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Industries operated at 78.9% of their capacity in the second quarter, down from 79.6% in the first quarter. Capacity utilization fell for a fourth straight quarter as a result of weak exports.

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Canada's net international investment position deteriorated marginally in the second quarter as the Canadian dollar strengthened. This appreciation had the effect of constraining the growth in Canadian assets, while liabilities posted a small advance.

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Releases

Industrial capacity utilization rates

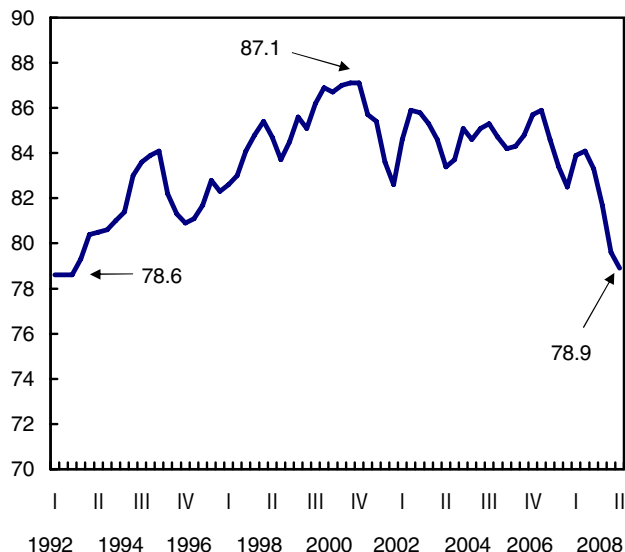
Second quarter 2008

Industries operated at 78.9% of their capacity in the second quarter, down from 79.6% in the first quarter. Capacity utilization fell for a fourth straight quarter as a result of weak exports. The automobile and wood products sectors were especially hard hit by reduced foreign demand.

However, the drop in the rate, which affected all sectors in the second quarter, was less pronounced than in the two previous quarters.

Capacity use edges down

% (rate of capacity use)



Weak foreign demand leads to slowdown in the manufacturing sector

Manufacturers reduced their production capacity utilization for a fourth straight quarter, operating at 76.7% compared with 77.2% in the first quarter. The transportation equipment, wood products, and plastic and rubber products industries played a large part in lowering the rate in the manufacturing sector.

Capacity utilization in the transportation equipment manufacturing industry fell 2.4 points to 74.5%. The slowdown in US demand for automobile products was

Note to readers

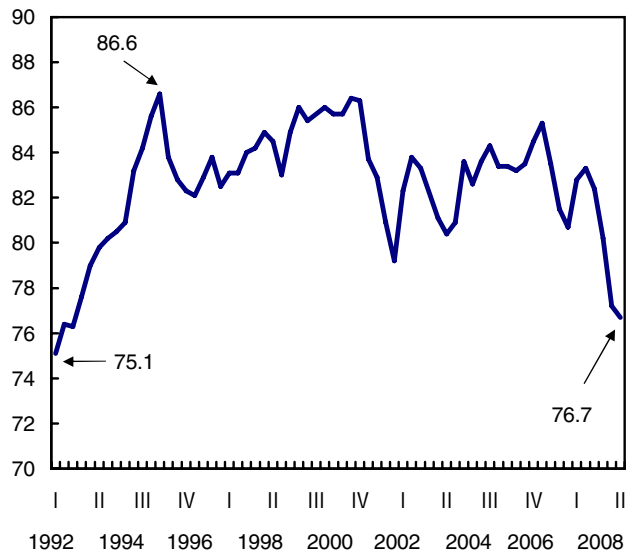
The industrial capacity utilization rate for a sector of activity is the ratio of its actual output to its estimated potential output. For this release, rates have been revised back to the first quarter of 2006 to reflect the revised source data.

a major contributor to the 2.5% decline in output in the transportation equipment manufacturing industry.

Manufacturers of wood products used less of their production capacity in the second quarter with their rate falling from 66.8% to 65.0%. This was the lowest utilization rate since the first quarter of 1991 when it was at 62.1%. Wood products output declined 3.3% because of weak US demand.

Manufacturing slide continues

% (rate of capacity use)



Among manufacturers of plastic and rubber products, the rate slid from 66.9% to 63.9%. Lower output of automobile products continued to negatively impact the manufacture of tires and plastic parts for vehicles. As a result, output fell by 2.8% in this industry.

On the other hand, strong results posted by machinery manufacturers and the petroleum and coal products industries softened the decline in the rate in the manufacturing sector.

Machinery manufacturers increased their production capacity utilization with the rate climbing to 84.5%, up 4.0 points from the previous quarter. Increased production of machinery for agriculture, construction and mining extraction, along with machine tools for metal working, was the catalyst behind this situation.

After posting lower levels in two straight quarters, manufacturers of petroleum and coal products sharply increased their capacity utilization, climbing 5.2 points from the first quarter to a utilization rate of 82.9%. Output in this sector rose 5.9% in the second quarter.

General decline in the rate in sectors other than manufacturing

The decline in the utilization rate, while general, was especially pronounced in the forestry, mining and electrical power sectors.

The forestry sector continues to experience difficult times. The slowdown in the American economy has hit wood products especially hard and sales have dropped. As a result, output in this sector declined 4.3% and the rate fell from 76.8% to 74.8%. This was the lowest rate since the first quarter of 2002, when it reached 71.1%.

In the mining sector, the rate fell from 75.7% to 73.1%. Increased production from mines was insufficient to counter the sizeable decline in drilling operations of natural gas because of high inventory levels, which drove producers to reduce output in the second quarter.

In the electrical power sector, capacity utilization declined 1.5 points to 84.7% in the second quarter. Demand for electricity fell between April and June given few extremes of temperatures during this period.

Available on CANSIM: table 028-0002.

Definitions, data sources and methods: survey number 2821.

Data on industrial capacity utilization rates for the third quarter of 2008 will be released on December 12.

For more information, or to enquire about the concepts, methods or data quality of this release, contact Mychèle Gagnon (613-951-0994), Investment and Capital Stock Division.

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Industrial capacity utilization rates

	Second quarter 2007 ^r	First quarter 2008 ^r	Second quarter 2008	Second quarter 2007 to second quarter 2008	First quarter to second quarter 2008
	%			percentage point change	
Total industrial	84.1	79.6	78.9	-5.2	-0.7
Forestry and logging	81.7	76.8	74.8	-6.9	-2.0
Mining and oil and gas extraction	81.5	79.5	78.6	-2.9	-0.9
Oil and gas extraction	84.6	81.0	80.8	-3.8	-0.2
Mining	73.0	75.7	73.1	0.1	-2.6
Electric power generation, transmission and distribution	88.4	86.2	84.7	-3.7	-1.5
Construction	87.0	83.9	83.1	-3.9	-0.8
Manufacturing	83.3	77.2	76.7	-6.6	-0.5
Food	80.7	77.9	78.7	-2.0	0.8
Beverage and tobacco products	76.9	70.3	70.9	-6.0	0.6
Beverage	78.1	69.8	70.1	-8.0	0.3
Tobacco	69.6	74.1	76.0	6.4	1.9
Textile mills	71.1	62.8	63.6	-7.5	0.8
Textile product mills	87.0	76.6	72.3	-14.7	-4.3
Clothing	75.8	68.0	65.5	-10.3	-2.5
Leather and allied products	81.2	79.2	71.8	-9.4	-7.4
Wood products	80.6	66.8	65.0	-15.6	-1.8
Paper	89.5	85.0	83.8	-5.7	-1.2
Printing and related support activities	75.9	77.7	76.8	0.9	-0.9
Petroleum and coal products	85.3	77.7	82.9	-2.4	5.2
Chemical	81.3	74.9	75.4	-5.9	0.5
Plastics and rubber products	77.4	66.9	63.9	-13.5	-3.0
Plastic products	76.2	64.8	62.0	-14.2	-2.8
Rubber products	82.6	76.3	72.6	-10.0	-3.7
Non-metallic mineral products	84.5	72.3	72.4	-12.1	0.1
Primary metal	91.2	92.4	91.7	0.5	-0.7
Fabricated metal products	85.7	79.3	77.8	-7.9	-1.5
Machinery	84.8	80.5	84.5	-0.3	4.0
Computer and electronic products	89.6	85.7	87.8	-1.8	2.1
Electrical equipment, appliance and component	79.5	73.9	74.3	-5.2	0.4
Transportation equipment	84.0	76.9	74.5	-9.5	-2.4
Furniture and related products	83.1	74.4	72.9	-10.2	-1.5
Miscellaneous manufacturing	85.5	81.7	80.3	-5.2	-1.4

^r revised



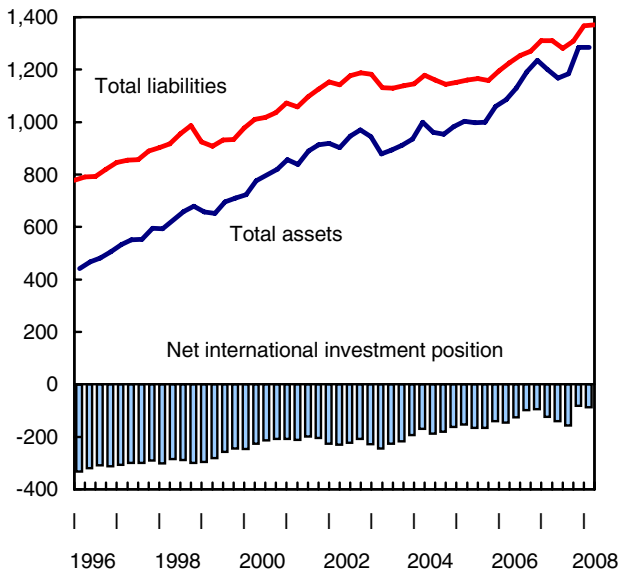
Canada's international investment position

Second quarter 2008

Canada's net international investment position, that is, international assets less international liabilities, deteriorated marginally in the second quarter, as the Canadian dollar recovered slightly against major currencies. Essentially, this appreciation had the impact of constraining the growth in Canadian assets, while foreign assets edged down in the quarter. At the same time, liabilities posted a small advance.

Canada's international investment position

\$ billions



Net international indebtedness edges up in the quarter

Canada's international assets decreased marginally in value to \$1,283.8 billion, in contrast to the advances of the past two quarters. This was driven by the appreciation of the quarter-end closing value of the Canadian dollar, which more than offset relatively modest investment flows during the quarter.

International liabilities grew in value for a third straight quarter to \$1,370.5 billion. This largely reflected substantial net new issues in Canadian bonds in international markets, moderated by a decrease in deposit liabilities.

As a result, net foreign debt increased by \$4.2 billion in the second quarter to \$86.6 billion. This represented 5.4% of Canada's gross domestic product, up from 5.2% in the previous quarter. Since the

Note to readers

The international investment position presents the value and composition of Canada's foreign assets and liabilities to the rest of the world. Canada's net international investment position is the difference between these foreign assets and liabilities. Canada is a net debtor nation meaning that its international liabilities are greater than its assets. This excess of international liabilities over assets can be referred to as Canada's net international liabilities or Canada's net foreign debt.

The valuation of the assets and liabilities in the international investment position are measured at book value, unless otherwise stated. Book value represents the value of assets and liabilities recorded in the books of the enterprise in which the investment is made.

Currency valuation

The value of assets and liabilities denominated in foreign currency are converted to Canadian dollars at the end of each period for which a balance sheet is calculated. Most of Canada's foreign assets are denominated in foreign currencies while less than half of its international liabilities are in foreign currencies.

When the Canadian dollar is appreciating in value, the restatement of the value of these assets and liabilities in Canadian dollars lowers the recorded value. The opposite is true when the dollar is depreciating.

beginning of the year, there has been a \$45.3 billion increase in the value of total assets and a \$16.1 billion increase in the value of total liabilities due to currency fluctuations. Volatile currency fluctuations continued to have a significant impact, accounting for over half of the increase in the value of net foreign debt during the quarter.

Portfolio investment: Securities drive change in net foreign debt

Canadian investment in foreign securities was relatively slow in the second quarter of 2008. Domestic holdings of debt instruments narrowed, reflecting a divestment of foreign bonds and short-term paper, while Canadians continued to add foreign shares to their portfolios. Despite modest investment, portfolio asset values fell by \$3.6 billion during the second quarter. This was mainly due to the revaluation of the stronger Canadian dollar more than offsetting transactions in the quarter.

Foreign investment in Canadian securities reached a high in the second quarter, with activity dominated by debt instruments. Canadian issuers were active on global credit markets with substantial bond issues. At the same time, foreign demand for Canadian money market instruments rebounded with modest investment flows, and purchases of Canadian equities were up for the second consecutive quarter. As a result, there was a substantial \$21.7 billion increase in portfolio liabilities during the second quarter.

Direct investment: Net position largely unchanged

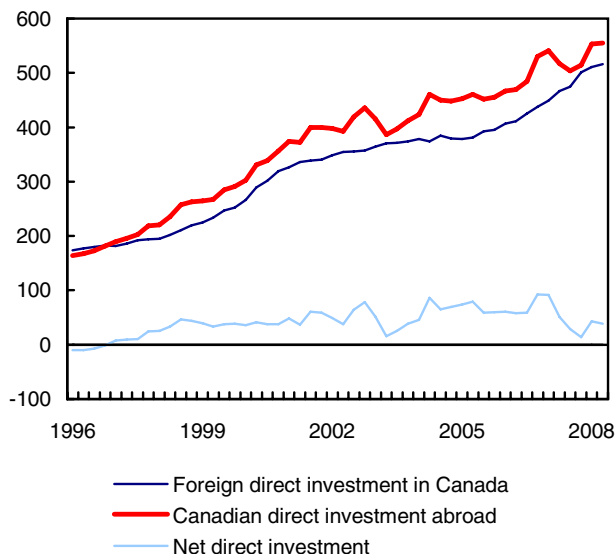
Canada's net asset position on direct investment, the difference between Canadian direct investment abroad and foreign direct investment in Canada, amounted to \$38.7 billion, a slight decline from the previous quarter. The drop was mainly attributable to the appreciation of the Canadian dollar.

Direct investment abroad by Canadian firms rose by \$1.7 billion to \$555.0 billion in the second quarter. This increase was comprised of reinvested earnings accruing in foreign affiliates of Canadian firms and Canadian corporations' foreign mergers and acquisitions, though this activity was down by half from the first quarter. However, the value of this foreign-currency denominated investment was adversely affected by the strengthened Canadian dollar.

Foreign direct investment in Canada rose by \$5.6 billion to \$516.3 billion in the second quarter. This increase was almost entirely attributable to reinvested earnings accruing from operations of affiliates in Canada. Merger and acquisition activity was negligible in the quarter.

Direct investment position

\$ billions



Other investments moderate the change in net foreign debt

Other assets went up by \$1.5 billion, mostly arising from a small increase in deposits abroad. Other liabilities declined sharply during the quarter as the increase in deposits by foreigners in the previous quarter was reversed. The continued volatility in deposit liabilities is mainly being driven by inter-company activity in the financial industry.

Net international indebtedness up sharply, with securities at market value

Canada's overall net international investment position can also be calculated with portfolio investment assets and liabilities of tradable securities valued at market prices. By this measure, the increase in net foreign debt (\$43.6 billion) was more pronounced in the second quarter. This largely reflected the contrasting gains in Canadian equity markets and losses in foreign equity markets during the quarter. As a result, the value of foreign equities held by Canadian investors declined, while the value of Canadian equity holdings by non-residents increased strongly.

Available on CANSIM: tables 376-0055 to 376-0057 and 376-0059.

Definitions, data sources and methods: survey number 1537.

The second quarter 2008 issue of *Canada's International Investment Position* (67-202-XWE, free) will be available soon.

For more information, contact Client Services (613-951-1855; infobalance@statcan.gc.ca). To enquire about the methods, concepts or data quality of this release, contact Christian Lajule (613-951-2062) or Komal Bobal (613-951-6645), Balance of Payments Division.

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Canada's international investment position at period-end

	Fourth quarter 2004	Fourth quarter 2005	Fourth quarter 2006	Fourth quarter 2007	First quarter 2008	Second quarter 2008
	\$ billions					
Assets						
Canadian direct investment abroad	448.5	455.2	530.0	514.5	553.3	555.0
Portfolio investment abroad						
Foreign bonds	58.6	82.4	124.4	136.7	144.5	142.0
Foreign bonds at market value	62.9	88.9	134.0	154.5	169.4	164.3
Foreign stocks	195.8	197.2	227.9	210.1	227.4	226.9
Foreign stocks at market value	384.4	445.7	583.6	557.0	525.6	508.7
Foreign money market	11.1	13.1	20.0	7.5	7.6	7.1
Foreign money market at market value	11.1	13.1	20.1	7.5	7.7	7.1
Other investments						
Loans	49.5	46.1	72.4	76.1	85.1	81.6
Deposits	109.4	120.8	131.4	156.9	177.0	179.9
Official international reserves	40.3	38.0	41.0	40.6	43.6	45.0
Official international reserves at market value	41.4	38.4	40.9	40.7	72.0	71.8
Other assets	39.6	47.0	45.0	42.0	45.7	46.3
Total assets						
At book value	952.8	999.8	1,191.9	1,184.4	1,284.3	1,283.8
With portfolio investment at market value	1,147.0	1,255.2	1,557.3	1,549.2	1,635.8	1,614.7
Liabilities						
Foreign direct Investment in Canada	379.5	395.2	437.8	500.9	510.7	516.3
Portfolio Investment						
Canadian bonds	402.2	384.2	408.1	382.1	403.3	420.4
Canadian bonds at market value	432.9	410.9	432.3	397.4	427.0	432.7
Canadian stocks	100.0	93.5	97.0	82.7	84.0	86.0
Canadian stocks at market value	247.3	273.3	345.0	327.8	320.1	352.2
Canadian money market	19.6	20.8	24.5	22.0	18.8	21.3
Canadian money market at market value	19.7	20.9	24.7	22.2	18.9	21.5
Other Investment						
Loans	44.1	42.7	52.6	53.0	54.9	48.9
Deposits	176.0	201.0	226.8	243.5	269.2	251.7
Other liabilities	21.7	21.8	22.5	25.3	25.8	25.8
Total liabilities						
At book value	1,143.2	1,159.2	1,269.2	1,309.4	1,366.7	1,370.5
With portfolio investment at market value	1,321.3	1,365.9	1,541.6	1,570.1	1,626.6	1,649.1
Net international investment position						
At book value	-190.4	-159.5	-77.3	-125.0	-82.4	-86.6
With portfolio investment at market value	-174.3	-110.7	15.6	-20.8	9.1	-34.4



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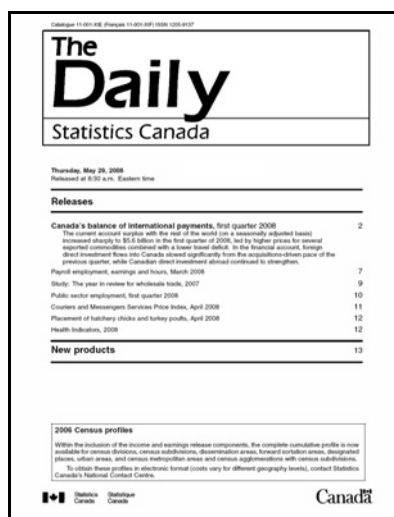
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Release dates: September 15 to 19, 2008

(Release dates are subject to change.)

Release date	Title	Reference period
15	New motor vehicle sales	July 2008
15	National balance sheet accounts	Second quarter 2008
16	Monthly Survey of Manufacturing	July 2008
16	National Apprenticeship Survey	2007
17	Canada's international transactions in securities	July 2008
18	Wholesale trade	July 2008
18	Travel between Canada and other countries	July 2008
18	Leading indicators	August 2008