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Recent Developments in the Canadian Economy: Spring 2013

by Cyndi Bloskie and Guy Gellatly
Analytical Studies Branch

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.	not available for any reference period
..	not available for a specific reference period
...	not applicable
0	true zero or a value rounded to zero
0^s	value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
^{p}	preliminary
^{r}	revised
x	suppressed to meet the confidentiality requirements of the *Statistics Act*
^{E}	use with caution
F	too unreliable to be published
*	significantly different from reference category ($p < 0.05$)

Recent Developments in the Canadian Economy: Spring 2013

By Cyndi Bloskie and Guy Gellatly, Analytical Studies Branch

This article in the *Economic Insights* series provides users with a concise, integrated summary of recent changes in output, employment, household demand, international trade and prices. Organized as a statistical summary of major indicators, the report is designed to inform about ongoing developments in the Canadian economy, highlighting changes in the economic data during late 2012 and early 2013. Unless otherwise noted, the tabulations presented in this report are based on seasonally adjusted data available in CANSIM on April 30, 2013.

Employment growth outpaces production in late 2012

The pace of real output growth slowed during the second half of 2012. Real GDP edged up 0.2% in the fourth quarter, matching the third quarter increase. By comparison, production advanced by 0.8% during the first half of 2012. The cumulative growth of 0.3% during the last two quarters represented the smallest two-quarter increase in real GDP since mid-2009. Overall, real output expanded by 1.8% in 2012, following gains of 2.6% in 2011 and 3.2% in 2010.

Employment posted steady gains throughout 2012, with the exception of a slight dip in July. The economy created 310,000 jobs in 2012, with similar increases in the first and second halves of the year. On a year-over-year basis, the pace of employment growth began to surpass real output growth in October 2012. Employment retrenched early in the new year, however, as the economy lost 26,000 jobs in the first quarter of 2013. Real GDP advanced 0.3% in January, as manufacturing rebounded from December's decline. This pace was matched in February, led by mining and oil and gas extraction.

Household spending led GDP growth in late 2012

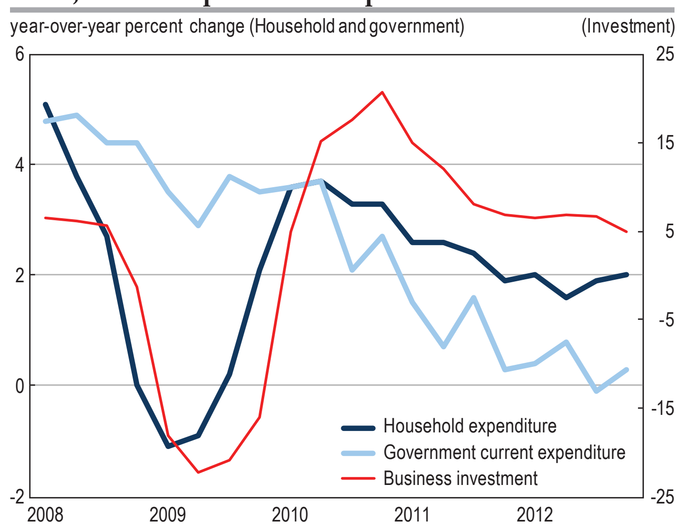
Real GDP growth in the second half of 2012 was led by household expenditures, which advanced 0.7% in both the third and fourth quarters. These mark the largest quarterly increases in household expenditures since the beginning of 2010, with demand increasing for both goods and services.

Non-residential business investment slowed in the second half of 2012, advancing by 1%—about one quarter of the pace of growth in the first half of the year. Slower growth in the second half of 2012 was primarily due to a slowdown in structures. This left non-residential business investment for the year up 6.2%, following growth of 10.4% in 2011. Investment in intellectual property products accelerated in the second half of 2012, while housing declined, marking the first six-month fall since the 2008-2009 recession. Nonetheless, due to a solid first half, growth in housing for the year was up 5.8%, three times the pace of housing investment in 2011.

Chart 1
GDP and employment

Source: Statistics Canada, CANSIM tables 282-0087, 379-0031.

Chart 2
GDP, selected expenditure components



Source: Statistics Canada, CANSIM table 380-0064.

Government current expenditures rose 0.4% for the year, the slowest pace since the outright declines of the mid-1990s. International trade contributed negatively to GDP growth during much of 2012, with the growth in imports outpacing exports in the first three quarters.

Industry output slows in the second half of 2012

Production in goods producing industries slowed further in the second half of 2012 as manufacturing output retreated by 1.6%, after a 1% decline in the first two quarters. Auto production accelerated during the first half of 2012, peaking in June. Since then, production in automotive industries has fallen by 8% to year-end. Production levels in information and communication and technology industries slowed during 2012, down by over one quarter from a recent peak in 2011. The production of other goods accelerated slightly in 2012, supported by gains in mining and oil and gas extraction in the second half, which rebounded from maintenance and repair shutdowns earlier in the year. The growth in services levelled-off, as slowdowns in consumer and business services offset expansion in public sector industries. Real GDP advanced by 0.3% in both January and February 2013, led by increases in manufacturing, and mining and oil and gas extraction respectively.

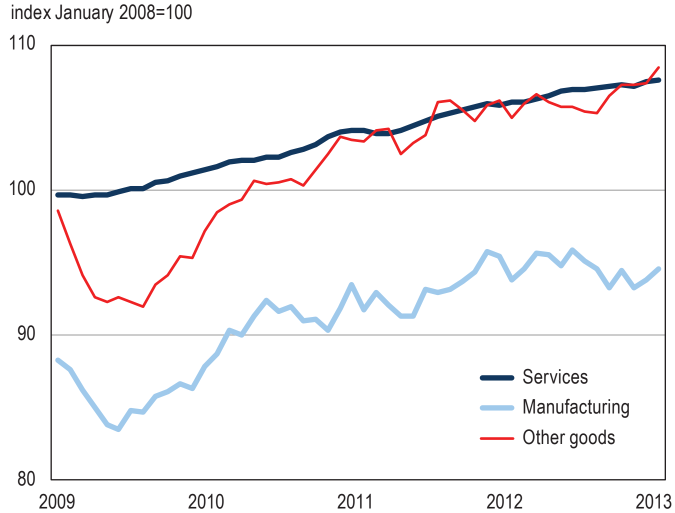
Employment gains in 2012 concentrated in full-time positions

The economy added 310,000 jobs in 2012, the most in one year since 2007. The growth in employment was predominately in full-time positions, marking the largest annual increase in full-time work in a decade. While employment grew at its fastest pace in four years, the unemployment rate returned to its pre-recession level of 7.1% at year-end as the labour force increased.

Over the first quarter of 2013, employment retrenched with a net loss of 26,000 jobs. This reflected net declines of 76,000 private sector employees and 25,000 public sector employees, partially offset by an increase of 74,000 self-employed workers. By March 2013, the unemployment rate edged up to 7.2%.

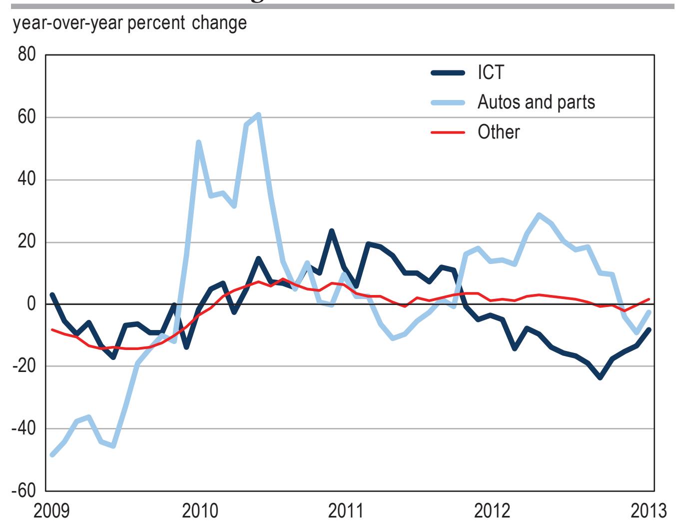
Quebec posted the largest employment gains for 2012, after being the only province to shed workers the year before, while Ontario continued to add employees for the third straight year. Together, Quebec and Ontario accounted for almost three-quarters of the overall net increase in jobs for the year. Employment advanced in all the western Provinces, while in the east, Nova Scotia and New Brunswick posted slight declines. Alberta edged out Saskatchewan at year end for the lowest unemployment rate in Canada at 4.5%. Newfoundland and Labrador maintained the highest rate at 11.6%, although this was down almost two percentage points from the start of the year.

Chart 3
GDP, selected aggregates



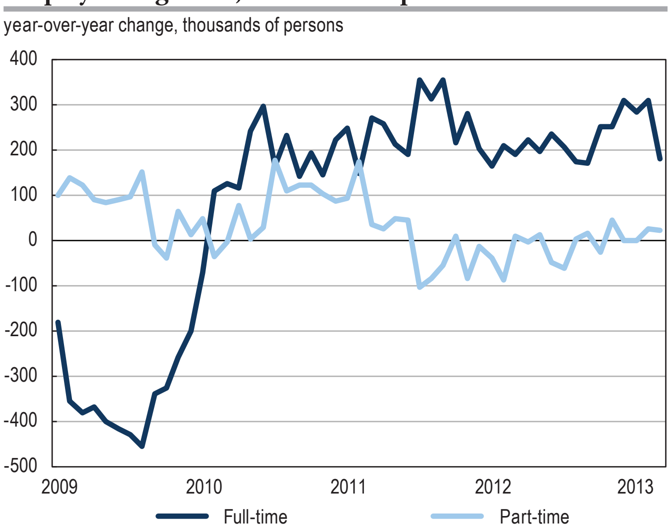
Source: Statistics Canada, CANSIM table 379-0031.

Chart 4
GDP - Manufacturing



Source: Statistics Canada, CANSIM table 379-0031.

Chart 5
Employment growth, full-time and part-time



Source: Statistics Canada, CANSIM table 282-0088.

For the first three months of the year, jobs declined by 38,000 in Quebec and Ontario, with a further 11,000 lost in British Columbia. Saskatchewan saw the largest job gains to March, with 11,000 workers added. This brought Saskatchewan's unemployment rate down to 3.9%, the lowest in the country, and almost a full percentage point below that of Alberta. Both Nova Scotia and New Brunswick recouped some of the job losses from the previous year.

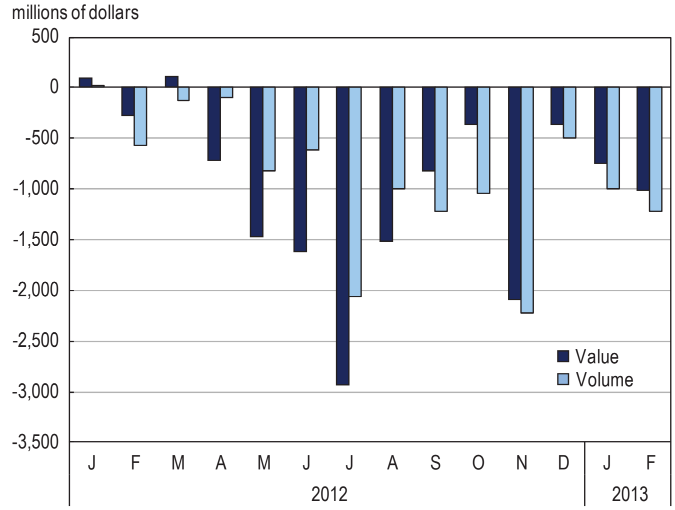
Merchandise trade deficit reflects lower trade volumes

Canada recorded a merchandise trade deficit of $12 billion in 2012, following a $912 million surplus in 2011. Following five previous quarters of growth, the value of Canadian exports declined during the first three quarters of 2012 but expanded slightly in the fourth quarter. The value of imports, which had increased steadily for six quarters to the second quarter of 2012, contracted in the second half of 2012. All the quarterly balances for 2012 were in deficit position, ranging from $72 million in the first to $5.3 billion in the third. Of the monthly balances, only January and March were in surplus positions. A similar pattern was observed for trade volumes, with deficits in all months except January, and the volume of imports outpacing exports by $10.3 billion for the year.

Early in 2013, the monthly trade deficit continued to widen, reaching $1 billion in February. Exports declined in 7 of the 11 export categories, led by metal and non-metallic mineral products, while imports continued to expand, supported by steady demand for motor vehicles and parts and consumer goods.

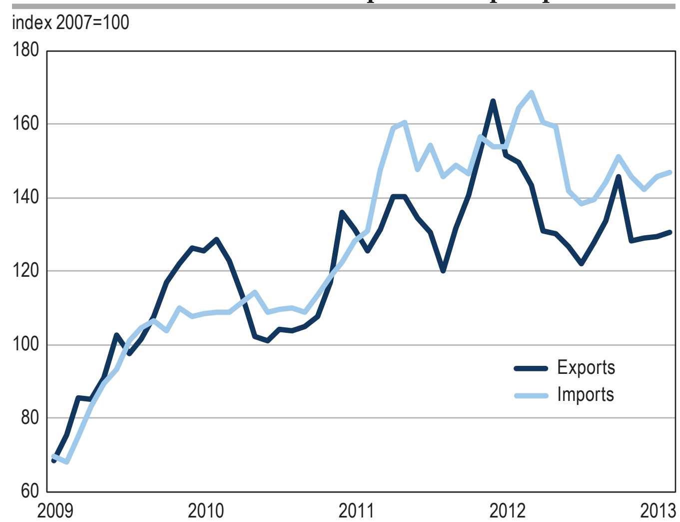
The size of Canada's overall trade deficit is mitigated by a longstanding merchandise trade surplus with the United States. The United States accounts for 73% of Canadian exports and 63% of Canadian imports, with energy products, motor vehicles and parts, and industrial machinery and equipment dominating trade flows. After two years of expansion, Canada's trade surplus with the United States narrowed in 2012 to $42 billion, less than half the $87.5 billion surplus recorded in 2008. Exports to China rose 15% in 2012, primarily due to canola seed and canola oil shipments. China has now surpassed Britain as Canada's second largest export destination.[1]

Chart 6
Merchandise trade balance



Source: Statistics Canada, CANSIM table 228-0059, 228-0061.

Chart 7
Crude oil and crude bitumen import and export prices



Source: Statistics Canada, CANSIM table 228-0059.

Crude oil export prices remain below import prices

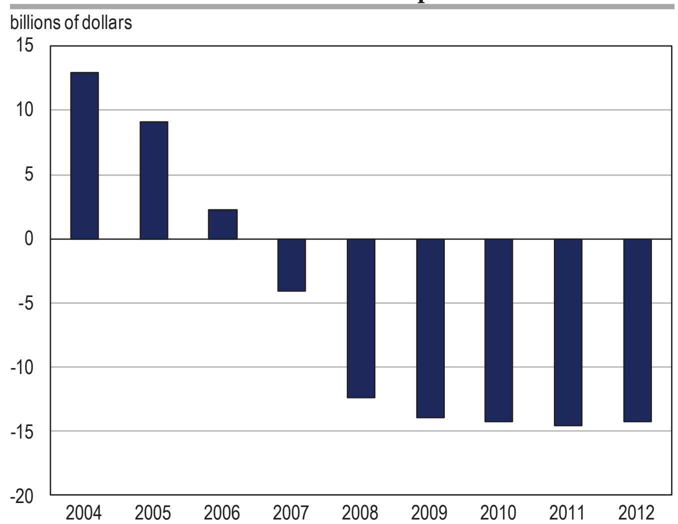
Exports of Canadian crude oil and crude oil bitumen peaked in February of 2012, both in nominal and volume terms. Since then, increasing pipeline capacity constraints to the United States dampened shipments, and export volumes declined by 5% to year end. Conversely, import volumes of crude oil increased 13% over the same time period. The capacity constraints also resulted in a widening differential between Canadian and world benchmark crude oil prices. Export prices for Canadian crude oil have remained below the import prices paid for foreign crude since the end of 2011, and this differential continued into 2013. Overall, exports of crude oil and crude oil bitumen accounted for 15.7% of Canada's nominal merchandise exports in 2012, while imports of crude oil accounted for 6.5% of nominal merchandise imports.

1. For information on country data, see http://strategis.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/home.

Trade deficit for motor vehicles and parts continues

A decade ago, trade in motor vehicles and parts accounted for about one quarter of merchandise imports and exports. These shares steadily declined, reaching lows of 15.5% and 12% in 2009. With strong demand for autos on both sides of the border in the post-recession period, the trade in autos and auto products has risen, to 17.5% of imports and 14.8% of exports in 2012. Despite import prices exceeding export prices in Canada in recent years, the growth in the volume of imports has surpassed the growth in the volume of exports. Nominal trade in autos has been in a deficit position for the past six years, reaching $14.3 billion in 2012, down slightly from its 2011 level. Sales of autos in Canada in 2012 reached the second highest level on record with 1.72 million vehicles purchased, although demand tapered off slightly at year end. Sales in the United States returned to pre-recession peaks and continued to increase into 2013.

Chart 8
Trade balance in motor vehicles and parts



Source: Statistics Canada, CANSIM table 228-0059.

Retail spending advances ahead of declines at year end

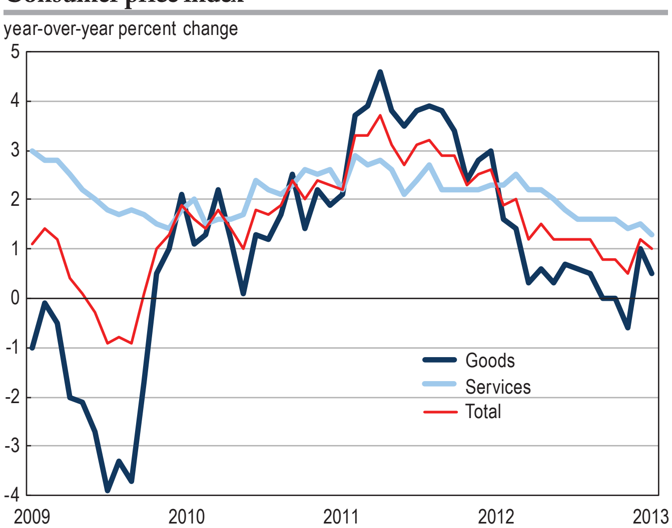
After little growth in the first half of 2012, retail sales posted five straight monthly increases before giving back all their gain in December as the demand for autos dropped off. Despite the December decline, the overall sales of autos for the year were the second largest on record. The volume of retail trade was essentially flat for most of the second half of the year, before decreasing 2% in December. Sales of electronics had likely been pulled forward into November due to new product releases and heavy discounting, while sales of furniture and home furnishings were likely dampened by the slowdown in housing. Retail sales rebounded in the new year, rising 0.9% in January, and 0.8% in February, as consumer spending on autos and electronics strengthened.

Housing starts moderate in recent months

Housing starts began to slow in the second half of 2012 after peaking at 253,000 units in April (seasonally adjusted at annual rates). Starts in December, at 197,000 units, were the low for the year. In January 2013, starts retreated to a level not seen since the summer of 2009, before rebounding to near 184,000 units in February and March.

Starts of urban single-family homes advanced consistently throughout the year, at an average of 67,000 units per month, and this trend continued into the new year. From their peak level in April, multi-family starts fell 31% to 111,000 units in December, before declining a further 30% in January. Multi-family starts then rallied in February and March, to just under 100,000 units. Lower housing demand throughout 2012 was mirrored in residential building permits, which contracted in ten out of twelve months before rebounding in January 2013. Permits retreated once again in February.

Chart 9
Consumer price index



Source: Statistics Canada, CANSIM table 326-0020.

The annual rate of inflation slows in 2012

The annual average rate of inflation for 2012 was 1.5%, down from 2.9% in 2011, which had been the fastest pace since 1991.[2] Year-over-year inflation decelerated steadily over the course of 2012, from a high of 2.6% in February to a low of 0.8% in November and December. Goods prices led the slowdown, with prices retreating for both durable and semi-durable goods. Durable goods prices decreased year-over-year in 10 out of the 12 months in 2012, and also into January 2013, primarily due to the discounting of home entertainment equipment and autos. Prices rose slightly in February and were flat in March. Clothing prices led the declines in the prices of semi-durables, retreating in 5 out of the 6 months in the second half of 2012, and again in January and February before rebounding in March. Prices for non-durable goods were relatively stable throughout the year as food prices moderated following upward pressure in 2011, and gasoline prices were little changed after steady declines in 2011. Increases in services prices, which had averaged nearly 2.3% year-over-year for two years, began to decelerate in 2012, led by

2. The data on consumer prices reported in this section are not seasonally adjusted.

mortgage interest cost. The March 2013 inflation rate of 1.3% for services was the lowest in 39 months.

Overall, the year-over-year rate of inflation declined to 0.5% in January 2013, before increasing to 1.2% in February. The faster increase in February was led by gains in the transportation index, which reflected higher prices for gasoline and passenger vehicles as manufacturers' rebates lapsed. Lower gas prices in March, however, slowed the year-over-year inflation rate to 1%.

Commodity prices pick up in the new year

Commodity prices began to rally in the late summer months of 2012, following widespread declines in June, led by a 14% drop in the energy index. After another contraction at year-end, commodity prices picked up once again early in the new year. Energy prices rose 12.5% to March from their December low, while forestry prices gained 8%, supported by the recovery in the United States housing market. Fish prices remained dampened by the oversupply of lobster early in 2012, while lower gold prices contributed to the weakness in the metals and minerals index.

Metals and mining stocks retreat into 2013

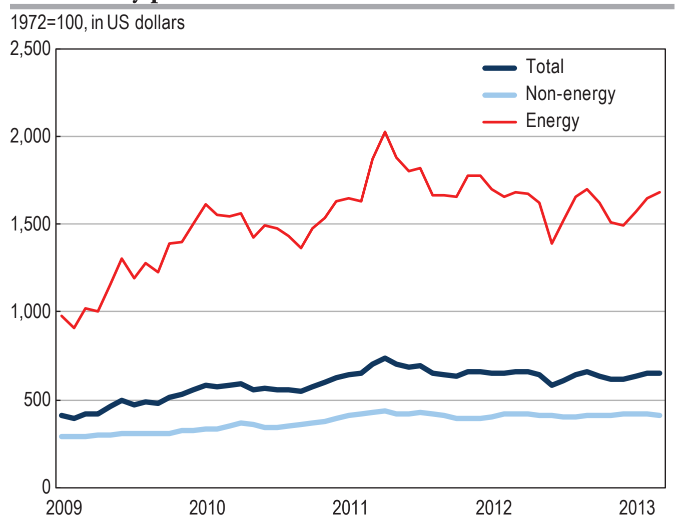
After across-the-board losses in May 2012, stock prices rallied with the S&P/TSX 300 gaining 8% by year-end. The bull market continued into 2013, with stocks up a further 3.1% by February, before dipping 0.6% in March. Metals and mining stocks, which led the recovery to December, gave back three-quarters of their 18.1% increase by March, as several large projects were cancelled or scaled back. Industrials and information technology stocks continued to build on their gains in the new year, while the rate of increase in consumer and financial stocks moderated. Gold stocks continued to retreat from the recent high in September, losing 26.9% in value to March.

From August 2012, the Canadian dollar was strengthened against the United States greenback and ended the year above parity. Since then, the Canadian dollar weakened and by March was two and a half cents below its American counterpart. The Bank rate and the Prime rate held steady at 1.2% and 3.0% respectively, where they have been since September, 2010.

Growth in consumer credit slows while business credit accelerates

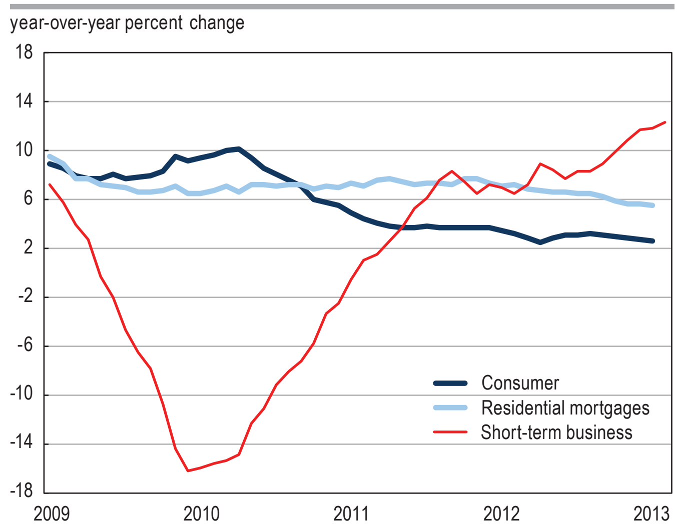
Household credit rose 2.2% in the second half of 2012, the slowest pace since the first half of 2001. Consistent with the slowdown in housing starts, demand for residential mortgages decelerated to a 2.5% increase after a 3.2% rise in the first six months of the year. Consumer credit rose 1.4%, matching the pace in the first half of 2012, and both were the slowest half-year increases since the end of 1992. Conversely, business credit accelerated by 4.2% in the last six months of the year, the fastest pace since 2000, with demand increasing for both short-term and other business credit. In January 2013, the level of short-term business credit returned to pre-recession levels and continued to expand in February.

Chart 10
Commodity price index



Source: Statistics Canada, CANSIM table 176-0075.

Chart 11
Credit



Source: Statistics Canada, CANSIM table 176-0032.