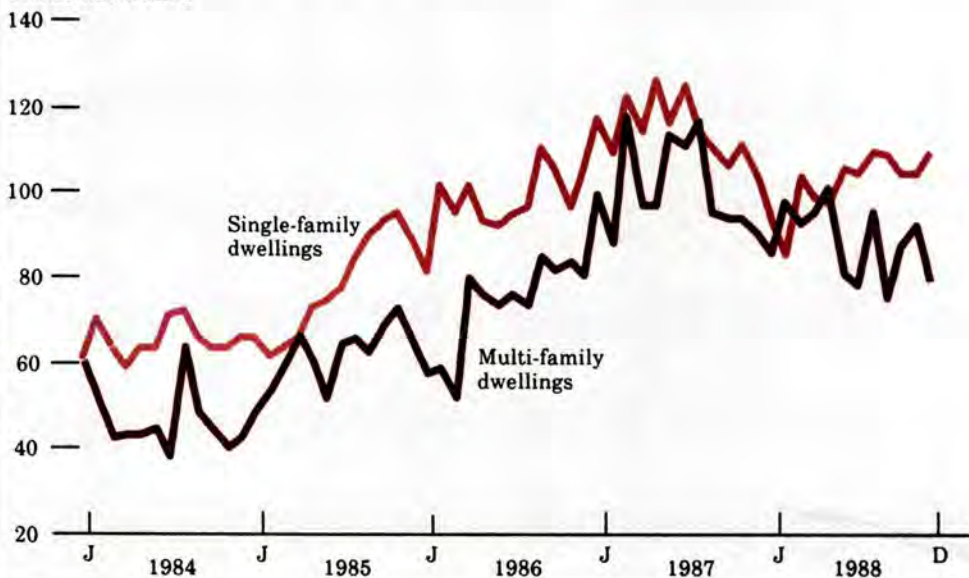


Chart 23.1

Housing starts in urban centres

Thousands of units



The upsurge in residential construction was primarily the result of the overall Canadian economic condition in 1987. Demand for housing had been on the rise since the 1981-82 recession, and interest and mortgage rates had been steadily declining for several years; the unemployment rate had also been steadily declining. Inflation, as measured by the Consumer Price Index (CPI), remained relatively stable and consumer confidence was at an all time high. The construction boom, however, did begin to slow in the fourth quarter with the subsequent rise in housing prices and mortgage rates. Nonetheless, residential construction was the strongest growing component of GDP for 1987; it alone accounted for 6.9% of total output, up from a level of 5.0% in 1982.

23.1.3 Federal finances

The federal government deficit marked its third year of decline in 1987, falling a further 3%, year over year, to a level reminiscent of 1982. The year's lower deficit of \$23 billion, on a national accounts basis, largely reflected steady growth in government revenues and deceleration in government spending. In terms of the size of the economy, the federal deficit had contracted from 6.8% of GDP in 1984 to 4.2% in 1987.

Total current federal expenditures grew 6.1% over the year. The increase, mainly attributable to the 6.3% rise in interest payments on the public debt, was further fuelled by the rebound in transfer payments to business and non-residents. The rising stock of public debt more than offset the effect of a lower annual rate of interest, and interest payments on the debt rose to a new high of almost \$28 billion, an amount higher than the annual deficit. Government spending on goods and services, however, continued to decelerate for the third consecutive year, increasing a slight 1.6% over 1986.

Personal income taxes and indirect taxes, like import and excise duties, continued to account for the majority of growth in federal revenues. Rising direct taxes from persons, in 1987, was a reflection of higher tax brackets, the lower unemployment rate and the increasing labour force. However, corporate income taxes, following a decline in 1986, remained flat.

23.1.4 Business fixed investment

Almost doubling its pace from 1986, real business fixed investment jumped over 11% in 1987. The strongest growing component, residential construction, was closely followed by investment in