

in exports. There was considerable divergence in the growth trends by component, however, partly reflecting large declines in energy and other resource prices during the year. While consumer spending and housing demand posted solid gains in 1986, business investment in plant and equipment flattened out. Exports grew less rapidly than imports, while lower prices received for merchandise exports were a major factor in reducing the overall rate of price increase in GDP to 2.8%, the lowest in over 20 years.

In terms of industry output, growth in 1986 was led by services, up 4.3%. Production of goods was up 1.6%, with output sluggish in mining and manufacturing for much of the year.

23.5.1 Components of demand

The volume of personal expenditure on goods and services rose by 4.0%, compared with 5.0% in 1985. Spending on services rose 4.6%, in contrast with a 3.5% increase for goods. The strength in services was partly related to the large increase of tourism in Canada associated with Expo '86. The slower growth in expenditure on goods largely originated in automotive products, up 3.1%, following three years of growth of well over 10% per year. The solid growth in housing demand was reflected in higher purchases of furniture and appliances, while semi-durable goods posted a 5.4% gain. Slow growth in energy demand served to restrain the increase in non-durable goods to 1.6%.

Residential construction rose by 13.2% in volume, comparable to the gain in 1985. Most of the increased house-building activity occurred in Ontario and Quebec, and was accompanied by a sharp increase in house prices.

Business investment in plant and equipment, in real terms, fell 0.8% following a 4% gain in 1985. A sharp cutback in non-residential construction was largely offset by a 5.4% increase in machinery and equipment. The drop in non-residential construction was particularly severe in the energy sector, at a time of declining oil prices. Increased investment in the manufacturing and services industries was most evident in Central Canada.

At \$2.2 billion, the volume of non-farm business inventory accumulation was little changed in 1986. An acceleration in stockpiling in the first quarter of the year, notably in the trade sector, was followed by progressively more

restraint during the year. At 1986 year-end, the ratio of non-farm inventories to final sales was little changed from 1985.

Net exports of goods and services, at 1981 prices, declined \$1.5 billion, with all of the drop taking place in merchandise trade. A 6.0% increase in the volume of merchandise imports was widespread across commodities. The largest gains occurred in crude petroleum and some components of imported machinery and equipment. The weakness in export volume, up only 2.6%, was most evident in slack demand for wheat and natural gas.

The rise of 2.8% in the implicit price index for GDP reflected a 2.2% drop in prices received for exports of goods, particularly for energy products and a range of agricultural and mineral products. The implicit price index for final domestic demand rose by about 4% for the third consecutive year.

23.5.2 Components of income

Total labour income rose by 5.7% in 1986. Wages and salaries in the services-producing industries rose 6.1%. Weak employment limited wage and salary growth in goods-producing industries to 4.3%. Personal income rose 6.9% for the year. Increased income taxes restrained the growth in disposable incomes to 5.4%; together with the gain in spending, the personal savings rate fell from 13.6% in 1985 to 11.3% in 1986.

Corporate profits before taxes declined by 4.9% in 1986, reversing an increase of similar magnitude in 1985. The decrease largely originated in mineral fuel and petroleum industries, which were affected by lower crude oil prices.

The total government sector deficit, on a national accounts basis, narrowed from \$31.3 billion in 1985 to \$27.3 billion in 1986. Total revenues of all levels of government combined rose 7.0%, largely due to higher rates of personal direct taxes and indirect taxes. The growth in total expenditures slowed noticeably, to 4.2% compared with 7.5% in 1985. There were lower rates of growth in interest payments on the public debt and outlays for goods and services. Subsidy and capital assistance payments declined in the year, mainly reflecting the termination of a number of petroleum-related programs.

Source

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