

Catalogue no. 13-010-X

# Canadian Economic Accounts Quarterly Review



Fourth quarter 2008



Statistics  
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## Symbols

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.	not available for any reference period
..	not available for a specific reference period
...	not applicable
0	true zero or a value rounded to zero
0 <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 <i>Statistics Act</i>
E	use with caution
F	too unreliable to be published

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Data tables	13-020-XWE

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Canadian Productivity Review	15-206-XIE

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Canada's International Investment Position	67-202-XIE

**National balance sheet accounts**

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Publication:	
National Balance Sheet Accounts	13-214-XIE
Data tables	13-022-XWE

**Latest developments in the Canadian economic accounts**

Publication	13-605-XIE
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## 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, 4) Financial flow accounts 5) Labour productivity and other related variables, 6) International investment position and 7) National balance sheet.

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, Financial flow accounts, Labour productivity, hourly compensation and unit labour cost, International investment position, National balance sheet:**

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.

## Revisions in this issue

**GDP by income and by expenditure, Balance of international payments, Financial flow accounts, International investment position, National balance sheet:**

With this release revisions have been made back to the first quarter of 2008.

### **GDP by industry:**

Since the last release of the *Canadian Economic Accounts Quarterly Review*, revisions were made back to January 2008.

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

With this release revisions have been made back to the first quarter of 2008 at the aggregate level and to the first quarter of 2008 at the industry level.



## Section A Overview

Fourth quarter 2008 and December 2008

Real gross domestic product (GDP) declined 0.8% in the fourth quarter, weakening progressively each month. This was the sharpest quarterly decline since 1991. Declines in exports, capital investment and personal expenditures all contributed to the economic contraction. Final domestic demand fell 1.2%. Government current and capital expenditure on goods and services rose. Real GDP declined 1.0% in December.

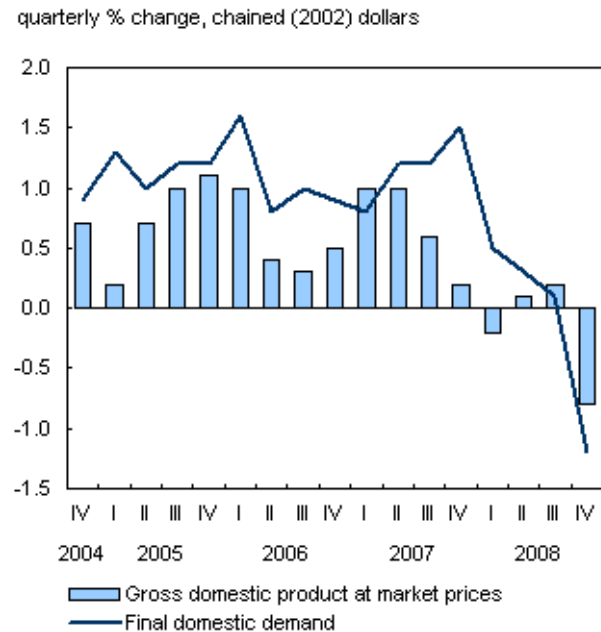
GDP growth for the year was positive at 0.5%, a sharp deceleration from 2.7% in 2007.

The volume of imports fell faster than exports. Both registered their largest quarterly decline since 1982. Prices of imports climbed, notably because the Canadian dollar depreciated 14% in the quarter relative to its U.S. counterpart. This is the largest quarterly depreciation relative to the U.S. dollar since Canada returned to a floating exchange rate in 1970.

Declines in the production of goods (-2.4%) were widespread as domestic and foreign demand weakened. Except for agriculture, all other goods-producing sectors receded. Manufacturing (-4.3%) led the downturn, experiencing a sixth consecutive quarterly decline. Services-producing industries, down 0.4%, fell for the first time since the third quarter of 1991. The decline in services-producing industries was primarily driven by decreases in wholesale and retail trade, and in transportation services, which more than offset increases in the public sector, and in finance and insurance.

The Canadian economy contracted at an annualized rate of 3.4% in the fourth quarter, compared with a 6.2% decline in the U.S. economy. The European Union registered a decline of 5.9% in the quarter, while Japan's economy was down 12.7%.

**Chart A.1**  
**Final domestic demand declines**



### Note to readers

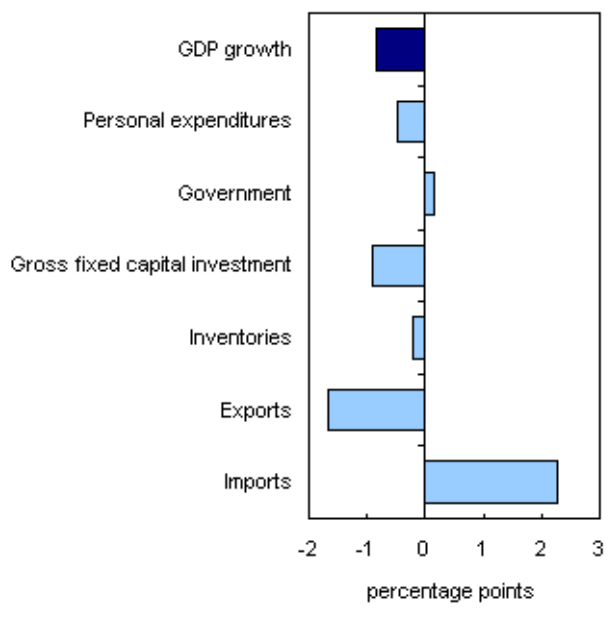
Percentage changes for expenditure-based and industry-based statistics (such as personal expenditure, investment, exports, imports and output) are calculated using volume measures that are adjusted for price variations. Percentage changes for income-based statistics (such as labour income, corporate profits and farm income), as well as for lending and borrowing statistics, are calculated using nominal values, that is, not adjusted for price variations.

**Table A.1**  
**Real gross domestic product, chained (2002) dollars<sup>[1]</sup>**

	Change	Annualized change	Year-over-year change
	%		
First quarter 2008	-0.2	-0.9	1.5
Second quarter 2008	0.1	0.6	0.7
Third quarter 2008	0.2	0.9	0.3
Fourth quarter 2008	-0.8	-3.4	-0.7
2008	0.5	..	0.5

1. 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.

**Chart A.2**  
**Contributions to percent change in GDP, fourth quarter 2008**



**Exports continue to fall**

Exports of goods and services were down 4.7% in the fourth quarter. This was the sixth consecutive quarterly decline; a first in Canada since quarterly estimates began over 60 years ago.

Automotive products were down 19%, accounting for nearly half of the quarterly decline in total exports. Industrial goods and materials also decreased significantly in the fourth quarter.

**Imports decline sharply**

Imports dropped sharply in the fourth quarter (-6.4%). Declines were registered for both goods and services imports, as domestic demand faltered and prices for imported goods and services rose.

Imports of automotive products declined 16% while other consumer goods were down 9.0%, reflecting a downturn in consumer spending.

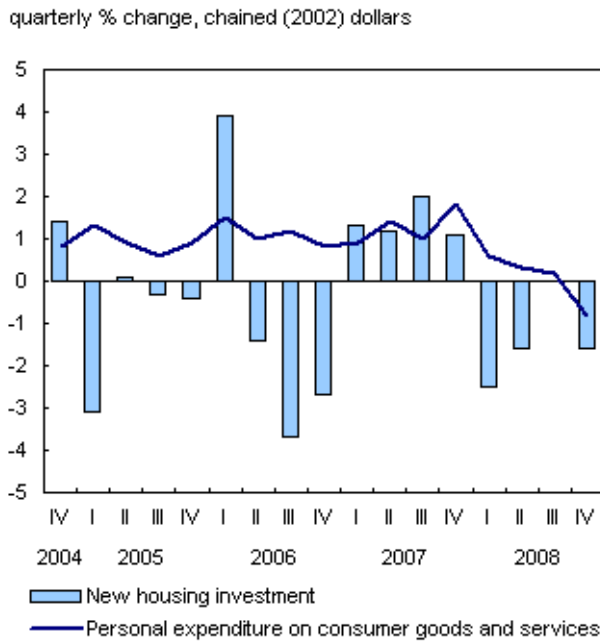
**Personal spending declines**

After decelerating since the start of the year, personal spending fell for the first time since the fourth quarter of 1995. Both goods and services contributed to the 0.8% decline.

Expenditures on new and used motor vehicles dropped 5.5% in the fourth quarter, following declines in the second and third quarter.

After 15 quarterly advances, spending on furniture, furnishings and household equipment and maintenance fell 2.3% in the fourth quarter.

**Chart A.3**  
**Household demand retreats**



Spending on services was down 0.4%. Financial services declined as stock and bond commissions and fees related to mutual funds dropped significantly.

### Investment in residential structures retreats

Investment in residential structures (-6.1%) fell again in the fourth quarter, posting its largest quarterly decline of 2008. Resale activity, as reflected in ownership transfer costs, dropped 24% in the quarter. Renovation activity fell 4.2%, after small declines in the previous two quarters. The volume of new housing construction also slipped, after remaining flat in the third quarter.

### Business investment in plant and equipment down

Business investment in machinery and equipment contracted 7.5% in the fourth quarter. All categories recorded declines, notably automobiles, trucks, and industrial machinery. Investment in non-residential structures was unchanged in the fourth quarter, following three quarterly increases.

### Inventories build up again

Inventories accumulated again in the fourth quarter for both farm and non-farm businesses.

For non-farm businesses, the increase in stocks was at a slower rate than in the previous seven quarters. Retail inventories, particularly of motor vehicles, increased as consumer spending softened. Wholesalers drew down their durable goods inventories in the fourth quarter, while manufacturers of non-durable goods increased their stocks.

### Corporate profits down sharply

Corporate profits declined 20% in the fourth quarter, after trending upward for nearly seven years. A sharp downturn in energy and metal prices was a major factor in the fourth quarter decline.

### Personal income increases

Personal disposable income continued to advance (+0.4%) as increases in labour income and government transfers to persons more than offset declines in investment income. Labour income advanced 0.7%, growing at a similar rate as the third quarter. Employment was virtually unchanged in the fourth quarter, while average weekly earnings were up and hours worked were down slightly.

The downturn in spending (in nominal terms) combined with increased disposable income led to \$45 billion of personal saving in the fourth quarter; \$15 billion higher than in the third quarter. This level of personal saving was the highest since the fourth quarter of 1995, and led to a saving rate of 4.7%, the highest rate recorded since the first quarter of 2002.

### Export prices drop as import prices climb

The price of goods and services produced in Canada dropped 2.7% in the fourth quarter, largely due to declines in energy and metal prices. Export prices were particularly hard hit, falling 4.1%. Declining prices were a major contributing factor to the 3.5% fall in nominal GDP.

Import prices increased significantly throughout 2008. The 5.5% increase in the fourth quarter reflected the depreciation of the Canadian dollar.

### GDP by industry, December 2008

Real GDP dropped 1.0% in December, as almost all major sectors reduced production. This follows a 0.7% decline in November. The output of manufacturing, retail trade, construction and wholesale trade were the main sources behind the December drop. Reduced activity was also recorded in transportation, mining excluding oil and gas extraction, accommodation and food services, and forestry. The public sector (health, education and public administration combined) advanced while the finance and insurance sector was unchanged.

Activity in the manufacturing sector fell again in December (-3.0%), with 16 of the 21 major groups losing ground, mirroring recent declines in exports. Motor vehicle and associated parts production, and the manufacturing of primary metal, chemical and wood products, continued to retreat.

Value added in retail trade dropped 3.5% in December, the largest monthly decrease in over a decade. The decline was widespread, with all major trade groups decreasing. The reduction in the volume of activities posted by new and used car dealers, home centres and hardware stores, and beer, wine and liquor stores, led the retreat. The volume of wholesaling activity (-2.4%) decreased in December for a third month in a row.

Construction activity was down 2.3% in December. For the second month in a row all three components (residential buildings, non-residential buildings, and engineering and repairs work) retreated. The home resale market declined further in December. As a result, the output of real estate agents and brokers dropped 4.2% after much stronger declines in the previous two months.

The output of the energy sector decreased 0.6% in December. A significant drop in support activities for mining and oil and gas extraction led the retreat, although oil and gas extraction was up slightly. Electricity generation also contracted. The output of the mining sector excluding oil and gas extraction dropped 7.4% in December.

**Table A.2 Canadian economic accounts key indicators[1]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
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	789,224 0.4	802,852 1.7	815,352 1.6	824,580 1.1	831,340 0.8	836,844 0.7	788,357 6.1	827,029 4.9
Corporation profits before taxes	204,784 1.0	204,828 0.0	209,148 2.1	228,096 9.1	237,684 4.2	189,808 -20.1	203,231 3.3	216,184 6.4
Interest and miscellaneous investment income	72,492 0.6	72,756 0.4	76,620 5.3	85,172 11.2	84,032 -1.3	72,948 -13.2	71,515 7.7	79,693 11.4
Net income of unincorporated business	90,716 0.5	91,860 1.3	94,548 2.9	97,036 2.6	99,312 2.3	99,248 -0.1	90,473 4.7	97,536 7.8
Taxes less subsidies	168,500 0.9	170,568 1.2	165,844 -2.8	167,964 1.3	168,048 0.1	164,400 -2.2	167,349 4.0	166,564 -0.5
Personal disposable income	902,088 1.3	915,164 1.4	940,132 2.7	950,596 1.1	957,728 0.8	961,232 0.4	898,388 5.7	952,422 6.0
Personal saving rate[2]	2.5 ...	1.9 ...	3.5 ...	3.5 ...	3.2 ...	4.7 ...	2.7 ...	3.7 ...
Seasonally adjusted at annual rates, millions of chained (2002) dollars								
Personal expenditure on consumer goods and services	791,358 1.0	805,760 1.8	810,639 0.6	813,473 0.3	814,710 0.2	807,936 -0.8	788,224 4.5	811,690 3.0
Government current expenditure on goods and services	259,691 1.7	263,357 1.4	264,332 0.4	266,859 1.0	266,735 -0.0	268,596 0.7	257,961 3.7	266,631 3.4
Gross fixed capital formation	315,381 1.4	318,319 0.9	318,752 0.1	317,968 -0.2	318,784 0.3	306,380 -3.9	313,075 3.9	315,471 0.8
Investment in inventories	20,579 ...	20,580 ...	7,104 ...	12,018 ...	12,529 ...	9,480 ...	13,195 ...	10,283 ...
Exports of goods and services	510,840 -0.3	501,112 -1.9	495,216 -1.2	491,159 -0.8	486,984 -0.9	464,123 -4.7	508,362 1.0	484,371 -4.7
Imports of goods and services	581,348 4.8	593,526 2.1	581,907 -2.0	587,044 0.9	581,591 -0.9	544,355 -6.4	569,420 5.5	573,724 0.8
<b>Gross domestic product at market prices</b>	<b>1,325,934 0.6</b>	<b>1,328,606 0.2</b>	<b>1,325,715 -0.2</b>	<b>1,327,572 0.1</b>	<b>1,330,435 0.2</b>	<b>1,319,149 -0.8</b>	<b>1,319,681 2.7</b>	<b>1,325,718 0.5</b>
Seasonally adjusted at annual rates, millions of chained (2002) dollars								
<b>GDP at basic prices, by industry</b>								
Goods producing industries	375,367 -0.1	371,248 -1.1	366,783 -1.2	365,162 -0.4	365,849 0.2	357,250 -2.4	374,126 0.5	363,761 -2.8
Industrial production	275,911 -0.4	271,769 -1.5	266,863 -1.8	264,922 -0.7	265,160 0.1	257,616 -2.8	274,908 0.2	263,640 -4.1
Energy sector	86,098 -0.8	84,855 -1.4	83,925 -1.1	82,567 -1.6	83,095 0.6	82,521 -0.7	85,827 1.0	83,027 -3.3
Manufacturing	185,606 -0.5	182,957 -1.4	178,585 -2.4	178,230 -0.2	176,974 -0.7	169,386 -4.3	185,311 -0.9	175,794 -5.1
Non-durable manufacturing	72,901 -0.2	71,623 -1.8	70,688 -1.3	70,653 -0.0	70,153 -0.7	68,166 -2.8	72,507 -1.8	69,915 -3.6
Durable manufacturing	113,026 -0.8	111,673 -1.2	108,159 -3.1	107,828 -0.3	107,071 -0.7	101,368 -5.3	113,149 -0.3	106,106 -6.2
Construction	73,251 1.0	73,467 0.3	74,190 1.0	74,551 0.5	75,201 0.9	74,334 -1.2	72,890 2.9	74,569 2.3
Services producing industries	851,136 1.0	857,799 0.8	861,195 0.4	865,193 0.5	867,627 0.3	863,908 -0.4	846,591 3.5	864,481 2.1
Wholesale trade	70,906 1.8	72,063 1.6	71,458 -0.8	71,534 0.1	71,119 -0.6	67,252 -5.4	70,256 5.5	70,341 0.1
Retail trade	72,649 0.4	73,734 1.5	74,486 1.0	74,983 0.7	75,146 0.2	73,926 -1.6	72,391 5.8	74,635 3.1
Transportation and warehousing	56,997 0.9	56,863 -0.2	56,829 -0.1	57,052 0.4	56,907 -0.3	56,000 -1.6	56,624 1.7	56,697 0.1
Finance, insurance, real estate and renting	242,260 1.3	243,946 0.7	245,707 0.7	246,668 0.4	247,830 0.5	248,065 0.1	240,536 4.0	247,068 2.7
Information and communication technologies	57,652 1.2	58,065 0.7	58,305 0.4	58,756 0.8	58,968 0.4	58,806 -0.3	57,199 4.0	58,709 2.6

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

## Section B GDP by income and by expenditure

Fourth quarter 2008

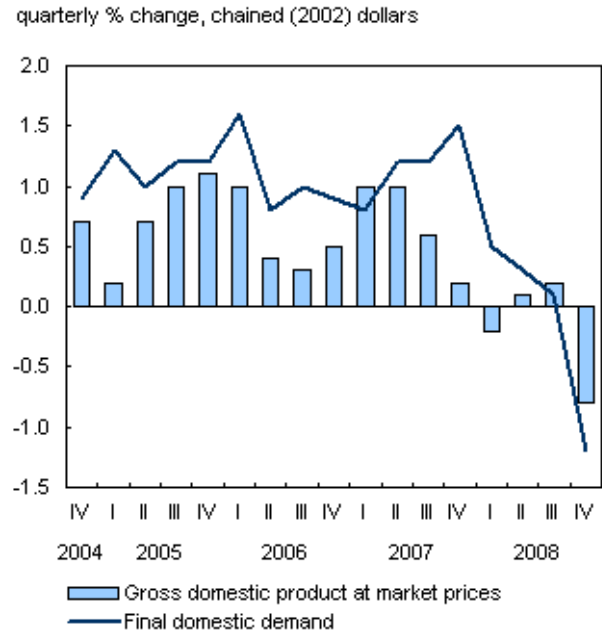
Real gross domestic product (GDP) declined 0.8% in the fourth quarter, weakening progressively each month. This was the sharpest quarterly decline since 1991. Declines in exports, capital investment and personal expenditures all contributed to the economic contraction. Final domestic demand fell 1.2%. Government current and capital expenditure on goods and services rose.

GDP growth for the year was positive at 0.5%, a sharp deceleration from 2.7% in 2007.

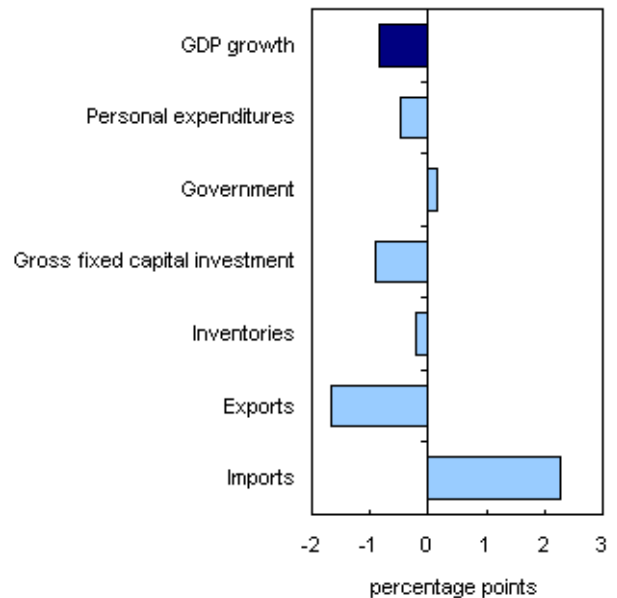
The volume of imports fell faster than exports. Both registered their largest quarterly decline since 1982. Prices of imports climbed, notably because the Canadian dollar depreciated 14% in the quarter relative to its U.S. counterpart. This is the largest quarterly depreciation relative to the U.S. dollar since Canada returned to a floating exchange rate in 1970.

The Canadian economy contracted at an annualized rate of 3.4% in the fourth quarter, compared with a 6.2% decline in the U.S. economy. The European Union registered a decline of 5.9% in the quarter, while Japan's economy was down 12.7%.

**Chart B.1**  
Final domestic demand declines



**Chart B.2**  
Contributions to percent change in GDP, fourth quarter 2008



**Exports continue to fall**

Exports of goods and services were down 4.7% in the fourth quarter. This was the sixth consecutive quarterly decline; a first in Canada since quarterly estimates began over 60 years ago.

Automotive products were down 19%, accounting for nearly half of the quarterly decline in total exports. Industrial goods and materials also decreased significantly in the fourth quarter. Forestry products continued to fall.

Partially offsetting these declines were further gains in exports of other consumer goods, although their growth slowed markedly in the fourth quarter. There were also gains in agricultural and fish products. Energy exports were up 1.1%, following two quarterly declines.

Exports of services were flat in the fourth quarter, following three quarters of declines. Increases in exports of travel services and government services offset declines in transportation and commercial service exports.

Imports of automotive products declined 16% while other consumer goods were down 9.0%, reflecting a downturn in consumer spending. Decreases in imports of machinery and equipment and industrial goods and materials reflected lower business investment and manufacturing activity. In contrast, imports of energy products advanced 4.8% in the fourth quarter.

Imports of services, which have trended down throughout the year, fell again in the fourth quarter (-5.3%). The decrease was widespread, led by transportation and travel services.

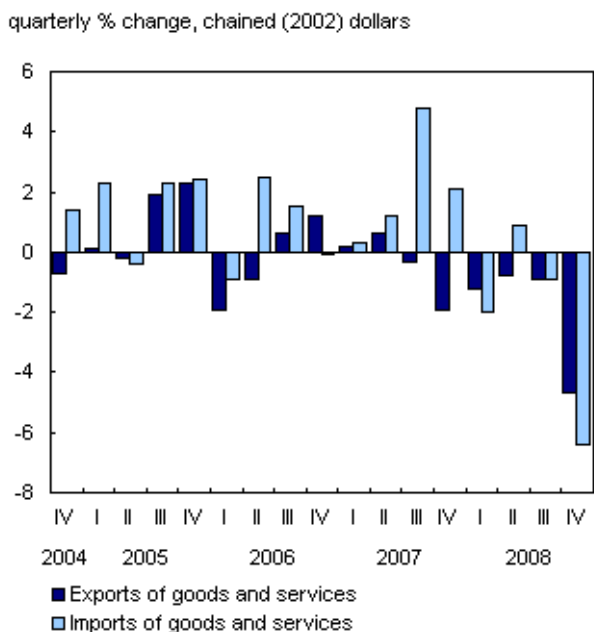
**Personal spending declines**

After decelerating since the start of the year, personal spending fell for the first time since the fourth quarter of 1995. Both goods and services contributed to the 0.8% decline. Personal spending excluding rent fell 1.2%.

Expenditures on new and used motor vehicles dropped 5.5% in the fourth quarter, following declines in the second and third quarter. Despite these declines, spending on motor vehicles grew 3.7% in 2008. In the last quarter of 2007 and the first quarter of 2008, manufacturers' incentives and a one percentage point reduction in the GST contributed to substantial motor vehicle purchases. Spending on motor fuels and lubricants rose 1.4% in the quarter.

After 15 quarterly advances, spending on furniture, furnishings and household equipment and maintenance fell 2.3% in the fourth quarter.

**Chart B.3**  
**Exports and imports fall**

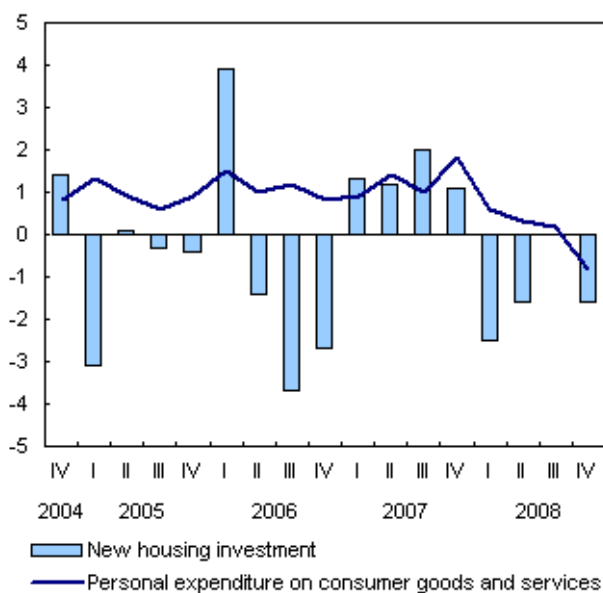


**Imports decline sharply**

Imports dropped sharply in the fourth quarter (-6.4%). Declines were registered for both goods and services imports, as domestic demand faltered and prices for imported goods and services rose.

**Chart B.4**  
**Household demand retreats**

quarterly % change, chained (2002) dollars



Purchases of food, beverages and tobacco also fell as did clothing and footwear.

Spending on services was down 0.4%. This was the first decrease since the second quarter of 2001. Financial services declined as stock and bond commissions and fees related to mutual funds dropped significantly. Spending on restaurants and accommodation services fell for the second consecutive quarter.

After peaking in the fourth quarter of 2007, spending by Canadian households travelling abroad dropped throughout 2008. The fourth quarter was no exception, with a decline of 6.1%. Nonetheless, travel spending was up 4.2% in 2008.

#### Investment in residential structures retreats

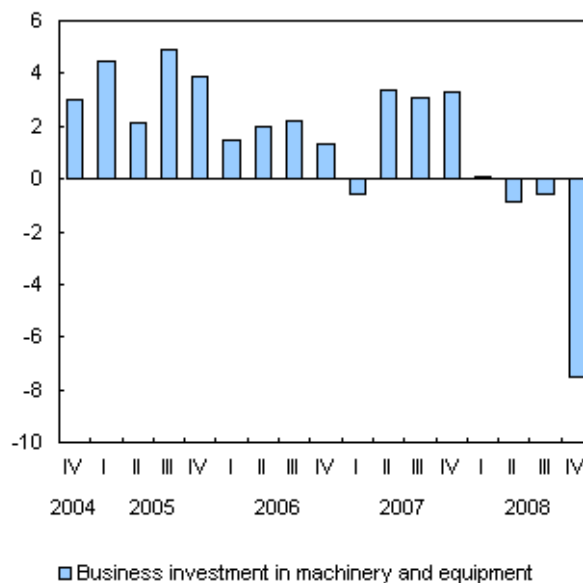
Investment in residential structures (-6.1%) fell again in the fourth quarter, posting its largest quarterly decline of 2008. Resale activity, as reflected in ownership transfer costs, dropped 24% in the quarter. Renovation activity fell 4.2%, after small declines in the previous two quarters. The volume of new housing construction also slipped, after remaining flat in the third quarter.

#### Business investment in plant and equipment down

Business investment in machinery and equipment contracted 7.5% in the fourth quarter. All categories recorded declines, notably automobiles, trucks, and industrial machinery. Investment in non-residential structures was unchanged in the fourth quarter, following three quarterly increases.

**Chart B.5**  
**Machinery and equipment investment declines**

quarterly % change, chained (2002) dollars



#### Inventories build up again

Inventories accumulated again in the fourth quarter for both farm and non-farm businesses.

For non-farm businesses, the increase in stocks was at a slower rate than in the previous seven quarters. Retail inventories, particularly of motor vehicles, increased as consumer spending softened. Wholesalers drew down their durable goods inventories in the fourth quarter, while manufacturers of non-durable goods increased their stocks.

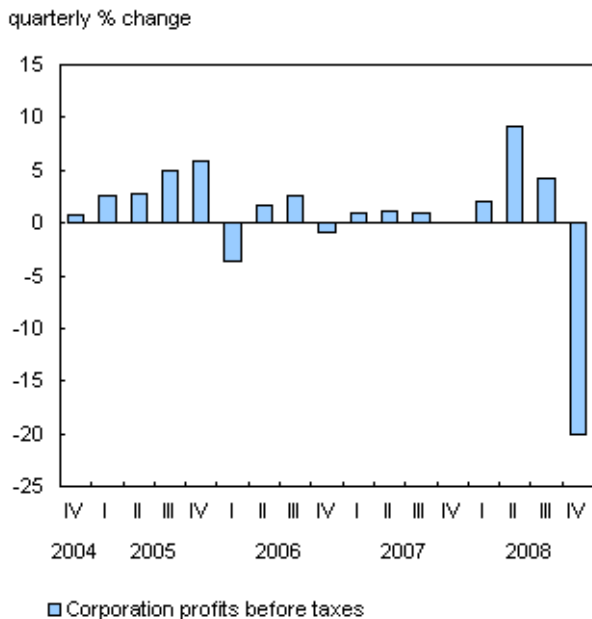
Overall farm inventories expanded, mostly as a result of the accumulation of grain inventories.

The economy-wide stock-to-sales ratio rose to 0.726, equivalent to 66 days of sales, up from 64 days last quarter.

#### Corporate profits down sharply

Corporate profits declined 20% in the fourth quarter, after trending upward for nearly seven years. A similar quarterly decline occurred in 1991. A sharp downturn in energy and metal prices was a major factor in the fourth quarter decline.

**Chart B.6**  
Corporate profits drop sharply



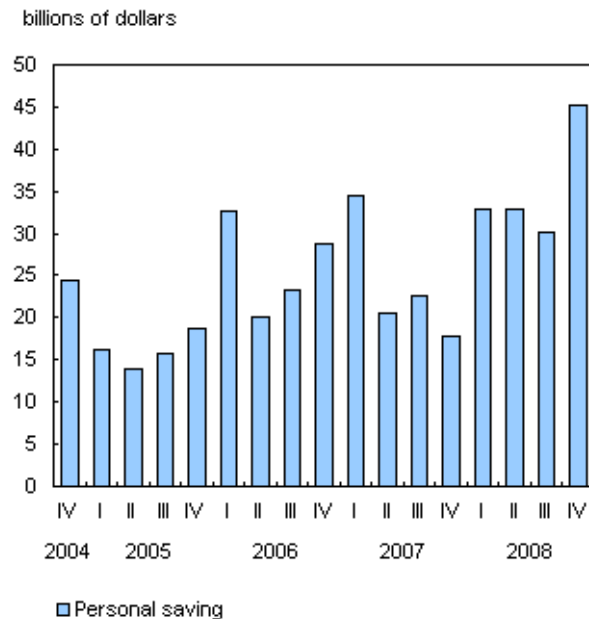
Both non-financial and financial corporate profits fell in the quarter. In addition to oil and gas extraction and mining, manufacturers and retailers posted lower earnings in the fourth quarter.

Farm income slowed in the fourth quarter, as grain prices declined. However, income for farmers in 2008 remained well above the level recorded in the previous three years.

**Personal income increases**

Personal disposable income continued to advance (+0.4%) as increases in labour income and government transfers to persons more than offset declines in investment income. Labour income advanced 0.7%, growing at a similar rate as the third quarter. Employment was virtually unchanged in the fourth quarter, while average weekly earnings were up and hours worked were down slightly.

**Chart B.7**  
Personal saving increases



The downturn in spending (in nominal terms) combined with increased disposable income led to \$45 billion of personal saving in the fourth quarter; \$15 billion higher than in the third quarter. This level of personal saving was the highest since the fourth quarter of 1995, and led to a saving rate of 4.7%, the highest rate recorded since the first quarter of 2002.

The debt service ratio (the proportion of interest expenses to personal disposable income) was 7.9% in the quarter, up slightly from the previous quarter.

**Export prices drop as import prices climb**

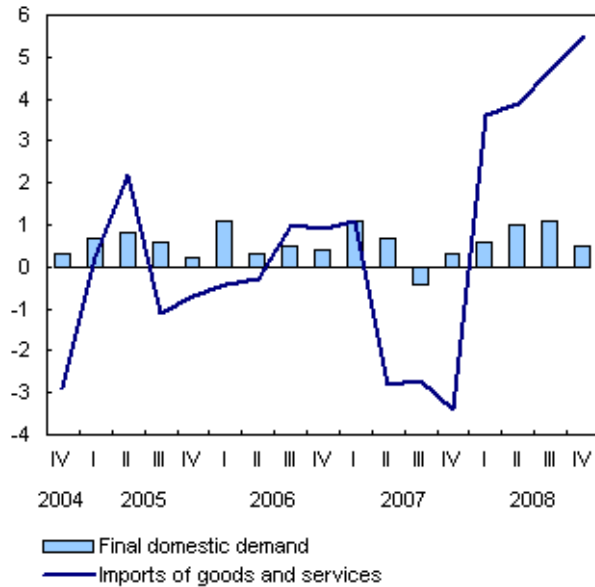
The price of goods and services produced in Canada dropped 2.7% in the fourth quarter, largely due to declines in energy and metal prices. Export prices were particularly hard hit, falling 4.1%. Declining prices were a major contributing factor to the 3.5% fall in nominal GDP.

Import prices increased significantly throughout 2008. The 5.5% increase in the fourth quarter reflected the depreciation of the Canadian dollar.



**Chart B.8**  
**Import prices increase again**

quarterly % change, implicit chain price index



The price of final domestic demand increased 0.5%, following a 1.1% increase in the third quarter.

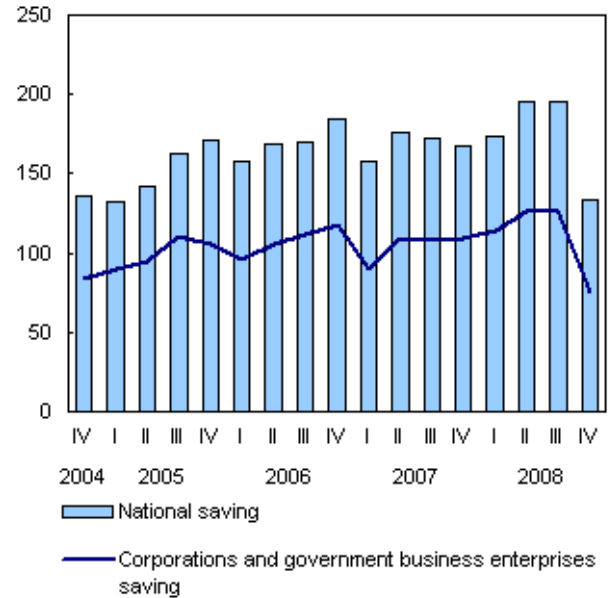
Falling commodity prices and a depreciating dollar led to a 9.0% deterioration in Canada's terms of trade.

#### National saving declines

National saving declined as both corporations and government saving were reduced substantially. Corporate outlays did not fall as quickly as corporate profits resulting in reduced savings. Government income was down while current expenditures and transfers rose. The national saving rate moved to 9.9%, the lowest since 2003.

**Chart B.9**  
**National saving declines**

billions of dollars

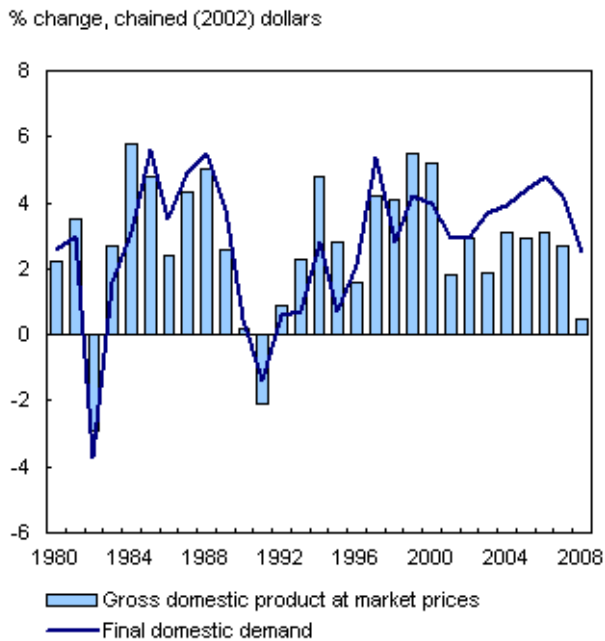


#### Year-end review 2008

Real gross domestic product (GDP) grew 0.5% in 2008, registering its lowest growth since 1991. Declining exports contributed to the overall weakness in GDP.

The engine of economic growth since 2001, final domestic demand slowed to 2.5% in 2008 from 4.2% in 2007, partly due to weakening expenditures on consumer goods and services and a softening of the housing market.

**Chart B.10**  
**Final domestic demand slows**



### Consumer spending slows

Growth in consumer spending on goods and services decelerated to 3.0% in 2008, down from 4.5% in 2007. This was the slowest growth in consumer spending since 2003.

Spending on durable goods such as motor vehicles and household items contributed to the slower growth in 2008. Nonetheless, purchases of durable goods still grew 5.2% in 2008, after having posted average growth of 7.3% over the previous two years. Overall, the slower growth in 2008 was widespread among semi and non-durable goods, as well as services.

### Business investment in plant and equipment expands

Business investment in plant and equipment expanded 1.7% in 2008. Investment in engineering structures was up 1.8%, whereas investment in non-residential buildings declined 0.6% in 2008. Construction of engineering structures tends to be related to large projects that are difficult to halt or scale back during uncertain times. Once projects are launched, businesses tend to complete a given phase rather than lose their initial investment. In contrast, growth in business investment in machinery and equipment was less robust in 2008, slowing to 2.0%, down from 7.1% in 2007.

### Investment in residential structures contracts

Investment in residential construction, which includes new housing construction, ownership transfer costs and renovation activity, declined 2.9% in 2008, the first decline since 1998. Resale activity, as reflected in ownership transfer costs, posted its largest decline (-17%) since 1990. In contrast, renovation activity was up 3.2%, and has been expanding since 1999.

### Exports down

Foreign demand for Canadian products declined 4.7% in 2008. Exports of forestry and automotive products dropped 14% and 23% respectively in 2008.

Imports registered a modest gain of 0.8% in 2008 following five years of over 4% growth in imports of goods and services.

### Import and export prices up

Prices of goods and services produced in Canada advanced 3.8% in 2008, up from 3.1% in 2007. Export prices of goods were up 11% in 2008, the highest rate of increase since 1980. Import prices of goods increased 5.7%, after a decline of 2.5% in 2007.

### Corporate profits expand

Corporate profits grew 6.4% in 2008; the largest increase since 2005. Strong commodity prices in the first half of the year had a positive impact in some key sectors of the economy.

Farm income benefited from both high crop yields and high commodity prices.

### Growth in labour income slows

While growth in labour income slowed to 4.9% in 2008, down from 6.1% in 2007, many of the job losses occurred in the latter half of the year and overall growth was not far off the average of 5.6% recorded since 2001.

Personal disposable income rose 6.0% in 2008 up from 5.7% in 2007. The personal saving rate also rose to 3.7% in 2008 up a full percentage point from 2007.

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

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Seasonally adjusted data at annual rates, millions of dollars								
Wages, salaries and supplementary labour income	789,224 0.4	802,852 1.7	815,352 1.6	824,580 1.1	831,340 0.8	836,844 0.7	788,357 6.1	827,029 4.9
Corporation profits before taxes	204,784 1.0	204,828 0.0	209,148 2.1	228,096 9.1	237,684 4.2	189,808 -20.1	203,231 3.3	216,184 6.4
Government business enterprise profits before taxes	15,544 -1.0	15,152 -2.5	16,440 8.5	17,180 4.5	15,152 -11.8	14,040 -7.3	15,539 6.2	15,703 1.1
Interest and miscellaneous investment income	72,492 0.6	72,756 0.4	76,620 5.3	85,172 11.2	84,032 -1.3	72,948 -13.2	71,515 7.7	79,693 11.4
Accrued net income of farm operators from farm production	56 -63.2	116 107.1	1,440 1,141.4	2,660 84.7	3,524 32.5	2,484 -29.5	110 ...	2,527 2,197.3
Net income of non-farm unincorporated business, including rent	90,660 0.6	91,744 1.2	93,108 1.5	94,376 1.4	95,788 1.5	96,764 1.0	90,363 4.4	95,009 5.1
Inventory valuation adjustment	3,488 ...	3,564 ...	-1,552 ...	-4,804 ...	-8,208 ...	-10,772 ...	3,272 ...	-6,334 ...
Taxes less subsidies, on factors of production	68,424 1.4	69,032 0.9	70,052 1.5	71,316 1.8	71,584 0.4	70,584 -1.4	67,921 5.2	70,884 4.4
<b>Net domestic product at basic prices</b>	<b>1,244,672</b> <b>0.2</b>	<b>1,260,044</b> <b>1.2</b>	<b>1,280,608</b> <b>1.6</b>	<b>1,318,576</b> <b>3.0</b>	<b>1,330,896</b> <b>0.9</b>	<b>1,272,700</b> <b>-4.4</b>	<b>1,240,308</b> <b>6.0</b>	<b>1,300,695</b> <b>4.9</b>
Taxes less subsidies, on products	100,076 0.5	101,536 1.5	95,792 -5.7	96,648 0.9	96,464 -0.2	93,816 -2.7	99,428 3.3	95,680 -3.8
Capital consumption allowances	196,632 1.3	198,852 1.1	202,044 1.6	205,268 1.6	208,232 1.4	211,192 1.4	195,229 5.4	206,684 5.9
Statistical discrepancy	456 ...	-88 ...	736 ...	-564 ...	-1,336 ...	-1,176 ...	681 ...	-585 ...
<b>Gross domestic product at market prices</b>	<b>1,541,836</b> <b>0.3</b>	<b>1,560,344</b> <b>1.2</b>	<b>1,579,180</b> <b>1.2</b>	<b>1,619,928</b> <b>2.6</b>	<b>1,634,256</b> <b>0.9</b>	<b>1,576,532</b> <b>-3.5</b>	<b>1,535,646</b> <b>5.9</b>	<b>1,602,474</b> <b>4.4</b>

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

**Table B.2 Gross domestic product, expenditure-based, current prices and quarterly percentage change[1]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Seasonally adjusted data at annual rates, millions of dollars								
Personal expenditure on consumer goods and services	857,272	874,980	883,612	893,752	903,304	891,348	852,770	893,004
	1.1	2.1	1.0	1.1	1.1	-1.3	6.2	4.7
Durable goods	111,672	112,908	115,052	113,020	111,840	107,096	111,535	111,752
	-0.8	1.1	1.9	-1.8	-1.0	-4.2	5.3	0.2
Semi-durable goods	70,424	70,792	70,768	71,432	71,972	70,416	69,768	71,147
	1.7	0.5	-0.0	0.9	0.8	-2.2	4.8	2.0
Non-durable goods	205,628	209,952	212,980	217,540	222,124	214,340	205,303	216,746
	0.1	2.1	1.4	2.1	2.1	-3.5	5.4	5.6
Services	469,548	481,328	484,812	491,760	497,368	499,496	466,164	493,359
	2.0	2.5	0.7	1.4	1.1	0.4	6.9	5.8
Government current expenditure on goods and services	296,028	303,556	307,236	313,084	315,500	320,340	296,472	314,040
	-0.0	2.5	1.2	1.9	0.8	1.5	6.3	5.9
Government gross fixed capital formation	46,696	47,072	48,948	50,640	52,620	54,148	45,711	51,589
	2.9	0.8	4.0	3.5	3.9	2.9	11.8	12.9
Government investment in inventories	96	16	136	-24	-92	96	15	29
	...	...	...	...	...	...	...	...
Business gross fixed capital formation	303,284	305,428	307,632	309,956	315,192	309,692	301,690	310,618
	0.9	0.7	0.7	0.8	1.7	-1.7	6.6	3.0
Residential structures	110,372	112,012	110,640	109,652	109,464	102,712	108,726	108,117
	2.3	1.5	-1.2	-0.9	-0.2	-6.2	10.4	-0.6
Non-residential structures and equipment	192,912	193,416	196,992	200,304	205,728	206,980	192,964	202,501
	0.1	0.3	1.8	1.7	2.7	0.6	4.5	4.9
Non-residential structures	88,600	88,892	91,364	94,480	97,900	98,600	88,895	95,586
	-0.3	0.3	2.8	3.4	3.6	0.7	4.9	7.5
Machinery and equipment	104,312	104,524	105,628	105,824	107,828	108,380	104,069	106,915
	0.5	0.2	1.1	0.2	1.9	0.5	4.2	2.7
Business investment in inventories	19,740	14,940	1,216	8,748	10,760	7,080	9,806	6,951
	...	...	...	...	...	...	...	...
Non-farm	21,244	16,108	940	7,180	7,108	4,548	11,021	4,944
	...	...	...	...	...	...	...	...
Farm	-1,504	-1,168	276	1,568	3,652	2,532	-1,215	2,007
	...	...	...	...	...	...	...	...
Exports of goods and services	526,240	513,872	538,796	575,208	587,696	537,320	532,118	559,755
	-3.1	-2.4	4.9	6.8	2.2	-8.6	1.8	5.2
Goods	458,036	444,612	469,600	505,064	517,760	467,248	463,051	489,918
	-3.2	-2.9	5.6	7.6	2.5	-9.8	2.1	5.8
Services	68,204	69,260	69,196	70,144	69,936	70,072	69,067	69,837
	-2.3	1.5	-0.1	1.4	-0.3	0.2	0.1	1.1
Deduct: Imports of goods and services	507,064	499,608	507,656	531,996	552,064	544,668	502,255	534,096
	2.1	-1.5	1.6	4.8	3.8	-1.3	3.1	6.3
Goods	420,416	407,984	417,824	440,212	460,504	452,348	415,007	442,722
	2.4	-3.0	2.4	5.4	4.6	-1.8	2.7	6.7
Services	86,648	91,624	89,832	91,784	91,560	92,320	87,248	91,374
	0.4	5.7	-2.0	2.2	-0.2	0.8	5.4	4.7
Statistical discrepancy	-456	88	-740	560	1,340	1,176	-681	584
	...	...	...	...	...	...	...	...
<b>Gross domestic product at market prices</b>	<b>1,541,836</b>	<b>1,560,344</b>	<b>1,579,180</b>	<b>1,619,928</b>	<b>1,634,256</b>	<b>1,576,532</b>	<b>1,535,646</b>	<b>1,602,474</b>
	<b>0.3</b>	<b>1.2</b>	<b>1.2</b>	<b>2.6</b>	<b>0.9</b>	<b>-3.5</b>	<b>5.9</b>	<b>4.4</b>
<i>Final domestic demand</i>	<i>1,503,280</i>	<i>1,531,036</i>	<i>1,547,428</i>	<i>1,567,432</i>	<i>1,586,616</i>	<i>1,575,528</i>	<i>1,496,643</i>	<i>1,569,251</i>
	<i>0.9</i>	<i>1.8</i>	<i>1.1</i>	<i>1.3</i>	<i>1.2</i>	<i>-0.7</i>	<i>6.4</i>	<i>4.9</i>

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

**Table B.3 Real gross domestic product, expenditure-based, quarterly percentage change[1]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Seasonally adjusted at annual rates, millions of chained (2002) dollars[2]								
Personal expenditure on consumer goods and services	791,358 1.0	805,760 1.8	810,639 0.6	813,473 0.3	814,710 0.2	807,936 -0.8	788,224 4.5	811,690 3.0
Durable goods	117,732 -0.3	120,975 2.8	125,752 3.9	124,665 -0.9	124,439 -0.2	120,477 -3.2	117,731 7.1	123,833 5.2
Semi-durable goods	72,813 2.0	73,353 0.7	74,339 1.3	75,337 1.3	75,773 0.6	74,514 -1.7	72,102 5.6	74,991 4.0
Non-durable goods	175,116 0.6	176,803 1.0	176,697 -0.1	176,876 0.1	176,695 -0.1	175,924 -0.4	174,501 3.3	176,548 1.2
Services	427,570 1.4	436,709 2.1	436,777 0.0	439,402 0.6	440,631 0.3	439,039 -0.4	425,768 4.3	438,962 3.1
Government current expenditure on goods and services	259,691 1.7	263,357 1.4	264,332 0.4	266,859 1.0	266,735 -0.0	268,596 0.7	257,961 3.7	266,631 3.4
Government gross fixed capital formation	41,738 3.0	41,839 0.2	42,617 1.9	43,062 1.0	43,351 0.7	43,808 1.1	40,886 7.8	43,210 5.7
Government investment in inventories	84 ...	12 ...	116 ...	-20 ...	-76 ...	80 ...	14 ...	25 ...
Business gross fixed capital formation	273,631 1.1	276,471 1.0	276,108 -0.1	274,860 -0.5	275,376 0.2	262,403 -4.7	272,182 3.4	272,187 0.0
Residential structures	81,506 1.0	81,879 0.5	80,718 -1.4	79,777 -1.2	79,344 -0.5	74,549 -6.0	80,959 3.0	78,597 -2.9
Non-residential structures and equipment	194,002 1.2	196,668 1.4	197,868 0.6	197,760 -0.1	198,917 0.6	190,923 -4.0	193,133 3.5	196,367 1.7
Non-residential structures	67,717 -1.1	67,119 -0.9	67,923 1.2	68,564 0.9	69,873 1.9	69,855 -0.0	68,288 -0.4	69,054 1.1
Machinery and equipment	129,023 3.1	133,323 3.3	133,467 0.1	132,236 -0.9	131,452 -0.6	121,581 -7.5	127,110 7.1	129,684 2.0
Business investment in inventories	20,480 ...	20,565 ...	6,967 ...	12,041 ...	12,617 ...	9,387 ...	13,181 ...	10,253 ...
Non-farm	19,931 ...	19,351 ...	4,015 ...	8,006 ...	6,248 ...	3,836 ...	12,561 ...	5,526 ...
Farm	-687 ...	-9 ...	1,888 ...	2,969 ...	5,231 ...	4,445 ...	-494 ...	3,633 ...
Exports of goods and services	510,840 -0.3	501,112 -1.9	495,216 -1.2	491,159 -0.8	486,984 -0.9	464,123 -4.7	508,362 1.0	484,371 -4.7
Goods	448,299 -0.0	437,942 -2.3	433,189 -1.1	429,200 -0.9	425,851 -0.8	403,076 -5.3	445,113 1.4	422,829 -5.0
Services	62,660 -2.1	63,165 0.8	62,042 -1.8	61,978 -0.1	61,137 -1.4	61,154 0.0	63,311 -1.7	61,578 -2.7
Deduct: Imports of goods and services	581,348 4.8	593,526 2.1	581,907 -2.0	587,044 0.9	581,591 -0.9	544,355 -6.4	569,420 5.5	573,724 0.8
Goods	486,822 5.3	490,885 0.8	483,756 -1.5	490,292 1.4	488,102 -0.4	455,732 -6.6	474,857 5.4	479,471 1.0
Services	94,728 2.4	102,462 8.2	98,134 -4.2	96,857 -1.3	93,695 -3.3	88,772 -5.3	94,634 5.9	94,365 -0.3
Statistical discrepancy	-392 ...	75 ...	-621 ...	459 ...	1,091 ...	984 ...	-588 ...	478 ...
<b>Gross domestic product at market prices</b>	<b>1,325,934</b> 0.6	<b>1,328,606</b> 0.2	<b>1,325,715</b> -0.2	<b>1,327,572</b> 0.1	<b>1,330,435</b> 0.2	<b>1,319,149</b> -0.8	<b>1,319,681</b> 2.7	<b>1,325,718</b> 0.5
<i>Final domestic demand</i>	<i>1,365,422</i> 1.2	<i>1,386,354</i> 1.5	<i>1,392,600</i> 0.5	<i>1,397,230</i> 0.3	<i>1,399,138</i> 0.1	<i>1,381,723</i> -1.2	<i>1,358,224</i> 4.2	<i>1,392,673</i> 2.5

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

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.

**Table B.4 Real gross domestic product, expenditure-based, annualized percentage change[1]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Quarter to quarter percent change at annual rates, chained (2002) dollars								
Personal expenditure on consumer goods and services	4.2	7.5	2.4	1.4	0.6	-3.3	4.5	3.0
Durable goods	-1.4	11.5	16.8	-3.4	-0.7	-12.1	7.1	5.2
Semi-durable goods	8.4	3.0	5.5	5.5	2.3	-6.5	5.6	4.0
Non-durable goods	2.2	3.9	-0.2	0.4	-0.4	-1.7	3.3	1.2
Services	5.8	8.8	0.1	2.4	1.1	-1.4	4.3	3.1
Government current expenditure on goods and services	7.2	5.8	1.5	3.9	-0.2	2.8	3.7	3.4
Government gross fixed capital formation	12.5	1.0	7.6	4.2	2.7	4.3	7.8	5.7
Government investment in inventories[2]	136	-72	104	-136	-56	156	47	11
Business gross fixed capital formation	4.5	4.2	-0.5	-1.8	0.8	-17.6	3.4	0.0
Residential structures	4.1	1.8	-5.6	-4.6	-2.2	-22.1	3.0	-2.9
Non-residential structures and equipment	4.8	5.6	2.5	-0.2	2.4	-15.1	3.5	1.7
Non-residential structures	-4.3	-3.5	4.9	3.8	7.9	-0.1	-0.4	1.1
Machinery and equipment	13.2	14.0	0.4	-3.6	-2.4	-26.8	7.1	2.0
Business investment in inventories[2]	14,799	85	-13,598	5,074	576	-3,230	2,415	-2,928
Non-farm[2]	14,746	-580	-15,336	3,991	-1,758	-2,412	2,605	-7,035
Farm[2]	-207	678	1,897	1,081	2,262	-786	-332	4,127
Exports of goods and services	-1.1	-7.4	-4.6	-3.2	-3.4	-17.5	1.0	-4.7
Goods	-0.0	-8.9	-4.3	-3.6	-3.1	-19.7	1.4	-5.0
Services	-8.3	3.3	-6.9	-0.4	-5.3	0.1	-1.7	-2.7
Deduct: Imports of goods and services	20.6	8.6	-7.6	3.6	-3.7	-23.3	5.5	0.8
Goods	23.0	3.4	-5.7	5.5	-1.8	-24.0	5.4	1.0
Services	10.0	36.9	-15.9	-5.1	-12.4	-19.4	5.9	-0.3
Statistical discrepancy[2]	717	467	-696	1,080	632	-107	-1,141	1,066
<b>Gross domestic product at market prices</b>	<b>2.3</b>	<b>0.8</b>	<b>-0.9</b>	<b>0.6</b>	<b>0.9</b>	<b>-3.4</b>	<b>2.7</b>	<b>0.5</b>
<i>Final domestic demand</i>	5.1	6.3	1.8	1.3	0.5	-4.9	4.2	2.5

1. Quarter to quarter percentage change, annualized.  
2. Actual change in millions of dollars, at annual rates.

**Table B.5 Contributions to percentage change in real gross domestic product, expenditure-based[1]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Using seasonally adjusted data, percentage points								
Personal expenditure on consumer goods and services	0.566	1.008	0.338	0.194	0.084	-0.465	2.513	1.627
Durable goods	-0.025	0.197	0.281	-0.062	-0.013	-0.220	0.511	0.359
Semi-durable goods	0.092	0.034	0.060	0.059	0.025	-0.074	0.256	0.176
Non-durable goods	0.074	0.129	-0.008	0.014	-0.014	-0.059	0.446	0.159
Services	0.425	0.649	0.005	0.183	0.085	-0.112	1.301	0.931
Government current expenditure on goods and services	0.333	0.271	0.072	0.185	-0.009	0.137	0.716	0.644
Government gross fixed capital formation	0.088	0.007	0.056	0.032	0.021	0.035	0.220	0.170
Government investment in inventories	0.010	-0.005	0.008	-0.010	-0.004	0.012	0.004	0.001
Business gross fixed capital formation	0.218	0.203	-0.026	-0.088	0.036	-0.936	0.666	0.001
Residential structures	0.072	0.033	-0.101	-0.081	-0.037	-0.410	0.210	-0.202
Non-residential structures and equipment	0.146	0.170	0.076	-0.007	0.073	-0.526	0.456	0.203
Non-residential structures	-0.064	-0.051	0.068	0.055	0.112	-0.002	-0.023	0.066
Machinery and equipment	0.210	0.221	0.007	-0.061	-0.039	-0.525	0.480	0.137
Business investment in inventories	0.939	0.002	-0.851	0.318	0.035	-0.211	0.154	-0.243
Non-farm	0.950	-0.038	-0.964	0.250	-0.111	-0.157	0.187	-0.482
Farm	-0.011	0.040	0.113	0.068	0.146	-0.054	-0.033	0.239
Exports of goods and services	-0.099	-0.645	-0.396	-0.287	-0.307	-1.680	0.362	-1.618
Goods	-0.002	-0.681	-0.317	-0.282	-0.248	-1.681	0.442	-1.494
Services	-0.097	0.036	-0.079	-0.005	-0.059	0.001	-0.080	-0.124
Deduct: Imports of goods and services	1.533	0.675	-0.634	0.286	-0.311	-2.268	1.834	0.206
Goods	1.399	0.223	-0.385	0.360	-0.124	-1.960	1.504	0.223
Services	0.134	0.452	-0.249	-0.074	-0.187	-0.308	0.330	-0.018
Statistical discrepancy	0.054	0.035	-0.052	0.081	0.047	-0.008	-0.089	0.081
<b>Gross domestic product at market prices</b>	<b>0.576</b>	<b>0.202</b>	<b>-0.218</b>	<b>0.140</b>	<b>0.216</b>	<b>-0.848</b>	<b>2.713</b>	<b>0.457</b>
<i>Final domestic demand</i>	1.206	1.490	0.440	0.324	0.132	-1.229	4.116	2.442

1. The chained (2002) 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.

**Table B.6 Gross domestic product, implicit chain price indexes[1]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
	Using seasonally adjusted data, (2002 = 100)							
Personal expenditure on consumer goods and services	108.3 0.1	108.6 0.3	109.0 0.4	109.9 0.8	110.9 0.9	110.3 -0.5	108.2 1.5	110.0 1.7
Government current expenditure on goods and services	114.0 -1.7	115.3 1.1	116.2 0.8	117.3 0.9	118.3 0.9	119.3 0.8	115.0 2.5	117.8 2.5
Government gross fixed capital formation	111.9 -0.1	112.5 0.5	114.9 2.1	117.6 2.3	121.4 3.2	123.6 1.8	111.8 3.7	119.4 6.8
Business gross fixed capital formation	110.8 -0.3	110.5 -0.3	111.4 0.8	112.8 1.3	114.5 1.5	118.0 3.1	110.9 3.1	114.2 3.0
Exports of goods and services	103.0 -2.8	102.5 -0.5	108.8 6.1	117.1 7.6	120.7 3.1	115.8 -4.1	104.7 0.8	115.6 10.5
Imports of goods and services	87.2 -2.7	84.2 -3.4	87.2 3.6	90.6 3.9	94.9 4.7	100.1 5.5	88.3 -2.1	93.2 5.5
<b>Gross domestic product at market prices</b>	<b>116.3</b> <b>-0.3</b>	<b>117.4</b> <b>0.9</b>	<b>119.1</b> <b>1.4</b>	<b>122.0</b> <b>2.4</b>	<b>122.8</b> <b>0.7</b>	<b>119.5</b> <b>-2.7</b>	<b>116.4</b> <b>3.1</b>	<b>120.9</b> <b>3.8</b>
<i>Final domestic demand</i>	<i>110.1</i> <i>-0.4</i>	<i>110.4</i> <i>0.3</i>	<i>111.1</i> <i>0.6</i>	<i>112.2</i> <i>1.0</i>	<i>113.4</i> <i>1.1</i>	<i>114.0</i> <i>0.5</i>	<i>110.2</i> <i>2.1</i>	<i>112.7</i> <i>2.3</i>

1. The first line is the series itself. The second line is the percentage change.

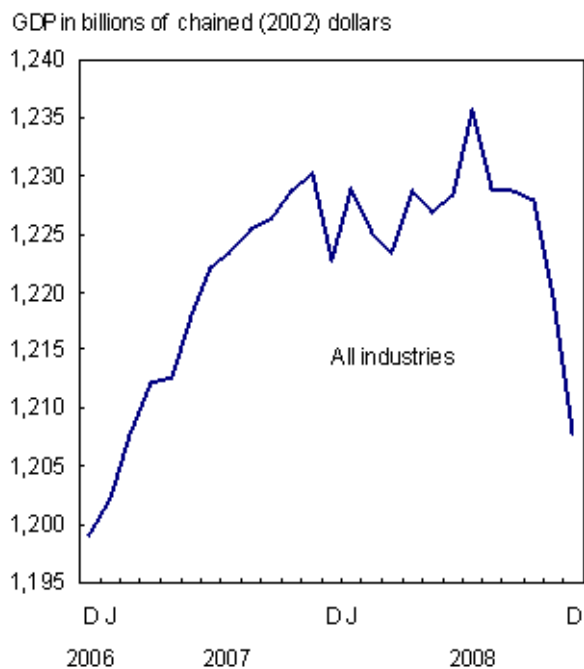
## Section C GDP by industry

December 2008

Real gross domestic product dropped 1.0% in December as almost all major sectors reduced production. This follows a 0.7% decline in November.

The output of manufacturing, retail trade, construction and wholesale trade were the main sources behind the December drop. Reduced activity was also recorded in transportation, mining excluding oil and gas extraction, accommodation and food services, and forestry. The public sector (health, education and public administration combined) advanced while the finance and insurance sector was unchanged.

**Chart C.1**  
Widespread decline in economic activity



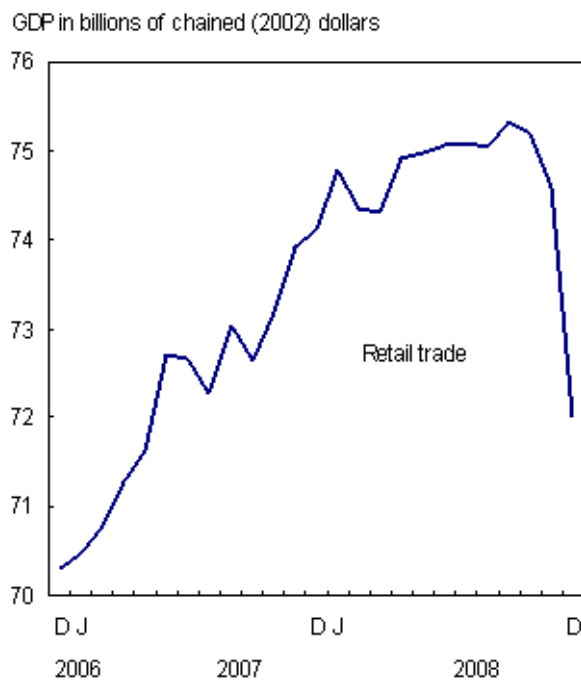
### Manufacturing activity falls

Activity in the manufacturing sector fell again in December (-3.0%), with 16 of the 21 major groups losing ground, mirroring recent declines in exports. Motor vehicle and associated parts production, and the manufacturing of primary metal, chemical and wood products, continued to retreat. In light of the lower demand some motor vehicle manufactures were temporarily shut down during the month, resulting in a 12.0% drop in production.

### Retail trade drops

Value added in retail trade dropped 3.5% in December, the largest monthly drop in over a decade. The decline was widespread, with all major trade groups declining. The reduction in the volume of activities posted by new and used car dealers, home centres and hardware, and beer, wine and liquor stores, led the retreat.

**Chart C.2**  
Retail sector falls



### Construction down

Construction activity was down 2.3% in December. For the second month in a row all three components of construction retreated. Residential building construction fell with none of the building types being spared. In particular, the construction of single-family and semi-detached dwellings posted significant declines. Similarly, the drop in non-residential building construction was widespread with commercial, industrial and institutional buildings all registering declines. The home resale market declined further in December. As a result, the output of real estate agents and brokers dropped 4.2% after much stronger declines in the previous two months.



### Wholesale trade drops

The volume of wholesaling activity decreased in December for a third month in a row (-2.4%). The main declines were in the wholesaling of machinery and electronic equipment, building materials, and of other products (which include agricultural, chemical, recycled material and paper products). Conversely, the wholesaling of food, beverage and tobacco products increased.

### Energy sector output decreases

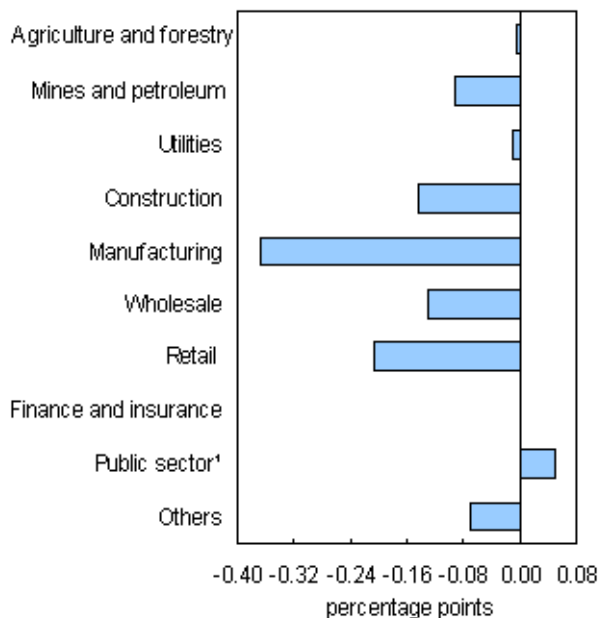
The output of the energy sector decreased 0.6% in December. A significant drop in support activities for mining and oil and gas extraction led the retreat, although oil and gas extraction advanced 0.9%. Both the extraction of natural gas and petroleum increased.

The storage of natural gas fell in both Canada and the United States along with pipeline transportation. The distribution of natural gas was up, but electricity generation contracted.

The output of the mining sector excluding oil and gas extraction dropped 7.4% in December. Both metal ore and non-metal mines (which include diamonds and potash) declined. Coal mining also contracted significantly.

### Chart C.3

#### Main industrial sectors' contribution to total growth December 2008



1. Education, health and public administration.

### The finance and insurance sector unchanged

The finance and insurance sector was unchanged in December. The lower volume of activity of stock brokerages and mutual fund vendors neutralized the rises in credit intermediation and in insurance.

### Other industries

Rail and truck transportation, along with accommodation and food services, were affected by the widespread decline in economic activity. Rail transportation fell 8.3% in December and truck transportation was down 1.7%. The accommodation and food services sector declined 0.6%.

### Fourth quarter 2008

Real gross domestic product by industry decreased 1.0% in the fourth quarter of 2008, weakening progressively each month. This was the largest decline since the first quarter of 1991.

Declines in the production of goods (-2.4%) were widespread as domestic and foreign demand weakened. Except for agriculture, all other goods-producing sectors receded. Manufacturing led the downturn, experiencing a sixth consecutive quarterly decline (-4.3%). Service-producing industries, down 0.4%, fell for the first time since the third quarter of 1991. The decline in service producing industries was primarily driven by decreases in retail and wholesale trade, and in transportation services, which more than offset increases in the public sector, and in finance and insurance.

Declines in manufactured goods were widespread as 18 of 21 major groups contracted. Manufacturers were particularly impacted by reduced foreign demand. The motor vehicle related industries, as well as iron and steel manufacturing, contributed the most to the decline. Production of motor vehicle and associated parts (including plastic parts and bodies and trailers) have been trending down since the first quarter of 2006. Declines in iron and steel manufacturing came on the heels of a strong third quarter, matching corresponding fluctuations in international demand over the second half of the year.

Wholesaling activities fell 5.4% in the fourth quarter as a result of lower volume of imports and exports, reduced activities in construction and a drop in consumer demand. Steep declines were recorded in wholesaling of motor vehicles, household and personal products as well as in building materials and other products. Growth in food, petroleum and farm products partially offset the declines. Value added in retail trade also lost ground (-1.6%) with widespread decreases, as consumers shied away from big ticket items.

The mining and oil and gas extraction sector decreased 1.1% over the final quarter of 2008. Overall, the energy sector declined 0.7% in the fourth quarter of 2008.

Construction activities retreated 1.2% as residential construction continued to decline along with engineering and repair activities. After two consecutive declines, non-residential building construction rose 0.9%, owing to increases in institutional buildings. Activity of real estate agents and brokers dropped 22.5%, as the magnitude of the decline in residential unit sales has not been seen since the second quarter of 1990.

The widespread weakness in many sectors of the economy translated into a reduction of output in several transportation industries.

Strength in the fourth quarter was seen in the public sector (+0.9%), and in the finance and insurance sector (+0.5%).

### Year-end review 2008

Growth in economic activity slowed to 0.5% in 2008, the slowest growth since the early 1990s. Weakness was evident throughout the year but much more pronounced in the last quarter (-1.0%), especially in November and December.

The production of goods declined 2.8% in 2008, the first decrease since 2001, the year of the tech meltdown. Apart from construction, all the other goods-producing sectors declined in 2008. On the other hand, the service industries grew 2.1%, with all sectors advancing.

Construction activities increased 2.3% in 2008. Engineering and repair work grew at a faster pace than that recorded in 2007. However, the growth in both residential and non-residential building construction slowed. A downturn in the building of new single dwellings and a reduction in the construction of industrial buildings were the primary factors behind this weakness.

Manufacturing declined 5.1% in 2008, marking a third consecutive annual decrease. Employment in this industry, according to the Labour Force Survey, dropped for a fourth year in a row. The decline in production was widespread, with 18 of the 21 major groups retreating. The more notable decreases were recorded in the manufacturing of motor vehicles and associated parts, including plastic parts and of body and trailers. These four industries together accounted for close to half of manufacturing's decline in 2008.

As with the motor vehicle industries, other export-oriented manufacturers (such as wood, fabricated metal and paper products manufacturers) were affected by the decline in foreign demand. One area which fared well in 2008 was the aerospace industry, whose output grew 10.6%, surpassing its 2001 peak.

Forestry and logging was also affected by shrinking foreign demand, dropping 16.4% in 2008, a fourth consecutive annual decline.

Output of the energy sector decreased 3.3% in 2008, as both oil and natural gas extraction declined. Demand for these commodities was affected by the sharp fluctuations in their prices on international markets. In January, the average price of a barrel of crude oil was \$94, increasing to reach a peak of \$136 in June and closing the year at \$52. The price of natural gas followed the same general pattern.

In the service sector, the major contributors to growth were the public sector (education, health and social services and public administration combined), finance and insurance, and retail trade.

The finance and insurance sector advanced 3.1%, the slowest growth since 2003. Credit intermediation and insurance both advanced, but stock brokerage and related activities were essentially flat after recording an average growth of 8.8% from 1999 to 2007.

Value added in retail trade advanced 3.1% in 2008, almost half the growth recorded in each of the previous two years. All major components advanced.

Growth in wholesale trade sector was essentially flat in 2008, a weakness not seen since the decline in 1991. Wholesalers, who are also involved in activities related to exports and imports, were impacted by lower volume of external trade.

Another area of weakness in services was the real estate agents and brokers industries, which declined 18.0% in 2008 and was a major contributor to the 2.2% decline in output of the legal and accounting services industry. After nine years of essentially uninterrupted growth, the home resale market pulled back as the number of residential units sold declined 17.1%.

**Table C.1 Real gross domestic product by industry, at basic prices, monthly[1]**

	May 2008	June 2008	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008
Seasonally adjusted at annual rates, millions of chained (2002) dollars								
<b>All industries</b>	<b>1,226,932</b>	<b>1,228,414</b>	<b>1,235,650</b>	<b>1,228,934</b>	<b>1,228,693</b>	<b>1,227,725</b>	<b>1,219,650</b>	<b>1,207,819</b>
	-0.1	0.1	0.6	-0.5	-0.0	-0.1	-0.7	-1.0
<b>Goods-producing industries</b>	<b>364,707</b>	<b>364,857</b>	<b>369,616</b>	<b>364,755</b>	<b>363,176</b>	<b>363,087</b>	<b>357,899</b>	<b>350,764</b>
	-0.3	0.0	1.3	-1.3	-0.4	-0.0	-1.4	-2.0
Agriculture, forestry, fishing and hunting	26,056	25,953	25,913	25,963	25,617	25,863	25,931	25,842
	-0.9	-0.4	-0.2	0.2	-1.3	1.0	0.3	-0.3
Mining and oil and gas extraction	54,425	54,791	56,640	55,488	54,912	55,524	55,157	54,543
	-1.7	0.7	3.4	-2.0	-1.0	1.1	-0.7	-1.1
Utilities	31,056	31,012	31,096	31,068	31,023	31,022	30,612	30,496
	-1.3	-0.1	0.3	-0.1	-0.1	-0.0	-1.3	-0.4
Construction	74,712	74,876	75,177	75,242	75,183	75,452	74,632	72,918
	0.9	0.2	0.4	0.1	-0.1	0.4	-1.1	-2.3
Manufacturing	178,532	177,918	179,410	175,902	175,611	173,755	169,706	164,697
	0.2	-0.3	0.8	-2.0	-0.2	-1.1	-2.3	-3.0
<b>Services-producing industries</b>	<b>864,594</b>	<b>865,953</b>	<b>868,227</b>	<b>866,596</b>	<b>868,058</b>	<b>867,161</b>	<b>864,491</b>	<b>860,072</b>
	-0.1	0.2	0.3	-0.2	0.2	-0.1	-0.3	-0.5
Wholesale trade	71,138	71,324	72,477	70,334	70,547	68,891	67,253	65,612
	-1.4	0.3	1.6	-3.0	0.3	-2.3	-2.4	-2.4
Retail trade	74,972	75,066	75,085	75,035	75,317	75,202	74,577	72,000
	0.1	0.1	0.0	-0.1	0.4	-0.2	-0.8	-3.5
Transportation and warehousing	56,922	57,233	57,254	56,797	56,670	56,566	56,170	55,265
	-0.1	0.5	0.0	-0.8	-0.2	-0.2	-0.7	-1.6
Information and cultural industries	45,066	45,055	45,118	45,335	45,362	45,386	45,339	45,309
	0.2	-0.0	0.1	0.5	0.1	0.1	-0.1	-0.1
Finance, insurance and real estate	246,398	246,870	247,609	247,584	248,298	248,211	247,838	248,146
	-0.1	0.2	0.3	-0.0	0.3	-0.0	-0.2	0.1
Professional, scientific and technical services	58,372	58,461	58,464	58,632	58,719	58,741	58,714	58,604
	0.0	0.2	0.0	0.3	0.1	0.0	-0.0	-0.2
Administrative and waste management services	31,209	31,143	31,107	31,052	30,961	30,928	30,864	30,768
	-0.1	-0.2	-0.1	-0.2	-0.3	-0.1	-0.2	-0.3
Educational services	60,409	60,537	60,614	60,745	60,823	60,966	60,932	61,092
	0.2	0.2	0.1	0.2	0.1	0.2	-0.1	0.3
Health care and social assistance	78,912	79,104	79,299	79,434	79,651	79,926	80,305	80,639
	0.2	0.2	0.2	0.2	0.3	0.3	0.5	0.4
Arts, entertainment and recreation	11,833	11,733	11,716	11,730	11,747	11,838	11,794	11,922
	1.9	-0.8	-0.1	0.1	0.1	0.8	-0.4	1.1
Accommodation and food services	27,990	27,835	27,646	27,786	27,492	27,615	27,676	27,508
	0.2	-0.6	-0.7	0.5	-1.1	0.4	0.2	-0.6
Other services (except public administration)	32,430	32,492	32,564	32,633	32,705	32,772	32,792	32,834
	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Public administration	69,109	69,270	69,457	69,665	69,940	70,270	70,365	70,500
	0.2	0.2	0.3	0.3	0.4	0.5	0.1	0.2
<b>Other aggregations</b>								
Industrial production	264,358	264,420	268,773	263,969	262,738	262,224	257,927	252,698
	-0.6	0.0	1.6	-1.8	-0.5	-0.2	-1.6	-2.0
Non-durable manufacturing industries	70,759	70,667	71,019	69,599	69,842	69,112	68,223	67,162
	0.3	-0.1	0.5	-2.0	0.3	-1.0	-1.3	-1.6
Durable manufacturing industries	108,025	107,491	108,653	106,564	105,996	104,867	101,637	97,600
	0.1	-0.5	1.1	-1.9	-0.5	-1.1	-3.1	-4.0
Business sector industries	1,028,351	1,029,379	1,036,181	1,028,986	1,028,274	1,026,710	1,018,380	1,006,024
	-0.2	0.1	0.7	-0.7	-0.1	-0.2	-0.8	-1.2
Non-business sector industries	198,578	199,035	199,458	199,959	200,426	201,033	201,311	201,881
	0.2	0.2	0.2	0.3	0.2	0.3	0.1	0.3
ICT sector, total	58,918	58,647	58,931	58,894	59,078	59,072	58,739	58,607
	0.4	-0.5	0.5	-0.1	0.3	-0.0	-0.6	-0.2
Energy sector	81,966	82,407	84,333	82,705	82,246	83,090	82,463	82,009
	-1.6	0.5	2.3	-1.9	-0.6	1.0	-0.8	-0.6

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

**Table C.2 Real gross domestic product by industry, at basic prices, quarterly and annually[1]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Seasonally adjusted at annual rates, millions of chained (2002) dollars								
<b>Goods-producing industries</b>	<b>375,367</b>	<b>371,248</b>	<b>366,783</b>	<b>365,162</b>	<b>365,849</b>	<b>357,250</b>	<b>374,126</b>	<b>363,761</b>
	-0.1	-1.1	-1.2	-0.4	0.2	-2.4	0.5	-2.8
Agriculture, forestry, fishing and hunting	26,276	26,205	26,054	26,098	25,831	25,879	26,478	25,966
	-0.4	-0.3	-0.6	0.2	-1.0	0.2	-4.2	-1.9
Mining and oil and gas extraction	57,789	56,226	55,623	54,852	55,680	55,075	57,288	55,308
	0.0	-2.7	-1.1	-1.4	1.5	-1.1	1.0	-3.5
Utilities	31,275	31,951	31,594	31,174	31,062	30,710	31,344	31,135
	-1.0	2.2	-1.1	-1.3	-0.4	-1.1	3.9	-0.7
Construction	73,251	73,467	74,190	74,551	75,201	74,334	72,890	74,569
	1.0	0.3	1.0	0.5	0.9	-1.2	2.9	2.3
Manufacturing	185,606	182,957	178,585	178,230	176,974	169,386	185,311	175,794
	-0.5	-1.4	-2.4	-0.2	-0.7	-4.3	-0.9	-5.1
<b>Services-producing industries</b>	<b>851,136</b>	<b>857,799</b>	<b>861,195</b>	<b>865,193</b>	<b>867,627</b>	<b>863,908</b>	<b>846,591</b>	<b>864,481</b>
	1.0	0.8	0.4	0.5	0.3	-0.4	3.5	2.1
Wholesale trade	70,906	72,063	71,458	71,534	71,119	67,252	70,256	70,341
	1.8	1.6	-0.8	0.1	-0.6	-5.4	5.5	0.1
Retail trade	72,649	73,734	74,486	74,983	75,146	73,926	72,391	74,635
	0.4	1.5	1.0	0.7	0.2	-1.6	5.8	3.1
Transportation and warehousing	56,997	56,863	56,829	57,052	56,907	56,000	56,624	56,697
	0.9	-0.2	-0.1	0.4	-0.3	-1.6	1.7	0.1
Information and cultural industries	44,514	44,900	44,771	45,026	45,272	45,345	44,349	45,103
	0.8	0.9	-0.3	0.6	0.5	0.2	2.6	1.7
Finance, insurance and real estate	242,260	243,946	245,707	246,668	247,830	248,065	240,536	247,068
	1.3	0.7	0.7	0.4	0.5	0.1	4.0	2.7
Professional, scientific and technical services	58,056	58,287	58,263	58,397	58,605	58,686	57,874	58,488
	0.4	0.4	-0.0	0.2	0.4	0.1	3.4	1.1
Administrative and waste management services	31,075	31,257	31,287	31,194	31,040	30,853	30,948	31,094
	0.6	0.6	0.1	-0.3	-0.5	-0.6	3.2	0.5
Educational services	59,130	59,606	59,971	60,405	60,727	60,997	58,863	60,525
	0.8	0.8	0.6	0.7	0.5	0.4	3.1	2.8
Health care and social assistance	77,307	77,884	78,371	78,927	79,461	80,290	77,035	79,262
	0.7	0.7	0.6	0.7	0.7	1.0	2.8	2.9
Arts, entertainment and recreation	11,817	11,746	11,635	11,726	11,731	11,851	11,716	11,736
	1.5	-0.6	-0.9	0.8	0.0	1.0	2.3	0.2
Accommodation and food services	27,307	27,638	27,802	27,921	27,641	27,600	27,146	27,741
	1.7	1.2	0.6	0.4	-1.0	-0.2	1.7	2.2
Other services (except public administration)	31,671	31,979	32,212	32,420	32,634	32,799	31,542	32,516
	0.9	1.0	0.7	0.6	0.7	0.5	3.2	3.1
Public administration	67,616	68,074	68,586	69,113	69,687	70,378	67,463	69,441
	0.4	0.7	0.8	0.8	0.8	1.0	2.0	2.9
<b>Other aggregations</b>								
Industrial production	275,911	271,769	266,863	264,922	265,160	257,616	274,908	263,640
	-0.4	-1.5	-1.8	-0.7	0.1	-2.8	0.2	-4.1
Non-durable manufacturing industries	72,901	71,623	70,688	70,653	70,153	68,166	72,507	69,915
	-0.2	-1.8	-1.3	-0.0	-0.7	-2.8	-1.8	-3.6
Durable manufacturing industries	113,026	111,673	108,159	107,828	107,071	101,368	113,149	106,106
	-0.8	-1.2	-3.1	-0.3	-0.7	-5.3	-0.3	-6.2
Business sector industries	1,030,485	1,031,374	1,028,644	1,029,388	1,031,147	1,017,038	1,025,436	1,026,554
	0.6	0.1	-0.3	0.1	0.2	-1.4	2.5	0.1
Non-business sector industries	194,524	195,792	197,144	198,602	199,948	201,408	193,838	199,275
	0.6	0.7	0.7	0.7	0.7	0.7	2.6	2.8
ICT sector, total	57,652	58,065	58,305	58,756	58,968	58,806	57,199	58,709
	1.2	0.7	0.4	0.8	0.4	-0.3	4.0	2.6
Energy sector	86,098	84,855	83,925	82,567	83,095	82,521	85,827	83,027
	-0.8	-1.4	-1.1	-1.6	0.6	-0.7	1.0	-3.3

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

## Section D

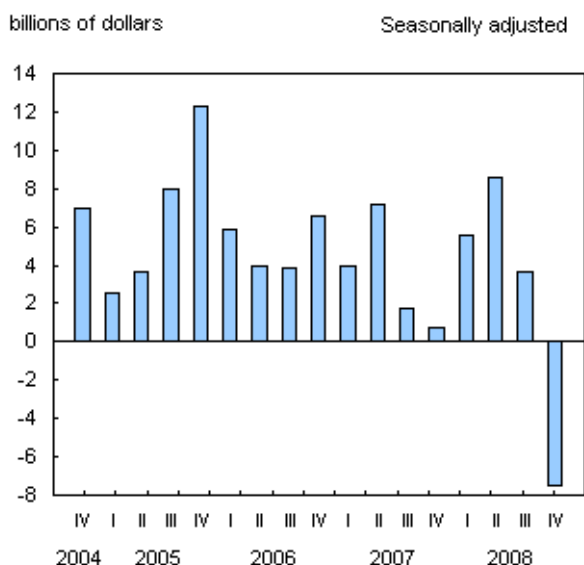
### Balance of international payments

Fourth quarter 2008

The current account balance with the rest of the world (on a seasonally-adjusted basis) was a deficit of \$7.5 billion in the fourth quarter of 2008, the first since the second quarter of 1999. The swing to deficit in the quarter was driven by a lower surplus for trade in goods. This primarily reflected the continued weakening of export volumes compounded by substantial declines in export commodity prices in the fourth quarter, especially pronounced for most energy products. Deterioration in the investment income deficit was also a contributing factor.

Chart D.1

First current account deficit since 1999



In the capital and financial account (unadjusted for seasonal variation), Canadians repatriated funds in the fourth quarter of 2008, as investors reduced their holdings of foreign securities by a record amount. Both inward and outward foreign direct investment activity was down, reflecting worldwide economic and credit conditions.

#### Current account

##### Lowest goods surplus in almost 15 years, as most energy prices decline sharply

In the fourth quarter of 2008, the goods surplus dropped \$10.6 billion to \$3.7 billion, its lowest level since the first quarter of 1994.

The value of goods exported fell \$12.6 billion during the fourth quarter. This followed advances in the first three quarters that were supported by strong price gains (driven by energy) in the first half of the year, despite declining export volumes. The largest export declines in the quarter were in energy products (-26.6%) and were entirely due to much lower prices for most products, as volumes advanced.

#### Note to readers

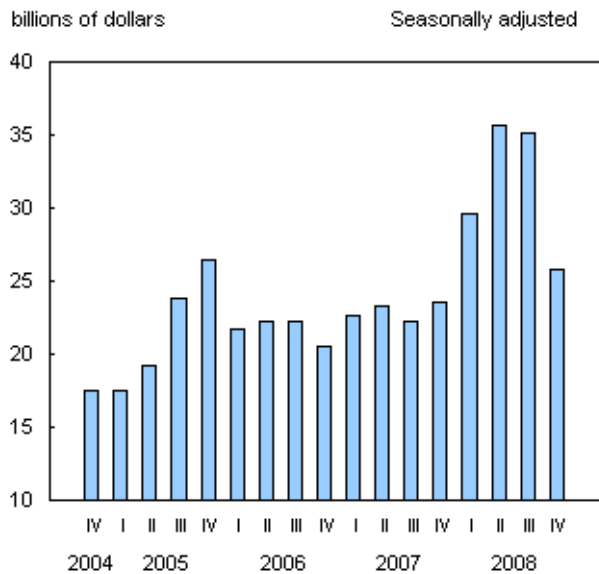
The **balance of payments** covers all economic transactions between Canadian residents and non-residents, in two accounts — the current account and the capital and financial account.

The **current account** covers transactions in goods, services, investment income and current transfers. Exports and interest income are examples of receipts, while imports and interest expense are payments. The overall balance of receipts and payments is Canada's current account **surplus** or **deficit**.

The **capital and financial account** is mainly composed of transactions in financial instruments. Financial assets and liabilities with non-residents are presented in three functional classes: direct investment, portfolio investment and all other types of investment. These flows arise from financial activities of either Canadian residents (foreign assets of Canadian investors) or non-residents (Canadian liabilities to foreign investors). Transactions resulting in capital inflows to Canada are presented as positive values while those giving rise to capital outflows from Canada are shown as negative values.

In principle, a current account surplus corresponds to an equivalent net outflow in the capital and financial account; and, a current account deficit corresponds to an equivalent net inflow in the capital and financial account. In other words, the two accounts should add to zero. In practice, as data are compiled from multiple sources, this is rarely the case and gives rise to measurement error. The **statistical discrepancy** is the unobserved net inflow or outflow.

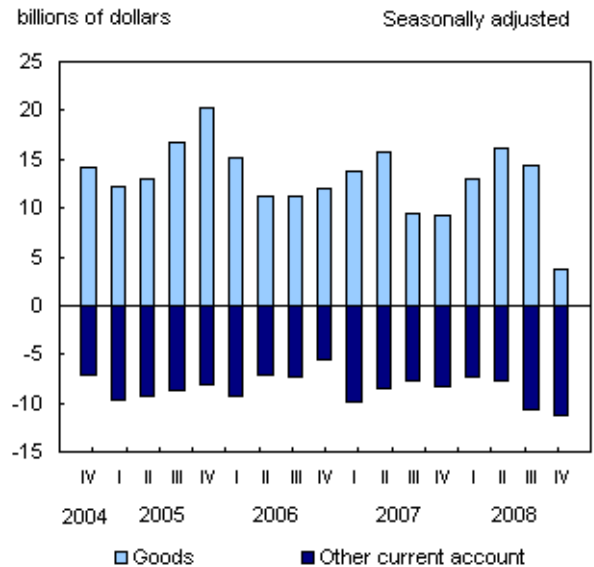
**Chart D.2**  
Exports of energy products fall as prices drop significantly



Industrial goods exports were down \$4.0 billion through a combination of lower volumes and lower prices in the fourth quarter. The reduction in volume was widespread, with copper and nickel (including ores and alloys) registering the largest price reductions. Exports of automotive products resumed their downward trend. However, machinery and equipment exports improved further, led by higher prices for aircraft and for other machinery and equipment.

The value of imported goods fell back \$2.0 billion in the fourth quarter, with energy prices also a major factor. Energy product imports declined (-16.7%), despite higher volumes. Imports of automotive products reached their lowest level in more than 10 years, with more than two thirds of the decline in passenger autos. Price increases led imports of machinery and equipment to a high, despite generally lower volumes.

**Chart D.3**  
Goods surplus drops to a near 15-year low



**Investment income deficit widens on portfolio investment**

The investment income deficit increased \$0.8 billion in the fourth quarter of 2008, as portfolio investment receipts were down and portfolio investment payments were up. Lower holdings of and yields on foreign debt securities led to a \$0.5 billion reduction in the interest received by Canadians. However, interest paid on Canadian bonds increased \$0.4 billion. This increase was focused in U.S. dollar-denominated corporate bonds and reflected the substantial depreciation (-14%) of the Canadian dollar vis-à-vis the U.S. dollar in the quarter.

Income from subsidiaries of both Canadian and foreign direct investors were down in the fourth quarter, in line with sagging corporate profits, especially in the energy sector.

**Services deficit edges up, reflecting travel and commercial services activity**

Larger commercial service payments, partially offset by higher travel receipts led to a slight increase in the services deficit during the fourth quarter.

As the Canadian dollar lost value against the U.S. dollar during the fourth quarter, spending by Canadian travellers fell for U.S. destinations but increased for overseas destinations. Both receipts from U.S. and overseas travellers improved slightly in the quarter, with more U.S. spending in Canada than in any other quarter of 2008.

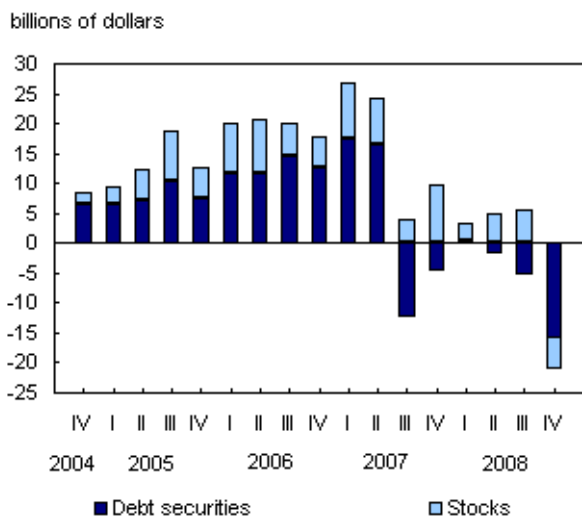
## Capital and financial account

### Canadian investors shed foreign securities

In the context of turmoil in global financial markets and a sharp depreciation of the Canadian dollar, Canadian investors removed an unprecedented amount of foreign securities from their portfolios in the fourth quarter. This divestment reached \$21.2 billion in debt and equity instruments, and marked the end of 29 years of net investment in foreign securities by Canadians.

Chart D.4

### Marked divestment in foreign securities extends to equities as stock markets slump<sup>1</sup>



1. Reverse of Balance of Payments signs.

Canadians continued to reduce their holdings of foreign debt instruments over the fourth quarter, a trend that began in August of 2007. The fourth quarter of 2008 marked a divestment of \$15.5 billion, largely foreign bonds. In addition, investors sold foreign equities in the quarter for the first time in nearly six years. Most of the divestment in foreign securities occurred in October when global stock markets recorded substantial losses. Canadian holdings of foreign equities were further reduced in the quarter by significant unrealized capital losses.

### Canadian direct investment abroad weakens

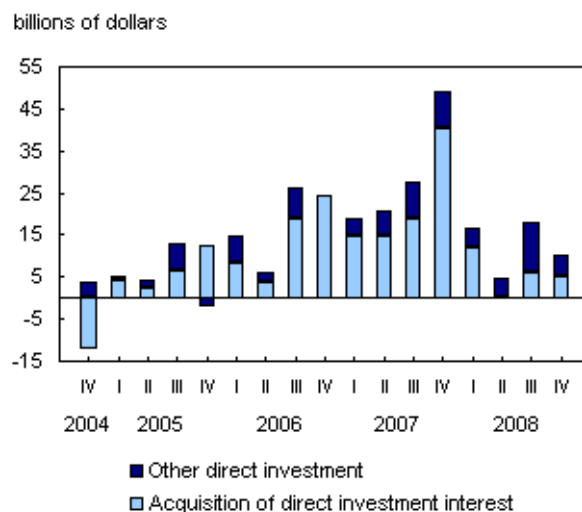
Canadian direct investment abroad increased \$11.6 billion. While relatively strong, this was about half the level of investment in the previous quarter. Takeover activity remained modest in the fourth quarter, with outflows mainly comprised of funds placed in existing foreign subsidiaries. Over 80% of the investment was directed to the U.S. economy, and nearly three-quarters in the energy and financial sectors. This capped a year of robust Canadian direct investment abroad.

### Foreign direct investment in Canada also moderates

Foreign direct investment in Canada was at a similar level to Canadian direct investment abroad. Inflows slowed to \$10.0 billion in the fourth quarter, as Canadian corporate earnings and equity values fell. Inflows were equally split between acquisitions and other flows. For a second straight quarter, foreign direct investment was concentrated in the Canadian energy and metallic mineral sector with investments of \$6.3 billion as energy prices dropped significantly. Direct investment into Canada in 2008 was less than half of the level reached in 2007.

Chart D.5

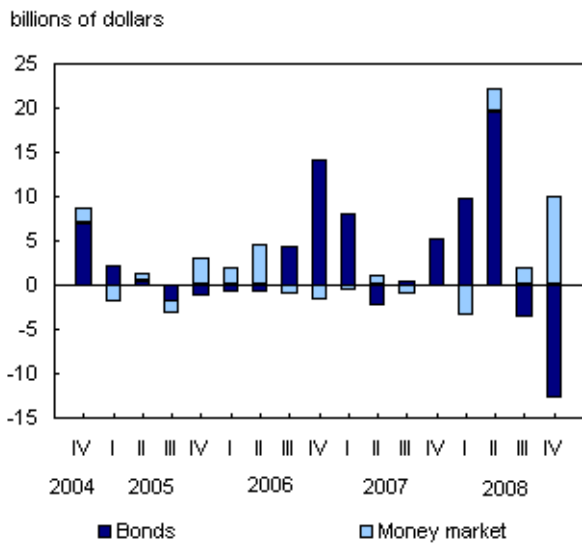
### Foreign direct investment in Canada down substantially in 2008 due to reduced foreign takeover activity



### Non-residents adjust their portfolios of Canadian securities

Foreign investors removed \$4.1 billion from their holdings of Canadian securities in the fourth quarter, in particular bonds. Divestment of \$12.5 billion in Canadian bonds was the highest observed since the third quarter of 2003, and was attributable to retirements of federal and private corporate bonds.

**Chart D.6**  
**Foreign investors dispose of Canadian bonds in favour of more liquid investments**



Non-residents adjusted their portfolios significantly in favour of more liquid investments in the Canadian money market, as the Canadian dollar depreciated and the differential on short-term rates between Canada and the U.S. moved substantially in favour of investment in Canada. Foreign purchases of Canadian short-term paper reached a high of \$9.9 billion, mainly federal and federal enterprise issues. This may have also reflected the large supply of Canadian Treasury bills in the fourth quarter.

#### Year-end review 2008

##### Current account transactions

For 2008 as a whole, the current account surplus narrowed to \$10.2 billion, down from \$13.6 billion in 2007. This was led by a wider deficit on travel and, to a lesser extent, by a smaller goods surplus.

The value of the surplus on goods continued to shrink in 2008, as imports rose more than exports. The largest gains in exports were recorded in energy products due to higher prices, despite the price declines in the fourth quarter. Exports of industrial goods and agricultural products also improved as prices increased in 2008. Automotive products exports fell sharply during the year on notably lower volumes. Import increases were dominated by energy products as volumes and prices strengthened for the first three quarters of the year. Automotive products imports fell as volumes for trucks and for parts were down.

For a third consecutive year, the investment income deficit remained relatively low. The large drop in profits earned by Canadian direct investors was mostly offset by lower interest paid on banking positions.

The services deficit widened for the fourth straight year, mostly due to increased payments in travel services. While most of the 2007 increase in travel payments was coming through higher expenditures of Canadian travellers south of the border, the rise in 2008 was more evenly split between spending in United States and overseas destinations.

##### Capital and financial account transactions

The year 2008 marked the end of 29 years of net investment by Canadians in foreign securities. The divestment actually began in the second half of 2007, coinciding with the crisis in sub-prime mortgages situation in the U.S. which broadened credit market concerns. Canadian investors first reacted by disposing of significant amounts of foreign money market instruments in the last five months of 2007. This activity extended into foreign bonds in 2008 and subsequently into foreign equities after global stock markets collapsed in October 2008.

On the other hand, Canadian corporations' direct investment abroad was robust in 2008 at \$80.3 billion, by far the largest annual outflow. The U.S. economy and the finance and insurance industry both received the bulk of the investment from Canadian direct investors in 2008, possibly a reflection of liquidity issues encountered by foreign affiliates in the face of the worldwide financial turmoil.

Foreign direct investment in Canada amounted to \$49.0 billion in 2008, less than half the inflows for 2007. Foreign acquisitions in 2008 were down substantially after two years of strong activity which reflected increased global consolidation in the energy and metallic minerals sector. The deterioration of credit conditions in 2008 likely dampened this activity as did the world-wide equity market meltdown in October of 2008.

Despite a divestment in the second half of 2008, non-residents acquired a sizable \$26.8 billion of Canadian marketable securities over the year, almost all in debt instruments. Acquisitions of long-term debt instruments dominated in the first half of the year while foreign investors turned to buy short-term paper in the second half, as the Canadian dollar slid and the short-term interest rate differential between Canada and the U.S. opened up in favour of investment in Canada. Foreign investment in Canadian stocks was moderate as prices experienced a 35% decline, concentrated in the last four months of the year.



Table D.1 Balance of payments

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Not seasonally adjusted, millions of dollars								
<b>Current account</b>								
<b>Receipts</b>								
Goods and services	130,747	126,697	131,040	147,243	147,840	131,800	530,332	557,922
Goods	111,695	110,833	115,591	130,091	128,608	115,627	463,051	489,916
Services	19,052	15,864	15,450	17,152	19,232	16,172	67,280	68,006
Investment income	18,220	18,685	17,469	20,061	16,795	15,012	71,417	69,338
Direct investment	9,696	9,657	8,744	11,261	8,456	7,057	37,139	35,518
Portfolio investment	5,449	5,240	5,416	5,772	5,599	5,027	21,683	21,815
Other investment	3,074	3,788	3,308	3,028	2,741	2,928	12,595	12,005
Current transfers	2,142	2,709	2,755	2,229	2,105	3,153	9,545	10,242
Current account receipts	151,109	148,091	151,264	169,532	166,741	149,965	611,294	637,502
<b>Payments</b>								
Goods and services	123,521	123,394	125,107	137,189	136,578	134,397	501,474	533,271
Goods	101,920	101,825	102,018	114,235	113,776	112,694	415,006	442,724
Services	21,601	21,569	23,089	22,954	22,802	21,703	86,468	90,547
Investment income	20,717	21,227	19,888	20,736	21,780	20,975	85,611	83,380
Direct investment	9,220	9,384	8,600	10,150	10,594	8,370	38,444	37,714
Portfolio investment	7,707	7,506	7,430	7,683	8,065	8,390	30,809	31,569
Other investment	3,790	4,337	3,858	2,903	3,122	4,215	16,358	14,097
Current transfers	2,397	2,505	3,281	2,265	2,510	2,557	10,601	10,613
Current account payments	146,635	147,125	148,277	160,190	160,868	157,929	597,686	627,264
<b>Balances</b>								
Goods and services	7,226	3,302	5,933	10,054	11,262	-2,597	28,858	24,651
Goods	9,775	9,007	13,572	15,856	14,832	2,933	48,046	47,193
Services	-2,549	-5,705	-7,639	-5,802	-3,570	-5,530	-19,188	-22,541
Investment income	-2,497	-2,541	-2,419	-675	-4,985	-5,963	-14,194	-14,042
Direct investment	476	274	145	1,111	-2,138	-1,313	-1,305	-2,195
Portfolio investment	-2,257	-2,266	-2,014	-1,911	-2,466	-3,363	-9,126	-9,754
Other investment	-715	-549	-550	125	-381	-1,287	-3,763	-2,093
Current transfers	-255	204	-527	-36	-404	596	-1,056	-371
<b>Current account balance</b>	<b>4,473</b>	<b>965</b>	<b>2,987</b>	<b>9,343</b>	<b>5,873</b>	<b>-7,964</b>	<b>13,607</b>	<b>10,239</b>
<b>Capital and financial account[1]</b>								
<b>Capital account</b>	<b>1,037</b>	<b>907</b>	<b>1,199</b>	<b>1,193</b>	<b>1,109</b>	<b>1,023</b>	<b>4,199</b>	<b>4,525</b>
<b>Financial account</b>	<b>-9,017</b>	<b>2,666</b>	<b>-8,048</b>	<b>-7,581</b>	<b>-9,674</b>	<b>12,375</b>	<b>-21,951</b>	<b>-12,928</b>
<b>Canadian assets, net flows</b>								
Canadian direct investment abroad	-12,920	-16,017	-29,737	-12,138	-26,865	-11,594	-57,806	-80,334
Portfolio investment	7,979	-5,378	-3,454	-3,167	-729	21,243	-48,422	13,893
Foreign bonds	1,688	2,932	-685	1,121	4,319	11,598	-28,903	16,353
Foreign stocks	-4,082	-9,828	-2,891	-4,815	-5,685	5,718	-30,941	-7,672
Foreign money market	10,373	1,518	121	527	637	3,927	11,422	5,212
Other investment	-19,848	-8,997	-18,524	-7,698	-437	-9,044	-63,866	-35,704
Loans	-9,162	1,770	-3,684	1,734	6,446	-5,385	-9,819	-888
Deposits	-16,555	-6,691	-14,229	-7,761	-8,521	-7,810	-41,993	-38,321
Official international reserves	-144	588	247	-1,816	-779	679	-4,644	-1,669
Other assets	6,013	-4,664	-858	145	2,417	3,471	-7,410	5,175
Total Canadian assets, net flows	-24,789	-30,392	-51,715	-23,004	-28,030	605	-170,093	-102,145
<b>Canadian liabilities, net flows</b>								
Foreign direct investment in Canada	27,770	49,270	16,527	4,673	17,785	10,025	116,706	49,010
Portfolio investment	-9,144	-27,122	9,952	27,838	-6,831	-4,142	-31,591	26,817
Canadian bonds	541	5,198	9,698	19,541	-3,508	-12,507	11,540	13,225
Canadian stocks	-8,524	-32,039	3,698	5,617	-5,323	-1,532	-41,994	2,460
Canadian money market	-1,160	-280	-3,445	2,679	2,000	9,897	-1,137	11,132
Other investment	-2,854	10,910	17,189	-17,088	7,402	5,887	63,027	13,390
Loans	-3,946	7,423	504	-1,911	2,950	385	10,670	1,928
Deposits	-21	4,417	16,165	-15,598	4,270	8,111	48,574	12,947
Other liabilities	1,114	-931	520	421	183	-2,609	3,783	-1,485
Total Canadian liabilities, net flows	15,772	33,058	43,668	15,423	18,356	11,770	148,143	89,217
<b>Total capital and financial account, net flows</b>	<b>-7,980</b>	<b>3,573</b>	<b>-6,848</b>	<b>-6,388</b>	<b>-8,565</b>	<b>13,398</b>	<b>-17,752</b>	<b>-8,403</b>
Statistical discrepancy	3,506	-4,538	3,861	-2,955	2,692	-5,434	4,144	-1,836

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.

**Table D.2 Current account**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Seasonally adjusted at quarterly rates, millions of dollars								
<b>Receipts</b>								
Goods and services	131,114	128,018	134,251	143,345	146,460	133,866	530,332	557,922
Goods	114,509	111,151	117,399	126,265	129,436	116,817	463,051	489,916
Services	16,605	16,866	16,852	17,080	17,025	17,049	67,280	68,006
Travel	4,143	4,161	4,022	4,056	4,040	4,094	16,634	16,212
Transportation	2,998	3,005	3,112	3,311	3,338	3,264	12,157	13,025
Commercial services	9,043	9,271	9,263	9,260	9,184	9,198	36,775	36,905
Government services	421	429	455	454	462	493	1,714	1,864
Investment income	18,432	18,879	17,756	19,115	17,326	15,141	71,417	69,338
Direct investment	9,951	9,672	8,941	10,528	8,933	7,117	37,139	35,518
Interest	520	516	558	721	804	490	1,935	2,574
Profits	9,431	9,156	8,382	9,807	8,129	6,627	35,203	32,944
Portfolio investment	5,507	5,338	5,413	5,604	5,643	5,155	21,683	21,815
Interest	2,092	1,832	1,655	1,771	1,802	1,299	8,089	6,527
Dividends	3,415	3,505	3,757	3,833	3,841	3,856	13,594	15,288
Other investment	2,973	3,870	3,403	2,983	2,749	2,869	12,595	12,005
Current transfers	2,456	2,384	2,404	2,555	2,457	2,826	9,545	10,242
Private	668	605	575	617	625	705	2,656	2,523
Official	1,788	1,779	1,828	1,938	1,832	2,121	6,890	7,720
<b>Total receipts</b>	<b>152,002</b>	<b>149,281</b>	<b>154,410</b>	<b>165,016</b>	<b>166,243</b>	<b>151,833</b>	<b>611,294</b>	<b>637,502</b>
<b>Payments</b>								
Goods and services	126,580	124,710	126,722	132,793	137,808	135,948	501,474	533,271
Goods	105,108	101,996	104,460	110,054	115,125	113,085	415,006	442,724
Services	21,472	22,714	22,262	22,740	22,683	22,863	86,468	90,547
Travel	6,892	7,530	7,194	7,250	7,217	7,194	26,663	28,855
Transportation	4,800	5,358	5,239	5,311	5,602	5,564	20,032	21,716
Commercial services	9,508	9,551	9,551	9,907	9,591	9,821	38,691	38,871
Government services	272	275	277	271	273	284	1,082	1,105
Investment income	21,063	21,173	19,609	20,947	22,101	20,723	85,611	83,380
Direct investment	9,287	9,542	8,597	10,143	10,565	8,409	38,444	37,714
Interest	617	622	612	611	640	609	2,484	2,471
Profits	8,670	8,920	7,985	9,532	9,925	7,800	35,960	35,242
Portfolio investment	7,725	7,553	7,441	7,648	8,053	8,426	30,809	31,569
Interest	5,641	5,458	5,464	5,570	5,854	6,275	22,746	23,163
Dividends	2,084	2,095	1,977	2,078	2,199	2,151	8,063	8,405
Other investment	4,051	4,078	3,571	3,157	3,482	3,888	16,358	14,097
Current transfers	2,618	2,620	2,515	2,743	2,708	2,648	10,601	10,613
Private	1,608	1,630	1,557	1,619	1,681	1,602	6,794	6,458
Official	1,010	990	958	1,124	1,027	1,046	3,807	4,155
<b>Total payments</b>	<b>150,260</b>	<b>148,503</b>	<b>148,845</b>	<b>156,483</b>	<b>162,617</b>	<b>159,319</b>	<b>597,686</b>	<b>627,264</b>
<b>Balances</b>								
Goods and services	4,534	3,307	7,529	10,552	8,652	-2,081	28,858	24,651
Goods	9,401	9,155	12,939	16,211	14,310	3,732	48,046	47,193
Services	-4,867	-5,848	-5,410	-5,659	-5,658	-5,814	-19,188	-22,541
Travel	-2,749	-3,369	-3,172	-3,194	-3,177	-3,100	-10,029	-12,643
Transportation	-1,802	-2,353	-2,127	-2,001	-2,264	-2,300	-7,875	-8,691
Commercial services	-465	-280	-289	-648	-407	-623	-1,915	-1,966
Government services	149	155	178	184	189	209	632	759
Investment income	-2,631	-2,293	-1,852	-1,832	-4,775	-5,582	-14,194	-14,042
Direct investment	664	130	344	385	-1,632	-1,292	-1,305	-2,195
Interest	-97	-106	-53	110	164	-119	-548	103
Profits	761	236	397	275	-1,796	-1,174	-757	-2,298
Portfolio investment	-2,217	-2,215	-2,028	-2,044	-2,410	-3,271	-9,126	-9,754
Interest	-3,549	-3,625	-3,809	-3,799	-4,052	-4,976	-14,657	-16,636
Dividends	1,331	1,410	1,780	1,755	1,642	1,705	5,531	6,882
Other investment	-1,077	-208	-168	-173	-733	-1,019	-3,763	-2,093
Current transfers	-162	-236	-111	-187	-250	178	-1,056	-371
Private	-940	-1,025	-982	-1,002	-1,055	-897	-4,139	-3,936
Official	778	789	870	814	805	1,075	3,083	3,565
<b>Current account</b>	<b>1,742</b>	<b>778</b>	<b>5,565</b>	<b>8,532</b>	<b>3,626</b>	<b>-7,486</b>	<b>13,607</b>	<b>10,239</b>

## Section E

### Financial flow accounts

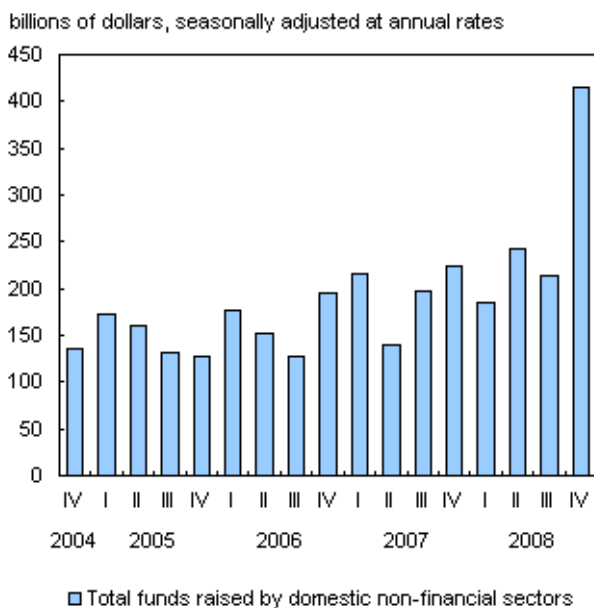
Fourth quarter 2008

Funds borrowed on financial markets by domestic non-financial sectors increased in the fourth quarter of 2008, to \$416 billion (seasonally adjusted at annual rates).

Federal government short-term paper and bond issues accounted for more than 50% of total activity. This was led by a record quarterly issuance of treasury bills, partly in support of the federal government's Insured Mortgage Purchase Program.

**Chart E.1**

#### Demand for funds accelerates



Canadian stock exchanges were down again in the fourth quarter. The resource laden S&P Toronto Stock Exchange composite index fell 24%, its largest percentage decline in a decade. The continued fall in commodity prices and demand for energy products did little to support the domestic currency. The Canadian dollar depreciated by 14% in the quarter relative to its U.S. counterpart.

The Bank of Canada's key trend setting rate, the bank rate, was reduced by more than 150 basis points, closing out the quarter at 1.75%. Cuts in the United States were more pronounced during the quarter, as the Federal Reserve funds rate fell to an all-time low of 0.10%.

#### Government sector

Overall government borrowing increased seven-fold between the third and fourth quarter of 2008. For the first time since the third quarter of 2003, the government sector became a net borrower from the rest of the economy.

The Federal government raised \$227 billion in the fourth quarter (these are expressed at seasonally adjusted annual rates; on a quarterly basis the government raised \$57 billion). About half of this borrowing was linked to the Insured Mortgage Purchase Program, which provided liquidity to Canadian financial markets through the Canada Mortgage and Housing Corporation (CMHC). Treasury bill issues met market demand for liquid investments and also provided funds that were deposited at the Bank of Canada to support its efforts in supporting Canadian financial markets.

Borrowing by other levels of government also picked up during the quarter, reflecting a return to deficit positions (on a national accounts basis) at the provincial and local government levels.

#### Financial institutions adjust their financial positions

The Bank of Canada provided significant liquidity during the quarter through the increased use of purchase and resale agreements with financial institutions.

Institutional investors reduced their foreign investments in exchange for short-term paper and domestic bonds. Lending institutions also invested heavily in domestic fixed income securities while net new loan issuances slowed. The fourth quarter of 2008 marked the largest ever issuance of *National Housing Act - Mortgage Backed-Securities*, with CMHC acquiring about half under the Insured Mortgage Purchase Program.

Corporate profits declined 20% in the fourth quarter. Savings of non-financial corporations, previously buoyed by high commodity prices, retreated significantly. As a

#### Note to readers

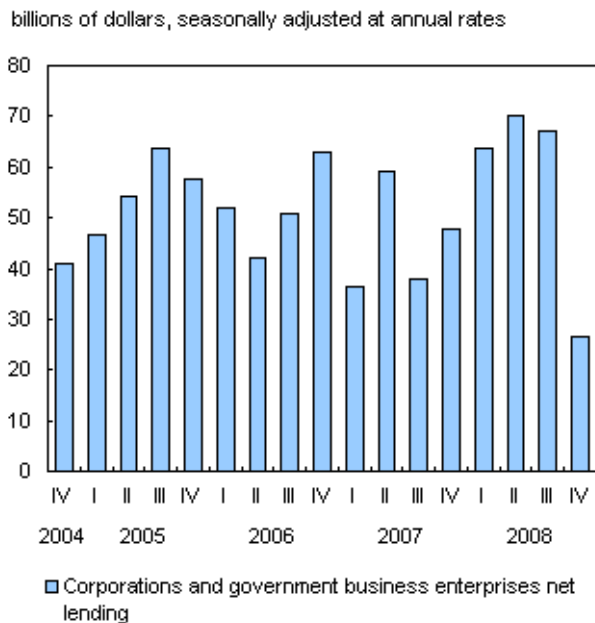
The Financial Flow Accounts (FFA) measure net lending or borrowing by examining financial transactions in the economy by sector. The FFA arrive at a measure of net financial investment which is the difference between change in financial assets and liabilities. (e.g., net purchases of securities less net issuance of securities).

The Financial Flow Accounts also provide the link between financial and non-financial activity in the economy which ties estimates of saving and non-financial asset formation (e.g., investment in new housing) with the underlying financial transactions.

result, the non-financial corporate sector moved into a deficit position, their largest since the fourth quarter of 1999.

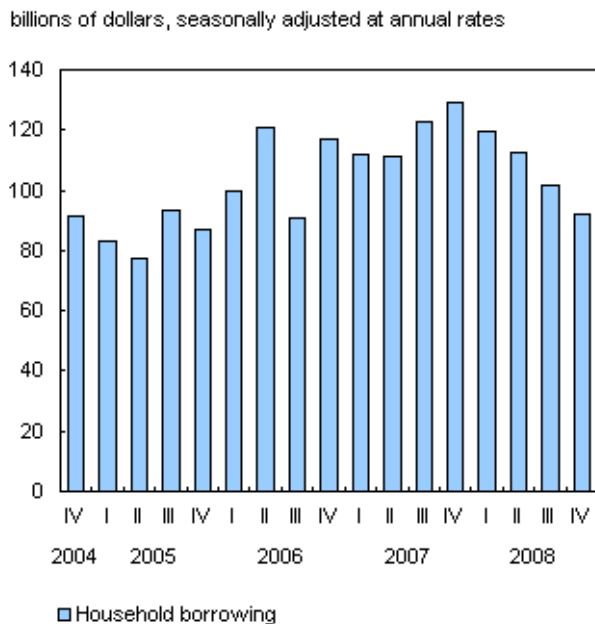
Non-financial corporations' new borrowings included a substantial increase in bank loans, as there was a significant drop in activity in both the bond and equity markets.

**Chart E.2**  
**Corporate sector surplus drops off significantly**



**Household sector**

**Chart E.3**  
**Household borrowing slows**



Overall household borrowing slowed to \$92 billion during the fourth quarter of 2008, led by dampened growth in consumer credit and mortgages. Net new mortgage borrowing was down more than 6% in the quarter, with decreased activity in the resale housing market.

Consumer credit flows were significantly lower in the fourth quarter of 2008, posting their largest quarterly percentage drop in over a decade. Despite this recent slowdown, borrowing has remained at high levels since late 2007. Personal expenditure fell during the quarter with notable declines in new and used motor vehicles.

### Year-end review 2008

For the year as a whole, total funds raised in 2008 were up over one-third compared to 2007.

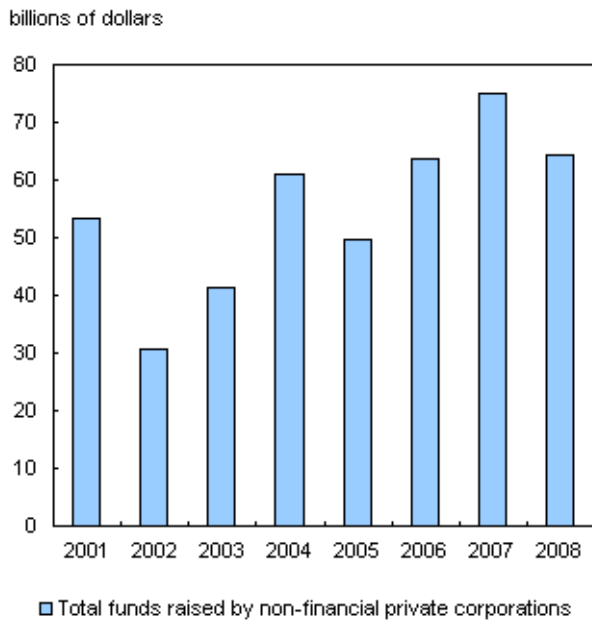
The government sector borrowed heavily in 2008, led principally by the federal government. After 2 years of net reductions in credit market debt, the federal government sharply increased issues of short-term paper and bonds. This activity was concentrated in the fourth quarter, in response to rapidly deteriorating credit and equity conditions.

Private non-financial corporations relied increasingly on loans as method of finance, as the year progressed, rather than equity and bond issuance.

Flow of funds to the persons and unincorporated business sector slowed in 2008, the first deceleration in 12 years. This was the result of successive quarterly slowdowns in mortgage and consumer credit borrowing in 2008. This occurred as residential investment was down and personal expenditures on consumer goods and services, notably durables, slowed.

### Chart E.4

#### Overall demand for funds slows



**Table E.1 Financial market summary table**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Seasonally adjusted data at annual rates, millions of dollars								
<b>Funds raised</b>								
<b>Persons and unincorporated business</b>	<b>122,856</b>	<b>128,836</b>	<b>119,640</b>	<b>112,280</b>	<b>101,868</b>	<b>91,808</b>	<b>118,836</b>	<b>106,399</b>
Consumer credit	33,948	36,832	38,180	32,460	30,696	24,424	34,908	31,440
Bank loans	1,844	-296	-3,764	3,464	-3,856	2,452	16	-426
Other loans	3,924	4,408	4,120	1,724	7,884	1,932	3,723	3,915
Mortgages	83,140	87,892	81,104	74,632	67,144	63,000	80,189	71,470
<b>Non-financial private corporations</b>	<b>73,268</b>	<b>73,364</b>	<b>70,140</b>	<b>72,284</b>	<b>72,264</b>	<b>42,272</b>	<b>74,971</b>	<b>64,240</b>
Bank loans	24,352	18,092	14,424	5,032	27,732	41,448	19,583	22,159
Other loans	-188	-1,388	-13,332	-4,700	3,968	-5,840	-1,281	-4,976
Other short-term paper	8,488	4,472	13,684	4,308	-5,224	1,328	3,738	3,524
Mortgages	16,728	17,936	18,168	19,340	17,840	19,364	17,297	18,678
Bonds	13,664	7,380	10,452	26,912	21,516	-15,796	12,142	10,771
Shares	10,224	26,872	26,744	21,392	6,432	1,768	23,492	14,084
<b>Non-financial government enterprises</b>	<b>3,300</b>	<b>7,328</b>	<b>2,200</b>	<b>1,108</b>	<b>556</b>	<b>-680</b>	<b>-64</b>	<b>796</b>
Bank loans	376	148	-268	368	-4	-128	7	-8
Other loans	-316	1,780	3,072	-1,804	956	-532	-255	423
Other short-term paper	1,712	1,952	-436	308	-1,316	360	283	-271
Mortgages	0	-8	-4	16	-4	4	-4	3
Bonds	1,520	3,504	-160	2,184	924	-352	-95	649
Shares	8	-48	-4	36	0	-32	0	0
<b>Federal government</b>	<b>-43,252</b>	<b>-8,444</b>	<b>1,340</b>	<b>50,528</b>	<b>4,912</b>	<b>226,952</b>	<b>-19,787</b>	<b>70,933</b>
Bank loans	140	140	148	148	144	144	139	146
Other loans	0	0	0	0	0	0	0	0
Canada short-term paper	-36,716	7,840	-1,772	57,004	14,540	189,696	-8,756	64,867
Canada Savings Bonds	-1,544	-3,108	-812	-1,096	-964	-68	-2,168	-735
Other bonds	-5,132	-13,316	3,776	-5,528	-8,808	37,180	-9,002	6,655
<b>Other levels of government</b>	<b>40,072</b>	<b>23,448</b>	<b>-8,492</b>	<b>5,768</b>	<b>34,516</b>	<b>55,456</b>	<b>20,225</b>	<b>21,812</b>
Bank loans	-1,100	-172	748	104	524	840	312	554
Other loans	696	1,020	792	544	680	100	718	529
Other short-term paper	19,880	8,880	-23,108	10,232	22,524	43,688	6,006	13,334
Mortgages	-4	0	12	-8	-4	0	-1	0
Provincial bonds	19,264	10,144	11,456	-7,272	9,724	10,636	11,318	6,136
Municipal bonds	1,384	3,852	1,568	2,136	1,076	368	1,958	1,287
Other bonds	-48	-276	40	32	-8	-176	-86	-28
<b>Total funds raised by domestic non-financial sectors</b>	<b>196,244</b>	<b>224,532</b>	<b>184,828</b>	<b>241,968</b>	<b>214,116</b>	<b>415,808</b>	<b>194,181</b>	<b>264,180</b>
Consumer credit	33,948	36,832	38,180	32,460	30,696	24,424	34,908	31,440
Bank loans	25,612	17,912	11,288	9,116	24,540	44,756	20,057	22,425
Other loans	4,116	5,820	-5,348	-4,236	13,488	-4,340	2,905	-109
Canada short-term paper	-36,716	7,840	-1,772	57,004	14,540	189,696	-8,756	64,867
Other short-term paper	30,080	15,304	-9,860	14,848	15,984	45,376	10,027	16,587
Mortgages	99,864	105,820	99,280	93,980	84,976	82,368	97,481	90,151
Bonds	29,108	8,180	26,320	17,368	23,460	31,792	14,067	24,735
Shares	10,232	26,824	26,740	21,428	6,432	1,736	23,492	14,084

Table E.2 Sector accounts - Persons and unincorporated businesses[1]

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Seasonally adjusted data at annual rates, millions of dollars								
<b>Income</b>	<b>1,176,752</b>	<b>1,192,748</b>	<b>1,218,276</b>	<b>1,224,828</b>	<b>1,231,716</b>	<b>1,236,900</b>	<b>1,171,741</b>	<b>1,227,930</b>
	0.8	1.4	2.1	0.5	0.6	0.4	6.2	4.8
Wages, salaries and supplementary labour income	789,224	802,852	815,352	824,580	831,340	836,844	788,357	827,029
	0.4	1.7	1.6	1.1	0.8	0.7	6.1	4.9
Unincorporated business net income[2]	90,716	91,860	94,548	97,036	99,312	99,248	90,473	97,536
	0.5	1.3	2.9	2.6	2.3	-0.1	4.7	7.8
Interest, dividends and miscellaneous investment income	136,572	136,376	139,568	140,412	138,280	133,912	135,045	138,043
	0.9	-0.1	2.3	0.6	-1.5	-3.2	9.4	2.2
Current transfers from government	154,908	156,488	163,644	157,688	157,452	161,472	152,576	160,064
	3.5	1.0	4.6	-3.6	-0.1	2.6	5.2	4.9
Current transfers from corporations	2,664	2,752	2,724	2,748	2,764	2,712	2,635	2,737
	2.8	3.3	-1.0	0.9	0.6	-1.9	11.8	3.9
Current transfers from non-residents	2,668	2,420	2,440	2,364	2,568	2,712	2,655	2,521
	2.8	-9.3	0.8	-3.1	8.6	5.6	-1.6	-5.0
<b>Outlay</b>	<b>1,154,072</b>	<b>1,175,052</b>	<b>1,185,448</b>	<b>1,191,920</b>	<b>1,201,544</b>	<b>1,191,704</b>	<b>1,147,910</b>	<b>1,192,654</b>
	0.7	1.8	0.9	0.5	0.8	-0.8	6.6	3.9
Personal expenditure on goods and services	857,272	874,980	883,612	893,752	903,304	891,348	852,770	893,004
	1.1	2.1	1.0	1.1	1.1	-1.3	6.2	4.7
Current transfers to government	274,664	277,584	278,144	274,232	273,988	275,668	273,353	275,508
	-0.8	1.1	0.2	-1.4	-0.1	0.6	7.8	0.8
Current transfers to corporations	17,364	17,776	19,104	19,300	19,580	20,116	17,092	19,525
	2.5	2.4	7.5	1.0	1.5	2.7	7.8	14.2
Current transfers to non-residents	4,772	4,712	4,588	4,636	4,672	4,572	4,695	4,617
	1.4	-1.3	-2.6	1.0	0.8	-2.1	8.8	-1.7
<b>Saving</b>	<b>22,680</b>	<b>17,696</b>	<b>32,828</b>	<b>32,908</b>	<b>30,172</b>	<b>45,196</b>	<b>23,831</b>	<b>35,276</b>
	10.4	-22.0	85.5	0.2	-8.3	49.8	-8.9	48.0
Disposable income[3]	902,088	915,164	940,132	950,596	957,728	961,232	898,388	952,422
	1.3	1.4	2.7	1.1	0.8	0.4	5.7	6.0
Saving rate	2.5	1.9	3.5	3.5	3.2	4.7	2.7	3.7
	...	...	...	...	...	...	...	...
<b>Gross saving and capital transfers</b>	<b>71,064</b>	<b>66,552</b>	<b>83,532</b>	<b>84,544</b>	<b>81,672</b>	<b>97,488</b>	<b>72,035</b>	<b>86,809</b>
	3.8	-6.3	25.5	1.2	-3.4	19.4	0.7	20.5
Saving	22,680	17,696	32,828	32,908	30,172	45,196	23,831	35,276
	10.4	-22.0	85.5	0.2	-8.3	49.8	-8.9	48.0
Capital consumption allowances	45,628	46,336	47,080	47,836	48,480	49,124	45,269	48,130
	1.6	1.6	1.6	1.6	1.3	1.3	6.6	6.3
Net capital transfers	2,756	2,520	3,624	3,800	3,020	3,168	2,935	3,403
	-8.3	-8.6	43.8	4.9	-20.5	4.9	-0.6	15.9
Deduct: Non-financial capital acquisition	128,056	132,012	130,240	134,548	136,012	134,632	128,204	133,858
	-0.1	3.1	-1.3	3.3	1.1	-1.0	11.0	4.4
<b>Net lending</b>	<b>-56,992</b>	<b>-65,460</b>	<b>-46,708</b>	<b>-50,004</b>	<b>-54,340</b>	<b>-37,144</b>	<b>-56,169</b>	<b>-47,049</b>
	...	...	...	...	...	...	...	...
<b>Transactions in financial assets</b>	<b>60,864</b>	<b>73,968</b>	<b>81,076</b>	<b>65,052</b>	<b>47,136</b>	<b>50,924</b>	<b>65,503</b>	<b>61,047</b>
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Currency and deposits	76,668	58,268	95,596	36,776	38,892	96,844	51,106	67,027
	...	...	...	...	...	...	...	...
Canadian debt securities	-11,392	-27,116	-38,788	5,288	-8,508	-24,764	-21,790	-16,693
	...	...	...	...	...	...	...	...
Corporate shares and mutual funds	28,896	1,892	-11,820	-6,596	20,488	16,060	7,035	4,533
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Life insurance and pensions	41,796	40,648	50,856	46,224	39,012	20,320	52,299	39,103
	...	...	...	...	...	...	...	...
Other financial assets	-75,104	276	-14,768	-16,640	-42,748	-57,536	-23,147	-32,923
	...	...	...	...	...	...	...	...
<b>Transactions in liabilities</b>	<b>118,464</b>	<b>137,580</b>	<b>126,492</b>	<b>114,924</b>	<b>101,012</b>	<b>86,276</b>	<b>121,785</b>	<b>107,176</b>
	...	...	...	...	...	...	...	...
Consumer credit	33,948	36,832	38,180	32,460	30,696	24,424	34,908	31,440
	...	...	...	...	...	...	...	...
Bank and other loans	5,768	4,112	356	5,188	4,028	4,384	3,739	3,489
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Mortgages	83,140	87,892	81,104	74,632	67,144	63,000	80,189	71,470
	...	...	...	...	...	...	...	...
Trade payables	-4,392	8,744	6,852	2,644	-856	-5,532	2,949	777
	...	...	...	...	...	...	...	...
<b>Net financial investment</b>	<b>-57,600</b>	<b>-63,612</b>	<b>-45,416</b>	<b>-49,872</b>	<b>-53,876</b>	<b>-35,352</b>	<b>-56,282</b>	<b>-46,129</b>
	...	...	...	...	...	...	...	...
Sector discrepancy	608	-1,848	-1,292	-132	-464	-1,792	113	-920
	...	...	...	...	...	...	...	...

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

2. Sum of accrued net income of farm operators from farm production and net income of non-farm unincorporated business, including rent.

3. Total income minus current transfers to government.

**Table E.3 Sector accounts - Corporations and government business enterprises, total[1]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Seasonally adjusted data at annual rates, millions of dollars								
<b>Income</b>	<b>396,760</b>	<b>401,828</b>	<b>403,924</b>	<b>427,052</b>	<b>435,732</b>	<b>365,500</b>	<b>391,814</b>	<b>408,052</b>
	1.2	1.3	0.5	5.7	2.0	-16.1	3.1	4.1
Corporation profits before taxes	204,784	204,828	209,148	228,096	237,684	189,808	203,231	216,184
	1.0	0.0	2.1	9.1	4.2	-20.1	3.3	6.4
Government business enterprise profits before taxes	15,544	15,152	16,440	17,180	15,152	14,040	15,539	15,703
	-1.0	-2.5	8.5	4.5	-11.8	-7.3	6.2	1.1
Inventory valuation adjustment	3,488	3,564	-1,552	-4,804	-8,208	-10,772	3,272	-6,334
	...	...	...	...	...	...	...	...
Interest, dividends and miscellaneous receipts[2]	99,864	104,740	105,188	112,224	116,716	99,196	97,058	108,331
	5.9	4.9	0.4	6.7	4.0	-15.0	-3.1	11.6
Interest on consumer debt	17,364	17,776	19,104	19,300	19,580	20,116	17,092	19,525
	2.5	2.4	7.5	1.0	1.5	2.7	7.8	14.2
Interest on public debt[3]	55,716	55,768	55,596	55,056	54,808	53,112	55,622	54,643
	0.4	0.1	-0.3	-1.0	-0.5	-3.1	0.8	-1.8
<b>Outlay</b>	<b>289,136</b>	<b>292,508</b>	<b>289,764</b>	<b>300,604</b>	<b>308,508</b>	<b>290,488</b>	<b>287,700</b>	<b>297,341</b>
	2.4	1.2	-0.9	3.7	2.6	-5.8	5.6	3.4
Interest, dividends and miscellaneous payments	227,160	229,512	227,656	234,504	238,424	226,028	226,465	231,653
	1.9	1.0	-0.8	3.0	1.7	-5.2	5.6	2.3
Direct taxes	58,568	59,376	58,708	62,488	66,244	60,916	57,421	62,089
	3.8	1.4	-1.1	6.4	6.0	-8.0	7.4	8.1
Other current transfers	3,408	3,620	3,400	3,612	3,840	3,544	3,814	3,599
	6.5	6.2	-6.1	6.2	6.3	-7.7	-14.0	-5.6
<b>Saving</b>	<b>107,624</b>	<b>109,320</b>	<b>114,160</b>	<b>126,448</b>	<b>127,224</b>	<b>75,012</b>	<b>104,114</b>	<b>110,711</b>
	-1.9	1.6	4.4	10.8	0.6	-41.0	-3.3	6.3
<b>Gross saving and capital transfers</b>	<b>233,064</b>	<b>235,992</b>	<b>242,396</b>	<b>254,388</b>	<b>256,968</b>	<b>208,576</b>	<b>228,638</b>	<b>240,582</b>
	-0.2	1.3	2.7	4.9	1.0	-18.8	0.5	5.2
Saving	107,624	109,320	114,160	126,448	127,224	75,012	104,114	110,711
	-1.9	1.6	4.4	10.8	0.6	-41.0	-3.3	6.3
Capital consumption allowances	122,608	123,708	125,508	127,252	128,824	130,452	121,759	128,009
	1.2	0.9	1.5	1.4	1.2	1.3	4.6	5.1
Net capital transfers	2,832	2,964	2,728	688	920	3,112	2,765	1,862
	9.9	4.7	-8.0	-74.8	33.7	238.3	-20.2	-32.7
Deduct: Non-financial capital acquisition	194,968	188,356	178,608	184,156	189,940	182,140	183,292	183,711
	11.9	-3.4	-5.2	3.1	3.1	-4.1	4.4	0.2
<b>Net lending</b>	<b>38,096</b>	<b>47,636</b>	<b>63,788</b>	<b>70,232</b>	<b>67,028</b>	<b>26,436</b>	<b>45,346</b>	<b>56,871</b>
	...	...	...	...	...	...	...	...
<b>Transactions in financial assets</b>	<b>729,540</b>	<b>721,388</b>	<b>598,220</b>	<b>563,888</b>	<b>499,892</b>	<b>753,752</b>	<b>699,381</b>	<b>603,938</b>
	...	...	...	...	...	...	...	...
<i>Of which:</i>								
Consumer credit	33,948	36,832	38,180	32,460	30,696	24,424	34,908	31,440
	...	...	...	...	...	...	...	...
Bank and other loans	56,372	49,564	30,276	22,112	80,128	24,204	48,109	39,180
	...	...	...	...	...	...	...	...
Mortgages	103,224	109,104	102,204	96,032	86,700	82,300	101,032	91,809
	...	...	...	...	...	...	...	...
Short-term paper	12,392	-23,284	5,828	3,376	-12,820	180,568	58	44,238
	...	...	...	...	...	...	...	...
Bonds	104,640	108,248	94,684	85,292	64,984	321,196	92,378	141,539
	...	...	...	...	...	...	...	...
Shares	-1,072	14,132	-3,384	33,384	-40,060	-13,020	14,963	-5,770
	...	...	...	...	...	...	...	...
Foreign investments	-29,044	58,832	-14,920	4,440	-9,876	-60,368	61,758	-20,181
	...	...	...	...	...	...	...	...
<b>Transactions in liabilities</b>	<b>695,584</b>	<b>667,076</b>	<b>533,352</b>	<b>501,144</b>	<b>442,908</b>	<b>738,892</b>	<b>647,065</b>	<b>554,074</b>
	...	...	...	...	...	...	...	...
<i>Of which:</i>								
Currency and deposits	248,840	130,224	95,100	135,048	97,088	82,176	172,860	102,353
	...	...	...	...	...	...	...	...
Bank and other loans	62,660	81,404	26,704	-3,012	61,844	24,720	60,155	27,564
	...	...	...	...	...	...	...	...
Short-term paper	17,696	-21,948	-4,856	-37,780	-40,328	-14,556	3,565	-24,380
	...	...	...	...	...	...	...	...
Bonds	118,384	102,484	88,632	155,488	71,728	217,612	94,911	133,365
	...	...	...	...	...	...	...	...
Shares	128,492	139,944	150,876	97,972	70,416	40,920	124,845	90,046
	...	...	...	...	...	...	...	...
Life insurance and pensions	41,080	34,020	46,276	42,380	34,896	17,456	48,028	35,252
	...	...	...	...	...	...	...	...
<b>Net financial investment</b>	<b>33,956</b>	<b>54,312</b>	<b>64,868</b>	<b>62,744</b>	<b>56,984</b>	<b>14,860</b>	<b>52,316</b>	<b>49,864</b>
	...	...	...	...	...	...	...	...
Sector discrepancy	4,140	-6,676	-1,080	7,488	10,044	11,576	-6,970	7,007
	...	...	...	...	...	...	...	...

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

2. Includes interest and dividends received from non-residents.

3. Interest on the public debt is routed to other sectors of the economy through the corporate sector due to incomplete information on transactions of government debt instruments.



Table E.4 Sector accounts - Government[1]

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Seasonally adjusted data at annual rates, millions of dollars								
<b>Income</b>	<b>623,316</b>	<b>630,492</b>	<b>628,200</b>	<b>639,212</b>	<b>642,208</b>	<b>626,132</b>	<b>619,472</b>	<b>633,938</b>
	0.4	1.2	-0.4	1.8	0.5	-2.5	5.2	2.3
Taxes on incomes	259,332	262,096	262,304	262,500	264,976	262,996	256,734	263,194
	-0.0	1.1	0.1	0.1	0.9	-0.7	9.4	2.5
Contributions to social insurance plans	68,952	69,724	69,460	69,788	70,164	69,648	68,870	69,765
	0.5	1.1	-0.4	0.5	0.5	-0.7	1.3	1.3
Taxes on production and imports	183,692	185,576	181,632	183,516	183,608	180,204	182,638	182,240
	0.8	1.0	-2.1	1.0	0.1	-1.9	3.4	-0.2
Other current transfers from persons	12,104	12,256	12,264	12,288	12,352	12,532	12,061	12,359
	-0.5	1.3	0.1	0.2	0.5	1.5	6.0	2.5
Investment income	52,564	53,484	54,884	62,748	62,324	51,308	52,600	57,816
	1.1	1.8	2.6	14.3	-0.7	-17.7	-0.6	9.9
Sales of goods and services[2]	46,672	47,356	47,656	48,372	48,784	49,444	46,569	48,564
	0.8	1.5	0.6	1.5	0.9	1.4	3.6	4.3
<b>Outlay</b>	<b>581,224</b>	<b>590,528</b>	<b>602,108</b>	<b>602,740</b>	<b>604,796</b>	<b>613,176</b>	<b>579,146</b>	<b>605,705</b>
	1.0	1.6	2.0	0.1	0.3	1.4	4.8	4.6
Gross current expenditure on goods and services[2]	342,700	350,912	354,892	361,456	364,284	369,784	343,041	362,604
	0.1	2.4	1.1	1.8	0.8	1.5	5.9	5.7
Current transfers	175,056	176,396	184,224	178,712	178,096	182,464	172,592	180,874
	3.4	0.8	4.4	-3.0	-0.3	2.5	4.4	4.8
Interest on the public debt	63,468	63,220	62,992	62,572	62,416	60,928	63,513	62,227
	-0.2	-0.4	-0.4	-0.7	-0.2	-2.4	0.4	-2.0
<b>Saving</b>	<b>42,092</b>	<b>39,964</b>	<b>26,092</b>	<b>36,472</b>	<b>37,412</b>	<b>12,956</b>	<b>40,326</b>	<b>28,233</b>
	-7.4	-5.1	-34.7	39.8	2.6	-65.4	11.4	-30.0
<b>Gross saving and capital transfers</b>	<b>69,048</b>	<b>66,916</b>	<b>53,992</b>	<b>66,936</b>	<b>68,836</b>	<b>42,384</b>	<b>67,025</b>	<b>58,037</b>
	-4.0	-3.1	-19.3	24.0	2.8	-38.4	11.1	-13.4
Saving	42,092	39,964	26,092	36,472	37,412	12,956	40,326	28,233
	-7.4	-5.1	-34.7	39.8	2.6	-65.4	11.4	-30.0
Capital consumption allowances	28,396	28,808	29,456	30,180	30,928	31,616	28,201	30,545
	1.4	1.5	2.2	2.5	2.5	2.2	6.8	8.3
Net capital transfers	-1,440	-1,856	-1,556	284	496	-2,188	-1,502	-741
	...	...	...	...	74.6	...	...	...
Deduct: Non-financial capital acquisition	46,792	47,088	49,084	50,616	52,528	54,244	45,726	51,618
	3.2	0.6	4.2	3.1	3.8	3.3	11.9	12.9
<b>Net lending</b>	<b>22,256</b>	<b>19,828</b>	<b>4,908</b>	<b>16,320</b>	<b>16,308</b>	<b>-11,860</b>	<b>21,299</b>	<b>6,419</b>
	...	...	...	...	...	...	...	...
<b>Transactions in financial assets</b>	<b>15,580</b>	<b>30,112</b>	<b>23,580</b>	<b>76,652</b>	<b>76,964</b>	<b>261,180</b>	<b>35,222</b>	<b>109,594</b>
	...	...	...	...	...	...	...	...
Currency and deposits	572	3,944	8,636	1,620	6,020	71,200	2,403	21,869
	...	...	...	...	...	...	...	...
Loans	1,584	-176	256	4,560	2,740	5,380	2,430	3,234
	...	...	...	...	...	...	...	...
Canadian securities	19,472	15,836	8,316	17,780	20,680	-3,032	17,620	10,936
	...	...	...	...	...	...	...	...
Other financial assets	-6,048	10,508	6,372	52,692	47,524	187,632	12,769	73,555
	...	...	...	...	...	...	...	...
<b>Transactions in liabilities</b>	<b>-12,324</b>	<b>15,908</b>	<b>17,504</b>	<b>55,616</b>	<b>57,956</b>	<b>269,296</b>	<b>15,275</b>	<b>100,093</b>
	...	...	...	...	...	...	...	...
Bank and other loans	-264	988	1,688	796	1,348	1,084	1,169	1,229
	...	...	...	...	...	...	...	...
Short-term paper	-16,836	16,720	-24,880	67,236	37,064	233,384	-2,750	78,201
	...	...	...	...	...	...	...	...
Bonds	12,772	-6,100	12,488	-15,176	-1,912	44,956	3,309	10,089
	...	...	...	...	...	...	...	...
Other liabilities	-7,996	4,300	28,208	2,760	21,456	-10,128	13,547	10,574
	...	...	...	...	...	...	...	...
<b>Net financial investment</b>	<b>27,904</b>	<b>14,204</b>	<b>6,076</b>	<b>21,036</b>	<b>19,008</b>	<b>-8,116</b>	<b>19,947</b>	<b>9,501</b>
	...	...	...	...	...	...	...	...
Sector discrepancy	-5,648	5,624	-1,168	-4,716	-2,700	-3,744	1,352	-3,082
	...	...	...	...	...	...	...	...

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

2. In GDP, government current expenditure is recorded on a net basis, that is, after deduction of sales of goods and services. In the government sector accounts, sales of goods and services to other sectors are shown separately as part of revenue, and current expenditure is recorded on a gross basis, which leaves saving unchanged.

**Table E.5 Sector accounts - Non-residents[1]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Seasonally adjusted data at annual rates, millions of dollars								
<b>Income</b>	<b>587,824</b>	<b>580,884</b>	<b>582,620</b>	<b>607,332</b>	<b>633,176</b>	<b>626,856</b>	<b>583,869</b>	<b>612,496</b>
	2.2	-1.2	0.3	4.2	4.3	-1.0	3.5	4.9
Sales of goods (imports)	420,416	407,984	417,824	440,212	460,504	452,348	415,007	442,722
	2.4	-3.0	2.4	5.4	4.6	-1.8	2.7	6.7
Sales of services (imports)	86,648	91,624	89,832	91,784	91,560	92,320	87,248	91,374
	0.4	5.7	-2.0	2.2	-0.2	0.8	5.4	4.7
Interest, dividends and miscellaneous receipts	70,288	70,796	64,908	64,364	70,280	71,596	71,013	67,787
	2.5	0.7	-8.3	-0.8	9.2	1.9	7.5	-4.5
Current transfers	10,472	10,480	10,056	10,972	10,832	10,592	10,601	10,613
	8.0	0.1	-4.0	9.1	-1.3	-2.2	-1.9	0.1
<b>Outlay</b>	<b>587,948</b>	<b>579,084</b>	<b>601,288</b>	<b>637,984</b>	<b>655,060</b>	<b>597,844</b>	<b>591,509</b>	<b>623,044</b>
	-2.0	-1.5	3.8	6.1	2.7	-8.7	1.0	5.3
Purchases of goods (exports)	458,036	444,612	469,600	505,064	517,760	467,248	463,051	489,918
	-3.2	-2.9	5.6	7.6	2.5	-9.8	2.1	5.8
Purchases of services (exports)	68,204	69,260	69,196	70,144	69,936	70,072	69,067	69,837
	-2.3	1.5	-0.1	1.4	-0.3	0.2	0.1	1.1
Interest, dividends and miscellaneous payments	51,884	55,676	52,876	52,556	57,536	49,220	49,845	53,047
	9.8	7.3	-5.0	-0.6	9.5	-14.5	-6.8	6.4
Current transfers	9,824	9,536	9,616	10,220	9,828	11,304	9,546	10,242
	3.5	-2.9	0.8	6.3	-3.8	15.0	-1.6	7.3
<b>Saving</b>	<b>-124</b>	<b>1,800</b>	<b>-18,668</b>	<b>-30,652</b>	<b>-21,884</b>	<b>29,012</b>	<b>-7,640</b>	<b>-10,548</b>
	...	...	...	...	...	...	...	...
<b>Gross saving and capital transfers</b>	<b>-4,272</b>	<b>-1,828</b>	<b>-23,464</b>	<b>-35,424</b>	<b>-26,320</b>	<b>24,920</b>	<b>-11,838</b>	<b>-15,072</b>
	...	...	...	...	...	...	...	...
Saving	-124	1,800	-18,668	-30,652	-21,884	29,012	-7,640	-10,548
	...	...	...	...	...	...	...	...
Net capital transfers	-4,148	-3,628	-4,796	-4,772	-4,436	-4,092	-4,198	-4,524
	...	...	...	...	...	...	...	...
<b>Net lending[2]</b>	<b>-4,272</b>	<b>-1,828</b>	<b>-23,464</b>	<b>-35,424</b>	<b>-26,320</b>	<b>24,920</b>	<b>-11,838</b>	<b>-15,072</b>
	...	...	...	...	...	...	...	...
<b>Transactions in financial assets</b>	<b>67,688</b>	<b>125,560</b>	<b>111,964</b>	<b>44,324</b>	<b>67,408</b>	<b>77,372</b>	<b>130,966</b>	<b>75,267</b>
	...	...	...	...	...	...	...	...
Currency and deposits	-11,100	7,592	-17,992	2,188	16,924	-19,720	12,903	-4,650
	...	...	...	...	...	...	...	...
Loans	17,844	48,676	-4,376	320	-2,584	4,340	21,032	-575
	...	...	...	...	...	...	...	...
Short-term paper	3,344	5,364	-13,168	11,064	7,228	37,076	-323	10,550
	...	...	...	...	...	...	...	...
Bonds	9,200	10,092	31,168	59,816	-7,296	-31,548	11,282	13,035
	...	...	...	...	...	...	...	...
Shares	-28,764	-102,596	5,208	1,784	-9,872	12,716	-41,993	2,459
	...	...	...	...	...	...	...	...
Other financial assets	77,164	156,432	111,124	-30,848	63,008	74,508	128,065	54,448
	...	...	...	...	...	...	...	...
<b>Transactions in liabilities</b>	<b>71,948</b>	<b>130,464</b>	<b>137,492</b>	<b>78,232</b>	<b>89,524</b>	<b>48,764</b>	<b>146,947</b>	<b>88,503</b>
	...	...	...	...	...	...	...	...
Official reserves	2,808	3,432	-9,436	8,792	4,600	2,720	4,644	1,669
	...	...	...	...	...	...	...	...
Currency and deposits	6,192	35,316	-14,368	18,700	3,836	-8,572	15,126	-101
	...	...	...	...	...	...	...	...
Bank and other loans	7,636	11,560	-2,592	24,020	13,064	3,736	6,508	9,557
	...	...	...	...	...	...	...	...
Foreign investments	-35,056	43,084	-7,168	-10,308	892	-75,244	62,990	-22,957
	...	...	...	...	...	...	...	...
Other liabilities	90,368	37,072	171,056	37,028	67,132	126,124	57,679	100,335
	...	...	...	...	...	...	...	...
<b>Net financial investment</b>	<b>-4,260</b>	<b>-4,904</b>	<b>-25,528</b>	<b>-33,908</b>	<b>-22,116</b>	<b>28,608</b>	<b>-15,981</b>	<b>-13,236</b>
	...	...	...	...	...	...	...	...
Sector discrepancy	-12	3,076	2,064	-1,516	-4,204	-3,688	4,143	-1,836
	...	...	...	...	...	...	...	...

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

2. This account presents the saving as well as the net lending or borrowing position of non-residents with respect to their transactions with Canadian residents. The sign of these aggregates is, therefore, the reverse of what appears in the Canadian Balance of International Payments.

## Section F

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

Fourth quarter 2008

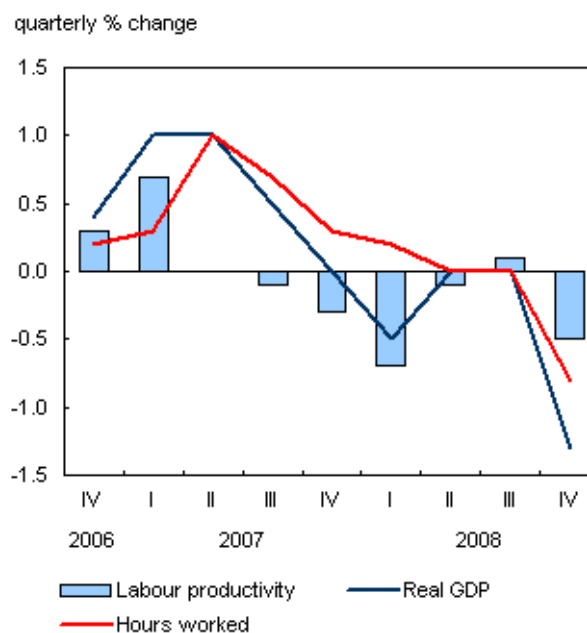
The labour productivity of Canadian businesses fell 0.5% in the fourth quarter, extending the period of weakness in the business sector that began in the second quarter of 2007.

In the fourth quarter, productivity declined as output dropped more rapidly than hours worked.

The real gross domestic product (GDP) of Canadian businesses shrank by 1.3% in the fourth quarter, reflecting weak domestic demand and the continuing slump in exports. This was the largest decline since the first quarter of 1991 when business sector GDP declined 2.2%.

**Chart F.1**

**Productivity in Canadian businesses declines in the fourth quarter**



At the same time, hours worked fell 0.8% in the fourth quarter of 2008 after remaining virtually unchanged in the previous two quarters.

#### Note to readers

This chapter presents an analysis on labour productivity for the aggregate business sector and its constituent industries (15 two-digit NAICS industries) and sub-sectors (goods and services). The statistical series for total economy, business sector and non-commercial sector start with the first quarter of 1981, while those at industry level are available only back to the first quarter of 1997.

The term "productivity" herein refers to labour productivity. For the purposes of this analysis, labour productivity, gross domestic product (GDP), and unit labour cost cover the business sector only.

Calculations of the productivity growth rate and its related variables in the text and tables are based on index numbers rounded to three decimal places. On CANSIM, those calculations would be based on index numbers that are rounded to one decimal place.

For more information about the productivity program, see the National Economic Accounts ([www.statcan.ca/nea](http://www.statcan.ca/nea)) module. You can also order a copy of a technical note about the quarterly estimates of productivity by sending an email to [productivity.measures@statcan.gc.ca](mailto:productivity.measures@statcan.gc.ca).

#### Revisions

For this release, the Canadian estimates were revised retroactively to the first quarter of 2008.

**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.

**Unit labour cost in U.S. dollars** is the equivalent of the ratio of Canadian unit labour cost to the exchange rate. This latter corresponds to the U.S. dollar value expressed in Canadian dollars.

**Productivity in the United States suffers its first quarterly decline in one year**

In the United States, productivity in the business sector edged down 0.1% in the fourth quarter. It was the first quarterly decrease since the fourth quarter of 2007.

As in Canada, real GDP and hours worked were both down sharply for American businesses, falling 2.2% and 2.1% respectively in the fourth quarter.

**Chart F.2**  
**U.S. productivity down slightly in fourth quarter**



Hours worked in American businesses declined for a sixth consecutive quarter, recording the largest decrease since the first quarter of 1975. At the same time, real GDP in the United States fell for the second consecutive quarter, experiencing its biggest drop since the first quarter of 1982.

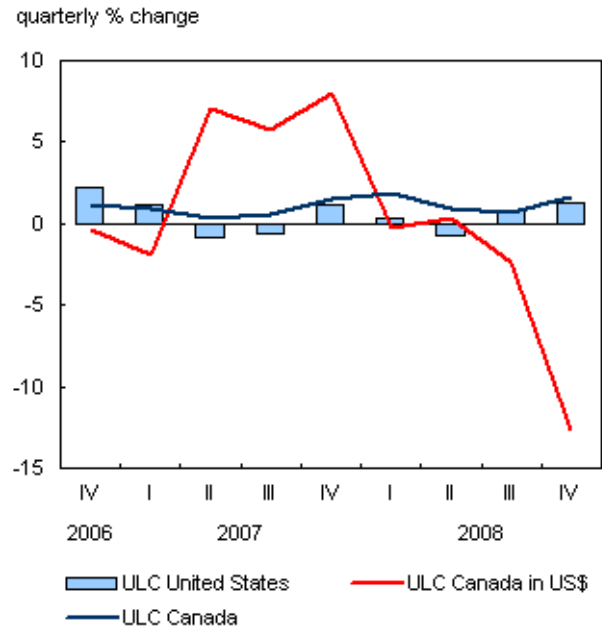
Most of the weakness in U.S. output is due to slumping exports and a continuing decline in consumer spending. American households cut back their expenditures on durable goods in particular. A sharp decrease in business investment also affected our southern neighbour's GDP.

**Competitiveness of Canadian businesses improves**

Labour costs per unit of production in Canadian dollars rose 1.6% for Canadian businesses in the fourth quarter. This was just over twice the rate registered in the previous quarter (+0.7%).

The rise reflected the quarterly increase of 1.1% in hourly compensation combined with the decline in productivity. In the first three quarters of 2008, the average quarterly growth rate of hourly compensation in Canada was 0.9%.

**Chart F.3**  
**Canadian unit labour costs (ULC) in U.S. dollars declines sharply**



In the fourth quarter, the Canadian dollar depreciated by 14.1% relative to its American counterpart. This contributed to the substantial decrease in Canadian unit labour costs measured in U.S. dollars in the fourth quarter and helped Canadian businesses improve their competitiveness.

American businesses, on the other hand, saw their unit labour costs climb 1.3% in the fourth quarter, up from the growth rate of 0.8% for the previous quarter.

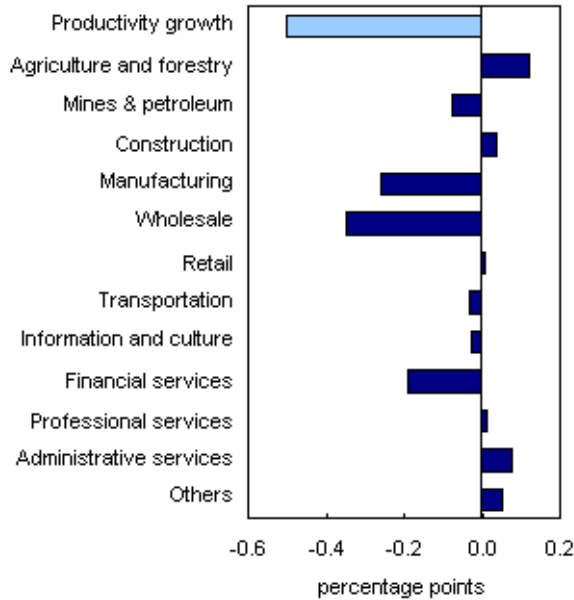
**Analysis by industry – fourth quarter 2008**

**Lower productivity in the majority of industries in the fourth quarter**

Although widespread, the productivity decline in the business sector in the fourth quarter was mainly due to services. On a quarterly basis, productivity was down 0.9% in service-producing businesses, compared with virtually no change in goods-producing businesses.

The decrease in services-producing businesses came in the wake of a 1.1% contraction in their output and a 0.2% drop in hours worked. The drop in both GDP and hours worked was more severe in the goods-producing industries (-2.4%), but labour productivity was left unchanged.

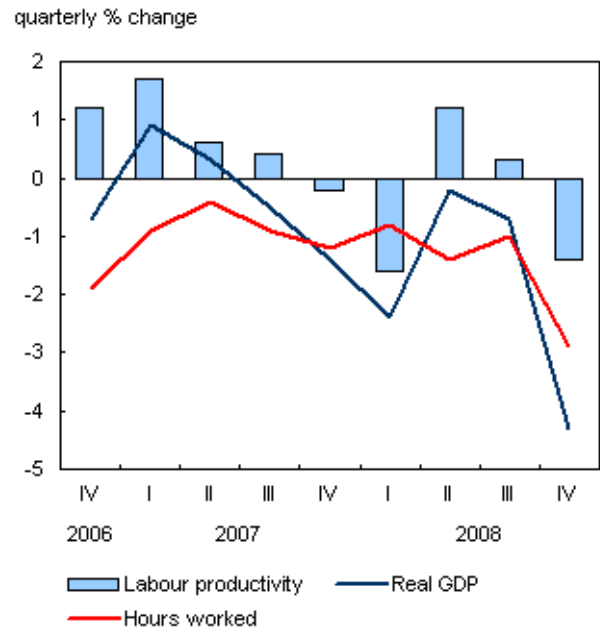
**Chart F.4**  
**Main industries' contribution to percent change in labour productivity in the business sector, fourth quarter 2008**



Wholesale trade, finance, insurance and real estate services, retail trade, transportation and warehousing, information and cultural industries, and accommodation and food service were responsible for the slump in the service sector. The decline was partly offset by gains in professional, scientific and technical services, administrative, support and remediation services, and other business services.

In the goods-producing industries, productivity declines in manufacturing and public utilities were offset by productivity gains in the other goods producing industries.

**Chart F.5**  
**Manufacturing productivity declines, following gains in the second and third quarter**



Despite the depreciation of the Canadian dollar, which helped improve the competitiveness of Canadian manufacturers, their value added and hours worked fell 4.3% and 2.9% respectively in the fourth quarter.

**Unit labour cost up sharply in the goods sector**

Most of the 1.6% increase in unit labour costs in the fourth quarter was due to the goods sector, where unit labour costs jumped 2.6%, compared with 0.2% in the third quarter. Manufacturing, mining, oil and gas extraction and construction were the main sources of the increase. In the case of manufacturing, this reflects the productivity decline combined with the growth in hourly compensation.

Unit labour costs increase when hourly compensation grows faster than labour productivity. In general, when the economic situation deteriorates suddenly, as was the case in the fourth quarter of 2008, the two factors that affect the trend in unit labour costs work together to drive them upward. The opposite effect usually occurs at the beginning of an economic recovery.

**Year-end review 2008**

**Annual productivity growth slides into negative territory for the first time since 1996**

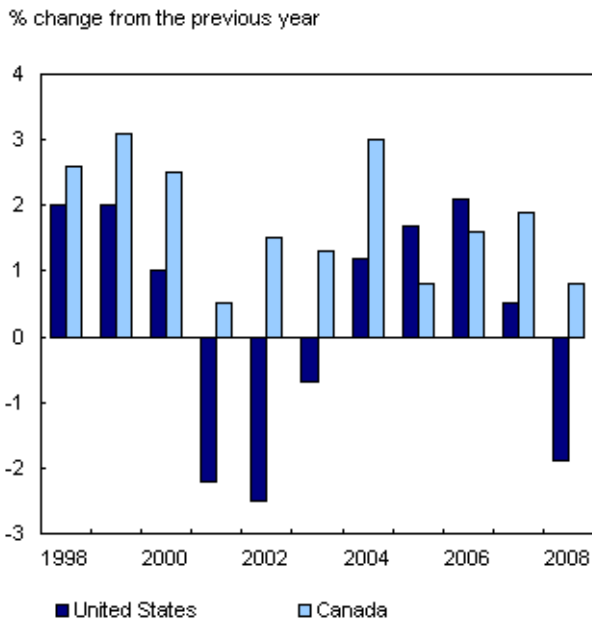
For 2008 as a whole, labour productivity in the Canadian business sector fell 1.1%. It was the first time since 1996 that the annual productivity growth was negative.

In 2008, production of goods and services by Canadian businesses fell for the first time since 1991. At the same time, hours worked continued to rise, albeit at only half the rate of the previous two years.

Despite a slight decrease in the fourth quarter, productivity in American businesses grew 2.7% for 2008 as a whole, appreciably higher than the annual rates for the previous three years.

This occurred in a context marked by a gradual slowdown in the annual growth rate of American GDP that began in 2005 and the first annual decrease in hours worked in five years.

**Chart F.6**  
**Hours worked slows in Canada and decreases in the U.S.**



Despite a slight slowdown in job creation in 2008, hourly compensation rose by 3.8%, a slower pace than in 2007.

This increase in hourly compensation, combined with the 1.1% decline in productivity, resulted in a 4.9% jump in the unit labour costs of Canadian businesses in 2008, the largest upswing since the 5.0% recorded in 1991.

American businesses saw the growth of their unit labour costs slow appreciably to just 0.9% in 2008. In 2007, the annual growth rate in American unit labour costs was 2.6%.

**Productivity falls in the goods industries but shows a modest gain in business services**

For the whole of 2008, goods-producing businesses suffered a productivity loss of 2.4%, while productivity increased by 0.3% in service-producing businesses.

Retail trade and other commercial services were largely responsible for the productivity increase in the service sector. The gain was partly offset by significant declines in wholesale trade, finance, insurance and real estate, and transportation and warehousing.

Except for agriculture, forestry, hunting and fishing, all goods-producing industries experienced productivity declines in 2008.

**Unit labour costs up for all industries in 2008**

The growth rate of unit labour costs accelerated in the majority of industries in 2008 compared with 2007. They grew by 6.3% in goods-producing industries and 3.6% in service-producing businesses.

All industries saw an increase in their unit labour costs in 2008. For the fifth consecutive year, mining and oil and gas extraction posted the largest increase, 13.5%.

Retail trade and other business services had the smallest rise in unit labour costs in 2008.

**Table F.1 Business sector - Labour productivity and related variables for Canada and the United States[1, 2]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008
Seasonally adjusted						
Percent change from previous quarter						
<b>Canada</b>						
Labour productivity	-0.1	-0.3	-0.7	-0.1	0.1	-0.5
Real GDP	0.5	0.0	-0.5	-0.0	0.0	-1.3
Hours worked	0.7	0.3	0.2	0.0	-0.0	-0.8
Hourly compensation	0.4	1.3	1.2	0.8	0.8	1.1
Unit labour cost	0.6	1.5	1.9	0.9	0.7	1.6
Exchange rate[3]	5.0	6.5	-2.3	-0.6	-3.0	-14.1
Unit labour cost in US\$	5.7	8.0	-0.3	0.3	-2.4	-12.7
<b>United States</b>						
Labour productivity	1.8	-0.3	0.5	1.1	0.6	-0.1
Real GDP	1.3	-0.2	0.2	0.7	-0.4	-2.2
Hours worked	-0.4	0.1	-0.4	-0.5	-1.0	-2.1
Hourly compensation	1.1	0.9	0.9	0.5	1.4	1.2
Unit labour cost	-0.6	1.2	0.3	-0.7	0.8	1.3
Percent change from same quarter of previous year						
<b>Canada</b>						
Labour productivity	0.8	0.3	-1.2	-1.2	-1.0	-1.2
Real GDP	3.0	2.6	1.0	0.0	-0.5	-1.8
Hours worked	2.2	2.3	2.2	1.2	0.5	-0.6
Hourly compensation	3.8	3.6	3.1	3.8	4.1	4.0
Unit labour cost	3.0	3.3	4.4	5.0	5.2	5.3
Exchange rate[3]	7.3	16.1	16.6	8.7	0.3	-19.0
Unit labour cost in US\$	10.5	19.9	21.8	14.2	5.4	-14.8
<b>United States</b>						
Labour productivity	2.9	2.7	3.5	3.2	2.0	2.2
Real GDP	3.0	2.4	2.8	2.0	0.2	-1.8
Hours worked	0.1	-0.3	-0.7	-1.2	-1.7	-3.9
Hourly compensation	4.9	3.7	3.5	3.4	3.7	4.0
Unit labour cost	1.9	0.9	0.0	0.2	1.6	1.8
Percent change from previous quarter at annualized rate[4]						
<b>Canada</b>						
Labour productivity	-0.6	-1.0	-2.8	-0.3	0.3	-2.0
Real GDP	2.1	0.1	-2.0	-0.2	0.2	-5.2
Hours worked	2.7	1.2	0.8	0.1	-0.2	-3.3
Hourly compensation	1.7	5.2	4.9	3.4	3.1	4.6
Unit labour cost	2.2	6.3	7.9	3.7	2.8	6.7
Unit labour cost in US\$	24.8	36.2	-1.3	1.3	-9.2	-41.9
<b>United States</b>						
Labour productivity	7.3	-1.1	2.2	4.7	2.3	-0.4
Real GDP	5.5	-0.6	0.7	2.6	-1.8	-8.4
Hours worked	-1.7	0.5	-1.5	-1.9	-4.0	-8.0
Hourly compensation	4.6	3.7	3.5	1.9	5.7	5.0
Unit labour cost	-2.5	4.8	1.2	-2.6	3.3	5.4

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

2. Calculations of growth rates are based on index numbers rounded to three decimal places.

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

4. 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.

**Table F.2 Business sector - Some related variables for labour markets[1, 2]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008
Seasonally adjusted						
Percent change from previous quarter						
<b>Canada</b>						
All jobs	0.5	0.5	0.8	-0.1	-0.0	-0.4
Hours worked	0.7	0.3	0.2	0.0	-0.0	-0.8
Average hours	0.1	-0.2	-0.6	0.1	-0.0	-0.5
Labour share[3]	0.5	0.5	0.3	-2.0	-0.0	5.5
<b>United States</b>						
All jobs	-0.2	0.3	-0.3	-0.5	-0.6	-1.6
Hours worked	-0.4	0.1	-0.4	-0.5	-1.0	-2.1
Average hours	-0.2	-0.1	-0.1	-0.0	-0.4	-0.5
Labour share[3]	-0.9	0.7	-0.2	-0.9	-0.2	1.4
Percent change from same quarter of previous year						
<b>Canada</b>						
All jobs	2.4	2.2	2.5	1.7	1.1	0.3
Hours worked	2.2	2.3	2.2	1.2	0.5	-0.6
Average hours	-0.2	0.1	-0.3	-0.5	-0.6	-0.9
Labour share[3]	0.3	-0.5	0.4	-0.7	-1.2	3.8
<b>United States</b>						
All jobs	0.4	0.3	-0.3	-0.8	-1.1	-3.0
Hours worked	0.1	-0.3	-0.7	-1.2	-1.7	-3.9
Average hours	-0.4	-0.6	-0.4	-0.4	-0.6	-0.9
Labour share[3]	-0.3	-1.3	-1.6	-1.3	-0.6	0.1
Percent change from previous quarter at annualized rates[4]						
<b>Canada</b>						
All jobs	2.2	1.9	3.1	-0.3	-0.1	-1.4
Hours worked	2.7	1.2	0.8	0.1	-0.2	-3.3
Average hours	0.5	-0.7	-2.2	0.4	-0.1	-1.9
Labour share[3]	1.9	2.1	1.2	-7.6	-0.0	24.1
<b>United States</b>						
All jobs	-1.0	1.0	-1.3	-1.8	-2.4	-6.3
Hours worked	-1.7	0.5	-1.5	-1.9	-4.0	-8.0
Average hours	-0.7	-0.5	-0.2	-0.1	-1.6	-1.8
Labour share[3]	-3.6	2.8	-0.8	-3.5	-0.9	5.6

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

2. Calculations of growth rates are based on index numbers rounded to three decimal places.

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

4. 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.



Table F.3 Indexes of labour productivity by industry[1, 2]

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Using seasonally adjusted data, (2002 = 100)								
<b>Business sector - goods</b>	<b>103.1</b>	<b>101.8</b>	<b>100.5</b>	<b>100.2</b>	<b>100.7</b>	<b>100.6</b>	<b>103.0</b>	<b>100.5</b>
	<b>-0.2</b>	<b>-1.3</b>	<b>-1.2</b>	<b>-0.3</b>	<b>0.4</b>	<b>-0.0</b>	<b>0.8</b>	<b>-2.4</b>
Agriculture, forestry, fishing and hunting	122.9	123.4	124.7	127.1	128.3	133.7	123.0	128.5
	1.5	0.4	1.1	1.8	1.0	4.2	-0.8	4.5
Construction	96.3	94.9	93.9	92.2	91.7	91.9	97.1	92.4
	-0.6	-1.5	-1.0	-1.8	-0.5	0.2	-2.3	-4.8
Manufacturing	110.6	110.4	108.6	109.9	110.3	108.7	110.2	109.4
	0.4	-0.2	-1.6	1.2	0.3	-1.4	2.7	-0.7
<b>Business sector - services</b>	<b>107.3</b>	<b>107.8</b>	<b>107.7</b>	<b>107.9</b>	<b>107.9</b>	<b>106.9</b>	<b>107.3</b>	<b>107.6</b>
	<b>0.2</b>	<b>0.5</b>	<b>-0.1</b>	<b>0.2</b>	<b>-0.0</b>	<b>-0.9</b>	<b>0.8</b>	<b>0.3</b>
Wholesale trade	123.3	126.3	125.4	124.6	122.8	115.7	123.6	122.1
	0.6	2.4	-0.7	-0.7	-1.4	-5.8	3.0	-1.2
Retail trade	115.3	117.4	118.3	119.0	120.1	119.3	115.5	119.1
	-0.1	1.9	0.7	0.6	0.9	-0.6	3.9	3.2
Transportation and warehousing	99.8	99.6	97.4	99.7	101.3	100.5	100.6	99.7
	-1.3	-0.2	-2.2	2.4	1.5	-0.7	-0.8	-0.9
Information and cultural industries	116.8	119.9	118.2	117.8	117.4	116.1	116.7	117.4
	1.2	2.6	-1.4	-0.3	-0.4	-1.1	0.7	0.5
Finance, real estate and company management	106.3	105.8	105.8	105.1	103.4	101.5	105.7	104.0
	0.8	-0.4	-0.0	-0.7	-1.6	-1.9	2.4	-1.7
Professional, scientific and technical services	100.8	99.0	100.4	100.8	100.6	100.8	100.6	100.7
	-0.6	-1.7	1.4	0.4	-0.1	0.2	-1.4	0.1
Administrative and support, waste management and remediation services	99.1	98.6	97.6	97.1	97.6	98.7	99.1	97.8
	0.1	-0.5	-1.1	-0.5	0.5	1.1	-0.6	-1.4
Accommodation and food services	98.6	100.5	100.8	100.0	98.6	97.6	98.6	99.2
	1.1	1.9	0.3	-0.8	-1.4	-0.9	-1.4	0.6
Other commercial services	103.1	102.3	103.4	104.9	105.7	107.4	103.6	105.4
	-0.9	-0.8	1.1	1.4	0.8	1.6	-1.1	1.7

1. The first line is the series itself. The second line is the percentage change.

2. Calculations of growth rates are based on index numbers rounded to three decimal places.

**Table F.4 Indexes of unit labour cost by industry[1, 2]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Using seasonally adjusted data (2002 = 100)								
<b>Business sector - goods</b>	<b>119.5</b>	<b>122.9</b>	<b>125.4</b>	<b>126.7</b>	<b>127.0</b>	<b>130.3</b>	<b>119.8</b>	<b>127.4</b>
	<b>0.9</b>	<b>2.8</b>	<b>2.1</b>	<b>1.0</b>	<b>0.2</b>	<b>2.6</b>	<b>4.0</b>	<b>6.3</b>
Agriculture, forestry, fishing and hunting	94.5	93.9	94.7	92.3	95.8	94.9	92.3	94.4
	3.7	-0.6	0.8	-2.5	3.7	-0.9	4.0	2.3
Construction	127.3	130.5	132.3	133.9	134.9	137.7	126.5	134.7
	1.3	2.5	1.4	1.2	0.7	2.1	8.3	6.5
Manufacturing	107.8	110.2	112.0	112.0	111.8	115.9	108.7	112.9
	-0.2	2.3	1.6	-0.0	-0.2	3.8	0.7	3.9
<b>Business sector - services</b>	<b>112.9</b>	<b>113.7</b>	<b>115.5</b>	<b>116.3</b>	<b>117.3</b>	<b>119.0</b>	<b>112.9</b>	<b>117.0</b>
	<b>0.2</b>	<b>0.7</b>	<b>1.5</b>	<b>0.7</b>	<b>0.9</b>	<b>1.4</b>	<b>3.5</b>	<b>3.6</b>
Wholesale trade	101.1	100.1	103.2	103.7	104.9	111.7	101.4	105.9
	-1.0	-1.0	3.1	0.5	1.2	6.4	2.0	4.4
Retail trade	107.7	107.3	107.1	108.2	109.9	110.9	106.9	109.0
	1.7	-0.4	-0.2	1.0	1.6	0.9	0.4	2.0
Transportation and warehousing	114.2	115.2	117.1	116.9	118.2	120.2	113.7	118.1
	1.3	0.9	1.6	-0.1	1.1	1.7	3.7	3.9
Information and cultural industries	105.9	106.9	109.3	109.0	109.5	110.1	105.4	109.5
	1.3	1.0	2.2	-0.3	0.5	0.5	3.1	3.8
Finance, real estate and company management	117.2	118.7	121.1	122.9	123.0	123.5	117.4	122.6
	-0.2	1.4	2.0	1.5	0.1	0.5	3.1	4.4
Professional, scientific and technical services	115.1	118.1	119.2	119.1	119.4	122.4	115.3	120.0
	0.7	2.6	0.9	-0.0	0.3	2.5	4.3	4.1
Administrative and support, waste management and remediation services	122.5	121.5	124.0	126.7	129.2	129.3	121.9	127.3
	0.2	-0.8	2.0	2.2	2.0	0.0	5.8	4.4
Accommodation and food services	124.2	127.3	127.7	129.8	134.7	132.7	125.1	131.2
	-0.7	2.5	0.4	1.6	3.8	-1.5	8.5	4.9
Other commercial services	116.5	116.5	118.1	118.2	117.7	117.7	116.6	117.9
	-1.1	0.0	1.4	0.1	-0.5	0.0	4.6	1.1

1. The first line is the series itself. The second line is the percentage change.

2. Calculations of growth rates are based on index numbers rounded to three decimal places.

## Section G

### International investment position

Fourth quarter 2008

Following a trend to reduced net foreign debt since the mid-1990's, Canada recorded a net asset position of \$13.5 billion in the fourth quarter of 2008 - the first net asset position in this time series which dates back to 1926. The value of its international assets increased sharply in relation to its international liabilities. This resulted largely from a substantial depreciation in the Canadian dollar. Foreign currency-denominated assets, expressed in Canadian dollars, appreciated sharply from the drop in the Canadian dollar. The value of Canadian direct investment abroad alone increased \$72.0 billion in the quarter.

#### Canada records net international asset position

The net asset position arose in the fourth quarter as the Canadian dollar depreciated against most major foreign currencies except the British pound. It depreciated 12.6% against the US dollar, 11.7% against the Euro, 25.4% against the Japanese Yen but gained 6.4% against the British Pound. The exchange rate effect on Canadian assets more than offset the first balance of payments current account deficit since the second quarter of 1999 and a substantial divestment of foreign securities by Canadian institutional investors in the fourth quarter of 2008.

Canada's net investment position had been moving in this direction for some years, buoyed by a long string of current account surpluses. These surpluses were accompanied by strong gains in both Canadian direct investment abroad and Canadian portfolio investment abroad.

#### International asset values rise sharply

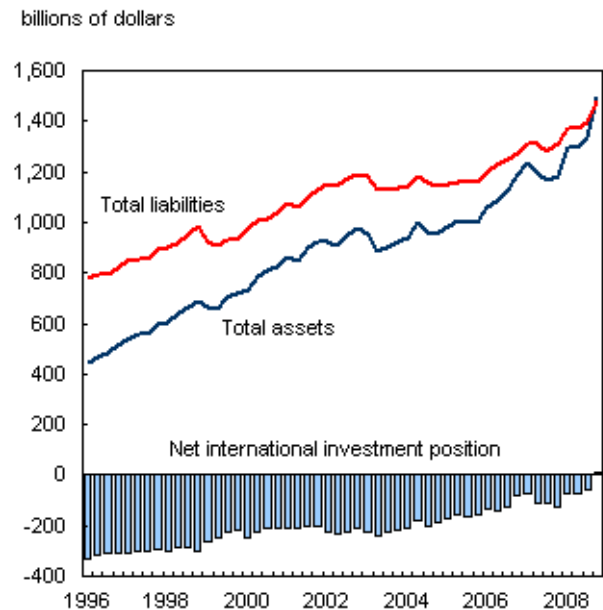
International assets rose significantly (+11.8%) in the fourth quarter of 2008 to reach \$1,493.1 billion, while international liabilities also were up (+6.0%) reaching \$1,479.5 billion. The substantial drop in the value of the Canadian dollar added \$149.7 billion to Canada's international assets and \$73.0 billion to our liabilities.

In addition, investment flows led to increases of \$11.8 billion in liabilities and a marginal decrease of \$0.6 billion in international assets, as Canadian institutional investors

shed foreign securities. These factors combined to add \$74.4 billion to Canada's international investment position, generating the net asset position.

Chart G.1

#### Canada's international investment position



#### Note to readers

The international investment position presents the value and composition of Canada's foreign assets and liabilities to the rest of the world. Canada's net international investment position is the difference between these foreign assets and liabilities. The excess of international liabilities over assets can be referred to as Canada's net foreign debt; The excess of international assets over liabilities can be referred to as Canada's net foreign assets. The valuation of the assets and liabilities in the international investment position are measured at book value, unless otherwise stated. Book value represents the value of assets and liabilities recorded in the books of the enterprise in which the investment is made.

#### Currency valuation

*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.*

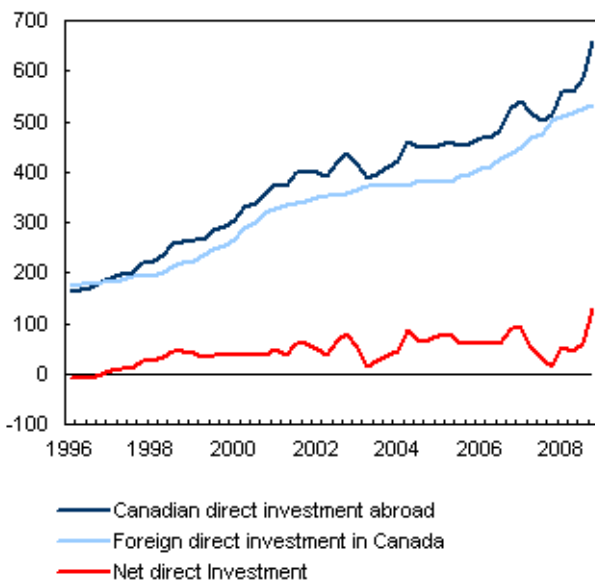
### Canadian direct investment abroad lead the gains in international assets

Canada's net asset position on direct investment reached a high of \$128.1 billion at the end of 2008, more than doubling the net asset position recorded for the previous quarter. The value of Canadian direct investment abroad was up \$72.0 billion (+12.3%). The lion's share of the increase was due to the revaluation effect of the large depreciation of the Canadian dollar, with outward direct investment transactions at \$11.6 billion in the quarter.

**Chart G.2**

#### Direct investment position

billions of dollars



In contrast, foreign direct investment in Canada, where the value is unaffected by currency fluctuations, was up only \$5.8 billion to \$530.7 billion.

### Exchange rate effects offset Canadian divestment in securities

In the context of turmoil in financial markets, Canadian investors reduced their foreign assets by \$21.2 billion of debt and equity, an amount which ended 29 years of outward annual investment. Despite this large divestment, the value of Canada's portfolio assets abroad increased by 8.6%, as the drop in the Canadian dollar added \$52.1 billion to the year-end position.

Non-residents increased their positions in Canadian bond and money market liabilities while decreasing their holdings of Canadian stocks. The revaluation effect of the drop in the Canadian dollar more than offset overall divestment by non-residents in Canadian portfolio instruments.

### Gains in the market value portfolio asset positions further add to the net asset position

Canada's overall net international investment position can also be calculated with portfolio investment assets and liabilities of tradable securities valued at market prices. The net asset position in the fourth quarter was more pronounced when taking into account the market value estimates for portfolio investment positions. The revaluation effect of the depreciation in the Canadian dollar on the difference between the book value and market value estimates of Canadian holdings of foreign equity assets was significant in this regard. In addition, the global equity market downturn in October of 2008 resulted in the prices of Canadian stocks held by non-residents decreasing by more than the prices of foreign stocks held by Canadians.

By this measure, the net international investment generated a net asset position of \$50.1 billion in the fourth quarter of 2008, as Canadian assets reached \$1,674.8 billion compared to liabilities of \$1,624.7 billion. This arose largely from the value of Canadian stocks held by non-residents decreasing by 24.1% in comparison to a much smaller decline (-11.8%) in the value of foreign stocks held by Canadians.

### Foreign currency deposits also boost the net asset position

Other foreign assets also increased (+14.3%), mostly arising from Canadian foreign currency deposits. Other Canadian liabilities, largely foreign currency deposits, also increased sharply (+12.1%).

**Table G.1 International investment position at period-end**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Millions of dollars								
<b>Assets</b>								
Canadian direct investment abroad	503,809	514,540	560,412	560,399	586,818	658,823	514,540	658,823
Portfolio investment abroad								
Foreign bonds	139,472	136,701	144,488	142,310	139,389	144,802	136,701	144,802
<i>Foreign bonds at market value</i>	<i>152,468</i>	<i>154,500</i>	<i>169,429</i>	<i>164,544</i>	<i>166,532</i>	<i>180,362</i>	<i>154,500</i>	<i>180,362</i>
Foreign stocks	206,090	210,064	227,418	226,882	228,949	259,023	210,064	259,023
<i>Foreign stocks at market value</i>	<i>566,848</i>	<i>556,952</i>	<i>525,567</i>	<i>508,721</i>	<i>456,989</i>	<i>403,041</i>	<i>556,952</i>	<i>403,041</i>
Foreign money market	8,997	7,511	7,637	7,071	6,621	3,488	7,511	3,488
<i>Foreign money market at market value</i>	<i>9,044</i>	<i>7,548</i>	<i>7,671</i>	<i>7,089</i>	<i>6,637</i>	<i>3,501</i>	<i>7,548</i>	<i>3,501</i>
Other investment								
Loans	77,953	76,122	85,468	87,004	82,207	93,718	76,122	93,718
Deposits	150,377	156,890	176,792	183,690	196,544	225,502	156,890	225,502
Official international reserves	40,887	40,593	43,589	45,027	45,500	51,322	40,593	51,322
<i>Official international reserves at market value</i>	<i>40,769</i>	<i>40,724</i>	<i>44,198</i>	<i>44,719</i>	<i>45,739</i>	<i>53,436</i>	<i>40,724</i>	<i>53,436</i>
Other assets	40,014	41,960	46,267	46,783	49,183	56,372	41,960	56,372
Total assets								
at book value	1,167,598	1,184,382	1,292,071	1,299,166	1,335,210	1,493,050	1,184,382	1,493,050
with portfolio investment at market value	<i>1,541,282</i>	<i>1,549,236</i>	<i>1,615,804</i>	<i>1,602,949</i>	<i>1,590,649</i>	<i>1,674,755</i>	<i>1,549,236</i>	<i>1,674,755</i>
<b>Liabilities</b>								
Foreign direct investment in Canada	474,597	500,851	509,924	515,504	524,920	530,703	500,851	530,703
Portfolio investment								
Canadian bonds	376,815	382,080	404,607	421,760	423,254	449,249	382,080	449,249
<i>Canadian bonds at market value</i>	<i>391,892</i>	<i>397,381</i>	<i>426,210</i>	<i>433,162</i>	<i>435,268</i>	<i>463,600</i>	<i>397,381</i>	<i>463,600</i>
Canadian stocks	93,351	82,658	84,038	86,066	83,613	82,684	82,658	82,684
<i>Canadian stocks at market value</i>	<i>366,767</i>	<i>327,812</i>	<i>320,066</i>	<i>352,461</i>	<i>281,013</i>	<i>213,365</i>	<i>327,812</i>	<i>213,365</i>
Canadian money market	22,383	21,999	18,772	21,388	23,660	34,906	21,999	34,906
<i>Canadian money market at market value</i>	<i>22,598</i>	<i>22,211</i>	<i>18,939</i>	<i>21,545</i>	<i>23,751</i>	<i>35,036</i>	<i>22,211</i>	<i>35,036</i>
Other investment								
Loans	48,916	52,971	56,456	50,222	52,844	58,082	52,971	58,082
Deposits	239,184	243,525	269,175	251,805	261,931	300,599	243,525	300,599
Other liabilities	26,504	25,307	25,782	25,966	25,931	23,309	25,307	23,309
Total liabilities								
at book value	1,281,751	1,309,392	1,368,754	1,372,712	1,396,153	1,479,533	1,309,392	1,479,533
with portfolio investment at market value	<i>1,570,458</i>	<i>1,570,058</i>	<i>1,626,552</i>	<i>1,650,665</i>	<i>1,605,658</i>	<i>1,624,694</i>	<i>1,570,058</i>	<i>1,624,694</i>
<b>Net international investment position</b>								
at book value	-114,153	-125,010	-76,683	-73,546	-60,944	13,517	-125,010	13,517
with portfolio investment at market value	<i>-29,176</i>	<i>-20,822</i>	<i>-10,748</i>	<i>-47,716</i>	<i>-15,009</i>	<i>50,061</i>	<i>-20,822</i>	<i>50,061</i>

## Section H

# National balance sheet accounts

Fourth quarter 2008

Household net worth retreated for the second consecutive quarter, declining \$252 billion, or 4.4%, in the fourth quarter, as stock market prices continued to fall. On a per capita basis, household net worth has fallen from \$179,300 in the second quarter of 2008 to \$165,300 in the fourth quarter, or \$14,000.

Canadian and international equity markets retreated further this quarter, with the Standard and Poor's / Toronto Stock Exchange composite index closing in December 2008 at 8,988, down by 24% from the previous quarter, led by substantial declines in energy stocks. This contributed to a second quarterly decrease in household net worth, down 4.4%, the largest quarterly drop in the series, which dates back to 1990. In comparison, household net worth in the United States fell 9% in the fourth quarter, their sixth consecutive quarterly decline.

### Household net worth declines driven by financial assets

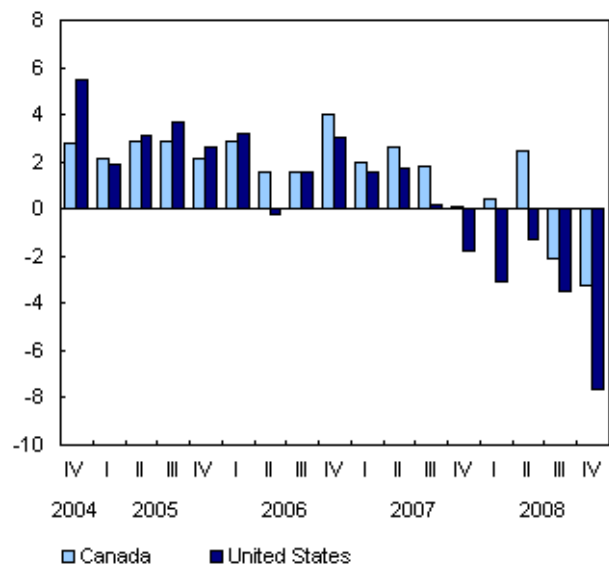
The total value of household assets fell 3.2% in the fourth quarter of 2008. This compares to the 2.7% drop in the third quarter of 1998 when Canadian stock prices were affected by the Asian financial crisis. The turmoil on equity markets significantly reduced the value of shareholdings as well as that of pension and life insurance assets of households. The decline in households' assets was partially offset by the increase in non-financial assets, specifically residential structures.

In comparison, household assets in the United States have been declining since the fourth quarter of 2007, with total assets declining by 7.6% in the fourth quarter of 2008.

Chart H.1

### Household sector assets: Canada, United States

% change, not seasonally adjusted



#### Note to readers

**National wealth** is the sum of produced assets, land surrounding structures and agricultural land (non-financial assets) in all resident sectors of the economy.

**National net worth** is the sum of the net worth of the persons and unincorporated business, corporate and government sectors. Alternatively, it is national wealth less net foreign liabilities (i.e., what is owed to non-residents less what non-residents owe to Canadians).

**National saving** is the sum of saving of the persons and unincorporated business, corporate and government sectors. National saving and the investment it supports contribute to the change in national net worth.

The **Canadian household sector** in this release is defined as the persons and unincorporated businesses sector which includes non-government non-profit institutions serving households. U.S. data is published by the Federal Reserve Board.

**Credit market debt** is defined as consumer credit, bank and other loans, short-term paper, mortgages, and bond liabilities of domestic non-financial sectors.

The revaluation of assets and liabilities also contributes to changes in national net worth. The causes of revaluation include changes in non-financial asset prices, equity prices, interest rates, exchanges and loan allowances.

Quarterly series, both book and market value, are available from the first quarter of 1990. Marketable securities are at market value, unless otherwise stated. For more information on the market value estimates, consult the Balance sheet estimates at market value page of our website.

Additional sub-sector tables for the National Balance Sheet on a market value basis are now available on request (613-951-3640, [lead-info-crd@statcan.gc.ca](mailto:lead-info-crd@statcan.gc.ca)). The sub-sectors covered will include a number of institutional investors, such as life insurance and pension funds, mutual funds, and chartered banks and near banks. These tables will provide the same level of detail as our existing market value tables, in terms of the financial instruments presented, and will cover the first quarter of 1990 to the fourth quarter of 2008.

Credit market debt of the household sector grew 1.7% and reached \$1.3 trillion at the end of the fourth quarter of 2008, a smaller increase than the growth of 2.4% in the previous quarter, as mortgage borrowing slowed in the fourth quarter. Total household liabilities relative to net worth edged up during the quarter. Households had 24.5 cents of debt for every dollar of net worth.

For further analysis, a note on debt indicators of households and other non-financial sectors is available in Section I.

**Chart H.2**  
**Household debt-to-net worth ratio continues to rise**



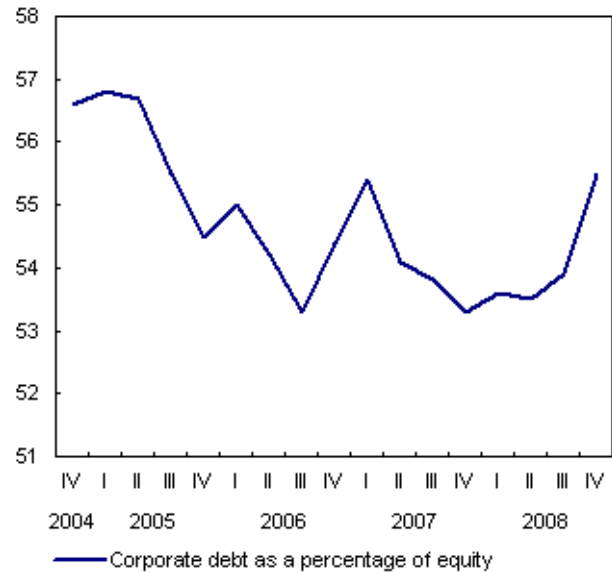
### Corporate debt-to-equity ratio increases

Credit market debt outstanding of non-financial corporations rose 3.6% in the fourth quarter (the largest increase since the second quarter of 1990), principally due to increased bank loans.

Reduced earnings and fewer share issues combined with the increase in borrowing in the fourth quarter led to a substantial increase in the debt-to-equity ratio of non-financial private corporations. Nevertheless, corporate leverage remained at historically low levels.

**Chart H.3**  
**Corporate debt as a percentage of equity**

not seasonally adjusted data



### Government debt up significantly

The federal government's credit market debt rose by 14% in the fourth quarter of 2008. The increase was led by a record quarterly issuance of treasury bills, which increased the supply of liquid assets to Canadian financial markets. About half of this borrowing was linked to the Insured Mortgage Purchase Program, which financed significant acquisition of mortgage-backed securities. Treasury bill issues met the market demand for liquid investments and also provided funds, deposited at the Bank of Canada, for use in supporting Canadian financial markets.

Other levels of government also increased borrowing in the quarter. The depreciation of the Canadian dollar had the effect of increasing the Canadian dollar value of provincial government liabilities, specifically provincial bonds denominated in U.S. dollars.

Overall, total government net debt (at book value) as a percentage of gross domestic product (GDP) remained flat at 35.5, far below the 92% reached in mid-1996.

### Financial institutions' asset composition changes

The Bank of Canada provided significant liquidity during the quarter through the increased use of purchase and resale agreements with financial institutions as well as sales of Treasury bills.

Institutional investors reduced their foreign investment positions in exchange for Canadian short-term paper and bonds. The sharp decline in foreign equity markets also contributed to the reduction in the value of foreign investments.

In addition to the swelling supply of Treasury bills, the fourth quarter of 2008 marked the largest increase ever in *National Housing Act* mortgage-backed securities outstanding. Lending institutions invested heavily in domestic fixed income securities while net new mortgage and consumer credit lending slowed.

**Smaller gains in non-financial assets account for the deceleration in national net worth**

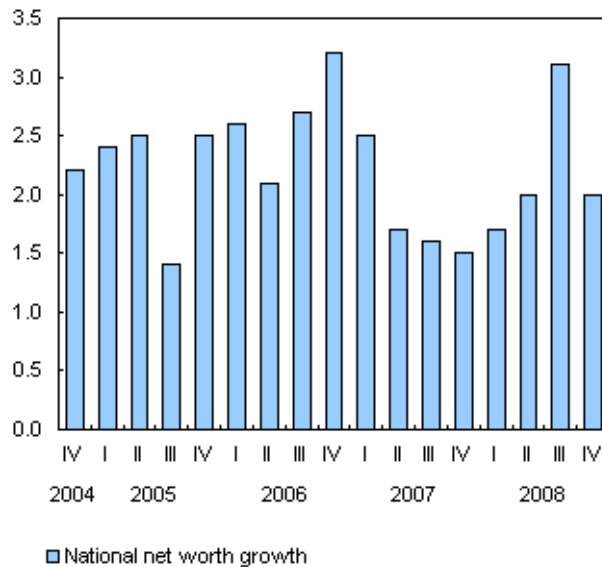
National net worth (total assets less liabilities for all sectors) reached \$6.1 trillion, or \$182,800 net worth per capita, in the fourth quarter, up from \$179,400 in the third quarter of 2008.

However, the growth in national net worth advanced 2.0%, compared with an increase of 3.1% in the previous quarter. The slowdown was due to sluggish non-financial asset growth, which dampened the positive affects of an improved net foreign asset position.

National wealth amounted to just under \$6.1 trillion, growing less than 1.0%, a slowdown from the third quarter growth of 2.5%.

**Chart H.4**  
**Growth in national net worth slows**

% change, not seasonally adjusted



**Net foreign assets rise, led by a substantial depreciation in the Canadian dollar**

Canada recorded a net foreign asset position of \$50.1 billion (on a market value basis) in the fourth quarter. This resulted largely from a substantial depreciation in the Canadian dollar. Foreign currency-denominated assets, expressed in Canadian dollars, appreciated sharply in the quarter. Canadian direct investment abroad was the major factor behind the increase in Canada’s net foreign assets.

The equity market downturn in the fourth quarter resulted in the value of Canadian stocks held by non-residents decreasing more than the value of foreign stocks held by Canadians.



**Table H.1 National balance sheet accounts[1]**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Market value, not seasonally adjusted, billions of dollars								
<b>National net worth</b>								
National wealth	5,560	5,632	5,719	5,868	6,016	6,073	5,632	6,073
	2.0	1.3	1.5	2.6	2.5	0.9	8.2	7.8
Net foreign debt	-29	-21	-12	-48	-15	50	-21	50
	...	...	...	...	...	...	...	...
National net worth	5,531	5,612	5,707	5,821	6,001	6,123	5,612	6,123
	1.6	1.5	1.7	2.0	3.1	2.0	7.5	9.1
National net worth per capita (dollars)	167,100	169,300	172,000	174,700	179,400	182,800	169,300	182,800
	1.2	1.3	1.6	1.6	2.7	1.9	6.3	8.0

1. The first line is the series itself expressed in billions of dollars. The second line, is the period-to-period percentage change.

Table H.2 National balance sheet, market value

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Millions of dollars at quarter end								
<b>Total assets</b>	<b>17,924,731</b>	<b>18,098,087</b>	<b>18,293,605</b>	<b>18,771,384</b>	<b>18,654,118</b>	<b>18,634,683</b>	<b>18,098,087</b>	<b>18,634,683</b>
Non-financial assets	5,559,573	5,632,339	5,719,032	5,868,212	6,016,050	6,072,635	5,632,339	6,072,635
Residential structures	1,572,489	1,589,041	1,600,507	1,629,919	1,659,724	1,676,084	1,589,041	1,676,084
Non-residential structures	1,292,625	1,324,091	1,353,391	1,408,388	1,459,779	1,473,361	1,324,091	1,473,361
Machinery and equipment	421,767	421,249	430,182	445,764	453,779	483,757	421,249	483,757
Consumer durables	396,563	398,226	393,391	397,910	398,264	399,969	398,226	399,969
Inventories	223,832	223,862	226,929	225,039	241,341	238,898	223,862	238,898
Land	1,652,297	1,675,870	1,714,632	1,761,192	1,803,163	1,800,566	1,675,870	1,800,566
Net financial assets	-28,845	-20,739	-11,589	-47,653	-15,157	50,078	-20,739	50,078
Financial assets	12,365,158	12,465,748	12,574,573	12,903,172	12,638,068	12,562,048	12,465,748	12,562,048
Official reserves	40,886	40,593	43,589	45,027	45,500	51,322	40,593	51,322
Gold & foreign currency	39,224	38,932	41,813	43,168	43,620	48,593	38,932	48,593
IMF reserve position	667	655	686	788	814	1,522	655	1,522
Special drawing rights	995	1,006	1,090	1,071	1,066	1,207	1,006	1,207
Currency and bank deposits	983,873	1,002,360	1,003,692	1,039,967	1,048,328	1,090,672	1,002,360	1,090,672
Other deposits	246,152	251,954	256,513	265,345	268,551	273,922	251,954	273,922
Foreign currency deposits	166,874	179,505	186,086	186,125	202,931	207,151	179,505	207,151
Consumer credit	341,944	348,583	354,723	364,517	373,915	379,519	348,583	379,519
Trade receivables	276,510	278,216	281,259	286,704	288,898	292,183	278,216	292,183
Bank loans	258,128	272,399	278,327	280,082	289,881	300,456	272,399	300,456
Other loans	223,397	224,272	219,347	221,883	227,221	228,555	224,272	228,555
Canada short-term paper	102,209	107,002	110,011	123,086	124,570	164,460	107,002	164,460
Other short-term paper	253,160	250,413	247,396	236,451	236,081	233,675	250,413	233,675
Mortgages	919,056	944,494	962,594	990,614	1,016,074	1,036,805	944,494	1,036,805
Canada bonds	252,693	252,967	252,817	253,064	261,250	278,133	252,967	278,133
(of which CSB's)	14,839	13,298	13,180	13,120	13,065	12,501	13,298	12,501
Provincial bonds	314,858	325,827	331,033	322,387	324,436	327,871	325,827	327,871
Municipal bonds	42,567	43,845	44,311	44,623	44,415	45,676	43,845	45,676
Other bonds	539,973	558,547	574,439	593,897	609,099	672,439	558,547	672,439
Life insurance & pensions	1,463,197	1,469,348	1,464,959	1,483,139	1,421,971	1,365,072	1,469,348	1,365,072
Corporate claims	1,381,349	1,421,426	1,500,070	1,551,948	1,625,011	1,740,425	1,421,426	1,740,425
Government claims	218,645	219,997	229,151	240,940	250,288	287,199	219,997	287,199
Shares	2,637,977	2,570,772	2,534,323	2,694,618	2,351,518	1,980,234	2,570,772	1,980,234
Foreign investments	731,113	722,561	705,381	682,646	633,142	592,042	722,561	592,042
Other financial assets	970,597	980,667	994,552	996,109	994,988	1,014,237	980,667	1,014,237
<b>Liabilities and net worth</b>	<b>17,924,731</b>	<b>18,098,087</b>	<b>18,293,605</b>	<b>18,771,384</b>	<b>18,654,118</b>	<b>18,634,683</b>	<b>18,098,087</b>	<b>18,634,683</b>
Liabilities	12,394,003	12,486,487	12,586,162	12,950,825	12,653,225	12,511,970	12,486,487	12,511,970
Currency and bank deposits	1,004,711	1,022,902	1,025,233	1,063,026	1,072,571	1,115,754	1,022,902	1,115,754
Other deposits	246,152	251,954	256,513	265,345	268,551	273,922	251,954	273,922
Foreign currency deposits	160,277	170,648	171,712	164,380	186,387	188,337	170,648	188,337
Consumer credit	341,944	348,583	354,723	364,517	373,915	379,519	348,583	379,519
Trade payables	280,001	285,658	289,827	294,600	297,172	300,072	285,658	300,072
Bank loans	241,904	254,072	257,472	258,023	262,990	274,179	254,072	274,179
Other loans	230,113	234,060	228,744	228,229	232,286	229,680	234,060	229,680
Canada short-term paper	112,912	117,712	118,484	132,852	137,119	183,771	117,712	183,771
Other short-term paper	263,885	260,365	256,293	246,492	244,806	247,121	260,365	247,121
Mortgages	919,392	944,829	963,067	991,088	1,016,556	1,037,317	944,829	1,037,317
Canada bonds	298,301	297,432	303,721	303,792	308,572	322,487	297,432	322,487
(of which CSB's)	14,839	13,298	13,180	13,120	13,065	12,501	13,298	12,501
Provincial bonds	422,855	433,393	442,713	434,442	438,472	455,387	433,393	455,387
Municipal bonds	46,579	47,931	48,647	49,045	48,717	50,344	47,931	50,344
Other bonds	767,710	793,667	826,583	853,473	871,236	952,265	793,667	952,265
Life insurance & pensions	1,463,197	1,469,348	1,464,959	1,483,139	1,421,971	1,365,072	1,469,348	1,365,072
Corporate claims	585,572	588,965	616,457	624,757	634,022	670,166	588,965	670,166
Government claims	218,645	219,997	229,151	240,940	250,288	287,199	219,997	287,199
Shares	3,846,516	3,793,307	3,772,737	3,997,332	3,621,023	3,206,876	3,793,307	3,206,876
Other liabilities	943,337	951,664	959,126	955,353	966,571	972,502	951,664	972,502
<b>Net worth</b>	<b>5,530,728</b>	<b>5,611,600</b>	<b>5,707,443</b>	<b>5,820,559</b>	<b>6,000,893</b>	<b>6,122,713</b>	<b>5,611,600</b>	<b>6,122,713</b>

Table H.3 Credit market summary table

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
Millions of dollars at quarter end								
<b>Debt outstanding of:</b>								
Persons and unincorporated business	1,201,152	1,224,558	1,247,123	1,279,796	1,310,192	1,332,751	1,224,558	1,332,751
Consumer credit	341,944	348,583	354,723	364,517	373,915	379,519	348,583	379,519
Bank loans	27,821	26,984	27,420	28,223	27,194	27,803	26,984	27,803
Other loans	72,694	71,525	73,800	72,583	74,298	75,121	71,525	75,121
Mortgages	758,693	777,466	791,180	814,473	834,785	850,308	777,466	850,308
Non-financial private corporations	682,941	689,379	705,903	719,252	737,760	763,990	689,379	763,990
Bank loans	144,919	151,252	155,874	155,190	161,260	173,154	151,252	173,154
Other loans	74,220	69,270	61,917	67,732	66,352	62,956	69,270	62,956
Other short-term paper	63,317	62,203	70,685	69,410	68,836	66,452	62,203	66,452
Mortgages	144,253	149,833	154,697	158,277	163,342	168,574	149,833	168,574
Bonds	256,232	256,821	262,730	268,643	277,970	292,854	256,821	292,854
Non-financial government enterprises	61,142	63,980	63,926	62,343	62,447	64,054	63,980	64,054
Bank loans	2,479	2,389	2,163	2,347	2,271	2,213	2,389	2,213
Other loans	6,044	7,212	7,315	6,398	6,641	6,616	7,212	6,616
Other short-term paper	2,882	3,163	2,316	2,116	2,117	2,020	3,163	2,020
Mortgages	94	91	89	93	93	93	91	93
Canada bonds	0	0	0	0	0	0	0	0
Provincial bonds	47,287	48,860	49,335	48,681	48,616	50,636	48,860	50,636
Municipal bonds	121	121	121	121	121	121	121	121
Other bonds	2,235	2,144	2,587	2,587	2,588	2,355	2,144	2,355
Federal government	385,134	384,139	388,763	401,432	400,672	457,785	384,139	457,785
Bank loans	99	100	100	100	101	101	100	101
Other loans	0	0	0	0	0	0	0	0
Canada short-term paper	112,912	117,712	118,484	132,852	137,119	183,771	117,712	183,771
Canada bonds	272,123	266,327	270,179	268,480	263,452	273,913	266,327	273,913
Canada savings bonds	14,839	13,298	13,180	13,120	13,065	12,501	13,298	12,501
Other bonds	257,284	253,029	256,999	255,360	250,387	261,412	253,029	261,412
Other levels of government	418,966	425,497	425,549	428,468	437,361	460,586	425,497	460,586
Bank loans	4,819	4,733	5,154	4,997	5,049	5,287	4,733	5,287
Other loans	16,957	17,326	17,519	17,539	17,697	17,850	17,326	17,850
Other short-term paper	20,076	21,792	16,072	19,009	24,678	35,099	21,792	35,099
Mortgages	1,899	1,899	1,891	1,891	1,891	1,891	1,899	1,891
Provincial bonds	325,545	329,330	334,255	333,513	336,289	348,568	329,330	348,568
Municipal bonds	45,839	46,601	46,854	47,717	47,957	48,103	46,601	48,103
Other bonds	3,831	3,816	3,804	3,802	3,800	3,788	3,816	3,788
Total funds raised by domestic non-financial sectors	2,749,335	2,787,553	2,831,264	2,891,291	2,948,432	3,079,166	2,787,553	3,079,166
Consumer credit	341,944	348,583	354,723	364,517	373,915	379,519	348,583	379,519
Bank loans	180,137	185,458	190,711	190,857	195,875	208,558	185,458	208,558
Other loans	169,915	165,333	160,551	164,252	164,988	162,543	165,333	162,543
Canada short-term paper	112,912	117,712	118,484	132,852	137,119	183,771	117,712	183,771
Other short-term paper	86,275	87,158	89,073	90,535	95,631	103,571	87,158	103,571
Mortgages	904,939	929,289	947,857	974,734	1,000,111	1,020,866	929,289	1,020,866
Bonds	953,213	954,020	969,865	973,544	980,793	1,020,338	954,020	1,020,338
Non-residents	39,069	45,424	51,122	54,928	61,597	68,187	45,424	68,187
Bank loans	16,224	18,327	20,855	22,059	26,891	26,277	18,327	26,277
Other loans	22,845	27,097	30,267	32,869	34,706	41,910	27,097	41,910
Mortgages	...	...	...	...	...	...	...	...
Total borrowing excluding domestic financial institutions	2,788,404	2,832,977	2,882,386	2,946,219	3,010,029	3,147,353	2,832,977	3,147,353
Domestic financial institutions	816,153	854,598	868,381	885,142	893,377	947,409	854,598	947,409
Bank loans	61,767	68,614	66,761	67,166	67,115	65,621	68,614	65,621
Other loans	60,198	68,727	68,193	63,977	67,298	67,137	68,727	67,137
Other short-term paper	177,610	173,207	167,220	155,957	149,175	143,550	173,207	143,550
Mortgages	14,453	15,540	15,210	16,354	16,445	16,451	15,540	16,451
Bonds	502,125	528,510	550,997	581,688	593,344	654,650	528,510	654,650
Total funds raised = total funds supplied	3,604,557	3,687,575	3,750,767	3,831,361	3,903,406	4,094,762	3,687,575	4,094,762
<b>Assets of:</b>								
Persons and unincorporated business	96,480	93,647	91,505	86,418	82,914	76,688	93,647	76,688
Non-financial corporations	85,857	85,813	85,253	85,901	86,489	90,419	85,813	90,419
Governments	261,119	261,328	259,096	262,130	268,527	264,361	261,328	264,361
Non-residents	421,602	433,820	454,969	474,874	477,312	518,319	433,820	518,319
Domestic financial institutions	2,761,432	2,834,606	2,881,753	2,943,013	3,008,347	3,162,512	2,834,606	3,162,512

## Section I

### Financial indicators

Recently, there has been a great deal of discussion surrounding the financial positions of Canadian individuals, businesses and governments. The global financial and economic turmoil has sparked interest and debate about the impact of the “international financial crisis” on the Canadian economy.

The quarterly Financial and Wealth Accounts contain detailed information on the financial situation of the Canadian economy. The Financial and Wealth Accounts are comprised of the National Balance Sheet Accounts (NBSA) and the Financial Flow Accounts (FFA). The FFA are accumulation accounts that articulate sector transactions in capital items and financial assets during a quarter; while the NBSA present the stock of assets, liabilities and the resulting net worth for the sectors of the Canadian economy at the end of each period.

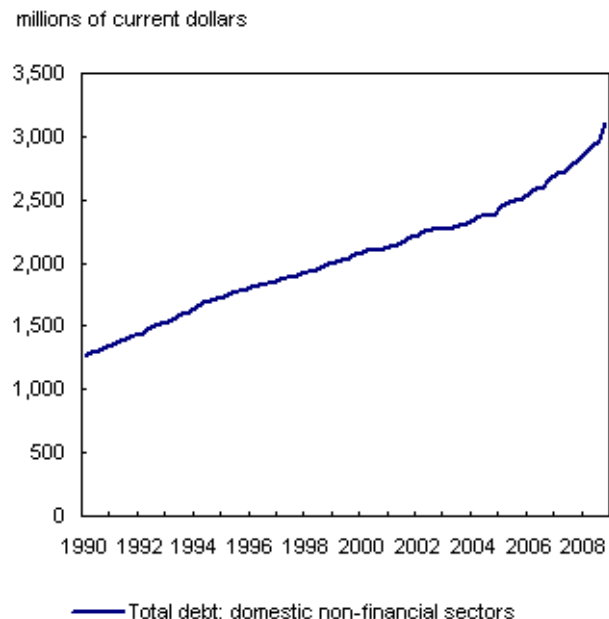
One of the more powerful features of the Financial and Wealth Accounts is its ability to construct financial and wealth indicators which succinctly capture the evolution of the financial position of the sectors of the economy, in a timely fashion. The rich time series, based on internationally accepted conventions, provide users with both a historical perspective and the ability to make international comparisons.

This note explains the construction and relevance of some of these indicators, and highlights recent trends in indebtedness. International comparisons can be made using data available from the Organisation for Economic Co-operation and Development (OECD) or from statistical data presented by various agencies (e.g., U.S. Federal Reserve Board).

#### Leverage indicators

Individuals, corporations and governments take on debt for a number of reasons. For example, borrowing can be used to finance current consumption, to invest in machinery and equipment, to purchase real estate or to make financial investments. Debt and the ability to take on debt is an important element that is tied to economic growth; equally important is the ability to manage this debt. Looking at the values of debt in Chart 1 or the growth in debt on its own does not paint a complete or clear picture of financial soundness. Analyzing debt in relation to key macro-economic variables such as income and assets adds perspective to the analysis of financial positions.

**Chart I.1**  
**Total debt: domestic non-financial sectors**



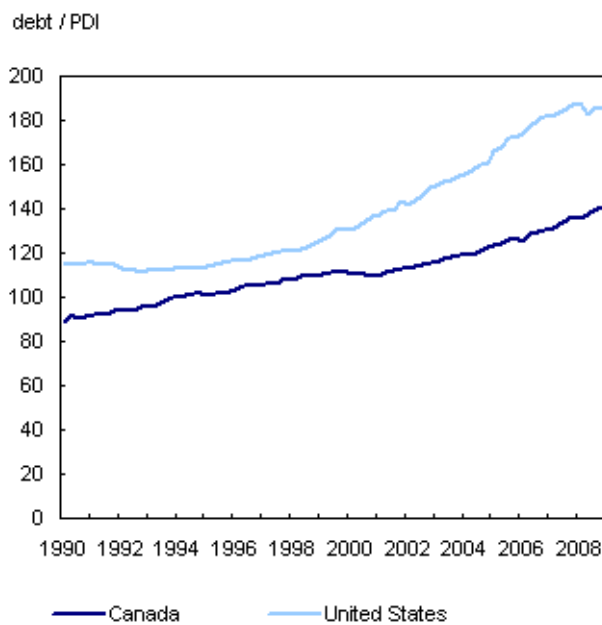
#### Persons and unincorporated businesses sector - debt to income

The ratio of debt to personal disposable income is one leverage indicator. The major components of debt are the consumer credit and the mortgage debt of the personal sector. However, the debt measure includes other borrowings of households, such as loans for investment as well as the borrowings of unincorporated businesses and the non-profit institutions serving households sector. Personal disposable income is defined as the income that individuals, unincorporated businesses, and institutions of the non-profit sector serving households (PUIB) receive, including transfer payments, minus the income taxes and fees that they pay to governments.

The debt to income ratio is a measure of the amount of current after-tax income (on a National Accounts basis) required to eliminate one's debt—providing a broad indication of the sector's ability or inability to pay down its debt. This ratio is also a rough indicator of the sector's ability to take on additional debt and/or lenders' willingness to extend the sector additional funds. An upward trending debt to income ratio can be indicative of a number of changes in demand for, or supply of, funds, such as an increased willingness of individuals to consume today and pay later or relaxed credit conditions on the part of lenders.

Over the last 20 years, the PUIB sector's debt to income ratio has been steadily increasing, reflecting increased demand for goods and services and evolving attitudes towards taking on debt. This increase intensified at the start of the decade as lending practices at financial institutions became more open. The debt to income ratio in Canada and the United States (Chart 2) has grown in excess of 50% since the 1990's. The Canadian debt to income ratio increased faster than the American's in the 1990's, while the opposite has been true since the start of this decade.

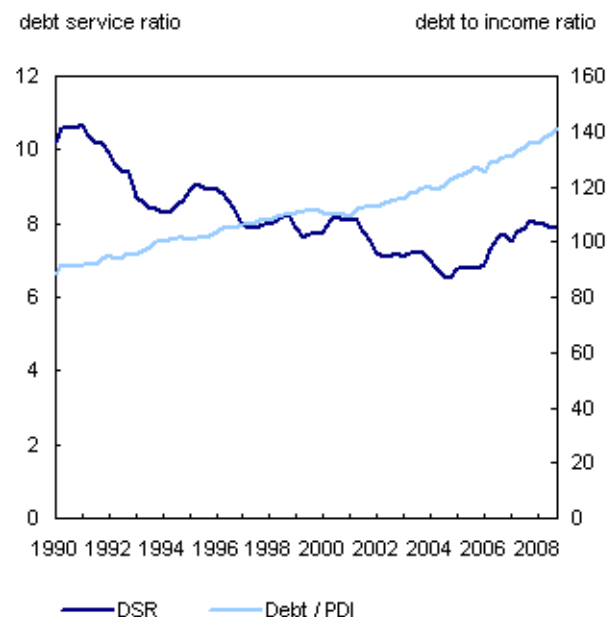
**Chart I.2**  
**Household debt as a share of personal disposable income: Canada, U.S.**



The debt service ratio (Chart 3) helps to explain the increase in the PUIB debt to income ratio. The debt service ratio measures the claim on personal disposable income required to make interest payments on total liabilities.

While Canadians have increased their overall debt load relative to their income, interest rates have been declining. This has translated into a slowing of the growth in costs to service debt relative to income. This, in turn, may have been a demand-side factor, increasing Canadian's willingness to incur debt. The debt service ratio has declined from a high of 10% in the early 1990's to a low of 6.5% in 2004, and currently sits at 7.9%. Simply put, one of the reasons Canadians were willing to let their debt grow dramatically was that the relative decline in the cost of servicing the debt was equally dramatic for most of the period.

**Chart I.3**  
**Persons and unincorporated businesses sector debt service ratio and debt to income ratio**

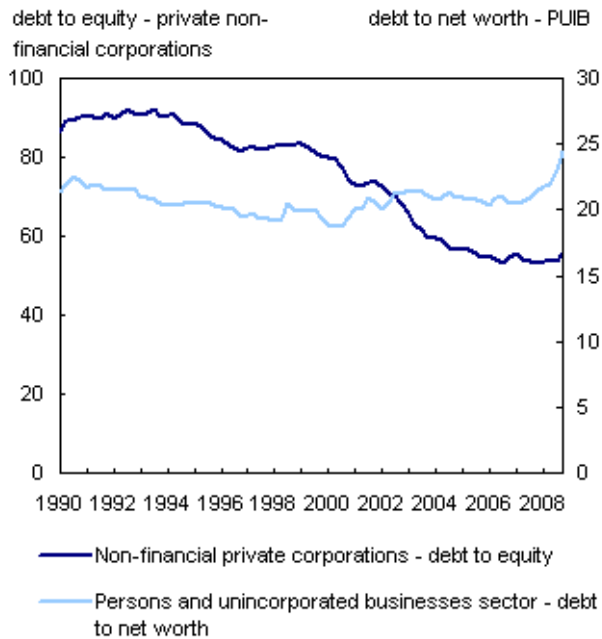


#### Persons and unincorporated businesses sector - debt to net worth

Income is only one factor that economic agents take into account when borrowing or providing credit. Assets and net worth are also important factors. If a sector's total assets exceed their liabilities, or if asset growth exceeds liability growth, borrowers and lenders may judge that additional debt may be reasonable, given the assets which are available for liquidation, if required.

Comparing the PUIB sector's debt to its net worth (total assets minus total liabilities) provides another measure of the sector's capacity to carry debt (Chart 4).

**Chart I.4**  
**Debt to net worth**



The PUIB sector's debt to net worth ratio has varied from around 22% in 1990 to 19% in 2000 to the current high of around 25%. Overall, the ratio has remained relatively stable, meaning that asset growth has largely kept pace with liability growth. This suggests that since 1990 there may have been a significant wealth effect in the spending and saving patterns of individuals, with saving out of income being replaced with the accumulation of wealth through an appreciation of assets. Financial assets became increasingly concentrated in equities over time, in both direct and indirect holdings, through investments in mutual funds and pension funds. The appreciation of both financial assets and non-financial assets, combined with declining debt-service costs, likely had a stimulative effect on borrowing. The increased borrowing spurred consumption, which supported economic growth. This demand for products, housing and financial instruments, in turn, contributed to driving up the value of financial and non-financial assets. The wealth effect leads economic agents to feel as though the increasing value of their assets can support increases in their debt (see *Trends in Saving and Net Lending in the National Accounts*).

### Corporate sector – debt to equity

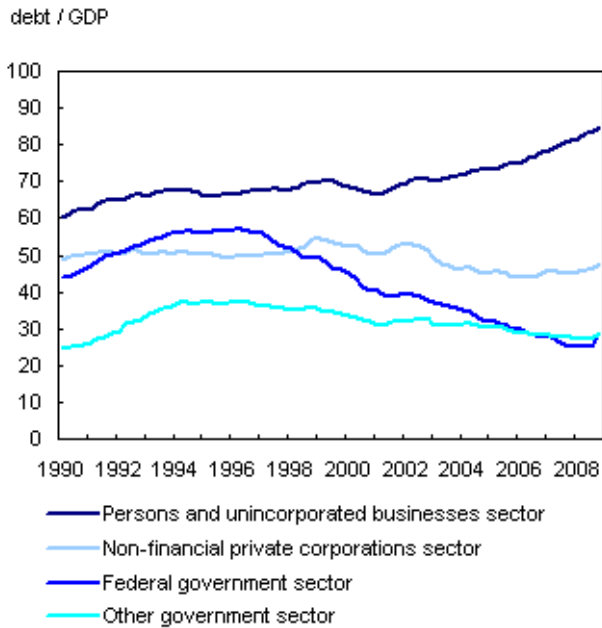
Debt ratios can also be calculated for the corporate non-financial sector. One such indicator, the debt to equity ratio, is the ratio of credit market debt of non-financial private corporations to the book value of their equity (Chart 4). The value of the equity of non-financial corporations increased much faster than their debt, driving the ratio down from 90% in 1990 to around 50% in 2008. In many ways non-financial corporations are in better financial condition today than at any point in the last 20 years, having spent most of the last two decades investing part of their earnings in strengthening their balance sheets (see *Recent Trends in Corporate Finance from the Canadian System of National Accounts*).

### Debt to gross domestic product ratios

Debt to gross domestic product (GDP) ratios provide a convenient way of making comparisons across sectors or economies with respect to relative indebtedness (Chart 5). These are calculated by scaling debt by nominal gross domestic product. Debt to GDP ratios are ratios at the national or sector level, which provide a very general indication of a country's or sector's ability to meet its financial obligations. By comparing what a country owes and what income arises from productive activity, the debt-to-GDP ratio is an indication of a country's ability to make future debt payments.

Statistics Canada provides measures of debt to GDP for the persons and unincorporated businesses, non-financial private corporations, federal government, other levels of government and the consolidated government sectors.

**Chart I.5**  
**Debt to gross domestic product**



The overall debt to GDP ratio (summing debt across all non-financial sectors) currently sits at roughly the same level as in 1990. In the early 1990's debt of all sectors was increasing at a faster rate than GDP. In the late 1990's as economic growth accelerated, debt to GDP began to trend downward. At the same time, there were significant sectoral shifts in the debt ratio. The personal sector continued to accumulate debt at a faster pace than the growth in GDP, while the government sector and non-financial private corporation sector appreciably reduced their demand for borrowed funds, such that debt slowed relative to growth in GDP.

At the same time as the PUIB sector was accumulating debt, both the government and non-financial corporate sectors were strengthening their balance sheets. Strong earnings, lower interest costs and sustained demand for corporate shares have all contributed to an overall strengthening of financial positions of corporations.

The global financial uncertainty makes timely financial indicators a critical source of information. The ratios in this note represent a sub-set of financial indicators that will be released with the first quarter of 2009. The complete set of indicators will include indicators pertaining to financial corporations. This note has focused on indicators related to debt. Given the differences in the use of debt by financial corporations, this note does not include a framework through which financial corporations could easily be compared to other sectors.

**Table I.1 Financial indicators**

	Third quarter 2007	Fourth quarter 2007	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	2007	2008
	seasonally adjusted, %							
<b>Debt to income</b>								
Persons and unincorporated businesses sector - debt to personal disposable income ratio	134.5	136.2	136.0	137.6	139.3	141.0	133.6	138.5
Persons and unincorporated businesses sector - debt service ratio	7.89	8.05	7.96	7.96	7.89	7.93	7.81	7.94
	not seasonally adjusted, %							
<b>Debt to wealth</b>								
Personal sector - debt to net worth ratio	20.9	21.4	21.8	21.8	23.0	24.5	21.4	24.5
Non-financial private corporations - debt to equity ratio	53.8	53.3	53.6	53.5	53.9	55.5	53.3	55.5
<b>Debt to output</b>								
Persons and unincorporated businesses sector - debt to gross domestic product ratio	80.7	81.2	81.8	83.1	83.5	84.6	81.2	84.6
Non-financial private corporations debt to gross domestic product ratio	45.2	44.9	45.5	45.9	46.2	47.7	44.9	47.7
Federal government - debt to gross domestic product ratio	25.5	25.0	25.0	25.6	25.1	28.6	25.0	28.6
Other government - debt to gross domestic product ratio	27.7	27.7	27.4	27.3	27.4	28.7	27.7	28.7
Government net debt to gross domestic product ratio	38.4	37.5	37.3	36.1	35.5	35.5	37.5	35.5