

Canada's Economic Situation and Outlook

Highlights

- Economic expansion in Canada has gained momentum and broadened to include consumer spending. Real growth reached 4.2 per cent in the first quarter of 1994.
- Although interest rates have increased recently, minimal inflation and cost pressures provide the foundation for low and stable interest rates as well as further improvements in Canada's competitiveness.
- The Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) expect real growth in Canada to be among the highest in the G-7 this year and next.

Economic Situation

- Over the last half year, the recovery has gathered momentum and has broadened to include consumer spending.
 - Real growth averaged 4 per cent from October 1993 to March 1994, up from about 2.5 per cent in the preceding year.
 - Consumer spending increased 3.7 per cent in the first quarter of 1994, the strongest increase in 2 1/2 years.
 - Consumer confidence has surged in the last two quarters.
- Employment growth has been strong since January and the level of employment is now approaching its pre-recession peak. However, the unemployment rate remains high: 10.7 per cent in May.
- Inflation and wage pressures continue to be minimal.
 - Year-over-year inflation, as shown by the consumer price index, declined 0.2 per cent in May. Without the recent cuts in tobacco taxes, however, the inflation rate would have been around 1 per cent.
- Low wage settlements and good productivity growth have led to declines in unit labour costs for the first time since 1962.
 - Unit labour costs in Canada have declined in three of the last four quarters.