

REVIEW OF THE ECONOMY**23.1 Canada's economic performance, 1987**

Canada's real Gross Domestic Product (GDP) expanded 4.0% in 1987. Fuelled by strong growth in consumer spending, residential construction and business investment in machinery and equipment, the Canadian economy ended the year with 20 consecutive quarters of growth. Rebounding from the weaker 3.2% expansion in 1986, Canadians remained confident in the aftermath of Black Monday, the worldwide stock market crash that occurred on October 19, 1987. Expectations of economic recession, due to a forecast drop in consumer confidence, falling business investment and exports were seen as results of the worldwide decline in wealth. However, Canada's fourth quarter real GDP registered the same 1.6% growth as in the first quarter of 1987, and growth continued at a 4% annual rate into 1988.

Consumer confidence was exceptionally buoyant in 1987. The index of consumer attitudes and buying intentions, a survey introduced by the Conference Board of Canada in 1961, recorded a record high yearly average of 128, 28% above the normal average of approximately 100. While the index did drop 5.1% in the fourth quarter following October 19th, it rebounded to historically high levels early in 1988.

23.1.1 Personal expenditures

The buoyant optimism of consumers was reflected in their robust spending throughout 1987. Real personal expenditures on consumer goods and services grew by 4.7%. Low interest rates, falling unemployment and a stable inflation rate not only sparked consumer spending but brought the personal saving rate of Canadians down to 9.6%, its lowest level since 1972.

Although the total amount of personal savings has been steadily declining since 1984, certain components have been steadily increasing in size. Savings, through life insurance and trustee pension plans (\$19.2 billion in 1987), accounted for over 5% of disposable income, while savings through registered retirement savings plans

(\$8 billion in 1987) rose to account for just over 2% of disposable income. Personal discretionary savings available for other uses, however, was the one declining component of total savings. This component dropped from 48.6% of total savings in 1984 to 17.4% for 1987. Comparatively, savings of Registered Retirement Savings Plans (RRSPs) and trustee pension plans rose from 34.6% of total savings to 54.6% over the same time period.

All major components of personal expenditure posted solid gains in the year. Consumer spending on durable goods increased 8.6% for 1987. The 6.9% jump in personal disposable incomes once again resulted in a rush to purchase motor vehicle products (up 8.1%) and furniture and household appliances (up 9.4%) for the year. This category cooled, however, in the fourth quarter and gained only 1.9%; average quarterly increases were more than 3% earlier in the year. While spending on semi-durable and non-durable goods was somewhat weak throughout the four quarters and posted annual gains of 4.4% and 1.9%, respectively, expenditures on services grew at the more vibrant pace of 5%.

23.1.2 Housing

Vigorous expansion in residential construction of almost 16% allowed an increase in consumer durable household purchases in 1987. The housing boom, which peaked in the third quarter of the year, raised housing starts to 263,000 units between July and September, a level not seen since the first quarter of 1978. However, fourth quarter starts fell 13% to 228,000 units, with rising interest rates and prices. In the second quarter, Ontario and Quebec led the housing boom with starts registering quarterly gains of 80% and 90%, respectively.

While housing prices were rising rapidly on a national level, with a peak year over year increase of nearly 16%, Toronto housing prices were rising at double the rate. In May of 1987, Toronto housing prices were up 33.6% over a year earlier. Heading into 1988, however, the rate of increases in housing prices slowed, averaging closer to 10% Canada wide, and near 15% in Toronto.