

# Canada's economic strength

Canada's economy is sound and offers excellent growth potential. That is the message getting through to UK investors. During 1986 asset values acquired and invested in Canada reached £1.7 billion. This represents a doubling over the previous year and does not include reinvestment by UK companies already based in Canada.

Why all this interest? One important consideration is that the Canadian economy is strong and expanding. Last year, for example, real GDP growth in Canada was the fastest among all the OECD countries (*chart 1*), thanks to an expansion of domestic demand (3.1%) and inventory accumulation (52%). In the first half of 1987 real growth has been 4.5% better than all other G-7 countries.

This is no flash in the pan. Canada's real GDP growth since 1983 has been consistently among the highest of major economies; while Chase Econometrics predicts that Canada will have the highest average growth rate of any developed country from now until the year 2000. With an average expansion of 3%, this means it could outshine even Japan with its rate of 2.9%.

Moreover, unemployment in Canada is falling faster than in any other OECD member nation, and now stands at 8.8% compared with the peak of 12% in 1983. The federal deficit as a share of GDP is also declining. It will drop to 4.9% in 1987/88 — down from the 1984 figure of 8.6%.

**Canadian companies more profitable than US ones**  
One noteworthy trend is that Canadian companies are outperforming their American counterparts as far as profits are concerned. Measured in terms of profitability as a share of GDP, profitability in Canada is 1% higher (*chart 2*).

With corporate profitability up 23.8% in the first quarter of 1987 compared with the same period in 1986, many experts believe that Canada will experience a substantial increase for the whole of this year. The increase should be worth some £14 billion.

Mining is the sector that performed particularly well in the first quarter. Its profits increased by 120%. However, manufacturing also showed a healthy rise — 31% over the previous year.

The recession of the early 1980s was a difficult time for Canadian corporations. Many of them had relied heavily on short-term and variable rate debt to finance investment and acquisitions, and were unprepared for the increase in interest rates combined with a decline in output and productivity.

Since then, firms have made an effort to restructure their balance sheets, and the situation now looks much more promising. By the end of last year, the non-resource sector as a whole had recovered to its pre-1981 financial position, although the natural resource sector had fared less well owing to the continuing international weakness in commodity prices.

This contrasts with the experience in the US, where profit improvements have been weaker and corporate reliance on debt has increased substantially.

## A skilled and disciplined workforce

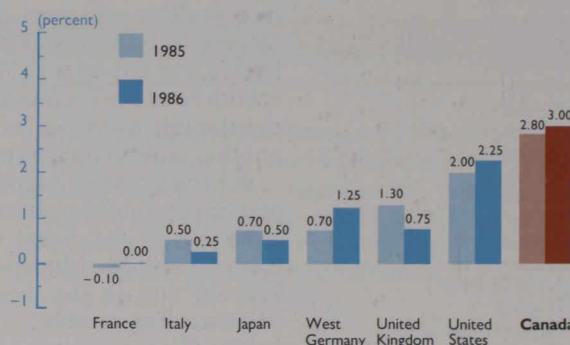
However, restructuring is not the only explanation

1. Growth of real GDP\* among the major OECD countries, 1986



\* At current prices and exchange rates. Source: OECD Observer, May 1987

3. Employment growth among major OECD countries, 1985-1986



Source: OECD Economic Outlook, December 1986

for the increase in profitability. Canada has a skilled workforce representing more than 50% of the population. This is a higher percentage than in any other OECD country.

During the past two years, Canada has also had the best record in employment growth in the OECD (*chart 3*). Yet because such a high number of people are still entering the work force, the level of unemployment remains relatively high.

Canada is also ahead of the pack when it comes to investment in human resources. Seven per cent of the nation's resources are spent on education — the highest figure for any major industrial country. This investment is clearly paying off: Canada now enjoys the second highest level of productivity in the OECD, after the United States (*chart 4*).

## Canada's buoyant and expanding market place

A century ago, the Canadian economy was based largely on natural resources. Nowadays, it is an advanced industrial country.

While exports account for nearly one third of GDP — with the fastest growing export sector being communications equipment — the growth in the economy is not merely export-driven. The fact is that the domestic market is expanding rapidly as well.

Over the next decade, there will be an increase of 1.6 million adults in the 35–49 age group, thanks to the post-war baby boom. The number of households will increase by 2.7% per annum, stimulating demand for housing, furniture, appliances and a whole range of consumer products. Furthermore,

2. After tax profits as a percentage of GDP, Canada and United States, 1980-1986

