

its best performance since 1997. The strength of personal spending comes as no surprise as both labour income and corporate profits increased by about 6 per cent. The fastest growth was registered in expenditures on goods, both durable (6.8 per cent) and semi-durable (7.2 per cent), as declining prices in both of these groups encouraged increased spending. Purchases of furniture, carpets and other floor coverings, of household appliances and of consumer electronics and recreational vehicles all registered record double-digit increases from 2005. Spending on semi-durable household furnishings such as lamps and glassware rose 6.7 per cent over the same period. Purchases of services also witnessed significant gains (4.2 per cent) in 2006. Transportation grew 4.1 per cent in 2006 as Canadians flocked to airlines, with spending on air transport growing by (6.3 per cent) matching 2005. Canadians' travel spending abroad increased 10.0 per cent, the fourth straight year of exceptional growth. Overall, consumer spending contributed 2.2 per cent to real GDP growth, leading all other categories.

In 2006, business investment continued to be an important contributor to economic growth, adding 1.2 per cent. However, since 2005, investment in non-residential structures has surpassed investment in residential structures as a contributor to real GDP growth. While growth in residential investment in 2006 decelerated to 2.4 per cent, non-residential structures accelerated to 10.7 per cent bolstered by a 14.0 per cent increase in engineering investment. Despite a slight deceleration from 2005, business investment in machinery and equipment advanced by a robust 8.0 per cent rate in 2006, largely as a result of strong growth in expenditures on computers and other office equipment, software, telecommunications equipment, trucks and industrial machinery.

The contribution of net exports to real GDP growth was negative (-1.21 per cent) as growth of real imports (5.2 per cent) outpaced growth of real

exports (1.3 per cent). In dollar terms, the value of Canadian exports and imports reached record levels in 2006, although the nominal trade balance fell to its lowest point in seven years, partly reflecting, lower energy export prices.

Turning to individual sectors and industries, the growth in the services-producing industries (3.6 per cent) once again surpassed that of the goods-producing industries (0.8 per cent) in 2006. The 6.8 per cent appreciation of the Canadian dollar against the U.S. dollar combined with higher costs was a drag on growth in export-sensitive manufacturing and sectors vulnerable to import competition. This can be seen in such sectors as the textile and clothing industries (-8.8 per cent), the tobacco industry (-33.0 per cent) and the paper industries (-6.6 per cent). In addition, the increase in the price of crude oil forced consumers both in Canada and the United States to pay heed to fuel consumption in their choice of motor vehicles they were buying. Wholesale and retail trade, construction, and finance and insurance were among the key contributing sectors to the growth while manufacturing (-3.9 per cent) and forestry and logging were hard hit (-0.8 per cent).

Wholesale trade expanded 6.8 per cent in 2006, supported by sales of motor vehicles, electronic equipment, machinery, and household and personal products. Retail trade also witnessed a strong increase in 2006 (5.2 per cent). Consumers spent more on used cars, home furnishings and electronic products, as well as at general merchandise stores. The construction sector edged up 7.4 per cent, propelled by intense repair and engineering construction activities (11 per cent), principally attributable to investments in oil sands projects. Air transportation increased 9.2 per cent, the third year in a row of near 10 per cent growth whereas the finance and insurance sector rose 5.1 per cent in 2006.