

ECONOMIC CONDITIONS IN CANADA

Growth. The Canadian economy in 1988 is moving into a sixth year of recovery from the 1981-82 recession. While growth levels slowed from 4% in 1985 to 3.1% in 1986, Canadian performance improved in 1987 with 3.8% growth. 2.8% growth is anticipated in 1988 and 3% in 1989.

Inflation. Strong gains against inflation have been made. Canada's double digit CPI figure of the early 1980s fell to less than 6% in 1983 to 4.1% in 1986. The inflation rate grew slightly to 4.4% in 1987 but is expected to fall to 4.0% in 1988 and 3.9% in 1989. By the early 1990s, the inflation rate is expected to average about 3.4%.

Unemployment remains a serious problem in Canada despite the fact that our record on employment growth is unequalled among major countries. Our rate of 9.6% in 1986 fell to 8.9% in 1987 and will decline further to 7% by 1993.

Short term interest rates trended downwards to 8.5% in mid-1986 after rapid increases early in the year when the Canadian dollar came under strong pressure. On March 19, 1987 the bank rate dropped to 7.14% (lowest level since 1974) while the prime rate declined to 8.75%. On March 24, 1988 the bank rate and the prime rates were 8.78 and 9.75 respectively. Interest rates are expected to average 8.6% over the 1988/89 fiscal year.

Investment. 1987 business plant and equipment investment was up 9% and investment in non-residential construction was up 1.5%. These figures indicate an overall improvement in the business community climate.

The current account deficit rose from less than \$600 million in 1985 to about \$9 billion in 1986 to \$8.9 billion in 1987. This was due to a deterioration in terms of trade as a result of declines in energy, grain and other commodity prices and also to a deterioration in trade in services and strong import demand in Canada. Canadian export of merchandise increased by about 5% in 1987, most of this to the United States and Japan.

The federal budget deficit has been brought down from a record high of \$38.3 billion in 1984-85 (8.6% of GDP) to \$29.3 billion in 1987/88 (5.3% of GDP). The deficit is predicted to drop to \$28.9 billion in 1988/89 and to \$28.6 billion in 1989/90. By 1993, the deficit is expected to be \$19.5 billion.

Labour Costs. Unit labour costs rose by 2.7% in 1987, a much slower rate of growth than that of most Western countries. Wage gains remain lower than the rate of inflation.

Consumer Spending reached its highest level in 1987 since the mid-1960s and reflects the fact that the 1987 personal savings rate fell to 9%, its lowest level in 15 years.

Before - Tax Corporate Profits rose by more than 25% in 1987.

Business reinvestment. In 1987, businesses reinvested about 10% more of their profits in new plants and machinery and an increase of 13.9% is expected in 1988.