growth of about 19% in the third. New construction activity jumped, as housing starts remained at a high level in the fourth quarter. Renovations also grew solidly. However, while remaining at a healthy level, sales of existing homes declined, reducing real estate transfer costs.

Modest business fixed investment growth

Business spending on plant and equipment grew a modest 2.2% in the fourth quarter, a marked slowdown from the 14.4% jump in the previous quarter. Investment in machinery and equipment rose a weaker 1.1% after increasing 19.2% in the third quarter. While purchases of cars inched up, those of trucks and other transportation equipment, especially aircraft, fell. Investment in information and communications technology, however, appears to be on a sharp rebound from its depressed activity of recent years. It climbed 17.9% in software and soared 47.4% in telecommunications equipment.

Non-residential construction increased a solid 4.0% following a gain of 6.9% in the third quarter. Spending on engineering projects accounted for the gain, as spending on building construction fell.

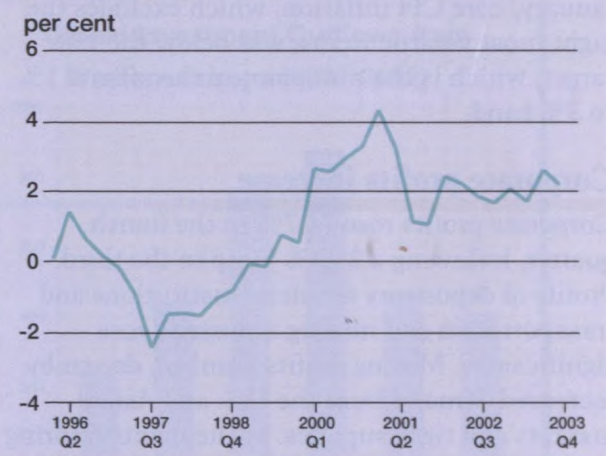
Businesses add more to inventories

Businesses boosted inventories $11.0 billion in the fourth quarter, up sharply from the $2.9-billion inventory accumulation in the third. Retail inventories drove this investment, partly reflecting an increase in motor vehicle inventories as imports rose while sales declined. Inventories of livestock continued to accumulate due to the ban on beef exports, while stocks of grains increased following a good harvest.

Imports increase more than exports

Boosted by the appreciation of the dollar and higher inventory investment, real imports increased more than exports in the fourth quarter, rising 17.8%. Imports of high-tech equipment and automotive and energy products led the way in the goods category. Spending on travel abroad also surged as the fear of SARS and the war in Iraq subsided while the appreciation of the dollar made foreign travel less expensive.

Chart 2
Current account as a percentage of nominal GDP



Current account surplus widens

The current account registered its 18th consecutive quarterly surplus, in contrast to deficits over most of the 1980s and 1990s. However, the surplus decreased $4.8 billion to $26.6 billion, or 2.2% of nominal GDP (Chart 2). Lower dividends received from non-residents plus smaller retained earnings by Canadian-owned corporations abroad compounded the decline in the nominal trade balance in the fourth quarter.

For 2003 as a whole, the appreciation of the Canadian dollar reduced interest payments on foreign currency deposits and U.S. dollar denominated Canadian securities held in foreign portfolios. This improved the investment income deficit by $4.0 billion. The current account surplus thus increased to $25.8 billion in 2003 from $23.4 billion in 2002.

Inflation remains low

The GDP deflator, a comprehensive measure of domestic prices, inched 0.4% higher in the fourth quarter following a 3.7% increase in the third. Relative to the fourth quarter of 2002, prices stood 2.3% higher.