



III CANADIAN ECONOMIC PERFORMANCE

Gross Domestic Product (GDP)

Canadian economic performance has been solid with a real GDP growth rate of 2.9 per cent in 2005, the same as in 2004. This growth was primarily driven by strong personal expenditure on goods and services, investment in residential and non-residential structures, investment in machinery and equipment, and by net exports.

Figure 3-1
Canadian Real GDP Growth, 2000-2005

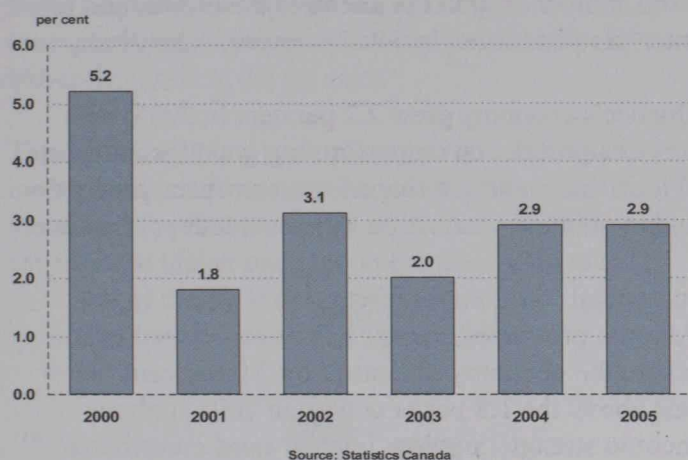


Figure 3-2 shows how the main categories (in dollar values) in GDP have evolved since 2000. However, real growth in these categories is even more telling. For example, personal expenditure on goods and services jumped 4 per cent in 2005. This was the largest annual increase since 2000, when rising labour income drove up personal expenditures. Similarly, in 2005 high energy prices helped boost economy-wide incomes including corporate profits and personal income. As a result, wages, salaries and supplementary labour income increased 5.4 per cent, the strongest annual increase since 2000. It is no surprise that personal expenditure on goods and services was the main contributor (2.21 per cent) to overall growth in real GDP, followed by business gross fixed capital formation (1.19 per cent).

While growth in overall investment was unchanged from 2004 (at 6.9 per cent), there was a significant change in its composition. In 2004, much of the growth was attributable to continued strength in the housing market as investment in residential structures climbed 8.3 per cent. In 2005, residential growth decelerated to 3.3 per cent while growth in investment

in non-residential structures climbed strongly to 6.8 per cent from a meagre 0.8 per cent increase in 2004. In 2005 investment in machinery and equipment jumped 10.7 per cent, recording its best annual performance since 1997.

Although the growth in Canadian exports was moderate in the first half of the year 2005, exports rebounded in the second half, fuelled by exports of automotive products which grew 3.7 per cent for the year as a whole.

Turning to particular sectors and industries, the growth in the service sector (3.3 per cent) surpassed that of the goods producing industries (2.5 per cent), which contrasts with the situation seen in 2004. Wholesale and retail trade, finance, as well as construction were among the key contributing sectors to Canadian growth. Weakness was noted in the mining and oil and gas extraction sector while manufacturing sector performance was rather moderate compared to 2004.

The wholesale trade industry posted the strongest increase (8.1 per cent) amongst the major sectors of the economy, with notable increases in motor vehicles, machinery and electronic equipment, and building materials. In addition, strength in imports of goods from other countries (7.7 per cent) contributed to strong overall wholesaling activities. Retail trade increased 4.5 per cent in the year, with particular strength in automotive retail stores. Activity in the financial sector, including insurance, real estate and rental and leasing, increased 3.4 per cent.

Figure 3-2
Gross Domestic Product, Expenditure-Based, 2000-2005

