Executive Overview

Real world economic output continued to perform well in 2007, edging down only marginally from 5.0 percent in 2006 to 4.9 percent. However, global economic activity began to decelerate in the second half of the year and is continuing on this trajectory as we enter into 2008, particularly in the developed economies. This reflects the downturn in the U.S. economy and ongoing dislocation in global financial markets.

For the third straight year, real activity in the United States slowed, posting growth of only 2.2 percent in 2007. The economy weakened sharply in the fourth quarter as it expanded by a mere 0.6 percent on an annualized basis. In the euro area, growth slipped to 2.6 percent last year from 2.8 percent in 2006. Again, signs of strain have appeared as GDP growth in the fourth quarter slowed to 1.5 percent at an annual rate. The same story unfolded for the United Kingdom. The Asian economies, however, seemed to be less affected. Japan, for instance, remained largely resistant to the global slowdown and picked up momentum in the second half of the year. China, which had been posting double-digit rates of expansion, experienced an acceleration in growth to 11.9 percent last year from 11.6 percent the year before. India, while slowing over the second half of the year, achieved a fairly strong 8.7 percent growth for the entire year.

In light of the global strains, Canada's economic performance last year was testament to the resilience of the economy. Real GDP growth continued more-or-less apace with that of 2006, at 2.7 percent growth compared to 2.8 percent the year earlier. All major expenditure categories advanced, with the exception of net exports. Inflation came in just above the target of 2.0 percent, at 2.2 percent for the year. Employment creation was at a three-decade high, bringing the unemployment rate down to 6.0 percent for 2007, its lowest level since 1974. Within Canada, those provinces endowed with an abundance of natural resources performed the best, led by Newfoundland and Labrador whose economy grew at over 9 percent, followed by the western provinces which all had growth rates closer to 3 percent. The slowdown in the U.S. combined with the 5.5 percent appreciation of the Canadian dollar vis-à-vis the American dollar were sources of weakness for central Canada, leading to GDP growth somewhat below the national average.

On a global basis, world merchandise trade grew by 14.8 percent in U.S. dollar terms in 2007 and world services trade grew by 17.8 percent. On this basis, Canadian merchandise exports grew at roughly half the pace as world trade, or by 7.8 percent, while Canadian services exports grew by one-third the world average. However, these metrics are based on data converted into U.S. dollars and, consequently, include the appreciation of the Canadian dollar against its U.S. counterpart.

In Canadian dollar terms, exports of goods and services increased by 1.9 percent. Canadian merchandise exports expanded by 2.1 percent in 2007 and Canadian services exports were up by only 0.3 percent. On the imports side, imports of goods and services into Canada advanced 3.2 percent, as merchandise imports were up by 2.8 percent and services imports increased by 5.5 percent. Simply put, these have been trying times for Canadian exporters. However, even with the relatively higher value of the Canadian dollar against other key