December, 1994); and Statistics Canada.

RECENT PERFORMANCE

In the first half of 1995, growth was not as robust as originally anticipated. The culprit was higher interest rates at the beginning of the year, the combined result of an anti-inflation rise in the U.S. rate and the nervousness of international financial markets in the wake of Mexico's liquidity crisis after the devaluation of the peso in December 1994.

With higher interest rates, total borrowing by consumers, business and government dropped. This dampened construction activity and consumer spending, especially on durables such as automobiles. The result has been a decline in year-over-year growth to 4.3 percent in the first quarter and 2.5 percent in the second. The higher interest rates in the U.S., which acted as a brake on economic activity, also contributed to a slowdown in the growth of Canadian exports.

Nevertheless, the economy is showing continued fundamental strength. Inflation remains low — between 2 and 3 percent on an annual basis. The economy continues to create jobs. The unemployment rate, while still high at 9.5 percent, did not increase in 1995 and is almost a full percentage point lower than in mid-1994. Business investment in fixed capital continues to climb, especially for machinery and equipment. And while the value of exports and imports slipped in the second quarter, on an annualized basis merchandise trade is still showing solid growth, with the current dollar value of exports and imports running about 14 and 11 percent, respectively, above last year.

Another of Canada's distinguishing characteristics, which provides direct flux to many other parts of the world, is its ethnic diversity. Through continued immigration, the country is becoming increasingly multicultural. Between 1981 and 1991, more than 1.4 million immi-