Industry Canada Industrie Canada

Report on Canada's Industrial Performance

Second Half of 2006

Micro-Economic Analysis Directorate
Micro-Economic Policy Analysis Branch
Industry Canada

Canada

Contents

Note: The analysis is based on data available as of April 15th, 2007. Gabriel Bruneau, Varsa Kuniyal, Robert Lamy, Jean Laneville, and Jack Van Walraven of the Micro-Economic Analysis Directorate, under the direction of Robert Lamy, have prepared the review.

Data sources are Statistics Canada, the Bank of Canada, the Canada Mortgage and Housing Corporation, the Conference Board of Canada, the U.S. Bureau of Economic Analysis, the U.S. Bureau of Labor Statistics, the U.S. Energy Information Agency, the London Metals Exchange, International Monetary Fund and Consensus Economics. Data in graphs and tables are derived from these sources.

All growth rates reported in the document are at annual rates and computed from the previous period unless otherwise indicated.

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Foreword

Canadian businesses across all regions and sectors had to face new challenges in this decade: the rise in the value of the Canadian dollar; energy costs that more than doubled; and intensified competition from emerging countries, in particular China, India and Brazil. In 2006, for the third consecutive year, industries adjusted to the new market conditions very well overall with real gross domestic product (GDP) increasing by 2.7%.

Industries providing services to households and businesses continued to drive growth in 2006. The construction sector had its best performance in this decade and made a noticeable contribution to economic activity with a 7.4% increase in real GDP. Within that sector, the residential construction industry enjoyed another year of housing starts above 225 000 units. Although this led to solid growth in 2006, the pace was still much slower than earlier in the decade. The most spectacular performance came from engineering construction — one of the fastest growing industries in Canada today. Real GDP of the industry, which advanced by nearly 30% over the last three years, is fuelled by large capital projects such as the Alberta oil sands and hydroelectric projects.

The services and construction sectors turned in a solid performance. That, along with higher activity in the natural resources sector, led to 376 100 new jobs being created between the fourth quarters of 2005 and 2006 — the largest increase ever recorded over the span of a year. In total for the economy as a whole, employment increased by 306 100 during 2006, nearly 46 000 more than in 2005. These robust labour market conditions extended into 2007 with 158 000 new jobs added to the economy in first quarter. This gain — combined with the expectations of private sector economists that the rate of increase in real GDP in the United States will strengthen throughout 2007 — bodes well for continued firm economic growth in Canada.

One of the key features of Canada's economic performance in 2006 is the continued robust growth in business investment, particularly in machinery and equipment (M&E). Increases are seen in most sectors of the economy including manufacturing. In that sector, nearly $70 billion have been invested in M&E capital goods since 2003 when the value of the Canadian dollar began to rise. In brief, Canadian firms responded to the challenges of this decade by stepping up investments so as to be better positioned to compete in world markets.

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Overview

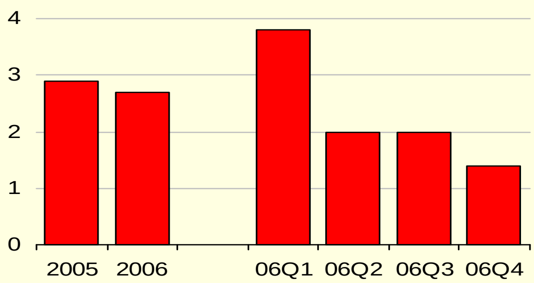
Highlights

- Growth in real GDP (at market prices) cooled to 1.4% in the fourth quarter of 2006 after gains of 2% in the two previous quarters. The manufacturing sector, with the fourth straight decline in output, was largely responsible for the moderation in growth.
- The rate of growth in employment increased to 2.4% in the fourth quarter. A total of 306 100 jobs were created between the fourth quarters of 2005 and 2006, mainly in the natural resources, construction and services sectors. The rate of growth in employment remained firm in the first quarter of 2007.
- Labour productivity in the business sector grew by 1.2% in 2006 for a total increase of 3.3% in the past two years. Continued strength in business investment in M&E, up 8% in 2006, bodes well for further improvement in productivity.

Industrial Developments

Although real GDP growth slowed to 1.4% in the fourth quarter of 2006 (Chart 1), the economy ended the year on a stronger footing with a robust gain of 0.3% (monthly rate) in November and 0.4% in December. Over 2006 as a whole, real GDP grew by 2.7% after increasing 3.3% in 2004 and 2.9% in 2005 — the strongest growth among all G-7 countries after the United States.

Chart 1: Growth in Real GDP
(%, period-to-period at annual rates)



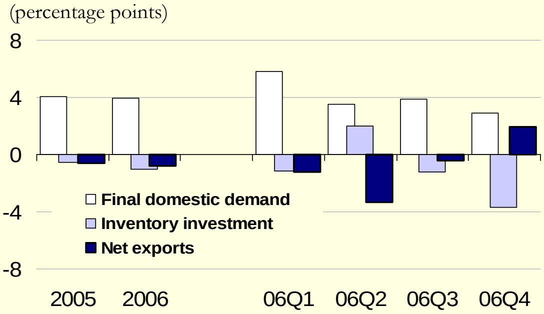
A decline in manufacturing output was responsible for the more subdued growth in the fourth quarter. Oil and gas and mining and utilities also contributed to the easing (Table 1). Manufacturing activity fell for the fourth consecutive quarter, affected in 2006 by lower U.S. demand for home building materials and for motor vehicles. Of the 21 industries in the sector, 15 saw a decline in the fourth quarter. The construction and services sectors supported the economy with solid growth. Performance in the construction sector this decade is examined in Analytical Box on page 33. Real GDP of other primary industries rebounded in the fourth quarter.

Table 1: Growth in Real GDP by Sector
(%, period-to-period at annual rates)

	2005	2006	2006 Q3	2006 Q4
Oil and gas and mining	0.2	1.8	6.6	-6.2
Other primary industries	3.5	-1.7	-10.2	5.6
Utilities	4.3	-1.6	-1.2	-5.0
Construction	5.7	7.3	3.4	5.2
Manufacturing	0.7	-1.2	-3.2	-2.5
Services	3.2	3.6	2.8	2.7

Final domestic demand was the engine driving growth in real GDP in the fourth quarter and in 2006 overall (Chart 2). In contrast, inventory investment grew at a slower pace in 2006, with a resulting negative contribution to real GDP growth. Net exports rebounded in

Chart 2: Contribution to Real GDP Growth
(percentage points)



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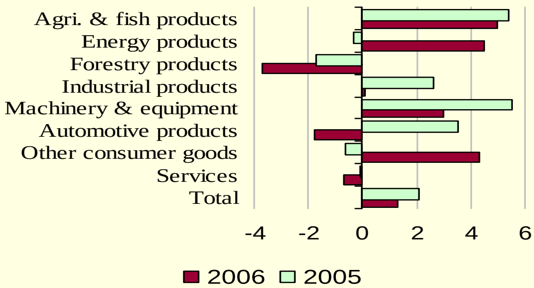
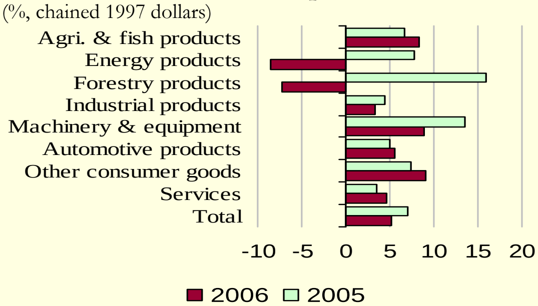
the fourth quarter but dragged down growth for 2006 overall for the fifth year in a row. The real balance of trade between Canada and its partners deteriorated through most of 2006, falling to an average deficit of $20.2 billion in 2006. This is the first negative real trade balance since 1991 and the highest deficit ever recorded. The rate of growth in real exports slowed for the second consecutive year, partly because of declines in forest and automotive products (Chart 3).

Chart 3: Growth in Real Exports
(%, chained 1997 dollars)



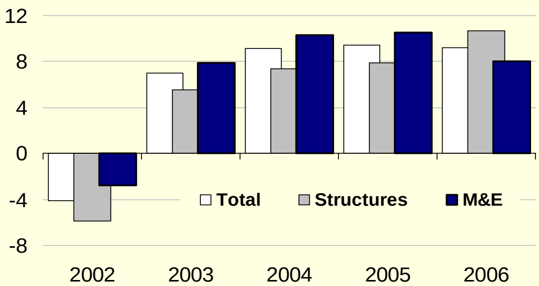
With consumer spending and business investment both strong and highly inclined toward imports, real imports of goods and services continued to expand at a robust pace in 2006 (Chart 4). Imports of M&E was among the fastest growing categories and the increase in 2006 explains about half the change in the real balance of trade.

Chart 4: Growth in Real Imports
(%, chained 1997 dollars)



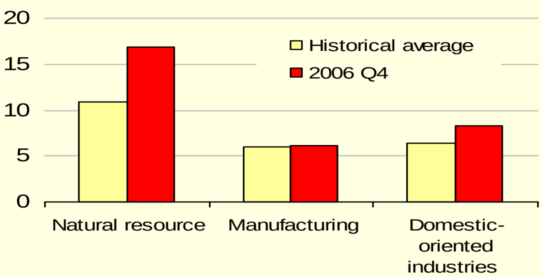
After consumer spending, business investment contributed significantly to growth in final domestic demand in 2006, gaining 9.2% after similar advances in the previous two years (Chart 5). Spending in structures contributed to the strong positive impact of business investment on growth. This spending in structures was fuelled by higher engineering investment, particularly in the development of Alberta's oil sands. Businesses continued to invest in M&E capital goods in 2006 — investment grew by 8% after a total gain of 22% in 2004 and 2005. The recent trends in business investment across types of asset and sectors are examined in Analytical Box on page 10.

Chart 5: Growth in Real Business Investment
(%)



The strength of business investment over the past few years reflects higher corporate profit levels, partly the result of robust growth in global demand and historically high world prices for many commodities, particularly for

Chart 6: Profit Margins by Sector
(% of operating revenues)



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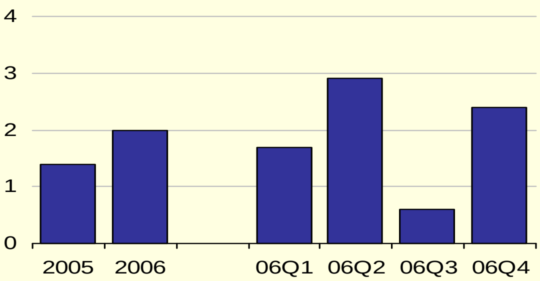
energy and base metals. As a percentage of revenue, before-tax profits of all industries increased to 8.4% in the fourth quarter and averaged 8.2% for 2006, an all-time high.

The profit situation of industries in natural resources and domestic-oriented industries remained healthy (Chart 6). Manufacturers' profit margins increased to 6.2% in the fourth quarter, slightly above the historical average.

The strong domestic economy in the fourth quarter improved labour market conditions with employment advancing 2.4% (Chart 7). Between the fourth quarters of 2005 and 2006, a total of 306 100 new jobs were created, mostly in Alberta, Ontario, British Columbia and Quebec.

Chart 7: Growth in Employment
(%, period-to-period at annual rates)



The rebound in employment growth in the fourth quarter occurred in the construction, manufacturing and natural resources (all in mining and support activities industries) sectors (Table 2). In the manufacturing sector, the increase came after declining in eight of the previous nine quarters. For 2006 as a whole, manufacturing employment declined

Table 2: Growth in Employment by Sector
(%, period-to-period at annual rates)

	2005	2006	2006 Q3	2006 Q4
Natural Resource[1]	5.9	4.2	-0.4	3.9
Utilities	-6.0	-2.6	15.3	5.3
Construction	7.0	4.9	2.2	7.2
Manufacturing	-3.7	-4.1	-7.5	1.8
Services	1.8	2.7	1.8	1.9

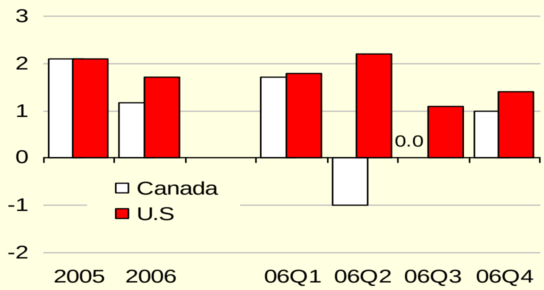
1. Includes agriculture, forestry, fishing and hunting, mining and oil and extraction industries.

more significantly than in 2005 with most of the employment decreases in industries with a high exposure to international trade.

Productivity Developments

Labour productivity in the business sector, measured as real GDP per hour worked, recovered by 1% in the fourth quarter from a modest cumulative decrease in the previous two quarters (Chart 8).

Chart 8: Growth in Labour Productivity in the Business Sector
(%, period-to-period at annual rates)



In 2006, labour productivity rose by 1.2% for a total increase of 3.3% in the past two years — a substantial improvement from virtually no growth in 2003 and 2004. The increase in 2005 and 2006 of about 10% in M&E capital intensity, as measured by the amount of net capital stock per hour worked, augurs well for future growth in labour productivity.

All industries, except for the services sector, saw improved productivity in the fourth quarter (Table 3). However, the rate of growth

Table 3: Growth in Labour Productivity by Sector
(%, period-to-period at annual rates)

	2005	2006	2006 Q3	2006 Q4
Agriculture, forestry, fishing, and hunting	3.8	0.2	-8.9	16.0
Construction	-0.7	3.4	-0.7	1.7
Manufacturing	3.6	0.2	-3.0	2.7
Services	2.6	2.1	1.4	0.0

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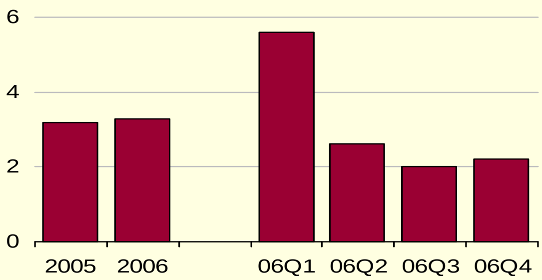
in labour productivity for 2006 overall slowed in all industries, except in construction where the gain came after virtually no growth over the previous four years.

External Developments

Economic growth in the United States remained modest in the fourth quarter of 2006 for the third consecutive quarter (Chart 9). Real GDP grew by 2.2%. Consumer spending and residential investment, which fell at an average annual rate of 16.4% in the last three quarters of 2006, were mainly responsible for the modest increase in real GDP.

Chart 9: Growth in U.S. Real GDP
(%, period-to-period at annual rates)



Real GDP of Canada's other key trading partners grew at a faster pace in the fourth quarter of 2006 (Table 4).

Table 4: Growth in Real GDP in Other G-7 Countries
(%, period-to-period at annual rates)

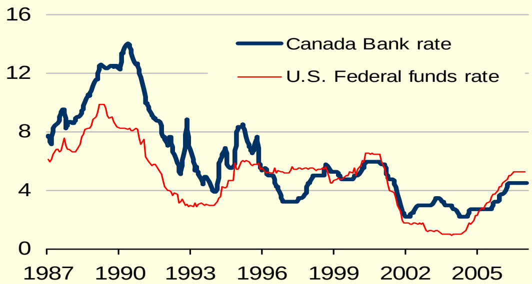
	2005	2006	2006 Q3	2006 Q4
U.K.	2.0	2.7	3.0	3.3
Japan	1.9	2.2	1.7	2.0
Germany	0.9	2.7	2.8	3.2
France	1.2	2.6	0.0	2.7
Italy	0.1	2.0	1.7	1.9

Source: Consensus Economics.

Financial Markets Developments

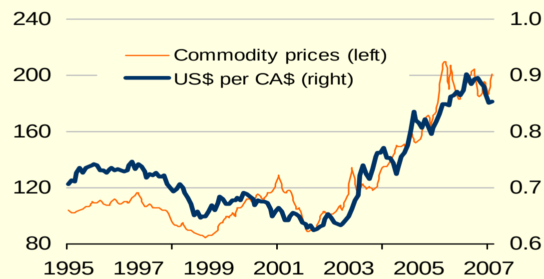
On March 6, 2007, the Bank of Canada held its key policy rate — the target for the overnight rate — at 4¼% (Chart 10). The bank rate has increased by 225 basis points from the low of 2% in 2004. On March 21, 2007, the U.S. Federal Reserve Board maintained its target for the federal funds rate at 5¼%. The funds rate has increased by 400 basis points since the Federal Reserve started raising it in 2004.

Chart 10: Canada and U.S. Interest Rates
(%)



After stabilizing around 88 cents U.S. in the period from May 2006 to November 2006, the Canadian dollar declined slightly thereafter. Last February, its value reached 85.4 cents U.S. (Chart 11). The decrease can be partly explained by lower commodity prices, particularly for oil.

Chart 11: Canada-U.S. Exchange Rate and Bank of Canada Commodity Price Index
(1982-90=100, in U.S. dollars) (in U.S. cents)



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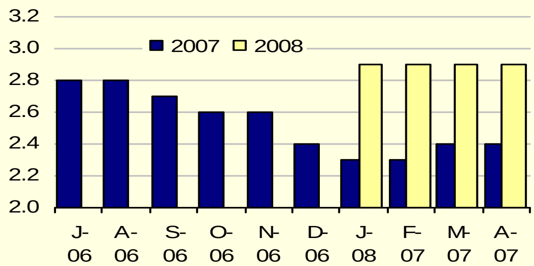
Economic Outlook

Canada

Consensus Economics revised over the last year its forecast downward for real GDP growth in Canada in 2007 (Chart 12). It now projects that real GDP will grow by 2.4% in 2007 and that the rate of increase in real GDP in 2008 will strengthen to 2.9%. In 2007 and 2008, Canada is expected to continue to post the best performance among all G-7 countries after the United States.

Chart 12: Canada Real GDP Growth Outlook
(%)



Source: Consensus Economics.

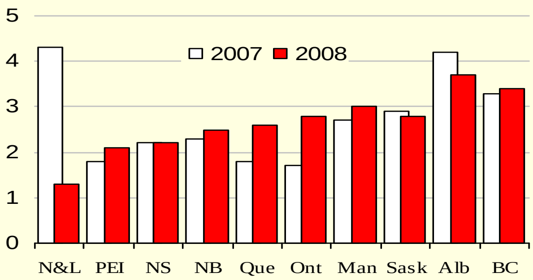
In the March 2007 federal budget, the projected real GDP growth for 2007 was revised downward to 2.3% from the 2.7% posted in the November 2006 *Economic and Fiscal Update*. Growth is expected to pick up to 2.9% in 2008.

The International Monetary Fund (IMF), in its April 2007 World Economic Outlook, also became less optimistic about the Canadian outlook. The IMF expects growth of 2.4% in 2007 instead of the 2.9% in its September 2006 World Economic Outlook. The IMF projects real GDP growth to bounce back to 2.9% in 2008.

Canada's Provinces

Private sector economists expect Canadian provinces that are rich in natural resources to lead the country in economic growth in 2007 as they did in 2006 (Chart 13). They call for Newfoundland and Labrador and Alberta to record the best performances among the provinces with gains respectively of 4.3% and 4.2% in real GDP. British Columbia will continue to grow faster than the national average with a projected gain of 3.3% in real GDP.

Chart 13: Real GDP Growth Outlook by Province[1]
(%)



1. Average from an internal survey of private sector forecasters.

The Newfoundland and Labrador economy will get a boost from the rebound in Terra Nova oil production after a downtime in 2006. The economies of Alberta and British Columbia will be stimulated by still-high world demand and prices for commodities and large capital projects related to the oil sands and the 2010 Winter Olympics. In the remaining provinces, growth should remain below the national average, particularly in Ontario and Quebec, the heartlands of the manufacturing sector in Canada.

In 2008, real GDP growth is expected to strengthen significantly in Quebec and Ontario and to remain relatively unchanged in the remaining provinces, except in Newfoundland and Labrador where growth should drop to below 2% with the expected lower oil output.

World

In April 2007, the IMF projected growth in world real GDP to remain robust in 2007 (Chart 14). The world economy is expected to

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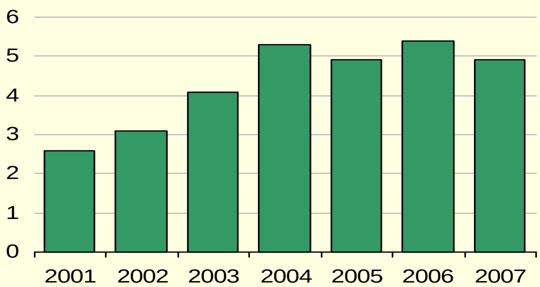
expand by 4.9%, unchanged from the September 2006 World Economic Outlook, down from a 5.4% gain in 2006. China and India led the world in economic growth in 2006 with gains of 10.7% and 9.2%, respectively.

Chart 14: World Growth Outlook

(%)



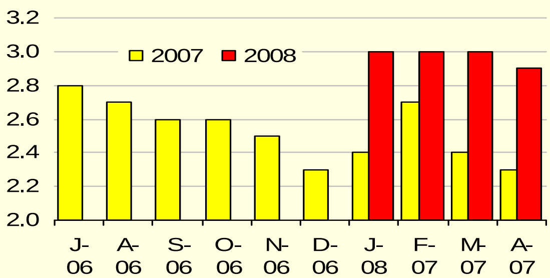
Source: IMF, World Economic Outlook, April 2007.

United States

In April 2007, for the second consecutive month, Consensus Economics revised its projection downward for U.S. real GDP growth. They now expect the United States to

Chart 15: U.S. Real GDP Growth Outlook

(%)



Source: Consensus Economics.

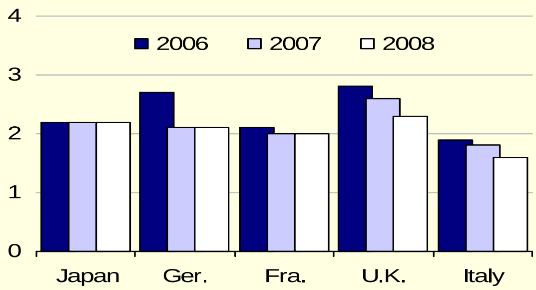
advance by 2.3% in 2007, down by 0.4 percentage points from the February 2007 forecast (Chart 15). Consensus Economics stated that the downward revision to the fourth quarter 2006 data, as well as weaker business investment and industrial production in recent months, have undermined the outlook for 2007. The forecast for 2007 is somewhat less optimistic than the IMF's forecast in April 2007 (2.5%).

Other G-7 countries

According to Consensus Economics, real GDP growth is expected to remain broadly unchanged in most of the other G-7 countries in 2007 (Chart 16). The outlook for 2008 calls for no change in Japan, Germany, and France; and somewhat slower growth in the United Kingdom and Italy.

Chart 16: Real GDP Growth Outlook in Other G-7 Countries

(%)



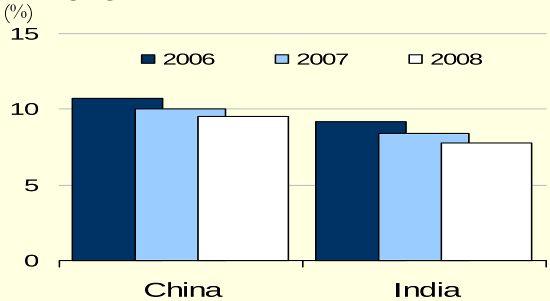
Source: Consensus Economics.

Emerging Economies:

Emerging countries — China and India in particular — will continue to lead world growth in 2007. In April 2007, the IMF kept unchanged its growth forecast for China at 10% in 2007 and 9.6% in 2008. For India, the IMF revised upward its forecast for growth by 1.1 percentage points to 8.5% in 2007 and by 0.7 points to 7.8% in 2008 (Chart 17).

Chart 17: Real GDP Growth Outlook for Emerging Economies

(%)



Source: IMF World Economic Outlook, April 2007.

Analytical Box

Recent Investment Trends in the Business Sector

Firms in Canada had to face new challenges in this decade with the rise in the value of the Canadian dollar, the increase in the price of oil to all-time highs, and intensified competition from emerging countries, namely China and India. In adjusting to these developments, Canada recorded a solid economic performance for the third consecutive year in 2006 with a 2.7% increase in real GDP (Chart 1). Supported by robust demand and a healthy financial balance sheet, businesses played a key role in fuelling economic growth during that period by increasing their capital spending (Chart 2). This analytical box looks in more detail at recent trends in investment in the business sector by type of asset and across industrial sectors, manufacturing in particular.

Chart 1: Real GDP Growth
(%)

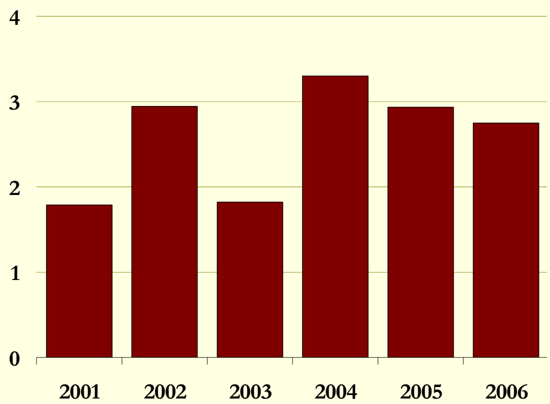
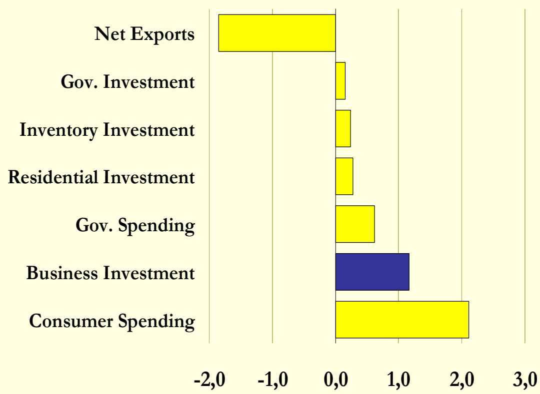


Chart 2: Average Contribution to Real GDP Growth, 2004 to 2006
(percentage points)



The analysis reveals the following:

- Business investment strengthened in the past three years, with an average rate of growth of 9.2%. Spending in M&E, namely in productivity-enhancing capital goods, was the main source of the increase in business investment. This led to a cumulative rise in M&E capital intensity in the business sector[1] — a determinant of productivity— of 10.3% in 2005 and 2006.
- Growth in M&E investment accelerated in the natural resources, manufacturing and domestic-oriented sectors.
- The robust growth in M&E investment in the manufacturing sector is seen in most industries, particularly those with low exposure to international trade.
- A recent survey by Statistics Canada suggests that businesses in all industrial sectors, except agriculture, forestry, fishing and hunting, will invest more in M&E in 2007.

Business Investment by Type of Asset

There are two components in business investment: non-residential structures, and M&E. Structures include buildings such as factories, skyscrapers, shopping centres, and engineering construction such as that for oil and gas wells. M&E includes mainly agricultural and industrial

1. Capital intensity is measured as net capital stock divided by total hours worked.

Analytical Box

Chart 3: Average Annual Contributions to Real GDP Growth[2]
(percentage points)

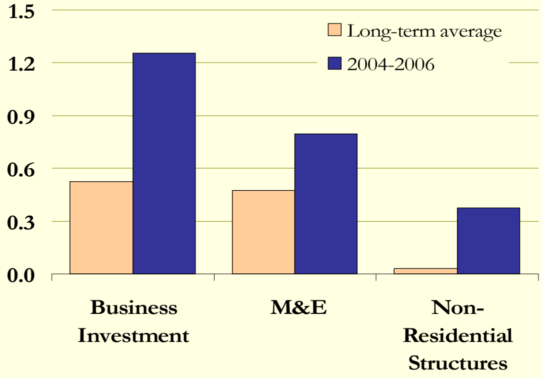
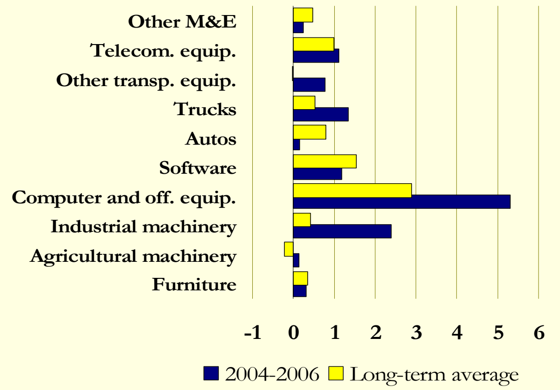


Chart 4: Average Annual Contributions to Growth in Real M&E Investment by Components
(percentage points)

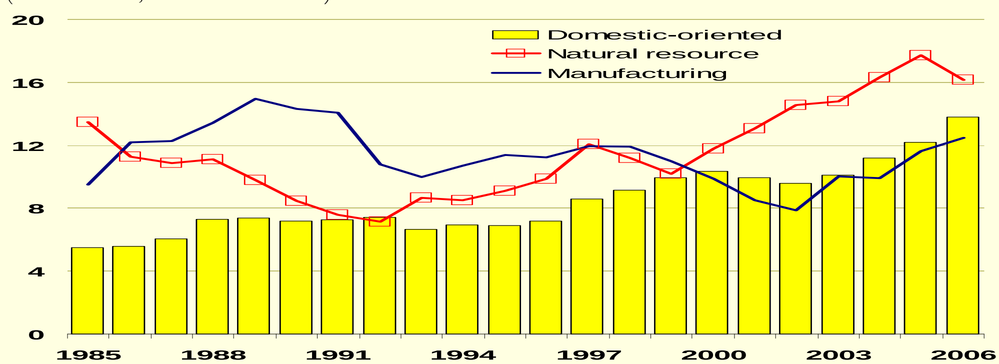


machinery, computers and office equipment, software, telecommunications and transportation equipment. Chart 3 shows that M&E was the most important source of growth in the past three years, contributing the most to all the increased investment by businesses. Spending on M&E grew by 10% per year on average during that period. With the exception of the high-tech investment boom of the late 1990s, this is the strongest three-year period of growth since the end of 1980s — also a time of solid global economy and cheaper prices for imported capital goods from the United States. Industrial machinery and computer and office equipment are the capital goods that contributed the most to the surge in M&E spending (Chart 4). The greater spending on M&E has contributed to the increase in capital intensity in M&E— a determinant of productivity— in the business sector by a total of near 20% since 2003.

M&E Investment by Sector

The surge in investment in M&E spreads across all sectors (Chart 5).[2] In the natural resources sector, higher world demand and higher prices for many commodities, particularly for oil and base metals, fuelled the strong increase in M&E investment. In the sector, spending in M&E

Chart 5: M&E Investment Rates by Sector
(% of real GDP, constant 1997 dollars)



2. The long-term average is computed from 1981 to 2000, which roughly corresponds to business cycle peaks.
3. Natural resource sector includes the agriculture, forestry, fishing and hunting and mining and oil and gas extraction industries. The domestic oriented sector includes the utilities, construction and all services industries excluding educational services, health care and social assistance, and public administration.

Analytical Box

grew by 5% per year in the past three years to reach $10.3 billion in 2006, the second highest level on record. All the increase is in the mining industry and support activities for mining and oil industry. In contrast, in the oil and gas extraction industry, spending in M&E fell by 2.5% on average over the 2004–2006 period. A large part of capital investment in that industry, which is related to the development of projects such as the Alberta oil sands and Terra Nova Oil Fields in Newfoundland and Labrador, are investments in engineering construction, not M&E.

In the domestic-oriented sector, growth in M&E investment also strengthened markedly in the past three years. M&E spending grew by 15.2% per year on average. Most industries in the sector recorded an average rate of increase above 10%, with growth well above the sector average in the utility, information and communication technology services, and arts, entertainment and recreational industries.

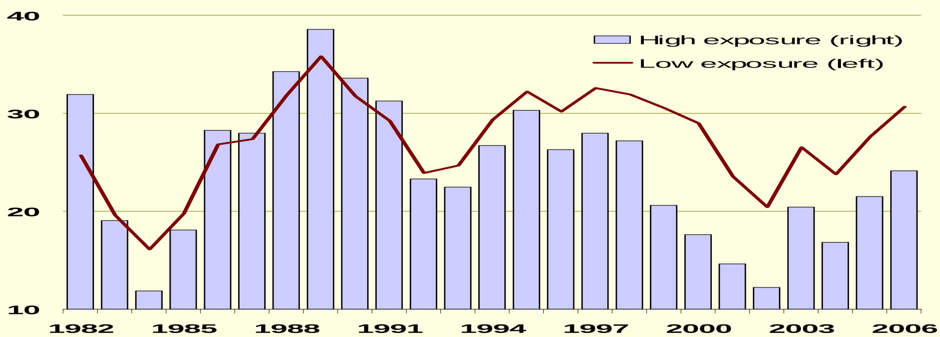
The highlight of the turnaround in investment in the business sector in the past three years is the decision by manufacturers to purchase M&E at a much faster pace than in the past. Spending on M&E in the manufacturing sector grew by 8.3% per year on average in the 2004–2006 period. As a result, the amount of net capital stock grew by 2.7% per year, about twice the long-term average. This pick-up in M&E spending by manufacturers, accompanied by adjustments in hours worked, led to a turnaround in M&E capital intensity. The ratio of M&E capital stock per hours worked increased by a total of 11% in 2005 and 2006, almost reversing the decline between 1998 and 2003.

M&E Investment in the Manufacturing Sector

The increase in M&E investment in the manufacturing sector spread to many industries with a high or low degree of exposure to international trade (Chart 6).[4]

- For industries with a low exposure, the rate of increase in M&E spending averaged 15% in the past three years to stand at the highest level as a share of real GDP since 1998. Petroleum and coal products and primary metal industries were the main source of growth. The average rate of increase ranged from 2.5% to 11.5% in the remaining industries.
- For industries with a high exposure, the rate of growth in M&E spending was less in the same period, 5.2% on average. Industries among that group with the highest growth are wood products, computers and electronic products, machinery, and fabricated metal. Textile mills, clothing, and paper are industries that have invested less in M&E in the past three years.

Chart 6: M&E Investment Rates by Degree of Trade Exposure of Manufacturing Industries
(%, constant 1997 dollars)



4. The concept of exposure to international trade is explained and defined in page 14.

Analytical Box

Perspective for 2007

Based on a recent survey of investment intentions by Statistics Canada, Canadian businesses in most sectors of the economy are expected to increase their capital expenditures in M&E in 2007 (Charts 7 and 8). The highlights of the survey are the following:

- The natural resources sector is projected to lead with a gain of 8.5%, about twice the average for the business sector.
- Investment should again increase solidly in the manufacturing sector and growth is forecast to be above the national average in Quebec and Ontario. Most industries in the sector are projected to invest more.

Chart 7: Investment Intentions in M&E by Sector
(%, nominal dollars)

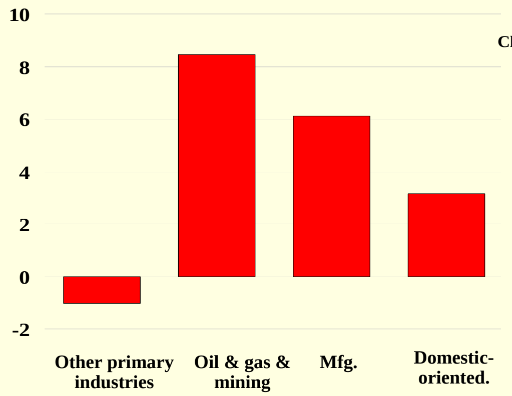
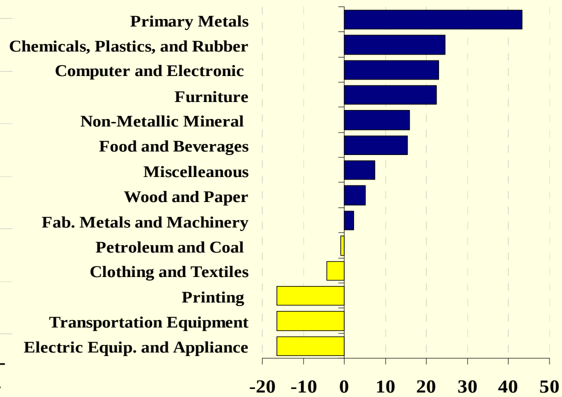


Chart 8: Investment Intentions in M&E by Manufacturing Industry
(%, nominal dollars)



<u>Measure of net trade exposure to international trade</u>

Industries are affected differently by the appreciation of the Canadian dollar. The impact on an industry depends on its net exposure to international trade. Based on a Bank of Canada study, *net trade exposure* is defined as "exports" share in production less imported output as a share of production plus competing imports as a share of the domestic market." The ratios of net trade exposure for all manufacturing industries were computed with input-output table for the year 2000. Industries with a net trade exposure ratio above the manufacturing sector average of 0.6 are classified as having a high net trade exposure. Industries with a ratio below the manufacturing sector average of 0.6 are classified in the low net trade exposure group.

Manufacturing industries with a high degree of net trade exposure are clothing, textile mills, textile product mills, leather and allied products, wood product, paper, plastics and rubber product, chemical, fabricated metal product, machinery, computer and electronic product, electrical equipment, appliance and component, transport equipment, furniture and related product, and miscellaneous manufacturing. Industries with a low degree of net trade exposure are food, beverage and tobacco product, printing and related support, petroleum and coal products, non-metallic mineral product, and primary metal.

Manufacturing

Economic importance:

- The sector accounts for 16% of GDP and exports about half of its production.
- Key industries are the transportation equipment (16% of sector's GDP), food (10%), chemical (10%) and fabricated metal product (8%).
- 13% of total employment is in the manufacturing sector.

Main growth drivers:

- Foreign and domestic demand
- Canada–U.S. exchange rate, domestic labour costs relative to foreign competitors' labour costs

Main issues facing the manufacturing sector:

- Deterioration in competitiveness brought about by a higher Canadian dollar
- Greater competition from China and India in both domestic and export markets
- Slower U.S growth

Chart 1: Real GDP Growth
(%, period-to-period at annual rates)

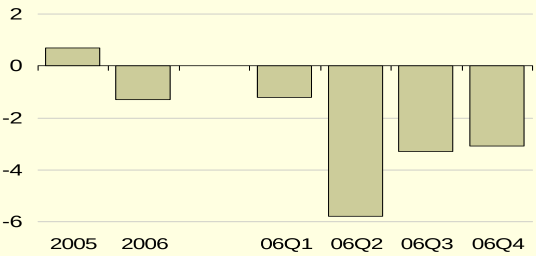


Chart 2: Real GDP Performance in this Decade
($billion at annual rates)

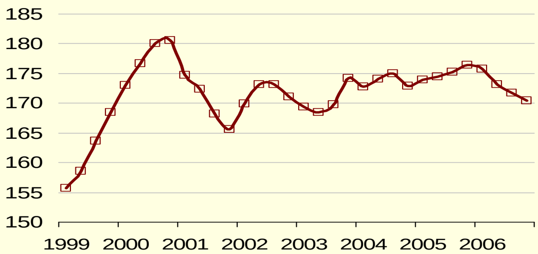


Chart 3: Employment Growth
(%, period-to-period at annual rates)

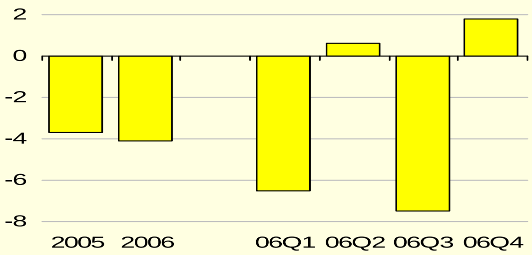
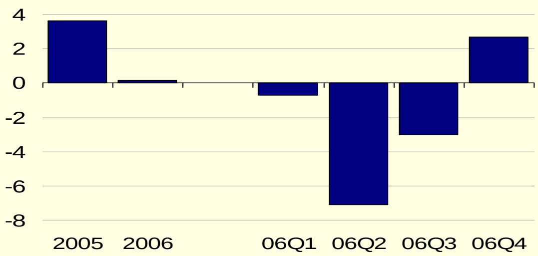


Chart 4: Labour Productivity Growth
(%, period-to-period at annual rates)



Summary

Real GDP in the manufacturing sector continued to weaken in the fourth quarter with output declining by a total of 3.4% between the fourth quarters of 2005 and 2006. The decrease over the past year, driven partly by weaker U.S. demand, spread to many industries in the sector. Employment in 2006 fell for the second consecutive year by 4.1%. Growth in labour productivity, despite a solid rebound in the fourth quarter, slowed significantly for the year as a whole. Investment in M&E by the sector's industries grew by a total of 26% in 2005 and 2006. M&E spending, as a share of real GDP, now stands at its highest level since 1991 and a Statistics Canada survey projected higher M&E spending in 2007. Overall, the financial situation of manufacturers remained relatively stable in the fourth quarter with the profit margin slightly above the historical average.

Production

Real GDP in the manufacturing sector fell in the fourth quarter of 2006 by 3.1%, the fourth consecutive decrease. The decline in output in the past year reflects lower U.S. demand for building materials and transportation equipment; the strength of the Canadian dollar; and increasing import competition from emerging countries, namely China.

Of the 21 industries in the sector, 15 recorded lower real GDP in the fourth quarter. The declines were most significant in the following industries: leather and allied product (–34.7%), clothing (–23.1%), primary metals (–14.4%), and wood products (–11.8%). Real GDP in the transportation equipment industry — the largest export-oriented industry — fell by 2.5%, the third decrease in the last four quarters. The decline affected all sub-industries in transportation equipment, except for motor vehicles. This sub-industry went against the

Manufacturing

trend, with output rebounding by 13.4% from an average decrease of 12.9% (annual rate) in the previous three quarters.

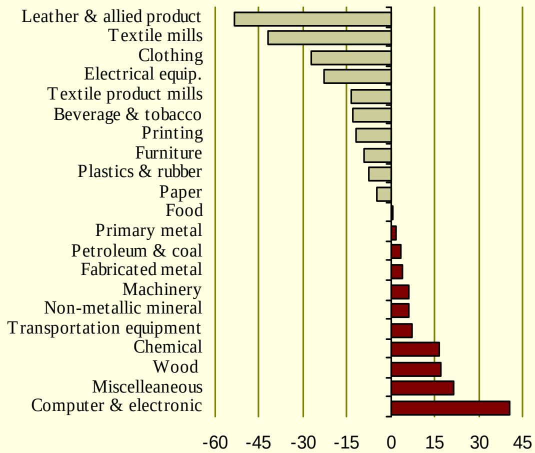
The decline in production among these 15 industries was partly offset by higher activity in the high-tech manufacturing firms. Real GDP in the computer and electronic product industry grew by 11.9% in the fourth quarter and by 2.7% in 2006 as a whole, the fourth consecutive annual increase. In contrast, despite a rebound of 6.9% in the fourth quarter, production in the electrical equipment and appliance industry fell in 2006 for the sixth consecutive year by 2.2%.

Manufacturing real GDP has barely grown since the start of the U.S. recovery at the end of 2001. It recorded a total gain of only 3% in five years.

Since 2001, 10 of the 21 industries have contributed to the lack of growth in real GDP of the sector (Chart 5). Among these industries, there were decreases in the leather and allied product, textile mills, clothing, electrical equipment, textile product mills, and furniture industries. These are the industries with the greatest exposure to increasing import competition from emerging countries, namely China and India.

In the remaining 11 industries, output has increased since 2001. The computer and electronic product industry was the most successful with a 41% increase in real GDP.

Chart 5: Change in Real GDP in the Manufacturing Sector by Industry since 2001 Q4
(per cent)



Real GDP in the wood product, transportation equipment and fabricated metal product industries also gained significantly, benefiting primarily from the high North American demand for building materials and motor vehicles.

Labour Market

Employment in the manufacturing sector rebounded by 1.8% (9400) in the fourth quarter, only the fourth quarterly gain in the past three years. In 2006 as a whole, employment fell by 4.1%.

The increase in the fourth quarter occurred in 12 industries, with the most significant gains in the food (18 500), fabricated metal product

Chart 6: Real Capital Investment
(billions of constant 1997 dollars)

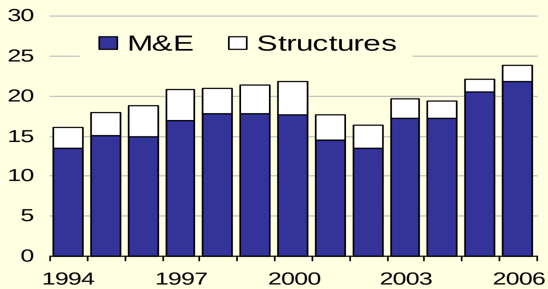


Table 1: Real M&E Investment by Province
(millions of constant 1997 dollars)

	2002	2003	2004	2005	2006
NFL	108	111	134	120	145
PEI	23	43	52	53	77
NS	335	380	330	424	482
QC	3 261	4 270	4 235	4 480	4 653
ON	7 122	8 736	8 615	9 922	10 565
MN	356	363	361	409	452
SAS	185	414	191	213	340
ALB	1 076	1 443	1 739	2 767	3 075
BC	819	1 043	1 244	1 541	1 549

1. Data not available for New Brunswick.

Manufacturing

(8200), textile mills and textile product mills (7600), and machinery (6900) industries. Job losses were recorded in the following industries: paper (–10 300), non-metallic mineral product (–8900), plastic and rubber products (–8100), wood products (–8100), and transportation equipment (–5500). In the last industry, employment fell by 13.3% (–45 300) from its peak about four years ago and now stands at its lowest level since the third quarter of 2002.

Labour Productivity

Labour productivity in the manufacturing sector grew by 2.7% in the fourth quarter (Chart 4). This follows a string of three consecutive declines.

In 2006, labour productivity advanced by 0.2%. This is down sharply from a gain of 3.6% in 2005, by far the best performance in five years.

Capital Investment

Capital investment in the manufacturing sector continued to increase firmly in 2006, up by 7.7%. This, however, was about half of the pace recorded in 2005 (Chart 6).

Most of the investment increase in this sector was in M&E where spending grew by 6.3% in 2006 after gaining an average 14.9% in the previous three years. It now stands, as a share of real GDP, at its highest level since 1991. Many of the sector's industries invested a total of $77 billion in M&E capital goods over the past four years. A recent Statistics Canada survey projected that manufacturing firms will continue to increase spending in 2007.

M&E investment has increased solidly in most provinces, particularly in Alberta, British Columbia and Ontario (Table 1). In Alberta, spending in M&E amounted to $9 billion in the past four years. Of this amount, $6.4 billion was in the petroleum and coal products industry, partly reflecting the development of the oil sands.

Financial Situation

Manufacturers' financial situation has remained relatively healthy in the fourth quarter. The profit margin rose to 6.2%, slightly above the historical average of 6% (Chart 7).

In this decade, economic developments affected the profit performance of manufacturers differently, depending on their exposure to trade (Chart 8). In the group with low exposure to trade, the profit margin has trended upward in the past four years, driven primarily by strong domestic demand. In 2006, the profit margin was at 9%, above the historical average of 7.4%. In contrast, among the group with high exposure to trade, the profit margin varied around 4% over the same period, below the historical average of 5.3%. In 2006, it remained stable at 4.2%.

Chart 7: Profit Margins
(% of operating revenues)

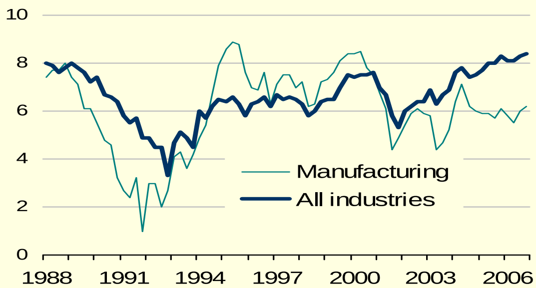
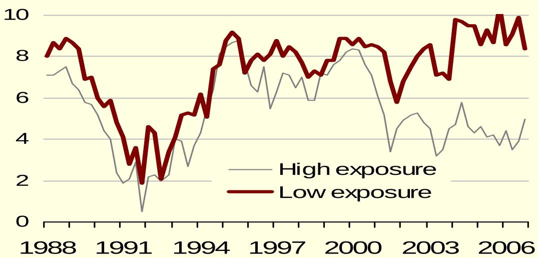


Chart 8: Profit Margins: Industries with High and Low Exposure to International Trade
(% of operating revenues)



Oil and Gas and Mining

Economic importance:

- The sector accounts for 4% of GDP and about 88% of the production is exported.
- Key industries are energy (62% of sector's GDP) and mining (25%).
- 1.5% of total employment is in the energy and mining sector.

Main growth drivers:

- World population growth
- Industrialization of emerging economies
- Changes in world business cycle

Main issues facing the energy and mining sector:

- Shortage of skilled workers

Chart 1: Real GDP Growth
(%, period-to-period at annual rates)

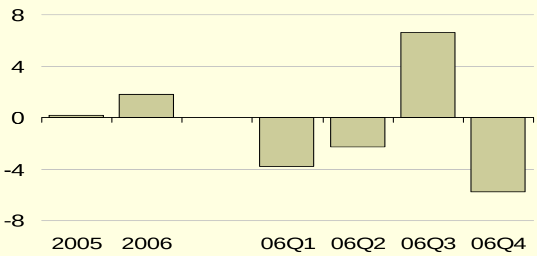


Chart 2: Components of Real GDP Growth
(%, period-to-period at annual rates)

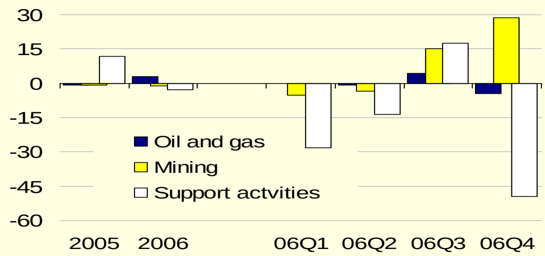


Chart 3: Employment Growth
(%, period-to-period at annual rates)

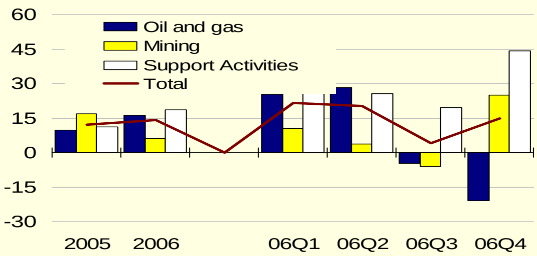
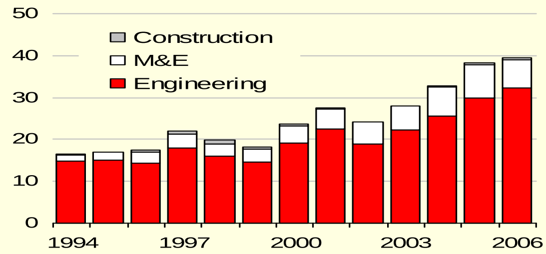


Chart 4: Real Capital Investment
(billions of constant 1997 dollars)



Summary

Real GDP in the oil and gas and mining sector fell in the fourth quarter for the third time in the past year. Most of the decrease came from lower production in the support activities industry — mainly exploration and drilling activities — and in the oil and gas industry. High inventory levels dampened the extraction of oil and gas in the fourth quarter. Employment increased by 8600 in the fourth quarter with 29 900 new jobs added in 2006 as a whole. Capital investment continued to increase in 2006. However, according to a recent Statistics Canada survey, it is projected to decline slightly in 2007 but this is after more than $200 billion has been invested during this decade. Profitability of the sector fell in 2006 as operating revenues in the oil and gas industry were affected by the sharp decline in the price of natural gas. The profit margin in the mining industry, however, continued to improve and reached an all-time high of 18% in 2006, supported by historically high prices for base metals.

Production

Real GDP in the oil and gas and mining sector fell by 5.8% in the fourth quarter, reversing almost all of the third-quarter gains. For 2006 as a whole, growth in real GDP for this sector came in at a modest 1.8%. The increase was concentrated in the oil and gas extraction industry.

The oil and gas industry lost its strength at the end of 2006 (Chart 2). Real GDP fell by 4.5% in the fourth quarter due in large part to a decline in production of natural gas and — to a lesser extent — of crude oil. The warmer-than-usual weather in North America and the resulting higher gas storage were partly responsible for this decrease in natural gas output. Despite the end-of-year decline, the output of the oil and gas industry grew by 2.9% in 2006, the strongest increase since 2002.

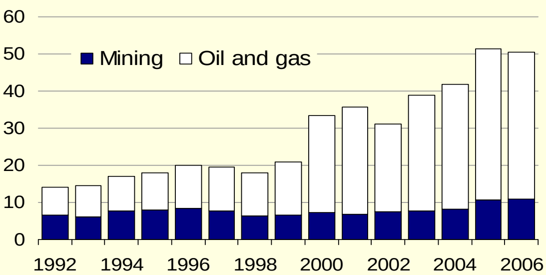
Oil and Gas and Mining

In the mining industry, real GDP surged by 28.8% in the fourth quarter of 2006 after gaining 15.2% in the third. Production in both base and non-metallic minerals rose sharply in the second half of 2006. The recent gains in mining production made up for the negative growth recorded in the previous four quarters.

Real GDP in the support activities industry — essentially exploration and drilling — declined substantially in the fourth quarter and this dragged down growth in the whole sector. In the second half of 2006, output of the support activities industry fell at an annualized rate of 22.9%.

Canada is an important world producer of crude oil, natural gas and base metals. Most of the production is exported, principally to the United States. This decade's increase in world demand and prices for these commodities has affected the energy and mining trade balance positively.

Chart 5: Oil and Gas and Mining Trade Balances
($ billion)

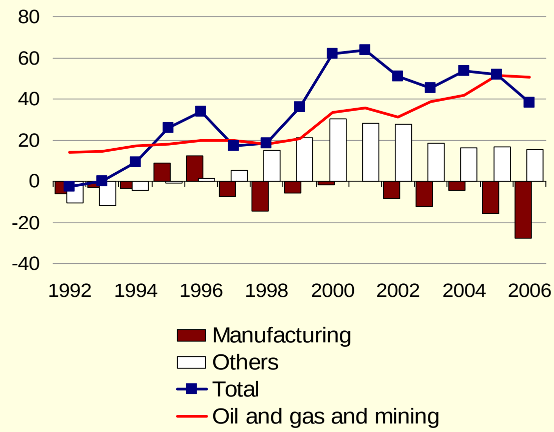


The trade surplus in the oil and gas and mining sector increased to a historical high of $51.3 billion in 2005 and remained above $50 billion in 2006 (Chart 5). Most of the increase this decade came from oil and gas with the mining trade surplus remaining relatively stable, as in the 1990s.

Canada's trade surplus in goods and services increased substantially from 1998 to 2001, boosted by a rising trade surplus in oil and gas and mining, a diminishing trade deficit in manufacturing, and an increasing trade surplus for all other goods and services.

After 2001, increasing trade surpluses in oil and gas and mining largely compensated for successive and rising trade deficits in manufacturing (Chart 6). In fact, the contribution of the oil and gas and mining sector to the Canada's trade surplus has increased consistently. In 2006, the oil and gas and mining trade surplus accounted for more than the overall trade surplus.

Chart 6: Trade Balances by Sectors
($ billion)



Labour Market

Employment in the oil and gas and mining sector continued to increase in the second half of 2006 (Chart 3), rising by 4% (2300) in the third quarter and by 15% (8600) in the fourth. As in the first half of 2006, most of the increase in employment occurred in the support activities for energy and mining industries.

In 2006, 29 900 new jobs were created in the oil and gas and mining sector for a total of 53 000 in the past two years — the strongest increase ever recorded for a two-year period. The oil and gas and support activities industries were the main contributors to the increase in employment. Job creation in these

Oil and Gas and Mining

two industries was fuelled by large capital projects, especially in the oil sands industry. In the mining industry, employment grew by 6.1% after gaining 17% in 2005. In that industry, 12 400 new jobs were added in 2005 and 2006, offsetting most of the cumulative decline of 13 700 that occurred between 2001 and 2004.

Capital Investment

Capital investment in the oil and gas and mining sector increased by 3.2% in 2006 after gains between 16% and 17% in each of the previous three years (Chart 4). Nearly $40 billion were invested in 2006 for a total of more than $200 billion in this decade. A recent survey by Statistics Canada projected a modest decline in capital investment in 2007.

Engineering investment accounts for 82% of all capital investment in the sector. The remainder is in M&E (17%) and structures (1%). In 2006, $32.2 billion was invested in engineering, up by 7.8%. In contrast, investments in M&E and construction fell by 13.6% and 1%, respectively.

Investment in the sector is concentrated in the oil and gas extraction industry (Chart 7), largely in Alberta (Table 1). In Canada as a whole, investment in that industry grew by 3.6% to $32.9 billion in 2006, following a 52% increase between 2002 and 2005. A large part of the investment in the industry is still slated for development of conventional oil and gas. In 2007, capital investment is projected to decline by 15.2% to $30 billion, the first decline since 2002. In contrast, investment in the oil sands is projected to rise by nearly 40% to all-time high of $16.1 billion in 2007.

In the mining industry, capital investment fell by 4.2% to $3.8 billion after doubling in the previous two years. However, in 2007, capital investment in that industry is projected to increase once again at a solid pace.

Financial Situation

The financial situation of firms in the oil and gas and mining sector has deteriorated since the end of 2005 (Chart 8). Operating profits as a share of operating revenues fell to 19.1% in the fourth quarter of 2006, down from the peak of 22.4% in the fourth quarter of 2005. That said, the profit margin is still well above the historical average of 13.1%.

Chart 8: Profit Margin and Bank of Canada Energy Commodity Price Index

(% of operating revenues) (1982-90=100, U.S. dollars)

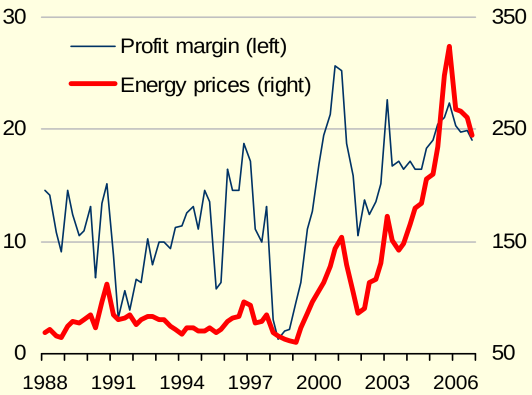


Chart 7: Real Capital Investment

(billions of constant 1997 dollars)

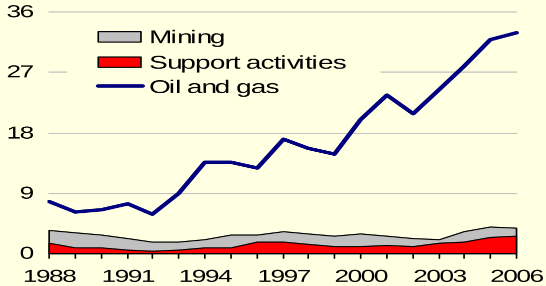


Table 1: Real Capital Investment by Province

(millions of constant 1997 dollars)

	2002	2003	2004	2005	2006
QC	512	508	586	764	919
ON	668	868	1 216	1 121	1 374
SAS	1 403	1 883	2 132	2 052	2 405
ALB	16 696	18 904	22 043	27 017	28 221
of which energy	16 030	18 008	20 983	25 291	26 596
BC	2 106	2 935	3 368	3 437	2 909
of which energy	1 913	2 742	3 042	2 880	2 595

1. Data are not available for the remaining provinces.

Oil and Gas and Mining

Profitability in the oil and gas industry decreased in 2006 as the price of natural gas dropped by almost 50%. In contrast, profitability in the mining industry continued to improve, buoyed by rising prices for base metals. In the fourth quarter, the profit margin in the mining industry increased to 18.2% for an average of 17.9% in 2006 — a historical high.

Commodity Prices:
Current Developments and Outlook

Crude oil: World oil markets tightened in the last quarter of 2006 in response to production cuts by members of the Organization of Petroleum Exporting Countries (OPEC). Despite the cuts, West Texas Intermediate (WTI) oil prices fell below US$55 per barrel in January 2007 because inventory levels were still high due to the mild weather in North America. WTI oil prices rose once again above US$60 per barrel in March 2007 and are not expected to fall below this level in the coming years (Chart 9). The U.S. Energy Information Agency (EIA), in its latest *Short-Term Energy Outlook,* projects WTI oil prices to increase gradually to US$64 by June 2007 and to stay at that level until April 2008 (Chart 10).

Natural gas: Gas prices fell sharply during the first half of 2006 and in September reached their lowest level in almost three years. The Henry Hub natural gas price was at US$4.90 per million cubic feet (mcf) in September, down significantly from the historical high of US$13.42 recorded in October 2005. In the fourth quarter of 2006, the Henry Hub price averaged US$6.65 per mcf (Chart 11). The EIA expects the Henry Hub natural gas price to average $7.58 in 2007 and $7.86 in 2008 (Chart 12).

Base metals: On average, prices for base metals continued to increase in the fourth quarter of 2006 but have declined somewhat since the beginning of 2007 (Charts 13, 15, 17, 19). Prices in the past few years were driven up by strong world growth and tight global supply/demand conditions. Although inventories remain at low levels and labour disputes could cause potential supply disruptions, perceptions of a potential slowdown in world industrial production are putting downward pressures on metal prices. Based on London Metal Exchange (LME) futures, prices for aluminium (Chart 14), copper (Chart 16), nickel (Chart 18), and zinc (Chart 20) will retreat over the next two years but will still remain high by historical standards.

Oil and Gas and Mining

Chart 9: WTI Oil Price
(in U.S. dollars per barrel)

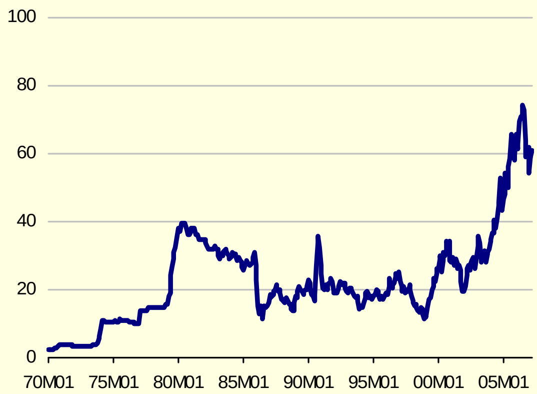


Chart 10: Forecast of WTI Oil Price
(in U.S. dollars per barrel)

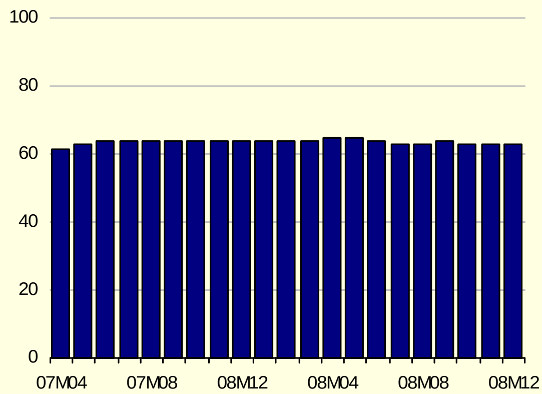


Chart 11: U.S. Natural Gas Price
(in U.S. dollars per mcf at Henry Hub)

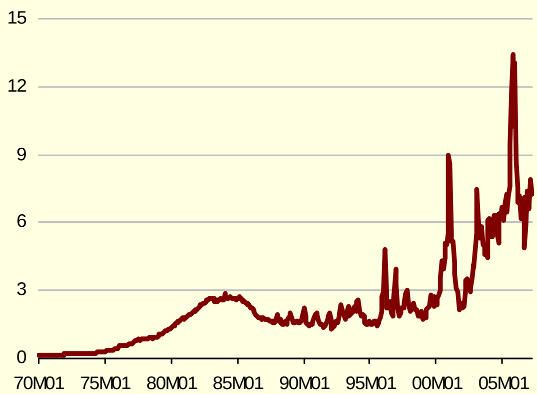


Chart 12: Forecast of U.S. Natural Gas Price
(in U.S. dollars per mcf at Henry Hub)

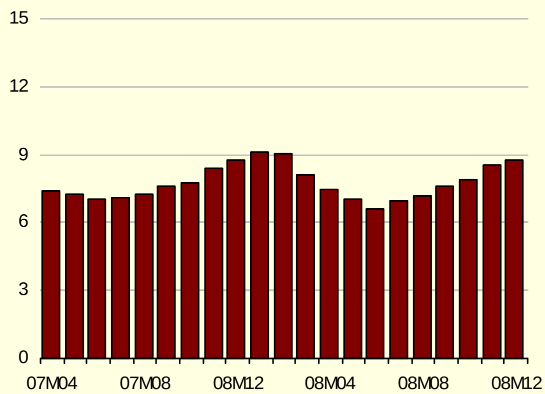
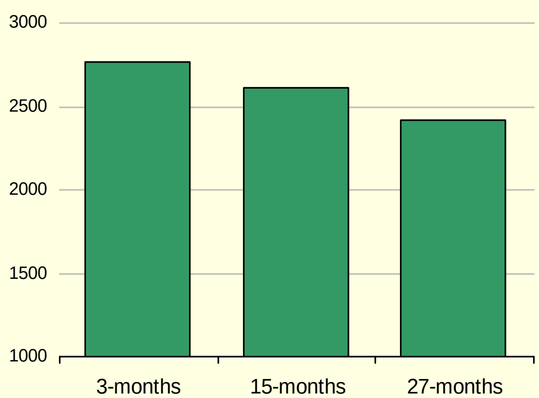


Chart 13: LME Aluminium Price
(in U.S. dollars per tonne)

Chart 14: LME Future Aluminium Price
(in U.S. dollars per tonne)



Note: The forecasts for WTI oil prices and natural gas prices are from the U.S. Energy Information Agency. The forecast are from their March 2007 Short-Term Outlook. Future LME prices are the future bid prices of the London Metal Exchange for the designated metals on March 15, 2007.

Oil and Gas and Mining

Chart 15: LME Copper Price
(in U.S. dollars per tonne)

Chart 16: LME Future Copper Price
(in U.S. dollars per tonne)

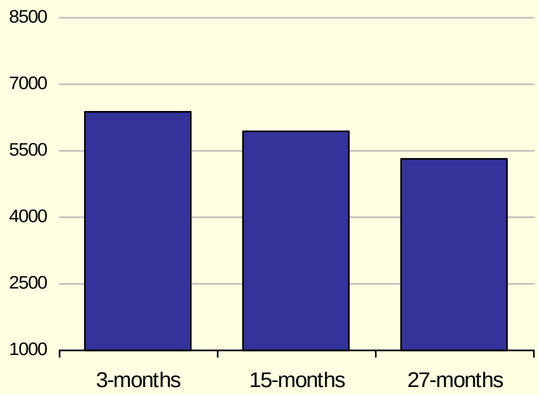


Chart 17: LME Nickel Price
(in U.S. dollars per tonne)

Chart 18: LME Future Nickel Price
(in U.S. dollars per tonne)

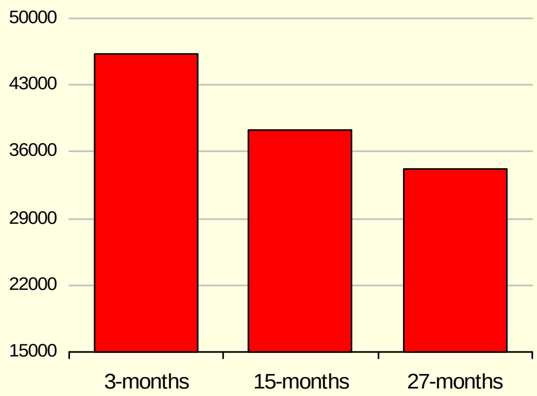


Chart 19: LME Zinc Price
(in U.S. dollars per tonne)

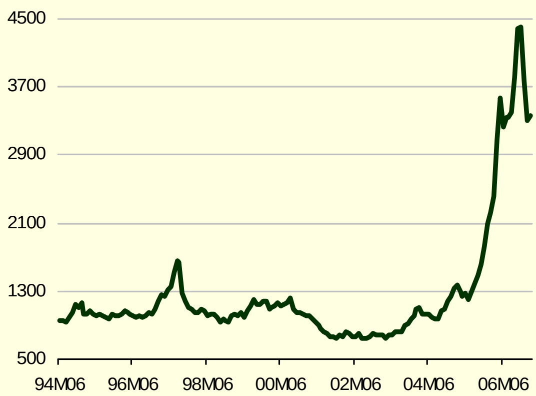
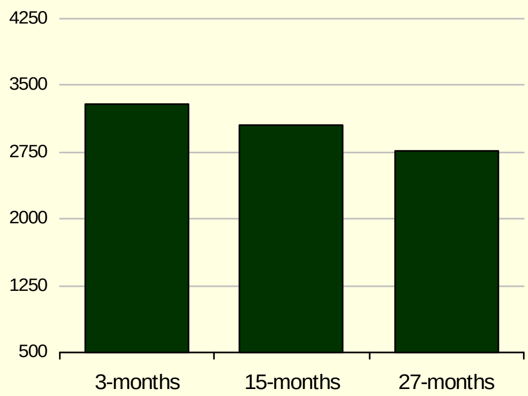


Chart 20: LME Future Zinc Price
(in U.S. dollars per tonne)



Services to Households

Economic importance:

- The sector accounts for 12% of GDP and about 7% of production is exported.
- Key industries are retail trade (52% of sector's GDP), other services (except public administration) (21%), and accommodation and food services (19%).
- 25% of total employment is in the services-to-households sector.

Main growth drivers:

- Age structure and growth in population
- Tourism
- Income, employment and consumer confidence

Main issues facing the services-to-households sector:

- Substantially fewer visitors from south of the border

Chart 1: Real GDP Growth
(%, period-to-period at annual rates)

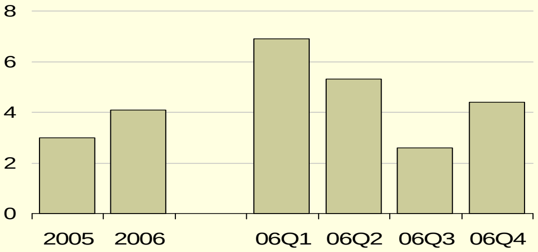


Chart 2: Components of Real GDP Growth
(%, period-to-period at annual rates)

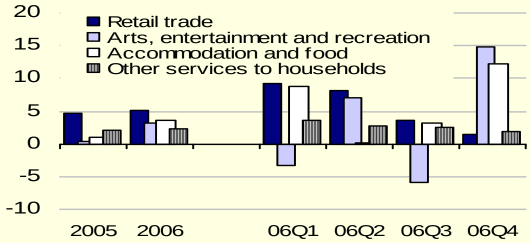


Chart 3: Employment Growth
(%, period-to-period at annual rates)

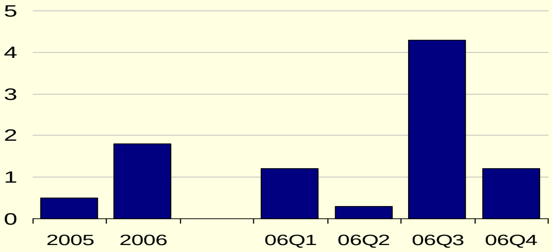
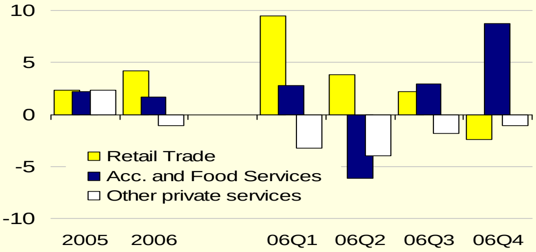


Chart 4: Labour Productivity Growth
(%, period-to-period at annual rates)



Summary

Real GDP in the services-to-households sector strengthened in the fourth quarter and increased by 4.1% in 2006 as a whole. The robust gain in the last quarter was concentrated in the accommodation and food and the arts, entertainment, and recreation industries, partly reflecting higher domestic travel. Although employment growth slowed in the fourth quarter, job creation in 2006 was four times greater than in the previous year and was concentrated in retail trade industry. Capital investment in the services-to-households sector rebounded by 11.8% in 2006 and a recent survey by Statistics Canada projects another firm increase in 2007. The sector's financial situation remained strong.

Production

Real GDP in the services-to-households sector strengthened to 4.4% in the last quarter of 2006 (Chart 1). Growth in real GDP accelerated in 2006 to 4.1%, the third consecutive yearly increase.

Two industries, accommodation and food, and arts, entertainment and recreation, were the source of the stronger output growth in the sector in the fourth quarter (Chart 2). Both industries benefited from higher domestic travel. Real GDP in the accommodation and food industry advanced by 12.3%, a pace that was about four times faster than in the previous quarter and the strongest quarterly gain in more than eight years. In the arts, entertainment and recreation industries, output rebounded by 14.9% in the same quarter.

Growth in real GDP in the retail trade industry slowed in the third and fourth quarters. For 2006 as a whole, growth picked up for the third consecutive year to 5.2%. Real

Services to Households

GDP growth in the other services-to-households weakened to 1.8% in the fourth quarter, averaging 2.4% in 2006.

Labour Market

Employment in the services-to-households sector grew by 1.2% (12 400) in the fourth quarter after a jump of 4.3% (42 800) in the third (Chart 3). Almost 73 000 new jobs were created in 2006, four times the number in 2005.

Employment gains in the second half of 2006 were mainly in the retail trade and the accommodation and food industries. The arts, entertainment and recreation industry and the other services-to-households industry were behind the slowdown in job creation in the last quarter.

The retail trade industry was mainly responsible for the employment gains for 2006 as a whole, adding 33 000 jobs in the second half of the year and 30 500 in the first.

Labour Productivity

Labour productivity growth in the retail trade industry increased to 4.2% in 2006, up from 2.3% in 2005 (Chart 4). Productivity growth in the accommodation and food services industry continued to grow but at a slower pace (1.6%), while the other services industry posted negative growth of -1.1% for the first time since 1998.

Capital Investment

Capital investment in the services-to-households sector rebounded by 11.8% in 2006 from a slight decline in 2005 (Chart 5). A recent Statistics' Canada survey projects that investment will continue to grow at a robust pace in 2007.

M&E was the main source of the increase in capital investment in 2006. Spending in this area grew by 13.3% in 2006 after an average annual gain of 12% in the previous five years. In this decade, the sector invested nearly $60 billion in M&E, most of it in Ontario and Quebec (Table 1). Investment in structures rebounded by 8.4% in 2006, regaining half of the losses in 2005.

Financial Situation

The financial situation of industries in the services-to-households sector remained strong in the fourth quarter (Chart 6). Profit as a share of operating revenue increased to 9% in 2006, about the historical average.

Chart 6: Profit Margins
(% of operating revenues)

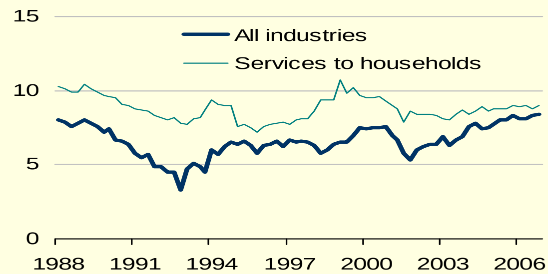


Chart 5: Real Capital Investment
(billions of constant 1997 dollars)

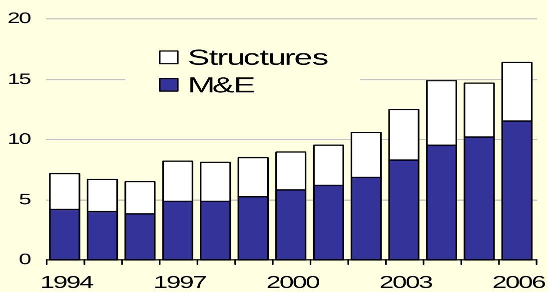


Table 1: Real M&E Investment by Province
(millions of constant 1997 dollars)

	QC	ON
2000	1,146	2,300
2001	1,306	2,400
2002	1,500	2,612
2003	1,872	3,002
2004	1,889	3,359
2005	2,011	3,875
2006	2,263	4,340

1. Data are not available for the remaining provinces.

Services to Business - ICPST

Economic importance:

- The sector accounts for 9% of GDP and about 12% of production is exported.
- Key industries are professional, scientific and technological services (52% of sector's GDP), and information and cultural (48%).
- 9% of total employment in this sector.

Main growth drivers:

- Strength of the domestic market
- World supply chains

Main issues facing the services-to-business sector:

- Globalization and the "outsourcing" of some services to low-wage countries with a growing supply of highly skilled labour
- Weak productivity growth in the professional, scientific and technical services industries

Chart 1: Real GDP Growth
(%, period-to-period at annual rates)

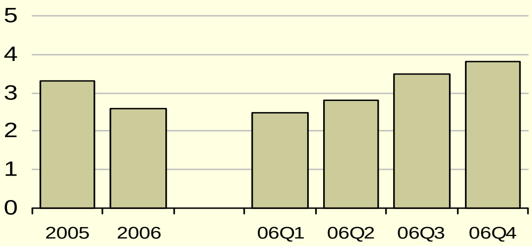


Chart 2: Components of Real GDP Growth
(%, period-to-period at annual rates)

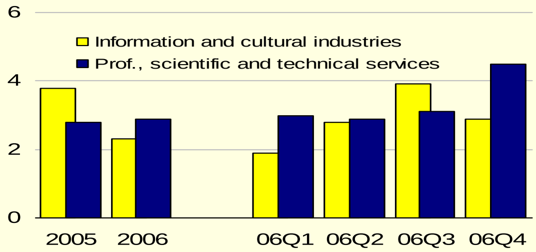


Chart 3: Employment Growth
(%, period-to-period at annual rates)

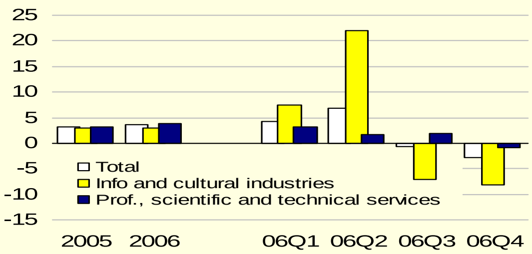
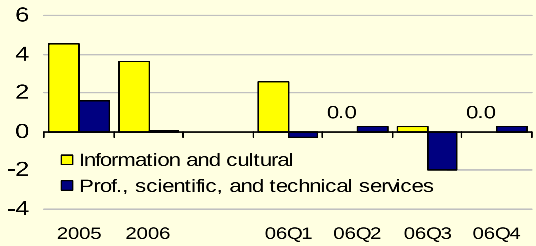


Chart 4: Labour Productivity Growth
(%, period-to-period at annual rates)



Summary

In the information and cultural, and the professional, scientific and technical services (ICPST) sector, real GDP growth strengthened during the second half of 2006 from the healthy pace in the first. This advance was fuelled by robust business demand for high-tech services. Despite the loss of 13 500 jobs in the last two quarters of the year, employment increased by 51 300 in 2006 as a whole for a total gain of 94 100 jobs in the past two years. Growth in capital investment, supported by a healthy and improving financial situation, remained robust in 2006, the third consecutive year with good performance. Most investment was in M&E capital goods. According to a recent survey by Statistics Canada, capital investment is projected to increase in 2007.

Production

Growth in real GDP in the ICPST sector remained very robust in the fourth quarter, strengthening slightly to 3.8% (Chart 1). Continued strong business spending on computer and office equipment and software supported the sector.

Both industries within the sector contributed to the accelerated growth in the second half of the year (Chart 2). In the information and cultural industry, the rate of increase in production picked up significantly to an average of 3.4%. In the professional, scientific and technical services industry, real GDP growth was also stronger in the second half.

Labour Market

Despite the strengthening in output growth, employment in the ICPST sector suffered a greater decline in the fourth quarter (2.8% or 10 700) than in the third (Chart 3). The job losses came after a cumulative increase of 62 000 new jobs between the fourth quarter of

Services to Business - ICPST

2005 and the second quarter of 2006. Nonetheless, in 2006, the rate of increase in employment in this sector improved to 3.6% with 94 100 new jobs being created in the past two years.

The information and cultural industry was the main source of the sector's decline in employment in the second half of the year (Chart 3). In that industry, 16 000 jobs were lost, mostly in publishing and motion picture and sound.

Employment in the professional, scientific and technical services industry increased by a total of 2700 jobs in the third and fourth quarters. Almost 40 000 new jobs were created in 2006, following the gain of 31 700 in 2005.

Labour Productivity

Labour productivity in the information and cultural industry remained unchanged in the fourth quarter (Chart 4). However, for 2006 as a whole, growth in labour productivity stayed strong (3.6%) for the second consecutive year.

In the professional, scientific and technical services industry, labour productivity rebounded modestly in the fourth quarter from the 2% decrease in the third. In 2006 overall, productivity was up marginally by 0.1%.

Capital Investment

In the ICPST sector, capital investment grew by 15.3% in 2006 for a cumulative increase of 55.8% in the past three years (Chart 5). Investment in M&E amounted to $49.8 billion during that period, $30 billion in the information and cultural industry and the rest in the professional, scientific and technical services industry.

Most of the increase in investment since 2003 has came from higher spending in M&E, which grew at an average annual rate of 19%. Most of the investment was in Ontario, Quebec and Alberta (Table 1). In contrast, investment in structures fell for the fifth year in this decade.

Financial Situation

The financial situation of industries in the ICPST sector continued to improve in the fourth quarter, in part reflecting the strong business spending (Chart 6). The profit margin in the last quarter stood at 7.8%, slightly above the historical average.

Chart 6: Profit Margins
(% of operating revenues)

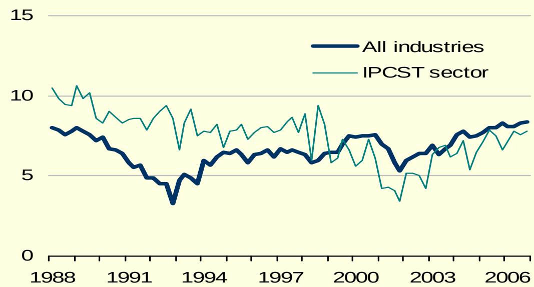


Chart 5: Real Capital Investment
(billions of constant 1997 dollars)

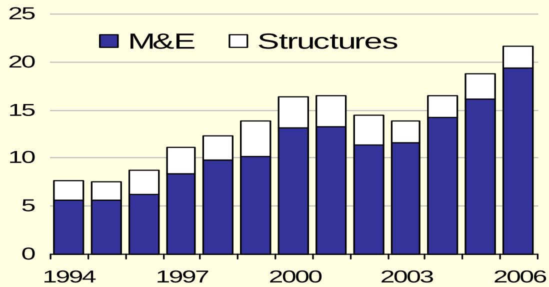


Table 1: Real M&E Investment by Province
(millions of constant 1997 dollars)

	QC	ON	SASK
2000	3,129	6,202	270
2001	2,867	6,218	280
2002	2,366	4,666	307
2003	2,451	4,962	260
2004	3,019	6,162	302
2005	3,304	6,890	393
2006	4,069	8,250	619

1. Data are not available for the remaining provinces.

Services to Business – FIRE

Economic importance:

- The FIRE sector accounts for 19% of GDP and about 3% of production is exported.
- Key industries are real estate (about 68% of sector's GDP), and monetary authorities and credit intermediaries and related activities (about 19%).
- 6% of total employment is in the FIRE sector.

Main growth drivers:

- Interest rates, income, unemployment rate and consumer confidence
- Globalization

Main issues facing the FIRE sector:

- Weak labour productivity growth

Chart 1: Real GDP Growth
(%, period-to-period at annual rates)

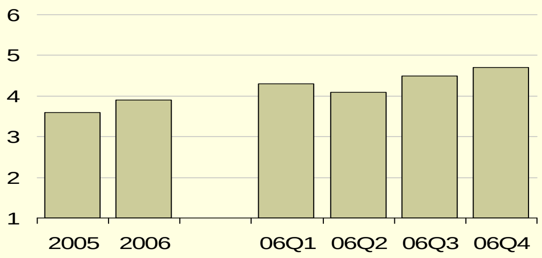


Chart 2: Components of Real GDP Growth
(%, period-to-period at annual rates)

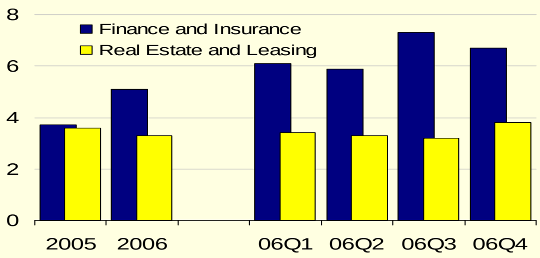


Chart 3: Employment Growth
(%, period-to-period at annual rates)

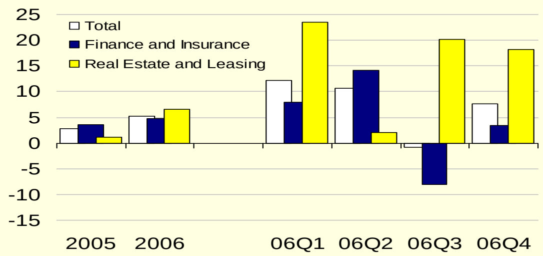
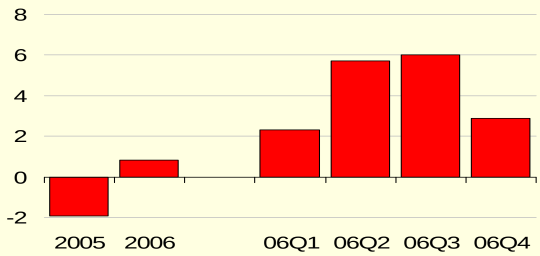


Chart 4: Labour Productivity Growth
(%, period-to-period at annual rates)



Summary

In this sector — finance and insurance, and real estate, rental and leasing (FIRE) — growth in real GDP remained very strong in the third and fourth quarters. Employment jumped by 7.6% in the fourth quarter for a total of 52 700 new jobs created in 2006. This is the highest job creation ever recorded. Labour productivity in the sector rebounded throughout 2006 with an average rate of growth of 4.2% per quarter. The rebound in productivity partly reflects the lagged impact of huge investments in M&E that totalled more than $100 billion since 2003. A survey by Statistics Canada projected industries in the sector to increase spending on M&E in 2007. The financial situation of the sector continued to improve in 2006 with the profit margin rising to near 23%, an all-time high.

Production

Real GDP in the FIRE sector continued its solid growth in the third and fourth quarters, up by an average 4.6% (Chart 1), supported largely by robust business activities. In 2006, output growth accelerated to 3.9%, above the average rate of increase of service-producing sector for the sixth consecutive year.

The finance and insurance, and real estate, rental and leasing industries both continued to see healthy activity in the second half of the year (Chart 2). In the finance and insurance industry, real GDP advanced at a rate above 6% in both the third and fourth quarters — on average, a faster pace of growth than in 2005. In the real estate, rental and leasing industry, activity grew at an average rate of near 3.5% in the last two quarters, relatively unchanged from the first half. Sales of new and existing houses were historically high over that period, supporting activity in that industry.

Services to Business – FIRE

Labour Market

Employment in the FIRE sector rebounded strongly by 7.6% (19 100) in the fourth quarter (Chart 3). In total, 52 700 new jobs have been created in 2006, the strongest increase ever recorded. Strong domestic demand in the past three years led to an increase in employment of 123 500 during that period. This is more than three times the number of jobs created during all the 1990s.

The real estate, rental and leasing industry was the main source of the strength in job creation in the second half of the year. In that industry, employment rose by 20.1% in the third quarter and 18.2% in the fourth. This brought new job gains up to 43 100 from the first quarter of 2006 through to the last.

Employment in the finance and insurance industry rebounded by 3.4% (6200) in the fourth quarter. In total, the industry added 28 900 new jobs in the four quarters of 2006 and a total of nearly 100 000 in the past three years.

Labour Productivity

Labour productivity in the FIRE sector, after declining 2% in 2005, turned around during 2006 and rose at an average annualized rate of 4.2% per quarter (Chart 4).

Capital Investment

The rebound in productivity partly reflects the lagged impact of stronger increases in capital investment in the sector in the past three years (Chart 5).

In 2006, investment in the sector increased by 14.6%, about the same pace as the average of the previous two years. Nearly $110 billion was invested since 2003. Ninety percent of the spending was in M&E with the spending occurring largely in Ontario (Table 1).

Financial Situation

The financial situation of the FIRE sector continued to improve this year, supported by the strong domestic economy (Chart 6). The profit margin climbed to a record high of 22.7% in the fourth quarter and averaged 22.6% for 2006 as a whole, again an all-time high and well above the historical average.

Chart 6: Profit Margins

(% of operating revenues)

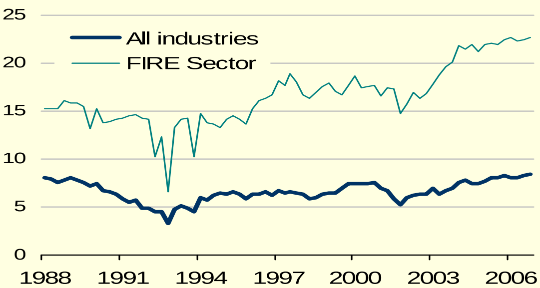


Chart 5: Real Capital Investment

(billions of constant 1997 dollars)

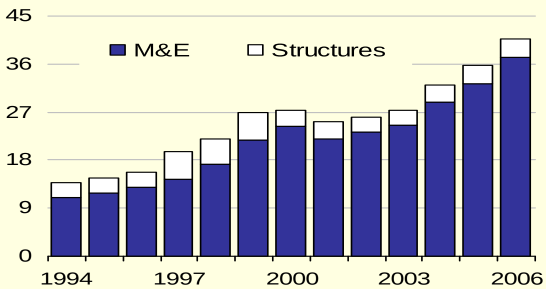


Table 1: Real M&E Investment by Province

(millions of constant 1997 dollars)

	2002	2003	2004	2005	2006
NB	364	326	433	483	532
QUE	4,529	4,761	6,403	6,657	7,385
ONT	10,517	11,327	12,571	14,501	17,285
SASK	434	475	612	658	751
ALB	2,702	2,907	3,854	4,079	4,792
BC	2,858	3,032	3,032	3,605	4,128

1. Data are not available for the remaining provinces.

Other Services to Business[1]

Economic importance:

- The sector accounts for 14% of GDP and about 18% of production is exported.
- Key industries are wholesale trade (47% of sector's GDP); transportation and warehousing (35%); administration and support, waste management and remediation services (17%).
- 13% of total employment is in other-services-to-business sector.

Main growth drivers:

- Domestic demand (consumer and business spending) and trade

Main issues facing the sector:

- High exposure to energy prices

Chart 1: Real GDP Growth
(%, period-to-period at annual rates)

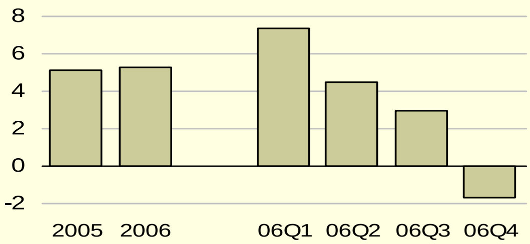


Chart 2: Components of Real GDP Growth
(%, period-to-period at annual rates)

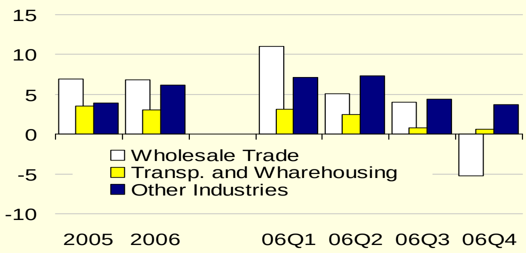
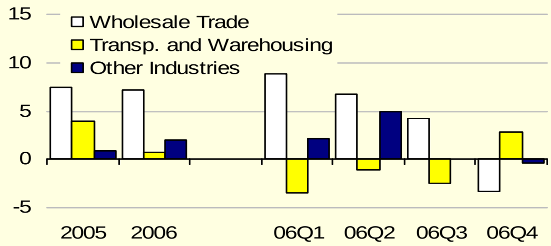


Chart 3: Employment Growth
(%, period-to-period at annual rates)

Chart 4: Labour Productivity Growth
(%, period-to-period at annual rates)



Summary

Growth in real GDP in the other-services-to-business sector continued to slow in the second half of 2006 with output declining in the fourth quarter, the first-recorded such decline in more than three years. Employment rebounded by 5.1% in the fourth quarter with the sector creating 47 100 new jobs in 2006 for a total of 214 000 in the past four years. The wholesale trade industry continued to enjoy rapid labour productivity gains in 2006, while gains were more modest in the other two industries. Fuelled by a healthy financial situation, industries in the sector increased capital investment by a total of 44% in 2005 and 2006 with most of the spending in M&E. A recent survey by Statistics Canada projected capital spending in M&E to increase in 2007.

Production

Growth in real GDP in the other-services-to-business sector continued to weaken in the fourth quarter, with output falling by 1.7% (Chart 1). This came after a string of consecutive quarterly increases, averaging about 5%, for more than three years. Nevertheless, GDP grew by 5.3% in 2006 as a whole, up marginally from 2005 and 2004.

All industries contributed to the slower growth in the sector (Chart 2). The wholesale trade industry saw the most substantial slowdown with output falling by 5.2% in the fourth quarter — the first drop since the first quarter of 2004. In the transportation and warehousing industry, growth almost stalled in the fourth quarter of 2006. This is in contrast to the administrative and support waste industry where the rate of increase still remained robust.

1. Includes wholesale trade, transportation and warehousing, and administrative and support, waste management and remediation services, which is redefined in the text as "other industries."

Other Services to Business

Labour Market

After a 1.9% decline in the third quarter, employment in the other-services-to-business sector jumped by 5.1% (26 000) in the fourth quarter (Chart 3). The sector created 47 100 new jobs in 2006, up from 42 800 in 2005. About 214 000 new jobs have been created in the past four years.

The transportation and warehousing (18 600) and administration and support, waste management and remediation services (19 200) industries were the main sources of the rebound in employment in the sector in the fourth quarter.

Labour Productivity

Labour productivity in the wholesale trade industry weakened in the fourth quarter from the strong gains recorded in the previous three quarters (Chart 4). On average, productivity growth remained relatively stable at 7.2% in 2006.

In the transportation and warehousing industry, productivity recovered by 2.9% in the fourth quarter after three consecutive decreases. In 2006, productivity growth slowed substantially to 0.7% from the strong increase recorded in 2005.

In the administration, waste and remediation services industry, productivity fell by 0.4% in the fourth quarter of 2006 after no gain in the third. Nevertheless, on average in 2006, productivity growth increased to 2% from 0.9% in 2005.

Capital Investment

The strength in productivity within the other-services-to-business sector partly reflects the acceleration in the rate of growth of capital investment in the recent years, particularly in M&E (Chart 5). Spending in M&E grew by 23.3% in 2005 and 14.6% in 2006. Most of the increase in M&E spending was in Ontario, Alberta and British Columbia (Table 1). A recent survey by Statistics Canada projected capital spending in M&E to increase in 2007.

Financial Situation

The financial situation of the other-services-to-business sector continued to improve throughout the second half of 2006 along with the strong domestic economy (Chart 6). The profit margin climbed to 5.2% in the fourth quarter and averaged 5% in 2006, an all-time high and above the historical average of 3%.

Chart 6: Profit Margins

(% of operating revenues)

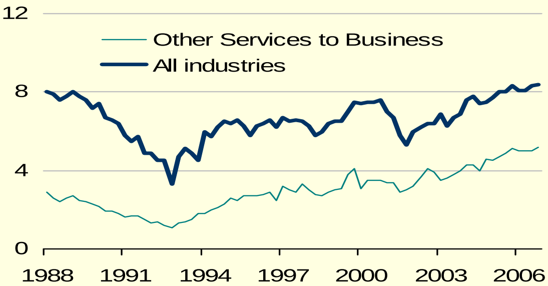


Chart 5: Real Capital Investment

(billions of constant 1997 dollars)

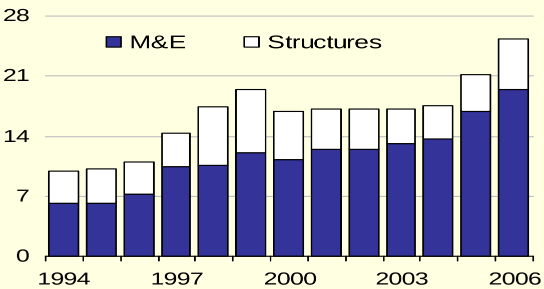


Table 1: Real M&E Investment by Province

(millions of constant 1997 dollars)

	2002	2003	2004	2005	2006
QUE	2,221	1,997	2,305	2,632	2,860
ONT	4,103	4,337	4,557	5,854	6,646
MAN	511	494	531	640	715
SASK	307	314	401	470	495
ALB	1,819	2,473	2,453	2,855	3,536
BC	1,837	1,486	1,495	1,900	2,344

1. Data are not available for the remaining provinces.

Construction

Economic importance:

- The sector accounts for 6% of GDP and almost all production is sold on the domestic market.
- Key industries are engineering, repair and other construction activities (49% of sector's GDP), and residential (33%).
- 6% of total employment is in the construction sector.

Main growth drivers:

- Age structure and population growth
- Interest rates, income, employment and confidence

Main issues facing the construction sector:

- Weakening in residential investment in North American market

Chart 1: Real GDP Growth
(%, period-to-period at annual rates)

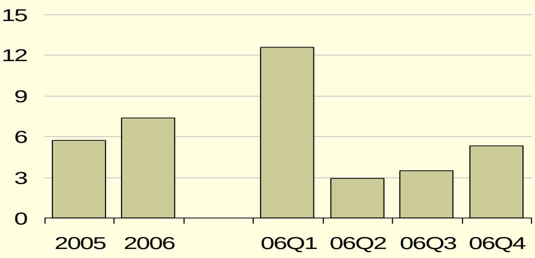


Chart 2: Components of Real GDP Growth
(%, period-to-period at annual rates)

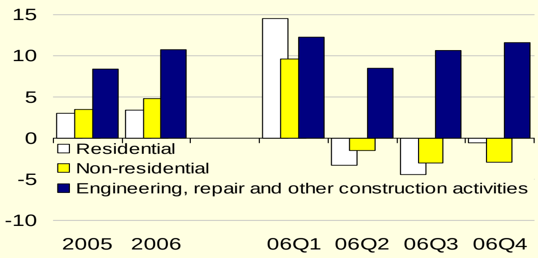


Chart 3: Employment Growth
(%, period-to-period at annual rates)

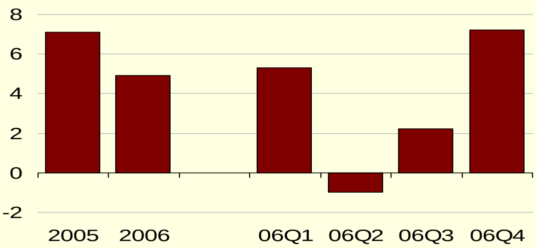
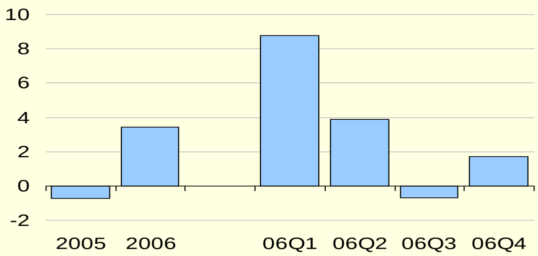


Chart 4: Labour Productivity Growth
(%, period-to-period at annual rates)



Summary

Real GDP in the construction sector continued to strengthen in the fourth quarter and over 2006 as a whole. The engineering, repair and other construction activities industry was the sole source of growth since the first quarter. Lower investment in new housing led to another decline in residential construction output in the fourth quarter. Employment grew by 18 600 in the fourth quarter, with all the increase in the specialty trade contractors industry. In total, 50 200 new jobs were created in 2006, fewer than in 2005 but the second highest gain on record. Labour productivity rebounded by 1.7% in the fourth quarter and grew by 3.4% in 2006 after relatively no growth in the previous four years. The rate of increase in capital investment has strengthened significantly in the past three years and a recent survey by Statistics Canada projected that growth should remain firm in 2007.

Production

Output in the construction sector continued to strengthen in the fourth quarter, with real GDP rising by 5.3% (Chart 1). In 2006 as a whole, activity grew by 7.4%, the best performance in this decade.

In the fourth quarter, the engineering, repair and other construction activities industry was the only source of growth in the sector, as in the previous two quarters (Chart 2). Real GDP in that industry advanced by 11.6% in the quarter, relatively unchanged from the average growth of 11.2% in the previous four quarters. Strong investment in energy and utilities is an important factor fuelling output in this industry.

In contrast, activity in the residential construction industry fell for the third consecutive quarter, thought less significantly. This drop for the most part reflected a lower investment in new housing. Real GDP in the

Construction

non-residential construction industry also fell in the last three quarters, but more severely in the third and fourth quarters.

Labour Market

Employment in the construction sector grew substantially by 7.1% (18 600) in the fourth quarter (Chart 3). In 2006 as a whole, however, growth in employment slowed to 4.9% after an unprecedented gain of 7.1% in 2005. There were 50 200 new jobs created in the sector in 2006, fewer than in 2005, but the second highest increase on record.

The strengthening in employment in the fourth quarter was all in the specialty trade contractors industry, where new jobs grew by 17.4% (27 500). This gain was partly offset by the third consecutive quarterly decline in residential and non-residential industries, where the decrease in employment totalled 29 300 during that period. In the heavy and civil engineering industry, employment fell by 2.4% (8000) after substantial gains in the previous two quarters.

Labour Productivity

Labour productivity in the construction sector increased by 1.7% in the fourth quarter after a decline of 0.7% in the third and very substantial gains in the previous four quarters (Chart 4). As a result, labour productivity advanced by a solid 3.4% in 2006 after virtually no growth in the previous four years.

Capital Investment

Capital investment in the construction sector continued to grow at a strong pace in 2006, up by 14.8% for a total increase of 42.2% in the past three years — the strongest increase over a three-year period since the early 1960s (Chart 5). M&E is the main source of the increase in investment in the sector. Spending in M&E grew by 15.4% in 2006 for a cumulative investment of $14.6 billion from 2003 to 2006. The increase during that period is seen in all provinces (Table 1). As a share of real GDP of the sector, M&E investment stood in 2006 at its highest level ever recorded. A recent survey by Statistics Canada projected that the M&E investment will continue to increase in 2007.

Financial Situation

The financial situation of the construction sector continued to improve in the fourth quarter (Chart 6). Profits as a share of revenue rose to 5.8% in that quarter and to an average 5.2% in 2006, the highest level since 1998 but still below the historical average of 6.4%.

Chart 6: Profit Margins
(% of operating revenues)

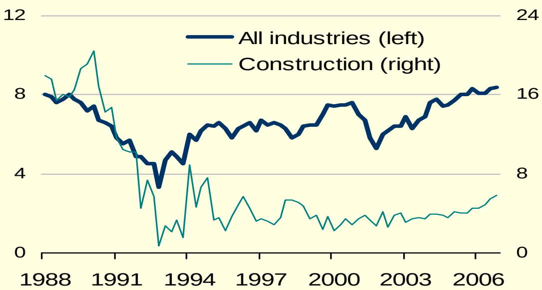


Chart 5: Real Capital Investment
(billions of constant 1997 dollars)

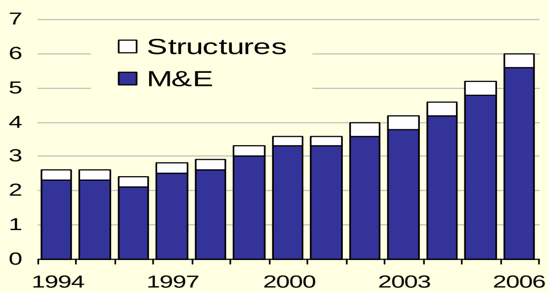


Table 1: Real Investment in M&E by Province
(millions of constant 1997 dollars)

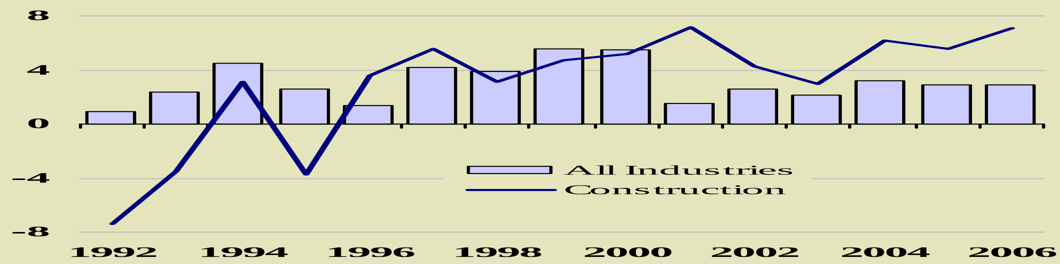
	2002	2003	2004	2005	2006
NFL	44	46	56	60	53
PEI	19	19	21	24	30
NS	84	89	99	113	147
NB	71	86	90	99	110
QC	884	975	1 131	1 246	1 283
ON	1 778	1 874	2 006	2 273	2 627
MN	149	157	177	195	256
SAS	81	77	78	94	107
ALB	189	193	208	256	343
BC	289	316	363	443	586

Analytical Box

Performance of the Construction Industry in Recent Years

The construction sector has been an important source of economic growth in Canada in this decade. Growth in real GDP in the sector has exceeded the average of the economy as a whole every year since 2001 (Chart 1). Because of its intensive use of labour, the strength in residential and non-residential investments generated numerous job opportunities in the construction sector. Of the total 2 million jobs created since the end of the 1990s, 300 000 were in the construction sector — a contribution that significantly surpassed its importance in the economy. This analytical box looks in more detail at the recent performance of industries within the construction sector.

Chart 1: Real GDP Growth : Construction Sector versus All Industries
(per cent)



Sector Structure

There are three industries in the construction sector: engineering construction, residential building construction, and non-residential building construction.

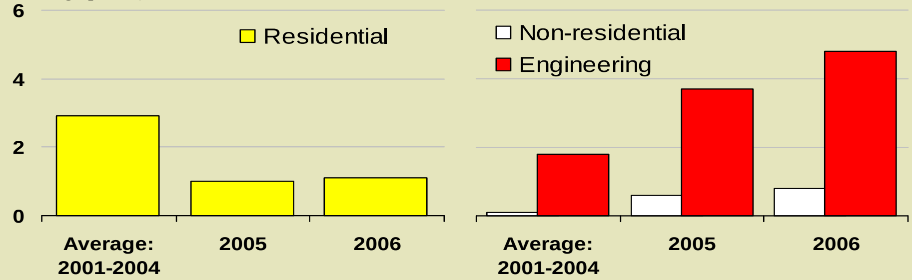
- The first industry, engineering construction, is the most important, with real GDP totalling $34 billion in 2006, half of the sector's GDP. Its primary activity is the construction of engineering projects such as electric power utilities, oil and gas extraction and pipeline facilities, highways, and water and sewage. Population trends and energy demand and prices are among the key factors that most influence the industry.
- The second most important industry is residential building construction. Firms in that industry are engaged in the construction and renovations of all types of residential houses. The industry, which accounts for about a third of the sector output, is driven by short-term factors such as changes in income and interest rates and by long-term factors such as population growth. Real GDP of this industry was about $23 billion in 2006.
- The last industry, non-residential building construction, accounts for less than a fifth of the sector's GDP. This industry is primarily engaged in the construction of new building and the additions and alterations of industrial, commercial and institutional buildings. Real GDP of the industry was $12 billion in 2006.

Changing Sources of Growth within the Sector

The residential construction industry grew at a very rapid pace early in this decade and was the main source of growth in the sector (Chart 2). Real GDP in that industry grew at an average annual rate of near 10% from 2001 to 2004 (Chart 3), fuelled by a surge in investment in new housing and renovations (Chart 3). In contrast, in the non-residential construction industry, real GDP growth between 2001 and 2004 has been more modest (Chart 4), as was its contribution to growth in the sector (Chart 2).

Analytical Box

Chart 2: Contribution to Real GDP Growth of Construction Sector by Industry
(percentage points)



However, there has been a significant change in the source of growth within industries of the sector (Chart 2). The engineering industry became the leading contributor to growth of the sector. Real GDP of the industry grew by nearly 11% in 2006 for a cumulative gain of 30% during that period. This is the highest growth ever recorded for a single year and the largest increase on record for a three-year period. Output in the industry is primarily fuelled by substantial increases in capital investment in energy and mining sector (Chart 5 and Table 1). A large proportion of the capital projects in the sector are still concentrated on developing conventional oil and gas. But capital spending to develop non-conventional oil and gas, oil sands in particular, has grown at a very rapid pace in the past few years and is projected to rise by 39% in 2007. Alberta's Ministry of Employment, Immigration and Industry projected that $72 billion will be invested in oil sands projects by 2016. In the utilities sector, capital investment has also increased strongly in the past four years to total more than $50 billion. Large electricity-related projects will support the engineering construction industry in coming years: investment of $25 billion by 2015 under Quebec's Energy Strategy, Ontario's 20-year Integrated System Plan, and investment of $8 billion over the next 15 years by Manitoba Hydro to enhance its electricity capacity.

Chart 3: Residential Construction GDP and Investments in New Housing and Renovations
(per cent)

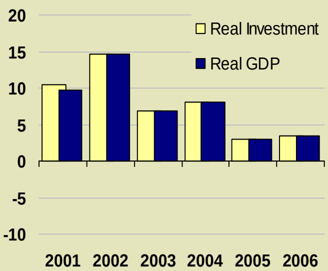


Chart 4: Non-Residential Construction GDP and Investment in Structures
(per cent)

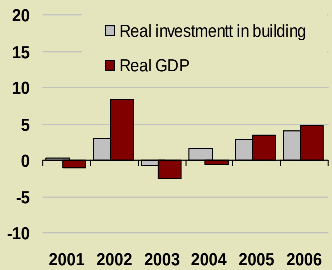


Chart 5: Engineering GDP and Engineering Investment
(per cent)

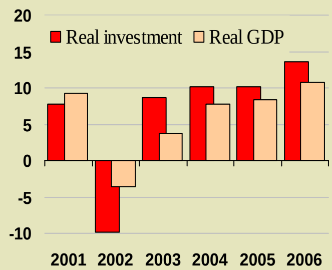


Table 1: Real Investment in Engineering by Sector
(millions of constant 1997 dollars)

	2000	2001	2002	2003	2004	2005	2006
Energy and mining	19,2	22,4	18,8	22,2	25,5	29,9	32,2
Energy	17,5	20,4	16,9	20,3	22,9	26,9	29,2
Utilities	4,5	5,5	6,4	7,6	7,5	8,1	9,8
Services	13,4	14,0	12,8	12,2	12,1	13,5	14,9
Transportation and Warehousing	3,5	2,6	2,2	1,5	1,6	2,0	3,0
Provincial and Local Public Administration	7,1	8,3	7,9	8,4	8,1	8,9	9,6
Total	38,4	42,9	39,2	42,9	45,9	52,1	57,5

Other Primary Industries[1]

Economic importance:

- The other primary industries sector (i.e. agriculture, forestry, fishing and hunting) accounts for 2.3% of GDP with about 56% of this production being exported.
- Key industries are crop and animal production (63% of sector's real GDP), and forestry and logging (27%).
- 2.6% of total employment is in the other primary industries sector.

Main growth drivers:

- World population growth

Main issues facing the agriculture sector:

- World liberalization
- Subsidies
- Technology adoption

Chart 1: Real GDP Growth

(%, period-to-period at annual rates)

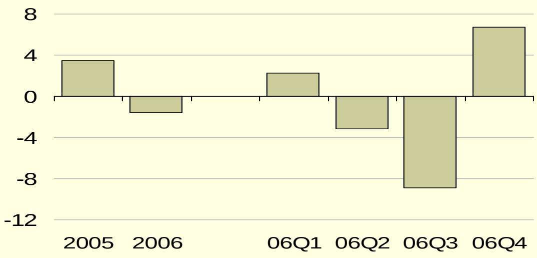


Chart 2: Components of Real GDP Growth

(%, period-to-period at annual rates)

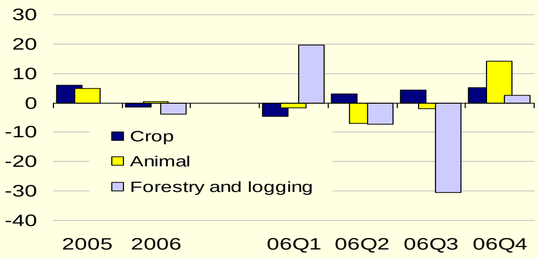


Chart 3: Employment Growth

(%, period-to-period at annual rates)

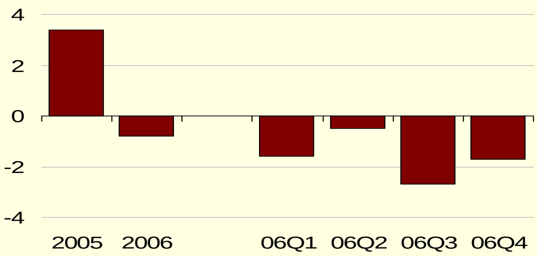
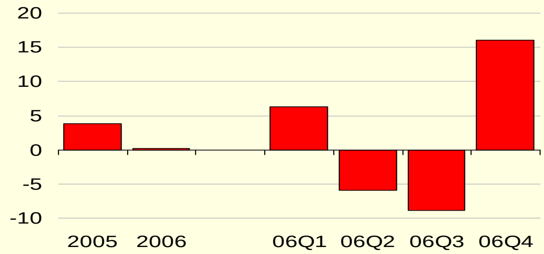


Chart 4: Labour Productivity Growth

(%, period-to-period at annual rates)



Summary

Real GDP in the other-primary-industries sector rebounded in the fourth quarter with crop and animal industries being the main sources of growth. In 2006, however, output declined for the first time since 2001. Employment fell by 0.8% in 2006 after gaining 3.4% in 2005. Labour productivity rebounded by 16% in the fourth quarter but remained relatively unchanged in 2006 from 2005 after substantial growth in the previous three years. Capital investment grew for the second year in a row by 1.7% in 2006 with spending in M&E accounting for the increase. A recent survey of Statistics Canada projects capital spending to increase in 2007. Overall, the financial situation of industries in the sector continued to improve in the fourth quarter with the profit margin standing above the historical average.

Production

Real GDP in the other-primary-industries sector recovered by 6.7% in the fourth quarter from decreases in the previous two quarters (Chart 1). In 2006, for the first time in four years, output in the sector decreased by 1.7%.

Production in both crop and animal industries contributed to the rebound in activity in the fourth quarter (Chart 2). The crop production industry grew for a third consecutive quarter by 5.4%, driven by the opening of new exports markets for wheat and canola. Animal production rebounded by 5.2% on average in the third and fourth quarters, partly due to the resumption of cattle exports to the United States.

In contrast, output in the forestry and logging industry slightly increased by 2.4% in the fourth quarter after a large drop in the third and for a cumulative decrease of 9.8% since the first quarter. The decline primarily reflects lower U.S. housing activity.

1. Includes crop and animal production, forestry and logging, and fishing and hunting.

Other Primary Industries

Labour Market

Employment in the other-primary-industries sector decreased by 1.7% (1900) in the fourth quarter for a cumulative loss of 2.5% (–10 900) since the third quarter of 2005 (Chart 3). In 2006, employment fell by 0.8% (–3600) after a gain of 3.4% (14 500), the strongest increase in 20 years.

Crop and animal production industries were the main source of decline in employment in the second half. Employment in these industries fell on average by 8.7% (13 300) and has decreased in 6 of the 10 provinces, mostly in Alberta (–8400), Saskatchewan (–1600) and Newfoundland (–500).

Labour Productivity

Labour productivity in the sector recovered strongly by 16% in the fourth quarter, following declines of 5.9% and 8.9% in the previous two quarters (Chart 4). Nonetheless, on average, the rate of increase in productivity slowed to 0.2% in 2006, the smallest increase in four years.

Capital Investment

In the other-primary-industries sector, capital investment grew for the second consecutive year by 1.7% (Chart 5 and Table 1). This came after a gain of 7.1% in 2005 and declines between 2.5% and 3% in the previous two years.

M&E was the source of the increase in capital investment in 2005 and 2006. On average, spending in M&E advanced by 5.1% per year during that period.

Financial Situation

The overall profit situation in the other-primary-industries sector continued to improve in the last two quarters of 2006 (Chart 6). Operating profits as a share of operating revenue rose to 6.3% in the fourth quarter. For 2006 as a whole, the profit margin stood at 6.2% on average, the highest since 2001 and above the historical average of 4.7%.

Chart 6: Profit Margins
(% of operating revenues)

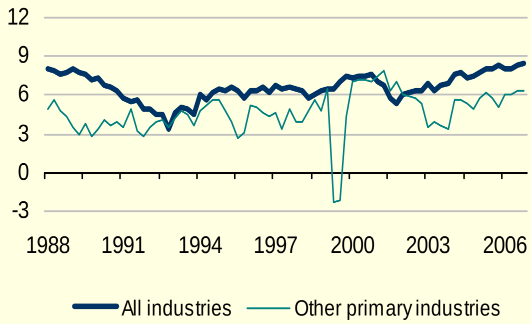


Chart 5: Real Capital Investment
(billions of constant 1997 dollars)

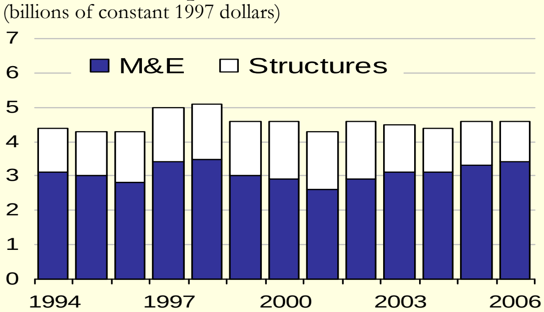


Table 1: Real Investment in M&E by Province[1]
(millions of constant 1997 dollars)

	2002	2003	2004	2005	2006
NFL	28	31	32	34	35
NS	64	77	69	73	74
NB	60	72	76	63	59
QC	479	433	378	421	434
ON	637	595	608	659	688
MN	284	285	279	294	303
SAS	464	585	578	614	630
ALB	684	736	792	844	882
BC	168	221	226	249	249

1. Data not available for Prince Edward Island.

Utilities

Economic importance:

- The sector accounts for 2.5% of GDP with about 5% of production being exported.
- Key industries are electric power generation, transmission and distribution (PGTD) (82% of sector's GDP), and natural gas distribution (11%).
- 0.7% of total employment is in the utilities sector.

Main growth drivers:

- Growth in domestic economy

Main issues facing the utility sector:

- Increasing energy demand and upgrading and aging of infrastructures

Chart 1: Real GDP Growth

(%, period-to-period at annual rates)

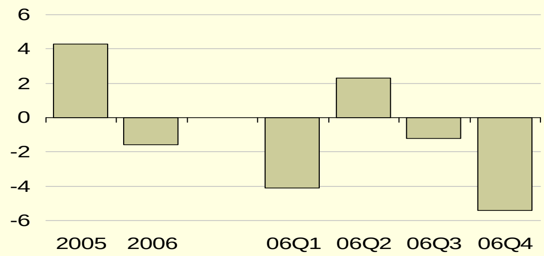


Chart 2: Components of Real GDP Growth

(%, period-to-period at annual rates)

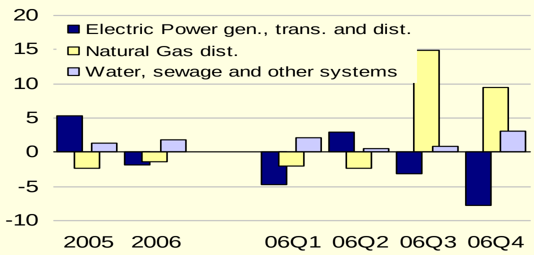


Chart 3: Employment Growth

(%, period-to-period at annual rates)

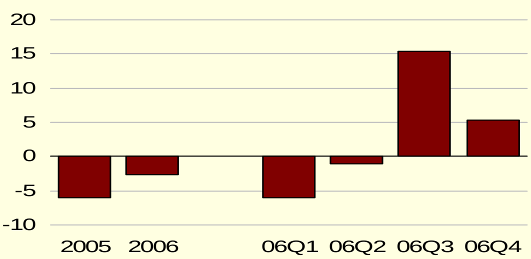
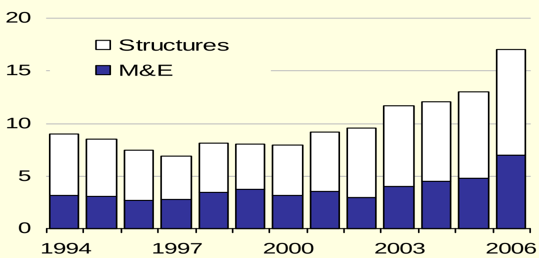


Chart 4: Real Capital Investment

(billions of constant 1997 dollars)



Summary

Real GDP in the utilities sector continued to weaken in the fourth quarter with output recording its third decline in the past year. Output continued to be affected by lower demand for power, caused largely by the warmer weather. Despite a rebound of 5900 jobs in the second half of 2006, employment fell for the third time in the last four years, although less significantly in 2006. Capital investment grew by 30% in 2006 for a total of $54 billion of new spending in the past four years, driven by energy demand and aging water and sewage infrastructures. Substantial investments were made in both M&E and structures, particularly in Quebec and Ontario. A recent survey by Statistics Canada projected capital investment growth to remain firm in 2007.

Production

Real GDP in the utilities sector fell by 5.4% in the fourth quarter, the third time in the past year (Chart 1). As in previous quarters, output was affected by lower demand for power, due mainly to the warmer weather in Ontario and Quebec. In 2006, output decreased by 1.6%, the first drop in five years.

The electric power generation, transmission and distribution (PGTD) industry, by far the most important in the sector, was responsible for the decline in activity in the sector during the second half of 2006 (Chart 2). In contrast, output in the natural gas distribution industry rebounded sharply in the second half from a decline in the first. In the water, sewage and other systems industry, activity grew at a faster pace in the fourth quarter.

Labour Market

Employment in the utilities sector increased both in the third and fourth quarters (Chart 3) with 5900 new jobs created in second half of

Utilities

2006. The rebound came after four consecutive declines. In 2006, employment fell for a second consecutive year by 2.6% (–3300), though less rapidly. Most of the job losses were located in Nova Scotia, Manitoba and British Columbia.

The increase in employment in the second half of 2006 was all in the PGTD industry, where 7900 jobs were created. Employment fell by 1900 in the natural gas distribution industry and remained relatively unchanged in the water, sewage and other systems industry.

Capital Investment

Capital investment in the utilities sector continued to grow at a strong pace in 2006, up by 29.8% (Chart 4). It totalled more than $50 billion in the past four years, the second highest amount ever recorded over such a span of time. A recent survey by Statistics Canada projected an increase in capital investment in the utilities sector in 2007 (in Quebec and Ontario).

M&E and structures both contributed to the increase in capital investment in the sector in 2006. For the fourth consecutive year, spending in M&E increased strongly (by 44.3%) to stand at its highest level since 1991 as a share of real GDP. New investments totalled somewhat more than $20 billion during that four-year period, most of it in Quebec, Ontario and Alberta (Table 1). Quebec and Ontario invested massively in electricity-related projects to develop and upgrade the infrastructure.

Spending in structures grew less rapidly in 2006, by 21.2%. This comes after a very modest increase in the previous year and substantial growth in 2002 and 2003. In the past four years, investment in structures amounted to $33.5 billion with most the spending in Quebec and Ontario (Table 2).

Financial Situation

The profit situation of the utilities sector rebounded in the fourth quarter of 2006 from declines in the previous two years (Chart 5). The profit margin in the sector stood at 5% in the fourth quarter but the profit margin was down for the year as a whole from 5.9% in 2005 to 4.6% in 2006, below the historical average.

Chart 5: Profit Margins
(% of operating revenues)

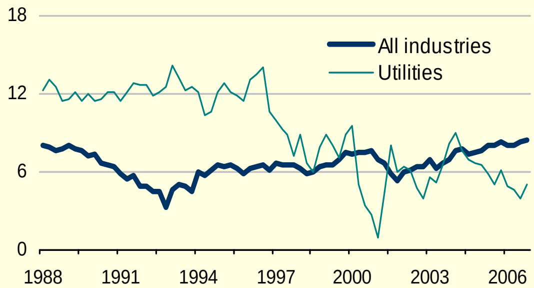


Table 1: Real Investment in M&E by Province[1]
(millions of constant 1997 dollars)

	2002	2003	2004	2005	2006
NFL	63	98	52	69	80
QC	370	559	839	875	1,100
ON	1,379	1,364	1,792	1,809	3,251
MN	180	201	260	415	354
SAS	98	73	78	96	110
ALB	660	1,358	873	855	1,108

1. Data not available for remaining provinces.

Table 2: Real Investment in Structures by Province[1]
(millions of constant 1997 dollars)

	2002	2003	2004	2005	2006
NFL	152	101	67	72	72
QC	1,914	2,494	3,182	3,302	3,403
ON	2,239	2,344	1,893	2,114	3,028
MN	259	248	288	369	561
SAS	291	296	261	451	266
ALB	726	748	617	555	789

1. Data not available for remaining provinces.

Data Appendix Contents

Data Appendix

Real GDP at Basic Prices by Industry

Level in millions of chained 1997 dollars and percentage change from the previous period, seasonally adjusted at annual rates

	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2004	2005	2006
All industries	1 085 006	1 089 515	1 094 248	1 097 889	1 034 024	1 062 951	1 091 665
	3,4	*1,7*	*1,7*	*1,3*	*3,1*	*2,8*	*2,7*
Total goods	336 580	334 230	333 867	332 501	325 202	331 595	334 294
	0,7	*-2,8*	*-0,4*	*-1,6*	*2,9*	*2,0*	*0,8*
Agriculture, forestry, fishing, hunting	25 418	25 209	24 626	25 026	24 619	25 488	25 070
	2,3	*-3,2*	*-8,9*	*6,7*	*7,4*	*3,5*	*-1,6*
Mining, oil and gas extraction	39 591	39 357	39 990	39 399	38 789	38 865	39 584
	-3,8	*-2,3*	*6,6*	*-5,8*	*2,1*	*0,2*	*1,8*
Utilities	27 528	27 686	27 604	27 225	26 806	27 948	27 511
	-4,1	*2,3*	*-1,2*	*-5,4*	*0,7*	*4,3*	*-1,6*
Construction	67 494	67 979	68 560	69 454	60 228	63 689	68 372
	12,6	*2,9*	*3,5*	*5,3*	*6,4*	*5,7*	*7,4*
Manufacturing	175 817	173 188	171 732	170 391	173 726	174 987	172 782
	-1,2	*-5,8*	*-3,3*	*-3,1*	*1,9*	*0,7*	*-1,3*
Total services	749 706	756 767	761 965	767 110	709 800	732 506	758 887
	4,7	*3,8*	*2,8*	*2,7*	*3,2*	*3,2*	*3,6*
Services-to-business sector	589 421	595 607	600 773	605 240	554 122	574 802	597 760
	5,2	*4,3*	*3,5*	*3,0*	*3,6*	*3,7*	*4,0*
Services-to-non-business sector	160 285	161 160	161 192	161 870	155 678	157 704	161 127
	3,2	*2,2*	*0,1*	*1,7*	*1,9*	*1,3*	*2,2*

Source: Statistics Canada, Tables 379-0017 and 379-0018.

Employment by Industry

Level in thousands and percentage change from the previous period, seasonally adjusted at annual rates

	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2004	2005	2006
All industries	16361,7	16477,5	16500,7	16597,6	15947,0	16169,7	16484,3
	1,7	*2,9*	*0,6*	*2,4*	*1,8*	*1,4*	*1,9*
Total goods	3985,2	3995,5	3963,7	3999,9	3989,8	4002,4	3985,9
	-1,5	*1,0*	*-3,1*	*3,7*	*1,6*	*0,3*	*-0,4*
Agriculture, forestry, fishing, hunting[1]	438,2	437,7	434,7	432,8	425,0	439,5	435,9
	-1,6	*-0,5*	*-2,7*	*-1,7*	*-2,5*	*3,4*	*-0,8*
Mining, oil and gas extraction[1]	229,2	240,0	242,4	250,8	187,6	210,7	240,6
	21,7	*20,2*	*4,1*	*14,7*	*5,3*	*12,3*	*14,2*
Utilities	119,7	119,4	123,7	125,3	133,3	125,3	122,0
	-6,0	*-1,0*	*15,3*	*5,3*	*2,1*	*-6,0*	*-2,6*
Construction	1064,1	1061,4	1067,2	1085,8	951,7	1019,5	1069,7
	5,3	*-1,0*	*2,2*	*7,2*	*5,0*	*7,1*	*4,9*
Manufacturing	2134,0	2137,0	2095,7	2105,1	2292,1	2207,4	2117,7
	-6,5	*0,6*	*-7,5*	*1,8*	*0,7*	*-3,7*	*-4,1*
Total services	12376,5	12482,0	12537,1	12597,7	11957,2	12167,3	12498,4
	2,8	*3,5*	*1,8*	*1,9*	*1,8*	*1,8*	*2,7*

Source: Statistics Canada, Table 282-0088.

1. Internal calculation.

Data Appendix

Labour Productivity Growth in the Business Sector
Percent change at annual rates

	% change from the previous quarter				% change from the previous year		
	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2004	2005	2006
Total, Business Sector	1,7	-1,0	0,0	1,0	0,3	2,1	1,2
Goods	-0,3	-4,0	-1,7	0,7	-0,2	1,3	0,1
Agriculture, forestry, fishing, hunting	6,3	-5,9	-8,9	16,0	7,3	3,8	0,2
Construction	8,8	3,9	-0,7	1,7	-0,1	-0,7	3,4
Manufacturing	-0,7	-7,1	-3,0	2,7	0,1	3,6	0,1
Services	2,4	1,4	1,4	0,0	0,6	2,6	2,1
Wholesale trade	8,8	6,8	4,3	-3,3	1,3	7,4	7,2
Retail trade	9,5	3,8	2,2	-2,4	1,4	2,3	4,2
Transportation and warehousing	-3,5	-1,1	-2,5	2,9	2,2	4,0	0,7
Information and cultural	2,6	0,0	0,3	0,0	-1,9	4,5	3,6
Finance, real estate and company management	2,3	5,7	6,0	2,9	1,1	-1,9	0,8
Professional, scientific and technical	-0,3	0,3	-2,0	0,3	0,0	1,6	0,0
Administrative, support, waste management and remediation	2,1	5,0	0,0	-0,4	-2,4	0,9	2,0
Accommodation and food services	2,8	-6,1	2,9	8,7	0,1	2,2	1,6
Other private services	-3,2	-4,0	-1,8	-1,1	0,5	2,4	-1,0

Source: Statistics Canada, Table 383-0088 and 383-0012.

Data Appendix

Operating Profit Margins by Industry
As a percent of operating revenues, seasonally adjusted at annual rates

	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2004	2005	2006
All Industries	8,1	8,1	8,3	8,4	7,6	8,0	8,2
Total non-financial industries	6,5	6,5	6,7	6,8	6,0	6,5	6,6
Agriculture, forestry, fishing, hunting	6,1	6,1	6,3	6,3	5,4	5,7	6,2
Mining, oil and gas	20,3	19,8	19,9	19,1	17,1	20,8	19,8
Mining except oil and gas	20,9	20,1	20,3	19,3	17,5	21,4	20,1
Oil and gas	17,1	18,4	17,7	18,3	15,0	17,3	17,9
Utilities	4,9	4,6	4,0	5,0	7,6	5,9	4,6
Construction	4,5	4,9	5,5	5,8	3,8	4,2	5,2
Manufacturing	5,8	5,5	6,0	6,2	6,4	5,9	5,9
Services (except public administration)	8,4	8,5	8,5	8,7	7,7	8,2	8,5
Total financial industries	23,8	23,3	23,4	23,6	22,8	23,2	23,5

Source: Statistics Canada, Table 187-0002.

Data Appendix

Private and Public Investment by Industry

	Level in billions of dollars				% change from the previous year			
	2004 Actual	2005 Actual	2006 Preliminary Actual	2007 Intentions	2004 Actual	2005 Actual	2006 Preliminary Actual	2007 Intentions
All industries (except housing)	177,8	199,7	217,4	230,1	8,9	12,3	8,9	5,8
Structures	84,1	98,4	113,4	121,4	11,9	17,0	15,3	7,1
Machinery & equipment	93,8	101,3	104,0	108,7	6,4	8,0	2,7	4,5
Agriculture, forestry, fishing and hunting	4,7	4,5	4,5	4,5	2,5	-3,5	-0,9	-0,4
Structures	1,5	1,4	1,3	1,3	0,4	-7,9	-2,1	0,9
Machinery & equipment	3,2	3,2	3,1	3,1	3,6	-1,5	-0,3	-1,0
Mining and oil and gas extraction	36,9	49,0	53,6	52,4	21,5	32,6	9,5	-2,4
Structures	29,9	39,4	45,9	43,7	21,8	31,6	16,6	-4,8
Machinery & equipment	7,0	9,6	7,7	8,6	20,4	37,0	-19,8	12,3
Utilities	12,8	13,5	17,2	20,5	4,2	5,2	27,8	18,7
Structures	8,8	9,9	12,4	15,2	3,6	11,5	25,3	23,2
Machinery & equipment	4,0	3,6	4,9	5,3	5,6	-8,7	34,5	7,5
Construction	4,1	4,3	4,6	4,9	9,2	5,4	6,8	7,6
Structures	0,5	0,5	0,6	0,6	12,7	6,1	7,5	8,3
Machinery & equipment	3,6	3,7	4,0	4,3	8,7	5,4	6,7	7,5
Manufacturing	18,7	19,4	19,5	20,5	-4,2	3,9	0,1	5,3
Structures	2,6	2,2	2,3	2,5	-9,0	-14,4	4,1	6,8
Machinery & equipment	16,1	17,2	17,1	18,0	-3,4	6,9	-0,4	5,1
Public administration	20,3	22,8	25,6	29,3	7,2	12,5	12,2	14,5
Structures	15,3	17,5	19,9	22,9	9,6	14,3	13,4	15,1
Machinery & equipment	4,9	5,3	5,7	6,4	0,3	6,8	8,2	12,4
Total Services	100,6	108,9	118,0	127,4	8,5	8,3	8,4	8,0
Structures	40,7	45,0	50,9	58,0	9,2	10,6	13,1	14,0
Machinery & equipment	59,9	63,9	67,1	69,4	8,0	6,7	5,0	3,4
Services (except public administration)	80,4	86,2	92,5	98,2	8,8	7,2	7,3	6,2
Structures	25,4	27,5	31,0	35,2	9,0	8,4	12,9	13,3
Machinery & equipment	55,0	58,7	61,4	63,0	8,7	6,7	4,7	2,5

Source: Statistics Canada, Table 029-0005.

Data Appendix

Capital-Labour Ratio for M&E by Industry
Capital per hour worked in all jobs, chained 1997 dollars

	1999	2000	2001	2002	2003	2004	2005
All industries	11,1	11,4	11,5	11,4	11,5	11,7	12,3
Agriculture, forestry, fishing and hunting	9,7	10,2	10,8	10,7	10,9	11,0	11,2
Mining, oil and gas extraction	36,2	36,8	38,7	47,1	47,8	52,4	55,4
Construction	4,7	4,9	5,1	5,2	5,4	5,4	5,5
Manufacturing	19,6	19,0	18,6	18,0	17,9	17,6	18,6
Wholesale trade	5,3	5,3	5,4	5,4	5,7	6,0	6,4
Retail trade	3,4	3,5	3,6	3,5	3,8	4,1	4,2
Transportation and warehousing	17,9	18,1	18,8	19,4	19,1	18,8	20,2
Information and cultural	31,1	32,5	33,7	33,2	31,4	31,3	32,9
Finance and insurance	3,0	3,2	3,3	3,3	3,4	3,6	3,7
Professional, scientific and technical services	4,3	5,0	5,2	5,4	5,7	6,0	6,6
Admin., support, waste mgt. and remediation	1,7	1,7	1,6	1,6	1,8	1,9	2,1
Other private services	1,7	1,8	1,9	2,0	2,1	2,3	2,5
Public administration	11,1	11,7	11,9	11,9	12,1	12,2	13,0

Source: Statistics Canada, Table 031-0002 for capital stock in machinery and equipment (geometric end-year net stock) and Table 383-0010 for hours worked in all jobs.

Data Appendix

Capital-Labour Ratio for M&E by Manufacturing Industries
Capital per hour worked in all jobs, chained 1997 dollars

	1999	2000	2001	2002	2003	2004	2005
Manufacturing	19,6	19,0	18,6	18,0	17,9	17,6	18,6
Food	12,5	12,7	12,3	12,8	12,6	12,6	13,1
Beverage and tobacco product	29,2	28,7	29,8	31,7	28,2	26,0	27,5
Textile mills and textile product mills	21,4	19,3	19,7	17,5	19,0	17,6	17,4
Clothing	3,2	2,7	2,4	2,5	2,5	2,4	2,4
Leather and allied products	4,6	4,7	4,7	4,2	4,3	3,9	4,1
Wood products	16,6	17,6	17,0	15,9	16,1	16,2	18,3
Paper	58,3	56,4	52,5	48,6	46,5	40,3	40,6
Printing and related support activities	8,1	8,1	7,7	7,8	8,2	7,8	8,2
Petroleum and coal products	44,3	43,3	48,9	67,9	73,3	100,6	152,4
Chemical	40,1	43,1	41,6	38,7	34,0	32,3	32,5
Plastics and rubber products	15,0	14,1	14,5	13,6	13,3	13,2	13,7
Non-metallic mineral product	20,6	19,8	19,6	18,6	17,8	17,6	19,3
Primary metal	44,8	46,7	47,3	40,6	39,9	40,5	42,7
Fabricated metal product	9,0	7,5	7,5	7,2	7,1	6,9	7,2
Machinery	8,5	7,8	7,9	7,3	7,2	7,0	7,5
Computer and electronic product	15,7	16,6	19,8	19,9	17,2	15,1	14,4
Electrical equip., appliance and component	10,6	11,7	11,5	11,5	11,8	10,5	10,1
Transportation equipment	28,8	28,5	28,0	28,1	30,4	30,2	31,6
Furniture and related product	3,7	3,8	3,9	3,7	3,9	3,9	4,1
Miscellaneous	4,3	3,9	3,8	3,7	3,7	4,0	4,6

Source: Statistics Canada, Table 031-0002 for capital stock in machinery and equipment (geometric end-year net stock) and Table 383-0010 for hours worked.

Data Appendix

Capacity Utilization Rate by Industry
As a percent of potential output

	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2004	2005	2006
All Industries	85,8	84,5	83,4	82,5	85,4	85,3	84,1
Forestry and logging	88,9	88,2	80,6	80,4	88,8	85,2	84,5
Mining, oil and gas	84,3	82,8	83,1	81,4	89,8	86,5	82,9
Mining	83,7	82,0	82,1	81,4	86,3	82,9	82,3
Oil and gas	85,2	84,1	84,5	81,5	95,3	92,0	83,8
Utilities (only electric activities)	87,3	87,5	85,9	83,4	85,3	89,6	86,0
Construction	89,2	87,9	86,5	85,8	88,0	87,7	87,4
Manufacturing	84,6	83,2	82,2	81,4	83,5	83,7	82,9

Source: Statistics Canada, Table 028-0002.

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