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# THE MUNICH ECONOMIC SUMMIT

JULY 6-8, 1992



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# SOMMET ÉCONOMIQUE DE MUNICH

6-8 JUILLET 1992

## Update on Canada's Economic Situation and Outlook

- The Canadian economy, which experienced a significant recession from the second quarter of 1990 through the first quarter of 1991, is emerging from a pause in growth that extended through the second half of 1991. Export-led growth is clearly underway; the pace of growth will build through the year, as forecast in the February budget.
- Real GDP growth of 1.7 per cent (annual rate) in the first quarter of 1992 was led by 15.2 per cent growth in real exports. Total demand grew by 6.4 per cent in the first quarter.
- Strong export growth reflects not only a rebounding U.S. economy but also improving competitiveness. Labour productivity (output per paid worker) jumped 4.1 per cent in the first quarter (at an annual rate), up from a 0.5 per cent average increase in 1991. Together with easing wage pressures, higher productivity kept unit labour costs relatively stable, rising only 0.4 per cent in the first quarter compared to an average 4.6 per cent increase in 1991.
- Low inflation is also underpinning this much-improved unit cost performance. Inflation fell to 1.3 per cent on a year-over-year basis in May, after fluctuating between 1.6 per cent and 1.7 per cent from January to April. This is the lowest inflation rate among the G-7 countries and Canada's best sustained performance since the early 1960s.
- Wage settlements have eased very significantly in both the private and public sectors, helping to consolidate a sustained low inflation performance. Total wage settlements have fallen below 3 per cent since February and private sector settlements averaged 1.9 per cent in April.
- Available data for the second quarter indicate further strengthening in the recovery
  - Real exports grew a further 2.1 per cent (monthly rate) in April
  - Employment grew 1.9 per cent (monthly rate) in the manufacturing sector in April and a further 0.4 per cent in May, adding a total of 41,000 jobs in the two months. Total employment rebounded 0.3 per cent (or 31,000 jobs) in May
  - Housing starts in April and May averaged 10.1 per cent (quarterly rate) higher than their first quarter level while sales of existing houses were up 3.1 per cent over the same period
  - Retail sales grew by a 0.8 per cent (monthly rate) in April.
- The substantial reduction of inventories that took place in the first quarter, totalling 0.7 per cent of GDP, implies that continued demand growth should translate directly into increased production.



CANADA