

CHAPTER 1 – A ROBUST AND COMPETITIVE ECONOMY

The Canadian economy is among the world's largest, with a gross domestic product (GDP) forecast at more than \$830 billion for 1997. The nation enjoys an enviable standard of living supported by a superb infrastructure. An advanced and accessible education system has produced a skilled work force and a knowledge-based industrial structure. Canada has a relatively small domestic market of 29 million people, and these achievements have come largely from the aggressive pursuit of international trade. The economy is more trade-oriented than that of any other G7 country.

Steady growth and low inflation have created a stable and predictable economic climate and kept interest rates low. Favourable trends in productivity, wage settlements and the exchange rate have boosted cost competitiveness. Government spending has been cut back and a balanced federal government budget will be achieved by 2000.

All of these factors contribute to an excellent environment for long-term direct investment.

SUSTAINED GROWTH

Canada's economy has grown steadily since it recovered from a recession in 1991–1992. In fact, between 1993 and 1996, real growth averaged 2.5 percent annually. Growth accelerated to an annualized rate of more than 3 percent during the last months of 1996, and this pace is expected to continue for 1997 and 1998.

For the most part, business investment and exports have fuelled this expansion. In the four years ending in 1996, real business investment in machinery and equipment climbed 40 percent, while merchandise exports nearly doubled. The Toronto-Dominion Bank has estimated that real exports of goods and services will grow by another 5.1 percent in 1997. Consumer spending emerged as an additional source of growth beginning in late 1996.

Economic forecasters agree that Canada has solid economic prospects. The latest private sector "consensus" forecast suggests real GDP growth of 3.3 percent in 1997 and 2.9 percent the following year. The Organisation for Economic Co-operation and Development (OECD) forecasts growth of 3.3 percent in both years,

OECD Economic Forecasts

Percentage increase in real GDP

	1997	1998
Canada	3.3	3.3
United States	2.2	2.0
Japan	1.6	3.7
Germany	2.2	2.6
France	2.5	2.6
Italy	1.2	2.1
United Kingdom	3.3	3.0
Total G7	2.1	2.6
Total OECD*	2.4	2.7

* Average for all OECD member countries.

Source: OECD Economic Outlook, December 1996.