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Recent Developments in the Canadian Economy: Fall 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 <i>Statistics Act</i> |
| E | use with caution |
| F | too unreliable to be published |
| * | significantly different from reference category ($p < 0.05$) |

Recent Developments in the Canadian Economy: Fall 2013

by Cyndi Bloskie and Guy Gellatly, Analytical Studies Branch

This article in the *Economic Insights* series provides users with an 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 recent developments in the Canadian economy, highlighting changes in the economic data during the first half of 2013. Unless otherwise noted, the tabulations presented in this report are based on seasonally-adjusted data available in CANSIM on September 17, 2013.

The pace of output and employment growth began to converge early in 2013 as the previous gap between the year-over-year gains in real gross domestic product (GDP) and employment narrowed. Overall, real output, measured on an industry basis, and employment both averaged annual growth rates of about 1.4% in the first six months of the year.

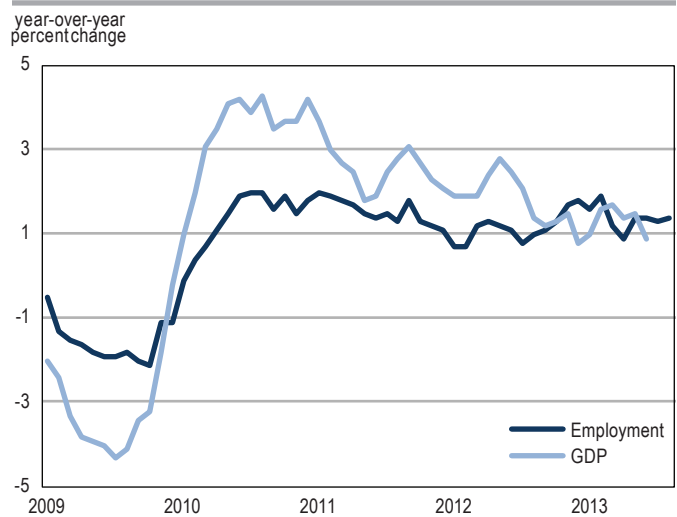
Led by employment in services, the economy added 81,000 net jobs over the first half of 2013, about half the number created during late 2012. Employment increased a further 20,000 in the summer months, although the unemployment rate remained steady at 7.1%.

Retail spending accelerated early in the year, as the demand for autos reached record levels. While the pace of housing starts slowed from 2012 levels, the number of residential building permits increased in 2013. Business investment, which had supported the economic recovery, contracted in the first half of the year. Despite a pickup in exports early in the year, the merchandise trade balance remained in a deficit position as imports outpaced exports for 19 consecutive months to July 2013.

GDP continued to expand at a moderate pace

On a quarterly basis, real GDP advanced 0.4% in the second quarter, following a first-quarter increase of 0.5%. In annualized terms, real GDP expanded by 1.7% in the second quarter of 2013, down from 2.2% in the first quarter. The composition of output growth differed in the first and second quarters of 2013 with household expenditures replacing exports as the main contributor to overall growth. GDP growth in the first quarter was largely trade-driven, as exports of goods and services advanced by 1.3%, the largest quarterly increase since the fourth quarter of 2011. Export growth slowed to 0.2% in the second quarter.

Chart 1
Output and employment



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

Household expenditures were the main contributor to GDP growth in the second quarter, advancing by 0.9%, up from 0.3% in the first three months of the year. Durable spending, led by vehicle purchases, grew by 3.2% in the second quarter, the largest quarterly increase since the first quarter of 2008.

Business investment contracted over the first six months of 2013, on declines of 0.3% in the first quarter and 0.1% in the second. Capital spending on non-residential structures, machinery and equipment, and intellectual property all declined in the second quarter of 2013. The contraction in non-residential business investment over the first six months of the year (-0.4%), followed on a 0.9% increase in the second half of 2012 and a gain of 4.1% in the first half. Non-residential business investment spending expanded by 14.5% in 2010 and 11.1% in 2011, supporting the overall economic recovery over this period.



Investment in residential structures advanced 0.2% during the first two quarters of 2013, as growth in the second quarter (1.3%) offset a decline in the first (-1.1%). This followed a decline of 0.5% over the last half of 2012.

Goods retreat while services advance

From an industry perspective, the real output of service industries expanded by 1.2% over the first six months of the year, while GDP in goods industries declined by 0.6%.¹ Mining and oil and gas industries contracted during April, May and June, amounting to a 4% decline overall, following six consecutive monthly increases.

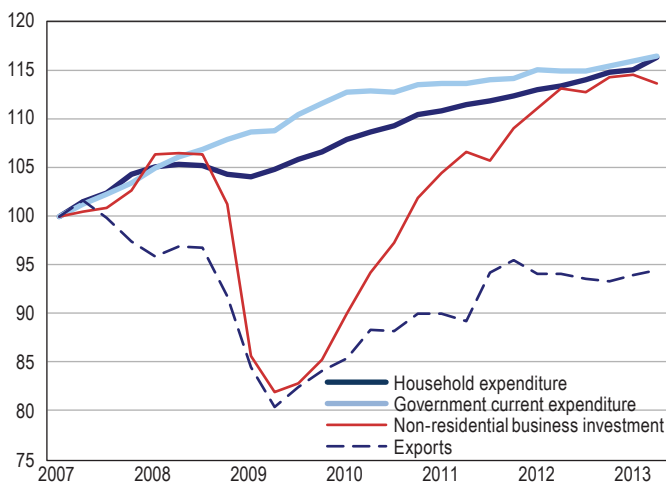
In particular, production levels in mining industries fell from April to June, due largely to lower levels in June (down 3.7% from May) led by coal and non-metallic minerals. Conversely, production levels in oil and gas extraction industries increased in June (up 2.1% from May) on the strength of non-conventional sources.

Construction and manufacturing also saw declines in the first half of 2013. Output in construction fell by 2.0% during this period, while manufacturing fell 1.4%, reflecting lower production levels in June.

In contrast, retail trade expanded by 1.7% during the first six months of 2013, following a decline of 0.2% over the last half of 2012. Motor vehicles led the gain, increasing by 6.4%. The output of finance industries expanded by 1.4%, while output in real estate industries grew by 1.9%.

Chart 2 GDP, selected aggregates

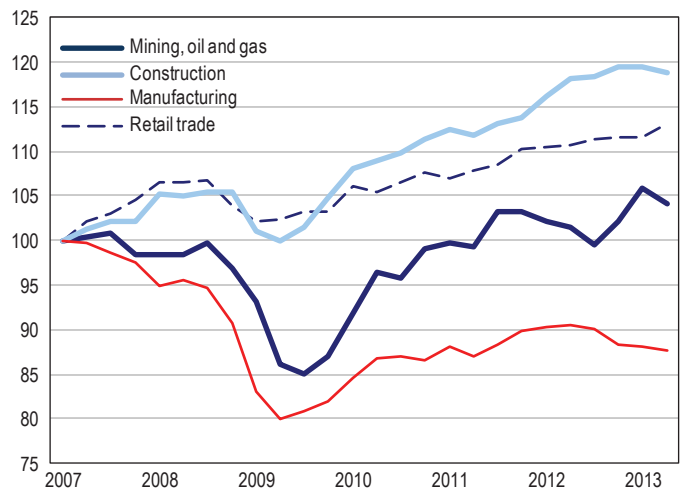
index Q1 2007=100



Source: Statistics Canada, CANSIM table 380-0084.

Chart 3 GDP by industry

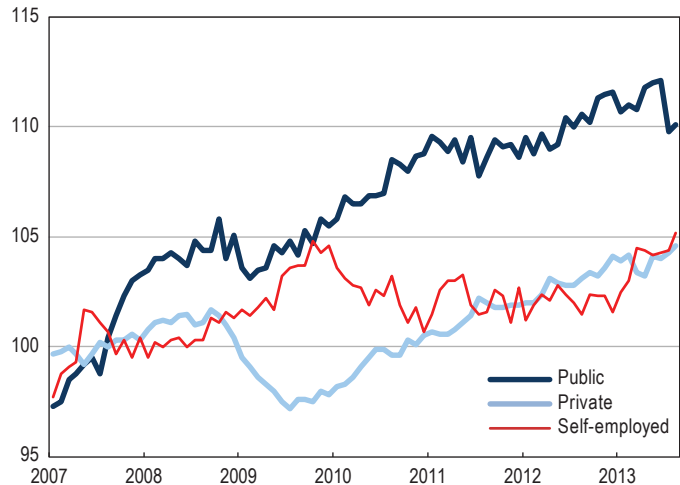
index Q1 2007=100



Source: Statistics Canada, CANSIM table 379-0031.

Chart 4 Employment by class of worker

index 2007=100



Source: Statistics Canada, CANSIM table 282-0089.

Private sector employment growth slowed in early 2013

The economy added 81,000 jobs in the first six months of 2013, half the net gain of 161,000 jobs during the last six months of 2012. While new full-time positions led employment growth at the end of last year, net job gains in the first half of 2013 were evenly split between full-time and part-time positions. Similarly, while employment growth in the last half of 2012 was concentrated among women, employment gains were more evenly divided between men and women over the first

1. The six month growth rate refers to the percentage change from December 2012 to June 2013 with the previous six month period being June 2012 to December 2012.



two quarters of 2013. Similar to employment, the labour force expanded by 78,000 workers in the first six months of 2013, half the net increase of the previous six month period. More recently, employment levels increased by an additional 20,000 during the summer months, with the majority of the increase concentrated in private sector jobs. The unemployment rate remained steady at 7.1%.

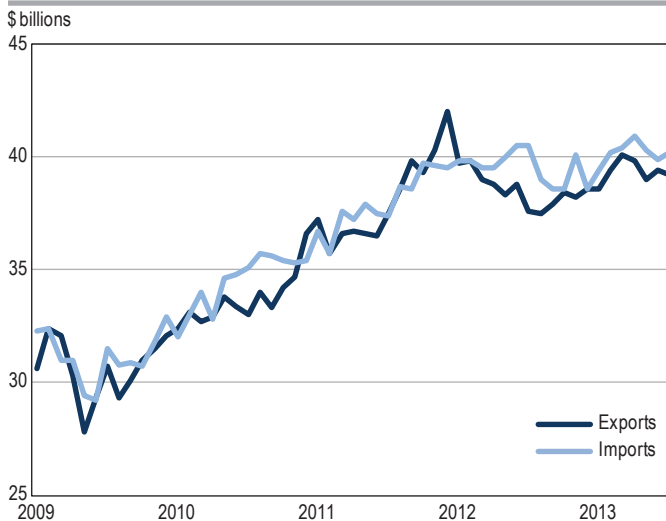
After steady gains over the past three years, private sector job growth stalled during the first half of 2013, before picking up heading into the summer months. Net job creation in the public sector slowed to half its pace of the previous six months, further retreating in July. At the same time, the number of self-employed ramped up early in 2013, and then slowed slightly into spring.

Growth in what is traditionally referred to as white-collar occupations has been relatively steady in recent years, as modest losses during the 2008-2009 recession were recouped by mid-2009. Conversely, employment in blue-collar occupations continued to decline until early 2010 and has not yet recovered to pre-recession levels.² After flattening at the end of 2012, employment gains in blue-collar occupations accelerated in the spring of 2013, outpacing the net increase in white-collar occupations.

Imports continued to outpace exports

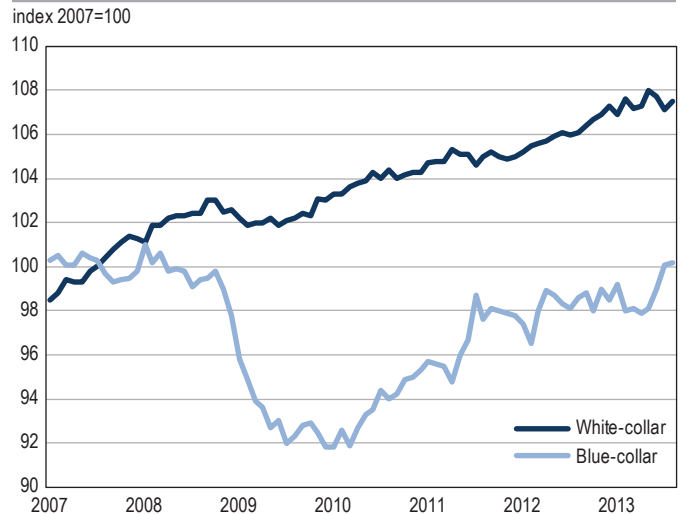
Merchandise imports continued to outpace exports in the first half of 2013, a pattern unchanged since the end of 2011, led by industrial machinery, equipment and chemicals. Demand for metal and non-metallic minerals was upbeat to start the year, but tapered off in May and June. Conversely, imports of crude oil and crude bitumen rebounded in June, after declining for six consecutive months. Crude imports in May were at the lowest level since early 2011.

Chart 6
Merchandise trade



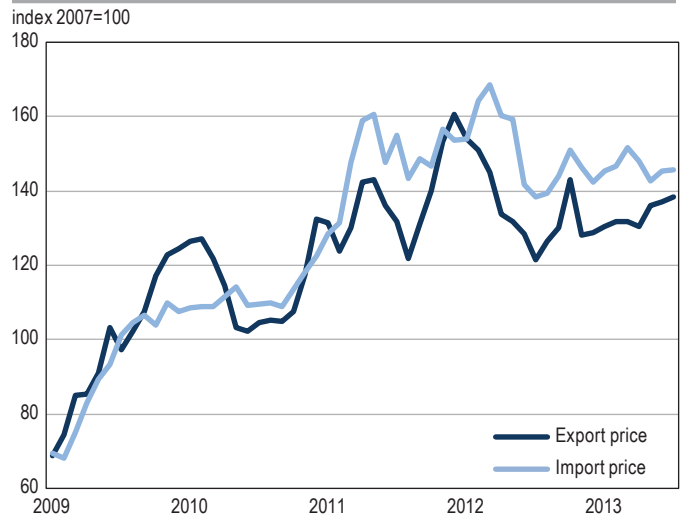
Source: Statistics Canada, CANSIM table 228-0001.

Chart 5
Employment by occupation



Source: Statistics Canada, CANSIM table 282-0093.

Chart 7
Crude oil



Source: Statistics Canada, CANSIM table 228-0063.

Merchandise exports in the six months to June were supported by steady foreign demand for motor vehicles, crude oil and forestry products, which were buoyed in part by the recovery in housing in the United States.

After rallying in the early months of 2013, export prices lost some ground in the second quarter. Export prices for metal ores and non-metallic minerals fell in five of the first six months of the year, while forestry prices began to retreat in April following six consecutive monthly gains. Import prices followed a similar trend, as overall export prices, but picked up again in June with a rebound in metal ore prices. As a result, Canada's overall terms of trade declined in June to rebound in July to levels observed at the start of the year.

2. White-collar jobs include positions such as in management, business, finance, administration, health, education, government, sales, services, culture, recreation and sport. Blue-collar workers are those in trades, transport, equipment operators, primary industries, processing, manufacturing and utilities. White-collar jobs account for about three-quarters of total employment.



In particular, crude oil export prices began a steady recovery in the first half of 2013. With import prices dipping in April and May, the price differential between exports and imports was the narrowest in sixteen months before widening slightly in June. Export volumes of crude peaked in February, reaching a record high, while import volumes heading into July were at a record low.

The price of Canadian heavy crude gained ground on the WTI benchmark as Canadian producers expanded their distribution activities to mitigate pipeline constraints. By June 2013, the per-barrel price differential was down to \$16 from the price gap of \$40 per barrel observed in January 2013.³ Railway carloadings of fuel oils and crude petroleum continued to expand in the western half of the country during the first half of 2013. Rail transport of crude currently accounts for about 5% of total railcar loadings, double its share in just three years.

Manufacturing sales remained essentially flat

Manufacturing sales remained essentially flat in the first half of 2013, as lower demand for non-durable goods was offset by a pickup in durable goods. Demand for food and textiles continued to retreat, while sales of transportation equipment rebounded, supported by motor vehicle assemblies and aerospace. Wood products continued their third year of rising sales, buoyed by the recovery in prices and housing starts across the border. Steady gains for chemicals, plastics and machinery were offset by declining demand for non-metallic minerals and primary and fabricated metals. Sales of petroleum products slipped, due to slowdowns in production for maintenance and retooling work.

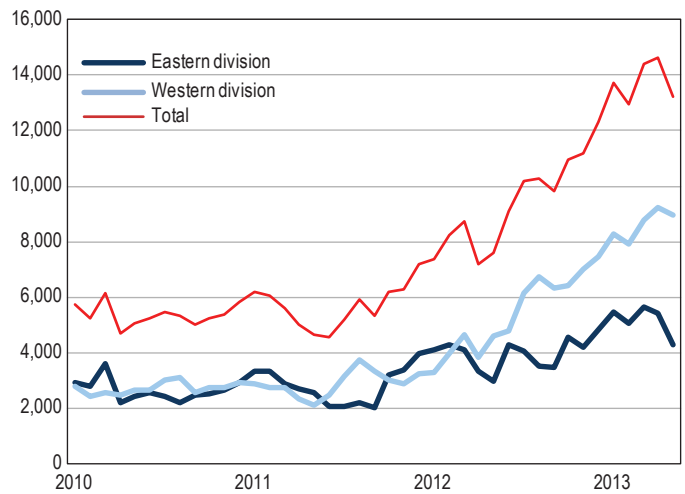
Retail spending driven by auto sales

Retail sales rose 3.1% in the first six months of 2013, the largest increase since the second half of 2010, led by rising demand for motor vehicles and parts as automakers introduced further incentives to purchase new vehicles, including 0% financing, longer financing terms, and increasing the cash back offered for trade-ins. By May and June 2013, auto sales were at record levels.⁴ Sales at general merchandise stores rebounded early in the year, with new retailers entering the market. Demand for electronics and appliances and miscellaneous retailers also picked up, after sluggish sales in the last half of 2012. Supermarkets and gasoline stations were the only subsectors to post declines, due in part to prices easing from year-earlier levels. In volume terms, retail sales rose 2.1% in the first half of 2013 following two consecutive half-year declines and marking the largest increase since the first six months of 2010.

Chart 8

Railway carloadings of fuel oils and crude petroleum

number of rail cars

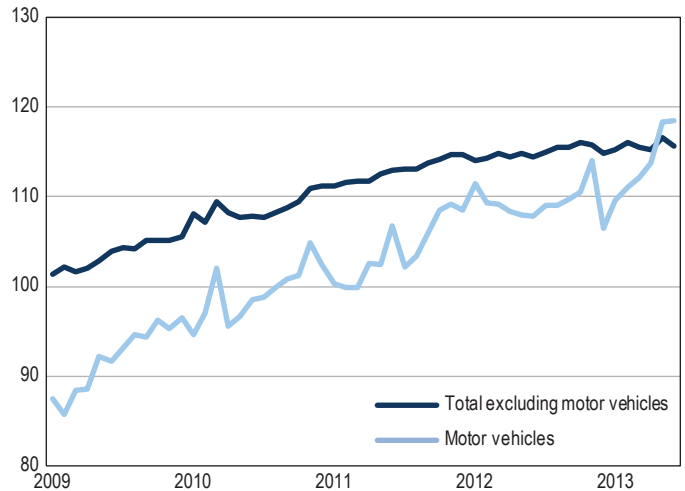


Source: Statistics Canada, CANSIM table 404-0002.

Chart 9

Retail sales

index 2007=100



Source: Statistics Canada, CANSIM table 080-0020.

Housing starts slow from 2012 levels

After a slower start to the year, housing starts increased in May and June to an average rate of 196,500 (seasonally adjusted at annual rates). However, this remained below the average of 212,000 in the last half of 2012 and starts retreated a further 8% by August. Demand for urban single family homes averaged near 63,000 in the first six months of the year, essentially

3. Jeffrey Jones, Oil Prices: Tight supply may yield Alberta Bitumen bump, Report on Business, Globe and Mail. 2013-07-11 p.B1. For further information regarding the impact on consumer prices see <http://www.statcan.gc.ca/daily-quotidien/130823/dq130823a-eng.pdf>.

4. Sales of motor vehicles and parts accounted for much of the overall growth in retail spending during the first half of 2013. While total retail sales advanced by \$1.2 billion over the six months to June, retail sales on motor vehicles and parts amounted to just under \$1 billion. For further information on the automotive industry see: Recent Trends in Canadian Automotive Industries, <http://www.statcan.gc.ca/pub/11-626-x/11-626-x2013026-eng.htm>.



unchanged since 2011, despite a recent increase in the vacancy rate. By August, starts for single family homes eased to just above 58,000, the slowest monthly pace since the summer of 2009. Groundbreaking on multi-family units was slower to start the year, but rebounded in the spring, reaching an average of almost 116,000 units for May and June. This still remained almost 30% below the recent peak in April 2012 and by August starts on multi-family homes fell a further 10%. In August, multi-family housing starts in Montreal, Toronto and Vancouver accounted for 54% of the total, down from the recent peak of 62% a year earlier.

Residential building permits advanced in four of the six months to June, following six straight monthly declines in the last half of 2012. While Quebec and Ontario have long accounted for over half of residential building permits, by August, Alberta was just 6% below the level in Quebec. New housing prices continued to increase during the first half of 2013, albeit at a slower pace. The year-over-year growth of 1.8% posted in May and June 2013 was the smallest increase in three years.

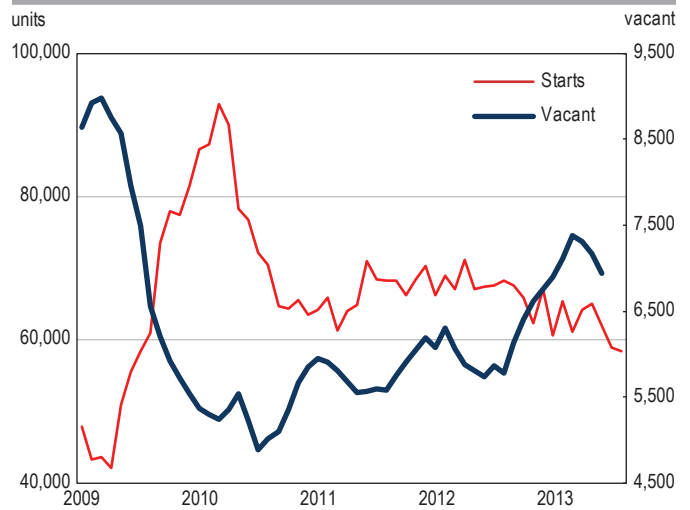
Commodity prices continued to strengthen in 2013

Commodity prices continued to rally in the first half of 2013, rising 6.2% following a 4.6% increase in the last six months of 2012. By August 2013, prices gained a further 2.8%, returning to levels observed early in 2012. Energy prices strengthened, advancing 18% following their 6.4% recovery in the previous half-year period, supported by crude oil prices. Gains in fish and agriculture prices partially offset a fall in forestry, although forestry prices strengthened heading into the summer months. Metals and minerals retreated to July, led by declines in gold, aluminum and copper prices, until picking up slightly in August.

Consumer prices increase led by gasoline

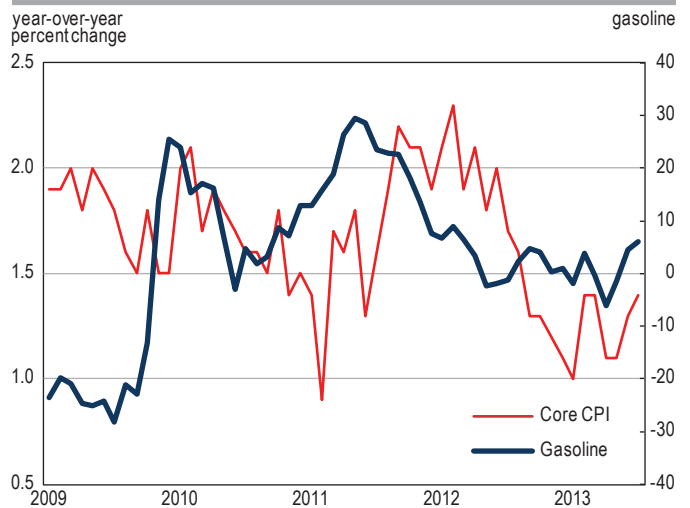
The consumer price index (non-seasonally adjusted) rose 1.5% in the first six months of 2013, after falling slightly in the last half of 2012. Goods prices increased after retreating in the previous period, led by non-durable goods. Gasoline prices recovered almost 10%, after declining at half that rate in the previous six months, while food prices rose slightly as increases for fish and vegetables were partially offset by declines elsewhere. Prices of services advanced after no change to end 2012. Mortgage interest costs continued to exert downward pressure on overall prices,

Chart 10
Single family homes



Source: Statistics Canada, CANSIM tables 027-0010, 027-0051.

Chart 11
Consumer price index



Source: Statistics Canada, CANSIM table 326-0020.

as they have since the beginning of 2009, declining almost 13% from then to June 2013.



Stock prices retreat on declines in metals and mining

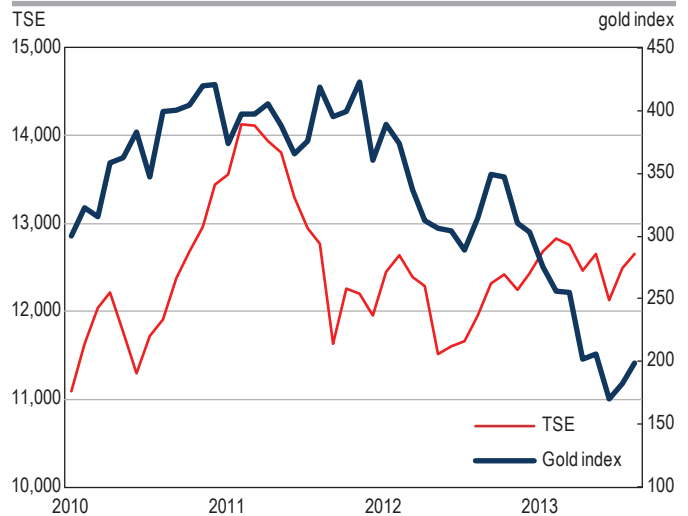
The stock market retreated by 2.5% in the first six months of 2013, following a 7.2% rally in the last half of 2012. Stock prices have retreated in the four out of past five six-month periods, led by declines in gold, materials and metals and mining. From its recent peak at the end of 2010, the gold index fell 60% to June 2013, before a slight pickup in July and August. Stock prices for energy also declined for four of the past five half-year periods, down a further 2.4% in the first six months of 2013, while stocks more related to consumer demand rallied. By August, the stock market gained a further 4.3% on the increase in industrials.

After remaining above parity with the U.S. dollar since mid-2012, the Canadian dollar began to depreciate at the start of the year, losing 4.2% to reach 96.9 cents by June. In July and August the dollar was roughly unchanged at 96 cents. The dollar held steady against the British pound, while gaining almost 5% against the Japanese yen over the same time period. Both the bank rate and the prime rate remained unchanged in August at 1.2% and 3% respectively, as they have since September 2010.

Demand for consumer and business credit moderates

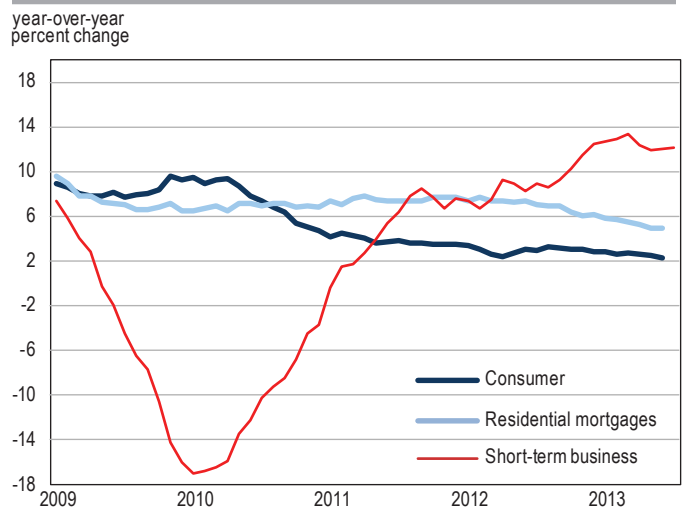
Total household credit in the first six months of the year expanded at its slowest half-year pace since an outright decline at the end of 1982. Consumer credit was up 0.8% after averaging half-year increases of 1.7% since the end of 2010. The 2.2% half-year rise in residential mortgage credit was the slowest pace in 12 years despite continued record low interest rates. In May, the five-year closed mortgage rate dipped to 2.84%, before rising above 3% later in the summer. Growth in business credit also moderated in the first six months of 2013 as demand for short-term credit tapered off.

Chart 12
Stock markets



Source: Statistics Canada, CANSIM table 176-0047.

Chart 13
Credit



Source: Statistics Canada, CANSIM tables 176-0027, 176-0069, 176-0023.

