and output originates in the central provinces of Ontario and Quebec. Nearly 80% of manufacturing activity is concentrated in these two provinces, including all of the motor vehicle industry which has become Canada's largest manufacturing industry. Financial institutions and other business service industries are also concentrated in Central Canada.

Economic activity in Eastern and Western Canada is more dependent on primary industries than in Central Canada. Fishing, forestry and mining are particularly important to the Atlantic provinces, while agriculture and mineral fuels play large roles in the economy of the Prairie provinces. British Columbia's primary industries are largely dependent on forestry and mining operations.

Regional shifts in economic activity since 1970 were broadly related to the ebb and flow of international demand for primary commodities. Led by higher crude oil prices, many commodity prices rose sharply during the 1970s. The strong gains in employment and output in primary industries in Western Canada was reflected in unemployment rates of 4% to 5% in 1980, compared to 7.5% for Canada as a whole. Gains in primary industries in Eastern Canada were less robust than in the West, as the search for offshore oil and gas did not yield profitable discoveries until late in the 1970s and markets for fish remained relatively weak.

With the sharp slowdown or decline in many commodity prices since 1981, there has been a relative weakening in the regional economies of Eastern and Western Canada into 1986. Weak oil demand and low grain prices have been reflected in a sharp increase of unemployment to nearly 10% in the Prairie provinces, and higher in British Columbia and the Atlantic provinces. The counterpart of this economic weakness has been above-average gains in employment and output in Ontario and Quebec, notably the automobile and housing industries.

23.3 The evolution of the macroeconomy

The acceleration of inflation in the 1970s in Canada and throughout most of the OECD region was arrested by the 1981-82 recession. For the OECD region as a whole, the slump in output and increase in unemployment was the most severe in over 30 years. Canada was particularly affected, as export earnings and investment in resource-based industries fell along with weak commodity prices, while domestic demand was restrained by weak employment and income and record high interest rates. The sharp drop in aggregate demand did contribute to an increase in the current account balance — as demand for imports plummeted — and a pronounced slowdown in inflation to 4%. The federal government deficit increased sharply during the recession, as revenues sagged due to weak incomes while spending was pushed higher by increased transfer payments and by higher interest payments on debt.

23.4 Expansion since 1983

Economic growth resumed in the first quarter of 1983, and has continued for 15 consecutive quarters, the longest period of sustained growth since the 1960s. The recovery was initially led by export demand in 1983 and 1984, reflecting buoyant demand in the United States for motor vehicles, housing and investment goods. Consumer demand in Canada also strengthened during this period as economic conditions improved. However, business investment in plant and equipment and government expenditure remained sluggish, which checked the overall growth of domestic demand to below-average rates for an expansion. The weakness of business fixed investment — about 50% of which is in the capital-intensive resource sector — reflected the weak recovery of world demand for primary commodities and persistent excess capacity in many manufacturing industries.

The surge of exports to the United States in 1983-84 began to level off in 1985 and 1986, as growth in the United States slowed to nearly 2% in volume. Real Gross Domestic Product (GDP) growth in Canada remained firm at nearly 4%, however, as final domestic demand accelerated to nearly 5% growth in 1985. Consumer spending rose 5% in the year and housing jumped by 12%. Unemployment edged down to nearly 10%, while price inflation remained moderate at 4%. Business spending on plant and equipment in 1985 posted its first gain since the recession, although this increase was subsequently reversed in 1986 by a sharp cutback in the energy sector when world oil prices fell sharply.

23.5 Gross Domestic Product in 1986

In 1986, Gross Domestic Product, at 1981 prices, expanded by 3.1%, compared to an average rate of about 4% in the previous three years of the current expansion. Growth occurred largely in the first half of the year with marginal increases in the second half of the year.

The gain in real GDP reflected growth of about 3% in both final domestic demand and