

CANADIAN ECONOMY IS "ON A ROLL"

Statistics Canada figures released on June 10 show that Canada's gross domestic product, the total value of goods and services produced in the country, grew at an annual rate of 4.2 per cent in the first quarter of 1994, fueled by a jump in consumer spending. The expansion followed a strong fourth quarter in 1993 when GDP grew at an annual rate of 3.6 per cent.

Purchases of durable goods such as cars, furniture and appliances leaped by 10.6 per cent, indicating a strengthening of consumer confidence, which has lagged behind economic growth since the recession ended in 1992.

The expansion has not been accompanied by a surge in inflation, which is currently non-existent in Canada. In fact, as measured by a broad GDP price index, prices fell by 0.5 per cent during

the first three months of 1994, only the second quarterly decline in 33 years. Consumer prices in May were 0.2 per cent lower than in May of last year. The Bank of Canada attributed the decrease over the past year to lower sales and excise taxes, particularly tobacco taxes, which were cut by the federal government and a number of provinces in an effort to halt cigarette smuggling.

The expanding economy has had a positive effect on job creation. Employment rose for the fourth month in a row in May with the creation of 56,000 jobs, causing the unemployment rate to fall to its lowest level since early 1992, 10.7 per cent, down from 11 per cent in April.

An indicator of continued future job creation is the figure for seasonally adjusted pre-tax profits of non-financial companies, which increased by almost 14 per cent in the first quarter.

In a commentary on the Statistics Canada figures, Bank of Nova Scotia economists Aron Gampel and David Rosenberg wrote: "The Canadian economy is on a roll, springing into summer with solid job and output gains.

Employers are hiring, consumers are spending, businesses are investing, exporters are shipping and everyone is borrowing."

The strength of the economy means that the federal government will still reach its deficit target for 1994-95 despite rising interest rates, Finance Minister Paul Martin said on June 22, after the Bank of Canada raised its key bank rate to an 18-month high of 7.09 per cent. "Interest rates are a little worse, employment and productivity much better," he said. The government wants to reduce its deficit to \$39.7 billion from \$44 billion in 1993-94.

CANADA - U.S. TRADE UP IN FIRST QUARTER

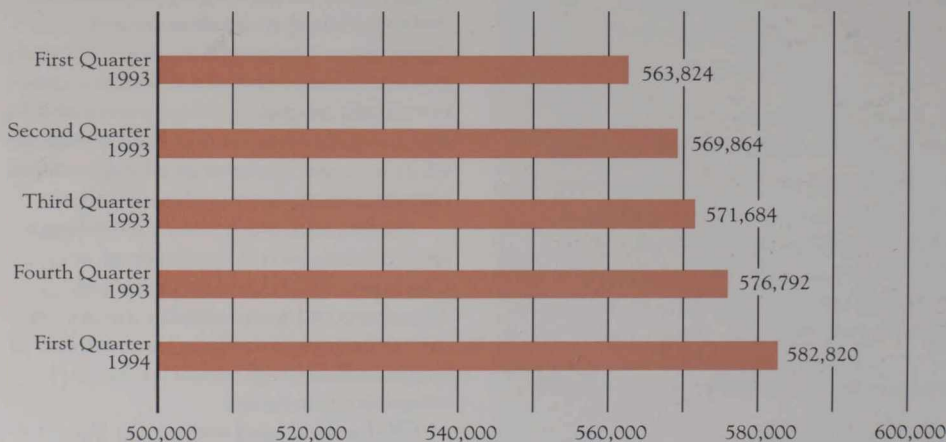
Canada's trade with the United States, in both goods and services, was up by 13 per cent in the first quarter of 1994 compared to the same period in 1993, according to Statistics Canada.

Merchandise trade in both directions increased from \$63.5 billion for the first three months of 1993 to \$73.3 billion this year. Total non-merchandise trade rose from \$15.3 billion in 1993 to \$16.1 billion in 1994. The United States had a surplus of \$5.6 billion in services trade in the first quarter, which offset Canada's surplus of \$5.3 billion in merchandise trade. This virtual balance in overall trade is characteristic of the Canada-U.S. trading relationship.

All figures are in Canadian dollars. The official noon exchange rate on June 20 was US\$1 = C\$1.3939.

Canada's Real GDP

Millions of Canadian Dollars



Seasonally adjusted at annual rates, 1986 prices.

CANADA QUARTERLY

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