

Canadian Economy: Situation and Outlook

The Canadian economy is in better shape now than it has been in 25 years. The dramatic economic turnaround is evident in every economic indicator — especially in strong growth and job creation.

A Strong Economy Creating Jobs and Growth

Stimulated by lower interest rates and restored confidence in the way the government runs the country's finances, the Canadian economy grew at a strong annual rate of 3.8 per cent in 1997, the strongest pace since 1994.

Job creation is accelerating. More than one million jobs have been created since the end of 1993 — 372,000 new jobs were created in 1997 alone — all full-time and in the private sector. In 1993, the unemployment rate stood at 11.2 per cent; in March 1998, it was 8.5 per cent — its lowest level since September 1990. While the level is not satisfactory, the trend to improvement is clear.

Low Interest Rates and Low Inflation

Interest rates have fallen dramatically and are among the lowest of the G-8 countries. This is due in large part to the government's sound economic and financial management and renewed confidence in the Canadian economy. Short-term rates fell about 5.5 percentage points between early 1995 and mid-1997. Although short-term rates have risen since mid-1997, they are still over 3.5 percentage points below their early 1995 levels. Canada's short-term rates have been lower than U.S. rates for two years, the first such sustained period since the early 1970s. Long-term rates have continued to ease, with the 10-year rate now down by about four percentage points since early 1995. A full percentage point of this decline has occurred since mid-1997.

Inflation is down to rates not seen since the 1960s. To preserve the gains, the Government of Canada and the Bank of Canada recently announced that they have agreed to extend the current inflation control targets, which are to hold inflation inside the one- to three-per-cent range, until the end of 2001. Together with the sound public finances now in place, this will help maintain the low interest rates that have revived job creation and economic growth in Canada.

Consumer confidence rebounded in 1997. According to the Conference Board of Canada, consumer confidence is near its highest level in the decade and above its average for the last 30 years. This is reflected in strong growth in consumer spending on durable goods such as motor vehicles and household equipment.