Canadian Market Outlook

Long-Range Focus

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STANDARD
&POOR'S

Executive Summary

Forecast Highlights

- **GROWTH.** Real GDP growth will accelerate in 1997, as loose monetary conditions inspire private-sector activity. Fiscal drag and an anticipated slowdown in the U.S. economy will temper Canada's near-term outlook. DRI's 25-year forecast for the Canadian economy is completely consistent with our short-term forecast through 2001. We assume that the economy will subsequently make a natural transition to full employment and then evolve smoothly along the full-employment growth path.
- **INFLATION.** The Bank of Canada has been successful in bringing about a stable price environment for consumers. A positive output gap of about 3.0-3.5% and a significant amount of cyclical unemployment will help the Bank continue to temper inflationary expectations and maintain a 'core' inflation rate in the 1-3% range beyond its currently targeted end-date of 1998.
- **EXCHANGE RATE.** The Canadian dollar has remained undervalued during 1996; political instability caused by uncertainty surrounding Quebec's place in the country has played some role. The Bank of Canada's desire to provide the economy with stimulative monetary conditions has prevented a more significant appreciation in the dollar despite a strong set of underlying economic fundamentals. Over the long term, the Canadian dollar will be fortified by low inflation in Canada, which will cause relative prices to fall vis-à-vis the United States.
- **INTERNATIONAL TRADE.** The current account balance rose into surplus during the second quarter of 1996, because a low interest rate environment and tough government budgets have reduced the amount of investment income paid to nonresidents. Canada's international indebtedness will decline into the future, as the persistent current account deficits of the past are replaced by persistent surpluses. In the longer term, an improvement in Canada's terms of trade will underpin the general improvement.

Overview

In the short run, demand-side factors are paramount in explaining cyclical fluctuations in macroeconomic data; in the long run, however, an economy's ability to expand aggregate supply determines its potential growth. Gains in potential output result mainly from labour-force and capital-stock growth, as well as by improvements in total factor productivity. We believe that the recently increased pace of industrial restructuring will significantly enhance growth in productivity and living standards into the future. Canada's economy will average 3% gains per year for the 1996-2000 period. A slowdown in labour-force growth over the subsequent 20 years, though, will trim average growth rates to 2.1%.

The federal government budget will move into rough balance before the turn of the century, and then continue to improve. The surplus will peak during 2011-13 at approximately $30 billion. Thereafter, it will decline as the proportion of the population over the age of 65 expands rapidly, accelerating the growth of government transfers to the elderly. Long-term interest rates will be the chief beneficiary of declining government indebtedness. The 10-year-and-over government bond yield will average just 6.8% between 2000 and 2020, compared with 8.5% during the 1990s. A stabler interest rate environment with lower long-term nominal and real rates will encourage business investment. Spending on machinery and equipment will increasingly contribute to GDP growth over the forecast interval.

The information technology revolution has accelerated the rate of industrial restructuring in Canada. This has caused a significant amount of labour-market dislocation in the short term, but the same restructuring will ultimately lead to greater overall economic efficiency. Stronger growth in total factor productivity will be the chief beneficiary of the efficiency gains; we anticipate that total factor productivity will average 0.7% annual gains over the 25-year forecast period, compared with average increases of only 0.4% since 1980.

Forecast Implications

All expenditure sectors of the economy will contribute to GDP growth over the next 25 years, although the composition of aggregate expenditures will change quite dramatically, primarily due to the population's changing age structure. Household expenditures will perhaps experience the most significant shift over the next 25 years. Consumption will grow at a slower rate compared with the past 30 years, as an aging population causes a larger proportion of personal disposable income to be saved. The declining importance of household expenditures will be offset by higher business investment, since rapid changes in technology will boost the importance of replacement investment as capital stock depreciation accelerates.

We assume that the movement toward freer trade and improvements in Canada's terms of trade (the price of exports relative to the price of imports) will contribute greatly to improvements in the merchandise trade and current account balances over the forecast period. Exports are expected to expand an average 5.3% per year until 2020; imports will grow at a similar rate. The expanding merchandise trade surplus will have the largest immediate impact on the current account. Improvements in government budgetary balances will help raise the national saving rate and reduce the need for imported capital. As a result, the recent surplus in the current account will be maintained, averaging $35 billion during the 2011-20 period.

Over the next five years, the economy's output gap will narrow and cyclical unemployment will decline. Thereafter, joblessness will decline only modestly as employment growth eases to 0.9% per year due to a slower-growing economy. Structural unemployment will recede because of a slowdown in the economy's rate of industrial restructuring, which will allow an easier matching between the skills of the unemployed and those required in vacant positions. The full-employment rate of unemployment will fall as a result, to approximately 6.3% during the last 10 years of the forecast period.

Risks to the Forecast

Shocks to the economy's aggregate production function represent the most significant risks to our long-term outlook. A decline in the birth rate, reduced levels of immigration, or an increase in emigration represent some of the possibilities. They would lead to reduced source population gains, and ultimately to stunted growth in the labour force and potential output. A slower rate of capital stock accumulation or lower-than-expected growth in total factor productivity would also jeopardize the long-run potential capacity of the economy.

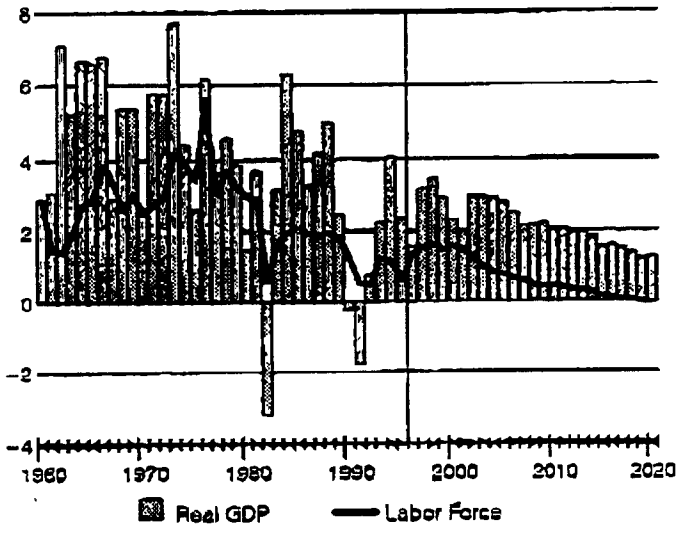
An externally generated adverse supply shock represents a significant risk to the Canadian economy's potential growth rate. An extreme example is the stagflationary episode that accompanied the energy crisis of the 1970s. We assume no serious or permanent disruption to energy supplies in our long-term forecast.

Fiscal and monetary policies aimed at stabilizing economic fluctuations and promoting the economy's long-term maximum potential growth rate are also key to our long-term outlook. We believe that a monetary policy geared toward maintaining price stability is essential. Such an environment allows the market's price mechanism to be most effective in allocating resources both across and within industries. Canada's federal and provincial governments are taking steps toward reducing their budgetary deficits. These actions are aimed at stabilizing government debt relative to GDP. Success will contribute to long-term economic growth, as expected future tax liabilities for households and firms fall. Failure to stabilize government debt relative to GDP will increase the probability of credit downgrading and lead to higher long-term interest rates than would otherwise exist.

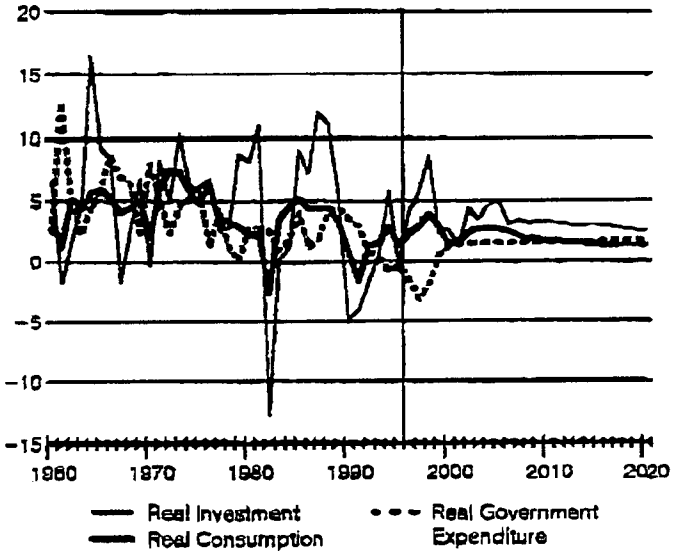
Political instability will remain a particularly important issue for Canada's long-term outlook. Lucien Bouchard has suggested that another Quebec referendum will delayed beyond 1997 and has stressed a fiscal, rather than a separatist, agenda this year. Nevertheless, the political risk premium that has been built into Canadian interest rates will not disappear entirely. We have assumed in our long-term forecast that future attempts by the separatists to lead Quebec to sovereignty will be met with defeat. There does, however, remain the risk that Quebec will vote yes in the next referendum.

Economic Activity

GDP Growth Paced by Labour-Force Growth
(Per cent change)



Components of Domestic Demand
(Per cent change)

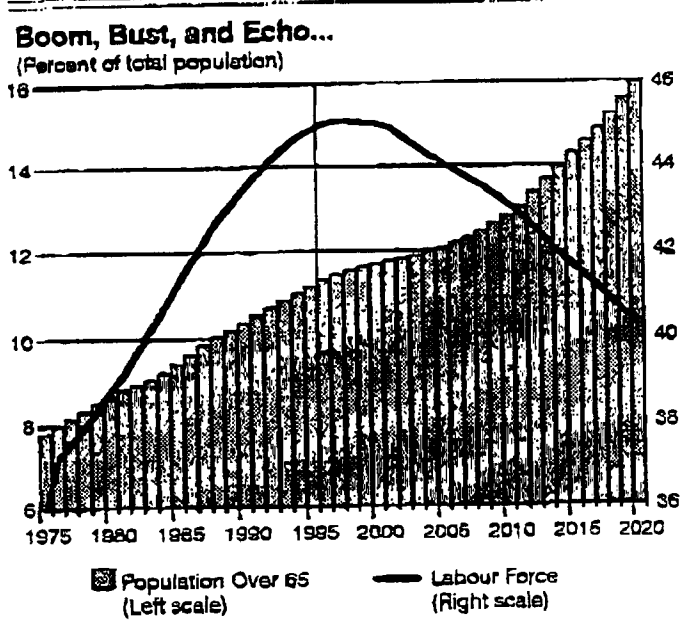


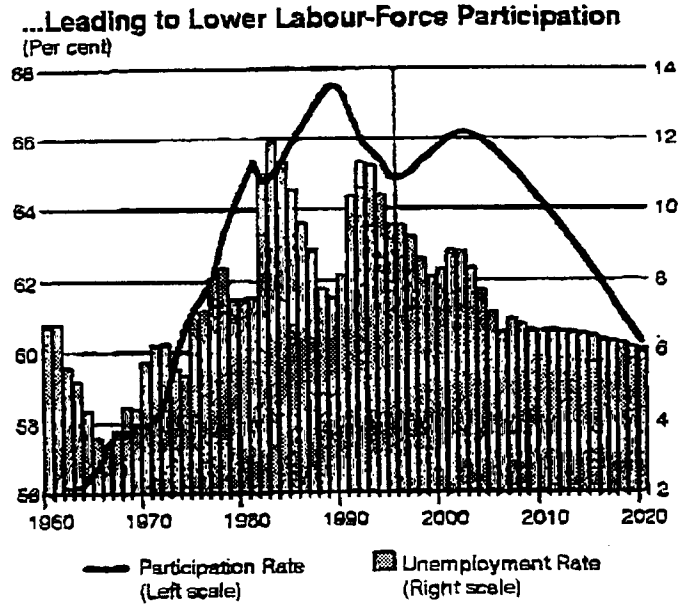
Historically, poor economic performance in one decade is often reversed the following decade. The strong economic growth of the 1920s was followed by the collapse of the 1930s, which was in turn followed by the economic surge in the 1940s. Good times typically follow bad. Not only does the lack of spending increase pent-up demand, but there is also an increase in the gap between what is produced and what the economy is capable of producing—the output gap. Consequently, we expect a snap back in the economy over the coming decade because of the large existing output gap. While this rebound will be smaller than in the 1950s and 1960s relative to total population, there will be significant growth relative to those of prime working age. This optimism is founded on the expectation that major advances in technology combined with strong gains in human and physical capital will enable significant productivity gains in the years ahead. This improvement is sorely needed because of the relentless downdraft caused by demographics.

The long-term outlook assumes that once the economy has reached full employment its growth rate will slow, and the aggregate production function that determines potential output will also determine the "observed" growth rate of the economy. We believe that this rate will slow over the final 20 years of the forecast period due to a slowdown in labour-force growth. The working-age population, which represented approximately two-thirds of the population during the first half of the 1990s, will fall to only 65.7% of the population during the last five years of the forecast period, while the proportion of the population aged 65 and over will rise from 10.9% to 15.0%. As a result, the labour-force source population growth will slow from 1.6% during the 1991-95 period to just 0.4% during 2010-20. These developments are primarily the result of the aging of the baby-boom generation, which is approaching its low labour-force participation rate years.

To some degree a country's historical record of economic growth determines the current welfare of its citizens. According to the World Bank, Canada stands second only to Australia in terms of wealth per capita. Importantly, the World Bank suggests that both countries derive most of their wealth from "natural capital" rather than human capital or produced assets. Among the nations listed by the World Bank, Canada is one of the most dependent on natural assets, deriving 69% of its wealth from natural capital in 1990. Only 29 of the 192 countries measured had 60% or more of their wealth derived from natural capital. In determining Canada's long-term outlook for income, therefore, the nation's formidable natural advantage must be taken into consideration.

Demographics





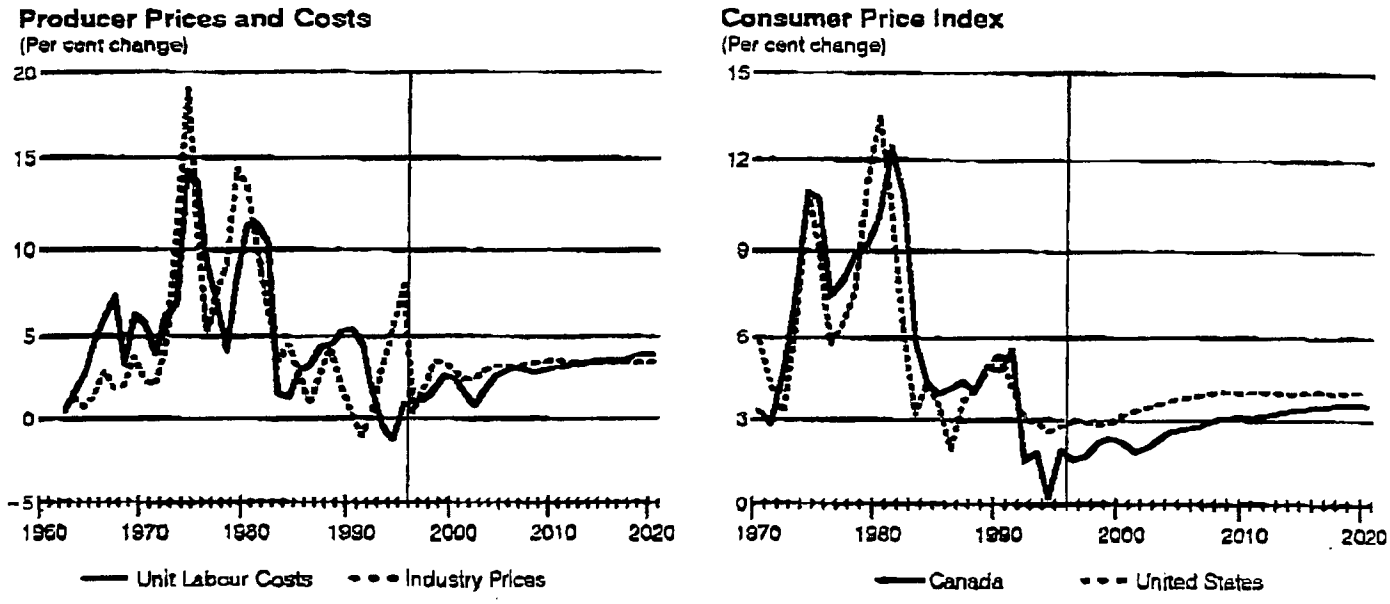
There are three basic facts underlying Canada's demographics. First, the country has witnessed several demographic booms and busts in the past. These events echo into the present and will shape developments well into the future. Second, the nation is becoming older, which will change consumption patterns and labour supply. Third, barring a huge influx of immigrants, population growth will slow significantly. This is particularly true for those of working age, especially the prime age work force, which may start to shrink past 2010, causing major imbalances in the economy.

The demographic assumptions underlying the long-term forecast are consistent with Statistics Canada's projection no. 3. We have incorporated their assumption on the birth and death rate through 2020. Statistics Canada's assumptions on the changing age structure of the population have also been incorporated into our 25-year forecast (see Forecast Table 36 for a detailed breakdown). Unlike the Statistics Canada projection, we have assumed that international immigration will be 200,000 over the projection period and emmigration will average 0.25% of the population.

Importantly, Canada had one of the largest and longest baby booms of all the industrialized worlds in the post-war period, followed by the baby bust. Previously, swings in population had been caused at least as much, if not more, by changing migration patterns than by changes in the rate of natural increase. This means that there is a more noticeable economic ripple effect as a result of the baby boom than from past demographic cycles. Canada's population is aging. This is not a new phenomenon, however; it has been occurring over most of the past 150 years. Today males are expected to live 75.4 years, compared with 70.5 years 20 years ago. Females are expected to live 81.5 years, up from 77.9 years 20 years ago.

Working age today is much older than it was earlier this century because of the need in today's economy for more education. Currently, the prime working age is considered to be between 25 and 54. Participation rates fall sharply after 55, and especially beyond 65. Given current demographic projections, there will be a slowing, if not a shrinkage, in the prime working-age group by around 2010. This will affect supply, but given increased longevity there will be less of an effect on demand, assuming that people save for the future. This will also lead to upward pressure on wages and inflation, and could cause structural imbalances in the economy unless there is a large increase in either immigration or participation rates (or some other offsetting event) at that time.

Inflation



During periods when employment growth exceeds labour-force growth, there tends to be upward pressure on wages. This is particularly true if employment growth also exceeds adult population growth, since more people need to be enticed into the labour force. Ultimately, high real wages cause businesses to cut back on labour costs, which is what appears to have happened in the 1980s. Lower real wages eventually contribute to lower labour-force participation. Adding to the complexity of this relationship this time is that the natural rate of unemployment had drifted up, and is now on the way down because of major labour-market reform. We have assumed that there will be relative balance in the demand and supply relationship in the future. The slowdown in adult population, however, combined with the potential drop in those of prime working age, suggests that there could be a significant upward rise in real wages beyond 2010.

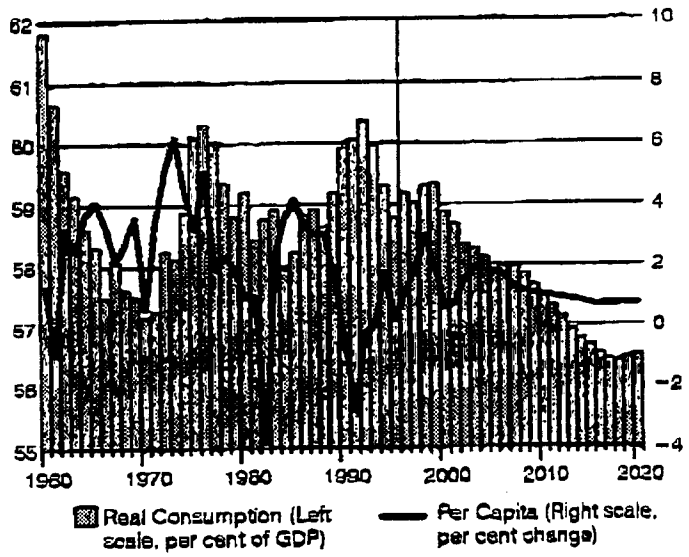
Wages and inflation are tightly intertwined. Businesses will pass on rising costs, including wage costs if possible, to their customers. Workers for their part will attempt to recoup lost real purchasing power via higher wages.

Not surprisingly, wages and inflation have typically moved in tandem across the decades. We expect that nominal wages and inflation will remain relatively subdued over the next 10 years, but will be influenced by the economic cycle. Past 2005, however, and especially beyond 2010, the pressures in the labour market may spill over into general inflation without concerted effort on the part of monetary authorities to restrain inflation.

Monetary policy is important in the long-term forecast—not so much in determining the level of output, but rather in determining the rate of inflation. The relationship between money and inflation is viewed as particularly strong in the long run; in fact, classical economics suggests that the "steady-state" rate of inflation will be proportional to the "steady-state" rate of monetary expansion, and thus inflation is viewed as primarily a monetary phenomenon in the long run. We expect the Bank of Canada to lean against the inflationary winds, leaving Canadian inflation averaging roughly 1 percentage point below U.S. rates over the long term by supporting a 5% average annual rate of expansion in M2.

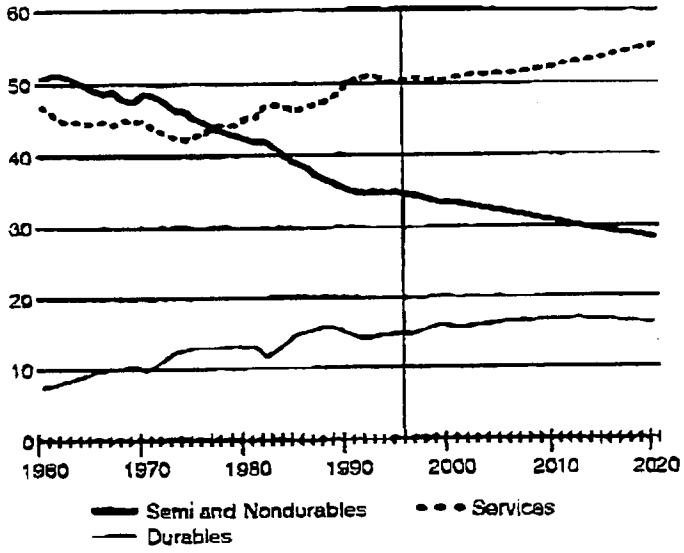
Consumer Markets

Consumption Falls as a Share of GDP



Changing Consumer Habits

(Per cent share of total consumption)

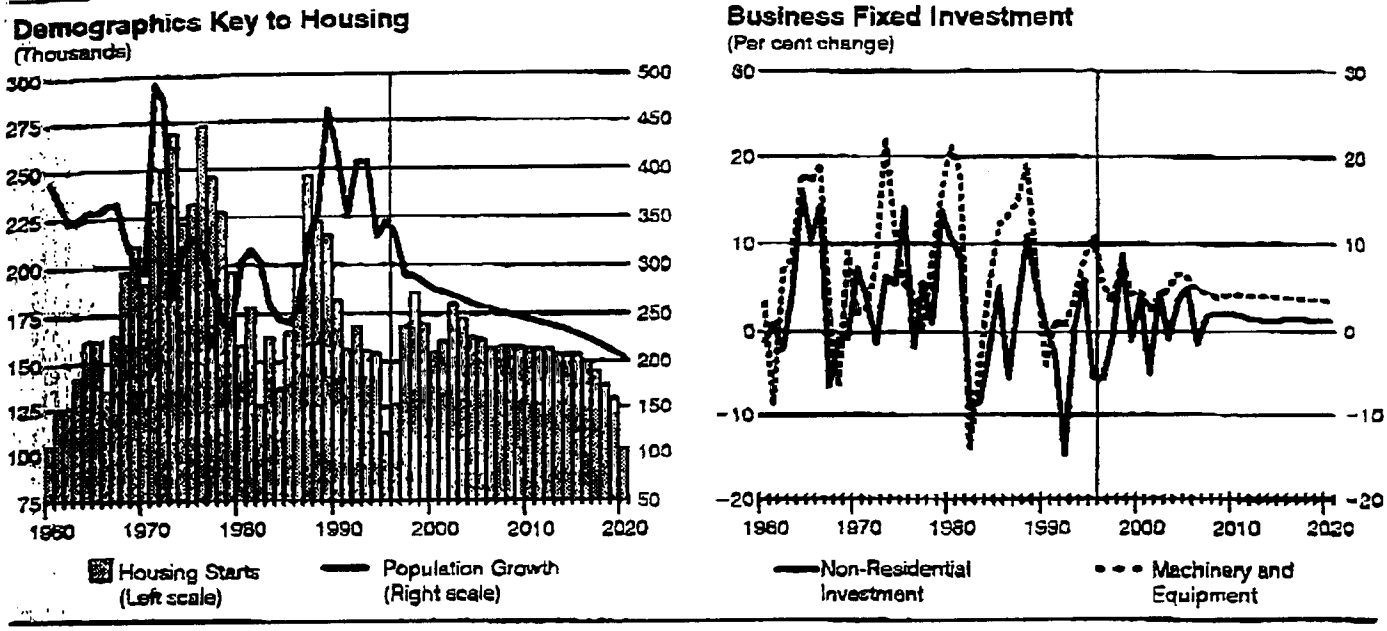


As the Canadian population ages, its buying habits will change fundamentally, and as a result the composition of household expenditures will change. Total consumption expenditure will grow at a slower rate over the forecast period compared with the past 30 years, due to an aging population's changing buying habits. Growth in consumer spending will average 2.8% until the turn of the century. It will then slow to 2.2% over the subsequent 10-year period and to 1.5% from 2010 to 2020. Changing consumer needs will see consumption's GDP share declining sharply through the forecast period, from 60% in 1991-95 to 56% by 2011-20. The slower-growing and aging population will cause all consumption components to expand at a declining rate.

The structural shift in consumption will involve spending on services rising relative to that on semi- and non-durables. The latter sectors' contributions to aggregate consumption have been declining, and this trend will continue over the forecast interval, since a progressively declining proportion of household income is spent on these goods as living standards rise. Some support will come from the durables sector, which will partially offset the decline of total consumption as a share of the economy. The support for service consumption is provided by an older, more time-sensitive, and affluent populace.

Canadian household debt relative to household income has risen relentlessly since the mid-1980s. It reached nearly 94% in the second quarter of 1996; mortgage debt and consumer credit together amounted to $485.7 billion at that time. The flip side to the declining contribution of the consumption sector to growth, however, will be an increase in household savings and the household saving rate. The saving rate has recently dipped to historically low levels, which has negative implications for household balance sheets. For households to weather periodic downturns in economic activity, it is necessary that their balance sheets be healthy. Although household net worth has continued to increase during the last several years, net household assets have been expanding at a declining rate. The aging of the population over the forecast interval will bring with it stronger household investment in financial assets such as mutual funds, life insurance, and RRSPs as the baby-boom generation pushes to save for its retirement. This will be the single most important trend in helping to re-establish healthier household finances. A higher national savings rate will also be beneficial, since Canada will become less reliant on foreign savings in the form of capital inflows from abroad.

Investment



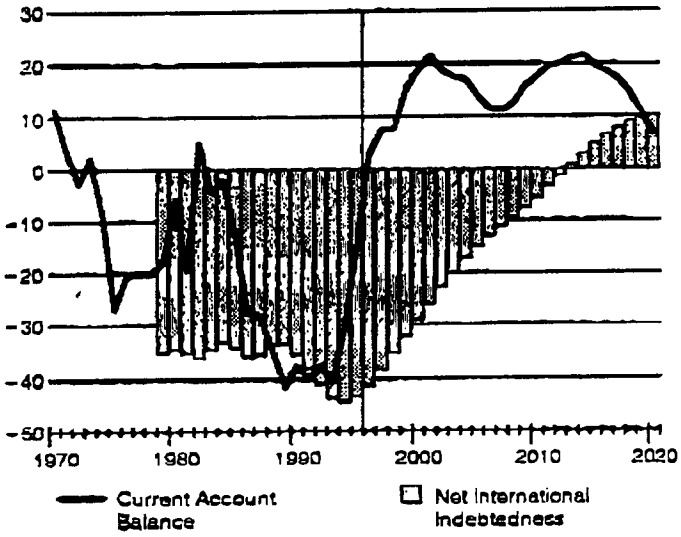
Changes in population growth and age structure influence the demand for housing. Headship rates (the propensity to form a household) tend to rise during the 20s, while the homeowner rate of formation tends to rise sharply in the 30s. From this perspective, the big surprise of the 1990s thus far has been the complete collapse of the housing market. The 35-44 age group is still expanding significantly, but this basic thrust of demographic demand has been thwarted by high interest rates. We expect that overall residential investment will rise slightly above demographic demand in the future because of pent-up demand that will be unleashed by lower real interest rates and higher incomes.

The aging of the population will have many repercussions for the housing market. Over the coming decade, many of those in the baby-bust generation will be reaching their first-time home-buying years. Since there are relatively few of them, this will put downward pressure on single-family construction and starter homes. Rental units should do fairly well because the echo-boom generation—the children of the baby boomers—will be entering their household formation years beyond the turn of the century. Assuming an easing of rent controls, there should be a rise in apartment starts. The interplay of baby-boom and baby-bust generations means that there will be fewer first-time home buyers available to move into the homes that the baby boomers want to vacate. As a result, many of the baby-boom generation will have to renovate to achieve the higher level of housing services that they want.

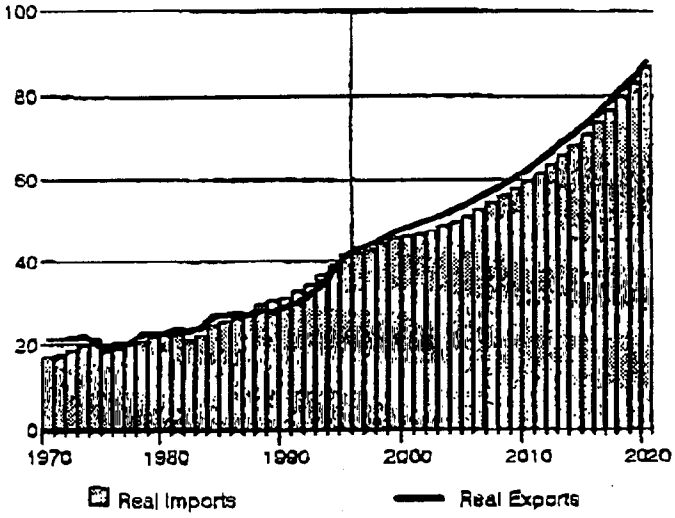
Key in determining the future of business investment is an understanding of the changing industrial structure of the Canadian economy. In the short-to-medium term, investments' share of the economy will increase, since rapid changes in technology have increased the depreciation rate of the machinery and equipment capital stock. The increased spending on relatively short-lived capital equipment will increase the importance of replacement investment in the total capital stock. We expect that the industrial composition will continue to shift toward the business service sector. Business service winners will include the communications industry, financial services, and community, business, and personal services; investment will be strong in these industries as a result. Electrical products—including telecommunications equipment and computers—will lead the way in goods production. Nonbusiness activity and primary product producers will generally lose share over the long term, and will experience slowing rates of investment in new capital.

Trade

External Balances
(Per cent of GDP)



Canada in the Global Economy
(Share of GDP)



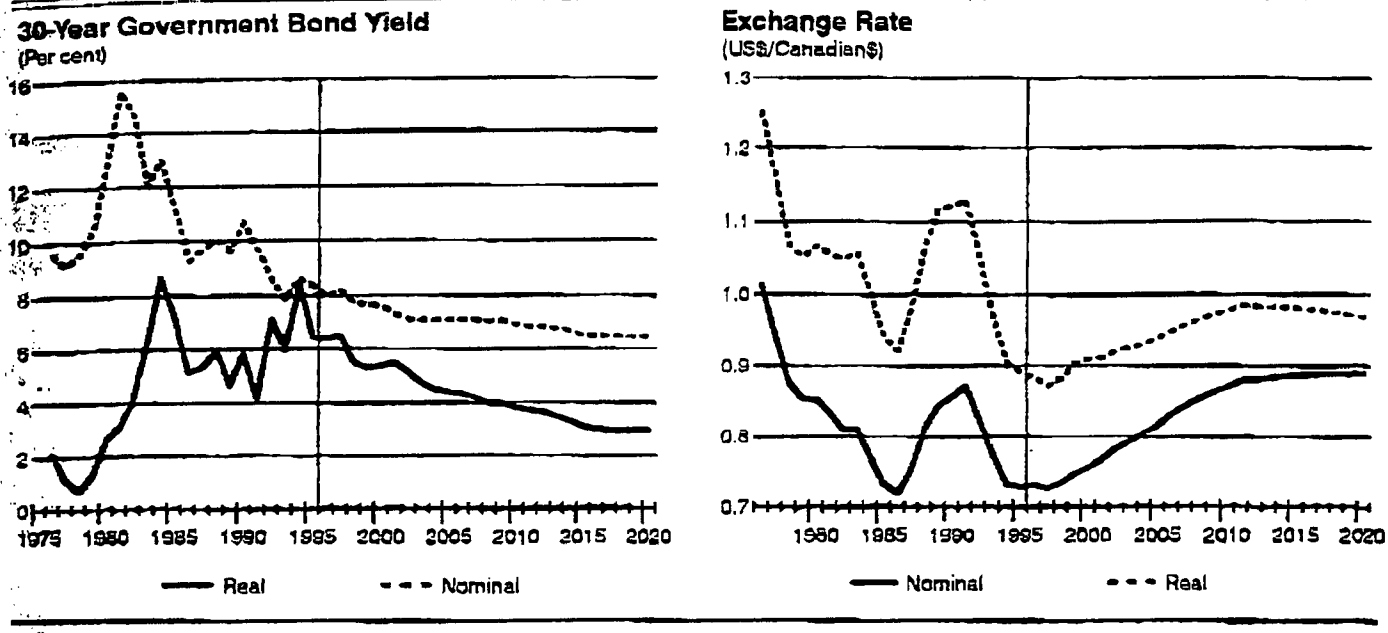
While both imports and exports have risen quickly as a result of freer trade and increasing globalization, total exports have risen more quickly than total imports. The massively undervalued Canadian dollar is primarily responsible. Basically, the undervalued currency is necessary to achieve a large merchandise surplus to offset the interest and dividend shortfall created by the nation's huge external debt. While Canada's net external debt is starting to recede, it is still the largest relative to GDP of any of the G7 nations. This suggests that the currency needs to remain well below its PPP value for a considerable period. We estimate 2001 as the earliest date by which Canada can hope to trim its net external debt-to-GDP ratio to levels enjoyed by the United States, which is the second-largest debtor among the G7.

Primarily due to its undervalued currency, Canada holds a competitive position relative to the United States. When both Canadian and U.S. unit labour costs are considered in U.S. dollars, Canada's aggregate unit labour costs are at their most competitive for the past 45 years. Even on a home currency basis (U.S. unit labour costs in U.S. dollars versus Canadian unit labour costs in Canadian dollars), Canada is the most competitive it has been since the mid-1970s. The main reason for this improvement is lower domestic inflation, which has helped limit wage gains.

Canada's undervalued currency is a situation of long-run disequilibrium, and thus other positive factors will have to exist to help the trade balance in the future. The mandate of international bodies such as the World Trade Organization will continue to be an improvement in the environment in which trade occurs. Further reductions in global trade barriers are expected, which will help to diversify Canadian exports—these having traditionally relied very heavily on trade with the United States. An improvement in Canada's terms of trade is also expected over the 25-year forecast horizon.

A compositional shift in the country's exports, from low-valued raw and semi-processed material toward higher-valued end products, has significant implications for Canada's terms of trade. Canada is more dependent on raw material exports than any other G7 nation. This dependence, however, has been declining over time, and end-product exports have increased. In 1980, end products represented 35% of total exports. In 1995, however, the figure is closer to 50%, regardless of whether nominal dollars or real 1986 dollars are used. Canada's terms of trade and trade balance have been generally improving as the country has shifted from lower-value to higher-value exports, and this trend should continue over the long haul.

Financial Markets



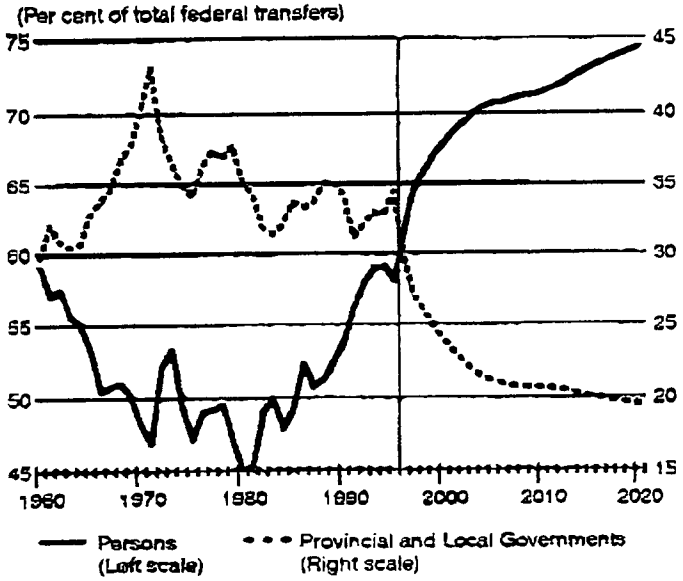
Canada's superior performance on inflation over the last several years has finally paid off and been translated into an inversion of the Canada-U.S. interest rate differential. Improving government balances, a current account surplus, and receding concerns over political risks have also been important contributing factors. Canadian short-term interest rates have been below U.S. rates since March. The sustainability of this negative interest rate differential will be tested once the U.S. Federal Reserve adopts a more contractionary policy stance. Evidence suggests that the U.S. economy is at or above capacity, suggesting that a hike in the federal funds rate may not be too far off. Provided that the hike in the funds rate is not too dramatic, we believe that the inversion of the Canada-U.S. interest rate spreads will be maintained, at least at the short end of the yield curve.

We assume in our long-term forecast that the uncertainties associated with Quebec will recede and that governments in Canada will continue to be successful in maintaining order in their public finances. We expect the 10-year-and-over government bond yield to fall from an average 9.0% during the first half of the 1990s to approximately 6.4% during the 2011-20 period. More importantly, in real terms the long bond yield will fall from an average 6.4% during 1990-95 to an average 3.0% during 2011-20. Borrowing rates relevant to the household sector, such as the prime interest rate and mortgage rates, will decline in the long term by a similar magnitude.

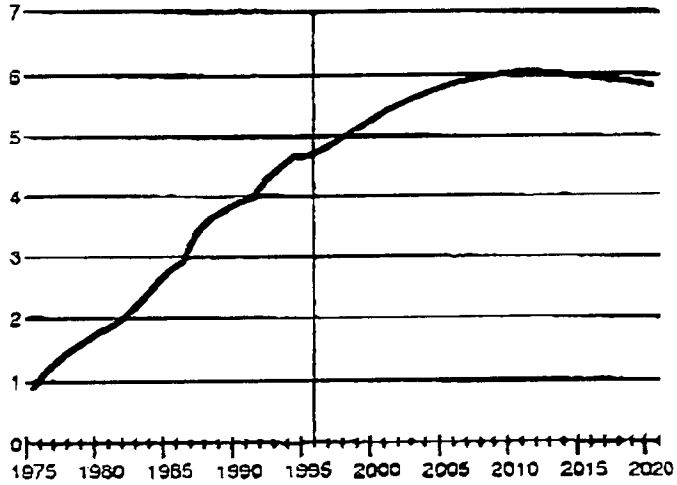
The Canadian dollar is dramatically undervalued in both absolute and relative terms. It is about 10% undervalued compared with its purchasing power parity level (PPP). While it may deviate substantially in the short term, over the long term the currency will move toward PPP. Given that Canada's inflation rate is forecasted to be lower than inflation in the United States, Canada's PPP exchange rate will rise over the coming decade. We expect that the external value of the currency will rise to more than 82 U.S. cents by 2005, and to 89 U.S. cents by 2020.

Government

Federal Government Transfer Payments
(Per cent of total federal transfers)



Pensions Under Pressure
(Real pension income per capita, thousands of dollars)



We have incorporated the fiscal policy assumptions from the federal budget in our projection. As a result of these assumptions, the government sector gradually improves its fiscal position. In the near term, a narrowing of the economy's output gap will allow a smaller "cyclical deficit," and the federal deficit measured on a public accounts basis will reach rough balance by 1999. Notably, over the medium term the economy will be powered almost exclusively by the private sector as the share of government current expenditure in the economy declines. In the long term, the sustainability of the government debt will be aided by a smaller "structural deficit," due to the contractionary fiscal policy; it will average a surplus on a public accounts basis of roughly $25 billion dollars between 2011 and 2013.

It is important that the books be balanced over the next 10 years, since the government sector will face a double whammy by the middle of the next decade if it fails to live up to its goals. An aging population will increase the demand on government services and pensions, and, at the same time, there will be fewer people of working age to support society's dependents. This is characterized by the upward movement in the dependency ratio for the aged. The total dependency ratio, however, is relatively flat because of the decrease in the number of children. The expenditure dependency ratio, which takes into account that the elderly are three times more expensive to care for than the young, is poised to rise significantly past the turn of the century.

Over the longer term the government's budgetary balance will likely deteriorate as the growth in transfer payments to persons accelerates. Many government programs are geared towards providing services to particular age groups, such as pensions for the elderly and education for the young. After growing at a slower pace during the mid-1980s, the segment of the population over 65 will increase over the last 10 years of the forecast period. We anticipate that the growing political influence of this cohort will place increasing demands on government resources, which will be reflected in transfers to persons growing as a proportion of total government transfer payments.

Looking out over the very long run, the Canadian and Quebec pension plans will need to be reformed. Not only will there be a significant rise in the number of individuals who will be eligible for an old age pension, but pension income is rising quickly in real per capita terms. This is partly caused by rapid increases in disability claims on the CPP system. To fund the present system in the future means that there will need to be massive increases in the payroll tax. This will further distort the labour market by driving a larger wedge between what employers pay in wages and salaries and what employees receive in after-tax dollars.

TABLE 1
Summary of the Canadian Economy

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
					Years							
Real GDP and its Components (Annualized Rate of Change)												
Gross Domestic Product	2.3	1.6	3.2	3.5	2.9	2.3	2.0	3.0	2.9	2.9	2.8	2.5
Final Demand	2.0	2.8	2.7	3.3	2.8	2.4	2.3	2.8	2.9	3.0	2.9	2.4
Final Domestic Demand	0.8	1.8	2.1	3.7	2.4	1.7	1.5	2.7	2.7	2.9	3.0	2.5
Consumption	1.4	2.3	2.9	3.9	3.0	1.5	1.7	2.4	2.8	2.7	2.6	2.5
Business Fixed Investment	-0.6	4.0	5.7	8.6	2.4	2.6	1.3	4.4	3.5	4.6	5.1	3.1
Mach. & Equip.	10.9	5.5	3.6	8.4	4.5	4.8	2.6	3.9	5.1	6.8	6.3	4.7
Nonres. Const.	-5.6	-5.5	-0.6	8.8	-1.1	4.1	-5.0	4.8	-0.8	3.6	5.1	-1.5
Residential Const.	-15.1	9.9	15.4	8.9	1.0	-2.5	3.2	5.4	3.1	0.9	2.5	2.8
Total Government	-0.3	-1.4	-3.2	-1.9	0.4	1.3	1.4	1.5	1.5	1.6	1.8	1.6
Exports	12.0	4.8	5.9	6.8	6.5	4.9	4.5	4.8	5.2	5.5	5.4	5.5
Imports	8.7	3.0	4.5	7.7	5.7	3.5	3.0	4.7	5.0	5.4	5.8	5.7
Billions of Dollars												
Real GDP ($86)	608.8	618.3	637.8	659.9	679.1	694.7	708.8	729.9	751.3	773.3	795.0	814.8
Gross Domestic Product	776.3	785.7	834.8	885.8	939.2	980.6	1015.2	1064.1	1119.3	1179.6	1242.6	1305.7
Prices and Wages (Year-ago Rate of Change)												
Implicit G.D.P. Deflator	1.5	0.9	1.7	2.6	3.1	2.1	1.5	1.8	2.2	2.4	2.5	2.5
Consumer Price Index	2.2	1.5	1.7	2.2	2.4	2.2	1.8	2.0	2.3	2.6	2.7	2.8
Industry Product Price Index	8.1	0.4	1.8	3.5	3.5	3.0	2.4	2.4	3.0	3.2	3.2	3.1
Avg. Hourly Earnings (Manuf.)	1.4	1.8	2.9	3.8	4.0	3.2	2.2	2.0	2.9	3.7	3.9	3.8
Aggregate Wages per Employee	1.8	1.2	2.4	2.9	3.6	3.4	2.7	2.4	3.1	4.0	4.2	4.4
Aggregate Labour Productivity	0.7	0.2	1.2	1.1	0.9	0.9	1.1	1.6	1.4	1.4	1.3	1.2
Aggregate Unit Labour Cost	0.9	1.1	1.1	1.8	2.6	2.5	1.8	0.8	1.7	2.6	2.9	3.1
Other Key Measures												
Inventory Change (Bill.$86)	5.64	-0.39	2.53	3.52	4.61	4.00	2.44	3.93	4.65	4.12	3.59	4.21
Housing Starts (Thou.)	111	127	168	186	189	154	161	160	172	183	161	156
Motor Vehicle Sales (Thou.)	1167	1157	1228	1396	1511	1492	1524	1551	1575	1599	1623	1645
Car Sales (Thou.)	670	645	703	817	882	864	875	885	894	902	910	920
Unemployment Rate (%)	9.5	9.7	9.2	8.8	8.1	8.3	8.8	8.8	8.3	7.7	7.1	6.5
Employment (Mil.)	13.51	13.62	13.98	14.28	14.57	14.77	14.91	15.10	15.33	15.56	15.80	16.00
Fed. Budget Bal. (Bill.$;NIEA)	-26.6	-17.9	-10.4	-4.2	1.7	3.4	5.7	8.3	12.5	16.5	20.4	24.3
Merch.Trade Bal. (Bill.$;BOP)	28.4	38.8	44.4	48.4	55.8	63.1	68.7	69.4	72.0	74.9	74.6	73.5
Curr. Acc. Bal. (Bill.$;BOP)	-11.2	2.3	6.5	6.9	14.4	18.8	22.1	20.2	19.0	20.3	17.8	15.2
Net Exports (Bill.$86;NIEA)	1.2	5.9	9.8	7.8	10.6	15.6	20.8	22.1	23.8	25.5	25.6	25.1
Exchange Rate (U.S. Cents)	72.88	73.18	72.70	73.45	74.79	75.54	76.87	78.49	79.59	80.54	81.74	83.31
Financial Markets (Per Cent)												
Money Supply (M2) (Bil.$)	379.0	393.4	408.1	427.0	449.9	469.2	479.5	500.9	520.9	542.7	564.4	590.0
Year-ago Rate of Change	4.1	3.8	3.7	4.7	5.3	3.7	4.2	4.5	4.0	4.2	4.0	4.5
3-Month T-Bills Rate (%)	6.88	4.55	5.48	5.22	5.24	5.44	4.88	4.60	4.57	4.53	4.50	4.49
Prime Business Loan Rate	8.65	6.42	7.29	6.97	6.95	7.08	6.52	6.19	6.12	6.08	5.99	5.99
Govt. 30 Yrs. Bonds	8.41	7.87	8.24	7.75	7.69	7.65	7.34	7.12	7.12	7.12	7.12	7.12
Corp. Bonds (SMoL Long-Term)	9.02	8.55	9.09	8.46	8.17	7.92	7.75	7.58	7.54	7.57	7.57	7.58
Incomes (Year-ago Rate of Change)												
Real Pers. Disposable Inc.	1.1	0.9	3.0	2.9	3.3	2.0	1.3	1.7	2.3	2.8	2.8	2.5
Savings Rate (%)	8.8	5.7	5.8	4.9	5.2	5.6	5.3	4.8	4.2	4.4	4.6	4.6
Corp. Profits (Before Tax)	16.5	-8.2	5.0	14.2	9.1	1.4	-1.9	14.1	9.0	4.0	0.6	-1.6
Corp. Profits (After Tax)	18.9	-7.8	5.5	18.2	11.3	1.7	-2.2	17.1	10.6	4.7	0.5	-1.9
Key U.S. Variables												
Real GDP (Ann. %Ch.)	2.0	2.5	2.2	2.3	2.2	1.9	1.8	1.8	2.1	2.2	2.3	2.2
CPI (Year-ago %Ch.)	2.8	3.0	2.9	2.8	2.9	3.2	3.3	3.5	3.6	3.7	3.8	3.9
3-Month T-Bills (%)	5.49	5.07	5.52	5.28	5.47	5.49	5.05	4.77	4.77	4.77	4.78	4.78
Govt. 30-Year Bonds (%)	6.88	6.82	7.13	6.86	6.78	6.79	6.61	6.54	6.55	6.54	6.53	6.54
Crude Oil ($U.S./bbl.)	17.15	16.15	17.38	17.41	16.89	18.17	19.34	20.57	21.93	23.38	24.92	26.56

TABLE 1 (Continued)

Summary of the Canadian Economy

	YEAR AVERAGES					
	5-YEAR AVG 1991TO 1995	5-YEAR AVG 1996 TO 2000	5-YEAR AVG 2001 TO 2005	5-YEAR AVG 2006TO 2010	5-YEAR AVG 2011 TO 2015	5-YEAR AVG 2016TO 2020
Real GDP and its Components (Annualized Rate of Change)						
Real GDP and its Components (Annualized Rate of Change)						
Gross Domestic Product	1.5	2.7	2.7	2.2	1.9	1.4
Final Demand	1.2	2.7	2.8	2.2	1.9	1.4
Final Domestic Demand	0.8	2.5	2.6	2.2	1.9	1.7
Consumption	1.1	2.7	2.4	2.0	1.6	1.3
Business Fixed Investment	0.0	4.6	3.8	3.2	3.0	2.7
Mach. & Equip.	5.0	5.3	4.9	4.3	4.1	3.7
Nonres. Const.	-3.5	1.0	1.4	1.3	1.4	1.3
Residential Const.	-4.8	6.3	3.0	2.0	1.3	0.4
Total Government	0.6	-1.0	1.5	1.6	1.7	1.8
Exports	9.1	5.8	5.1	5.2	5.3	5.1
Imports	7.5	4.9	4.8	5.4	5.5	5.6
Billions of Dollars						
Real GDP ($86)	578.0	658.0	751.6	850.4	939.5	1015.8
Gross Domestic Product	720.6	887.1	1124.2	1451.2	1875.4	2389.3
Prices and Wages (Year-ago Rate of Change)						
Implicit G.D.P. Deflator	1.5	2.0	2.1	3.0	3.2	3.4
Consumer Price Index	2.2	2.0	2.3	3.0	3.3	3.5
Industry Product Price Index	3.3	2.6	2.8	3.4	3.4	3.5
Avg. Hourly Earnings (Manuf.)	2.7	3.1	2.9	4.1	4.6	5.0
Aggregate Wages per Employee	2.0	2.7	3.3	4.5	5.0	5.1
Aggregate Labour Productivity	1.0	0.9	1.4	1.4	1.5	1.3
Aggregate Unit Labour Cost	1.1	1.8	1.9	3.0	3.4	3.8
Other Key Measures						
Inventory Change ($Bil.'86)	0.84	2.85	3.74	3.84	3.77	3.66
Housing Starts (Thou.)	149	161	167	157	145	133
Motor Vehicle Sales (Thou.)	1227	1356	1574	1675	1745	1794
Car Sales (Thou.)	786	782	893	931	958	982
Unemployment Rate (%)	10.6	8.7	8.1	6.6	6.5	6.2
Employment (Mil.)	13.11	14.25	15.34	16.24	16.81	16.78
Fed. Budget Bal. ($Bil.S:NIEA)	-30.0	-5.5	12.7	27.2	29.6	3.5
Merch.Trade Bal. ($Bil.S:BOP)	12.5	49.7	71.9	82.6	108.9	103.8
Curr. Acct. Bal. ($Bil.S:BOP)	-23.0	9.8	20.0	20.4	38.6	31.6
Net Exports ($Bil.'86:NIEA)	-8.6	9.9	23.6	26.7	29.3	20.6
Exchange Rate (U.S. Cents)	78.76	73.95	79.48	85.38	88.31	88.95
Financial Markets (Per Cent)						
Money Supply (M2) ($Bil.S)	355.8	426.5	521.7	654.1	844.1	1085.4
Year-ago Rate of Change	3.9	4.0	4.2	5.1	5.2	5.1
3-Month T-Bills Rate (%)	6.52	5.10	4.62	4.51	4.55	4.55
Prime Business Loan Rate	7.78	6.94	6.17	5.90	5.61	5.50
Govt. 30 Yrs. Bonds	8.67	7.86	7.16	7.06	6.78	6.50
Corp. Bonds (SMcL Long-Term)	9.60	8.44	7.60	7.53	7.27	7.03
Incomes (Year-ago Rate of Change)						
Real Pers. Disposable Inc.	0.4	2.4	2.2	2.0	1.8	1.5
Savings Rate (%)	8.6	5.4	4.6	4.4	5.0	6.0
Corp. Profits (Before Tax)	9.7	4.5	5.0	5.1	5.7	3.1
Corp. Profits (After Tax)	13.7	5.4	5.9	5.8	6.2	3.8
Key U.S. Variables						
Real GDP (Ann. %Ch.)	1.9	2.2	2.0	2.0	1.8	1.1
CPI (Year-ago %Ch.)	3.1	3.0	3.6	4.0	4.0	4.0
3-Month T-Bills (%)	4.31	5.37	4.83	4.73	4.61	4.50
Govt. 30-Year Bonds (%)	7.33	6.88	5.56	6.60	6.67	6.96
Crude Oil ($U.S./bbl.)	17.12	17.80	22.03	30.36	39.34	49.48