



CHAPTER 3: *The Canadian Economy — Performance and Outlook*

WITH A GDP OF CLOSE to \$800 billion, Canada is one of the world's largest economies, a fact that has been recognized by including Canada in the G7, a grouping of the world's largest advanced industrialized economies. In addition to size, however, Canada's economy is also characterized by dynamism and opportunity. The country has recently enjoyed strong output growth, low inflation, falling unit labour costs, soaring exports and a healthy level of business investment.

STRONG GROWTH IN 1994

The Canadian economy performed well in 1994. Aggregate growth, business investment and trade showed strong gains (see Table 1.3). Manufacturing shipments advanced by 12.9 percent in 1994 after increasing by almost 10 percent in 1993. Growth in exports was particularly notable. Merchandise exports, which stood at \$140 billion in 1991, reached \$218 billion in 1994, up more than 50 percent in just three years.

There has also been a marked acceleration in the rate of employment growth. In 1994, the number of full-time jobs increased by more than 400,000. Because the unemployment rate remains quite high, 9.5 percent in mid-1995, and the economy still has considerable spare capacity, forecasters expect the recent pattern of very low wage settlements to continue for the foreseeable future.

Despite its growing economy, inflation in Canada has been remarkably subdued, with the Consumer Price Index rising at an average annual rate of about 2 percent since 1991. Interest rates have declined to the 6 to 7 percent range (for the bank prime lending rate) over 1992 to 1994. The rate increased in 1995, but towards the end of the year was around 7.5 percent.

PRODUCTIVITY GAINS

Strong business investment, ongoing industrial restructuring, and Canada's increasing exposure to global markets have combined to bolster productivity in many sectors of the Canadian economy, notably manufacturing. Productivity gains, coupled with record-low wage increases, have had a positive impact on competitiveness. Over 1992 to 1994, the annual growth in productivity, measured by output per person employed, averaged 2 percent. Unit labour costs in the Canadian business sector were the same in 1994 as in 1991.

Apart from the improvements in competitiveness attributable to productivity growth and low wage increases, the decline in the value of the Canadian dollar vis-à-vis the U.S., Japanese and European currencies has also served to enhance the international cost competitiveness of many Canadian industries. Due to these positive productivity and cost trends, and to better access to the U.S. under free trade, Canadian businesses' share of the American import market has been rising.

Source: Statistics Canada, *Canada's International Investment Position, 1994*, Catalogue No. 67-202, p. 44.

