

machinery and equipment which was up 14.6%, while non-residential construction peaked in the third quarter at a level of \$23 billion, growing at a rate not seen since 1981-82.

The strength in investment, in machinery and equipment, primarily resulted from the rising demand for office equipment, increasing moves to modernization in the manufacturing sector, and a recovery in the oil and gas sector. Capacity utilization rates continued to tighten in 1987, accounting for some of the increase in non-residential construction. The bulk of the gain, however, was focused in the energy sector as favorable interest rates, government incentive programs, and a recovery in oil prices spurred a recovery in oil and gas exploration.

23.1.5 International trade

Canada's major trading partner has long been the United States. In 1987, Canada's merchandise exports to the US, on a balance-of-payments basis, accounted for 77% of Canada's total merchandise exports, while imports from the US constituted 69% of total merchandise imports. Although the growth of Canadian merchandise exports to the US had been slowing for three years, strengthening US demand for natural gas, combined with a slowdown in US domestic production and an appreciating Canadian currency, reversed the trend. Merchandise exports to the US, valued at \$96.6 billion, rose 3.5% over 1986, while the value of Canadian merchandise imports from the US continued to decelerate post 1984. Merchandise imports from the US, valued at \$79.2 billion, grew 3.6%, following a gain of 4.1% in 1986.

Overall, total 1987 merchandise trade imports, with all countries, of \$115 billion and exports of \$126 billion resulted in an \$11 billion surplus in merchandise trade for Canada, up almost 12% from 1986. Deficits, however, continued to increase in the non-merchandise trade sector (\$21.6 billion), the service transactions sector (\$7.0 billion) and the investment income sector (\$16.6 billion) — increases of 6.1%, 34.7%, and 0.03%, respectively. Consequently, Canada's 1987 total current account deficit remained unchanged from 1986 at \$10.6 billion.

Real net exports fell 17% to \$11.5 billion for the year, while real imports increased 8.6% and jumped a record 8.2% in the last quarter alone. Although the surge occurred across all major aggregates of imports, automobiles and parts and other manufactured products led the increase, rising 20% and 11%, respectively, in the quarter. Increased inflows of chemicals, primary metals,

petroleum and coal products were also notable. Real exports, as well, increased sharply in the fourth quarter, posting their strongest quarterly gain in four years (up 4.4%); and rose 5.9% over the entire year. Natural gas, wheat and barley were the major outflows, along with coal, minerals, automobiles and parts.

23.1.6 Employment and the labour force

Canada's unemployment rate fell to 8.9% in 1987, marking its fourth consecutive year of decline from the high of 11.9% in 1983. Although unemployment has not been below 9% since 1981, the total level of employment in the country has steadily increased since 1982, and has gained almost 3% every year since 1983.

Total employment growth in the service-producing industries was 3.1%, in 1987, while expansion in the goods-producing industries was 2%. Services have consistently led employment growth in Canada since 1984.

The community, business and personal services sector, the largest employer in the service industries, accounted for 47% of the workers in 1987. Hiring was the most robust, however, in the finance, insurance and real estate sector of the service industry, where the level of employees jumped 6.2% at the national level. In Ontario and Quebec gains of 10% and 8.8%, respectively, in this sector, compensated for the 4.3% drop that occurred in British Columbia.

In the goods-producing industries, manufacturing employed the majority of workers with 57% of the total employed. In 1987, employment in manufacturing grew 1.4%, down from the 1.7% gain in 1986. The number of agricultural workers declined for the second year with drops of 7.1% and 4.1% in Quebec and Ontario, respectively, overcoming slight gains in both the Atlantic provinces and British Columbia.

Employment boomed in the construction industry, after the first quarter of 1987, gaining 8.4% for the year, following an increase of 6.9% in 1986. Quebec led the expansion in this sector, with the number of construction workers up over 13%.

Overall, Canada's total labour force increased by 2% in 1987. The participation rate, that is the labour force as a percentage of the population aged 15 years and older, reached a high of 66.2%, while labour income jumped 7.7%.

23.1.7 Inflation

The Consumer Price Index (CPI) measured the annual rate of inflation for the year at 4.4%, up slightly from the 4.1% growth a year earlier. The