

Economy recovering well

THE labour market continues to indicate that Canada's economic recovery has firmly taken hold. In May, the economy churned out 24,700 new jobs — the fifth consecutive monthly increase. That brings total job gains for the year to 215,200. Full-time employment rose by 67,300 in May, while 42,500 part-time positions were eliminated. In fact, about three-quarters of the gains since the beginning of the year have been in full-time positions. Job creation in the private sector continued to lead the way in May with 43,400 new positions, bringing the sector's total gains for the year so far to 240,500. Self-employment declined by 28,000 positions in May, which leaves that category with net losses of 71,200 since January.

Twenty of the 21 major manufacturing groups posted gains in March, up from 14 in February

The overall employment gains in May came mostly from the service sector (+32,400), led by transportation and warehousing, finance insurance and real estate, health care and social assistance, and public administration. On the goods-producing side, manufacturing and agriculture added jobs. However, the gains there weren't enough to offset losses elsewhere, and the sector finished the month with a net loss of 7700 jobs. Despite the employment gains, the unemployment rate remained unchanged at 8.1 per cent, as more people returned to the labour force.

Canada's economic recovery, which began in the middle of last year, is well entrenched. Real gross domestic product advanced at a stronger-than-expected annual pace of 6.1 per cent in the first quarter of this year. For the seventh consecutive month, the Canadian economy gained ground in March, as broad-based gains in economic activities help lift real GDP by 0.6 per cent. The services-producing industries accounted for 0.4 per cent of the gain, while the goods-producing industries contributed 0.2 per cent to growth.

With the manufacturing, construction, and primary resource industries leading the way, the goods-producing sector grew by 1.4 per cent in March. In fact, 20 of the 21 major manufacturing groups — including motor vehicles and parts, primary and fabricated metals, non-metallic mineral processing, fabricated metals, and food products — posted gains. (In February, just 14 showed gains.) Though support activities declined, the resolution of labour disputes in the copper, nickel, lead, and zinc mining industry, along with a 3.1 per cent increase in oil and gas extraction, helped boost mining activities by 4.5 per cent. Growth in the agriculture, forestry, fishing, and hunting sector slowed to 0.5 per cent, down from a 1.4 per cent gain in February.

And three consecutive months of gains in the utilities industry came to an end as output dropped 1.9 per cent in March due to unseasonably warm weather across the country that helped lower demand for electricity and natural gas. The construction industry, however, staged a comeback, as strong residential and non-residential construction activities helped offset weakness in engineering-related activities. As well, rising corporate profits are boosting the outlook for business investment in the coming months.

The services-producing industries advanced by 0.3 per cent in March, as wholesale trade sharply reversed course. The sector posted a

2 per cent gain, thanks mainly to increases in the sales of automotive products and machinery and equipment. That compares with a 1.1 per cent drop suffered in February. Retail trade advanced in March for the fourth consecutive month, posting a solid 1.8 per cent gain, led by sales of building and outdoor home supplies and new and used cars. Though real estate commissions dropped, credit intermediation, security trade and brokerage, and insurance activities helped lift growth in the finance, insurance, and real estate industry by 0.2 per cent in March. Transportation and warehousing continued the upward swing it began in October, advancing by 0.4 per cent as domestic trade and manufacturing buoyed activities in the sector. Accommodation and food services, as well as art, entertainment, and recreation, all posted declines in March as activities returned to more-normal levels following the completion of the Vancouver 2010 Winter Olympic the previous month.

On June 1, the Bank of Canada raised its key benchmark overnight rate 25 basis point to 0.5 per cent in response to the strength of the economic recovery and concerns that inflation could be on the rise again. Consumer prices rose 1.8 per cent in April — close to the benchmark target of 2 per cent. Rising property taxes, food costs, and transportation expenses were the primary sources of inflation. Robust domestic housing markets, combined with an expedited global economic recovery, have prompted the Bank to increase its forecast for GDP growth in 2010 to 3.7 per cent. However, ongoing concerns over Europe's financial system and its implications on credit markets and fiscal policy have put future, near-term rate hikes by the Bank in doubt.

Source: Conference Board of Canada
