The Driving Force Behind Canadian Economic Growth

*Elisa Dávalos**

While domestic demand has traditionally been the driving force behind the enormous U. economy, exports have been an essential component of Canada's development.

More than 80 percent of Canadian exports go to the United States. For this reason, Canada has benefited by the expansion of the hemisphere's largest economy, that of the United States, which has performed extraordinarily well since April 1991 in its longest period of uninterrupted growth since World War II.

In contrast with the U.S. situation, the world economy is still feeling the after effects of the Asian crisis, which hit Japan above all, but also the European Union with the contraction of the demand for its exports. Japan is experiencing the highest unemployment rate in its post-war history (3.4 percent). Germany's economy has grown slowly, as have its exports, while its government has implemented job creation programs. The same thing is going on in Japan, where the government has also made efforts to bolster consumption. In the European Union, only the countries that, like France, have centered their growth in domestic demand have grown considerably.

While consumer demand has been very weak in Japan in 1999, and moderate on the average in the European Union, in the United States it continues to drive growth, with the service sector pivotal for job creation.

Simultaneously, this dynamism has stimulated Canada's economic growth through the demand for its exports. As can be seen in graph 1, exports have displayed an uninterrupted tendency to grow, even if there are monthly variations. Auto exports, a very high percentage of total Canadian exports to the United States, have been affected by labor problems and strikes in both countries, which, together with other factors, made for unstable but growing performance.

Canadian exports to the United States have been successful despite problems faced by its natural resources sector, such as nickel and zinc ore. Oil, gas and wheat prices have suffered ups and downs on international markets.[1]

These goods have not benefited as greatly from the U.S. economic boom as consumer goods have. This is logical if we consider that private consumption, and not investment required by productive inputs, has fueled the U.S. economy. Therefore, Canadian manufactured goods have benefited most from the expansion.

In contrast to its southern neighbor, Canada has experienced a very moderate growth in domestic demand, taking into account both private consumption and investment, and therefore its imports have grown very slowly. Comparing its export and import growth rates, we can see that Canada's trade surplus has grown noticeably, particularly with regard to the United tates, its main trade partner. In the first quarter of 1999, total exports reached almost Can$3 billion.

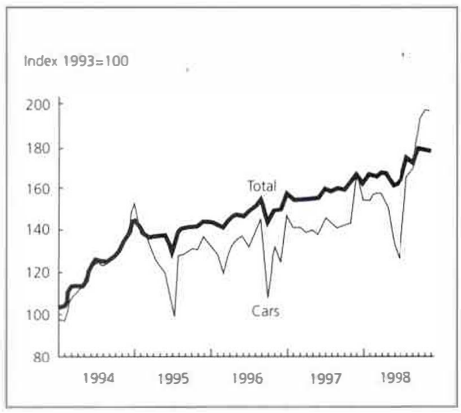
The biggest beneficiary of this has been the province of Ontario where the largest amount of Canadian manufacturing is concentrated.

The history of Canadian industry revolves basically around the Ontario economy. Industry is highly concentrated in the southern part of the province, although a certain amount is also located in Quebec. In 1995, Ontario produced 52.4 percent of the total value of national output; Quebec, 24.2 percent; British Columbia, 8.8 percent; and Alberta, 7.3 percent. Ontario was also the leader that year in 15 of the 22 main industrial sectors, including four of the five most important: transportation equipment, foods, chemicals and electrical and electronic equipment.[2] Clearly, then, Ontario's weight in manufacturing is decisive.

For this reason, external demand has been directed to a great degree at this

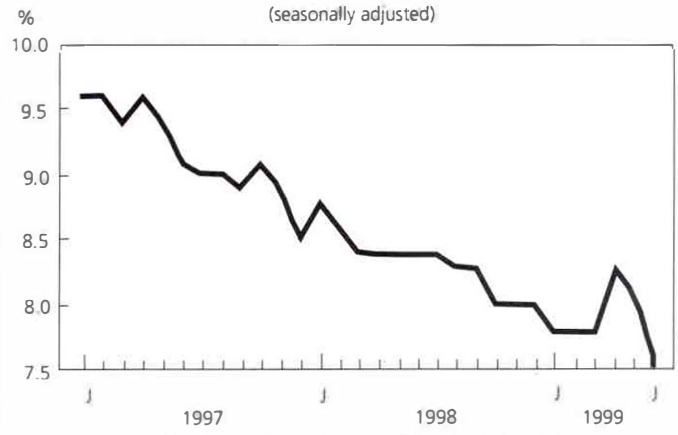
*Researcher at CISAN.

GRAPH 1
CANADIAN EXPORTS (1994-1998)



Source: Statistics Canada, *Canadian Economic Observer* (March 1999), Catalogue no. 11-010 XPB.

GRAPH 2
UNEMPLOYMENT IN CANADA (1997-1999)



Source: Statistics Canada, *Canadian Economic Observer* (May 1999), Catalogue no. 11-010 XPB.

province's economy. In addition, tourism from the U.S., the single largest place of origin for visitors to Canada, centers mainly in Ontario, increasing its foreign income even more. This trend has been strengthened by the exchange rate of the Canadian dollar vis-à-vis the U.S. dollar.

This gives credence to Canadian researcher Kenneth Norrie's assertion about the effects of NAFTA on Canadian provinces that, "In sum, North American economic integration appears to have had its great impact on central Canada. This is not entirely surprising since NAFTA had its greatest liberalizing effects on manufacturing and service industries, and these activities are disproportionately located in these two provinces."[3]

Manufacturing and services, then, have been the greatest sources of growth in Canada, and in Ontario in particular, stimulated by U.S. demand. It is important to emphasize that the most dynamic factors in the moderate growth of Canadian domestic demand have been communications and computing, a reflection of structural changes in the Canadian economy.

The dynamism in the demand for Canadian exports has also had its impact on unemployment, undoubtedly one of the government's greatest concerns, at the center of the debate since the beginning of the 1990s because of the stagnation of job growth contrasted with the growth of output after emerging from the recession of the beginning of the decade. Since 1997, noticeable strides have been made in the fight against unemployment (see graph 2).

Nevertheless, certain features of the situation demand staying alert. The U.S. economy cannot remain the driving force of Canada's economic growth indefinitely. In fact, there are some elements of concern for the U.S. government.

Inflation and interest rates remain at historically low levels; inventory growth lagged behind sales, while the increase in spending was broadly based in both the domestic and external sectors. One unusual feature was the personal saving rate, which hit its lowest level since the Depression as some households leveraged their capital gains from the stock markets to spend more.[4]

The Canadian economy itself must spur investment and domestic consumption growth in order to be able to solidly face the convulsions of an increasingly globalized international economy. VM

NOTES

[1] Natural resources (vital exports from some provinces like Alberta) are highly volatile goods that depend a great deal on international supply and demand; they drop sharply when their prices change, as do earnings and exports.

[2] H. John Davis, "Geographical and Economic Re-lations Issues in US-Canadian Relations," *The USA and Canada 1998* (London Europa Publications Limited, 1998).

[3] Kenneth Norrie, "The Impacts of North American Integration on Canadian Federalism," Paz Consuelo Márquez Padilla and Julián Castro Rea, comp., *El nuevo federalismo en la región de América del Norte* (Mexico City, CISAN-UNAM, at press).

[4] Statistics Canada, *Canadian Economic Observer* (May 1999), Catalogue no. 11-010 XPB.