



# Canadian economic accounts quarterly review



First quarter 2004



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## Symbols

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|                |  |
|----------------|--|
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| ..             | not available for a specific reference period  |
| ...            | not applicable   |
| 0              | true zero or a value rounded to zero   |
| 0 <sup>S</sup> | 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   |

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System of National Accounts

# Canadian economic accounts quarterly review

First quarter 2004

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## Related products and services

### GDP by income and by expenditure

|   |  |
|---|--|
| CANSIM tables   | 378-0001, 378-0002, 380-0001 to 380-0017, 380-0019 to 380-0035, 380-0037, 380-0056 to 380-0058, 382-0006, 384-0001, 384-0002, 384-0004 to 384-0013, and 384-0036 |
| Publication:  |  |
| National income and expenditure accounts, quarterly estimates | 13-001-XIB   |
| Tables and analytical documents:                              |  |
| Income and expenditure accounts                               | 13-001-PPB   |
| Financial flow accounts                                       | 13-014-PPB   |
| Estimates of labour income                                    | 13F0016XPB   |
| Provincial economic accounts                                  | 13-213-PPB   |
| Spreadsheets  | 13-001-DDB, 13-014-DDB, 13F0016DDB, 13-213-DDB, 13-001-XDB, 13-014-XDB, 13F0016XDB, 13-213-XDB   |

### GDP by industry

|                                    |                      |
|------------------------------------|----------------------|
| CANSIM tables                      | 379-0017 to 379-0022 |
| Publication:                       |                      |
| Gross domestic product by industry | 15-001-XIE           |

### Balance of international payments

|  |   |
|--|---|
| CANSIM tables                              | 376-0001 to 376-0036 and 376-0060 to 376-0061 |
| Publication:                               |   |
| Canada's balance of international payments | 67-001-XIE                                    |

### Labour productivity, hourly compensation and unit labour cost

|                               |                       |
|-------------------------------|-----------------------|
| CANSIM tables                 | 383-0008 and 383-0015 |
| Publication:                  |                       |
| Productivity growth in Canada | 15-204-XIE            |

### International investment position

|  |   |
|--|---|
| CANSIM tables                              | 376-0037 to 376-0042 and 376-0051 to 376-0059 |
| Publication:                               |   |
| Canada's international investment position | 67-202-XIE                                    |

### National balance sheet accounts

|  |                        |
|--|------------------------|
| CANSIM tables  | 378-0003 to 378-0010   |
| Publication:   |                        |
| National balance sheet accounts, quarterly estimates | 13-214-XIE             |
| Spreadsheets   | 13-214-DDB, 13-214-XDB |

### Latest developments in the Canadian economic accounts

|              |            |
|--------------|------------|
| Publication: | 13-605-XIE |
|--------------|------------|

## Table of contents

|   |           |
|---|-----------|
| <b>Overview</b> .....   | <b>6</b>  |
| <b>Revisions in this issue</b> .....  | <b>6</b>  |
| <b>GDP by income and by expenditure</b> .....                                 | <b>8</b>  |
| Consumer spending rebounds .....  | 8         |
| Labour income makes gains .....   | 9         |
| Corporate profits reach record high .....                                     | 9         |
| Business investment in housing remains strong .....                           | 9         |
| Business investment in machinery and equipment picks up .....                 | 9         |
| Non-farm inventories drawn down .....   | 9         |
| Demand for exports continues to recover .....                                 | 10        |
| Imports flat .....  | 10        |
| <b>GDP by industry</b> .....  | <b>17</b> |
| Industry overview, March 2004 .....   | 17        |
| Autos drive manufacturing sector .....  | 17        |
| Consumers regain confidence .....   | 18        |
| Travel and tourism industries .....   | 18        |
| Industry overview, first quarter 2004 .....                                   | 18        |
| <b>Balance of international payments</b> .....                                | <b>22</b> |
| Current account .....   | 22        |
| Goods surplus rebounds .....  | 22        |
| Lower profits earned on direct investment abroad .....                        | 23        |
| Services deficit remains stable .....   | 23        |
| Financial account .....   | 23        |
| Direct investment abroad moderate .....                                       | 23        |
| Canadian investment in foreign securities concentrated in bonds .....         | 24        |
| Foreign direct investment returns to Canada after two negative quarters ..... | 24        |
| Foreign portfolio investment in Canadian securities continues .....           | 24        |
| Other investment .....  | 25        |
| <b>Labour productivity, hourly compensation and unit labour cost</b> .....    | <b>28</b> |
| Productivity increased only in the services sector .....                      | 28        |
| Wage costs continue to be under control in the business sector .....          | 29        |
| US outpaces Canada for four straight quarters .....                           | 29        |
| Annual productivity growth in Canada is flat .....                            | 29        |
| Strong Canadian dollar hurt competitive position of Canadian businesses ..... | 30        |
| Productivity gaps narrow following recent revisions in Canada .....           | 31        |
| <b>International investment position</b> .....                                | <b>36</b> |
| Rising Canadian assets abroad .....   | 36        |
| Foreign direct investment in Canada on the rise .....                         | 37        |
| Sharp decline in foreign holdings of Canadian money market paper .....        | 37        |
| Canada's net foreign liabilities with the United States increase .....        | 37        |
| New data available on market value of portfolio investment .....              | 37        |
| <b>National balance sheet accounts</b> .....                                  | <b>39</b> |
| National net worth advanced .....   | 39        |
| Household net worth advanced, as debt load also increased further .....       | 39        |

|  |           |
|--|-----------|
| <b>The 2000-2003 revisions of the Income and Expenditure Accounts</b> .....                                    | <b>42</b> |
| Introduction .....   | 42        |
| Income and Expenditure Accounts revisions .....  | 42        |
| Impact of the revisions on GDP .....   | 42        |
| Revisions to income aggregates (table 3) .....   | 43        |
| Revisions to expenditure aggregates at current prices (table 4) .....  | 43        |
| Revisions to price indexes .....   | 44        |
| <b>Balance sheet estimates at market value</b> .....   | <b>52</b> |
| Introduction .....   | 52        |
| What is new with the first quarter 2004 balance sheet accounts? .....  | 52        |
| Market value versus book value assets and liabilities, and data needs .....                                    | 52        |
| Market value data .....  | 52        |
| Book value data .....  | 52        |
| Approach to developing market value estimates .....  | 53        |
| Non-financial assets .....   | 53        |
| Financial instruments .....  | 53        |
| Brief overview of forthcoming developments .....   | 54        |
| <b>Recent trends in household net worth</b> .....  | <b>55</b> |
| Introduction .....   | 55        |
| Financial asset growth dominated by marketable equity securities as well as pension and investment funds ..... | 55        |
| Investment and gains in the value of residential real estate led growth in non-financial assets .....          | 56        |
| Household sector debt outpaced income but not wealth .....   | 56        |
| Household balance sheets still strong .....  | 57        |

## About this publication

This publication presents an overview of the economic developments reported in Canada's national accounts for the most recent quarter. The overview covers several broad areas: 1) Gross domestic product (GDP) by income and by expenditure, 2) GDP by industry, 3) Balance of international payments accounts, 4) Labour productivity and other related variables, 5) International investment position and 6) National balance sheet accounts.

The publication examines quarterly trends in the major aggregates that comprise GDP, both income- and expenditure-based, as well as prices and the financing of economic activity by institutional sector. GDP is also examined by industry, both for the last month of the quarter and the quarter as a whole. Canada's transactions with non-residents related to international trade, investment income flows, transfers and international investing and financing activities are summarized. The quarterly productivity estimates are meant to assist in the analysis of the short-run relationship between the fluctuations of output, employment, compensation and hours worked. Complete national balance sheets provide estimates of Canada's wealth. Canada's financial position with the rest of the world is also articulated. The overview is accompanied by graphics and several detailed statistical tables. Some issues also contain more technical articles, explaining national accounts methodology or analysing a particular aspect of the economy.

This publication carries the detailed analyses, charts and statistical tables that, prior to its first issue, were released in *The Daily* (11-001-XIE) under the headings National Economic and Financial Accounts, Canada's Balance of International Payments and Gross Domestic Product by industry.

## Revision policy

### **GDP by income and by expenditure, Balance of international payments, Labour productivity, hourly compensation and unit labour cost, International investment position, National balance sheet accounts**

Preceding quarters of the year are revised when the current quarter is published. Each year revisions extending back four years are made with the publication of first quarter data. They are not normally revised again except when historical revisions are carried out.

### **GDP by industry**

Revisions arise from updates to benchmark data, projectors and seasonal adjustment. January to June: Back to the beginning of the previous year; July: Back to January of fifth previous year; August to December: Back to January of current year. Occasionally, there are historical revisions due to conceptual, methodological and classification changes - the most recent with the July 2002 GDP release.

## Overview

First quarter 2004

Real Gross Domestic Product (GDP) grew 0.6% in the first quarter of 2004, boosted by a resurgence of consumer spending and continued growth in exports. Following a flat performance in January and February, the quarter ended on a strong note, as GDP shot up 0.7% in March. This was the sharpest increase in monthly GDP since the bounce back from the power blackout in August 2003.

### Real Gross domestic product, chained (1997) dollars<sup>1</sup>

|                     | Change | Annualized<br>change | Year-over-<br>year change |
|---------------------|--------|----------------------|---------------------------|
|                     | %      |                      |                           |
| First quarter 2003  | 0.7    | 2.8                  | 3.1                       |
| Second quarter 2003 | -0.2   | -0.7                 | 2.0                       |
| Third quarter 2003  | 0.3    | 1.4                  | 1.3                       |
| Fourth quarter 2003 | 0.8    | 3.3                  | 1.7                       |
| First quarter 2004  | 0.6    | 2.4                  | 1.6                       |

<sup>1</sup> The change is the growth rate from one period to the next. The annualized change is the growth compounded annually. The year-over-year change is the growth of a given quarter compared with the same quarter in a previous year.

Renewed consumer spending and a pick up in the growth of business investment pushed domestic demand to 1.2%, twice the pace of the fourth quarter of 2003. Retailers reported widespread gains, as shoppers increased their purchases of everything from new motor vehicles to shoes. Inventories were built up, but at a much slower pace than in the previous seven quarters.

The rally of the Canadian dollar came to a halt, as the Canada-US exchange rate remained unchanged in the first quarter. Exports continued to recover on demand for energy products and machinery and equipment, but remained below their peak in the fourth quarter of 2000, while imports were flat.

Industrial production advanced 0.7% in the first quarter, the third straight increase, with all major components (mining, utilities and manufacturing) reporting gains. In the United States, the index of industrial production increased 1.5%, as higher utilities and manufacturing output offset a slight decline in mining.

Economy-wide prices, as measured by the chain price index for GDP, rose 1.2%, the fastest rate in four quarters. Excluding energy, the index was up 0.8%. Overall, the Canadian economy grew at an annualized 2.4% in the first quarter of 2004, compared with an annualized 4.4% for the US economy.

## Revisions in this issue

### GDP by income and by expenditure, Balance of international payments

With this release revisions have been made back to the first quarter of 2000.

### International investment position, National balance sheet accounts:

With this release revisions have been made back to the first quarter of 1990.

### GDP by industry:

Since the March release of the *Canadian economic accounts quarterly review*, revisions were made back to January 2003.

### Labour productivity, hourly compensation and unit labour cost

With this release revisions have been made back to the first quarter of 2000. However, the hourly compensation series have been revised beginning with the first quarter of 1997.



## Canadian economic accounts key indicators[1]

|  | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002                    | 2003                    |
|--|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|-------------------------|-------------------------|
| Seasonally adjusted at annual rates, millions of dollars at current prices |                           |                          |                           |                          |                           |                          |                         |                         |
| <b>GDP by income and by expenditure</b>                                    |                           |                          |                           |                          |                           |                          |                         |                         |
| Wages, salaries and supplementary labour income                            | 603,596<br><i>1.3</i>     | 609,020<br><i>0.9</i>    | 610,460<br><i>0.2</i>     | 614,552<br><i>0.7</i>    | 620,840<br><i>1.0</i>     | 626,016<br><i>0.8</i>    | 592,692<br><i>4.0</i>   | 613,718<br><i>3.5</i>   |
| Corporation profits before taxes   | 146,504<br><i>1.7</i>     | 159,680<br><i>9.0</i>    | 142,180<br><i>-11.0</i>   | 148,916<br><i>4.7</i>    | 154,064<br><i>3.5</i>     | 163,408<br><i>6.1</i>    | 137,480<br><i>8.6</i>   | 151,210<br><i>10.0</i>  |
| Interest and miscellaneous investment income                               | 49,220<br><i>3.0</i>      | 49,872<br><i>1.3</i>     | 51,548<br><i>3.4</i>      | 53,308<br><i>3.4</i>     | 51,304<br><i>-3.8</i>     | 53,076<br><i>3.5</i>     | 48,188<br><i>-9.0</i>   | 51,508<br><i>6.9</i>    |
| Net income of unincorporated business                                      | 76,528<br><i>1.5</i>      | 77,224<br><i>0.9</i>     | 77,688<br><i>0.6</i>      | 78,160<br><i>0.6</i>     | 79,232<br><i>1.4</i>      | 80,724<br><i>1.9</i>     | 74,730<br><i>6.8</i>    | 78,076<br><i>4.5</i>    |
| Taxes less subsidies   | 142,088<br><i>1.0</i>     | 139,924<br><i>-1.5</i>   | 139,428<br><i>-0.4</i>    | 144,664<br><i>3.8</i>    | 146,596<br><i>1.3</i>     | 148,732<br><i>1.5</i>    | 139,259<br><i>7.5</i>   | 142,653<br><i>2.4</i>   |
| Personal disposable income   | 700,012<br><i>0.6</i>     | 707,264<br><i>1.0</i>    | 712,876<br><i>0.8</i>     | 714,548<br><i>0.2</i>    | 719,504<br><i>0.7</i>     | 727,172<br><i>1.1</i>    | 692,691<br><i>3.8</i>   | 713,548<br><i>3.0</i>   |
| Personal saving rate[2]  | 2.0<br><i>...</i>         | 1.7<br><i>...</i>        | 2.0<br><i>...</i>         | 0.7<br><i>...</i>        | 1.3<br><i>...</i>         | 0.5<br><i>...</i>        | 3.2<br><i>...</i>       | 1.4<br><i>...</i>       |
| Seasonally adjusted at annual rates, millions of chained (1997) dollars    |                           |                          |                           |                          |                           |                          |                         |                         |
| Personal expenditure on consumer goods and services                        | 608,492<br><i>1.0</i>     | 613,183<br><i>0.8</i>    | 618,084<br><i>0.8</i>     | 624,729<br><i>1.1</i>    | 625,780<br><i>0.2</i>     | 634,148<br><i>1.3</i>    | 601,594<br><i>3.4</i>   | 620,444<br><i>3.1</i>   |
| Government current expenditure on goods and services                       | 201,803<br><i>0.9</i>     | 203,647<br><i>0.9</i>    | 206,608<br><i>1.5</i>     | 206,820<br><i>0.1</i>    | 208,788<br><i>1.0</i>     | 209,343<br><i>0.3</i>    | 198,902<br><i>2.8</i>   | 206,466<br><i>3.8</i>   |
| Gross fixed capital formation  | 215,809<br><i>-0.6</i>    | 219,629<br><i>1.8</i>    | 221,037<br><i>0.6</i>     | 227,857<br><i>3.1</i>    | 230,826<br><i>1.3</i>     | 234,599<br><i>1.6</i>    | 214,350<br><i>2.4</i>   | 224,837<br><i>4.9</i>   |
| Investment in inventories  | 11,234<br><i>...</i>      | 17,271<br><i>...</i>     | 14,698<br><i>...</i>      | 3,434<br><i>...</i>      | 12,150<br><i>...</i>      | 922<br><i>...</i>        | 2,079<br><i>...</i>     | 11,888<br><i>...</i>    |
| Exports of goods and services  | 448,247<br><i>-2.1</i>    | 442,704<br><i>-1.2</i>   | 436,945<br><i>-1.3</i>    | 434,813<br><i>-0.5</i>   | 444,732<br><i>2.3</i>     | 451,567<br><i>1.5</i>    | 450,568<br><i>1.1</i>   | 439,799<br><i>-2.4</i>  |
| Imports of goods and services  | 398,032<br><i>-0.6</i>    | 400,836<br><i>0.7</i>    | 404,169<br><i>0.8</i>     | 401,081<br><i>-0.8</i>   | 417,823<br><i>4.2</i>     | 418,295<br><i>0.1</i>    | 391,070<br><i>1.4</i>   | 405,977<br><i>3.8</i>   |
| Gross domestic product at market prices                                    | 1,086,368<br><i>0.5</i>   | 1,093,793<br><i>0.7</i>  | 1,091,782<br><i>-0.2</i>  | 1,095,469<br><i>0.3</i>  | 1,104,391<br><i>0.8</i>   | 1,110,917<br><i>0.6</i>  | 1,074,621<br><i>3.4</i> | 1,096,359<br><i>2.0</i> |
| <b>GDP by industry</b>   |                           |                          |                           |                          |                           |                          |                         |                         |
| Goods producing industries   | 316,054<br><i>0.0</i>     | 317,827<br><i>0.6</i>    | 314,861<br><i>-0.9</i>    | 316,599<br><i>0.6</i>    | 321,565<br><i>1.6</i>     | 324,010<br><i>0.8</i>    | 313,380<br><i>1.9</i>   | 317,713<br><i>1.4</i>   |
| Services producing industries  | 689,375<br><i>0.7</i>     | 692,708<br><i>0.5</i>    | 694,389<br><i>0.2</i>     | 697,050<br><i>0.4</i>    | 701,565<br><i>0.6</i>     | 705,113<br><i>0.5</i>    | 681,647<br><i>4.2</i>   | 696,428<br><i>2.2</i>   |
| Industrial production  | 241,015<br><i>-0.2</i>    | 240,853<br><i>-0.1</i>   | 237,476<br><i>-1.4</i>    | 238,088<br><i>0.3</i>    | 241,942<br><i>1.6</i>     | 243,631<br><i>0.7</i>    | 239,278<br><i>2.4</i>   | 239,590<br><i>0.1</i>   |
| Non-durable manufacturing  | 73,303<br><i>0.2</i>      | 73,081<br><i>-0.3</i>    | 72,289<br><i>-1.1</i>     | 71,995<br><i>-0.4</i>    | 72,811<br><i>1.1</i>      | 72,873<br><i>0.1</i>     | 72,531<br><i>3.1</i>    | 72,544<br><i>0.0</i>    |
| Durable manufacturing  | 104,914<br><i>-0.9</i>    | 104,637<br><i>-0.3</i>   | 102,419<br><i>-2.1</i>    | 101,881<br><i>-0.5</i>   | 104,555<br><i>2.6</i>     | 105,540<br><i>0.9</i>    | 104,182<br><i>2.7</i>   | 103,373<br><i>-0.8</i>  |
| Information and communication technologies sector (ICT)                    | 55,991<br><i>0.8</i>      | 56,617<br><i>1.1</i>     | 56,667<br><i>0.1</i>      | 56,625<br><i>-0.1</i>    | 57,237<br><i>1.1</i>      | 57,712<br><i>0.8</i>     | 55,361<br><i>1.8</i>    | 56,786<br><i>2.6</i>    |
| Manufacturing  | 178,309<br><i>-0.5</i>    | 177,810<br><i>-0.3</i>   | 174,796<br><i>-1.7</i>    | 173,963<br><i>-0.5</i>   | 177,461<br><i>2.0</i>     | 178,513<br><i>0.6</i>    | 176,808<br><i>2.9</i>   | 176,008<br><i>-0.5</i>  |
| Agriculture, forestry, fishing and hunting                                 | 21,900<br><i>1.3</i>      | 23,097<br><i>5.5</i>     | 23,326<br><i>1.0</i>      | 23,878<br><i>2.4</i>     | 23,918<br><i>0.2</i>      | 23,870<br><i>-0.2</i>    | 21,412<br><i>-3.5</i>   | 23,555<br><i>10.0</i>   |
| Construction   | 53,053<br><i>0.8</i>      | 54,037<br><i>1.9</i>     | 54,385<br><i>0.6</i>      | 55,071<br><i>1.3</i>     | 56,119<br><i>1.9</i>      | 56,932<br><i>1.4</i>     | 52,555<br><i>1.7</i>    | 54,903<br><i>4.5</i>    |
| Wholesale trade  | 60,937<br><i>1.5</i>      | 62,605<br><i>2.7</i>     | 62,315<br><i>-0.5</i>     | 62,113<br><i>-0.3</i>    | 64,098<br><i>3.2</i>      | 62,831<br><i>-2.0</i>    | 59,635<br><i>8.1</i>    | 62,783<br><i>5.3</i>    |
| Retail trade   | 55,290<br><i>0.8</i>      | 55,825<br><i>1.0</i>     | 56,070<br><i>0.4</i>      | 56,539<br><i>0.8</i>     | 56,055<br><i>-0.9</i>     | 57,546<br><i>2.7</i>     | 54,905<br><i>5.5</i>    | 56,122<br><i>2.2</i>    |

1 The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line, italicized, is the period to period percentage change at quarterly rates.

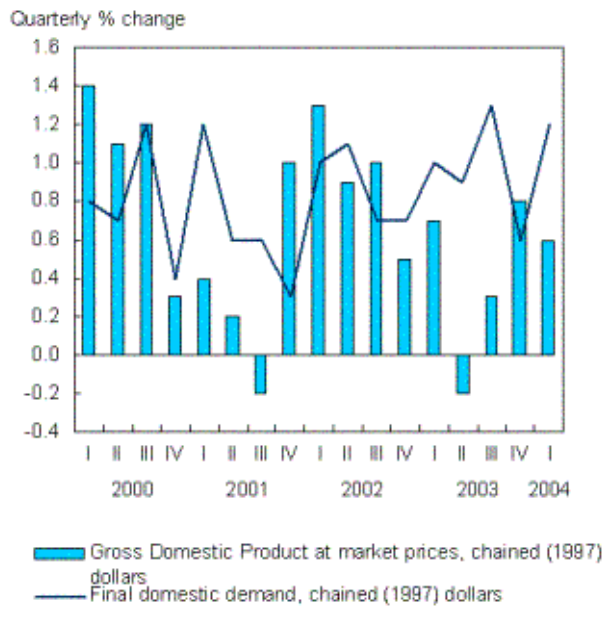
2 Actual rate.

## GDP by income and by expenditure

First quarter 2004

Economic growth slowed to 0.6% in the first quarter from 0.8% in the previous quarter. Renewed strength in consumer spending, a pick up of business investment, and higher exports contributed to economic growth. Final domestic demand grew 1.2%, double the pace of the previous quarter. Inventories were built up, but at a much slower pace than in the previous seven quarters.

### GDP grew 0.6% in first quarter



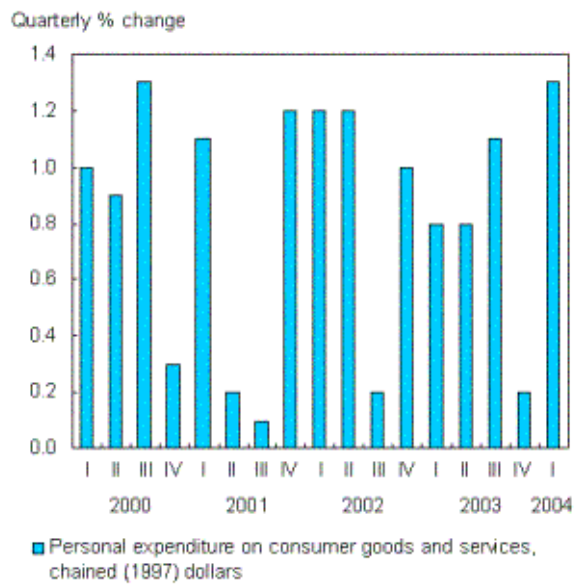
The Canadian economy grew at an annualized rate of 2.4% in the first quarter, down from 3.3% in the fourth. For comparison, the US economy grew at an annualized rate of 4.4% in the first quarter, similar to the 4.1% posted in the last quarter of 2003.

Economy-wide prices as measured by the chain price index for GDP rose 1.2%, the fastest rate in four quarters. Excluding energy, the index was up 0.8%.

### Consumer spending rebounds

Consumer spending increased 1.3% in the first quarter compared to the flat 0.2% posted in the fourth. Purchases of semi-durable goods (+3.7%) and durable goods (+1.9%) recorded the strongest gains. Purchases of clothing and footwear jumped 4.1%, the strongest advance in decades.

### Consumer spending bounced back



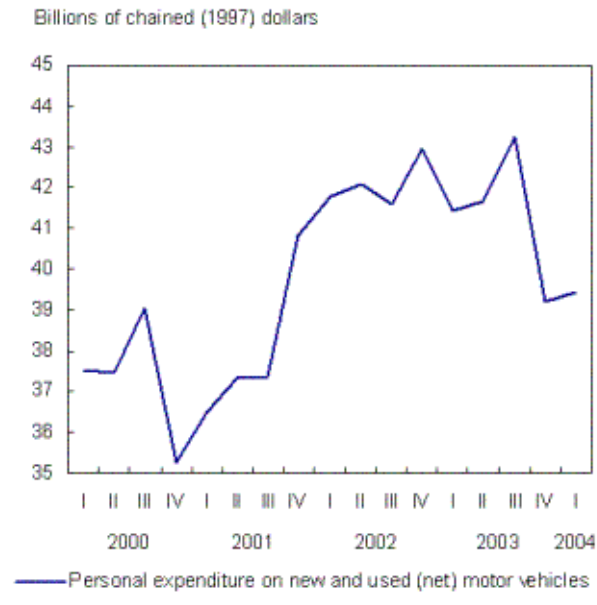
Purchases of furniture, furnishings and household equipment increased a substantial 3.2%, helped by the boom in housing and home renovations. Consumers spent 4.4% more on household appliances and 3.8% more on semi-durable household furnishings.

Spending on recreation, entertainment, education and cultural services increased 1.4% after a flat fourth quarter. While at a decade high, expenditures by Canadians travelling abroad slowed considerably, following two very strong quarters. Trips to the US slowed, while trips overseas declined.

Food and non-alcoholic beverage consumption was up 1.1%, more than twice the pace in the fourth quarter, helped by lower food prices over the winter months. Consumers also spent more on medical care and health services, notably drugs and pharmaceutical products (+3.7%).

Demand for motor vehicle repairs and parts increased 5.9% in the first quarter, helping boost consumer spending on transportation and communication. Consumers purchased more new and used motor vehicles (+0.6%) than in the fourth quarter when their outlays dropped off significantly (-9.3%). Despite lucrative financial incentives, the purchases of new passenger cars declined again but not as sharply, while purchases of new trucks and vans were up.

### Purchases of motor vehicles edged up



### Labour income makes gains

Labour income increased 0.8% in the first quarter, in line with the growth posted over the previous two quarters. Wage bills increased in the mining, oil, and gas extraction industries (+2.2%), but edged up in manufacturing (+0.2%) and public administration (+0.4%).

Few new workers were added to the labour force as employment growth decelerated in the first quarter to 0.3% from 0.9% in the fourth, mostly due to a reduction in part-time jobs. Employment advanced 0.5% in Ontario, despite some company restructuring, short-term plant shutdowns, and a work stoppage in February and March in rail transportation.

Personal disposable income increased 1.1% in the first quarter. With consumer spending (at current prices) increasing faster, the saving rate fell to 0.5% from 1.3% in the previous quarter. Household borrowing increased, and the debt-to-income ratio rose to 103.8 (i.e., households carried one dollar and four cents of debt for each dollar of disposable income).

### Corporate profits reach record high

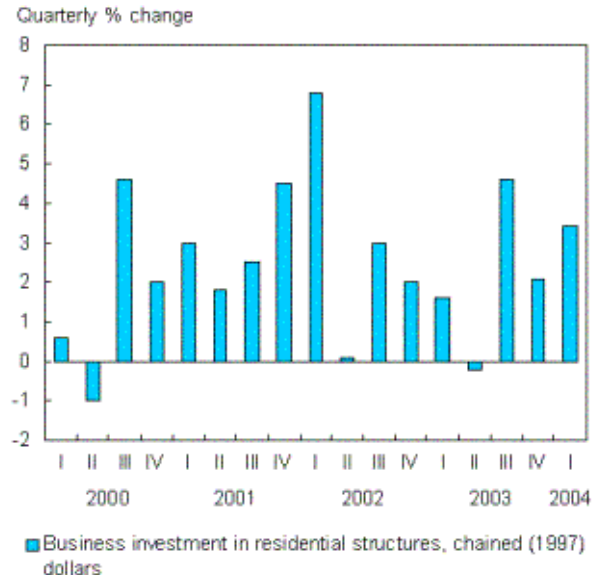
Corporate profits posted a healthy 6.1% increase in the first quarter, to reach a record high, driven by strength in the mineral fuels and manufacturing industries. Government business enterprise profits were also up markedly with the strength coming mainly from provincial government owned electric-power utilities.

The net lending position of corporations improved notably, due in part to weak investment in fixed capital and a selling off of inventories.

### Business investment in housing remains strong

Historically low mortgage rates and robust growth in personal disposable income continued to fuel the housing market. Business investment in residential structures increased 3.4% in the first quarter, up from 2.1% in the fourth. Expenditures on new housing construction, alterations and improvements, and transfer costs all increased. Sales of single dwellings were up 5.2%, while multiple dwellings were up 8.3%.

### Investment in housing remained strong



### Business investment in machinery and equipment picks up

Business investment in machinery and equipment was up 1.6% in the first quarter, after growing 0.8% in the previous quarter, spurred in a large part by purchases of industrial machinery and telecommunications equipment.

In contrast business investment in non-residential structures declined by 1.1%, mainly due to a 3.1% decline in building construction, such as office towers and shopping malls.

Overall, business investment in plant and equipment slowed to 0.5% in the first quarter from 0.8% in the fourth.

### Non-farm inventories drawn down

Almost all businesses, except for wholesalers, reduced inventories in the first quarter. Retailers reduced inventories of both durable and non-durable goods as a result of increased consumer spending. Retailers of motor vehicles substantially reduced their inventories, while wholesalers accumulated motor vehicles.

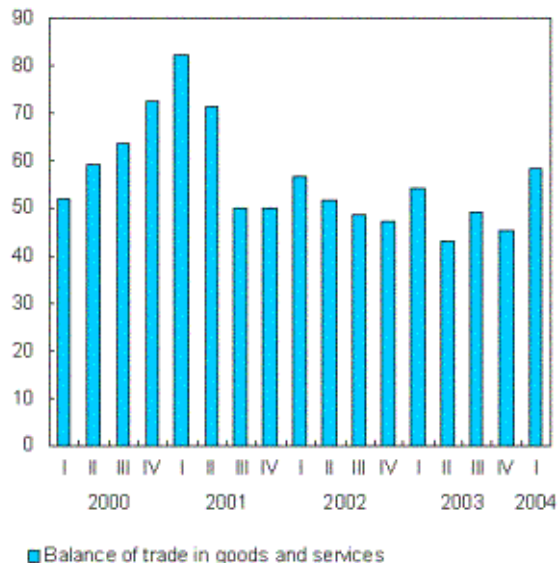
Inventories in utilities were also down on higher export demand.

**Demand for exports continues to recover**

Exports grew 1.5% in the first quarter, continuing the recovery in foreign demand established in the previous quarter. Higher exports coupled with weak imports boosted the surplus on trade in goods and services (at current prices) by 30%.

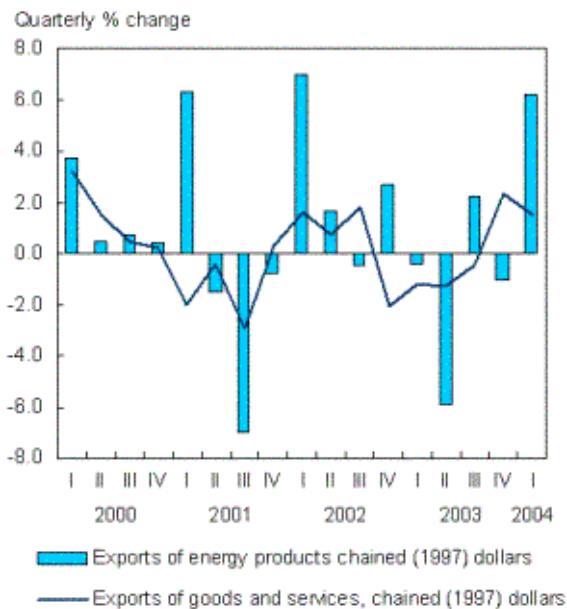
**Substantial increase in trade surplus**

Billions of current dollars, seasonally adjusted at annual rates



The increase in exports was driven by 6.2% increases in shipments abroad of both machinery and equipment and energy products, especially natural gas. Exports of industrial goods and materials were up 1.4%, following upon the strong 6.7% growth posted in the previous quarter.

**Energy sector sustained export growth**



The demand for forestry products rebounded 0.9% from a decline of 0.4% in the fourth quarter, spurred by expansion of the US housing market. The demand for automotive products remained very weak throughout 2003, with the exception of the fourth quarter, and slipped again in the first quarter (-1.2%).

**Imports flat**

Imports increased by only 0.1%, as shipments from abroad were down for many products, except agriculture and fish products, industrial goods and materials and machinery and equipment. Machinery and equipment imports were up 2.7%, the best showing in four consecutive quarters of gains. Import demand for energy products dropped off 1.1% in the first quarter, following two strong quarters.

**Gross domestic product, income-based, current prices and quarterly percentage change[1]**

|  | Fourth<br>quarter<br>2002             | First<br>quarter<br>2003              | Second<br>quarter<br>2003              | Third<br>quarter<br>2003              | Fourth<br>quarter<br>2003             | First<br>quarter<br>2004              | 2002                                  | 2003                                  |
|--|---------------------------------------|---------------------------------------|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Seasonally adjusted data at annual rates, millions of dollars  |                                       |                                       |  |                                       |                                       |                                       |                                       |                                       |
| Wages, salaries and supplementary labour income                | 603,596<br><i>1.3</i>                 | 609,020<br><i>0.9</i>                 | 610,460<br><i>0.2</i>                  | 614,552<br><i>0.7</i>                 | 620,840<br><i>1.0</i>                 | 626,016<br><i>0.8</i>                 | 592,692<br><i>4.0</i>                 | 613,718<br><i>3.5</i>                 |
| Corporation profits before taxes                               | 146,504<br><i>1.7</i>                 | 159,680<br><i>9.0</i>                 | 142,180<br><i>-11.0</i>                | 148,916<br><i>4.7</i>                 | 154,064<br><i>3.5</i>                 | 163,408<br><i>6.1</i>                 | 137,480<br><i>8.6</i>                 | 151,210<br><i>10.0</i>                |
| Government business enterprise profits before taxes            | 12,044<br><i>-4.4</i>                 | 13,876<br><i>15.2</i>                 | 10,600<br><i>-23.6</i>                 | 10,544<br><i>-0.5</i>                 | 11,552<br><i>9.6</i>                  | 13,704<br><i>18.6</i>                 | 11,478<br><i>9.5</i>                  | 11,643<br><i>1.4</i>                  |
| Interest and miscellaneous investment income                   | 49,220<br><i>3.0</i>                  | 49,872<br><i>1.3</i>                  | 51,548<br><i>3.4</i>                   | 53,308<br><i>3.4</i>                  | 51,304<br><i>-3.8</i>                 | 53,076<br><i>3.5</i>                  | 48,188<br><i>-9.0</i>                 | 51,508<br><i>6.9</i>                  |
| Accrued net income of farm operators from farm production      | 1,340<br><i>70.9</i>                  | 1,232<br><i>-8.1</i>                  | 792<br><i>-35.7</i>                    | 252<br><i>-68.2</i>                   | 500<br><i>98.4</i>                    | 644<br><i>28.8</i>                    | 889<br><i>-45.6</i>                   | 694<br><i>-21.9</i>                   |
| Net income of non-farm unincorporated business, including rent | 75,188<br><i>0.8</i>                  | 75,992<br><i>1.1</i>                  | 76,896<br><i>1.2</i>                   | 77,908<br><i>1.3</i>                  | 78,732<br><i>1.1</i>                  | 80,080<br><i>1.7</i>                  | 73,841<br><i>8.0</i>                  | 77,382<br><i>4.8</i>                  |
| Inventory valuation adjustment                                 | -2,136<br>...                         | 3,232<br>...                          | 11,012<br>...                          | 2,832<br>...                          | 2,428<br>...                          | -1,620<br>...                         | -2,959<br>...                         | 4,876<br>...                          |
| Taxes less subsidies, on factors of production                 | 54,236<br><i>0.9</i>                  | 54,212<br><i>-0.0</i>                 | 55,328<br><i>2.1</i>                   | 55,836<br><i>0.9</i>                  | 56,484<br><i>1.2</i>                  | 56,816<br><i>0.6</i>                  | 53,721<br><i>2.2</i>                  | 55,465<br><i>3.2</i>                  |
| <b>Net domestic product at basic prices</b>                    | <b>939,992</b><br><b><i>1.7</i></b>   | <b>967,116</b><br><b><i>2.9</i></b>   | <b>958,816</b><br><b><i>-0.9</i></b>   | <b>964,148</b><br><b><i>0.6</i></b>   | <b>975,904</b><br><b><i>1.2</i></b>   | <b>992,124</b><br><b><i>1.7</i></b>   | <b>915,330</b><br><b><i>3.7</i></b>   | <b>966,496</b><br><b><i>5.6</i></b>   |
| Taxes less subsidies, on products                              | 87,852<br><i>1.1</i>                  | 85,712<br><i>-2.4</i>                 | 84,100<br><i>-1.9</i>                  | 88,828<br><i>5.6</i>                  | 90,112<br><i>1.4</i>                  | 91,916<br><i>2.0</i>                  | 85,538<br><i>11.1</i>                 | 87,188<br><i>1.9</i>                  |
| Capital consumption allowances                                 | 159,284<br><i>1.1</i>                 | 161,228<br><i>1.2</i>                 | 163,192<br><i>1.2</i>                  | 165,520<br><i>1.4</i>                 | 167,672<br><i>1.3</i>                 | 169,812<br><i>1.3</i>                 | 156,146<br><i>5.8</i>                 | 164,403<br><i>5.3</i>                 |
| Statistical discrepancy  | 276<br>...                            | 824<br>...                            | 924<br>...                             | 956<br>...                            | 36<br>...                             | 1,824<br>...                          | 954<br>...                            | 685<br>...                            |
| <b>Gross domestic product at market prices</b>                 | <b>1,187,404</b><br><b><i>1.6</i></b> | <b>1,214,880</b><br><b><i>2.3</i></b> | <b>1,207,032</b><br><b><i>-0.6</i></b> | <b>1,219,452</b><br><b><i>1.0</i></b> | <b>1,233,724</b><br><b><i>1.2</i></b> | <b>1,255,676</b><br><b><i>1.8</i></b> | <b>1,157,968</b><br><b><i>4.5</i></b> | <b>1,218,772</b><br><b><i>5.3</i></b> |

1 The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line, italicized, is the period to period percentage change at quarterly rates.

**Gross domestic product, expenditure-based, current prices and quarterly percentage change[1]**

|   | Fourth<br>quarter<br>2002             | First<br>quarter<br>2003              | Second<br>quarter<br>2003              | Third<br>quarter<br>2003              | Fourth<br>quarter<br>2003             | First<br>quarter<br>2004              | 2002                                  | 2003                                  |
|---|---------------------------------------|---------------------------------------|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Seasonally adjusted data at annual rates, millions of dollars |                                       |                                       |  |                                       |                                       |                                       |                                       |                                       |
| Personal expenditure on consumer goods and services           | 671,840<br><i>1.5</i>                 | 680,656<br><i>1.3</i>                 | 684,216<br><i>0.5</i>                  | 694,632<br><i>1.5</i>                 | 695,324<br><i>0.1</i>                 | 708,196<br><i>1.9</i>                 | 657,302<br><i>5.5</i>                 | 688,707<br><i>4.8</i>                 |
| Durable goods   | 93,824<br><i>2.5</i>                  | 93,168<br><i>-0.7</i>                 | 93,572<br><i>0.4</i>                   | 95,208<br><i>1.7</i>                  | 90,772<br><i>-4.7</i>                 | 92,148<br><i>1.5</i>                  | 92,052<br><i>8.4</i>                  | 93,180<br><i>1.2</i>                  |
| Semi-durable goods  | 57,284<br><i>1.0</i>                  | 57,900<br><i>1.1</i>                  | 58,248<br><i>0.6</i>                   | 58,392<br><i>0.2</i>                  | 58,640<br><i>0.4</i>                  | 60,568<br><i>3.3</i>                  | 56,900<br><i>4.3</i>                  | 58,295<br><i>2.5</i>                  |
| Non-durable goods   | 163,856<br><i>2.1</i>                 | 168,572<br><i>2.9</i>                 | 166,764<br><i>-1.1</i>                 | 168,884<br><i>1.3</i>                 | 168,804<br><i>-0.0</i>                | 172,728<br><i>2.3</i>                 | 158,504<br><i>5.3</i>                 | 168,256<br><i>6.2</i>                 |
| Services  | 356,876<br><i>1.1</i>                 | 361,016<br><i>1.2</i>                 | 365,632<br><i>1.3</i>                  | 372,148<br><i>1.8</i>                 | 377,108<br><i>1.3</i>                 | 382,752<br><i>1.5</i>                 | 349,846<br><i>5.1</i>                 | 368,976<br><i>5.5</i>                 |
| Government current expenditure on goods and services          | 229,380<br><i>1.7</i>                 | 232,324<br><i>1.3</i>                 | 236,548<br><i>1.8</i>                  | 238,812<br><i>1.0</i>                 | 243,160<br><i>1.8</i>                 | 246,416<br><i>1.3</i>                 | 223,677<br><i>6.0</i>                 | 237,711<br><i>6.3</i>                 |
| Government gross fixed capital formation                      | 29,992<br><i>-0.3</i>                 | 31,204<br><i>4.0</i>                  | 31,348<br><i>0.5</i>                   | 31,572<br><i>0.7</i>                  | 31,880<br><i>1.0</i>                  | 32,748<br><i>2.7</i>                  | 29,617<br><i>9.7</i>                  | 31,501<br><i>6.4</i>                  |
| Government investment in inventories                          | -68<br><i>...</i>                     | -4<br><i>...</i>                      | 44<br><i>...</i>                       | 28<br><i>...</i>                      | -8<br><i>...</i>                      | -92<br><i>...</i>                     | -45<br><i>...</i>                     | 15<br><i>...</i>                      |
| Business gross fixed capital formation                        | 200,812<br><i>0.4</i>                 | 202,604<br><i>0.9</i>                 | 201,196<br><i>-0.7</i>                 | 208,660<br><i>3.7</i>                 | 211,040<br><i>1.1</i>                 | 214,780<br><i>1.8</i>                 | 197,828<br><i>3.8</i>                 | 205,875<br><i>4.1</i>                 |
| Residential structures  | 68,856<br><i>3.5</i>                  | 70,412<br><i>2.3</i>                  | 71,024<br><i>0.9</i>                   | 75,380<br><i>6.1</i>                  | 78,212<br><i>3.8</i>                  | 80,976<br><i>3.5</i>                  | 65,829<br><i>19.4</i>                 | 73,757<br><i>12.0</i>                 |
| Non-residential structures                                    | 48,952<br><i>-1.0</i>                 | 50,336<br><i>2.8</i>                  | 50,576<br><i>0.5</i>                   | 51,456<br><i>1.7</i>                  | 52,252<br><i>1.5</i>                  | 52,156<br><i>-0.2</i>                 | 49,686<br><i>-6.1</i>                 | 51,155<br><i>3.0</i>                  |
| Machinery and equipment                                       | 83,004<br><i>-1.3</i>                 | 81,856<br><i>-1.4</i>                 | 79,596<br><i>-2.8</i>                  | 81,824<br><i>2.8</i>                  | 80,576<br><i>-1.5</i>                 | 81,648<br><i>1.3</i>                  | 82,313<br><i>-0.3</i>                 | 80,963<br><i>-1.6</i>                 |
| Business investment in inventories                            | 8,368<br><i>...</i>                   | 14,600<br><i>...</i>                  | 11,524<br><i>...</i>                   | -2,576<br><i>...</i>                  | 7,100<br><i>...</i>                   | -3,176<br><i>...</i>                  | -568<br><i>...</i>                    | 7,662<br><i>...</i>                   |
| Non-farm  | 10,280<br><i>...</i>                  | 13,800<br><i>...</i>                  | 10,260<br><i>...</i>                   | -4,520<br><i>...</i>                  | 4,936<br><i>...</i>                   | -5,148<br><i>...</i>                  | 1,094<br><i>...</i>                   | 6,119<br><i>...</i>                   |
| Farm  | -1,912<br><i>...</i>                  | 800<br><i>...</i>                     | 1,264<br><i>...</i>                    | 1,944<br><i>...</i>                   | 2,164<br><i>...</i>                   | 1,972<br><i>...</i>                   | -1,662<br><i>...</i>                  | 1,543<br><i>...</i>                   |
| Exports of goods and services                                 | 485,380<br><i>-0.4</i>                | 486,680<br><i>0.3</i>                 | 454,720<br><i>-6.6</i>                 | 452,796<br><i>-0.4</i>                | 452,188<br><i>-0.1</i>                | 468,160<br><i>3.5</i>                 | 479,358<br><i>-0.8</i>                | 461,596<br><i>-3.7</i>                |
| Goods   | 418,276<br><i>-0.6</i>                | 423,400<br><i>1.2</i>                 | 394,328<br><i>-6.9</i>                 | 392,108<br><i>-0.6</i>                | 390,180<br><i>-0.5</i>                | 405,984<br><i>4.1</i>                 | 413,788<br><i>-1.6</i>                | 400,004<br><i>-3.3</i>                |
| Services  | 67,104<br><i>0.6</i>                  | 63,280<br><i>-5.7</i>                 | 60,392<br><i>-4.6</i>                  | 60,688<br><i>0.5</i>                  | 62,008<br><i>2.2</i>                  | 62,176<br><i>0.3</i>                  | 65,570<br><i>5.1</i>                  | 61,592<br><i>-6.1</i>                 |
| Deduct: Imports of goods and services                         | 438,020<br><i>-0.2</i>                | 432,360<br><i>-1.3</i>                | 411,640<br><i>-4.8</i>                 | 403,520<br><i>-2.0</i>                | 406,924<br><i>0.8</i>                 | 409,536<br><i>0.6</i>                 | 428,248<br><i>2.1</i>                 | 413,611<br><i>-3.4</i>                |
| Goods   | 364,280<br><i>-0.4</i>                | 359,836<br><i>-1.2</i>                | 341,032<br><i>-5.2</i>                 | 332,576<br><i>-2.5</i>                | 333,896<br><i>0.4</i>                 | 335,948<br><i>0.6</i>                 | 356,582<br><i>1.7</i>                 | 341,835<br><i>-4.1</i>                |
| Services  | 73,740<br><i>1.0</i>                  | 72,524<br><i>-1.6</i>                 | 70,608<br><i>-2.6</i>                  | 70,944<br><i>0.5</i>                  | 73,028<br><i>2.9</i>                  | 73,588<br><i>0.8</i>                  | 71,666<br><i>4.1</i>                  | 71,776<br><i>0.2</i>                  |
| Statistical discrepancy                                       | -280<br><i>...</i>                    | -824<br><i>...</i>                    | -924<br><i>...</i>                     | -952<br><i>...</i>                    | -36<br><i>...</i>                     | -1,820<br><i>...</i>                  | -953<br><i>...</i>                    | -684<br><i>...</i>                    |
| <b>Gross domestic product at market prices</b>                | <b>1,187,404</b><br><b><i>1.6</i></b> | <b>1,214,880</b><br><b><i>2.3</i></b> | <b>1,207,032</b><br><b><i>-0.6</i></b> | <b>1,219,452</b><br><b><i>1.0</i></b> | <b>1,233,724</b><br><b><i>1.2</i></b> | <b>1,255,676</b><br><b><i>1.8</i></b> | <b>1,157,968</b><br><b><i>4.5</i></b> | <b>1,218,772</b><br><b><i>5.3</i></b> |
| Final domestic demand   | 1,132,024<br><i>1.3</i>               | 1,146,788<br><i>1.3</i>               | 1,153,308<br><i>0.6</i>                | 1,173,676<br><i>1.8</i>               | 1,181,404<br><i>0.7</i>               | 1,202,140<br><i>1.8</i>               | 1,108,424<br><i>5.4</i>               | 1,163,794<br><i>5.0</i>               |

1 The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line, italicized, is the period to period percentage change at quarterly rates.

**Real Gross domestic product, expenditure-based, quarterly percentage change[1]**

|  | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002             | 2003             |
|--|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|------------------|------------------|
| Seasonally adjusted at annual rates, millions of chained (1997) dollars[2] |                           |                          |                           |                          |                           |                          |                  |                  |
| Personal expenditure on consumer goods and services                        | 608,492                   | 613,183                  | 618,084                   | 624,729                  | 625,780                   | 634,148                  | 601,594          | 620,444          |
|  | <i>1.0</i>                | <i>0.8</i>               | <i>0.8</i>                | <i>1.1</i>               | <i>0.2</i>                | <i>1.3</i>               | <i>3.4</i>       | <i>3.1</i>       |
| Durable goods  | 94,720                    | 94,080                   | 94,992                    | 97,399                   | 93,220                    | 94,971                   | 93,099           | 94,923           |
|  | <i>2.5</i>                | <i>-0.7</i>              | <i>1.0</i>                | <i>2.5</i>               | <i>-4.3</i>               | <i>1.9</i>               | <i>8.3</i>       | <i>2.0</i>       |
| Semi-durable goods   | 54,914                    | 55,720                   | 56,103                    | 56,448                   | 56,297                    | 58,385                   | 54,472           | 56,142           |
|  | <i>1.5</i>                | <i>1.5</i>               | <i>0.7</i>                | <i>0.6</i>               | <i>-0.3</i>               | <i>3.7</i>               | <i>3.8</i>       | <i>3.1</i>       |
| Non-durable goods  | 138,852                   | 139,816                  | 139,720                   | 139,941                  | 140,836                   | 142,369                  | 137,196          | 140,078          |
|  | <i>1.2</i>                | <i>0.7</i>               | <i>-0.1</i>               | <i>0.2</i>               | <i>0.6</i>                | <i>1.1</i>               | <i>2.3</i>       | <i>2.1</i>       |
| Services   | 320,860                   | 324,309                  | 328,125                   | 332,052                  | 335,907                   | 339,106                  | 317,627          | 330,098          |
|  | <i>0.4</i>                | <i>1.1</i>               | <i>1.2</i>                | <i>1.2</i>               | <i>1.2</i>                | <i>1.0</i>               | <i>2.6</i>       | <i>3.9</i>       |
| Government current expenditure on goods and services                       | 201,803                   | 203,647                  | 206,608                   | 206,820                  | 208,788                   | 209,343                  | 198,902          | 206,466          |
|  | <i>0.9</i>                | <i>0.9</i>               | <i>1.5</i>                | <i>0.1</i>               | <i>1.0</i>                | <i>0.3</i>               | <i>2.8</i>       | <i>3.8</i>       |
| Government gross fixed capital formation                                   | 28,948                    | 30,107                   | 30,708                    | 30,787                   | 31,233                    | 31,833                   | 28,758           | 30,709           |
|  | <i>-0.4</i>               | <i>4.0</i>               | <i>2.0</i>                | <i>0.3</i>               | <i>1.4</i>                | <i>1.9</i>               | <i>9.1</i>       | <i>6.8</i>       |
| Government investment in inventories                                       | -60                       | -4                       | 40                        | 24                       | -4                        | -80                      | -40              | 14               |
|  | ...                       | ...                      | ...                       | ...                      | ...                       | ...                      | ...              | ...              |
| Business gross fixed capital formation                                     | 186,946                   | 189,630                  | 190,451                   | 197,167                  | 199,693                   | 202,871                  | 185,677          | 194,235          |
|  | <i>-0.6</i>               | <i>1.4</i>               | <i>0.4</i>                | <i>3.5</i>               | <i>1.3</i>                | <i>1.6</i>               | <i>1.4</i>       | <i>4.6</i>       |
| Residential structures   | 59,658                    | 60,614                   | 60,515                    | 63,298                   | 64,621                    | 66,828                   | 57,937           | 62,262           |
|  | <i>2.0</i>                | <i>1.6</i>               | <i>-0.2</i>               | <i>4.6</i>               | <i>2.1</i>                | <i>3.4</i>               | <i>14.5</i>      | <i>7.5</i>       |
| Non-residential structures   | 43,395                    | 44,429                   | 44,671                    | 45,109                   | 45,501                    | 44,993                   | 44,493           | 44,928           |
|  | <i>-1.7</i>               | <i>2.4</i>               | <i>0.5</i>                | <i>1.0</i>               | <i>0.9</i>                | <i>-1.1</i>              | <i>-8.3</i>      | <i>1.0</i>       |
| Machinery and equipment  | 83,327                    | 83,935                   | 84,681                    | 88,229                   | 88,920                    | 90,329                   | 82,715           | 86,441           |
|  | <i>-1.9</i>               | <i>0.7</i>               | <i>0.9</i>                | <i>4.2</i>               | <i>0.8</i>                | <i>1.6</i>               | <i>-1.2</i>      | <i>4.5</i>       |
| Business investment in inventories   | 11,298                    | 17,276                   | 14,657                    | 3,410                    | 12,160                    | 1,016                    | 2,123            | 11,876           |
|  | ...                       | ...                      | ...                       | ...                      | ...                       | ...                      | ...              | ...              |
| Non-farm   | 12,180                    | 14,318                   | 10,685                    | -1,212                   | 7,766                     | -2,074                   | 2,876            | 7,889            |
|  | ...                       | ...                      | ...                       | ...                      | ...                       | ...                      | ...              | ...              |
| Farm   | -949                      | 2,619                    | 3,598                     | 4,558                    | 4,086                     | 2,777                    | -866             | 3,715            |
|  | ...                       | ...                      | ...                       | ...                      | ...                       | ...                      | ...              | ...              |
| Exports of goods and services  | 448,247                   | 442,704                  | 436,945                   | 434,813                  | 444,732                   | 451,567                  | 450,568          | 439,799          |
|  | <i>-2.1</i>               | <i>-1.2</i>              | <i>-1.3</i>               | <i>-0.5</i>              | <i>2.3</i>                | <i>1.5</i>               | <i>1.1</i>       | <i>-2.4</i>      |
| Goods  | 386,781                   | 383,873                  | 379,747                   | 377,254                  | 386,402                   | 393,339                  | 390,278          | 381,819          |
|  | <i>-2.4</i>               | <i>-0.8</i>              | <i>-1.1</i>               | <i>-0.7</i>              | <i>2.4</i>                | <i>1.8</i>               | <i>0.7</i>       | <i>-2.2</i>      |
| Services   | 61,598                    | 58,944                   | 57,303                    | 57,654                   | 58,445                    | 58,385                   | 60,450           | 58,087           |
|  | <i>0.2</i>                | <i>-4.3</i>              | <i>-2.8</i>               | <i>0.6</i>               | <i>1.4</i>                | <i>-0.1</i>              | <i>3.8</i>       | <i>-3.9</i>      |
| Deduct: Imports of goods and services                                      | 398,032                   | 400,836                  | 404,169                   | 401,081                  | 417,823                   | 418,295                  | 391,070          | 405,977          |
|  | <i>-0.6</i>               | <i>0.7</i>               | <i>0.8</i>                | <i>-0.8</i>              | <i>4.2</i>                | <i>0.1</i>               | <i>1.4</i>       | <i>3.8</i>       |
| Goods  | 338,346                   | 340,394                  | 343,451                   | 339,224                  | 352,555                   | 352,245                  | 332,512          | 343,906          |
|  | <i>-0.7</i>               | <i>0.6</i>               | <i>0.9</i>                | <i>-1.2</i>              | <i>3.9</i>                | <i>-0.1</i>              | <i>1.5</i>       | <i>3.4</i>       |
| Services   | 59,770                    | 60,485                   | 60,791                    | 61,695                   | 64,972                    | 65,647                   | 58,651           | 61,986           |
|  | <i>0.0</i>                | <i>1.2</i>               | <i>0.5</i>                | <i>1.5</i>               | <i>5.3</i>                | <i>1.0</i>               | <i>1.3</i>       | <i>5.7</i>       |
| Statistical discrepancy  | -256                      | -742                     | -836                      | -855                     | -32                       | -1,610                   | -889             | -616             |
|  | ...                       | ...                      | ...                       | ...                      | ...                       | ...                      | ...              | ...              |
| <b>Gross domestic product at market prices</b>                             | <b>1,086,368</b>          | <b>1,093,793</b>         | <b>1,091,782</b>          | <b>1,095,469</b>         | <b>1,104,391</b>          | <b>1,110,917</b>         | <b>1,074,621</b> | <b>1,096,359</b> |
|  | <i>0.5</i>                | <i>0.7</i>               | <i>-0.2</i>               | <i>0.3</i>               | <i>0.8</i>                | <i>0.6</i>               | <i>3.4</i>       | <i>2.0</i>       |
| Final domestic demand  | 1,026,103                 | 1,036,393                | 1,045,724                 | 1,059,110                | 1,065,043                 | 1,077,580                | 1,014,795        | 1,051,568        |
|  | <i>0.7</i>                | <i>1.0</i>               | <i>0.9</i>                | <i>1.3</i>               | <i>0.6</i>                | <i>1.2</i>               | <i>3.1</i>       | <i>3.6</i>       |

1 The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line, italicized, is the period to period percentage change at quarterly rates.

2 Chained dollar series are calculated as the product of the chain-type quantity index and the current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates are usually not additive.

**Real Gross domestic product, expenditure-based, annualized percentage change[1]**

|   | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002       | 2003       |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|------------|------------|
| Quarter to quarter % change at annual rates, chained (1997) dollars |                           |                          |                           |                          |                           |                          |            |            |
| Personal expenditure on consumer goods and services                 | 4.1                       | 3.1                      | 3.2                       | 4.4                      | 0.7                       | 5.5                      | 3.4        | 3.1        |
| Durable goods   | 10.6                      | -2.7                     | 3.9                       | 10.5                     | -16.1                     | 7.7                      | 8.3        | 2.0        |
| Semi-durable goods  | 6.2                       | 6.0                      | 2.8                       | 2.5                      | -1.1                      | 15.7                     | 3.8        | 3.1        |
| Non-durable goods   | 5.1                       | 2.8                      | -0.3                      | 0.6                      | 2.6                       | 4.4                      | 2.3        | 2.1        |
| Services  | 1.6                       | 4.4                      | 4.8                       | 4.9                      | 4.7                       | 3.9                      | 2.6        | 3.9        |
| Government current expenditure on goods and services                | 3.5                       | 3.7                      | 5.9                       | 0.4                      | 3.9                       | 1.1                      | 2.8        | 3.8        |
| Government gross fixed capital formation                            | -1.4                      | 17.0                     | 8.2                       | 1.0                      | 5.9                       | 7.9                      | 9.1        | 6.8        |
| Government investment in inventories[2]                             | 16                        | 56                       | 44                        | -16                      | -28                       | -76                      | -53        | 54         |
| Business gross fixed capital formation                              | -2.3                      | 5.9                      | 1.7                       | 14.9                     | 5.2                       | 6.5                      | 1.4        | 4.6        |
| Residential structures  | 8.2                       | 6.6                      | -0.7                      | 19.7                     | 8.6                       | 14.4                     | 14.5       | 7.5        |
| Non-residential structures  | -6.8                      | 9.9                      | 2.2                       | 4.0                      | 3.5                       | -4.4                     | -8.3       | 1.0        |
| Machinery and equipment   | -7.5                      | 3.0                      | 3.6                       | 17.8                     | 3.2                       | 6.5                      | -1.2       | 4.5        |
| Business investment in inventories[2]                               | 5,148                     | 5,978                    | -2,619                    | -11,247                  | 8,750                     | -11,144                  | 6,466      | 9,753      |
| Non-farm[2]   | 4,809                     | 2,138                    | -3,633                    | -11,897                  | 8,978                     | -9,840                   | 6,558      | 5,013      |
| Farm[2]   | 346                       | 3,568                    | 979                       | 960                      | -472                      | -1,309                   | -94        | 4,581      |
| Exports of goods and services                                       | -8.0                      | -4.9                     | -5.1                      | -1.9                     | 9.4                       | 6.3                      | 1.1        | -2.4       |
| Goods   | -9.4                      | -3.0                     | -4.2                      | -2.6                     | 10.1                      | 7.4                      | 0.7        | -2.2       |
| Services  | 0.9                       | -16.2                    | -10.7                     | 2.5                      | 5.6                       | -0.4                     | 3.8        | -3.9       |
| Deduct: Imports of goods and services                               | -2.3                      | 2.8                      | 3.4                       | -3.0                     | 17.8                      | 0.5                      | 1.4        | 3.8        |
| Goods   | -2.8                      | 2.4                      | 3.6                       | -4.8                     | 16.7                      | -0.4                     | 1.5        | 3.4        |
| Services  | 0.1                       | 4.9                      | 2.0                       | 6.1                      | 23.0                      | 4.2                      | 1.3        | 5.7        |
| Statistical discrepancy[2]  | 236                       | -486                     | -94                       | -19                      | 823                       | -1,578                   | -214       | 272        |
| <b>Gross domestic product at market prices</b>                      | <b>1.9</b>                | <b>2.8</b>               | <b>-0.7</b>               | <b>1.4</b>               | <b>3.3</b>                | <b>2.4</b>               | <b>3.4</b> | <b>2.0</b> |
| Final domestic demand   | 2.6                       | 4.1                      | 3.7                       | 5.2                      | 2.3                       | 4.8                      | 3.1        | 3.6        |

1 Quarter to quarter percentage change, annualized.

2 Actual change in millions of dollars, at annual rates.

**Contributions to percentage change in real Gross domestic product, expenditure-based[1]**

|  | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002         | 2003         |
|--|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|--------------|--------------|
| Using seasonally adjusted data, percentage points    |                           |                          |                           |                          |                           |                          |              |              |
| Personal expenditure on consumer goods and services  | 0.564                     | 0.434                    | 0.448                     | 0.609                    | 0.096                     | 0.751                    | 1.872        | 1.799        |
| Durable goods  | 0.198                     | -0.053                   | 0.074                     | 0.195                    | -0.334                    | 0.137                    | 0.624        | 0.158        |
| Semi-durable goods                                   | 0.073                     | 0.070                    | 0.033                     | 0.030                    | -0.013                    | 0.175                    | 0.182        | 0.151        |
| Non-durable goods                                    | 0.171                     | 0.096                    | -0.010                    | 0.022                    | 0.088                     | 0.149                    | 0.305        | 0.294        |
| Services   | 0.122                     | 0.321                    | 0.351                     | 0.362                    | 0.354                     | 0.290                    | 0.761        | 1.197        |
| Government current expenditure on goods and services | 0.166                     | 0.175                    | 0.279                     | 0.020                    | 0.187                     | 0.052                    | 0.522        | 0.743        |
| Government gross fixed capital formation             | -0.009                    | 0.100                    | 0.051                     | 0.007                    | 0.037                     | 0.050                    | 0.218        | 0.175        |
| Government investment in inventories                 | 0.001                     | 0.005                    | 0.004                     | -0.001                   | -0.003                    | -0.007                   | -0.005       | 0.005        |
| Business gross fixed capital formation               | -0.099                    | 0.240                    | 0.072                     | 0.586                    | 0.219                     | 0.271                    | 0.227        | 0.785        |
| Residential structures                               | 0.113                     | 0.093                    | -0.010                    | 0.272                    | 0.130                     | 0.215                    | 0.731        | 0.429        |
| Non-residential structures                           | -0.073                    | 0.098                    | 0.023                     | 0.041                    | 0.037                     | -0.047                   | -0.401       | 0.044        |
| Machinery and equipment                              | -0.139                    | 0.050                    | 0.059                     | 0.274                    | 0.052                     | 0.103                    | -0.103       | 0.312        |
| Business investment in inventories                   | 0.470                     | 0.533                    | -0.233                    | -0.956                   | 0.725                     | -0.912                   | 0.583        | 0.791        |
| Non-farm   | 0.434                     | 0.188                    | -0.316                    | -1.022                   | 0.763                     | -0.824                   | 0.600        | 0.401        |
| Farm   | 0.035                     | 0.346                    | 0.083                     | 0.066                    | -0.038                    | -0.088                   | -0.017       | 0.390        |
| Exports of goods and services                        | -0.868                    | -0.505                   | -0.508                    | -0.183                   | 0.835                     | 0.566                    | 0.542        | -0.915       |
| Goods  | -0.881                    | -0.265                   | -0.364                    | -0.214                   | 0.767                     | 0.571                    | 0.334        | -0.705       |
| Services   | 0.013                     | -0.240                   | -0.144                    | 0.031                    | 0.068                     | -0.005                   | 0.208        | -0.210       |
| Deduct: Imports of goods and services                | -0.219                    | 0.255                    | 0.288                     | -0.258                   | 1.357                     | 0.037                    | 0.496        | 1.385        |
| Goods  | -0.221                    | 0.182                    | 0.259                     | -0.344                   | 1.052                     | -0.024                   | 0.422        | 1.043        |
| Services   | 0.002                     | 0.073                    | 0.030                     | 0.086                    | 0.305                     | 0.061                    | 0.074        | 0.343        |
| Statistical discrepancy                              | 0.022                     | -0.045                   | -0.009                    | -0.002                   | 0.075                     | -0.143                   | -0.020       | 0.025        |
| <b>Gross domestic product at market prices</b>       | <b>0.465</b>              | <b>0.683</b>             | <b>-0.184</b>             | <b>0.338</b>             | <b>0.814</b>              | <b>0.591</b>             | <b>3.444</b> | <b>2.023</b> |
| Final domestic demand                                | 0.621                     | 0.950                    | 0.850                     | 1.222                    | 0.539                     | 1.124                    | 2.840        | 3.503        |

1 The chained (1997) dollars data shown in the table "Real Gross domestic product, expenditure-based, quarterly percentage change" are not additive. The contributions to percentage change shown in the above table are additive and provide a measure of the composition of GDP growth.



**Gross domestic product, implicit chain price indexes[1]**

|  | Fourth<br>quarter<br>2002         | First<br>quarter<br>2003          | Second<br>quarter<br>2003          | Third<br>quarter<br>2003          | Fourth<br>quarter<br>2003         | First<br>quarter<br>2004          | 2002                              | 2003                              |
|--|-----------------------------------|-----------------------------------|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Using seasonally adjusted data, (1997 = 100)         |                                   |                                   |                                    |                                   |                                   |                                   |                                   |                                   |
| Personal expenditure on consumer goods and services  | 110.4<br><i>0.5</i>               | 111.0<br><i>0.5</i>               | 110.7<br><i>-0.3</i>               | 111.2<br><i>0.5</i>               | 111.1<br><i>-0.1</i>              | 111.7<br><i>0.5</i>               | 109.3<br><i>2.1</i>               | 111.0<br><i>1.6</i>               |
| Government current expenditure on goods and services | 113.7<br><i>0.8</i>               | 114.1<br><i>0.4</i>               | 114.5<br><i>0.4</i>                | 115.5<br><i>0.9</i>               | 116.5<br><i>0.9</i>               | 117.7<br><i>1.0</i>               | 112.5<br><i>3.1</i>               | 115.2<br><i>2.4</i>               |
| Government gross fixed capital formation             | 103.6<br><i>0.0</i>               | 103.6<br><i>0.0</i>               | 102.1<br><i>-1.4</i>               | 102.5<br><i>0.4</i>               | 102.1<br><i>-0.4</i>              | 102.9<br><i>0.8</i>               | 103.0<br><i>0.5</i>               | 102.6<br><i>-0.4</i>              |
| Business gross fixed capital formation               | 107.4<br><i>0.9</i>               | 106.8<br><i>-0.6</i>              | 105.6<br><i>-1.1</i>               | 105.8<br><i>0.2</i>               | 105.7<br><i>-0.1</i>              | 105.9<br><i>0.2</i>               | 106.6<br><i>2.3</i>               | 106.0<br><i>-0.5</i>              |
| Exports of goods and services                        | 108.3<br><i>1.7</i>               | 109.9<br><i>1.5</i>               | 104.1<br><i>-5.3</i>               | 104.1<br><i>0.0</i>               | 101.7<br><i>-2.3</i>              | 103.7<br><i>2.0</i>               | 106.4<br><i>-1.8</i>              | 105.0<br><i>-1.4</i>              |
| Imports of goods and services                        | 110.0<br><i>0.4</i>               | 107.9<br><i>-1.9</i>              | 101.8<br><i>-5.7</i>               | 100.6<br><i>-1.2</i>              | 97.4<br><i>-3.2</i>               | 97.9<br><i>0.5</i>                | 109.5<br><i>0.6</i>               | 101.9<br><i>-6.9</i>              |
| <b>Gross domestic product at market prices</b>       | <b>109.3</b><br><b><i>1.1</i></b> | <b>111.1</b><br><b><i>1.6</i></b> | <b>110.6</b><br><b><i>-0.5</i></b> | <b>111.3</b><br><b><i>0.6</i></b> | <b>111.7</b><br><b><i>0.4</i></b> | <b>113.0</b><br><b><i>1.2</i></b> | <b>107.8</b><br><b><i>1.0</i></b> | <b>111.2</b><br><b><i>3.2</i></b> |
| <i>Final domestic demand</i>                         | <i>110.3</i><br><i>0.6</i>        | <i>110.7</i><br><i>0.4</i>        | <i>110.3</i><br><i>-0.4</i>        | <i>110.8</i><br><i>0.5</i>        | <i>110.9</i><br><i>0.1</i>        | <i>111.6</i><br><i>0.6</i>        | <i>109.2</i><br><i>2.3</i>        | <i>110.7</i><br><i>1.3</i>        |

1 The first line is the series itself. The second line, italicized, is the period to period percentage change at quarterly rates.

## Financial market summary table

|   | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002          | 2003           |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------|----------------|
| Seasonally adjusted data at annual rates, millions of dollars |                           |                          |                           |                          |                           |                          |               |                |
| <b>Funds raised:</b>  |                           |                          |                           |                          |                           |                          |               |                |
| <b>Persons and unincorporated business</b>                    | <b>47,348</b>             | <b>49,408</b>            | <b>49,024</b>             | <b>52,664</b>            | <b>49,908</b>             | <b>51,944</b>            | <b>46,993</b> | <b>50,251</b>  |
| Consumer credit   | 17,148                    | 16,268                   | 18,260                    | 18,972                   | 17,056                    | 17,764                   | 16,499        | 17,639         |
| Bank loans  | 464                       | 1,592                    | 1,116                     | 1,324                    | 692                       | 1,320                    | 442           | 1,181          |
| Other loans   | 1,544                     | 2,888                    | 648                       | 1,520                    | 1,152                     | 1,256                    | 2,962         | 1,552          |
| Mortgages   | 28,192                    | 28,660                   | 29,000                    | 30,848                   | 31,008                    | 31,604                   | 27,090        | 29,879         |
| <b>Non-financial private corporations</b>                     | <b>19,976</b>             | <b>32,688</b>            | <b>29,752</b>             | <b>37,164</b>            | <b>62,892</b>             | <b>57,388</b>            | <b>40,084</b> | <b>40,624</b>  |
| Bank loans  | 3,572                     | -1,588                   | -3,772                    | 2,520                    | -736                      | 7,580                    | 1,035         | -894           |
| Other loans   | 1,316                     | -9,264                   | 1,492                     | -5,848                   | 204                       | -2,784                   | -277          | -3,354         |
| Other short-term paper  | -18,204                   | -6,012                   | -13,056                   | -6,068                   | -15,200                   | 4,096                    | -4,580        | -10,084        |
| Mortgages   | 5,752                     | 4,036                    | 4,200                     | 5,980                    | 5,672                     | 5,128                    | 4,915         | 4,972          |
| Bonds   | 1,976                     | 18,636                   | 19,576                    | 7,776                    | 28,064                    | 13,068                   | 8,043         | 18,513         |
| Shares  | 25,564                    | 26,880                   | 21,312                    | 32,804                   | 44,888                    | 30,300                   | 30,948        | 31,471         |
| <b>Non-financial government enterprises</b>                   | <b>6,712</b>              | <b>2,240</b>             | <b>4,804</b>              | <b>-4,320</b>            | <b>-5,844</b>             | <b>-4,960</b>            | <b>-891</b>   | <b>-780</b>    |
| Bank loans  | -472                      | 1,204                    | 552                       | -1,128                   | 748                       | -1,188                   | 301           | 344            |
| Other loans   | 2,052                     | 9,004                    | 1,372                     | -368                     | -1,220                    | -2,016                   | 1,056         | 2,197          |
| Other short-term paper  | 2,008                     | 596                      | -852                      | -1,940                   | -4,616                    | -2,868                   | 318           | -1,703         |
| Mortgages   | -4                        | -12                      | -4                        | -4                       | -4                        | -8                       | 6             | -6             |
| Bonds   | 3,140                     | -8,544                   | 3,788                     | -864                     | -736                      | 1,128                    | -2,572        | -1,589         |
| Shares  | -12                       | -8                       | -52                       | -16                      | -16                       | -8                       | 0             | -23            |
| <b>Federal government</b>                                     | <b>-6,172</b>             | <b>-2,664</b>            | <b>4,132</b>              | <b>2,036</b>             | <b>-9,772</b>             | <b>-1,560</b>            | <b>-1,246</b> | <b>-1,567</b>  |
| Bank loans  | 108                       | 88                       | 116                       | 112                      | 108                       | 224                      | 106           | 106            |
| Other loans   | 8                         | 0                        | -4                        | -4                       | 8                         | 0                        | 0             | 0              |
| Canada short-term paper                                       | 2,080                     | 14,480                   | 10,748                    | 14,232                   | 9,464                     | -3,236                   | 7,756         | 12,231         |
| Canada Savings Bonds  | -1,840                    | -564                     | -1,660                    | -1,544                   | -1,392                    | -1,928                   | -1,510        | -1,290         |
| Other bonds   | -6,528                    | -16,668                  | -5,068                    | -10,760                  | -17,960                   | 3,380                    | -7,598        | -12,614        |
| <b>Other levels of government</b>                             | <b>6,668</b>              | <b>3,716</b>             | <b>16,444</b>             | <b>10,700</b>            | <b>2,768</b>              | <b>28,684</b>            | <b>9,739</b>  | <b>8,407</b>   |
| Bank loans  | -1,180                    | 472                      | 140                       | -304                     | 752                       | -1,024                   | 205           | 265            |
| Other loans   | 600                       | 268                      | 896                       | 824                      | 532                       | 1,616                    | 454           | 630            |
| Other short-term paper  | -5,164                    | 1,948                    | -2,980                    | -5,644                   | 2,624                     | -5,728                   | -2,300        | -1,013         |
| Mortgages   | 20                        | -4                       | 0                         | -76                      | 28                        | 60                       | -7            | -13            |
| Provincial bonds  | 10,440                    | 1,476                    | 15,904                    | 13,996                   | -568                      | 32,060                   | 10,906        | 7,702          |
| Municipal bonds   | 1,944                     | -472                     | 2,460                     | 1,872                    | -608                      | 1,668                    | 463           | 813            |
| Other bonds   | 8                         | 28                       | 24                        | 32                       | 8                         | 32                       | 18            | 23             |
| <b>Total funds raised by domestic non-financial sectors</b>   | <b>74,532</b>             | <b>85,388</b>            | <b>104,156</b>            | <b>98,244</b>            | <b>99,952</b>             | <b>131,496</b>           | <b>94,679</b> | <b>96,935</b>  |
| <b>Consumer credit</b>  | <b>17,148</b>             | <b>16,268</b>            | <b>18,260</b>             | <b>18,972</b>            | <b>17,056</b>             | <b>17,764</b>            | <b>16,499</b> | <b>17,639</b>  |
| <b>Bank loans</b>   | <b>2,492</b>              | <b>1,768</b>             | <b>-1,848</b>             | <b>2,524</b>             | <b>1,564</b>              | <b>6,912</b>             | <b>2,089</b>  | <b>1,002</b>   |
| <b>Other loans</b>  | <b>5,520</b>              | <b>2,896</b>             | <b>4,404</b>              | <b>-3,876</b>            | <b>676</b>                | <b>-1,928</b>            | <b>4,195</b>  | <b>1,025</b>   |
| <b>Canada short-term paper</b>                                | <b>2,080</b>              | <b>14,480</b>            | <b>10,748</b>             | <b>14,232</b>            | <b>9,464</b>              | <b>-3,236</b>            | <b>7,756</b>  | <b>12,231</b>  |
| <b>Other short-term paper</b>                                 | <b>-21,360</b>            | <b>-3,468</b>            | <b>-16,888</b>            | <b>-13,652</b>           | <b>-17,192</b>            | <b>-4,500</b>            | <b>-6,562</b> | <b>-12,800</b> |
| <b>Mortgages</b>  | <b>33,960</b>             | <b>32,680</b>            | <b>33,196</b>             | <b>36,748</b>            | <b>36,704</b>             | <b>36,784</b>            | <b>32,004</b> | <b>34,832</b>  |
| <b>Bonds</b>  | <b>9,140</b>              | <b>-6,108</b>            | <b>35,024</b>             | <b>10,508</b>            | <b>6,808</b>              | <b>49,408</b>            | <b>7,750</b>  | <b>11,558</b>  |
| <b>Shares</b>   | <b>25,552</b>             | <b>26,872</b>            | <b>21,260</b>             | <b>32,788</b>            | <b>44,872</b>             | <b>30,292</b>            | <b>30,948</b> | <b>31,448</b>  |

## GDP by industry

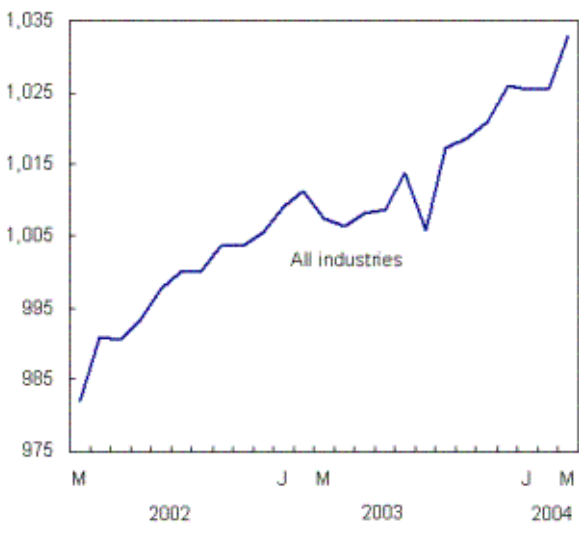
March 2004 and first quarter 2004

### Industry overview, March 2004

Following a disappointing January and February, the quarter ended on a strong note, as GDP in March shot up 0.7%. This was the sharpest increase in monthly GDP since the bounce back from the power blackout in August 2003.

### Quarter ends on a high note

GDP billions of chained \$ (1997)



The strength in the economy was widespread with a major contribution from the manufacturing sector, particularly the motor vehicle parts and assembly industries. Robust manufacturing resulted in higher demand for transportation, wholesaling and warehousing services. The consumers insatiable demand for housing and cars boosted the output of residential construction, retail trade and real estate agents and brokerages. Higher volumes in the stock market boded well for the finance sector.

Industrial production increased 0.7%, the sixth increase in the last ten months. Higher manufacturing was somewhat offset by lower utilities and mining output. Electricity generation and natural gas distribution continued to fall from January's peak as temperatures returned to seasonal norms. The recovery from a strike in the metal ore mining industry and an upsurge in diamond production were not enough to offset a contraction in oil and gas production and exploration. In the United States, industrial production edged down 0.1%, the first decline in ten months. Sharply lower utilities output offset higher mining and a slight increase in manufacturing output in the United States.

### Autos drive manufacturing sector

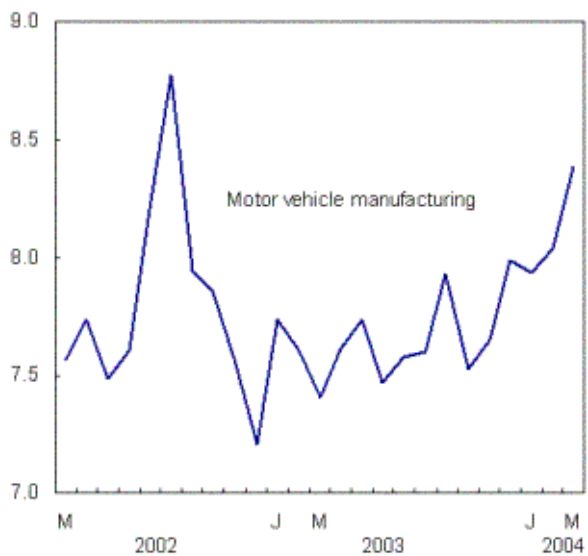
The output of the manufacturing sector increased 1.5% in March, its strongest growth since September 2003.

Although the gains were widespread, much of the strength came from the transportation sector which climbed 3.1%.

Automakers bumped up production in March for both autos and heavy trucks (+4.3%), as generous sales incentives continued to boost demand on both sides of the border. Automotive parts output also rose sharply (+3.3%), reaching new heights in order to satisfy demand from North American auto manufacturers. The wholesaling and export of motor vehicles as well as of automotive parts were up significantly.

### Motor vehicle production recovery continues

GDP billions chained \$ 1997



Output of wood products regained some strength as sawmills ramped up production in March. Construction-related wood products, such as veneer, plywood and structural wood also enjoyed increased output, as demand from the hot housing market in both Canada and the United States continued. This strength in the manufacturing of lumber also boded well for lumber wholesalers and the forestry and logging industry.

The fabricated metal products sector posted its strongest monthly increase in two years (February 2002), as production in the architectural and structural metal manufacturing industries regained some strength after two consecutive months of weakness. This sector is also a supplier to the residential construction industry, which had robust growth in March.

Computer and electronics products manufacturing almost bounced back to their December 2003 levels, as radio and television broadcasting and wireless equipment output surged in light of new contracts. Strong worldwide demand

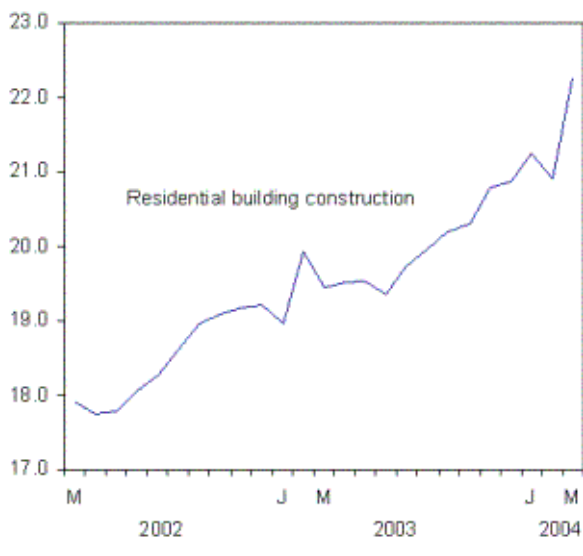
helped the semiconductor and electronics industries to regain some ground.

### Consumers regain confidence

According to the Conference Board of Canada consumer confidence rebounded in March from its slide one month earlier. The increase in consumer confidence fuelled the retail and residential construction sectors. New home construction jumped 6.5% in March, the biggest monthly increase since May 1991. Housing starts surged in both February (+10.2%) and March (+13.9%), with both single-family and multiple-unit dwellings registering gains. It was also an exceptional month for the re-sale housing market. Housing re-sales climbed 12.7%, resulting in a substantial increase in activity at real estate agents and brokerages.

### Red hot housing sector

GDP billions of chained \$ (1997)



Retailers posted their third consecutive gain in March with sales rising a further 1.1%. Sales at new motor vehicle dealers were up an additional 2.0%, following a 9.1% surge in February. This recent surge still leaves sales at motor vehicle dealers 3.2% below the peak reached in July 2003. Sales excluding new motor vehicle dealers were up 0.8% in March with retailers of most goods registering gains.

### Travel and tourism industries

The total number of visitors to Canada declined 1.1% in March; however, the number of tourists staying one or more nights increased 1.2%. Most travel and tourism industries recorded gains in March. Increases reported by air transportation, car rental agencies, travel agents, taxis and hotels. Meanwhile declines were reported by gambling and restaurant industries, which also rely quite heavily on domestic demand.

### Industry overview, first quarter 2004

A confident consumer was responsible for much of the strength this quarter. Continuing gains were seen in residential construction and real estate brokerage services as the demand for new and existing housing increased. Retailers reported significant and widespread gains as shoppers increased their purchases of everything from new cars to new shoes. A buoyant stock market propelled the output of the financial sector. Higher manufacturing output also translated into increased demand for warehousing services. Stronger oil and gas production helped lift the mining sector while a bitterly cold January led to higher utilities output. Higher government administration and health care services were in turn offset by a reduction in education services. Wholesaling activity declined significantly as motor vehicle wholesaling tumbled after a surge in the fourth quarter.

Industrial production (mining, utilities and manufacturing) advanced 0.7% in the first quarter, the third consecutive quarter increase with all major components reporting gains. In the United States, the index of industrial production increased 1.5%, as higher utilities and manufacturing output offset a slight decline in the mining component.

A further cut in already historically low interest rates re-ignited consumer spending. Retailers reported their largest quarterly gain since the first quarter of 2002. However, sales at new motor vehicle dealers rose only a slight 1.0% in the first quarter, after stumbling 6.0% in the fourth. Sales excluding new motor vehicle dealers were up 3.2% with gains reported by retailers of food, clothing, shoes, drugs, gasoline and auto parts.

The housing boom continued into the first quarter as residential construction increased 4.0%, marking the eleventh consecutive quarterly increase. Meanwhile, the resale housing market edged up 1.0%, following a significant decline in the fourth quarter. The strong housing market led to increased sales at furniture stores and higher production levels for furniture and appliance manufacturers. Manufacturers of construction-related materials also derived benefit from the housing boom.

The output of the manufacturing sector increased for the second consecutive quarter, following four quarters of decline. These new gains lifted the manufacturing sector to levels last registered in the fall of 2000, at the peak of the technology bubble.

Most of the strength in manufacturing this quarter came from durable goods—the transportation sector alone being responsible for half of that growth. Significant gains were also registered in the machinery as well as in the computer and electronic industries.

The motor vehicle industry, with gains of 5.2%, showed the strongest quarterly growth since the summer of 2002, when it climbed 9.1%. Generous incentives and successful new model introductions for both cars and trucks, as well as strong demand from south of the border accounted for this solid growth. The manufacturing of motor vehicle parts also moved ahead, fed by higher motor vehicle production in both Canada and the US, but at a slower pace than in the fourth quarter of 2003. Output of aerospace products and parts, however, continued on its downward trend, declining for a sixth consecutive quarter.

Machinery manufacturing advanced 1.3%, as demand for construction, mining and oil and gas machinery mirrored the heightened activity shown in these sectors.

A surge in the manufacturing of broadcasting and wireless communications equipment, fuelled by new products and contracts, pushed the computer and electronics industry up 1.4% in the first quarter of 2004. Semiconductor production continued on its recovery trend, increasing for the third consecutive quarter.

Fewer contracts as well as temporary and permanent plant closures shrank clothing manufacturing output by 4.0% this quarter. Reductions in trade barriers and expanding global competitiveness are taking their toll on this industry. Activity in the cut and sewn clothing industry slipped to its lowest level in seven years.

**Real Gross domestic product by industry, at basic prices, monthly[1]**

|  | October<br>2003                | November<br>2003               | December<br>2003               | January<br>2004                 | February<br>2004                | March<br>2004                  | March 2003 to<br>March 2004 |
|--|--------------------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|--------------------------------|-----------------------------|
| Seasonally adjusted at annual rates, millions chained (1997) dollars |                                |                                |                                |                                 |                                 |                                | %                           |
| <b>All industries</b>  | <b>1,018,723</b><br><i>0.2</i> | <b>1,020,973</b><br><i>0.2</i> | <b>1,025,876</b><br><i>0.5</i> | <b>1,025,403</b><br><i>-0.0</i> | <b>1,025,394</b><br><i>-0.0</i> | <b>1,032,876</b><br><i>0.7</i> | <b>2.5</b>                  |
| <b>Goods producing industries</b>                                    | <b>319,682</b><br><i>-0.0</i>  | <b>321,211</b><br><i>0.5</i>   | <b>323,803</b><br><i>0.8</i>   | <b>324,109</b><br><i>0.1</i>    | <b>322,163</b><br><i>-0.6</i>   | <b>325,757</b><br><i>1.1</i>   | <b>2.8</b>                  |
| Agriculture, forestry, fishing and hunting                           | 24,011<br><i>0.0</i>           | 23,916<br><i>-0.4</i>          | 23,827<br><i>-0.4</i>          | 23,573<br><i>-1.1</i>           | 23,773<br><i>0.8</i>            | 24,264<br><i>2.1</i>           | 4.3                         |
| Mining and oil and gas extraction                                    | 37,070<br><i>-0.4</i>          | 37,178<br><i>0.3</i>           | 37,618<br><i>1.2</i>           | 37,970<br><i>0.9</i>            | 37,599<br><i>-1.0</i>           | 37,234<br><i>-1.0</i>          | 4.1                         |
| Utilities  | 25,295<br><i>-1.0</i>          | 25,888<br><i>2.3</i>           | 25,828<br><i>-0.2</i>          | 27,124<br><i>5.0</i>            | 25,577<br><i>-5.7</i>           | 25,180<br><i>-1.6</i>          | -5.1                        |
| Construction   | 55,628<br><i>0.4</i>           | 56,294<br><i>1.2</i>           | 56,436<br><i>0.3</i>           | 56,738<br><i>0.5</i>            | 56,192<br><i>-1.0</i>           | 57,867<br><i>3.0</i>           | 6.7                         |
| Manufacturing  | 176,583<br><i>0.1</i>          | 176,889<br><i>0.2</i>          | 178,912<br><i>1.1</i>          | 177,353<br><i>-0.9</i>          | 177,745<br><i>0.2</i>           | 180,441<br><i>1.5</i>          | 2.3                         |
| <b>Services producing industries</b>                                 | <b>700,393</b><br><i>0.2</i>   | <b>701,041</b><br><i>0.1</i>   | <b>703,262</b><br><i>0.3</i>   | <b>702,442</b><br><i>-0.1</i>   | <b>704,555</b><br><i>0.3</i>    | <b>708,341</b><br><i>0.5</i>   | <b>2.4</b>                  |
| Wholesale trade  | 63,917<br><i>0.9</i>           | 63,771<br><i>-0.2</i>          | 64,605<br><i>1.3</i>           | 62,455<br><i>-3.3</i>           | 62,186<br><i>-0.4</i>           | 63,852<br><i>2.7</i>           | 3.2                         |
| Retail trade   | 56,375<br><i>0.4</i>           | 56,184<br><i>-0.3</i>          | 55,607<br><i>-1.0</i>          | 56,343<br><i>1.3</i>            | 57,831<br><i>2.6</i>            | 58,463<br><i>1.1</i>           | 4.8                         |
| Transportation and warehousing                                       | 46,388<br><i>0.9</i>           | 46,903<br><i>1.1</i>           | 47,307<br><i>0.9</i>           | 47,159<br><i>-0.3</i>           | 46,789<br><i>-0.8</i>           | 47,164<br><i>0.8</i>           | 1.3                         |
| Information and cultural industries                                  | 41,779<br><i>-0.6</i>          | 41,602<br><i>-0.4</i>          | 41,514<br><i>-0.2</i>          | 41,723<br><i>0.5</i>            | 41,754<br><i>0.1</i>            | 41,920<br><i>0.4</i>           | -0.3                        |
| Finance, insurance and real estate                                   | 204,953<br><i>-0.0</i>         | 204,980<br><i>0.0</i>          | 206,033<br><i>0.5</i>          | 206,739<br><i>0.3</i>           | 207,575<br><i>0.4</i>           | 208,804<br><i>0.6</i>          | 3.8                         |
| Professional, scientific and technical services                      | 44,806<br><i>0.1</i>           | 44,841<br><i>0.1</i>           | 44,818<br><i>-0.1</i>          | 45,152<br><i>0.7</i>            | 45,193<br><i>0.1</i>            | 45,634<br><i>1.0</i>           | 3.1                         |
| Administrative and waste management services                         | 22,374<br><i>0.2</i>           | 22,369<br><i>-0.0</i>          | 22,411<br><i>0.2</i>           | 22,443<br><i>0.1</i>            | 22,435<br><i>-0.0</i>           | 22,276<br><i>-0.7</i>          | 0.9                         |
| Educational services   | 44,891<br><i>-0.3</i>          | 45,384<br><i>1.1</i>           | 45,656<br><i>0.6</i>           | 44,977<br><i>-1.5</i>           | 44,818<br><i>-0.4</i>           | 44,405<br><i>-0.9</i>          | -2.1                        |
| Health care and social assistance                                    | 61,104<br><i>0.2</i>           | 61,145<br><i>0.1</i>           | 61,335<br><i>0.3</i>           | 61,426<br><i>0.1</i>            | 61,401<br><i>-0.0</i>           | 61,537<br><i>0.2</i>           | 2.2                         |
| Arts, entertainment and recreation                                   | 9,430<br><i>1.1</i>            | 9,200<br><i>-2.4</i>           | 9,282<br><i>0.9</i>            | 9,265<br><i>-0.2</i>            | 9,324<br><i>0.6</i>             | 9,279<br><i>-0.5</i>           | -1.3                        |
| Accommodation and food services                                      | 22,975<br><i>2.8</i>           | 23,002<br><i>0.1</i>           | 22,899<br><i>-0.4</i>          | 22,763<br><i>-0.6</i>           | 23,008<br><i>1.1</i>            | 23,001<br><i>-0.0</i>          | 1.8                         |
| Other services (except public administration)                        | 24,292<br><i>0.5</i>           | 24,307<br><i>0.1</i>           | 24,364<br><i>0.2</i>           | 24,359<br><i>-0.0</i>           | 24,367<br><i>0.0</i>            | 24,359<br><i>-0.0</i>          | 0.9                         |
| Public administration  | 58,085<br><i>-0.2</i>          | 58,286<br><i>0.3</i>           | 58,405<br><i>0.2</i>           | 58,480<br><i>0.1</i>            | 58,697<br><i>0.4</i>            | 58,636<br><i>-0.1</i>          | 2.0                         |
| <b>Other aggregations</b>  |                                |                                |                                |                                 |                                 |                                |                             |
| Industrial production  | 240,472<br><i>-0.1</i>         | 241,446<br><i>0.4</i>          | 243,909<br><i>1.0</i>          | 244,150<br><i>0.1</i>           | 242,578<br><i>-0.6</i>          | 244,164<br><i>0.7</i>          | 1.9                         |
| Non-durable manufacturing industries                                 | 72,707<br><i>0.0</i>           | 72,701<br><i>-0.0</i>          | 73,026<br><i>0.4</i>           | 72,718<br><i>-0.4</i>           | 72,618<br><i>-0.1</i>           | 73,284<br><i>0.9</i>           | 0.5                         |
| Durable manufacturing industries                                     | 103,783<br><i>0.2</i>          | 104,096<br><i>0.3</i>          | 105,786<br><i>1.6</i>          | 104,539<br><i>-1.2</i>          | 105,028<br><i>0.5</i>           | 107,052<br><i>1.9</i>          | 3.5                         |
| Business sector industries   | 863,316<br><i>0.2</i>          | 864,874<br><i>0.2</i>          | 869,242<br><i>0.5</i>          | 869,293<br><i>0.0</i>           | 869,249<br><i>-0.0</i>          | 877,084<br><i>0.9</i>          | 2.8                         |
| Non-business sector industries                                       | 155,564<br><i>-0.1</i>         | 156,253<br><i>0.4</i>          | 156,791<br><i>0.3</i>          | 156,272<br><i>-0.3</i>          | 156,307<br><i>0.0</i>           | 155,970<br><i>-0.2</i>         | 0.8                         |
| ICT sector, total  | 56,956<br><i>0.1</i>           | 57,255<br><i>0.5</i>           | 57,499<br><i>0.4</i>           | 57,627<br><i>0.2</i>            | 57,544<br><i>-0.1</i>           | 57,966<br><i>0.7</i>           | 2.8                         |

1 The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line, italicized, is the period to period percentage change at monthly rates.

## Real Gross domestic product by industry, at basic prices, quarterly and annually[1]

|  | Fourth<br>quarter<br>2002    | First<br>quarter<br>2003     | Second<br>quarter<br>2003     | Third<br>quarter<br>2003     | Fourth<br>quarter<br>2003    | First<br>quarter<br>2004     | 2002                         | 2003                         |
|--|------------------------------|------------------------------|-------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Seasonally adjusted at annual rates, millions chained (1997) dollars |                              |                              |                               |                              |                              |                              |                              |                              |
| <b>Goods producing industries</b>                                    | <b>316,054</b><br><i>0.0</i> | <b>317,827</b><br><i>0.6</i> | <b>314,861</b><br><i>-0.9</i> | <b>316,599</b><br><i>0.6</i> | <b>321,565</b><br><i>1.6</i> | <b>324,010</b><br><i>0.8</i> | <b>313,380</b><br><i>1.9</i> | <b>317,713</b><br><i>1.4</i> |
| Agriculture, forestry, fishing and hunting                           | 21,900<br><i>1.3</i>         | 23,097<br><i>5.5</i>         | 23,326<br><i>1.0</i>          | 23,878<br><i>2.4</i>         | 23,918<br><i>0.2</i>         | 23,870<br><i>-0.2</i>        | 21,412<br><i>-3.5</i>        | 23,555<br><i>10.0</i>        |
| Mining and oil and gas extraction                                    | 35,475<br><i>0.5</i>         | 35,700<br><i>0.6</i>         | 35,844<br><i>0.4</i>          | 36,778<br><i>2.6</i>         | 37,289<br><i>1.4</i>         | 37,601<br><i>0.8</i>         | 35,329<br><i>0.8</i>         | 36,403<br><i>3.0</i>         |
| Utilities  | 26,797<br><i>0.1</i>         | 26,747<br><i>-0.2</i>        | 25,830<br><i>-3.4</i>         | 25,816<br><i>-0.1</i>        | 25,670<br><i>-0.6</i>        | 25,960<br><i>1.1</i>         | 26,626<br><i>2.2</i>         | 26,016<br><i>-2.3</i>        |
| Construction   | 53,053<br><i>0.8</i>         | 54,037<br><i>1.9</i>         | 54,385<br><i>0.6</i>          | 55,071<br><i>1.3</i>         | 56,119<br><i>1.9</i>         | 56,932<br><i>1.4</i>         | 52,555<br><i>1.7</i>         | 54,903<br><i>4.5</i>         |
| Manufacturing  | 178,309<br><i>-0.5</i>       | 177,810<br><i>-0.3</i>       | 174,796<br><i>-1.7</i>        | 173,963<br><i>-0.5</i>       | 177,461<br><i>2.0</i>        | 178,513<br><i>0.6</i>        | 176,808<br><i>2.9</i>        | 176,008<br><i>-0.5</i>       |
| <b>Services producing industries</b>                                 | <b>689,375</b><br><i>0.7</i> | <b>692,708</b><br><i>0.5</i> | <b>694,389</b><br><i>0.2</i>  | <b>697,050</b><br><i>0.4</i> | <b>701,565</b><br><i>0.6</i> | <b>705,113</b><br><i>0.5</i> | <b>681,647</b><br><i>4.2</i> | <b>696,428</b><br><i>2.2</i> |
| Wholesale trade  | 60,937<br><i>1.5</i>         | 62,605<br><i>2.7</i>         | 62,315<br><i>-0.5</i>         | 62,113<br><i>-0.3</i>        | 64,098<br><i>3.2</i>         | 62,831<br><i>-2.0</i>        | 59,635<br><i>8.1</i>         | 62,783<br><i>5.3</i>         |
| Retail trade   | 55,290<br><i>0.8</i>         | 55,825<br><i>1.0</i>         | 56,070<br><i>0.4</i>          | 56,539<br><i>0.8</i>         | 56,055<br><i>-0.9</i>        | 57,546<br><i>2.7</i>         | 54,905<br><i>5.5</i>         | 56,122<br><i>2.2</i>         |
| Transportation and warehousing                                       | 46,830<br><i>0.3</i>         | 46,650<br><i>-0.4</i>        | 45,994<br><i>-1.4</i>         | 45,896<br><i>-0.2</i>        | 46,866<br><i>2.1</i>         | 47,037<br><i>0.4</i>         | 46,401<br><i>1.7</i>         | 46,351<br><i>-0.1</i>        |
| Information and cultural industries                                  | 41,740<br><i>0.6</i>         | 42,137<br><i>1.0</i>         | 42,209<br><i>0.2</i>          | 42,091<br><i>-0.3</i>        | 41,632<br><i>-1.1</i>        | 41,799<br><i>0.4</i>         | 41,274<br><i>6.4</i>         | 42,017<br><i>1.8</i>         |
| Finance, insurance and real estate                                   | 201,431<br><i>0.4</i>        | 201,356<br><i>-0.0</i>       | 202,724<br><i>0.7</i>         | 204,686<br><i>1.0</i>        | 205,322<br><i>0.3</i>        | 207,706<br><i>1.2</i>        | 199,890<br><i>4.9</i>        | 203,522<br><i>1.8</i>        |
| Professional, scientific and technical services                      | 43,846<br><i>1.0</i>         | 44,244<br><i>0.9</i>         | 44,607<br><i>0.8</i>          | 44,671<br><i>0.1</i>         | 44,822<br><i>0.3</i>         | 45,326<br><i>1.1</i>         | 43,255<br><i>3.1</i>         | 44,586<br><i>3.1</i>         |
| Administrative and waste management services                         | 21,903<br><i>1.5</i>         | 22,053<br><i>0.7</i>         | 22,160<br><i>0.5</i>          | 22,327<br><i>0.8</i>         | 22,385<br><i>0.3</i>         | 22,385<br><i>0.0</i>         | 21,424<br><i>5.0</i>         | 22,231<br><i>3.8</i>         |
| Educational services   | 45,676<br><i>0.1</i>         | 45,469<br><i>-0.5</i>        | 45,439<br><i>-0.1</i>         | 45,178<br><i>-0.6</i>        | 45,310<br><i>0.3</i>         | 44,733<br><i>-1.3</i>        | 45,377<br><i>1.7</i>         | 45,349<br><i>-0.1</i>        |
| Health care and social assistance                                    | 59,337<br><i>1.2</i>         | 59,914<br><i>1.0</i>         | 60,584<br><i>1.1</i>          | 60,908<br><i>0.5</i>         | 61,195<br><i>0.5</i>         | 61,455<br><i>0.4</i>         | 58,337<br><i>3.6</i>         | 60,650<br><i>4.0</i>         |
| Arts, entertainment and recreation                                   | 8,947<br><i>0.7</i>          | 9,140<br><i>2.2</i>          | 9,350<br><i>2.3</i>           | 9,289<br><i>-0.7</i>         | 9,304<br><i>0.2</i>          | 9,289<br><i>-0.2</i>         | 8,924<br><i>4.8</i>          | 9,271<br><i>3.9</i>          |
| Accommodation and food services                                      | 23,265<br><i>-0.0</i>        | 22,847<br><i>-1.8</i>        | 21,963<br><i>-3.9</i>         | 22,382<br><i>1.9</i>         | 22,959<br><i>2.6</i>         | 22,924<br><i>-0.2</i>        | 23,159<br><i>0.5</i>         | 22,538<br><i>-2.7</i>        |
| Other services (except public administration)                        | 24,029<br><i>1.0</i>         | 24,059<br><i>0.1</i>         | 24,104<br><i>0.2</i>          | 24,112<br><i>0.0</i>         | 24,321<br><i>0.9</i>         | 24,362<br><i>0.2</i>         | 23,753<br><i>3.4</i>         | 24,149<br><i>1.7</i>         |
| Public administration  | 57,039<br><i>1.2</i>         | 57,410<br><i>0.7</i>         | 57,794<br><i>0.7</i>          | 57,748<br><i>-0.1</i>        | 58,259<br><i>0.9</i>         | 58,604<br><i>0.6</i>         | 56,180<br><i>2.5</i>         | 57,803<br><i>2.9</i>         |
| <b>Other aggregations</b>  |                              |                              |                               |                              |                              |                              |                              |                              |
| Industrial production  | 241,015<br><i>-0.2</i>       | 240,853<br><i>-0.1</i>       | 237,476<br><i>-1.4</i>        | 238,088<br><i>0.3</i>        | 241,942<br><i>1.6</i>        | 243,631<br><i>0.7</i>        | 239,278<br><i>2.4</i>        | 239,590<br><i>0.1</i>        |
| Non-durable manufacturing industries                                 | 73,303<br><i>0.2</i>         | 73,081<br><i>-0.3</i>        | 72,289<br><i>-1.1</i>         | 71,995<br><i>-0.4</i>        | 72,811<br><i>1.1</i>         | 72,873<br><i>0.1</i>         | 72,531<br><i>3.1</i>         | 72,544<br><i>0.0</i>         |
| Durable manufacturing industries                                     | 104,914<br><i>-0.9</i>       | 104,637<br><i>-0.3</i>       | 102,419<br><i>-2.1</i>        | 101,881<br><i>-0.5</i>       | 104,555<br><i>2.6</i>        | 105,540<br><i>0.9</i>        | 104,182<br><i>2.7</i>        | 103,373<br><i>-0.8</i>       |
| Business sector industries   | 850,201<br><i>0.4</i>        | 854,907<br><i>0.6</i>        | 852,459<br><i>-0.3</i>        | 856,956<br><i>0.5</i>        | 865,811<br><i>1.0</i>        | 871,875<br><i>0.7</i>        | 841,623<br><i>3.6</i>        | 857,533<br><i>1.9</i>        |
| Non-business sector industries                                       | 154,130<br><i>0.8</i>        | 154,540<br><i>0.3</i>        | 155,466<br><i>0.6</i>         | 155,403<br><i>-0.0</i>       | 156,203<br><i>0.5</i>        | 156,183<br><i>-0.0</i>       | 152,370<br><i>2.2</i>        | 155,403<br><i>2.0</i>        |
| ICT sector, total  | 55,991<br><i>0.8</i>         | 56,617<br><i>1.1</i>         | 56,667<br><i>0.1</i>          | 56,625<br><i>-0.1</i>        | 57,237<br><i>1.1</i>         | 57,712<br><i>0.8</i>         | 55,361<br><i>1.8</i>         | 56,786<br><i>2.6</i>         |

1 The first line is the series itself expressed in millions of dollars, seasonally adjusted at annual rates. The second line, italicized, is the period to period percentage change at quarterly rates.

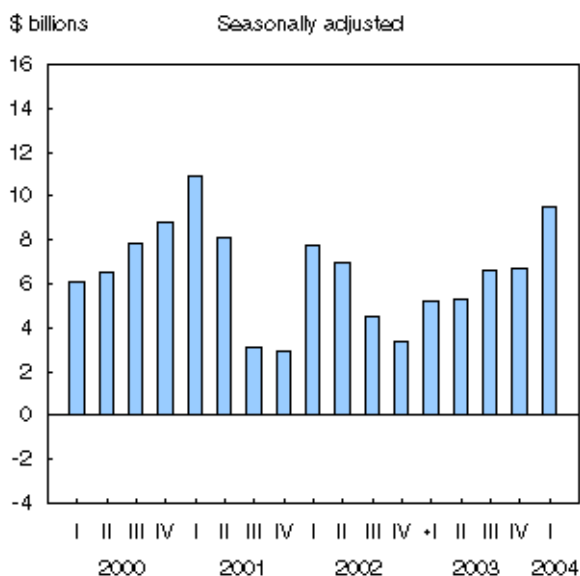
## Balance of international payments

First quarter 2004

Canada's **current account** surplus with the rest of the world, on a seasonally adjusted basis, rose \$2.8 billion in the first quarter to \$9.5 billion, its highest level in three years. A higher surplus on trade in goods led to the increase.

The **capital and financial account** (not seasonally adjusted) showed funds flowing out of Canada to the rest of the world for a fourth straight quarter. Canada's direct and portfolio assets abroad went up, but at a slower pace than in the fourth quarter. There were offsetting changes to Canada's liabilities: non-residents invested in direct and portfolio securities but residents reduced some of their deposit liabilities.

### The second highest surplus ever on the Current account



During the quarter, the Canadian dollar declined slightly against the US dollar after its strong appreciation over 2003. Against other foreign currencies however the story was mixed as the Canadian dollar was up against the Euro but down sharply against the British pound and the Japanese yen.

### Current account

#### Goods surplus rebounds

The surplus on trade in goods reached \$17.5 billion in the first quarter, up \$3.4 billion from the fourth quarter.

After three quarters of decline, exports increased by \$4.0 billion to \$101.5 billion. Once again, the largest change came from energy products as prices rebounded. Higher exports of industrial goods, and machinery and equipment products were led by exports of aircraft, engines and parts. Exports of automotive products fell slightly but have remained relatively stable over the last four quarters.

Imports increased by \$0.5 billion to \$84.0 billion. Imports of industrial goods and machinery and equipment products each increased approximately half a billion dollars. Automotive product imports declined by \$0.5 billion, reversing most of the gain observed in the fourth quarter.

#### Note to readers

The **balance of payments** covers all economic transactions between Canadian residents and non-residents. It includes the **current account** and the **capital and financial account**.

The current account covers transactions on goods, services, investment income and current transfers. Transactions in exports and interest income are examples of receipts, while imports and interest expense are payments. The balance from these transactions determines if Canada's current account is in **surplus** or **deficit**.

The **capital and financial account** is mainly comprised of transactions in financial instruments. Financial assets and liabilities with non-residents are presented under three functional classes: direct investment, portfolio investment and other investment. These investments belong either to Canadian residents (Canadian assets) or to foreign residents (Canadian liabilities). Transactions resulting in a capital inflow are presented as positive values while capital outflows from Canada are shown as negative values.

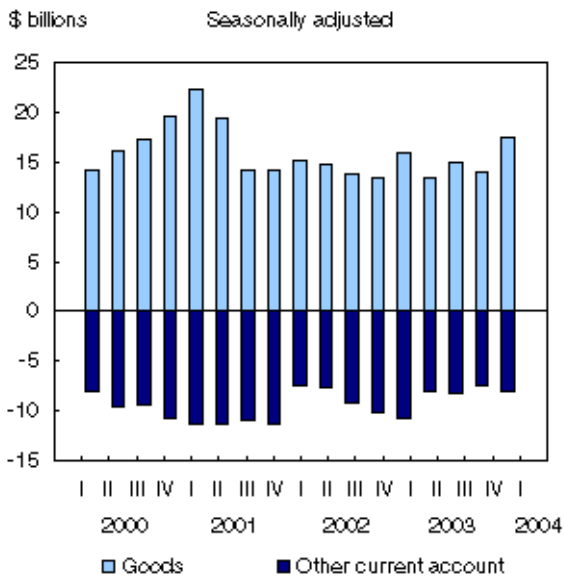
A current account surplus or deficit should correspond to an equivalent outflow or inflow in the capital and financial account. In other words, the two accounts should add to zero. In fact, as data are compiled from multiple sources, the two balance of payments accounts rarely equate. As a result, the statistical discrepancy is the net unobserved inflow or outflow needed to balance the accounts.

#### Revised estimates for Canadian money market securities

With this release, the quarterly series covering Canadian money market transactions and positions with non-residents have been revised back to the first quarter of 2003 using a new method. Money market securities are now estimated using an instrument by instrument approach as has been the case for long term debt for many years. In the coming quarters, the new system will allow the production of increased detail on Canadian money market instruments (i.e. by currency of instrument) and also estimates for foreign money market paper owned by Canadians.



## Goods surplus rebounds strongly



### Lower profits earned on direct investment abroad

The deficit on investment income increased \$0.5 billion to \$5.0 billion as profits earned on Canadian direct investment abroad dropped \$0.7 billion. Despite this, Canada registered its second lowest deficit on investment income in more than 12 years.

The \$4.3 billion of profits earned abroad were lower as a result of declines in the electrical products, and wood and paper sectors. These reductions were partially offset by higher profits in the finance and insurance sector.

At the same time, profits earned by foreign investors on their direct investments in Canada decreased \$0.2 billion. The largest decrease came from the finance and insurance sector.

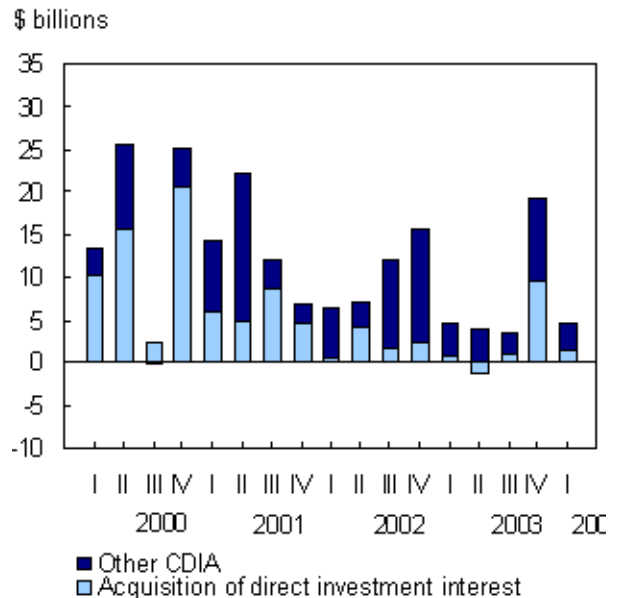
### Services deficit remains stable

In the first quarter, the deficit on trade in services grew by \$0.1 billion to \$3.0 billion. All major components saw little change from the previous quarter.

Payments on travel services increased more than receipts as the number of Canadians travelling abroad remained relatively stable while slightly fewer foreign visitors, especially from the United States, came to Canada. The first quarter deficit in travel services at \$1.3 billion was the highest since the end of 1993.

The transportation deficit increased slightly. This increase was concentrated in goods transportation as the deficit on passenger fares did not change. A small widely spread improvement in the commercial services deficit partially offset these declines.

## Direct investment abroad moderates<sup>1</sup>



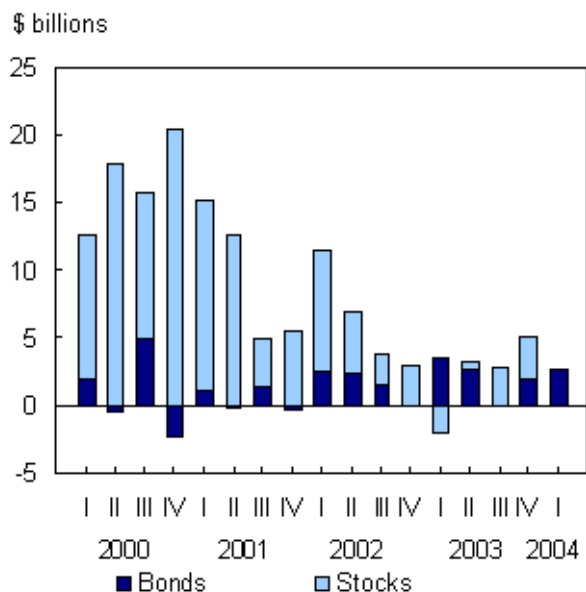
1. Reverse of Balance of Payments signs.

## Financial account

### Direct investment abroad moderate

After the robust \$19.3 billion investment of the fourth quarter, Canadian direct investment abroad returned to a moderate \$4.8 billion in the first quarter. It was a level similar to the first three quarters of 2003. About a third of the quarter's investment went to the acquisition of a number of foreign enterprises. Just under half was invested in American companies with the rest geographically spread out. Industrially, the investment was led by the energy and financial industry groups.

**Portfolio investment abroad focused on bonds<sup>1</sup>**



1. Reverse of Balance of Payments signs.

**Canadian investment in foreign securities concentrated in bonds**

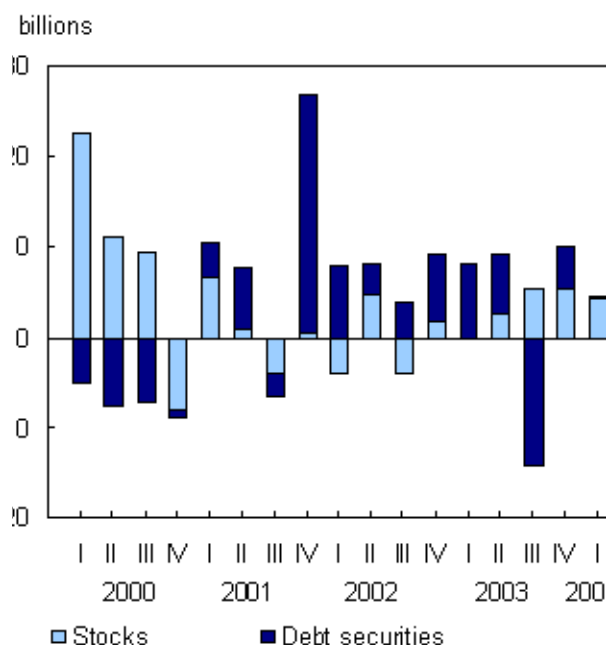
Canadian investors bought \$2.7 billion of foreign securities in the first quarter, just half the value of the fourth quarter of 2003. It was, however, in line with the five quarters prior to the fourth quarter.

Canadians bought \$2.6 billion worth of foreign bonds, half of which went to overseas bonds, the most in four years. The remainder went to US corporate bonds and US treasuries. While overall Canadian investment in foreign equities was negligible, investors bought \$2.7 billion worth of US shares while selling a similar amount of overseas shares.

**Foreign direct investment returns to Canada after two negative quarters**

The foreign acquisition of a Canadian corporation helped raise foreign direct investment to \$5.3 billion in the quarter. This came after two negative quarters when foreign investors withdrew funds from Canada. Over two-thirds of first quarter direct investment came from the United States. On an industry basis, the foreign investment went to the communications sector. At the same time, the machinery and transportation equipment industry saw some withdrawals of funds.

**Foreign investors continue to buy Canadian equities**

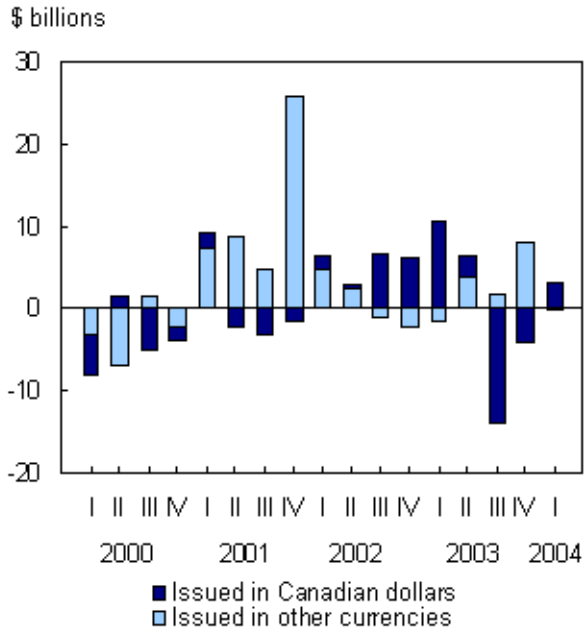


**Foreign portfolio investment in Canadian securities continues**

Foreign portfolio investment of \$4.4 billion flowed into Canadian securities in the quarter, after the major \$10.1 billion injection in the fourth quarter. Foreign demand for Canadian equities continued; while for debt instruments foreign investors purchased Canadian bonds but sold a similar amount of money market securities.

With Canadian stock prices continuing to increase in the first quarter, foreign investors purchased \$4.3 billion of Canadian equities. Some \$5.6 billion was invested in existing shares, partly offset by a \$1.3 billion outflow, related to the acquisition noted earlier. Foreign investment in existing shares was at a three-and-a-half year high. Foreign investors bought a wide array of stocks led by issues of resource companies, manufacturers, and banks.

### Foreign investment returns to Canadian-dollar bonds



Canadian bonds continued to attract foreign investment during the quarter as foreign investors bought \$2.9 billion worth of bonds issued by federal enterprises and corporations. The investment originated in the United States and Asia. On a currency basis, foreign investors acquired \$3 billion and \$1.2 billion respectively of Canadian-dollar and US-dollar denominated bonds but sold \$1.3 billion denominated in other foreign currencies.

Foreign holdings of Canadian money market paper were reduced by \$2.8 billion in the quarter. Two-thirds of the reduction was in federal treasury bills with the rest split between paper issued by corporations and federal enterprises.

### Other investment

In the first quarter, net transactions in the other investment category led to capital outflows. This reversed a similar capital inflow registered in these accounts in the fourth quarter. Principally, deposit liabilities of Canadian banks were drawn down in the first quarter. There was a small increase to Canada's international reserves halting six consecutive quarters of decline.

**Balance of payments**

|   | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002           | 2003           |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|----------------|----------------|
| Not seasonally adjusted, millions of dollars          |                           |                          |                           |                          |                           |                          |                |                |
| <b>Current account</b>                                |                           |                          |                           |                          |                           |                          |                |                |
| <b>Receipts</b>                                       |                           |                          |                           |                          |                           |                          |                |                |
| Goods and services                                    | 120,667                   | 119,596                  | 115,187                   | 112,766                  | 112,425                   | 116,351                  | 477,694        | 459,974        |
| Goods   | 105,870                   | 105,638                  | 100,587                   | 95,292                   | 98,493                    | 102,561                  | 413,795        | 400,010        |
| Services  | 14,797                    | 13,958                   | 14,600                    | 17,475                   | 13,932                    | 13,790                   | 63,899         | 59,964         |
| Investment income                                     | 8,527                     | 7,052                    | 8,172                     | 8,354                    | 9,122                     | 8,099                    | 31,185         | 32,700         |
| Direct investment                                     | 4,321                     | 2,729                    | 4,140                     | 4,348                    | 5,239                     | 4,307                    | 13,624         | 16,455         |
| Portfolio investment                                  | 2,296                     | 2,367                    | 2,359                     | 2,353                    | 2,243                     | 2,204                    | 9,628          | 9,321          |
| Other investment                                      | 1,910                     | 1,956                    | 1,673                     | 1,654                    | 1,640                     | 1,589                    | 7,934          | 6,923          |
| Current transfers                                     | 2,015                     | 1,913                    | 1,490                     | 1,490                    | 1,820                     | 1,878                    | 6,957          | 6,714          |
| Current account receipts                              | 131,209                   | 128,561                  | 124,849                   | 122,611                  | 123,367                   | 126,328                  | 515,836        | 499,388        |
| <b>Payments</b>                                       |                           |                          |                           |                          |                           |                          |                |                |
| Goods and services                                    | 109,253                   | 106,798                  | 106,404                   | 98,449                   | 101,037                   | 102,580                  | 427,382        | 412,688        |
| Goods   | 91,582                    | 88,644                   | 89,126                    | 80,420                   | 83,643                    | 84,077                   | 356,581        | 341,833        |
| Services  | 17,671                    | 18,155                   | 17,278                    | 18,029                   | 17,393                    | 18,503                   | 70,801         | 70,855         |
| Investment income                                     | 16,487                    | 16,149                   | 13,424                    | 13,483                   | 13,387                    | 14,019                   | 59,839         | 56,443         |
| Direct investment                                     | 6,389                     | 6,518                    | 4,696                     | 4,896                    | 4,774                     | 5,355                    | 20,670         | 20,884         |
| Portfolio investment                                  | 7,730                     | 7,545                    | 7,188                     | 7,129                    | 6,893                     | 6,843                    | 30,466         | 28,755         |
| Other investment                                      | 2,368                     | 2,086                    | 1,541                     | 1,458                    | 1,719                     | 1,820                    | 8,702          | 6,804          |
| Current transfers                                     | 1,440                     | 2,124                    | 1,321                     | 1,475                    | 1,520                     | 2,163                    | 5,951          | 6,440          |
| Current account payments                              | 127,179                   | 125,071                  | 121,149                   | 113,407                  | 115,943                   | 118,761                  | 493,171        | 475,570        |
| <b>Balances</b>                                       |                           |                          |                           |                          |                           |                          |                |                |
| Goods and services                                    | 11,415                    | 12,798                   | 8,783                     | 14,318                   | 11,388                    | 13,771                   | 50,312         | 47,287         |
| Goods   | 14,288                    | 16,994                   | 11,461                    | 14,872                   | 14,850                    | 18,484                   | 57,214         | 58,177         |
| Services  | -2,874                    | -4,197                   | -2,678                    | -554                     | -3,462                    | -4,713                   | -6,903         | -10,891        |
| Investment income                                     | -7,960                    | -9,097                   | -5,252                    | -5,129                   | -4,265                    | -5,919                   | -28,653        | -23,743        |
| Direct investment                                     | -2,068                    | -3,789                   | -556                      | -548                     | 464                       | -1,048                   | -7,046         | -4,429         |
| Portfolio investment                                  | -5,434                    | -5,178                   | -4,829                    | -4,777                   | -4,650                    | -4,639                   | -20,838        | -19,433        |
| Other investment                                      | -458                      | -130                     | 132                       | 196                      | -80                       | -232                     | -769           | 119            |
| Current transfers                                     | 575                       | -211                     | 169                       | 14                       | 301                       | -285                     | 1,006          | 274            |
| Current account balance                               | 4,030                     | 3,490                    | 3,700                     | 9,204                    | 7,424                     | 7,566                    | 22,664         | 23,818         |
| <b>Capital and financial account[1]</b>               |                           |                          |                           |                          |                           |                          |                |                |
| <b>Capital account</b>                                | <b>903</b>                | <b>1,000</b>             | <b>985</b>                | <b>1,067</b>             | <b>917</b>                | <b>851</b>               | <b>4,988</b>   | <b>3,968</b>   |
| <b>Financial account</b>                              | <b>-10,212</b>            | <b>3,550</b>             | <b>-13,012</b>            | <b>-6,456</b>            | <b>-8,775</b>             | <b>-4,231</b>            | <b>-17,837</b> | <b>-24,694</b> |
| <b>Canadian assets, net flows</b>                     |                           |                          |                           |                          |                           |                          |                |                |
| Canadian direct investment abroad                     | -15,576                   | -4,679                   | -2,743                    | -3,510                   | -19,258                   | -4,753                   | -41,472        | -30,191        |
| Portfolio investment                                  | -2,923                    | -1,349                   | -3,204                    | -2,812                   | -5,154                    | -2,697                   | -25,087        | -12,519        |
| Foreign bonds   | -16                       | -3,501                   | -2,664                    | -5                       | -1,901                    | -2,607                   | -6,229         | -8,071         |
| Foreign stocks  | -2,907                    | 2,151                    | -540                      | -2,807                   | -3,253                    | -89                      | -18,858        | -4,449         |
| Other investment                                      | -6,726                    | -23,541                  | 3,959                     | 2,227                    | -8,046                    | 1,488                    | -13,206        | -25,401        |
| Loans   | -6,253                    | -5,625                   | 2,913                     | 6,256                    | 2,627                     | -309                     | -8,182         | 6,171          |
| Deposits  | 2,887                     | -17,387                  | 3,066                     | 292                      | -9,205                    | -1,714                   | 5,731          | -23,234        |
| Official international reserves                       | 559                       | 2,711                    | 229                       | 4                        | 1,749                     | -236                     | 298            | 4,693          |
| Other assets  | -3,920                    | -3,240                   | -2,249                    | -4,325                   | -3,217                    | 3,747                    | -11,053        | -13,030        |
| Total Canadian assets, net flows                      | -25,225                   | -29,569                  | -1,988                    | -4,095                   | -32,459                   | -5,961                   | -79,765        | -68,111        |
| <b>Canadian liabilities, net flows</b>                |                           |                          |                           |                          |                           |                          |                |                |
| Foreign direct investment in Canada                   | 5,656                     | 5,233                    | 5,679                     | -863                     | -827                      | 5,319                    | 33,026         | 9,222          |
| Portfolio investment                                  | 9,283                     | 7,956                    | 9,204                     | -8,820                   | 10,130                    | 4,415                    | 20,935         | 18,469         |
| Canadian bonds  | 3,635                     | 9,131                    | 6,161                     | -12,240                  | 3,947                     | 2,884                    | 18,684         | 7,000          |
| Canadian stocks                                       | 1,724                     | -265                     | 2,575                     | 5,394                    | 5,227                     | 4,304                    | -1,531         | 12,931         |
| Canadian money market                                 | 3,925                     | -910                     | 467                       | -1,975                   | 956                       | -2,772                   | 3,782          | -1,461         |
| Other investment                                      | 74                        | 19,930                   | -25,907                   | 7,323                    | 14,380                    | -8,003                   | 7,967          | 15,726         |
| Loans   | 1,640                     | 1,013                    | -3,480                    | -264                     | 4,472                     | 1,774                    | 1,400          | 1,741          |
| Deposits  | -1,119                    | 21,200                   | -20,592                   | 7,525                    | 10,131                    | -10,377                  | 13,568         | 18,265         |
| Other liabilities                                     | -447                      | -2,284                   | -1,835                    | 61                       | -223                      | 600                      | -7,001         | -4,280         |
| Total Canadian liabilities, net flows                 | 15,013                    | 33,119                   | -11,024                   | -2,361                   | 23,683                    | 1,730                    | 61,928         | 43,417         |
| <b>Total capital and financial account, net flows</b> | <b>-9,309</b>             | <b>4,550</b>             | <b>-12,027</b>            | <b>-5,389</b>            | <b>-7,859</b>             | <b>-3,380</b>            | <b>-12,850</b> | <b>-20,725</b> |
| Statistical discrepancy                               | 5,279                     | -8,040                   | 8,328                     | -3,814                   | 434                       | -4,186                   | -9,815         | -3,092         |

1 A minus sign (-) denotes an outflow of capital resulting from an increase in claims on non-residents or from a decrease in liabilities to non-residents. Transactions are recorded on a net basis.

**Current account**

|   | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002           | 2003           |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|----------------|----------------|
| Seasonally adjusted at quarterly rates, millions of dollars |                           |                          |                           |                          |                           |                          |                |                |
| <b>Receipts</b>   |                           |                          |                           |                          |                           |                          |                |                |
| Goods and services  | 120,914                   | 121,274                  | 113,279                   | 112,786                  | 112,635                   | 116,613                  | 477,694        | 459,974        |
| Goods   | 104,570                   | 105,857                  | 98,578                    | 98,030                   | 97,545                    | 101,498                  | 413,795        | 400,010        |
| Services  | 16,344                    | 15,417                   | 14,700                    | 14,757                   | 15,090                    | 15,115                   | 63,899         | 59,964         |
| Travel  | 4,291                     | 4,020                    | 3,443                     | 3,552                    | 3,732                     | 3,773                    | 16,747         | 14,746         |
| Transportation  | 2,952                     | 2,701                    | 2,430                     | 2,517                    | 2,637                     | 2,680                    | 11,115         | 10,285         |
| Commercial services   | 8,745                     | 8,357                    | 8,484                     | 8,338                    | 8,372                     | 8,334                    | 34,599         | 33,551         |
| Government services   | 356                       | 340                      | 344                       | 349                      | 350                       | 328                      | 1,438          | 1,382          |
| Investment income   | 8,495                     | 7,036                    | 8,233                     | 8,362                    | 9,068                     | 8,210                    | 31,185         | 32,700         |
| Direct investment   | 4,240                     | 2,697                    | 4,229                     | 4,398                    | 5,131                     | 4,390                    | 13,624         | 16,455         |
| Interest  | 128                       | 217                      | 171                       | 185                      | 175                       | 112                      | 471            | 748            |
| Profits   | 4,112                     | 2,480                    | 4,058                     | 4,213                    | 4,956                     | 4,278                    | 13,153         | 15,707         |
| Portfolio investment  | 2,364                     | 2,367                    | 2,312                     | 2,327                    | 2,315                     | 2,220                    | 9,628          | 9,321          |
| Interest  | 426                       | 439                      | 432                       | 463                      | 480                       | 462                      | 1,775          | 1,814          |
| Dividends   | 1,939                     | 1,927                    | 1,881                     | 1,864                    | 1,836                     | 1,757                    | 7,853          | 7,508          |
| Other investment  | 1,891                     | 1,973                    | 1,692                     | 1,637                    | 1,622                     | 1,600                    | 7,934          | 6,923          |
| Current transfers   | 1,917                     | 1,707                    | 1,650                     | 1,651                    | 1,706                     | 1,676                    | 6,957          | 6,714          |
| Private   | 617                       | 685                      | 589                       | 651                      | 632                       | 672                      | 2,567          | 2,558          |
| Official  | 1,300                     | 1,021                    | 1,061                     | 1,000                    | 1,073                     | 1,004                    | 4,390          | 4,156          |
| <b>Total receipts</b>                                       | <b>131,326</b>            | <b>130,018</b>           | <b>123,163</b>            | <b>122,799</b>           | <b>123,409</b>            | <b>126,498</b>           | <b>515,836</b> | <b>499,388</b> |
| <b>Payments</b>   |                           |                          |                           |                          |                           |                          |                |                |
| Goods and services  | 109,293                   | 107,851                  | 102,689                   | 100,644                  | 101,505                   | 102,146                  | 427,382        | 412,688        |
| Goods   | 91,069                    | 89,960                   | 85,260                    | 83,143                   | 83,469                    | 83,987                   | 356,581        | 341,833        |
| Services  | 18,224                    | 17,890                   | 17,428                    | 17,501                   | 18,035                    | 18,159                   | 70,801         | 70,855         |
| Travel  | 4,682                     | 4,731                    | 4,284                     | 4,590                    | 5,002                     | 5,122                    | 18,333         | 18,608         |
| Transportation  | 3,689                     | 3,581                    | 3,450                     | 3,603                    | 3,592                     | 3,674                    | 14,122         | 14,225         |
| Commercial services   | 9,629                     | 9,353                    | 9,470                     | 9,082                    | 9,213                     | 9,135                    | 37,464         | 37,119         |
| Government services   | 224                       | 225                      | 224                       | 226                      | 228                       | 228                      | 883            | 903            |
| Investment income   | 17,081                    | 15,367                   | 13,521                    | 13,913                   | 13,641                    | 13,246                   | 59,839         | 56,443         |
| Direct investment   | 6,966                     | 6,026                    | 4,646                     | 5,174                    | 5,039                     | 4,839                    | 20,670         | 20,884         |
| Interest  | 338                       | 452                      | 462                       | 474                      | 475                       | 492                      | 1,385          | 1,862          |
| Profits   | 6,628                     | 5,574                    | 4,184                     | 4,700                    | 4,564                     | 4,347                    | 19,285         | 19,022         |
| Portfolio investment  | 7,778                     | 7,470                    | 7,195                     | 7,147                    | 6,942                     | 6,799                    | 30,466         | 28,755         |
| Interest  | 7,042                     | 6,728                    | 6,503                     | 6,429                    | 6,189                     | 6,161                    | 27,714         | 25,849         |
| Dividends   | 736                       | 743                      | 692                       | 718                      | 753                       | 639                      | 2,753          | 2,905          |
| Other investment  | 2,336                     | 1,871                    | 1,681                     | 1,592                    | 1,660                     | 1,608                    | 8,702          | 6,804          |
| Current transfers   | 1,548                     | 1,580                    | 1,653                     | 1,606                    | 1,601                     | 1,616                    | 5,951          | 6,440          |
| Private   | 865                       | 873                      | 906                       | 902                      | 925                       | 942                      | 3,382          | 3,607          |
| Official  | 683                       | 707                      | 746                       | 704                      | 676                       | 673                      | 2,569          | 2,833          |
| <b>Total payments</b>                                       | <b>127,922</b>            | <b>124,798</b>           | <b>117,863</b>            | <b>116,163</b>           | <b>116,747</b>            | <b>117,008</b>           | <b>493,171</b> | <b>475,570</b> |
| <b>Balances</b>   |                           |                          |                           |                          |                           |                          |                |                |
| Goods and services  | 11,621                    | 13,424                   | 10,590                    | 12,142                   | 11,130                    | 14,467                   | 50,312         | 47,287         |
| Goods   | 13,501                    | 15,897                   | 13,318                    | 14,887                   | 14,075                    | 17,511                   | 57,214         | 58,177         |
| Services  | -1,880                    | -2,473                   | -2,728                    | -2,744                   | -2,945                    | -3,044                   | -6,903         | -10,891        |
| Travel  | -391                      | -712                     | -842                      | -1,038                   | -1,271                    | -1,349                   | -1,586         | -3,862         |
| Transportation  | -737                      | -879                     | -1,020                    | -1,086                   | -955                      | -994                     | -3,007         | -3,940         |
| Commercial services   | -884                      | -996                     | -986                      | -744                     | -841                      | -801                     | -2,865         | -3,567         |
| Government services   | 132                       | 114                      | 120                       | 123                      | 121                       | 101                      | 555            | 479            |
| Investment income   | -8,586                    | -8,331                   | -5,288                    | -5,551                   | -4,572                    | -5,037                   | -28,653        | -23,743        |
| Direct investment   | -2,726                    | -3,329                   | -417                      | -776                     | 92                        | -449                     | -7,046         | -4,429         |
| Interest  | -210                      | -235                     | -291                      | -289                     | -300                      | -380                     | -914           | -1,114         |
| Profits   | -2,516                    | -3,094                   | -126                      | -487                     | 392                       | -69                      | -6,132         | -3,315         |
| Portfolio investment  | -5,414                    | -5,104                   | -4,883                    | -4,820                   | -4,626                    | -4,580                   | -20,838        | -19,433        |
| Interest  | -6,617                    | -6,288                   | -6,072                    | -5,966                   | -5,709                    | -5,698                   | -25,939        | -24,036        |
| Dividends   | 1,203                     | 1,185                    | 1,189                     | 1,146                    | 1,083                     | 1,119                    | 5,100          | 4,602          |
| Other investment  | -445                      | 102                      | 11                        | 45                       | -38                       | -8                       | -769           | 119            |
| Current transfers   | 369                       | 127                      | -2                        | 45                       | 104                       | 60                       | 1,006          | 274            |
| Private   | -248                      | -188                     | -317                      | -251                     | -293                      | -270                     | -815           | -1,049         |
| Official  | 617                       | 314                      | 315                       | 296                      | 397                       | 331                      | 1,821          | 1,323          |
| <b>Current account</b>                                      | <b>3,404</b>              | <b>5,220</b>             | <b>5,300</b>              | <b>6,636</b>             | <b>6,662</b>              | <b>9,490</b>             | <b>22,664</b>  | <b>23,818</b>  |

## Labour productivity, hourly compensation and unit labour cost

First quarter 2004

Labour productivity in Canada's business sector rose 0.4% between January and March this year, the first quarter-to-quarter gain in a year.

The increase follows a lackluster performance during much of 2003. Labour productivity fell during the second quarter last year, and was virtually flat during the third and fourth quarters. Productivity last rose during the first quarter of 2003 when it went up 1.1%.

### Positive productivity growth resumes



In the United States, first-quarter growth in labour productivity this year was 1.2%, three times Canada's pace. Productivity growth south of the border has outpaced Canada's since the first quarter of 2003.

Higher productivity, as measured by production per hour worked, means that workers produced more without working more hours. In general, productivity growth helps improve prosperity and standards of living.

During the last two quarters of 2003 in Canada, when productivity growth was flat, gains in production were entirely due to an increase in hours worked. Between January and March this year, productivity increased in Canada largely because the output growth remained constant, while hours worked growth rate slowed down.

### Productivity increased only in the services sector

In the first quarter, quarterly productivity growth was concentrated in services. On a quarter to quarter basis, labour productivity growth in the services sector recovered to reach a rate of 0.4% in the first quarter 2004. At the same time, productivity in the goods sector declined by 0.4% during the same quarter.

The reverse was experienced in the previous quarter since productivity in services declined by 0.2%, while it increased by 0.7% in goods.

The productivity increase in services during the first quarter was sustained by a productivity recovery in retail trade, finance, insurance and real estate, information and cultural services, as well as in professional services. These four industry groups from services all registered productivity declines during the previous quarter.

### Note to readers

This chapter presents an analysis on labour productivity not only for the business sector as a whole but also in detail, reflecting 15 industries of the business sector (including the goods sector and the services sector). Quarterly measures of labour productivity by industry appeared for the first time last December. The statistical series for these industries start as of the first quarter of 1997.

In this chapter, the use of the term "productivity" refers to labour productivity. Calculations of the productivity growth rate and its related variables are based on index numbers rounded to one decimal place.

With this release, revisions have been made back to the first quarter of 2000 to incorporate the 2000-to-2003 revisions to the National Economic and Financial Accounts that were released on May 31. An article outlining these revisions can be found in this document.

The quarterly productivity estimates provide a preliminary indication of recent productivity trends in the Canadian economy. These data are produced on the basis of preliminary Gross domestic product (GDP) estimates, which are eventually revised when additional and more precise information on the National Accounts becomes available.

A technical note on quarterly estimates of labour productivity is available on request. To order a copy, send an e-mail message to [productivity.measures@statcan.ca](mailto:productivity.measures@statcan.ca).

**Labour productivity** is the ratio of output to labour input (hours worked). Quarterly estimates of productivity are derived from a Fisher chained index of GDP, or of value added, in the business sector. Economic performance as measured by labour productivity must be interpreted carefully, since these estimates reflect changes in other inputs in addition to the growth in productive efficiency.

**Labour compensation** includes all payments in cash or in kind made by domestic producers to persons as remuneration for work. This includes salaries and supplementary labour income of paid workers, plus the imputed labour income of self-employed workers.

**Unit labour cost** is the labour cost per unit of output. It is calculated as the ratio of labour compensation to real value added. It is also the equivalent of the ratio of labour compensation per hour worked to labour productivity. The unit labour cost will increase when hourly compensation rises faster than labour productivity.

After declining by 1.6% during the fourth quarter of 2003, labour productivity in retail trade rebounded by 2.1% in the first quarter of 2004. This was the best performance among all services. This recovery was fuelled by vigorous consumer spending reacting to a new round of interest rate declines.

After progressing by 1.0% in the first quarter, finance, insurance, real estate and rental came second. A dynamic stock market and housing market contributed to this rise.

Almost all industries included in the goods sector registered a productivity decrease in the first quarter. In particular, productivity in manufacturing industries remained essentially flat in the first quarter (-0.1%) after increasing by 1.6% in the first quarter.

In the context of strong demand for new housing that created some shortages of building supplies and skilled labour, construction industries registered a third consecutive decline in labour productivity, down 0.7% in the first quarter 2004.

#### **Wage costs continue to be under control in the business sector**

On a quarter-to-quarter basis, unit labour costs – an indicator of the extent to which hourly compensation outgrew productivity growth – remained almost flat during the last three quarters.

Over the last three quarters, hourly compensation paid to business sector workers grew at about the same pace as productivity, resulting in little wage pressure on the Canadian economy. In the first quarter of 2004, hourly compensation increased by 0.2%. This was about the same pace as the previous four quarters.

On a year-to-year basis, unit labour costs increased by 0.8% in the first quarter, the weakest growth rate since the fourth quarter of 2002. This annual increase in unit labour costs during the first quarter came from an identical increase in hourly compensation, productivity growth being nil.

Observing industry groups, unit labour costs did not vary much in the fourth quarter both in the businesses producing goods and in the businesses producing services. Unit labour costs varied between -1.8% in transportation and storage and +2.3% in agriculture, forestry, fishing and hunting.

#### **US outpaces Canada for four straight quarters**

Productivity growth south of the border has outpaced Canada's for four straight quarters.

Between January and March of this year, real production grew more among American businesses than it did among their Canadian counterparts.

In the American business sector, production growth accelerated from 0.9% in the fourth quarter of 2003 to 1.3% in the first quarter of 2004. The first-quarter increase in American production was widespread, with advances in all major sectors (households, business, government and the non-resident sector).

In the first quarter, Canadian businesses had the same rate of production growth as in the final quarter of 2003, 0.9%. A recovery in consumer spending and sustained export growth were the main contributors to the strength of Canadian production.

#### **Productivity growth in the U.S. rebounds**



Labour productivity increased faster in the United States both because businesses there increased their output more than in Canada and because there was a smaller gain in hours worked than in Canadian businesses.

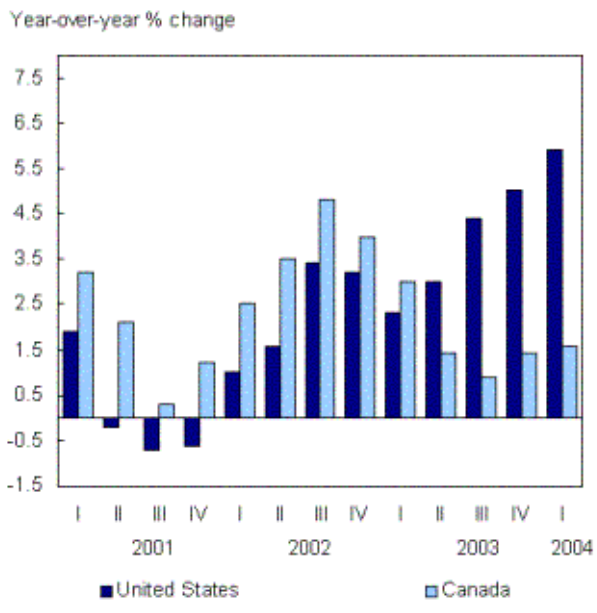
Canadian businesses recorded a 0.5% increase in production hours worked in the first quarter of 2004, while the increase south of the border was only 0.2%. This continues the trend of stronger growth in hours worked in Canada than in the United States.

#### **Annual productivity growth in Canada is flat**

On a year-to-year basis, output growth in the United States surpassed output growth in Canada for the fourth quarter in a row.

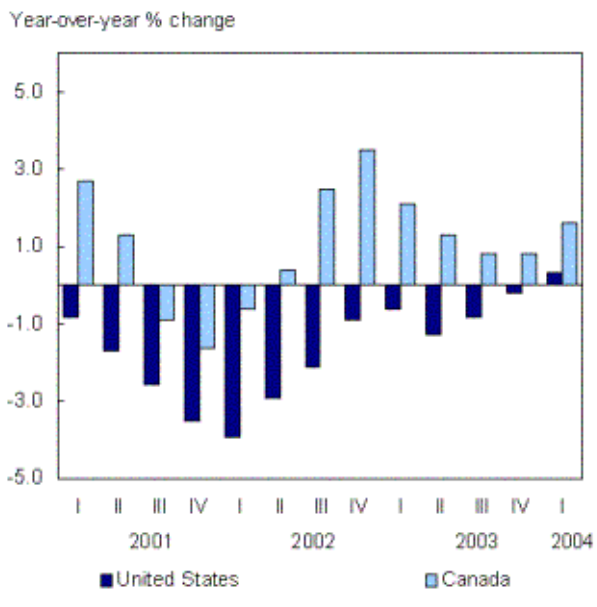
Canadian businesses increased their production by 1.6% on yearly basis, a rate superior to the 1.3% average observed over the four previous quarters. In comparison, output growth in US businesses increased by 5.9% in the first quarter, a continuation of its acceleration that started in the second quarter of 2003.

**Output growth in the U.S. continues to accelerate**



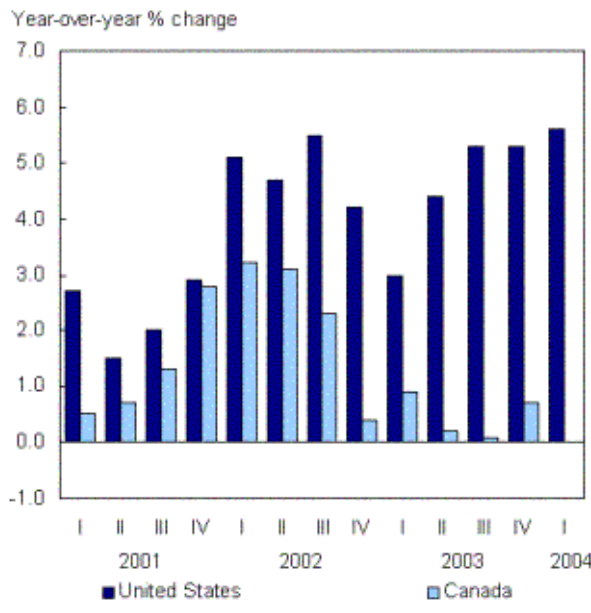
While hours worked continue to grow in Canada on an annual basis in the first quarter, US businesses have stopped adjusting their labour input downward. On a yearly basis, hours worked in Canada in the first quarter increased for a eight consecutive quarter, rising by 1.6%, twice the rate of 0.8% registered during each of the previous two quarters. In the mean time, hours worked in American businesses increased slightly on a yearly basis (+0.3%) in the first quarter. This was the first increase in 14 quarters.

**First increase to hours worked in the U.S. in 14 quarters**



As Canadian businesses experienced the same rate of growth in production and in hours worked, productivity in Canada was essentially zero growth in the first quarter. By contrast, businesses south of the border experienced a strong growth of 5.6% to their productivity in the first quarter.

**Productivity stagnation in Canada continues**



During the six last quarters, the productivity growth in the Canadian businesses has been less than 1.0%, while American businesses registered productivity gains ranging from 2.9% to 5.6% on an annual basis. However, over the last several years, the United States have revised their preliminary labour productivity estimates downward substantially, while Canada has revised its estimates upward.

**Strong Canadian dollar hurt competitive position of Canadian businesses**

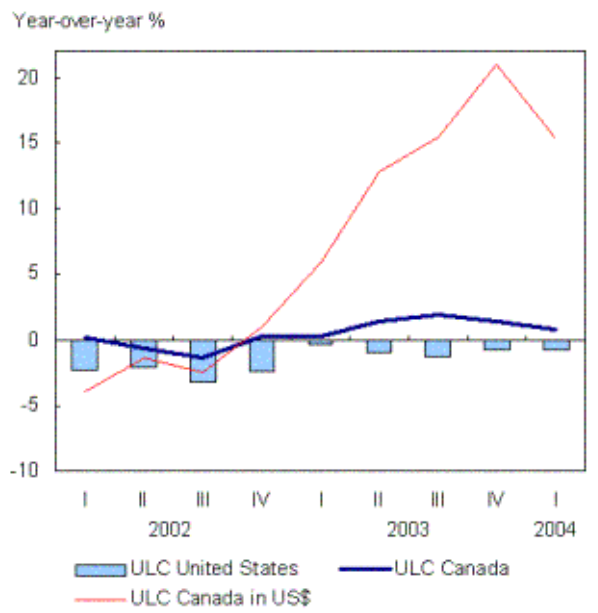
American businesses continue to have a significant advantage over Canadian businesses with respect to changes in labour costs.

On an annual basis, the growth of unit labour costs in Canadian businesses has been slowing over the last three quarters, from 2.0% in the third quarter of 2003 to 0.8% in the first quarter of 2004.

By comparison, American businesses have enjoyed declining unit labour costs for nine straight quarters. In the first quarter, unit labour costs in the United States decreased at an annual rate of 0.8%.



### After reaching a record high, Canadian unit labour costs decelerate in US \$



When the exchange rate is taken into account, American businesses enjoy an even greater advantage in the first quarter of this year compared to a year earlier. With the value of the Canadian dollar relative to the U.S. dollar rising 12.7% between the first quarter of 2003 and the same quarter of 2004, the gap in the growth of unit labour costs between the two countries continues to favour the United States by a considerable margin.

Year over year, unit labour costs in U.S. dollars jumped 15.4% in Canada in the first quarter, whereas they were down 0.8% in the United States.

In the last quarter of 2003, unit labour costs in Canada, measured in U.S. dollars, soared 21.0% on an annual basis to a record high, as the Canadian dollar rose 16.2% relative to the U.S. dollar.

### Productivity gaps narrow following recent revisions in Canada

Data released today incorporates revisions to Canadian Gross domestic product (GDP) for 2000-2003. Revised American data are expected next September.

Overall, the 2000-2003 revisions increased the growth rate of labour productivity in Canada for each of the last four years. For that period, the revisions ranged from 0.1% to 0.4%, narrowing the gap in productivity growth between Canada and the United States.

Canadian businesses outperformed their American counterparts in productivity in only one of the past four years: 2000. The difference in productivity growth for the year 2000 increased from 0.9 percentage points in Canada's favour before revision to 1.0 percentage points after revision.

Since then, the gap in productivity growth varied from 1.2% to 4.4% per year in favour of the United States before revision, compared with 0.8% to 4.1% after revision. However, it is important to note that these annual productivity differences are based on preliminary data, which are subject to revision. Since 1998, these gaps have generally shrunk following revisions to the preliminary data.

The revisions also resulted in a change over the medium term, as the average annual productivity growth for the period from 1996 to 2002 was revised upward from 2.3% to 2.5%. This revised rate is still slightly below the U.S. rate of 2.9% for the same period.

The revisions had virtually no effect on average annual productivity growth in Canada for the period from 1987 to 2002. The average gap in annual productivity growth in favour of the United States declined from 0.6 percentage points before revision to 0.5 percentage points after revision.

**Table 1: Comparison of annual labour productivity growth in the business sector before and after revision**

|           | Canada          |                | United States   |                |
|-----------|-----------------|----------------|-----------------|----------------|
|           | Before revision | After revision | Before revision | After revision |
|           | annual % change |                |                 |                |
| 1987-2002 | 1.5             | 1.6            | 2.1             | 2.1            |
| 1996-2002 | 2.3             | 2.5            | 2.9             | 2.9            |
| 2000      | 3.8             | 3.9            | 2.9             | 2.9            |
| 2001      | 1.0             | 1.4            | 2.2             | 2.2            |
| 2002      | 1.9             | 2.3            | 4.9             | 4.9            |
| 2003      | 0.1             | 0.4            | 4.5             | 4.5            |

Source: U.S. data are from the Bureau of Labor Statistics, Productivity and Costs - First quarter 2004, published in NEWS, June 3.

**Business sector: Labour productivity and related variables for Canada and the United States[1]**

|  | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 |
|--|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|
| Seasonally adjusted                                  |                           |                          |                           |                          |                           |                          |
| % change from previous quarter                       |                           |                          |                           |                          |                           |                          |
| <b>Canada</b>  |                           |                          |                           |                          |                           |                          |
| Labour productivity                                  | -0.6                      | 1.1                      | -0.4                      | 0.0                      | 0.0                       | 0.4                      |
| Real GDP   | 0.3                       | 0.7                      | -0.5                      | 0.3                      | 0.9                       | 0.9                      |
| Hours worked   | 0.9                       | -0.3                     | -0.2                      | 0.4                      | 0.9                       | 0.5                      |
| Hourly compensation                                  | -0.1                      | 1.5                      | 0.2                       | 0.3                      | 0.1                       | 0.2                      |
| Unit labour cost                                     | 0.7                       | 0.5                      | 0.5                       | 0.4                      | 0.1                       | -0.2                     |
| Exchange rate[2]                                     | 0.4                       | -3.8                     | -7.4                      | -1.3                     | -4.7                      | 0.2                      |
| Unit labour cost in US\$                             | 0.3                       | 4.5                      | 8.5                       | 1.7                      | 5.0                       | -0.3                     |
| <b>United States</b>                                 |                           |                          |                           |                          |                           |                          |
| Labour productivity                                  | 0.6                       | 0.8                      | 1.7                       | 2.1                      | 0.5                       | 1.2                      |
| Real GDP   | 0.3                       | 0.5                      | 1.0                       | 2.5                      | 0.9                       | 1.3                      |
| Hours worked   | -0.1                      | -0.3                     | -0.8                      | 0.4                      | 0.4                       | 0.2                      |
| Hourly compensation                                  | 0.5                       | 1.2                      | 1.3                       | 1.0                      | 0.9                       | 1.4                      |
| Unit labour cost                                     | 0.0                       | 0.3                      | -0.4                      | -1.0                     | 0.4                       | 0.3                      |
| % change from same quarter of previous year          |                           |                          |                           |                          |                           |                          |
| <b>Canada</b>  |                           |                          |                           |                          |                           |                          |
| Labour productivity                                  | 0.4                       | 0.9                      | 0.2                       | 0.1                      | 0.7                       | 0.0                      |
| Real GDP   | 4.0                       | 3.0                      | 1.4                       | 0.9                      | 1.4                       | 1.6                      |
| Hours worked   | 3.5                       | 2.1                      | 1.3                       | 0.8                      | 0.8                       | 1.6                      |
| Hourly compensation                                  | 0.7                       | 1.2                      | 1.6                       | 2.0                      | 2.2                       | 0.8                      |
| Unit labour cost                                     | 0.3                       | 0.3                      | 1.4                       | 2.0                      | 1.4                       | 0.8                      |
| Exchange rate[2]                                     | -0.7                      | -5.3                     | -10.0                     | -11.7                    | -16.2                     | -12.7                    |
| Unit labour cost in US\$                             | 1.0                       | 5.9                      | 12.7                      | 15.5                     | 21.0                      | 15.4                     |
| <b>United States</b>                                 |                           |                          |                           |                          |                           |                          |
| Labour productivity                                  | 4.2                       | 3.0                      | 4.4                       | 5.3                      | 5.3                       | 5.6                      |
| Real GDP   | 3.2                       | 2.3                      | 3.0                       | 4.4                      | 5.0                       | 5.9                      |
| Hours worked   | -0.9                      | -0.6                     | -1.3                      | -0.8                     | -0.2                      | 0.3                      |
| Hourly compensation                                  | 1.7                       | 2.6                      | 3.4                       | 4.1                      | 4.5                       | 4.8                      |
| Unit labour cost                                     | -2.4                      | -0.3                     | -1.0                      | -1.2                     | -0.7                      | -0.8                     |
| % change from previous quarter at annualized rate[3] |                           |                          |                           |                          |                           |                          |
| <b>Canada</b>  |                           |                          |                           |                          |                           |                          |
| Labour productivity                                  | -2.5                      | 4.3                      | -1.4                      | 0.0                      | 0.0                       | 1.4                      |
| Real GDP   | 1.3                       | 2.9                      | -1.9                      | 1.3                      | 3.5                       | 3.8                      |
| Hours worked   | 3.6                       | -1.1                     | -0.7                      | 1.4                      | 3.6                       | 2.1                      |
| Hourly compensation                                  | -0.3                      | 6.2                      | 1.0                       | 1.3                      | 0.3                       | 0.7                      |
| Unit labour cost                                     | 2.7                       | 1.9                      | 1.9                       | 1.5                      | 0.4                       | -0.7                     |
| Unit labour cost in US\$                             | 1.1                       | 19.0                     | 38.4                      | 7.0                      | 21.5                      | -1.4                     |
| <b>United States</b>                                 |                           |                          |                           |                          |                           |                          |
| Labour productivity                                  | 2.0                       | 3.5                      | 7.2                       | 8.7                      | 1.8                       | 4.6                      |
| Real GDP   | 1.6                       | 1.9                      | 4.2                       | 10.3                     | 3.9                       | 5.2                      |
| Hours worked   | -0.5                      | -1.5                     | -2.8                      | 1.5                      | 2.0                       | 0.5                      |
| Hourly compensation                                  | 2.2                       | 4.8                      | 5.3                       | 4.1                      | 3.8                       | 5.9                      |
| Unit labour cost                                     | 0.1                       | 1.3                      | -1.7                      | -4.3                     | 1.9                       | 1.2                      |

1 Source: U.S. data are from the Bureau of Labor Statistics, Productivity and costs, published in NEWS.

2 The exchange rate corresponds to the U.S. dollar value expressed in Canadian dollars.

3 The change at annualized rates corresponds to the annual growth rate that would have been observed if the growth over the quarter had been the same for the whole year.

**Business sector: Some related variables for labour markets[1]**

|   | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|
| Seasonally adjusted                                   |                           |                          |                           |                          |                           |                          |
| % change from previous quarter                        |                           |                          |                           |                          |                           |                          |
| <b>Canada</b>   |                           |                          |                           |                          |                           |                          |
| All jobs  | 1.0                       | 0.0                      | -0.1                      | 0.4                      | 1.0                       | -0.1                     |
| Hours worked  | 0.9                       | -0.3                     | -0.2                      | 0.4                      | 0.9                       | 0.5                      |
| Average hours   | 0.0                       | -0.3                     | -0.1                      | 0.0                      | -0.1                      | 0.6                      |
| Labour share[2]                                       | -0.6                      | -1.5                     | 1.3                       | -0.3                     | -0.1                      | -1.5                     |
| <b>United States</b>                                  |                           |                          |                           |                          |                           |                          |
| All jobs  | 0.2                       | -0.3                     | -0.3                      | 0.2                      | 0.3                       | 0.0                      |
| Hours worked  | -0.1                      | -0.3                     | -0.8                      | 0.4                      | 0.4                       | 0.2                      |
| Average hours   | -0.2                      | -0.1                     | -0.5                      | 0.2                      | 0.2                       | 0.1                      |
| Labour share[2]                                       | -0.5                      | -0.1                     | -0.6                      | -1.4                     | 0.2                       | -0.3                     |
| % change from same quarter of previous year           |                           |                          |                           |                          |                           |                          |
| <b>Canada</b>   |                           |                          |                           |                          |                           |                          |
| All jobs  | 4.2                       | 2.8                      | 1.7                       | 1.2                      | 1.2                       | 1.1                      |
| Hours worked  | 3.5                       | 2.1                      | 1.3                       | 0.8                      | 0.8                       | 1.6                      |
| Average hours   | -0.6                      | -0.6                     | -0.4                      | -0.4                     | -0.5                      | 0.4                      |
| Labour share[2]                                       | -4.2                      | -5.3                     | -1.3                      | -1.2                     | -0.7                      | -0.6                     |
| <b>United States</b>                                  |                           |                          |                           |                          |                           |                          |
| All jobs  | -0.8                      | -0.4                     | -0.6                      | -0.3                     | -0.1                      | 0.3                      |
| Hours worked  | -0.9                      | -0.6                     | -1.3                      | -0.8                     | -0.2                      | 0.3                      |
| Average hours   | 0.0                       | -0.2                     | -0.8                      | -0.6                     | -0.2                      | 0.0                      |
| Labour share[2]                                       | -3.2                      | -1.8                     | -2.2                      | -2.6                     | -1.9                      | -2.1                     |
| % change from previous quarter at annualized rates[3] |                           |                          |                           |                          |                           |                          |
| <b>Canada</b>   |                           |                          |                           |                          |                           |                          |
| All jobs  | 3.9                       | 0.0                      | -0.3                      | 1.4                      | 3.9                       | -0.3                     |
| Hours worked  | 3.6                       | -1.1                     | -0.7                      | 1.4                      | 3.6                       | 2.1                      |
| Average hours   | 0.0                       | -1.2                     | -0.4                      | 0.0                      | -0.4                      | 2.5                      |
| Labour share[2]                                       | -2.4                      | -6.0                     | 5.1                       | -1.2                     | -0.4                      | -5.7                     |
| <b>United States</b>                                  |                           |                          |                           |                          |                           |                          |
| All jobs  | 0.7                       | -1.4                     | -1.0                      | 0.7                      | 1.4                       | 0.0                      |
| Hours worked  | -0.5                      | -1.5                     | -2.8                      | 1.5                      | 2.0                       | 0.5                      |
| Average hours   | -0.8                      | -0.4                     | -2.0                      | 0.8                      | 0.8                       | 0.4                      |
| Labour share[2]                                       | -2.0                      | -0.4                     | -2.4                      | -5.6                     | 0.8                       | -1.2                     |

1 Source: U.S. data are from the Bureau of Labor Statistics, Productivity and costs, published in NEWS.

2 This is the ratio of labour compensation to GDP at market prices in current dollars.

3 The change at annualized rates corresponds to the annual growth rate that would have been observed if the growth over the quarter had been the same for the whole year.

**Labour productivity by industry**

|   | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002         | 2003         |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|--------------|--------------|
|   | Seasonally adjusted       |                          |                           |                          |                           |                          |              |              |
| <b>Business sector - goods</b>  | <b>110.7</b>              | <b>112.7</b>             | <b>112.2</b>              | <b>112.1</b>             | <b>112.9</b>              | <b>112.4</b>             | <b>111.8</b> | <b>112.5</b> |
|   | <b>-1.2</b>               | <b>1.8</b>               | <b>-0.4</b>               | <b>-0.1</b>              | <b>0.7</b>                | <b>-0.4</b>              | <b>1.0</b>   | <b>0.6</b>   |
| Agriculture, forestry, fishing and hunting                            | 124.2                     | 132.9                    | 135.6                     | 137.7                    | 137.0                     | 135.0                    | 128.0        | 135.8        |
|   | -3.3                      | 7.0                      | 2.0                       | 1.5                      | -0.5                      | -1.5                     | -1.2         | 6.1          |
| Construction  | 104.9                     | 107.1                    | 108.2                     | 107.4                    | 107.1                     | 106.3                    | 106.0        | 107.5        |
|   | -0.7                      | 2.1                      | 1.0                       | -0.7                     | -0.3                      | -0.7                     | -2.3         | 1.4          |
| Manufacturing   | 115.0                     | 117.1                    | 116.2                     | 116.4                    | 118.3                     | 118.2                    | 115.4        | 117.0        |
|   | -0.8                      | 1.8                      | -0.8                      | 0.2                      | 1.6                       | -0.1                     | 2.8          | 1.4          |
| <b>Business sector - services</b>                                     | <b>114.6</b>              | <b>115.2</b>             | <b>115.3</b>              | <b>115.6</b>             | <b>115.4</b>              | <b>115.9</b>             | <b>114.1</b> | <b>115.4</b> |
|   | <b>0.2</b>                | <b>0.5</b>               | <b>0.1</b>                | <b>0.3</b>               | <b>-0.2</b>               | <b>0.4</b>               | <b>3.2</b>   | <b>1.1</b>   |
| Wholesale trade   | 128.1                     | 131.4                    | 129.3                     | 128.8                    | 131.8                     | 130.0                    | 124.9        | 130.3        |
|   | 0.7                       | 2.6                      | -1.6                      | -0.4                     | 2.3                       | -1.4                     | 6.6          | 4.3          |
| Retail trade  | 120.7                     | 122.6                    | 122.5                     | 122.1                    | 120.2                     | 122.7                    | 119.7        | 121.9        |
|   | 1.3                       | 1.6                      | -0.1                      | -0.3                     | -1.6                      | 2.1                      | 2.9          | 1.8          |
| Transportation and warehousing  | 106.6                     | 107.0                    | 105.6                     | 106.1                    | 106.7                     | 107.0                    | 107.1        | 106.4        |
|   | -1.5                      | 0.4                      | -1.3                      | 0.5                      | 0.6                       | 0.3                      | 2.4          | -0.7         |
| Information and cultural industries                                   | 112.5                     | 115.4                    | 113.7                     | 111.6                    | 108.2                     | 109.1                    | 108.6        | 112.2        |
|   | 2.5                       | 2.6                      | -1.5                      | -1.8                     | -3.0                      | 0.8                      | 8.5          | 3.3          |
| Finance, real estate and company management                           | 108.3                     | 102.9                    | 105.5                     | 108.6                    | 107.5                     | 108.6                    | 108.5        | 106.1        |
|   | -0.3                      | -5.0                     | 2.5                       | 2.9                      | -1.0                      | 1.0                      | 2.8          | -2.2         |
| Professional, scientific and technical services                       | 120.3                     | 124.7                    | 126.3                     | 125.1                    | 124.3                     | 125.1                    | 120.5        | 125.1        |
|   | -0.1                      | 3.7                      | 1.3                       | -1.0                     | -0.6                      | 0.6                      | 2.6          | 3.8          |
| Administrative and support, waste management and remediation services | 100.0                     | 100.1                    | 100.0                     | 98.9                     | 98.9                      | 99.3                     | 100.8        | 99.5         |
|   | -0.6                      | 0.1                      | -0.1                      | -1.1                     | 0.0                       | 0.4                      | -1.5         | -1.3         |
| Accommodation and food services                                       | 108.0                     | 106.6                    | 103.0                     | 104.7                    | 108.3                     | 107.4                    | 109.2        | 105.7        |
|   | -1.0                      | -1.3                     | -3.4                      | 1.7                      | 3.4                       | -0.8                     | 1.6          | -3.2         |
| Other commercial services   | 113.2                     | 114.0                    | 114.4                     | 115.0                    | 114.1                     | 114.2                    | 112.0        | 114.4        |
|   | 1.1                       | 0.7                      | 0.4                       | 0.5                      | -0.8                      | 0.1                      | 0.9          | 2.1          |

## Unit labour cost by industry

|   | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002         | 2003         |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|--------------|--------------|
| Seasonally adjusted   |                           |                          |                           |                          |                           |                          |              |              |
| <b>Business sector - goods</b>  | <b>105.7</b>              | <b>106.8</b>             | <b>107.6</b>              | <b>107.1</b>             | <b>106.7</b>              | <b>106.8</b>             | <b>105.6</b> | <b>107.1</b> |
|   | <i>0.6</i>                | <i>1.0</i>               | <i>0.7</i>                | <i>-0.5</i>              | <i>-0.4</i>               | <i>0.1</i>               | <i>0.8</i>   | <i>1.3</i>   |
| Agriculture, forestry, fishing and hunting                            | 123.8                     | 115.6                    | 109.2                     | 105.8                    | 108.4                     | 110.9                    | 129.5        | 109.8        |
|   | <i>-1.3</i>               | <i>-6.6</i>              | <i>-5.5</i>               | <i>-3.1</i>              | <i>2.5</i>                | <i>2.3</i>               | <i>15.2</i>  | <i>-15.2</i> |
| Construction  | 108.0                     | 109.6                    | 108.6                     | 109.6                    | 110.2                     | 109.5                    | 107.2        | 109.5        |
|   | <i>0.9</i>                | <i>1.5</i>               | <i>-0.9</i>               | <i>0.9</i>               | <i>0.5</i>                | <i>-0.6</i>              | <i>3.6</i>   | <i>2.2</i>   |
| Manufacturing   | 98.3                      | 99.4                     | 101.1                     | 100.5                    | 98.7                      | 98.4                     | 98.2         | 99.9         |
|   | <i>0.5</i>                | <i>1.1</i>               | <i>1.7</i>                | <i>-0.6</i>              | <i>-1.8</i>               | <i>-0.3</i>              | <i>-1.7</i>  | <i>1.8</i>   |
| <b>Business sector - services</b>                                     | <b>105.0</b>              | <b>105.6</b>             | <b>105.7</b>              | <b>106.3</b>             | <b>106.4</b>              | <b>106.3</b>             | <b>104.9</b> | <b>106.0</b> |
|   | <i>0.3</i>                | <i>0.6</i>               | <i>0.1</i>                | <i>0.6</i>               | <i>0.1</i>                | <i>-0.1</i>              | <i>-1.2</i>  | <i>1.0</i>   |
| Wholesale trade   | 92.7                      | 92.2                     | 92.4                      | 93.5                     | 91.3                      | 93.3                     | 93.3         | 92.4         |
|   | <i>0.0</i>                | <i>-0.5</i>              | <i>0.2</i>                | <i>1.2</i>               | <i>-2.4</i>               | <i>2.2</i>               | <i>-5.2</i>  | <i>-1.0</i>  |
| Retail trade  | 101.7                     | 101.1                    | 102.4                     | 102.2                    | 103.6                     | 101.7                    | 101.0        | 102.3        |
|   | <i>-0.4</i>               | <i>-0.6</i>              | <i>1.3</i>                | <i>-0.2</i>              | <i>1.4</i>                | <i>-1.8</i>              | <i>-0.6</i>  | <i>1.3</i>   |
| Transportation and warehousing  | 111.4                     | 112.2                    | 113.6                     | 113.8                    | 110.8                     | 110.0                    | 110.8        | 112.6        |
|   | <i>1.0</i>                | <i>0.7</i>               | <i>1.2</i>                | <i>0.2</i>               | <i>-2.6</i>               | <i>-0.7</i>              | <i>0.6</i>   | <i>1.6</i>   |
| Information and cultural industries                                   | 103.0                     | 103.0                    | 102.6                     | 104.6                    | 105.1                     | 105.3                    | 103.4        | 103.8        |
|   | <i>0.3</i>                | <i>0.0</i>               | <i>-0.4</i>               | <i>1.9</i>               | <i>0.5</i>                | <i>0.2</i>               | <i>-4.6</i>  | <i>0.4</i>   |
| Finance, real estate and company management                           | 104.1                     | 106.8                    | 106.5                     | 107.2                    | 109.0                     | 108.1                    | 103.7        | 107.4        |
|   | <i>1.1</i>                | <i>2.6</i>               | <i>-0.3</i>               | <i>0.7</i>               | <i>1.7</i>                | <i>-0.8</i>              | <i>-3.5</i>  | <i>3.5</i>   |
| Professional, scientific and technical services                       | 117.3                     | 116.6                    | 114.4                     | 114.6                    | 116.0                     | 117.7                    | 116.6        | 115.4        |
|   | <i>0.5</i>                | <i>-0.6</i>              | <i>-1.9</i>               | <i>0.2</i>               | <i>1.2</i>                | <i>1.5</i>               | <i>0.9</i>   | <i>-1.0</i>  |
| Administrative and support, waste management and remediation services | 114.3                     | 116.7                    | 118.1                     | 116.8                    | 119.7                     | 122.0                    | 112.7        | 117.8        |
|   | <i>1.2</i>                | <i>2.1</i>               | <i>1.2</i>                | <i>-1.1</i>              | <i>2.5</i>                | <i>1.9</i>               | <i>2.9</i>   | <i>4.5</i>   |
| Accommodation and food services                                       | 111.0                     | 110.8                    | 112.8                     | 113.4                    | 110.7                     | 111.2                    | 113.0        | 111.9        |
|   | <i>-1.1</i>               | <i>-0.2</i>              | <i>1.8</i>                | <i>0.5</i>               | <i>-2.4</i>               | <i>0.5</i>               | <i>4.5</i>   | <i>-1.0</i>  |
| Other commercial services   | 101.3                     | 102.3                    | 103.3                     | 105.0                    | 103.7                     | 102.0                    | 102.0        | 103.6        |
|   | <i>-0.2</i>               | <i>1.0</i>               | <i>1.0</i>                | <i>1.6</i>               | <i>-1.2</i>               | <i>-1.6</i>              | <i>1.9</i>   | <i>1.6</i>   |

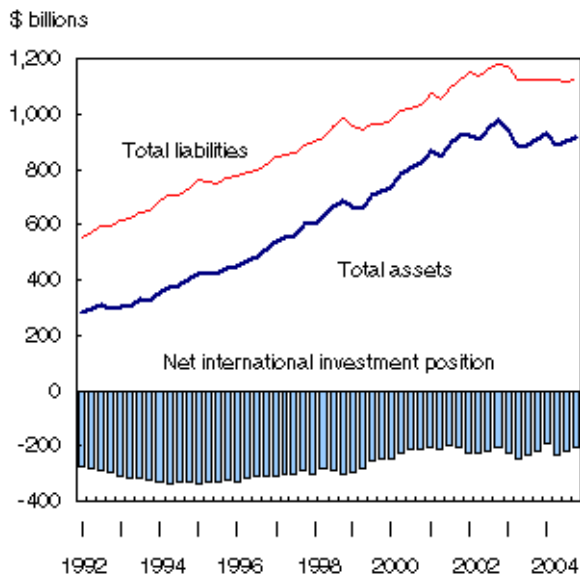
## International investment position

First quarter 2004

The increase in the value of Canadian assets abroad drove the country's net liability to foreign residents to its lowest level in more than 18 years during the first quarter of 2004.

Canada's net foreign liabilities — the difference between its foreign assets and foreign liabilities — dropped \$23.7 billion to \$194.2 billion at the end of March.

### Canada's international investment position



This left the ratio of net foreign liabilities to Gross domestic product at 15.5%, down two full points from the 17.7% posted at the end of the fourth quarter of 2003.

The value of international assets totalled \$931.5 billion, up 2.5% from the fourth quarter. For a second consecutive quarter, Canadian direct investment abroad rose more than \$10 billion and contributed about half of this increase.

International liabilities fell slightly from the previous quarter to \$1,125.8 billion; this was short of the revised \$1,177.3 billion posted at the end of 2002.

The Canadian dollar lost ground against the US dollar in the first quarter of 2004, in sharp contrast to the trend in 2003. In the first quarter of 2004, the loonie lost about 1% against the US dollar but gained almost 1% again the Euro.

### Rising Canadian assets abroad

Canadian direct investment abroad reached \$409.3 billion at the end of March, up \$10.1 billion from the end of December, the highest value in more than a year. Exchange rate variation, combined with investment of \$4.8 billion in the first quarter, accounted for most of this increase.

Canadian direct investment in the United States rose to \$168.8 billion, representing more than 41% of total Canadian direct investment abroad.

Canadian holdings of foreign bonds surged almost 7% to \$47.7 billion, the highest value on record. Canadians bought \$2.6 billion worth of foreign bonds during the first quarter — an active quarter for this type of instrument.

Canadian holdings of foreign stocks reached \$191.2 billion, up \$2.4 billion from the end of December. Exchange rate variation is responsible for almost all the change in the value; virtually no net acquisitions of foreign stocks took place in the first quarter.

#### Note to readers

This release includes additional series measuring portfolio investment at market value. Data on Canadian and foreign shares as well as bonds are now available at market and book value. Data on other accounts such as money market instruments, international reserves and foreign direct investment will also be examined on a market value basis next year.

Estimates from 1990 to the first quarter of 2004 are now available. These data are part of a multi-year initiative to improve the balance sheet information for all sectors of the economy. For more information, consult the article *Balance sheet estimates at market value*.

#### Revised estimates for Canadian money market securities

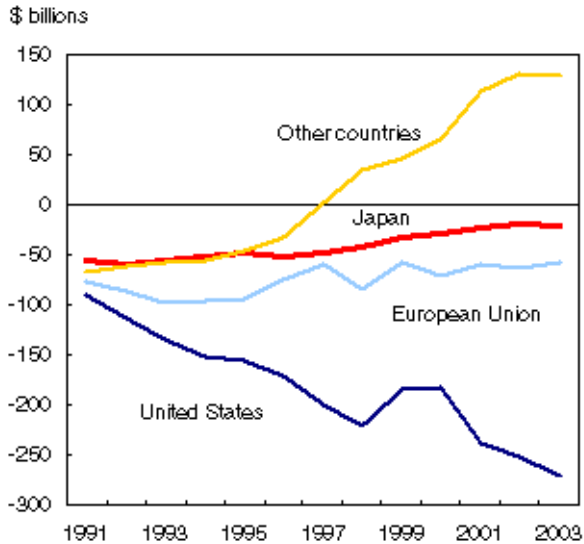
In addition, the quarterly series covering Canadian money market transactions and positions with non-residents have been revised back to the first quarter of 2003 based on new methodology. Money market securities are now estimated using an instrument-by-instrument approach, as has been the case for long-term debt for many years. The value of money market securities held now includes interest accruals, which are made up of accruals on coupons and the amortization between the issue price and the maturity price.

#### Currency revaluation

The value of assets and liabilities denominated in foreign currency are converted to Canadian dollars at the end of each period for which a balance sheet is calculated. Most of Canada's foreign assets are denominated in foreign currencies, while less than half of our international liabilities are in foreign currencies.

When the Canadian dollar is appreciating in value, the restatement of the value of these assets and liabilities in Canadian dollars lowers the recorded value. The opposite is true when the dollar is depreciating.

### Net international investment position, by geographic area



### Foreign direct investment in Canada on the rise

After two consecutive quarters of small declines, foreign direct investment in Canada advanced \$2.4 billion to \$360.0 billion at the end of March, an unprecedented level.

The net direct investment position — the difference between Canadian direct investment abroad and foreign direct investment in Canada — reached \$49.3 billion at the end of the quarter.

### Sharp decline in foreign holdings of Canadian money market paper

Foreign holdings of Canadian money market paper fell more than 12% to \$18.7 billion, the lowest level in 17 years. While foreign demand for short-term instruments was down, foreign holdings of Canadian bonds rose \$6.3 billion to \$411.7 billion. Of that total, foreign holdings of federal government enterprise bonds increased more than 10% to \$40.6 billion.

Foreign investors continued to buy Canadian shares during the first quarter. At the end of March, they held \$86.2 billion worth, a fourth consecutive quarter of growth for this type of investment. The gain in the S&P/TSX Composite Index for a fourth consecutive quarter certainly played a role in foreign investors' acquisition of Canadian shares.

### Canada's net foreign liabilities with the United States increase

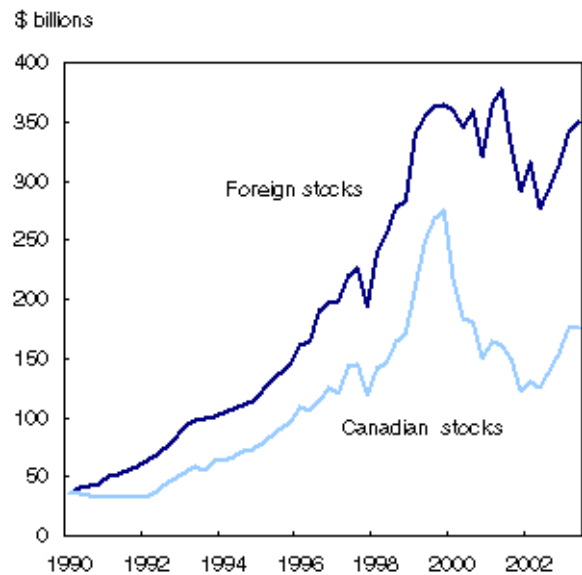
American investors hold a growing proportion of Canada's net foreign liabilities; this has been a long-term trend. For a third consecutive year, Canada's net foreign liabilities with the United States advanced, reaching \$271.0 billion at the end of 2003.

European Union countries decreased their net creditor position with Canada to \$57.8 billion at the end of 2003. Canada has a net asset position with all other countries as a group.

### New data available on market value of portfolio investment

The market value of foreign portfolio investment in Canadian stocks and bonds at the end of March 2004 was triple what it was 14 years before. Foreign holdings of Canadian stocks and bonds grew from \$209.3 billion in March 1990 to \$629.3 billion in March 2004.

### Portfolio investment in stocks at market value



Canadian portfolio investment in foreign stocks and bonds grew nine-fold in those 14 years. Canadian-held foreign stocks and bonds were valued at \$400.8 billion at the end of March 2004, compared with \$44.0 billion in March 1990.

On the stocks side, foreign investors saw their holdings of Canadian shares grow from \$38.1 billion to \$175.9 billion in 14 years. That value peaked at \$274.1 billion in September 2000, when the S&P/TSX Composite Index was at a historic high.

The market value of foreign stocks held by Canadians appreciated even more, from \$34.8 billion in March 1990 to \$348.7 billion in March 2004. In 1999 alone this value jumped 42%, as foreign markets were very strong. Despite declines in global financial markets from 2000 to 2002, Canadian investors' holdings of foreign stocks remained high, mostly because of large purchases of foreign stocks and higher foreign content limits for Registered Retirement Savings Plans.

## International investment position at period-end

|  | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002      | 2003      |
|--|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|-----------|-----------|
| Millions of dollars                          |                           |                          |                           |                          |                           |                          |           |           |
| <b>Assets</b>                                |                           |                          |                           |                          |                           |                          |           |           |
| Canadian direct investment abroad            | 429,633                   | 408,337                  | 376,823                   | 383,983                  | 399,134                   | 409,257                  | 429,633   | 399,134   |
| Portfolio investment abroad                  |                           |                          |                           |                          |                           |                          |           |           |
| Foreign bonds                                | 42,973                    | 43,877                   | 43,547                    | 43,773                   | 44,677                    | 47,742                   | 42,973    | 44,677    |
| <i>Foreign bonds at market value</i>         | 45,118                    | 46,432                   | 47,170                    | 47,007                   | 47,790                    | 52,038                   | 45,118    | 47,790    |
| Foreign stocks                               | 213,562                   | 198,662                  | 185,547                   | 189,221                  | 188,787                   | 191,155                  | 213,562   | 188,787   |
| <i>Foreign stocks at market value</i>        | 316,285                   | 276,675                  | 293,919                   | 314,341                  | 341,964                   | 348,727                  | 316,285   | 341,964   |
| Other investment                             |                           |                          |                           |                          |                           |                          |           |           |
| Loans  | 71,878                    | 74,437                   | 66,903                    | 60,569                   | 59,286                    | 66,149                   | 71,878    | 59,286    |
| Allowances                                   | -11,918                   | -12,079                  | -11,771                   | -11,796                  | -11,605                   | -11,548                  | -11,918   | -11,605   |
| Deposits                                     | 103,077                   | 114,573                  | 103,948                   | 104,323                  | 110,837                   | 115,703                  | 103,077   | 110,837   |
| Official international reserves              | 56,230                    | 50,533                   | 47,173                    | 47,719                   | 45,690                    | 46,116                   | 56,230    | 45,690    |
| Other assets                                 | 69,574                    | 67,530                   | 65,702                    | 70,166                   | 72,178                    | 66,945                   | 69,574    | 72,178    |
| Total assets                                 |                           |                          |                           |                          |                           |                          |           |           |
| at book value                                | 975,009                   | 945,871                  | 877,870                   | 887,958                  | 908,983                   | 931,519                  | 975,009   | 908,983   |
| with portfolio investment at market value    | 1,079,877                 | 1,026,438                | 989,867                   | 1,016,312                | 1,065,274                 | 1,093,387                | 1,079,877 | 1,065,274 |
| <b>Liabilities</b>                           |                           |                          |                           |                          |                           |                          |           |           |
| Foreign direct investment in Canada          | 348,917                   | 354,712                  | 359,541                   | 358,732                  | 357,548                   | 359,973                  | 348,917   | 357,548   |
| Portfolio investment                         |                           |                          |                           |                          |                           |                          |           |           |
| Canadian bonds                               | 448,148                   | 435,294                  | 417,465                   | 408,381                  | 405,323                   | 411,651                  | 448,148   | 405,323   |
| <i>Canadian bonds at market value</i>        | 481,176                   | 466,625                  | 456,667                   | 440,906                  | 436,591                   | 453,419                  | 481,176   | 436,591   |
| Canadian stocks                              | 79,607                    | 79,487                   | 80,606                    | 82,764                   | 84,707                    | 86,171                   | 79,607    | 84,707    |
| <i>Canadian stocks at market value</i>       | 130,134                   | 124,532                  | 139,669                   | 153,823                  | 175,627                   | 175,883                  | 130,134   | 175,627   |
| Canadian money market                        | 25,189                    | 23,180                   | 22,735                    | 20,725                   | 21,388                    | 18,693                   | 25,189    | 21,388    |
| Other investment                             |                           |                          |                           |                          |                           |                          |           |           |
| Loans  | 58,229                    | 55,817                   | 52,704                    | 52,154                   | 53,618                    | 52,808                   | 58,229    | 53,618    |
| Deposits                                     | 195,038                   | 204,091                  | 169,988                   | 178,043                  | 183,135                   | 174,598                  | 195,038   | 183,135   |
| Other liabilities                            | 22,189                    | 21,964                   | 21,229                    | 21,333                   | 21,219                    | 21,872                   | 22,189    | 21,219    |
| Total liabilities                            |                           |                          |                           |                          |                           |                          |           |           |
| at book value                                | 1,177,318                 | 1,174,545                | 1,124,269                 | 1,122,132                | 1,126,937                 | 1,125,765                | 1,177,318 | 1,126,937 |
| with portfolio investment at market value    | 1,260,872                 | 1,250,921                | 1,222,533                 | 1,225,716                | 1,249,126                 | 1,257,246                | 1,260,872 | 1,249,126 |
| <b>Net international investment position</b> |                           |                          |                           |                          |                           |                          |           |           |
| at book value                                | -202,309                  | -228,673                 | -246,399                  | -234,174                 | -217,954                  | -194,246                 | -202,309  | -217,954  |
| with portfolio investment at market value    | -180,995                  | -224,483                 | -232,666                  | -209,404                 | -183,852                  | -163,859                 | -180,995  | -183,852  |



## National balance sheet accounts

First quarter 2004

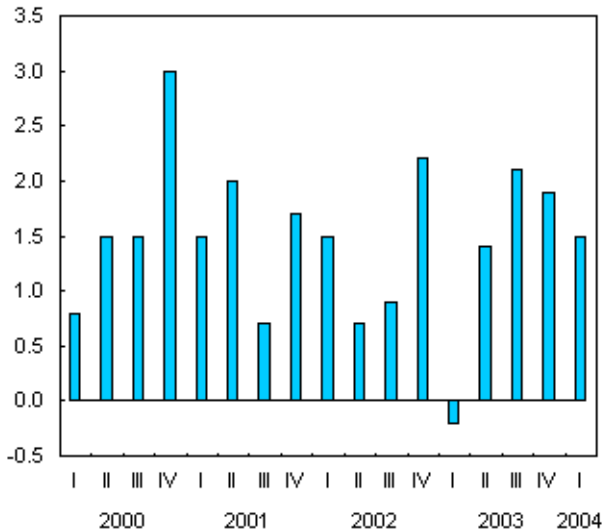
National net worth reached \$4.1 trillion by the end of the first quarter 2004, or \$127,500 per capita, up from \$4.0 trillion in the previous quarter. The advance in national net worth reflects lower net foreign debt and continued growth in national wealth.

### National net worth advanced

Net worth grew 1.4% in the first quarter, at a somewhat slower pace than in the previous quarter. Net foreign debt was again a factor in the growth of national net worth, as what non-residents owe Canadians rose by more than what Canadians owe non-residents. This quarter, the decline in net foreign debt was largely driven by an increase in Canadian direct and portfolio investment abroad, combined with the effect of a depreciating Canadian dollar.

### National net worth

% change, not seasonally adjusted



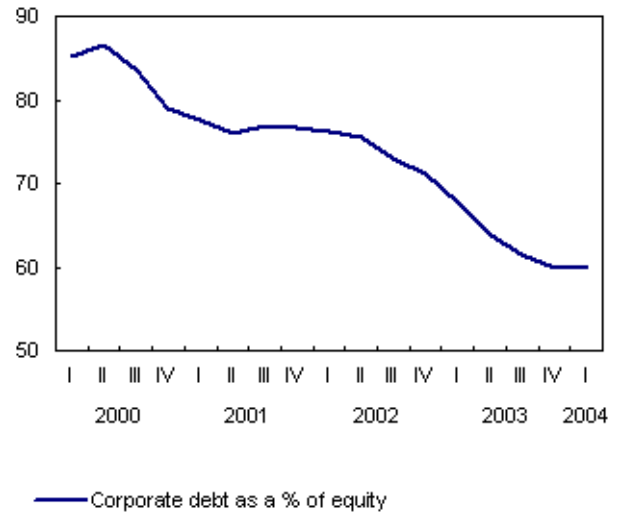
### Household net worth advanced, as debt load also increased further

The growth in household net worth was 2.4% with both investment and revaluation of assets contributing to this increase. The demand for funds in the first quarter pushed the household debt to income ratio to a new high.

However, overall household leverage was lower, as household debt to net worth declined further in the quarter. Continued low interest rates over the first quarter kept the debt burden (interest paid to disposable income) flat.

### Corporate leverage flattens

% unadjusted



### Corporations' balance sheets improved further

The finances of corporations continued to improve. Corporations have been generating a surplus and supplying funds to the economy for 14 consecutive quarters. For non-financial private corporations, leverage decreased further in the first quarter. The debt to equity ratio extended its long-term downward trend. Earnings, combined with strong equity issues (including income trust issues), which partly reflected improved share prices, contributed to the strengthened financial position. Notably, leverage also declined with shares at market value, reflecting the firming of share prices in the quarter.

### Note to readers

The national balance sheet accounts are statements of the balance sheets of all of the various sectors of the economy. They consist of the non-financial assets owned in the various sectors of the economy and of financial claims outstanding. **National wealth** is the sum of non-financial assets - produced assets, land surrounding structures and agricultural land - in all sectors of the economy. **National net worth** is wealth less net foreign liabilities (i.e., what is owed to non-residents less what non-residents owe to Canadians). Alternatively, it is the sum of the net worth of persons, corporations and governments. Quarterly series run from the first quarter of 1990.

New market value estimates are available with this release. For a perspective on the evolution of household net worth, see Recent trends in household net worth.

## National balance sheet, market value

|                                    | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002              | 2003              |
|------------------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|-------------------|-------------------|
| Millions of dollars at quarter end |                           |                          |                           |                          |                           |                          |                   |                   |
| <b>Total assets</b>                | <b>12,086,485</b>         | <b>11,979,396</b>        | <b>12,207,404</b>         | <b>12,424,469</b>        | <b>12,749,291</b>         | <b>12,994,094</b>        | <b>12,086,485</b> | <b>12,749,291</b> |
| Non-financial assets               | 3,977,645                 | 4,012,901                | 4,074,786                 | 4,132,637                | 4,182,169                 | 4,220,891                | 3,977,645         | 4,182,169         |
| Residential structures             | 1,030,411                 | 1,041,405                | 1,063,173                 | 1,091,068                | 1,110,122                 | 1,126,942                | 1,030,411         | 1,110,122         |
| Non-residential structures         | 981,316                   | 987,195                  | 994,307                   | 1,003,797                | 1,012,940                 | 1,018,824                | 981,316           | 1,012,940         |
| Machinery and equipment            | 428,156                   | 430,768                  | 435,037                   | 436,807                  | 438,946                   | 440,208                  | 428,156           | 438,946           |
| Consumer durables                  | 330,652                   | 331,956                  | 338,615                   | 339,976                  | 345,252                   | 343,513                  | 330,652           | 345,252           |
| Inventories                        | 192,616                   | 198,391                  | 191,844                   | 189,261                  | 190,082                   | 190,274                  | 192,616           | 190,082           |
| Land                               | 1,014,494                 | 1,023,186                | 1,051,810                 | 1,071,728                | 1,084,827                 | 1,101,130                | 1,014,494         | 1,084,827         |
| Net financial assets               | -180,366                  | -223,964                 | -232,152                  | -208,886                 | -183,335                  | -162,940                 | -180,366          | -183,335          |
| Financial assets                   | 8,108,840                 | 7,966,495                | 8,132,618                 | 8,291,832                | 8,567,122                 | 8,773,203                | 8,108,840         | 8,567,122         |
| Official reserves                  | 56,230                    | 50,533                   | 47,172                    | 47,719                   | 45,689                    | 46,116                   | 56,230            | 45,689            |
| Gold & foreign currency            | 49,478                    | 43,925                   | 40,548                    | 41,287                   | 39,615                    | 40,282                   | 49,478            | 39,615            |
| IMF reserve position               | 5,628                     | 5,523                    | 5,592                     | 5,360                    | 4,988                     | 4,723                    | 5,628             | 4,988             |
| Special drawing rights             | 1,124                     | 1,085                    | 1,032                     | 1,072                    | 1,086                     | 1,111                    | 1,124             | 1,086             |
| Currency and bank deposits         | 670,724                   | 666,727                  | 685,918                   | 687,350                  | 698,263                   | 710,222                  | 670,724           | 698,263           |
| Other deposits                     | 165,149                   | 166,274                  | 172,223                   | 175,279                  | 179,956                   | 182,533                  | 165,149           | 179,956           |
| Foreign currency deposits          | 95,724                    | 101,202                  | 84,841                    | 96,276                   | 89,914                    | 101,148                  | 95,724            | 89,914            |
| Consumer credit                    | 204,274                   | 205,645                  | 211,584                   | 217,529                  | 222,092                   | 222,876                  | 204,274           | 222,092           |
| Trade receivables                  | 220,607                   | 222,857                  | 223,480                   | 222,642                  | 226,784                   | 229,293                  | 220,607           | 226,784           |
| Bank loans                         | 177,120                   | 180,405                  | 181,080                   | 179,887                  | 175,890                   | 168,963                  | 177,120           | 175,890           |
| Other loans                        | 189,676                   | 186,582                  | 186,821                   | 184,203                  | 187,269                   | 182,475                  | 189,676           | 187,269           |
| Canada short-term paper            | 97,631                    | 97,987                   | 99,419                    | 104,085                  | 108,420                   | 107,993                  | 97,631            | 108,420           |
| Other short-term paper             | 168,316                   | 165,535                  | 165,149                   | 161,749                  | 157,189                   | 155,194                  | 168,316           | 157,189           |
| Mortgages                          | 594,108                   | 600,026                  | 611,080                   | 621,259                  | 628,856                   | 634,575                  | 594,108           | 628,856           |
| Canada bonds                       | 286,068                   | 282,142                  | 288,004                   | 296,836                  | 292,040                   | 292,688                  | 286,068           | 292,040           |
| (of which CSB's)                   | 22,309                    | 22,034                   | 21,644                    | 21,382                   | 20,468                    | 20,790                   | 22,309            | 20,468            |
| Provincial bonds                   | 276,853                   | 271,222                  | 275,435                   | 274,521                  | 277,676                   | 292,008                  | 276,853           | 277,676           |
| Municipal bonds                    | 35,897                    | 33,406                   | 33,257                    | 33,479                   | 32,876                    | 32,998                   | 35,897            | 32,876            |
| Other bonds                        | 248,379                   | 240,714                  | 249,979                   | 246,567                  | 254,592                   | 250,872                  | 248,379           | 254,592           |
| Life insurance & pensions          | 986,002                   | 949,374                  | 987,370                   | 1,009,815                | 1,044,206                 | 1,066,483                | 986,002           | 1,044,206         |
| Corporate claims                   | 1,038,343                 | 1,019,348                | 996,237                   | 1,005,795                | 1,047,016                 | 1,068,789                | 1,038,343         | 1,047,016         |
| Government claims                  | 191,607                   | 180,540                  | 180,821                   | 183,740                  | 181,873                   | 189,838                  | 191,607           | 181,873           |
| Shares                             | 1,392,447                 | 1,342,509                | 1,419,683                 | 1,482,625                | 1,609,257                 | 1,693,854                | 1,392,447         | 1,609,257         |
| Foreign investments                | 379,411                   | 341,192                  | 358,413                   | 383,873                  | 414,174                   | 419,678                  | 379,411           | 414,174           |
| Other financial assets             | 634,274                   | 662,275                  | 674,652                   | 676,603                  | 693,090                   | 724,607                  | 634,274           | 693,090           |
| <b>Liabilities and net worth</b>   | <b>12,086,485</b>         | <b>11,979,396</b>        | <b>12,207,404</b>         | <b>12,424,469</b>        | <b>12,749,291</b>         | <b>12,994,094</b>        | <b>12,086,485</b> | <b>12,749,291</b> |
| Liabilities                        | 8,289,206                 | 8,190,459                | 8,364,770                 | 8,500,718                | 8,750,457                 | 8,936,143                | 8,289,206         | 8,750,457         |
| Currency and bank deposits         | 684,823                   | 680,502                  | 700,448                   | 701,331                  | 712,462                   | 724,415                  | 684,823           | 712,462           |
| Other deposits                     | 165,149                   | 166,274                  | 172,223                   | 175,279                  | 179,956                   | 182,533                  | 165,149           | 179,956           |
| Foreign currency deposits          | 112,225                   | 109,189                  | 90,144                    | 104,410                  | 100,917                   | 97,421                   | 112,225           | 100,917           |
| Consumer credit                    | 204,274                   | 205,645                  | 211,584                   | 217,529                  | 222,092                   | 222,876                  | 204,274           | 222,092           |
| Trade payables                     | 227,337                   | 220,126                  | 219,763                   | 221,030                  | 225,278                   | 225,363                  | 227,337           | 225,278           |
| Bank loans                         | 157,569                   | 160,490                  | 160,162                   | 159,275                  | 154,621                   | 146,296                  | 157,569           | 154,621           |
| Other loans                        | 193,586                   | 189,571                  | 190,409                   | 187,055                  | 191,122                   | 186,406                  | 193,586           | 191,122           |
| Canada short-term paper            | 107,050                   | 107,203                  | 109,997                   | 114,699                  | 118,941                   | 116,629                  | 107,050           | 118,941           |
| Other short-term paper             | 183,508                   | 178,969                  | 176,629                   | 171,161                  | 166,949                   | 164,287                  | 183,508           | 166,949           |
| Mortgages                          | 594,474                   | 600,389                  | 611,439                   | 621,620                  | 629,215                   | 634,925                  | 594,474           | 629,215           |
| Canada bonds                       | 371,421                   | 369,950                  | 374,488                   | 364,420                  | 355,312                   | 355,927                  | 371,421           | 355,312           |
| (of which CSB's)                   | 22,309                    | 22,034                   | 21,644                    | 21,382                   | 20,468                    | 20,790                   | 22,309            | 20,468            |
| Provincial bonds                   | 428,768                   | 412,808                  | 414,737                   | 410,149                  | 409,413                   | 427,366                  | 428,768           | 409,413           |
| Municipal bonds                    | 39,606                    | 37,077                   | 36,776                    | 36,728                   | 36,192                    | 36,313                   | 39,606            | 36,192            |
| Other bonds                        | 478,689                   | 464,274                  | 468,236                   | 471,344                  | 483,938                   | 492,656                  | 478,689           | 483,938           |
| Life insurance & pensions          | 986,002                   | 949,374                  | 987,370                   | 1,009,815                | 1,044,206                 | 1,066,483                | 986,002           | 1,044,206         |
| Corporate claims                   | 460,006                   | 464,279                  | 436,267                   | 436,272                  | 442,565                   | 447,561                  | 460,006           | 442,565           |
| Government claims                  | 191,607                   | 180,540                  | 180,821                   | 183,740                  | 181,873                   | 189,838                  | 191,607           | 181,873           |
| Shares                             | 2,073,403                 | 2,037,797                | 2,150,348                 | 2,233,344                | 2,395,758                 | 2,493,648                | 2,073,403         | 2,395,758         |
| Other liabilities                  | 629,709                   | 656,002                  | 672,929                   | 681,517                  | 699,647                   | 725,200                  | 629,709           | 699,647           |
| <b>Net worth</b>                   | <b>3,797,279</b>          | <b>3,788,937</b>         | <b>3,842,634</b>          | <b>3,923,751</b>         | <b>3,998,834</b>          | <b>4,057,951</b>         | <b>3,797,279</b>  | <b>3,998,834</b>  |

## Credit market summary table

|   | Fourth<br>quarter<br>2002 | First<br>quarter<br>2003 | Second<br>quarter<br>2003 | Third<br>quarter<br>2003 | Fourth<br>quarter<br>2003 | First<br>quarter<br>2004 | 2002      | 2003      |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|-----------|-----------|
| Millions of dollars at quarter end                        |                           |                          |                           |                          |                           |                          |           |           |
| <b>Debt outstanding of:</b>                               |                           |                          |                           |                          |                           |                          |           |           |
| Persons and unincorporated business                       | 795,090                   | 802,967                  | 819,399                   | 834,781                  | 844,768                   | 836,816                  | 795,090   | 844,768   |
| Consumer credit   | 204,274                   | 205,645                  | 211,584                   | 217,529                  | 222,092                   | 222,876                  | 204,274   | 222,092   |
| Bank loans  | 32,075                    | 33,555                   | 33,717                    | 33,538                   | 33,417                    | 19,069                   | 32,075    | 33,417    |
| Other loans   | 67,522                    | 68,319                   | 68,504                    | 68,801                   | 68,557                    | 69,596                   | 67,522    | 68,557    |
| Mortgages   | 491,219                   | 495,448                  | 505,594                   | 514,913                  | 520,702                   | 525,275                  | 491,219   | 520,702   |
| Non-financial private corporations                        | 567,930                   | 556,461                  | 542,326                   | 540,634                  | 544,885                   | 555,371                  | 567,930   | 544,885   |
| Bank loans  | 108,663                   | 107,908                  | 106,903                   | 107,774                  | 106,069                   | 108,802                  | 108,663   | 106,069   |
| Other loans   | 81,943                    | 77,986                   | 77,355                    | 76,169                   | 77,407                    | 75,723                   | 81,943    | 77,407    |
| Other short-term paper                                    | 48,644                    | 47,517                   | 40,596                    | 40,500                   | 36,092                    | 39,567                   | 48,644    | 36,092    |
| Mortgages   | 97,030                    | 98,339                   | 99,421                    | 99,913                   | 100,954                   | 102,521                  | 97,030    | 100,954   |
| Bonds   | 231,650                   | 224,711                  | 218,051                   | 216,278                  | 224,363                   | 228,758                  | 231,650   | 224,363   |
| Non-financial government enterprises                      | 70,065                    | 70,611                   | 70,811                    | 67,766                   | 66,214                    | 68,198                   | 70,065    | 66,214    |
| Bank loans  | 2,456                     | 2,650                    | 3,085                     | 2,223                    | 3,233                     | 2,717                    | 2,456     | 3,233     |
| Other loans   | 4,536                     | 7,437                    | 6,690                     | 6,752                    | 5,942                     | 5,944                    | 4,536     | 5,942     |
| Other short-term paper                                    | 8,409                     | 7,794                    | 8,053                     | 8,005                    | 7,078                     | 6,370                    | 8,409     | 7,078     |
| Mortgages   | 104                       | 104                      | 100                       | 99                       | 99                        | 99                       | 104       | 99        |
| Canada bonds  | 0                         | 0                        | 0                         | 0                        | 0                         | 0                        | 0         | 0         |
| Provincial bonds  | 52,809                    | 50,320                   | 50,084                    | 48,116                   | 48,051                    | 51,332                   | 52,809    | 48,051    |
| Municipal bonds   | 121                       | 121                      | 121                       | 121                      | 121                       | 121                      | 121       | 121       |
| Other bonds   | 1,630                     | 2,185                    | 2,678                     | 2,450                    | 1,690                     | 1,615                    | 1,630     | 1,690     |
| Federal government  | 434,865                   | 435,222                  | 433,457                   | 434,204                  | 430,411                   | 430,826                  | 434,865   | 430,411   |
| Bank loans  | 101                       | 103                      | 103                       | 103                      | 103                       | 138                      | 101       | 103       |
| Other loans   | 0                         | 0                        | 0                         | 0                        | 0                         | 0                        | 0         | 0         |
| Canada short-term paper                                   | 107,050                   | 107,203                  | 109,997                   | 114,699                  | 118,941                   | 116,629                  | 107,050   | 118,941   |
| Canada bonds  | 327,714                   | 327,916                  | 323,357                   | 319,402                  | 311,367                   | 314,059                  | 327,714   | 311,367   |
| Canada savings bonds                                      | 22,309                    | 22,034                   | 21,644                    | 21,382                   | 20,468                    | 20,790                   | 22,309    | 20,468    |
| Other bonds   | 305,405                   | 305,882                  | 301,713                   | 298,020                  | 290,899                   | 293,269                  | 305,405   | 290,899   |
| Other levels of government                                | 365,835                   | 364,142                  | 370,081                   | 373,850                  | 373,043                   | 381,453                  | 365,835   | 373,043   |
| Bank loans  | 4,076                     | 4,099                    | 4,083                     | 4,350                    | 4,341                     | 3,913                    | 4,076     | 4,341     |
| Other loans   | 10,935                    | 11,264                   | 11,503                    | 11,698                   | 11,804                    | 11,449                   | 10,935    | 11,804    |
| Other short-term paper                                    | 15,132                    | 15,575                   | 16,201                    | 13,847                   | 14,797                    | 14,161                   | 15,132    | 14,797    |
| Mortgages   | 2,367                     | 2,304                    | 2,304                     | 2,304                    | 2,304                     | 2,297                    | 2,367     | 2,304     |
| Provincial bonds  | 295,154                   | 293,446                  | 299,189                   | 304,466                  | 302,938                   | 312,688                  | 295,154   | 302,938   |
| Municipal bonds   | 36,353                    | 35,631                   | 34,972                    | 35,350                   | 35,018                    | 35,104                   | 36,353    | 35,018    |
| Other bonds   | 1,818                     | 1,823                    | 1,829                     | 1,835                    | 1,841                     | 1,841                    | 1,818     | 1,841     |
| Total funds raised by domestic non-financial sectors      | 2,233,785                 | 2,229,403                | 2,236,074                 | 2,251,235                | 2,259,321                 | 2,272,664                | 2,233,785 | 2,259,321 |
| Consumer credit   | 204,274                   | 205,645                  | 211,584                   | 217,529                  | 222,092                   | 222,876                  | 204,274   | 222,092   |
| Bank loans  | 147,371                   | 148,315                  | 147,891                   | 147,988                  | 147,163                   | 134,639                  | 147,371   | 147,163   |
| Other loans   | 164,936                   | 165,006                  | 164,052                   | 163,420                  | 163,710                   | 162,712                  | 164,936   | 163,710   |
| Canada short-term paper                                   | 107,050                   | 107,203                  | 109,997                   | 114,699                  | 118,941                   | 116,629                  | 107,050   | 118,941   |
| Other short-term paper                                    | 72,185                    | 70,886                   | 64,850                    | 62,352                   | 57,967                    | 60,098                   | 72,185    | 57,967    |
| Mortgages   | 590,720                   | 596,195                  | 607,419                   | 617,229                  | 624,059                   | 630,192                  | 590,720   | 624,059   |
| Bonds   | 947,249                   | 936,153                  | 930,281                   | 928,018                  | 925,389                   | 945,518                  | 947,249   | 925,389   |
| Non-residents   | 60,081                    | 57,835                   | 56,493                    | 56,176                   | 55,470                    | 56,640                   | 60,081    | 55,470    |
| Bank loans  | 19,551                    | 19,915                   | 20,918                    | 20,612                   | 21,269                    | 22,667                   | 19,551    | 21,269    |
| Other loans   | 40,530                    | 37,920                   | 35,575                    | 35,564                   | 34,201                    | 33,973                   | 40,530    | 34,201    |
| Mortgages   | 0                         | ...                      | ...                       | ...                      | ...                       | ...                      | 0         | ...       |
| Total borrowing excluding domestic financial institutions | 2,293,866                 | 2,287,238                | 2,292,567                 | 2,307,411                | 2,314,791                 | 2,329,304                | 2,293,866 | 2,314,791 |
| Domestic financial institutions                           | 382,721                   | 380,527                  | 382,135                   | 382,326                  | 388,566                   | 392,686                  | 382,721   | 388,566   |
| Bank loans  | 10,198                    | 12,175                   | 12,271                    | 11,287                   | 7,458                     | 11,657                   | 10,198    | 7,458     |
| Other loans   | 28,170                    | 26,140                   | 27,144                    | 24,664                   | 28,712                    | 24,011                   | 28,170    | 28,712    |
| Other short-term paper                                    | 111,323                   | 108,083                  | 111,779                   | 108,809                  | 108,982                   | 104,189                  | 111,323   | 108,982   |
| Mortgages   | 3,754                     | 4,194                    | 4,020                     | 4,391                    | 5,156                     | 5,100                    | 3,754     | 5,156     |
| Bonds   | 229,276                   | 229,935                  | 226,921                   | 233,175                  | 238,258                   | 247,729                  | 229,276   | 238,258   |
| Total funds raised = total funds supplied                 | 2,676,587                 | 2,667,765                | 2,674,702                 | 2,689,737                | 2,703,357                 | 2,721,990                | 2,676,587 | 2,703,357 |
| <b>Assets of:</b>   |                           |                          |                           |                          |                           |                          |           |           |
| Persons and unincorporated business                       | 133,136                   | 137,955                  | 136,692                   | 131,987                  | 135,556                   | 140,350                  | 133,136   | 135,556   |
| Non-financial corporations                                | 75,260                    | 73,260                   | 73,769                    | 71,453                   | 71,425                    | 75,578                   | 75,260    | 71,425    |
| Governments   | 178,007                   | 180,181                  | 183,497                   | 190,512                  | 186,654                   | 188,379                  | 178,007   | 186,654   |
| Non-residents   | 508,128                   | 489,547                  | 470,271                   | 457,848                  | 455,428                   | 458,242                  | 508,128   | 455,428   |
| Domestic financial institutions                           | 1,808,896                 | 1,813,392                | 1,836,441                 | 1,863,385                | 1,879,532                 | 1,884,631                | 1,808,896 | 1,879,532 |

## The 2000-2003 revisions of the Income and Expenditure Accounts

### Introduction

Following usual practice, revised estimates covering the period 2000 to 2003 of the National Economic and Financial Accounts were released along with those for the first quarter of 2004. The annual revision within the System of National Accounts is an integrated process, with revised estimates of the Income and Expenditure Accounts, Financial Flow Accounts and the Balance of International Payments compiled and released together. The integration occurs through compiling Input-Output Accounts in current prices which are released in the fall of each year when the full provincial Input-Output Accounts are completed. Corresponding revisions to the monthly estimates of real Gross Domestic Product by Industry will be released in September.

Statistical revisions are regularly carried out in the System of National Accounts in order to incorporate the most current information from censuses, annual surveys, taxation statistics, public accounts, etc. In principle, the revision schedule is as follows: estimates for each quarter are revised when those for subsequent quarters of the same calendar year are released; thereafter, they are open for revision only once a year for the next four years, at the time of the release of the first quarter estimates. Limited revisions are carried out for periods further back than four years and periodically historical revisions are conducted, roughly once every 10 years. Historical revisions provide an occasion to improve estimation methods, eliminate statistical breaks resulting from more limited revisions and introduce conceptual changes into the system.

The policy of revising the estimates of previous years only once a year is adhered to throughout the national accounts. The period open for revision, however, varies from one set of accounts to another. Thus, the standard revision is four years in the Income and Expenditure Accounts and the Balance of Payments. The standard revision in the Input-Output Accounts covers one year, which is the first year in the four years of revision in the Income and Expenditure Accounts and the Balance of Payments. The Input-Output Accounts for the second year in the four years are incorporated for the first time at the time of these revisions. The revision of the Financial Flow Accounts usually parallels that of the National Balance Sheet Accounts and often covers more than four years to reconcile the stocks with the revised flows.

The most recent historical revision was completed in December 1997, and documentation related to this revision can be found at <http://www.statcan.ca/english/freepub/13-605-XIE/free.htm>

### Income and Expenditure Accounts revisions

With the May 2001 release, a number of conceptual changes were implemented within the Income and Expenditure Accounts including the introduction of the use of the Chain Fisher Volume Index, a change in valuation from factor cost to basic price, and a change related to the capitalization of software. With the May 2002 release, several conceptual changes were implemented within the Income and Expenditure Accounts (IEA) and carried back to 1981. These included classification changes to licences and registrations, land transfer taxes, and spectrum charges and the incorporation of 1996 census results in farm inventories. Documentation related to these conceptual changes can be found at <http://www.statcan.ca/english/freepub/13-605-XIE/free.htm>

### Impact of the revisions on GDP

The revisions to GDP resulted from the inclusion of the most current estimates from data sources as described in the introduction. Revised 2000 and preliminary 2001 Input-Output data are incorporated for the first two years of the four-year revision period. Some benchmark information is incorporated for the more recent periods without the benefit of full Input-Output balancing. Other series are revised only due to applying projectors to the new levels coming from the Input-Output Accounts.

As can be seen from the current revision column in table 1, the revision to the level of GDP on a current dollar basis each year from 2000 to 2003 is minimal. Expressed as a percentage of the estimate, the change for 2000 and 2001 represents 0.1% of the estimate and 0.3% for 2002 and 2003. Viewed from a historical perspective over two decades (table 5), the revisions for 2002 and 2003 fall in the low range of revisions (not considering years of historical revisions and the revision completed in May 2001, where software capitalization had a large impact) of -0.9% to 1.4% for the preceding year and -0.7% to 1.7% for the second preceding year. The revision for 2000 and 2001 of 0.1% is also low in the range of revisions for the third and fourth preceding years where the range lies between -0.4% and 1.0%. The revisions to the preceding period are a comparison of the GDP released at the time of the first quarter to those released at the time of the fourth quarter of the corresponding year.

In real terms (see table 1), the annual revision to GDP was also small, with a slight decrease in 2000 and 2001 and an increase in 2003. The revisions to the quarterly real GDP series range from -0.2% to 0.4%.

The annual growth rate of GDP in current dollars shown in table 2 is revised by 0.2% in 2002 and by lesser amounts in the other years. The annual growth in real terms is very similar, with changes in growth rates between -0.1% and

0.3%. The quarterly revisions for real GDP range between -0.1% and 0.3%, with the largest revision to the quarterly growth rates occurring in the third quarter of 2002.

The implicit chain price index for GDP is revised up marginally in all four years, with the largest revision of 0.3% in 2002.

### Revisions to income aggregates (table 3)

**Wages, salaries and supplementary labour income** were revised slightly upwards in 2000 and 2001, but experienced significant downward revisions in 2002 and 2003. The revisions in 2002 are the result of revisions to both wages and salaries and supplementary labour income and carried forward to 2003. The receipt of the Canada Revenue Agency (CRA) T4 Supplementary file for tax year 2002, providing the benchmark for wages and salaries, produced a downward revision of \$7.3 billion in wages and salaries. Slower growth in manufacturing in Newfoundland and Labrador, Quebec and Ontario and a decline in mining in Alberta contributed to weaker growth than expected in these provinces.

Supplementary labour income, however, was revised upwards by \$2.7 billion in 2002, as a result of continued strong growth in group coverage from private health and life insurance plans. In addition, large premium rate increases for Alberta and British Columbia provincial government health plans, increased employers' payments to private pension plans and Workers' Compensation Boards, and larger retirement allowance payments contributed significantly to the increase in supplementary labour income in 2002. Minor revisions to 2000 and 2001 supplementary labour income were the result of special payments to teachers' pension funds in Prince Edward Island and Newfoundland and Labrador.

**Corporation profits before taxes** were revised up in 2000 by 0.2%, down in 2001 by 0.7%, and up by 3.4% and 3.3% in 2002 and 2003 respectively. Revisions in 2000 and 2001 reflected the benchmarking to the Input-Output Accounts and updated annual corporate income tax returns for 2001. The revision for 2002 reflects the incorporation of new estimates from preliminary Financial and taxation statistics for enterprises including the General Index of Financial Information (GIFI) schedules and is carried forward to 2003.

**Interest and miscellaneous investment income** was revised up in 2000 by 1.9% and 2003 by 1.7%. Estimates for 2001 and 2002 were revised down by 0.1% and 2.5%. Revisions to this series reflect new and revised interest payment and receipt information and royalty payments of corporations and revisions to investment income-earned data from the trustee pension funds.

**Accrued net income of farm operators from farm production** was revised down in all four years, over \$300 million in 2000, approximately \$1,080 million in 2001, \$826

million in 2002 and \$385 million in 2003. Accrued net income of farm operators from farm production has been revised down following the incorporation of the results of the 2001 Census of Agriculture. Most of the revision can be attributed to higher farm expenses including depreciation while farm cash receipts have slightly decreased.

**Net income of non-farm unincorporated business, including rent** was revised upwards throughout the period, in 2000 by \$84 million, in 2001 by \$782 million, in 2002 by \$881 million, and in 2003 by \$16 million. Both rental income and other unincorporated business income were revised up in 2001. The 2001 revisions to other unincorporated business income reflect the benchmarking to the Input-Output Accounts by industry while the 2002 revisions incorporate new administrative data coming from the CRA on the net income of unincorporated business.

**Taxes on factors of production, less subsidies** were revised downwards in each of the years from 2000 to 2003 with the largest revisions in 2001 of \$289 million and 2003 of \$252 million. Revisions to **taxes on products, less subsidies** were upwards during the time period 2000 to 2003, \$664 million in 2000, \$664 million in 2001, \$1,096 million in 2002 and \$528 million in 2003. Revisions to both series are due to the incorporation of new public accounts and other financial information for the different sub-sectors of government.

### Revisions to expenditure aggregates at current prices (table 4)

**Personal expenditure on consumer goods and services** was revised slightly downwards in 2000 and 2001 by \$297 million and \$264 million, respectively. There were more significant revisions in 2002 and 2003, up by \$1,121 million in 2002 and down by \$712 million in 2003. Results from the Survey of Household Spending for 2002 were incorporated in these estimates, as well as surveys of service industries.

**Government current expenditure on goods and services** was revised upwards in the four years 2000 to 2003 with significant revisions of 2.2% in 2002 and 2.9% in 2003. These revisions reflect new data from federal and provincial public accounts as well as the latest local government information. Provincial government education and health spending were revised up as a result of the incorporation of updated survey and transfer payment data.

In this revision cycle there was also a correction to the methodology used for the municipal government series to eliminate inconsistencies relating to education data. Use of this methodology resulted in a revision in net municipal expenditure on goods and services of \$1,969 million for 2000. The new methodology results in a statistical break between 1999 and 2000 since the 1997 to 1999 data will only be revised during the next historical revision.

Revisions to **investment in residential construction** were upwards in each of the years 2000 to 2003, with more significant revisions of 0.9% in 2002 and 1.0% in 2003. Revisions are based on building permits information, administrative data, and results from the 2002 Survey of Household Spending and the 2002 Survey of Real Estate Agents and Brokers.

**Business investment in non-residential construction and machinery and equipment** estimates recorded larger downward revisions in 2000 and 2001, but slight upward revisions in 2002 and 2003. Estimates for year 2000 were revised down by \$1,305 million, 2001 down by \$2,393 million, 2002 and 2003 up by \$505 million and by \$87 million. Revisions reflect the benchmarking to the Input-Output supply disposition model for machinery and equipment commodities and the incorporation of the latest estimates from the Private and Public Investment Survey for 2002 (final) and 2003 (preliminary).

Revisions to **investment in inventories** were upwards in 2000 by \$738 million and 2003 by \$99 million but downwards in 2001 and 2002 with large revisions of \$1,035 million in 2001 and \$3,441 million in 2002. Non-farm inventories incorporated the 2001 revision due to the benchmarking of the Monthly Survey of Manufacturing, as well as revised estimates of inventories of natural gas. Adjustments also reflect the outcome of the commodity balancing process that is integral to the development of the Input-Output Accounts, on which the IEA are benchmarked. Upward revisions to the farm inventories series were due to the incorporation of the livestock balance sheets which have been benchmarked to the 2001 Census of Agriculture.

**Exports of goods and services** were revised upwards for the whole revision period, with 0.1% and 0.2% in 2000 and 2001. There were significant revisions of 1.1% and 0.4% in 2002 and 2003. Exports of goods had downward revisions for the period due to new estimates for the level of undercoverage of merchandise exports to countries other than the United States. Revisions to goods were also influenced by revised data for natural gas, crude oil, diamonds and pharmaceuticals in 2002 and 2003.

Large upward revisions to exports of commercial services have been made for the year 2002 and carried forward to 2003. These revisions are due to the inclusion of recent results from several annual surveys. The largest revisions appeared in insurance services, more precisely in re-insurance activities. Canadian firms ceded more insurance to non-resident insurance firms in 2002 than they did before. This led to large increases in both premiums provided to, and claims refunded from, foreign insurance companies.

**Imports of goods and services** were revised slightly upwards in 2000 and 2001 by \$519 million and \$702 million. Significant upward revisions were experienced in

2002 and 2003 of \$4,259 million and \$3,618 million. The large revision to 2002 and the carry forward to 2003 was primarily due to the revision of imports of services. Similar to exports of services, imports of commercial services were revised upwards to reflect survey results which showed large revisions to re-insurance activities.

#### Revisions to price indexes

In general, price indexes at the most detailed level employed in the deflation of GDP are unrevised. However, upward revisions were recorded for government current expenditures on goods and services deflators and downward for services exports deflators.

The global deflator for government current expenditures on goods and services has been revised mainly due to the implementation of a more refined measurement approach. The labour income portion of government expenditure on goods and services in real terms has now been projected using hours worked, adjusted for quality, instead of employment for the federal and the provincial administration sub-sectors.

A change in the weighting of current dollar components of services exports has resulted in a downward revision to the corresponding deflator.

## **Supplementary tables**

**Table 1 - Revisions to Gross domestic product**

| Reference period  | Initial estimate <sup>1</sup> | Previous estimate <sup>2</sup> | Revised estimate <sup>3</sup> | Current revision <sup>4</sup> | Current revision <sup>5</sup> |
|---|-------------------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------|
| seasonally adjusted data at annual rates, millions of dollars                         |                               |                                |                               |                               | %                             |
| 2000  | 1,038,794                     | 1,075,566                      | 1,076,577                     | 1,011                         | 0.1                           |
| 2001  | 1,084,119                     | 1,107,459                      | 1,108,200                     | 741                           | 0.1                           |
| 2002  | 1,142,123                     | 1,154,949                      | 1,157,968                     | 3,019                         | 0.3                           |
| 2003  | 1,214,601                     | 1,214,601                      | 1,218,772                     | 4,171                         | 0.3                           |
| 2000 Q 1  | 1,006,952                     | 1,041,764                      | 1,042,100                     | 336                           | 0.0                           |
| 2000 Q 2  | 1,029,412                     | 1,068,672                      | 1,069,904                     | 1,232                         | 0.1                           |
| 2000 Q 3  | 1,052,024                     | 1,090,816                      | 1,091,628                     | 812                           | 0.1                           |
| 2000 Q 4  | 1,058,864                     | 1,101,012                      | 1,102,676                     | 1,664                         | 0.2                           |
| 2001 Q 1  | 1,095,100                     | 1,114,128                      | 1,115,408                     | 1,280                         | 0.1                           |
| 2001 Q 2  | 1,099,840                     | 1,116,084                      | 1,117,628                     | 1,544                         | 0.1                           |
| 2001 Q 3  | 1,077,744                     | 1,101,804                      | 1,101,644                     | -160                          | -0.0                          |
| 2001 Q 4  | 1,073,880                     | 1,097,820                      | 1,098,120                     | 300                           | 0.0                           |
| 2002 Q 1  | 1,106,352                     | 1,122,208                      | 1,121,528                     | -680                          | -0.1                          |
| 2002 Q 2  | 1,138,212                     | 1,150,924                      | 1,153,848                     | 2,924                         | 0.3                           |
| 2002 Q 3  | 1,151,832                     | 1,164,640                      | 1,169,092                     | 4,452                         | 0.4                           |
| 2002 Q 4  | 1,170,916                     | 1,182,024                      | 1,187,404                     | 5,380                         | 0.5                           |
| 2003 Q 1  | 1,211,120                     | 1,210,504                      | 1,214,880                     | 4,376                         | 0.4                           |
| 2003 Q 2  | 1,206,560                     | 1,202,544                      | 1,207,032                     | 4,488                         | 0.4                           |
| 2003 Q 3  | 1,216,256                     | 1,216,480                      | 1,219,452                     | 2,972                         | 0.2                           |
| 2003 Q 4  | 1,228,876                     | 1,228,876                      | 1,233,724                     | 4,848                         | 0.4                           |
| seasonally adjusted at annual rates, millions of dollars, chained (1997) <sup>6</sup> |                               |                                |                               |                               | %                             |
| 2000  | ..                            | 1,020,786                      | 1,020,488                     | -298                          | -0.0                          |
| 2001  | 1,024,196                     | 1,040,388                      | 1,038,845                     | -1,544                        | -0.1                          |
| 2002  | 1,062,143                     | 1,074,516                      | 1,074,621                     | 105                           | 0.0                           |
| 2003  | 1,092,891                     | 1,092,891                      | 1,096,359                     | 3,468                         | 0.3                           |
| 2000 Q 1  | ..                            | 1,005,299                      | 1,004,935                     | -364                          | -0.0                          |
| 2000 Q 2  | ..                            | 1,015,691                      | 1,016,313                     | 622                           | 0.1                           |
| 2000 Q 3  | ..                            | 1,028,877                      | 1,028,986                     | 109                           | 0.0                           |
| 2000 Q 4  | ..                            | 1,033,275                      | 1,031,719                     | -1,556                        | -0.2                          |
| 2001 Q 1  | 1,025,401                     | 1,036,654                      | 1,035,414                     | -1,240                        | -0.1                          |
| 2001 Q 2  | 1,025,177                     | 1,039,560                      | 1,037,639                     | -1,921                        | -0.2                          |
| 2001 Q 3  | 1,022,883                     | 1,037,748                      | 1,036,038                     | -1,710                        | -0.2                          |
| 2001 Q 4  | 1,027,799                     | 1,047,588                      | 1,046,287                     | -1,301                        | -0.1                          |
| 2002 Q 1  | 1,047,731                     | 1,062,382                      | 1,060,397                     | -1,985                        | -0.2                          |
| 2002 Q 2  | 1,059,412                     | 1,072,315                      | 1,070,382                     | -1,933                        | -0.2                          |
| 2002 Q 3  | 1,066,551                     | 1,079,490                      | 1,081,335                     | 1,845                         | 0.2                           |
| 2002 Q 4  | 1,072,854                     | 1,083,875                      | 1,086,368                     | 2,493                         | 0.2                           |
| 2003 Q 1  | 1,090,415                     | 1,090,657                      | 1,093,793                     | 3,136                         | 0.3                           |
| 2003 Q 2  | 1,089,797                     | 1,087,947                      | 1,091,782                     | 3,835                         | 0.4                           |
| 2003 Q 3  | 1,090,382                     | 1,091,396                      | 1,095,469                     | 4,073                         | 0.4                           |
| 2003 Q 4  | 1,101,564                     | 1,101,564                      | 1,104,391                     | 2,827                         | 0.3                           |

1 For annual data, the initial estimate is from the fourth quarter of the corresponding year, for quarterly data, it is the estimate first published for the corresponding quarter. The initial annual estimate is not the average of the initial quarterly estimates as the latter have already been revised by the time the initial annual estimate is released.

2 For 2000, 2001 and 2002, the previous estimate is the one released with the first quarter of 2003, while for 2003 it is from the fourth quarter issue of 2003.

3 The revised estimates are the result of the 2004 revisions.

4 The current revision is the revised estimate less the previous estimate.

5 The current percentage revision is the current revision as a percentage of the previous estimate.

6 With the 2001 first quarter release, Chain Fisher was introduced as the new measure of real GDP.



**Table 2 - Revisions to Gross domestic product (growth rates)**

| Reference period | Initial estimate <sup>1</sup>  | Previous estimate <sup>2</sup> | Revised estimate <sup>3</sup> | Current revision <sup>4</sup> |
|------------------|--|--------------------------------|-------------------------------|-------------------------------|
|                  | seasonally adjusted data at annual rates                                 |                                |                               | %                             |
| 2000             | 8.4  | 9.5                            | 9.6                           | 0.1                           |
| 2001             | 2.7  | 3.0                            | 2.9                           | -0.1                          |
| 2002             | 4.6  | 4.3                            | 4.5                           | 0.2                           |
| 2003             | 5.2  | 5.2                            | 5.3                           | 0.1                           |
| 2000 Q 1         | 2.1  | 2.7                            | 2.7                           | 0.0                           |
| 2000 Q 2         | 1.8  | 2.6                            | 2.7                           | 0.1                           |
| 2000 Q 3         | 1.7  | 2.1                            | 2.0                           | -0.1                          |
| 2000 Q 4         | 0.8  | 0.9                            | 1.0                           | 0.1                           |
| 2001 Q 1         | 1.9  | 1.2                            | 1.2                           | -0.0                          |
| 2001 Q 2         | 0.4  | 0.2                            | 0.2                           | -0.0                          |
| 2001 Q 3         | -1.4   | -1.3                           | -1.4                          | -0.1                          |
| 2001 Q 4         | -0.2   | -0.4                           | -0.3                          | 0.1                           |
| 2002 Q 1         | 2.3  | 2.2                            | 2.1                           | -0.1                          |
| 2002 Q 2         | 2.8  | 2.6                            | 2.9                           | 0.3                           |
| 2002 Q 3         | 1.2  | 1.2                            | 1.3                           | 0.1                           |
| 2002 Q 4         | 1.6  | 1.5                            | 1.6                           | 0.1                           |
| 2003 Q 1         | 2.5  | 2.4                            | 2.3                           | -0.1                          |
| 2003 Q 2         | -0.4   | -0.7                           | -0.6                          | 0.1                           |
| 2003 Q 3         | 1.1  | 1.2                            | 1.0                           | -0.2                          |
| 2003 Q 4         | 1.0  | 1.0                            | 1.2                           | 0.2                           |
|                  | seasonally adjusted at annual rates, chained (1997) <sup>5</sup> dollars |                                |                               | %                             |
| 2000             | ..   | 5.3                            | 5.2                           | -0.1                          |
| 2001             | 1.5  | 1.9                            | 1.8                           | -0.1                          |
| 2002             | 3.4  | 3.3                            | 3.4                           | 0.1                           |
| 2003             | 1.7  | 1.7                            | 2.0                           | 0.3                           |
| 2000 Q 1         | ..   | 1.4                            | 1.4                           | 0.0                           |
| 2000 Q 2         | ..   | 1.0                            | 1.1                           | 0.1                           |
| 2000 Q 3         | ..   | 1.3                            | 1.2                           | -0.1                          |
| 2000 Q 4         | ..   | 0.4                            | 0.3                           | -0.1                          |
| 2001 Q 1         | 0.6  | 0.3                            | 0.4                           | 0.1                           |
| 2001 Q 2         | 0.1  | 0.3                            | 0.2                           | -0.1                          |
| 2001 Q 3         | -0.2   | -0.2                           | -0.2                          | 0.0                           |
| 2001 Q 4         | 0.5  | 0.9                            | 1.0                           | 0.1                           |
| 2002 Q 1         | 1.5  | 1.4                            | 1.3                           | -0.1                          |
| 2002 Q 2         | 1.1  | 0.9                            | 0.9                           | 0.0                           |
| 2002 Q 3         | 0.8  | 0.7                            | 1.0                           | 0.3                           |
| 2002 Q 4         | 0.4  | 0.4                            | 0.5                           | 0.1                           |
| 2003 Q 1         | 0.6  | 0.6                            | 0.7                           | 0.1                           |
| 2003 Q 2         | -0.1   | -0.2                           | -0.2                          | 0.0                           |
| 2003 Q 3         | 0.3  | 0.3                            | 0.3                           | 0.0                           |
| 2003 Q 4         | 0.9  | 0.9                            | 0.8                           | -0.1                          |

1 For annual data, the initial estimate is from the fourth quarter of the corresponding year, for quarterly data, it is the estimate first published for the corresponding quarter. The initial annual estimate is not the average of the initial quarterly estimates as the latter have already been revised by the time the initial annual estimate is released.

2 For 2000, 2001 and 2002, the previous estimate is the one released with the first quarter of 2003, while for 2003 it is from the fourth quarter issue of 2003.

3 The revised estimates are the result of the 2004 revisions.

4 The current revision is the revised estimate less the previous estimate.

5 With the 2001 first quarter release, Chain Fisher was introduced as the new measure of real GDP.

**Table 3 - Revisions to income aggregates at current prices**

| Reference period   | Initial estimate <sup>1</sup> | Previous estimate <sup>2</sup> | Revised estimate <sup>3</sup> | Current revision <sup>4</sup> | Current revision <sup>5</sup> |
|--|-------------------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | millions of dollars           |                                |                               |                               | %                             |
| Wages, salaries and supplementary labour income                |                               |                                |                               |                               |                               |
| 2000   | 534,601                       | 545,116                        | 545,204                       | 88                            | 0.0                           |
| 2001   | 559,102                       | 569,920                        | 570,008                       | 88                            | 0.0                           |
| 2002   | 595,267                       | 597,316                        | 592,692                       | -4,624                        | -0.8                          |
| 2003   | 617,506                       | 617,506                        | 613,718                       | -3,788                        | -0.6                          |
| Corporation profits before taxes                               |                               |                                |                               |                               |                               |
| 2000   | 124,710                       | 135,647                        | 135,978                       | 331                           | 0.2                           |
| 2001   | 119,922                       | 127,530                        | 126,620                       | -910                          | -0.7                          |
| 2002   | 125,507                       | 133,004                        | 137,480                       | 4,476                         | 3.4                           |
| 2003   | 146,417                       | 146,417                        | 151,210                       | 4,793                         | 3.3                           |
| Government business enterprise profits before taxes            |                               |                                |                               |                               |                               |
| 2000   | 12,392                        | 11,843                         | 11,329                        | -514                          | -4.3                          |
| 2001   | 9,678                         | 9,641                          | 10,483                        | 842                           | 8.7                           |
| 2002   | 10,845                        | 10,426                         | 11,478                        | 1,052                         | 10.1                          |
| 2003   | 10,102                        | 10,102                         | 11,643                        | 1,541                         | 15.3                          |
| Interest and miscellaneous investment income                   |                               |                                |                               |                               |                               |
| 2000   | 52,050                        | 54,261                         | 55,302                        | 1,041                         | 1.9                           |
| 2001   | 53,463                        | 53,010                         | 52,967                        | -43                           | -0.1                          |
| 2002   | 49,666                        | 49,425                         | 48,188                        | -1,237                        | -2.5                          |
| 2003   | 50,625                        | 50,625                         | 51,508                        | 883                           | 1.7                           |
| Accrued net income of farm operators from farm production      |                               |                                |                               |                               |                               |
| 2000   | 2,185                         | 1,553                          | 1,243                         | -310                          | -20.0                         |
| 2001   | 2,963                         | 2,715                          | 1,633                         | -1,082                        | -39.9                         |
| 2002   | 2,119                         | 1,715                          | 889                           | -826                          | -48.2                         |
| 2003   | 1,079                         | 1,079                          | 694                           | -385                          | -35.7                         |
| Net income of non-farm unincorporated business, including rent |                               |                                |                               |                               |                               |
| 2000   | 61,994                        | 64,860                         | 64,944                        | 84                            | 0.1                           |
| 2001   | 65,719                        | 67,582                         | 68,364                        | 782                           | 1.2                           |
| 2002   | 71,894                        | 72,960                         | 73,841                        | 881                           | 1.2                           |
| 2003   | 77,366                        | 77,366                         | 77,382                        | 16                            | 0.0                           |
| Inventory valuation adjustment                                 |                               |                                |                               |                               |                               |
| 2000   | -2,310                        | -2,393                         | -2,439                        | -46                           |                               |
| 2001   | -458                          | -21                            | 240                           | 261                           |                               |
| 2002   | -3,044                        | -3,561                         | -2,959                        | 602                           |                               |
| 2003   | 4,941                         | 4,941                          | 4,876                         | -65                           |                               |
| Taxes less subsidies, on factors of production <sup>6</sup>    |                               |                                |                               |                               |                               |
| 2000   | ..                            | 51,850                         | 51,693                        | -157                          | -0.3                          |
| 2001   | 56,253                        | 52,846                         | 52,557                        | -289                          | -0.5                          |
| 2002   | 53,152                        | 53,755                         | 53,721                        | -34                           | -0.1                          |
| 2003   | 55,717                        | 55,717                         | 55,465                        | -252                          | -0.5                          |
| Taxes less subsidies, on products <sup>6</sup>                 |                               |                                |                               |                               |                               |
| 2000   | ..                            | 75,983                         | 76,647                        | 664                           | 0.9                           |
| 2001   | 75,269                        | 76,331                         | 76,995                        | 664                           | 0.9                           |
| 2002   | 84,448                        | 84,442                         | 85,538                        | 1,096                         | 1.3                           |
| 2003   | 86,660                        | 86,660                         | 87,188                        | 528                           | 0.6                           |
| Capital consumption allowances                                 |                               |                                |                               |                               |                               |
| 2000   | 125,165                       | 138,154                        | 137,425                       | -729                          | -0.5                          |
| 2001   | 142,498                       | 146,798                        | 147,608                       | 810                           | 0.6                           |
| 2002   | 152,642                       | 155,004                        | 156,146                       | 1,142                         | 0.7                           |
| 2003   | 164,030                       | 164,030                        | 164,403                       | 373                           | 0.2                           |

<sup>1</sup> For annual data, the initial estimate is from the fourth quarter of the corresponding year.

<sup>2</sup> For 2000, 2001 and 2002, the previous estimate is the one released with the first quarter of 2003, while for 2003 it is from the fourth quarter issue of 2003.

<sup>3</sup> The revised estimates are the result of the 2004 revisions.

<sup>4</sup> The current revision is the revised estimate less the previous estimate.

<sup>5</sup> The current percentage revision is the current revision as a percentage of the previous estimate.

<sup>6</sup> With the 2001 first quarter release, value added is measured at basic prices, instead of factor cost (as previously). This incorporated the breakdown of indirect taxes into taxes on factors of production and taxes on products.

**Table 4 - Revisions to expenditure aggregates at current prices**

| Reference period                                     | Initial estimate <sup>1</sup> | Previous estimate <sup>2</sup> | Revised estimate <sup>3</sup> | Current revision <sup>4</sup> | Current revision <sup>5</sup> |
|--|-------------------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | millions of dollars           |                                |                               |                               | %                             |
| Personal expenditure on consumer goods and services  |                               |                                |                               |                               |                               |
| 2000   | 591,051                       | 596,306                        | 596,009                       | -297                          | -0.1                          |
| 2001   | 619,860                       | 623,167                        | 622,903                       | -264                          | -0.0                          |
| 2002   | 651,192                       | 656,181                        | 657,302                       | 1,121                         | 0.2                           |
| 2003   | 689,419                       | 689,419                        | 688,707                       | -712                          | -0.1                          |
| Government current expenditure on goods and services |                               |                                |                               |                               |                               |
| 2000   | 191,435                       | 197,851                        | 200,084                       | 2,233                         | 1.1                           |
| 2001   | 199,683                       | 207,508                        | 211,115                       | 3,607                         | 1.7                           |
| 2002   | 214,174                       | 218,895                        | 223,677                       | 4,782                         | 2.2                           |
| 2003   | 231,003                       | 231,003                        | 237,711                       | 6,708                         | 2.9                           |
| Government gross fixed capital formation             |                               |                                |                               |                               |                               |
| 2000   | 22,364                        | 24,398                         | 24,524                        | 126                           | 0.5                           |
| 2001   | 26,410                        | 26,991                         | 26,993                        | 2                             | 0.0                           |
| 2002   | 29,233                        | 30,430                         | 29,617                        | -813                          | -2.7                          |
| 2003   | 32,144                        | 32,144                         | 31,501                        | -643                          | -2.0                          |
| Government investment in inventories                 |                               |                                |                               |                               |                               |
| 2000   | 24                            | 24                             | 24                            | 0                             | 0.0                           |
| 2001   | 13                            | 13                             | 13                            | 0                             | 0.0                           |
| 2002   | -45                           | -45                            | -45                           | 0                             | 0.0                           |
| 2003   | 15                            | 15                             | 15                            | 0                             | 0.0                           |
| Business investment in residential structures        |                               |                                |                               |                               |                               |
| 2000   | 51,133                        | 48,482                         | 48,572                        | 90                            | 0.2                           |
| 2001   | 51,659                        | 54,976                         | 55,140                        | 164                           | 0.3                           |
| 2002   | 63,103                        | 65,270                         | 65,829                        | 559                           | 0.9                           |
| 2003   | 73,016                        | 73,016                         | 73,757                        | 741                           | 1.0                           |
| Business investment in non-residential structures    |                               |                                |                               |                               |                               |
| 2000   | 50,154                        | 50,518                         | 49,826                        | -692                          | -1.4                          |
| 2001   | 51,956                        | 52,769                         | 52,927                        | 158                           | 0.3                           |
| 2002   | 50,024                        | 48,469                         | 49,686                        | 1,217                         | 2.5                           |
| 2003   | 49,844                        | 49,844                         | 51,155                        | 1,311                         | 2.6                           |
| Business investment in machinery and equipment       |                               |                                |                               |                               |                               |
| 2000   | 76,606                        | 83,963                         | 83,350                        | -613                          | -0.7                          |
| 2001   | 84,728                        | 85,109                         | 82,558                        | -2,551                        | -3.0                          |
| 2002   | 84,380                        | 83,025                         | 82,313                        | -712                          | -0.9                          |
| 2003   | 82,187                        | 82,187                         | 80,963                        | -1,224                        | -1.5                          |
| Business investment in inventories                   |                               |                                |                               |                               |                               |
| 2000   | 7,038                         | 10,767                         | 11,505                        | 738                           | 6.9                           |
| 2001   | -6,022                        | -5,235                         | -6,270                        | -1,035                        | 19.8                          |
| 2002   | 2,672                         | 2,873                          | -568                          | -3,441                        | -119.8                        |
| 2003   | 7,563                         | 7,563                          | 7,662                         | 99                            | 1.3                           |
| Exports of goods and services                        |                               |                                |                               |                               |                               |
| 2000   | 475,849                       | 490,184                        | 490,688                       | 504                           | 0.1                           |
| 2001   | 469,355                       | 482,074                        | 483,053                       | 979                           | 0.2                           |
| 2002   | 470,114                       | 474,303                        | 479,358                       | 5,055                         | 1.1                           |
| 2003   | 459,561                       | 459,561                        | 461,596                       | 2,035                         | 0.4                           |
| Imports of goods and services                        |                               |                                |                               |                               |                               |
| 2000   | 427,389                       | 428,235                        | 428,754                       | 519                           | 0.1                           |
| 2001   | 413,812                       | 418,806                        | 419,508                       | 702                           | 0.2                           |
| 2002   | 423,096                       | 423,989                        | 428,248                       | 4,259                         | 1.0                           |
| 2003   | 409,993                       | 409,993                        | 413,611                       | 3,618                         | 0.9                           |

1 For annual data, the initial estimate is from the fourth quarter of the corresponding year.

2 For 2000, 2001 and 2002, the previous estimate is the one released with the first quarter of 2003, while for 2003 it is from the fourth quarter issue of 2003.

3 The revised estimates are the result of the 2004 revisions.

4 The current revision is the revised estimate less the previous estimate.

5 The current percentage revision is the current revision as a percentage of the previous estimate.

**Table 5 - Revisions to Gross domestic product<sup>1</sup>**

|              | Reference Year             | 1984        | 1985        | 1986        | 1987        | 1988        | 1989        | 1990        | 1991        | 1992        |
|--------------|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Release date |                            |             |             |             |             |             |             |             |             |             |
| 1984         | Q4                         | 436,076     |             |             |             |             |             |             |             |             |
| 1985         | Q1                         | 435,876     |             |             |             |             |             |             |             |             |
|              |                            | <i>-0.0</i> |             |             |             |             |             |             |             |             |
| 1985         | Q4                         |             | 469,797     |             |             |             |             |             |             |             |
| 1986         | Q1                         | 443,327     | 476,361     |             |             |             |             |             |             |             |
|              |                            | <i>1.7</i>  | <i>1.4</i>  |             |             |             |             |             |             |             |
| 1986         | Q4                         |             |             | 505,227     |             |             |             |             |             |             |
| 1986         | <i>historical revision</i> | 444,735     | 478,765     | 506,483     |             |             |             |             |             |             |
|              |                            | <i>0.3</i>  | <i>0.5</i>  | <i>0.2</i>  |             |             |             |             |             |             |
| 1987         | Q1                         | 445,604     | 479,446     | 509,898     |             |             |             |             |             |             |
|              |                            | <i>0.2</i>  | <i>0.1</i>  | <i>0.7</i>  |             |             |             |             |             |             |
| 1987         | Q4                         |             |             |             | 553,870     |             |             |             |             |             |
| 1988         | Q1                         | 444,735     | 478,765     | 506,483     | 549,692     |             |             |             |             |             |
|              |                            | <i>-0.2</i> | <i>-0.1</i> | <i>-0.7</i> | <i>-0.8</i> |             |             |             |             |             |
| 1988         | Q4                         |             |             |             |             | 598,732     |             |             |             |             |
| 1989         | Q1                         |             | 477,988     | 504,631     | 550,334     | 601,508     |             |             |             |             |
|              |                            |             | <i>-0.2</i> | <i>-0.4</i> | <i>0.1</i>  | <i>0.5</i>  |             |             |             |             |
| 1989         | Q4                         |             |             |             |             |             | 648,537     |             |             |             |
| 1990         | Q1                         |             |             | 505,666     | 551,336     | 603,356     | 651,616     |             |             |             |
|              |                            |             |             | <i>0.2</i>  | <i>0.2</i>  | <i>0.3</i>  | <i>0.5</i>  |             |             |             |
| 1990         | Q4                         |             |             |             |             |             |             | 677,900     |             |             |
| 1991         | Q1                         |             |             |             | 551,597     | 605,147     | 649,102     | 671,577     |             |             |
|              |                            |             |             |             | <i>0.0</i>  | <i>0.3</i>  | <i>-0.4</i> | <i>-0.9</i> |             |             |
| 1991         | Q4                         |             |             |             |             |             |             |             | 679,203     |             |
| 1992         | Q1                         |             |             |             |             | 605,906     | 649,916     | 667,843     | 674,388     |             |
|              |                            |             |             |             |             | <i>0.1</i>  | <i>0.1</i>  | <i>-0.6</i> | <i>-0.7</i> |             |
| 1992         | Q4                         |             |             |             |             |             |             |             |             | 687,334     |
| 1993         | Q1                         |             |             |             |             |             | 650,748     | 670,952     | 675,928     | 688,541     |
|              |                            |             |             |             |             |             | <i>0.1</i>  | <i>0.5</i>  | <i>0.2</i>  | <i>0.2</i>  |
| 1993         | Q4                         |             |             |             |             |             |             |             |             |             |
| 1994         | Q1                         |             |             |             |             |             |             | 669,467     | 674,766     | 688,391     |
|              |                            |             |             |             |             |             |             | <i>-0.2</i> | <i>-0.2</i> | <i>-0.0</i> |
| 1994         | Q4                         |             |             |             |             |             |             |             |             |             |
| 1995         | Q1                         |             |             |             |             |             |             |             | 676,477     | 690,122     |
|              |                            |             |             |             |             |             |             |             | <i>0.3</i>  | <i>0.3</i>  |
| 1995         | Q4                         |             |             |             |             |             |             |             |             |             |
| 1996         | Q1                         |             |             |             |             |             |             |             |             | 690,122     |
|              |                            |             |             |             |             |             |             |             |             | <i>0.0</i>  |
| 1996         | Q4                         |             |             |             |             |             |             |             |             |             |
| 1997         | Q1                         |             |             |             |             |             |             |             |             |             |
| 1997         | <i>historical revision</i> | 449,249     | 485,139     | 511,796     | 558,106     | 611,785     | 656,190     | 678,135     | 683,239     | 698,544     |
|              |                            | <i>1.0</i>  | <i>1.5</i>  | <i>1.2</i>  | <i>1.2</i>  | <i>1.0</i>  | <i>0.8</i>  | <i>1.3</i>  | <i>1.0</i>  | <i>1.2</i>  |
| 1997         | Q4                         |             |             |             |             |             |             |             |             |             |
| 1998         | Q1                         |             |             |             |             |             |             |             |             |             |
| 1998         | Q3                         |             |             |             |             |             |             |             |             |             |
| 1998         | Q4                         |             |             |             |             |             |             |             |             |             |
| 1999         | Q1                         |             |             |             |             |             |             |             |             |             |
| 1999         | Q4                         |             |             |             |             |             |             |             |             |             |
| 2000         | Q1                         |             |             |             |             |             |             |             |             |             |
| 2000         | Q4                         |             |             |             |             |             |             |             |             |             |
| 2001         | Q1                         | 450,731     | 486,847     | 513,805     | 560,390     | 614,530     | 659,270     | 681,657     | 686,971     | 702,393     |
|              |                            | <i>0.3</i>  | <i>0.4</i>  | <i>0.4</i>  | <i>0.4</i>  | <i>0.4</i>  | <i>0.5</i>  | <i>0.5</i>  | <i>0.5</i>  | <i>0.6</i>  |
| 2001         | Q4                         |             |             |             |             |             |             |             |             |             |
| 2002         | Q1                         | 449,582     | 485,714     | 512,541     | 558,949     | 613,094     | 657,728     | 679,921     | 685,367     | 700,480     |
|              |                            | <i>-0.3</i> | <i>-0.2</i> | <i>-0.2</i> | <i>-0.3</i> | <i>-0.2</i> | <i>-0.2</i> | <i>-0.3</i> | <i>-0.2</i> | <i>-0.3</i> |
| 2002         | Q4                         |             |             |             |             |             |             |             |             |             |
| 2003         | Q1                         |             |             |             |             |             |             |             |             |             |
| 2003         | Q4                         |             |             |             |             |             |             |             |             |             |
| 2004         | Q1                         |             |             |             |             |             |             |             |             |             |

1 The first line is the series itself, expressed in millions of dollars. The second line, italicized, is the percentage revision between the estimate and the preceding estimate.

Table 5 - Revisions to Gross domestic product<sup>1</sup> (continued)

| 1993    | 1994    | 1995    | 1996    | 1997    | 1998    | 1999    | 2000      | 2001      | 2002      | 2003      | Release date                    |
|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|---------------------------------|
|         |         |         |         |         |         |         |           |           |           |           | 1984 Q4                         |
|         |         |         |         |         |         |         |           |           |           |           | 1985 Q1                         |
|         |         |         |         |         |         |         |           |           |           |           | 1985 Q4                         |
|         |         |         |         |         |         |         |           |           |           |           | 1986 Q1                         |
|         |         |         |         |         |         |         |           |           |           |           | 1986 Q4                         |
|         |         |         |         |         |         |         |           |           |           |           | 1986 <i>historical revision</i> |
|         |         |         |         |         |         |         |           |           |           |           | 1987 Q1                         |
|         |         |         |         |         |         |         |           |           |           |           | 1987 Q4                         |
|         |         |         |         |         |         |         |           |           |           |           | 1988 Q1                         |
|         |         |         |         |         |         |         |           |           |           |           | 1988 Q4                         |
|         |         |         |         |         |         |         |           |           |           |           | 1989 Q1                         |
|         |         |         |         |         |         |         |           |           |           |           | 1989 Q4                         |
|         |         |         |         |         |         |         |           |           |           |           | 1990 Q1                         |
|         |         |         |         |         |         |         |           |           |           |           | 1990 Q4                         |
|         |         |         |         |         |         |         |           |           |           |           | 1991 Q1                         |
|         |         |         |         |         |         |         |           |           |           |           | 1991 Q4                         |
|         |         |         |         |         |         |         |           |           |           |           | 1992 Q1                         |
|         |         |         |         |         |         |         |           |           |           |           | 1992 Q4                         |
|         |         |         |         |         |         |         |           |           |           |           | 1993 Q1                         |
| 710,723 |         |         |         |         |         |         |           |           |           |           | 1993 Q4                         |
| 711,658 |         |         |         |         |         |         |           |           |           |           | 1994 Q1                         |
| 0.1     |         |         |         |         |         |         |           |           |           |           |                                 |
|         | 748,606 |         |         |         |         |         |           |           |           |           | 1994 Q4                         |
| 712,855 | 750,053 |         |         |         |         |         |           |           |           |           | 1995 Q1                         |
| 0.2     | 0.2     |         |         |         |         |         |           |           |           |           |                                 |
|         |         | 780,027 |         |         |         |         |           |           |           |           | 1995 Q4                         |
| 712,855 | 747,260 | 776,299 |         |         |         |         |           |           |           |           | 1996 Q1                         |
| 0.0     | -0.4    | -0.5    |         |         |         |         |           |           |           |           |                                 |
|         |         |         | 797,789 |         |         |         |           |           |           |           | 1996 Q4                         |
| 712,855 | 747,260 | 776,299 | 797,789 |         |         |         |           |           |           |           | 1997 Q1                         |
| 0.0     | 0.0     | 0.0     | 0.0     |         |         |         |           |           |           |           |                                 |
| 724,920 | 762,251 | 799,129 | 820,323 |         |         |         |           |           |           |           | 1997 <i>historical revision</i> |
| 1.7     | 2.0     | 2.9     | 2.8     |         |         |         |           |           |           |           | 1997 Q4                         |
|         |         |         |         | 856,134 |         |         |           |           |           |           |                                 |
|         | 762,251 | 799,129 | 820,323 | 855,103 |         |         |           |           |           |           | 1998 Q1                         |
|         | 0.0     | 0.0     | 0.0     | -0.1    |         |         |           |           |           |           |                                 |
| 724,960 | 767,506 | 806,778 | 828,997 | 866,252 |         |         |           |           |           |           | 1998 Q3                         |
| 0.0     | 0.7     | 1.0     | 1.1     | 1.3     |         |         |           |           |           |           |                                 |
|         |         |         |         |         | 888,390 |         |           |           |           |           | 1998 Q4                         |
|         |         | 807,088 | 833,921 | 873,947 | 895,704 |         |           |           |           |           | 1999 Q1                         |
|         |         | 0.0     | 0.6     | 0.9     | 0.8     |         |           |           |           |           |                                 |
|         |         |         |         |         |         | 949,400 |           |           |           |           | 1999 Q4                         |
|         |         |         | 833,070 | 877,921 | 901,805 | 957,911 |           |           |           |           | 2000 Q1                         |
|         |         |         | -0.1    | 0.5     | 0.7     | 0.9     |           |           |           |           |                                 |
|         |         |         |         |         |         |         | 1,038,794 |           |           |           | 2000 Q4                         |
| 729,580 | 772,827 | 812,460 | 839,064 | 885,022 | 915,865 | 975,263 | 1,056,010 |           |           |           | 2001 Q1                         |
| 0.6     | 0.7     | 0.7     | 0.7     | 0.8     | 1.6     | 1.8     | 1.7       |           |           |           |                                 |
|         |         |         |         |         |         |         |           | 1,084,119 |           |           | 2001 Q4                         |
| 727,184 | 770,873 | 810,426 | 836,864 | 882,733 | 914,973 | 980,524 | 1,064,995 | 1,092,246 |           |           | 2002 Q1                         |
| -0.3    | -0.3    | -0.3    | -0.3    | -0.3    | -0.1    | 0.5     | 0.9       | 0.7       |           |           |                                 |
|         |         |         |         |         |         |         |           |           | 1,142,123 |           | 2002 Q4                         |
|         |         |         |         |         |         | 982,441 | 1,075,566 | 1,107,459 | 1,154,949 |           | 2003 Q1                         |
|         |         |         |         |         |         | 0.2     | 1.0       | 1.4       | 1.1       |           |                                 |
|         |         |         |         |         |         |         |           |           |           | 1,214,601 | 2003 Q4                         |
|         |         |         |         |         |         |         | 1,076,577 | 1,108,200 | 1,157,968 | 1,218,772 | 2004 Q1                         |
|         |         |         |         |         |         |         | 0.1       | 0.1       | 0.3       | 0.3       |                                 |

## Balance sheet estimates at market value

### Introduction

In the Canadian System of National Accounts, balance sheet estimates are comprised of two related accounts – The National Balance Sheet Accounts (NBSA) and Canada's International Investment Position (IIP). The NBSA provides the opening and closing balance sheets to the Income and Expenditure Accounts sector transactions and to the Financial Flow Accounts. The IIP provides the stock dimension to the Financial Account of Canada's Balance of International Payments.

### What is new with the first quarter 2004 balance sheet accounts?

In June 2003, a major step was taken towards improving the links between the Canadian System of National Accounts' components by converting the NBSA and the IIP to a quarterly frequency. With the June 2004 releases, the analytic usefulness of the accounts is further enhanced as key financial instruments in the NBSA and the IIP are now measured at market value. The additional items now measured at market value are:

- domestic bonds;
- domestic marketable equities;
- domestic investment fund units;
- domestic life insurance and pension units;
- foreign marketable securities.

The market value estimates are to be released in a new five-sector NBSA. This will include market value estimates for the personal sector, the corporate sector (split between non-financial and financial corporations), the government sector and the non-resident sector. The new time series run quarterly from 1990 to 2004. Book value estimates will continue to be released for the 30 sectors of the economy, both from 1961-2003 annually and from 1990 to 2004 on a quarterly basis.

The IIP release does not change, except for the addition of supplementary information on inward and outward portfolio investment at market value. In addition, a supplementary international investment position is calculated, which incorporates the new market value data on securities in the calculation. In terms of geographical allocation, market value estimates are currently available for the US and the rest of the world.

### Market value versus book value assets and liabilities, and data needs

#### Market value data

International standards in national accounting, in particular the *SNA 1993* and the fifth edition of the *Balance of Payments Manual* recommend that assets (and liabilities) be recorded at current/market value or a close approximation thereof<sup>1</sup>. This is directly related to the relevance of the data as economic behaviour is based on, among other things, perceptions of wealth positions at current values. Further, economic and financial developments in the last decade underline an analytical need for market value wealth estimates. For example, the strong upward trend in equity investment and prices in the 1990s coupled with recent substantial stock market corrections should be reflected in the evolution of the sectors' net worth. In addition, the rapid growth in the assets of institutional investors over the last 15 years, and the implications of market swings on these assets, can affect the adequacy of households' accumulated saving for retirement. Lastly, significant shifts in the composition of saving in the sectors of the economy that emerged in the mid-1990s may be related to underlying changes in net worth.

Statistically, market value estimates provide symmetry in the valuation of assets and liabilities. For example, the underlying market value of firms in the economy is equal to the total of the corporate equities held by investors in the market value framework. This also enhances the interpretability of the data.

#### Book value data

Book value estimates are generally considered less analytically meaningful, and can be difficult to interpret, since they can be viewed from either the debtor or creditor's point of view. In other words, book value estimates are typically valued differently on the asset and liability sides of the balance sheet accounts<sup>2</sup>. These differences have had an adverse impact on the quality both in terms of relevance and interpretability of certain assets in the NBSA book value personal sector estimates, in particular, for residually-derived marketable securities. The IIP book value estimates are based on the debtor approach for both assets and liabilities so are more consistent in this respect.

<sup>1</sup> This is the general recommendation in the System of National Accounts 1993. In fact, only certain assets (non-financial assets and marketable securities) are recommended to be valued at market.

<sup>2</sup> For example, on the liability side, corporate equity at book value is comprised of shares outstanding, contributed surplus and retained earnings and reserves; whereas, on the asset side, corporate equity is defined as shares at acquisition cost.

However, book value estimates can be analytically useful in their own right. Some users may be interested in what government debt is at any point in time, on the basis of what they would have to repay. In other instances, users may want to compare debt-to-equity ratios for corporations with equity at book and market values.

Therefore book value estimates are retained for analytical as well as practical reasons. In the case of the NBSA, the considerable sub-sector detail that users have become accustomed to is only available on a book value basis. In the case of the IIP, the book value estimates continue to be the core set of data for the time being.

### Approach to developing market value estimates

#### Non-financial assets

In the NBSA, non-financial assets were added to partial balance sheet accounts (financial assets and liabilities) in 1984. In summary, the non-financial assets represent reliable approximations to market values. The methodology to construct the estimates has provided current values of produced assets and land<sup>1</sup>. Recently added (1997) estimates of natural resources are net present value estimates<sup>2</sup>.

#### Financial instruments

For financial assets and liabilities, market values have been derived by estimating and linking control total market value estimates for the liability-side bonds and stocks to the corresponding market value asset-side values. There are two main financial instruments from which market value control totals are derived: Corporate equity liabilities and bonds. These are split between domestic and foreign investment.

##### a) Control total liabilities

Marketable domestic corporate equities are estimated on the basis of the values assigned them in the market. Unlisted shares, as well as inter-company investments, are not currently moved to market value<sup>3</sup>. Thus corporate share liabilities are stratified into two groups: listed, widely-held portfolio investment shares at market value; and, unlisted shares plus listed shares held as inter-company investment at book value<sup>4</sup>. The market value of all listed companies shares is based on information taken from the exchanges and reconciled to survey data. Micro-data are used extensively in the process in order to ensure that total

corporate share liabilities, by component, are accurately measured. Market-to-book ratios are derived by company and by industry using this approach.

The market value of domestic bond liabilities is estimated using micro-data in a debt inventory system. This system records all of the characteristics of outstanding marketable bonds, allowing for the calculation of the present value of each bond. These values are then aggregated by type to produce total bonds (e.g., federal, provincial, corporate) at market value. In earlier years, where coverage is not complete for certain bonds, the implicit market-to-book ratios derived for a portion of the bonds are applied to the book value of outstanding bonds in order to estimate the total market value.

Lastly, the control total Canadian foreign portfolio investment (in stocks and bonds) is measured principally using the Canadian Portfolio Investment Survey. This annual survey collects micro data on the market value holdings of securities of large institutional investors. Quarterly estimates are derived using flows, price and currency changes.

##### b) Assets

Turning to the asset side, non-resident sector assets – essentially holdings of Canadian marketable debt – are constructed using the previously mentioned debt inventory system. For non-resident holdings of Canadian equity, annual survey results on the holdings are re-valued using market-to-book ratios<sup>5</sup>, with quarterly positions derived using flows and price changes.

For the assets of the major domestic institutional sectors (e.g., pension funds, segregated funds of life insurance companies, mutual funds), market value data are readily available from Statistics Canada surveys and other sources<sup>6</sup>. For other sectors, where holdings of marketable stocks and bonds are considerably less significant, the derived average asset market-to-book ratio of the institutional investors is used to estimate a market value.

Based on the above, there are two calculations that give rise to changes in the valuation of household sector assets. First, the personal sector holdings of share and bond assets are derived residually. Second, life insurance and pension assets of households are derived as the counterpart of: assets at market value less current payables in the insurance and pension sectors.

<sup>1</sup> For example, produced assets are calculated using a perpetual inventory model (PIM) which yields a depreciated replacement cost value. Refer to A Guide to the Financial Flow and National Balance Sheet Accounts, Statistics Canada Catalogue no. 13-585.

<sup>2</sup> Refer to Econnections, Linking the Environment and the Economy, Statistics Canada Catalogue no. 16-505-GPE.

<sup>3</sup> International standards do not currently provide clear guidance on the valuation methods for these assets and further research is underway on this issue.

<sup>4</sup> Book value, in this case, is corporate equity and is equal to: shares plus contributed surplus plus retained earnings and reserves.

<sup>5</sup> Those ratios constructed in the process of developing market value control total Canadian corporate equity liabilities.

<sup>6</sup> It is expected that more market value data will become available in the future, as the content of Statistics Canada surveys are revised.

**Brief overview of forthcoming developments**

In the process of calculating the new estimates, some additional breakdowns have been produced. For example, the split of corporate shares between marketable securities, investment fund units and equity in private corporations is now being calculated for certain sectors. It is expected that some of this new detail will be available over the course of the year 2004. While only the five sector market value NBSA are available with the June 2004 release, additional data on selected institutional investors with assets at market values may also be made available in 2004.

Seasonally-adjusted sector balance sheet estimates are under development, as are real estimates of national wealth. It is expected that these data be available with the second quarter of 2004.

Areas that will be examined in 2005 are the valuation of inter-company investment, including inward and outward foreign direct investment, money market instruments and international reserves.



## Recent trends in household net worth

### Introduction

There has been considerable interest in the economic behaviour of households over the last 10 years. This is not surprising, given that personal income and personal expenditure are equivalent to about 60% of GDP. Furthermore, a number of recent events have generated increased interest in both the economic activities and the accumulation of wealth in the personal sector.

The decline in saving has also given rise to a debate over the impact of a potential “wealth effect” on personal consumption and saving. Specifically, that declines in saving have been more than offset by gains in net worth, such that households’ financial positions have not deteriorated. This, in turn, may be supporting consumer expenditure in the economy.

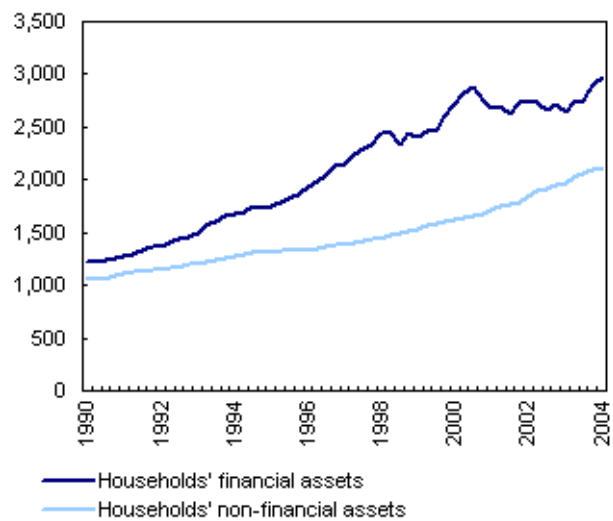
Data released in the *National Balance Sheet Accounts* may shed some light on these and other issues. With non-financial assets and financial assets now estimated at market value, the role of wealth in the economy can now be examined. This note looks at the evolution of wealth and its components. The paper reviews the trends and fluctuations in non-financial assets, financial assets and liabilities. It then summarizes the impact of changes in assets and liabilities on net worth and ties this to the evolution of personal saving.

### Financial asset growth dominated by marketable equity securities as well as pension and investment funds

Despite the fact that financial asset investment has slowed, keeping in line with a trend to weaker personal saving, growth in financial assets has outpaced that of non-financial assets over most of the last 14 years. Between the first quarter 1990 and the first quarter 2004, the nominal value of household financial assets at market value more than doubled. The contribution of financial assets to the growth of and fluctuations in household net worth has been driven by assets whose values have been largely determined by rising equity prices. These include corporate equities and investments fund units as well as the less discretionary assets, such as insurance and pension funds.

### Financial asset growth stronger but more variable than non-financial assets

Billions of dollars, unadjusted data



This suggests that there has been a shift in the way in which financial asset wealth has been accumulated since 1990 – with substantially more arising from capital gains than from investment flows. This has helped consumers to generally sustain strong borrowing and spending, as financial asset growth exceeded that of previous decades. However, this type of secondary saving has exposed households to a greater degree of risk than has been the case in the past, as unrealized capital gains can be reduced should stock markets decline<sup>1</sup>.

Growth in the shares category was led by mutual funds despite the sector's declining proportion of such assets, with institutional and other investors increasingly holding investment fund units. The sharpest growth in investment units was between 1996 and 2000 and was abruptly halted by the stock market correction, largely reflecting the reliance on equity in mutual fund portfolios.

Among marketable securities held by households, the value of listed shares rose almost four and half times since 1990, largely from revaluations. Holdings of marketable shares rose sharply between 1995 and 2000, closely following the ups and downs in the stock market over time.

<sup>1</sup> The financial assets held in a household's investment portfolio can be distinguished by the risk associated with each asset type, with deposits being low risk placements and marketable securities being high risk. Assets that are based on funds pooled and placed under professional management (e.g., pension funds and investment funds) have moderate (indirect) risk associated with them.

Insurance and pension fund assets rose at an increasing rate up until 2000. Pension fund assets were the dominating factor, fed by both a rise in contributions to such plans, as the post-war baby-boom generation approached retirement, and gains and losses on equity investments of these retirement schemes.

Interest-earning financial instruments – deposits, savings bonds and marketable debt securities – were in relative decline over most of the last 14 years, as household portfolio strategies evolved. This reflected both a preference for higher-yielding instruments, set against the long-term downward trend in interest rates since 1990, as well as the general absence of capital gains on these assets.

### **Investment and gains in the value of residential real estate led growth in non-financial assets**

The personal sector non-financial assets account for the largest share (just over 50%) of non-financial assets in the Canadian economy. Non-financial assets – largely real estate and consumer goods – currently represent about 46% of total household assets, though this share has generally been on the decline over time, reflecting the aging of the post-war baby-boomers. Yet, between the first quarter of 1990 and the first quarter of 2000, the nominal value of household non-financial assets at current values almost doubled.

While there was a steady increase in both components (real estate and consumer goods) residential real estate drove growth to reach \$1.6 trillion or 77% of non-financial assets by the end of the first quarter 2004. After the 1990 decline in the residential real estate market, followed by a few sluggish years, housing prices moved up throughout most of the 1990s as did housing investment<sup>1</sup>. The downward trend in borrowing costs over this period acted to stimulate housing demand.

In recent years, the housing boom has played an important role in sustaining economic activity, with housing investment growing at a torrid pace since 2001. Consistent with this level of activity was a demand-driven increase in the value of residential real estate<sup>2</sup> which reflected the impact of a demographic younger than the baby-boom generation.

Clearly, both expenditures and capital gains in residential real estate had a significant impact on the advance in personal sector net worth over the whole of this period, in particular in recent years.

The second largest non-financial asset of households is the stock of consumer goods. Increases in the net worth of the household sector related to holdings of durable goods have been more related to expenditure flows than was the case for residential real estate. This reflects the fact that certain goods have experienced price declines in recent years. Growth in these assets since 1990 may be associated with a stimulus to personal expenditure caused by the perception of rising net worth. Notably, the recent stock market correction did not appreciably slow personal expenditure, suggesting that the wealth effect may be one-sided.

While consumer durable stocks<sup>3</sup> grew 70% over the past 14 years, motor vehicle holdings grew 86%, shifting their share of household total consumer durables upward (from 42% in 1990 to 46% in 2003). This may be explained by the growth in motor vehicle purchases<sup>4</sup>, in part encouraged by lower prices and lower borrowing rates especially on newer types of financing<sup>5</sup>. Household and purchases of furniture and appliances account for 23% of consumer durable stocks. The recent housing boom has stimulated demand for new household goods.

### **Household sector debt outpaced income but not wealth**

Over the past 14 years, there has been a significant run-up in household debt, coinciding with the decline in the saving rate. This is a continuation of a long-term trend in demand for housing and goods and corresponding increased household indebtedness that has reflected demographic demand as well as more relaxed attitudes towards debt on the part of both lenders and borrowers.

In addition, the general trend of falling interest rates since the double digit rate barrier was broken in December 1990, has encouraged the demand for funds. Over the past 14 years, the ratio of interest payments to personal disposable income has generally fallen or remained stable, so that debt burden has not increased.

Household debt has grown more quickly than income over the last 14 years, but has not kept pace with household net worth over most of this period. This suggests that as long as net worth grows faster than liabilities, an increasing level of household debt is sustainable, providing the ability of households to service this debt remains stable. However, increased borrowing with the expectation of increased asset prices contains an element of uncertainty. Historical incidences of falling asset prices create the possibility that household net worth can decline.

<sup>1</sup> Changes in the value of real estate have two determinants: the flow of investment in housing and the re-valuation of the existing housing stock. In addition to providing use value to the homeowner, real estate has been traditionally viewed as a reliable investment whose value will likely grow over time.

<sup>2</sup> This is reflected in both the reproducible cost of the structures as well as in the gains in the value of the underlying land.

<sup>3</sup> In the National Balance Sheet Accounts consumer durable stocks are an asset, while (following international national accounts' convention) in the Income and Expenditure Accounts consumer spending is current spending. This difference is accounted for as a conceptual change.

<sup>4</sup> Canadian System of National Accounts' convention is to treat leased automobiles as final sales to consumers.

<sup>5</sup> For example home equity lines of credit and leases.

Leverage in the 1990s declined largely due to capital gains on both financial investments and non-financial assets. However, since 2000, household debt to net worth has generally increased up reflecting the impact of stock market related losses. Nevertheless, mortgage debt relative to residential real estate has declined in recent years, especially given the sharp price increases evident in the housing market.

### Household leverage fluctuates with asset values



Consumer credit has grown more rapidly than mortgage debt over the last 14 years, in line with the strength of personal expenditures. Typically, consumer debt carries higher borrowing costs than mortgage debt, but much of this growth has been related to the increased use of lines of credit<sup>1</sup>, which have lower interest rates than other forms of consumer borrowing.

### Household balance sheets still strong

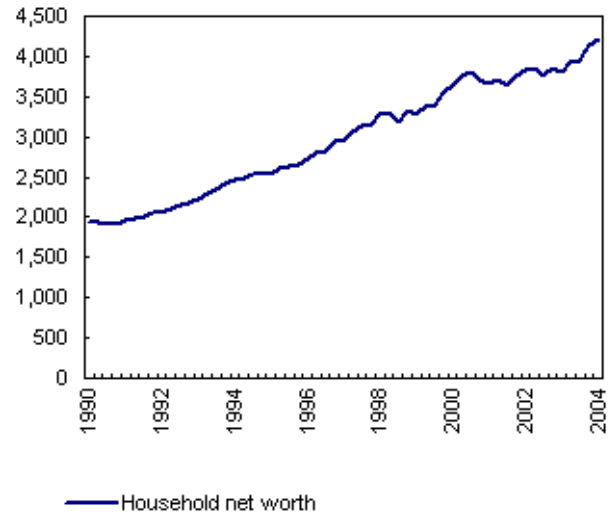
For some time, given the strength in expenditures and the related run-up in liabilities, the health of personal sector finances has been in question. However, new evidence from the *National Balance Sheet Accounts* has indicated that the household sector financial position is relatively strong, despite the downward trend in saving and the corresponding run-up in debt coupled with lower investment flows in financial assets.

The evolution of the household sector balance sheet has gone some distance in explaining the long-term decline in saving and the saving rate, as traditional saving has been largely displaced by appreciation of assets. Saving accounted for a mere 12% of net worth changes on

average since 1995. This suggests that a wealth effect may be present in personal consumption and saving, and may have had a prominent role in sustaining household demand for housing and consumer goods and services.

### Net worth changes driven by gains/losses on assets and not saving

Billions of dollars, seasonally adjusted



Nevertheless, the reliance on asset appreciation-based saving has left the personal sector somewhat more sensitive to swings in the residential real estate market and to fluctuations in the stock markets than was the case in the past. For example, holdings of equity drove growth in portfolio value but exposed households to capital loss risk. Over the medium to longer term it is not clear how increased market exposure will impact on the adequacy of household funds for retirement. This factor, combined with potential vulnerabilities with respect to interest rate swings on an increased debt load, has provided a qualifier to the general assessment of the personal sector balance sheet.

All of this has cast a somewhat different light on the significance of the personal saving rate, in favour of other indicators – in particular, a broader measure such as the change in household net worth.

<sup>1</sup>. A significant portion of lines of credit is home equity based and is used to acquire assets (including home furnishings) and to undertake home renovation, as well as for debt consolidation.