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# Monthly Economic Indicators

**June/July 2003**

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at [http://strategis.ic.gc.ca/sc\\_ecnmy/mera/engdoc/03.html](http://strategis.ic.gc.ca/sc_ecnmy/mera/engdoc/03.html).

Canada



# MONTHLY ECONOMIC INDICATORS

## June/July 2003

### CONTENTS

<b>The Economy</b>	Page
<i>Real GDP by Industry</i> .....	3
<i>Consumer Spending and Attitudes</i> .....	4
<i>Business Investment in Plant and Equipment</i> .....	5
<i>Housing</i> .....	6
<i>Trade and Competitiveness</i> .....	7
<b>Labour Market Trends</b>	
<i>Employment and Unemployment</i> .....	8
<i>Industry Overview</i> .....	9
<i>Provincial Overview</i> .....	10
<b>Prices and Financial Markets</b>	
<i>Consumer and Commodity Prices</i> .....	11
<i>Short-term and Long-term Interest Rates</i> .....	12
<i>Exchange Rates and Stock Prices</i> .....	13
<b>The United States Economy</b>	
<i>U.S. Economic Trends</i> .....	14
<b>Coming Up...</b>	
<i>Key Future Data Releases/Planned Events</i> .....	15

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Sources of information include, primarily, Statistics Canada, as well as the Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Conference Board of Canada, U.S. Bureau of Economic Analysis, and U.S. Bureau of Labor Statistics.

Unless cited otherwise, data contained in graphs and tables are derived from Statistics Canada.

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## Real GDP by Industry

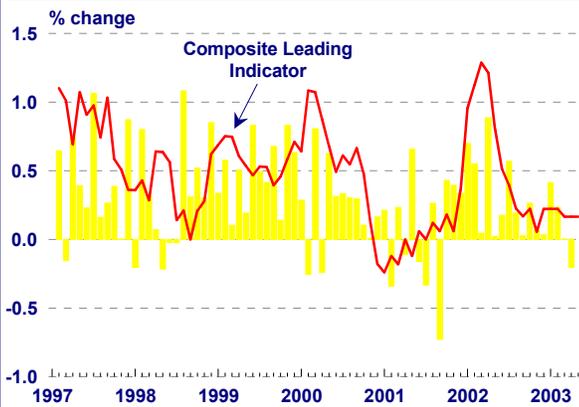
### Economic activity contracted in April...

- Real GDP at basic prices contracted by 0.2% in April, the first decline since September 2001. Economic growth has been slowing down since January. Consumer demand, a source of strength earlier in the year, stalled in April. This, combined with lower energy prices, prompted the decline.

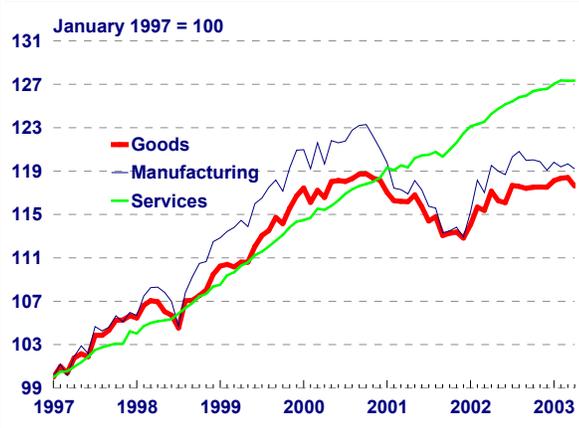
### ...with lower output of Goods and a flat Services sector

- Production in the goods sector fell 0.7% in April, after edging up 0.1% in March. Manufacturing fell 0.4% in April following a small advance in March. Oil & gas extraction fell 2.3% and utilities output dropped 1.5%. Output edged up 0.2% in construction, but residential construction declined 0.4%. Output in agriculture, forestry, fishing & hunting fell 1.2%, after six consecutive monthly increases.
- Services output remained flat in April, for a second consecutive month. Six of the thirteen major groups reported stable or higher output. The largest gains were posted by information and culture (+0.7%) and health care & social assistance (+0.5%). Retail and wholesale trade along with motor vehicles recorded lower output. Air transportation (-6.3%) and accommodation & food services (-2.1%) output fell in April, as the outbreak of SARS contributed to these declines.

Real GDP at Basic Prices



Real GDP by Major Sector



Real GDP at Basic Prices (1997 chained dollars)

April 2003

	\$ millions	monthly change	% Change since last	
			month	year
<b>Total Economy</b>	<b>991,252</b>	<b>-2,009</b>	<b>-0.2</b>	<b>1.8</b>
<b>Business Sector</b>	<b>839,759</b>	<b>-2,390</b>	<b>-0.3</b>	<b>1.5</b>
<b>Goods-producing</b>	<b>304,254</b>	<b>-2,035</b>	<b>-0.7</b>	<b>0.4</b>
Agri., Forest, Fish, Hunt*	22,208	-265	-1.2	6.4
Mining & Oil & Gas Extraction	37,032	-868	-2.3	-2.3
Utilities	27,423	-426	-1.5	-3.7
Construction	52,873	130	0.2	4.5
Manufacturing	164,302	-642	-0.4	-0.3
<b>Service-producing</b>	<b>687,308</b>	<b>51</b>	<b>0.0</b>	<b>2.5</b>
Wholesale Trade	61,629	-88	-0.1	5.5
Retail Trade	55,019	-193	-0.3	1.7
Transportation & Warehousing	45,036	-305	-0.7	0.1
Information & Cultural	46,713	316	0.7	3.3
FIRE**	196,838	456	0.2	1.4
Professional***	46,762	132	0.3	3.2
Admin. & Waste Mgmt	21,782	-97	-0.4	4.4
Education	44,896	106	0.2	1.7
Health & Social	59,078	275	0.5	4.4
Arts, Entertain. & Recreation	9,589	-51	-0.5	4.6
Accommodation & Food	22,199	-476	-2.1	-4.9
Other	22,495	-12	-0.1	2.2
Public Administration	56,270	7	0.0	5.5

\*Agriculture, Forestry, Fishing & Hunting

\*\*Finance, Insurance & Real Estate

\*\*\*Professional, Scientific & Technical services

# THE ECONOMY

## Consumer Spending and Attitudes

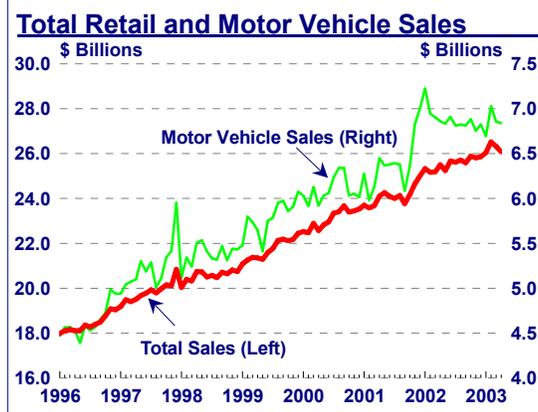


### Consumer spending remained robust in the first quarter...

- Real consumer spending rose 3.5% (annual rate) in the first quarter of this year compared to a 4.4% (annual rate) gain in the fourth quarter of 2002.
- The slower pace of growth was due largely to a decline in durable goods spending brought on by weakened demand for motor vehicles.

### ...but the outlook appears uncertain in the second quarter

- Following gains in April and May, the Conference Board's Consumer Attitudes Index deteriorated in June. Despite the decrease, 62% of respondents said they were willing to make a major outlay for a house or a car.
- Monthly retail sales fell further in April (-0.9%) after dropping 0.8% in March. However, auto sales rebounded sharply in May, recovering much of the lost ground in March and April.
- The SARS outbreak has had a negative impact on food and accommodation spending. Although the epidemic seems to be winding down, its full impact on the remainder of the second quarter remains to be seen.



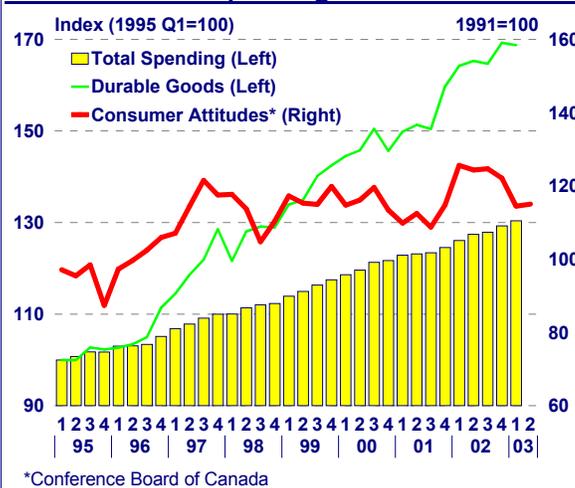
### Retail Sales and Consumer Credit

	April 2003 \$ millions	% Change since	
		last month	last year
<b>Total Retail Sales (S.A.)</b>	26,073	-0.9	2.2
Food	5,904	0.8	7.2
Drug Stores	1,330	0.1	4.1
Clothing	1,342	-0.9	-2.4
Furniture	1,550	-0.4	2.3
Automotive	10,364	-2.6	0.8
General Merch. Stores	2,842	-0.1	0.4
All other Stores	2,740	-0.0	1.0
Total ex. motor vehicles	19,235	-1.2	3.2
<b>Consumer Credit</b>	231	0.7	8.9

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	2001	2002	2002 Q4	2003 Q1
<b>Real Consumption (97\$)</b>	581,590	601,198	608,753	614,015
% change	2.6	3.4	4.4	3.5
Durable Goods	85,958	93,294	95,208	94,913
% change	4.2	8.5	11.6	-1.2
Semi-Durable Goods	52,310	54,341	54,809	55,549
% change	3.8	3.9	6.1	5.5
Non-Durable Goods	133,791	136,534	138,052	139,828
% change	1.2	2.1	4.8	5.2
Services	309,887	317,885	321,628	324,529
% change	2.7	2.6	2.2	3.7
<b>Disposable Income</b>	667,376	698,479	707,092	713,828
% change	4.4	4.7	3.7	3.9
<b>Saving Rate (%)</b>	4.5	4.2	3.2	2.6
<b>Debt-to-Income Ratio (%)</b>	95.9	97.3	98.4	99.0

### Real Consumer Spending and Attitudes



# THE ECONOMY

## Business Investment

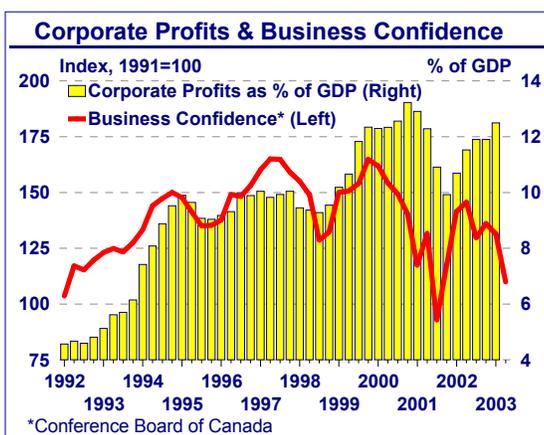
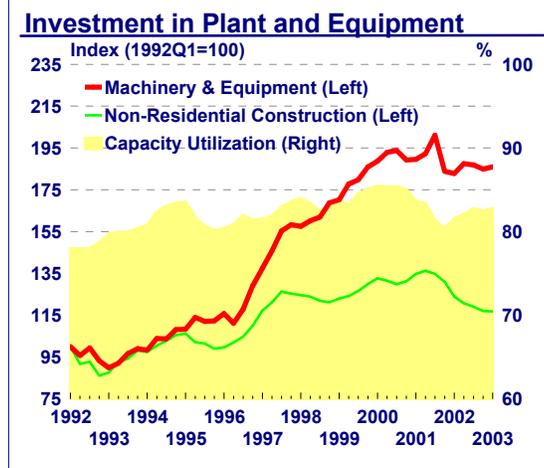


### Investment picked up somewhat...

- After two quarterly drops, investment in Machinery & Equipment rose by 2.2% during the first quarter of 2003. Investment in agricultural and other machinery equipment and on computer and software increased, while investment in telecommunications and transportation decreased.
- Non-residential construction has now fallen for seven straight quarters, reaching its lowest level since the last quarter of 1996. Nonetheless, at under 1.0%, this was the smallest drop since the downward trend began.

### ...and uncertainty about the U.S. recovery continues to weigh heavily

- Corporate operating profits have now risen for five straight quarters. Coupled with the recent appreciation of the Canadian dollar (making U.S.-made Machinery & Equipment more affordable), it should make business investment more attractive to corporations.
- However, the Business Confidence Index fell sharply in the second quarter. Weak demand was cited by an increasing number of respondents as a factor affecting planned expenditure. Investment could also be tempered by lower export prospects.



### Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	2001	2002	2002 Q2	2002 Q3	2002 Q4	2003 Q1
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1997\$)</b>	86,494	83,720	84,606	84,340	83,453	83,915
% change	0.3	-3.2	10.7	-1.3	-4.1	2.2
<b>Non-residential Construction (1997\$)</b>	48,047	43,044	43,231	42,631	41,920	41,830
% change	2.2	-10.4	-10.1	-5.4	-6.5	-0.9
<b>Capacity Utilization (% , Non-farm goods)</b>	82.2	82.3	82.1	82.8	82.5	82.8
Capacity Utilization (Mfg. sector)	81.9	83.5	83.5	84.3	84.1	84.1
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	138,563	146,312	144,740	149,624	155,212	171,716
% change	-16.1	5.6	29.5	14.2	15.8	49.8
Profits - Non-financial industries	102,845	113,379	111,200	117,980	120,892	134,764
% change	-19.0	10.2	33.5	26.7	10.2	54.4
Profits - Financial industries	35,718	32,934	33,540	31,644	34,320	36,952
% change	-6.3	-7.8	17.2	-20.8	38.4	34.4
<b>Business Credit</b>	852,886	880,310	877,977	882,912	886,945	894,920
% change	5.5	3.2	2.1	2.3	1.8	3.6



### The housing market remained strong...

- After three consecutive monthly declines, housing starts were up from 198,000 in May to 210,400 in June. This represents a year-over-year gain of 2.8% and is 25% higher than Canada's long-term sustainable trend of 168,000 units.
- Sales of existing homes increased 4.3% (annual rate) in the second quarter and average residential construction was up 6.2% (annual rate) in April compared to the first quarter level.
- Building permits for the period April to May were 5.3% lower than the first quarter of 2003.

### ...and fundamentals still look good

- Weaker employment growth (compared to 2002) since the beginning of the year has not had a negative impact on the housing market so far. Housing affordability is still at a high level as mortgage rates remain attractive and continue to offset higher house prices. Moreover, the rising house prices, which have yielded higher returns than other assets in the past couple of years, should also support demand for housing.

### Housing Activity



\*Canada Mortgage and Housing Corporation

### Monthly Housing Indicators

	Levels	Change since	
		Last month	Last year
<b>Residential Construction (1)*</b> (\$97M, basic prices)	19,040	-0.4%	12.4%
<b>Building Permits, \$M (2)*</b>	2,390	0.8%	1.5%
<b>Sales of Existing Homes (2)**</b> (# of units)	23,839	829	64
<b>Housing Starts, (3)***</b> (# of units, SAAR)	210,400	12,400	7,600
Newfoundland & Labrador	2,300	-300	0
Prince Edward Island	900	0	300
Nova Scotia	5,600	1,500	600
New Brunswick	3,500	-1,100	-800
Quebec	43,400	200	2,300
Ontario	86,900	9,700	6,700
Manitoba	3,600	0	200
Saskatchewan	3,000	400	700
Alberta	37,300	1,500	-2,800
British Columbia	23,800	500	300

1 - April data; 2 - May data; 3 - June data

Sources: \*Statistics Canada; \*\*Canadian Real Estate Association; \*\*\*Canada Mortgage and Housing Corporation

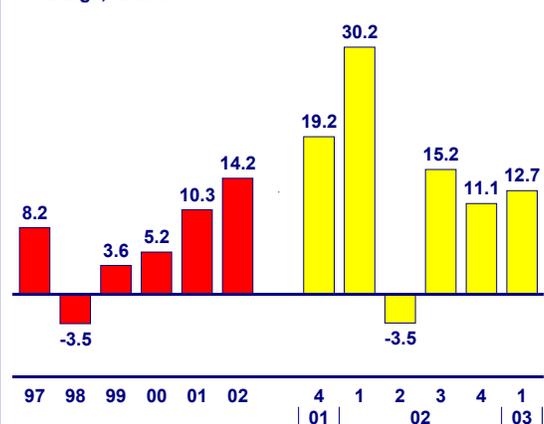
### Real Investment in Residential Structures

\$97 Millions, SAAR (unless otherwise noted)

	2001	2002	2002 Q4	2003 Q1
Construction by Business sector	50,456	57,614	59,664	61,470
% change	10.3	14.2	11.1	12.7
New Housing	23,374	28,782	30,631	31,407
% change	5.7	23.1	15.8	10.5
Alterations & Improvements	19,629	20,605	21,028	21,788
% change	16.1	5.0	7.4	15.3
Ownership & Transfer Costs	7,748	8,484	8,248	8,504
% change	11.2	9.5	-0.4	13.0
<b>Residential Construction</b>	<b>50,705</b>	<b>57,854</b>	<b>59,868</b>	<b>61,648</b>
% change	10.3	14.1	10.4	12.4

### Growth in Real Residential Construction

% change, SAAR





## Trade and Competitiveness

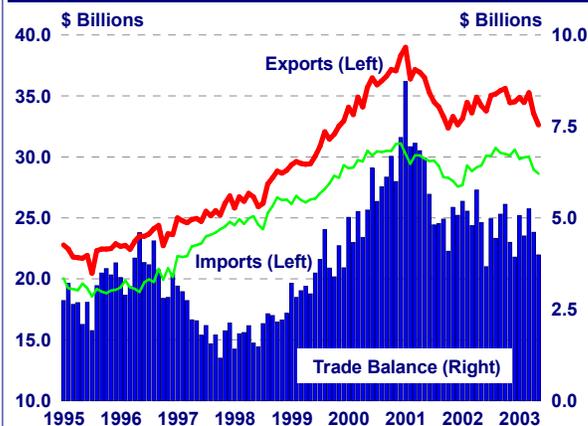
### Exports and imports decreased in May

- Merchandise exports declined 2.8% in May, their lowest level in 19 months. Exports fell in all commodity groups except Automotive Products. Agricultural & Fishing Products (-9.1%) had the largest falls and are likely to be affected by mad cow disease in upcoming months. Exports of Energy Products dropped 7.0%, as the decline in natural gas exports accounted for one-third of total merchandise exports' decrease. Exports to the U.S. were down 2.8% and exports to other countries fell 2.9%.
- Total imports fell 1.1% and reached their lowest level since the beginning of 2002. The decline was led by Machinery & Equipment (-3.9%) and Energy Products (-8.8%). Imports of Industrial Goods & Materials (+2.6%) and Automotive Products (+1.5%) were up. Imports from the U.S., the European Union, Japan and other OECD countries decreased while imports from all other countries increased.

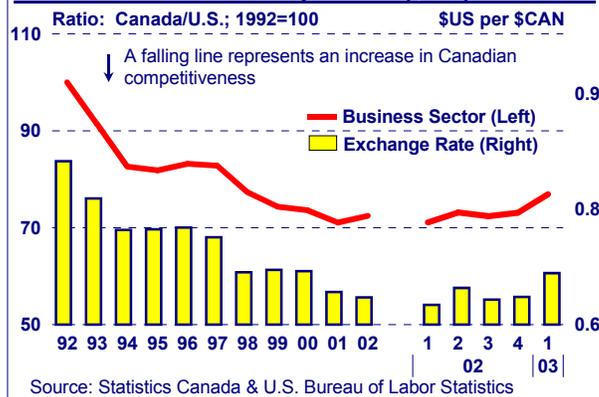
### ...and the trade surplus fell further

- The merchandise trade surplus fell by \$615 million to \$4.0 billion in May, its lowest level since December 2002. The trade surplus with the U.S. fell by \$477 million to \$7.0 billion and the deficit with other countries widened slightly from \$2.9 billion in April to \$3.0 billion in May.
- Net exports are unlikely to contribute to second quarter GDP growth.

### Merchandise Trade Flows and Balance



### Unit Labour Cost Comparison (\$US)



### Merchandise Trade

May 2003	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	April 2003	May 2003	Jan.-May 2002	Jan.-May 2003	April to May 2003	April to May 2003	Jan.-May 2002 to Jan.-May 2003	
<b>Exports</b>	<b>33,562</b>	<b>32,616</b>	<b>170,305</b>	<b>170,784</b>	<b>-946</b>	<b>-2.8</b>	<b>0.3</b>	
to United States	27,876	27,097	142,840	141,993	-779	-2.8	-0.6	
<b>Imports</b>	<b>28,960</b>	<b>28,629</b>	<b>144,258</b>	<b>147,387</b>	<b>-331</b>	<b>-1.1</b>	<b>2.2</b>	
from United States	20,368	20,066	104,301	103,474	-302	-1.5	-0.8	
<b>Trade Balance</b>	<b>4,602</b>	<b>3,987</b>	<b>26,047</b>	<b>23,397</b>	<b>-615</b>			
with United States	7,508	7,031	38,539	38,519	-477			
<b>Exports by Commodity</b>								
Agriculture/Fishing Products	2,504	2,277	12,925	12,232	-227	-9.1	-5.4	
Energy Products	5,279	4,912	18,149	27,995	-367	-7.0	54.3	
Forestry Products	2,785	2,711	16,132	14,094	-74	-2.7	-12.6	
Industrial Goods & Materials	5,518	5,390	28,911	27,693	-128	-2.3	-4.2	
Machinery & Equipment	7,636	7,589	40,572	38,775	-47	-0.6	-4.4	
Automotive Products	7,291	7,293	40,301	37,190	2	0.0	-7.7	
Other Consumer Goods	1,421	1,409	7,306	7,222	-12	-0.8	-1.1	
<b>Imports by Commodity</b>								
Agriculture/Fishing Products	1,864	1,855	8,944	9,284	-9	-0.5	3.8	
Energy Products	1,652	1,506	5,967	8,717	-146	-8.8	46.1	
Forestry Products	254	249	1,275	1,284	-5	-2.0	0.7	
Industrial Goods & Materials	5,436	5,579	28,221	28,307	143	2.6	0.3	
Machinery & Equipment	8,189	7,866	43,272	41,540	-323	-3.9	-4.0	
Automotive Products	6,614	6,714	32,710	33,675	100	1.5	3.0	
Other Consumer Goods	3,990	3,884	18,755	19,690	-106	-2.7	5.0	



## Employment and Unemployment

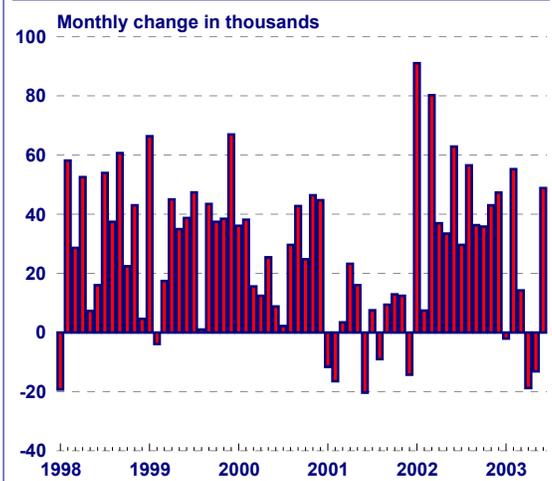
### Employment increased in June...

- The Canadian labour market confounded analysts' expectations in June as 49,000 jobs were created. This follows slight declines recorded in the previous two months. Over the last six months, employment has grown by 84,000 (+0.5%).
- Employment gains were almost all in part-time jobs (+43,000), offsetting earlier declines, and leaving part-time employment at about the same level as December 2002. Meanwhile, full-time employment edged up 5,000, and has accounted for the bulk of job creation in 2003.
- In the U.S., non-farm employment edged down by 30,000 in June. Job losses were concentrated in the Manufacturing sector (-56,000). Since last December, employment has declined 236,000 (-0.2%). The unemployment rate increased by 0.3 percentage point to 6.4%.

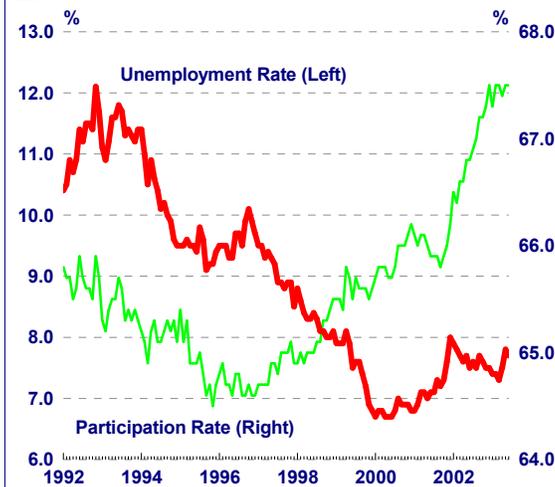
### ...and the unemployment rate edged down

- In line with employment gains, the national unemployment rate dropped 0.1 percentage point to 7.7% in June.
- Employment among youth increased by 3,600, all part-time. Although employment growth has been weak so far this year, a large number of youth have entered the labour market, pushing the unemployment rate up 0.6 percentage point to 13.9%.
- Following several months of little change, self-employment surged 37,000 in June.

### Employment



### Unemployment Rate



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2002 June	2003 May	2003 June	last month	last year	year-to- date	last month	last year
<b>Employment</b>	15,401.2	15,685.1	15,733.9	48.8	332.7	84.2	0.3	2.2
<b>Full-time</b>	12,529.0	12,749.1	12,754.5	5.4	225.5	81.1	0.0	1.8
<b>Part-time</b>	2,872.2	2,936.1	2,979.5	43.4	107.3	3.2	1.5	3.7
<b>Youth 15-24</b>	2,359.0	2,406.6	2,410.2	3.6	51.2	5.7	0.1	2.2
<b>Adult 25+</b>	13,042.3	13,278.5	13,323.8	45.3	281.5	78.6	0.3	2.2
<b>Self-employed</b>	2,347.8	2,385.7	2,422.2	36.5	74.4	43.7	1.5	3.2
<b>Unemployment</b>	1,252.4	1,335.0	1,308.6	-26.4	56.2	33.0	-2.0	4.5
<b>Unemployment Rate</b>	7.5	7.8	7.7	-0.1	0.2	0.2		
<b>Youth 15-24</b>	13.6	13.8	13.9	0.1	0.3	0.6		
<b>Adult 25+</b>	6.3	6.7	6.5	-0.2	0.2	0.1		
<b>Labour Force</b>	16,653.6	17,020.1	17,042.5	22.4	388.9	117.2	0.1	2.3
<b>Participation Rate</b>	66.8	67.5	67.5	0.0	0.7	0.0		
<b>Employment Rate</b>	61.8	62.2	62.3	0.1	0.5	-0.1		



## Industry Overview

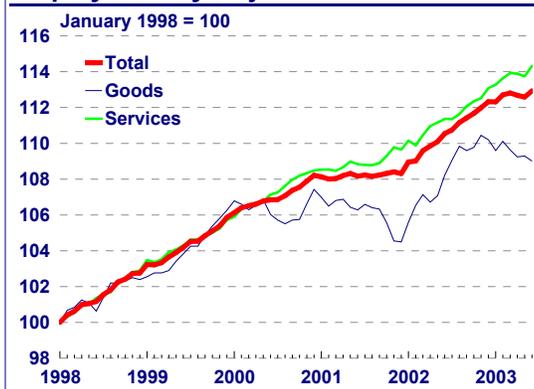
### Employment in the Manufacturing sector continued to lose ground...

- Employment in the Goods sector decreased by 10,000 in June, the fourth consecutive monthly decline. In line with a struggling U.S. economy and a stronger Canadian dollar, employment in the Manufacturing sector declined by 23,000. The losses were concentrated in food processing and clothing production. Manufacturing has lost 89,000 jobs since November 2002.
- All other sectors recorded gains. Employment in Construction rose by 7,000 (up 5.2% since June 2002). In the Natural Resource sector, employment increased by 3,000 (up 19 000 since the beginning of the year). Agriculture (+1,300) and Utilities (+900) were also up.

### ...but employment surged in the Services sector

- Employment in Services soared by 59,000 in June. The highest employment gains were posted by Other Services (+15,000), Trade (+14,000), Transportation & Warehousing (+13,000) and Public Administration (+12,000).
- The largest losses were recorded by Management & Administrative (-8,000) and Finance, Insurance, Real Estate & Leasing (-5,000).

### Employment by Major Sector



### Employment Growth by Worker Category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2002 June	2003 May	2003 June	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	3,938.0	3,977.0	3,966.7	-10.3	28.7	-43.3	-0.3	0.7
Agriculture	324.8	339.8	341.1	1.3	16.3	-14.1	0.4	5.0
Natural Resources*	265.7	286.8	289.7	2.9	24.0	19.4	1.0	9.0
Utilities	134.2	132.9	133.8	0.9	-0.4	2.7	0.7	-0.3
Construction	878.5	916.7	923.8	7.1	45.3	12.5	0.8	5.2
Manufacturing	2,334.6	2,300.8	2,278.3	-22.5	-56.3	-63.9	-1.0	-2.4
<b>Services-producing</b>	11,463.3	11,708.1	11,767.2	59.1	303.9	127.6	0.5	2.7
Trade	2,427.8	2,448.6	2,462.7	14.1	34.9	16.2	0.6	1.4
Transportation*	750.7	749.8	762.7	12.9	12.0	-3.1	1.7	1.6
FIRE*	911.4	924.9	920.2	-4.7	8.8	16.6	-0.5	1.0
Professional/Scientific	992.1	1,002.2	1,007.2	5.0	15.1	-13.6	0.5	1.5
Management/Administrative	597.3	623.9	615.5	-8.4	18.2	3.2	-1.3	3.0
Educational Services	1,020.1	1,061.8	1,057.5	-4.3	37.4	7.3	-0.4	3.7
Health Care/Social Assistance	1,596.2	1,671.2	1,682.7	11.5	86.5	27.9	0.7	5.4
Information/Culture/Recreation	714.8	702.8	700.7	-2.1	-14.1	7.2	-0.3	-2.0
Accommodation & Food	991.8	1,016.2	1,024.8	8.6	33.0	8.6	0.8	3.3
Other Services	693.3	705.8	720.9	15.1	27.6	25.8	2.1	4.0
Public Administration	767.9	800.9	812.5	11.6	44.6	31.5	1.4	5.8

\*Natural Resources: Forestry, Fishing, Mining, Oil & Gas; Transportation includes warehousing; FIRE: Finance, Insurance, Real Estate & Leasing.

# LABOUR MARKET TRENDS



## Provincial Overview

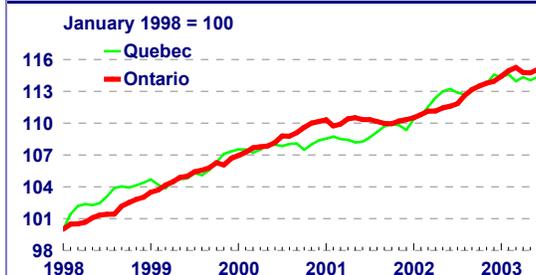
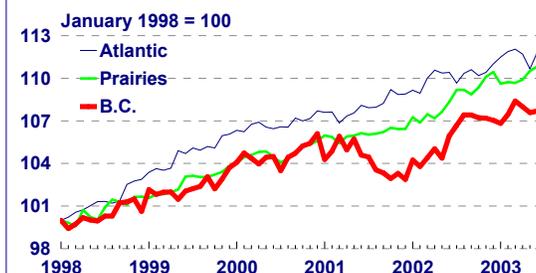
### Job gains were concentrated in Ontario, Quebec and Alberta...

- After a two-month pause, Ontario's employment increased by 17,000 (+0.3%) in June. In Toronto, gains were made in two industries that appeared to be the most affected by the outbreak of SARS, Accommodation & Food and Health Care & Social Assistance. In Quebec, employment rose by 10,000 (+0.3%), as gains in a number of industries offset large losses in Manufacturing and Trade. Alberta's employment increased by 10,000 (+0.6%), the third consecutive monthly gain.
- Employment increased in all Atlantic provinces, but Newfoundland & Labrador (-200). More than 11,000 jobs were created in Prince Edward Island (+3.7%), New Brunswick (+1.8%) and Nova Scotia (+0.6%).

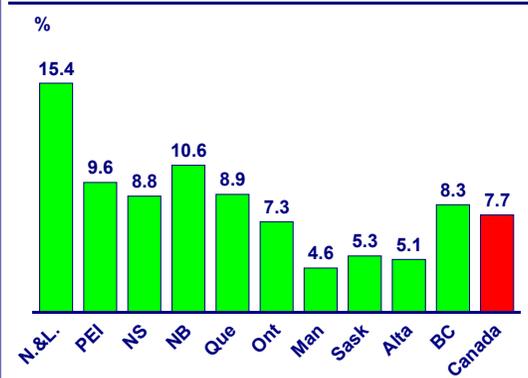
### ...and the unemployment rate decreased in most provinces

- Employment gains, together with a decrease in the number of job seekers, reduced the unemployment rate 0.4 percentage point to 8.9% in Quebec. In contrast, Ontario's unemployment rate rose to 7.3% as more people entered the labour force.
- New Brunswick's employment gains pushed down its unemployment rate from 12.0% in May to 10.6% in June. The unemployment rate in Prince Edward Island dropped 2.5 percentage point to 9.6%, its lowest monthly rate in almost 25 years. Newfoundland & Labrador's unemployment rate decreased to 15.4% as the labour force decreased at a faster pace than employment.
- Alberta's unemployment rate decreased from 5.6% to 5.1%. Manitoba's unemployment rate edged up 0.1 percentage point to 4.6% (still the lowest in the country) as employment declined (-0.4%).

### Regional employment patterns



### Unemployment Rates -- June 2003



### Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since	
	2003 June	(000's)	%	(000's)	%	2003 June	last month	last year
Canada	15,733.9	48.8	0.3	332.7	2.2	7.7	-0.1	0.2
Newfoundland & Labrador	218.2	-0.2	-0.1	0.2	0.1	15.4	-1.0	-0.5
Prince Edward Island	70.3	2.5	3.7	3.6	5.4	9.6	-2.6	-2.5
Nova Scotia	439.3	2.7	0.6	10.6	2.5	8.8	-0.1	-0.5
New Brunswick	343.7	6.2	1.8	-0.9	-0.3	10.6	-1.4	1.0
Quebec	3,647.8	10.3	0.3	36.5	1.0	8.9	-0.4	0.7
Ontario	6,226.8	17.2	0.3	187.7	3.1	7.3	0.2	0.2
Manitoba	569.5	-2.5	-0.4	1.0	0.2	4.6	0.1	-0.3
Saskatchewan	488.7	0.6	0.1	6.4	1.3	5.3	-0.2	0.0
Alberta	1,722.9	9.7	0.6	55.0	3.3	5.1	-0.5	-0.4
British Columbia	2,006.6	2.1	0.1	32.5	1.6	8.3	-0.3	-0.4



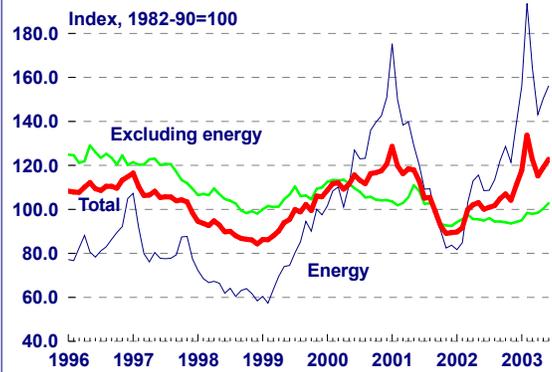
### Inflation edged down to 2.9% in May...

- The year-over-year increase in the Consumer Price Index (CPI) was 2.9% in May, down from 3.0% in April and well below February's high of 4.6%. Energy prices peaked in March and the year-over-year increase in energy prices slowed to 4.7% in May, down from 19.7% in February. Excluding the energy sub-index, inflation was unchanged at 2.7%. A decline in the prices for recreation services also held CPI inflation low. This helped offset the recovery in electricity prices from the April drop when Ontario gave a rebate to consumers.
- On a monthly basis, the CPI increased 0.1% from -0.7% in April as electricity prices returned to normal levels. A smaller decline in energy prices compared with April's 8.1% monthly decline also contributed to the rise.
- In June, commodity prices rose 3.2% following a rise of 3.3% in May. After falling in March and April on declining energy prices, commodity prices have resumed their upward trend.

### ...and the "core" rate moved up to 2.3%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, was 2.3%, up from 2.1% in April. This was within the 1%-3% official target range.

### Commodity Prices (\$US basis)



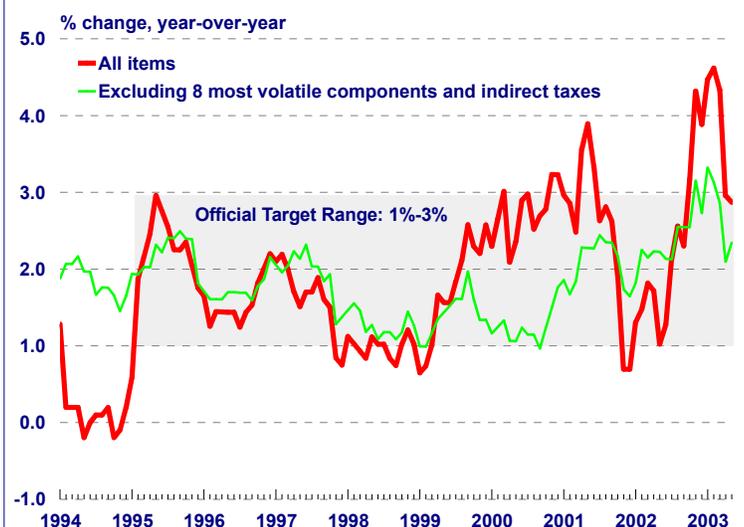
### Consumer Prices

	Index (1992=100)	% Change since	
		last month	last year
<b>May 2003</b>			
<b>All items CPI</b>	122.0	0.1	2.9
Food	122.8	0.3	2.0
Shelter	117.1	0.5	3.5
Household operations	114.5	0.0	0.6
Clothing & Footwear	103.4	-0.4	-1.1
Transportation	139.8	-1.4	4.3
Health & Personal Care	117.1	0.3	1.2
Recreation, Educ. & Reading	127.2	0.7	0.3
Alcohol & Tobacco	136.2	1.3	14.6
<b>Excl. 8 Most Volatile/Indirect Taxes</b>	122.3	0.5	2.3
Energy	134.4	-2.2	4.7

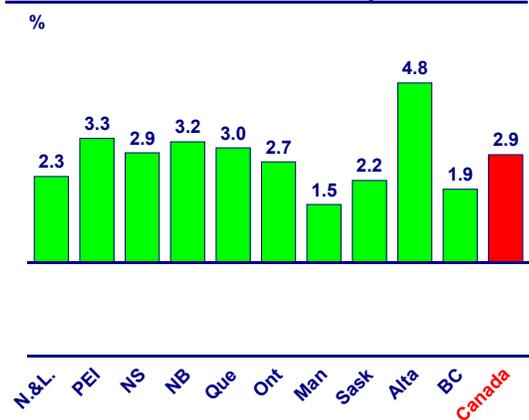
### Commodity Prices (June 2003)

Index, 1982-90=100	122.8	3.2	22.7
Excluding Energy	102.9	2.6	8.4
Energy	156.2	3.9	44.0

### Consumer Price Index



### Provincial CPI Inflation -- May 2003





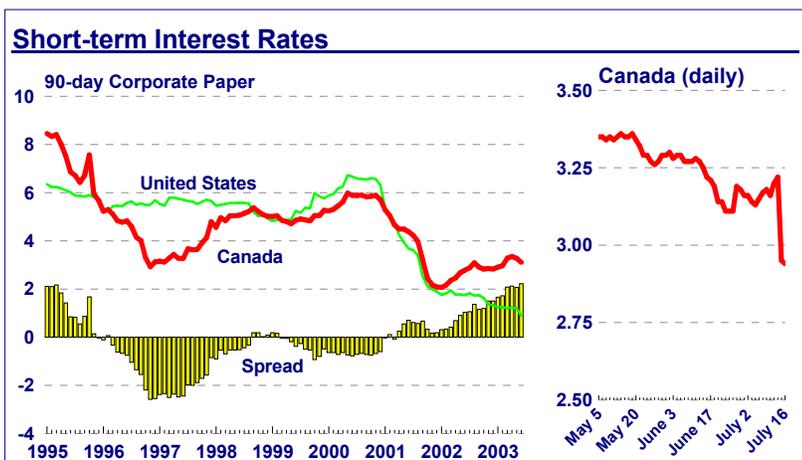
## Short-term and Long-term Interest Rates

### The Bank of Canada and the Federal Reserve reduced rates

- The Bank of Canada lowered its overnight rate by 25 basis points (bps) to 3.0% on July 15. The Bank indicated that a number of factors had dampened domestic growth in recent months while the rapid rise of the Canadian dollar had hindered export demand. With inflation pressures easing, the looser credit conditions will serve to support domestic demand. On June 25, the Federal Reserve reduced its policy rate by 25 bps to 1.0%, giving further stimulus to the economy.
- The rates on 3-month corporate paper eased in June to lows of 3.1% in Canada and 0.9% in the U.S., but regained strength in early July. The Canada-U.S. rate spread narrowed to 192 bps on July 16 from 225 bps in early June.

### Bond prices dropped as investors switched some funds into equities

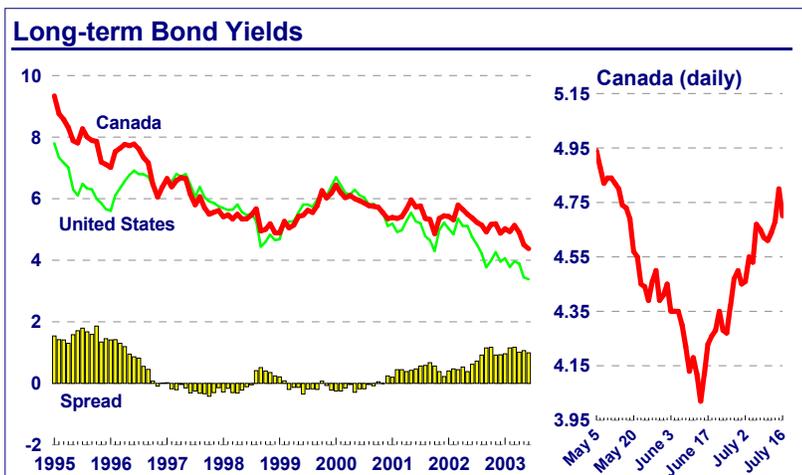
- Bond yields rebounded in the second half of June as investors transferred some funds into assets with higher returns. This followed a sharp decline in the previous two months caused by weak global economic activity and low inflationary expectations. The Canadian 10-year bond yield peaked at 5.2% in late March, declined to a low of 4.0% in early June and stood at 4.7% on July 16. Its U.S. counterpart rose to 3.97% from 3.1% in early June.
- In early July, one-year mortgage rates fell to their lowest level (4.65%) since March 2002, but edged up to 4.75% on July 16. Meanwhile, 5-year rates increased from 5.80% in late June to 6.20% on July 16.



#### Key Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
2001	2.08	0.19	5.44	0.22
2002	2.83	1.50	4.88	0.93
January	2.91	1.66	5.02	0.96
February	2.97	1.72	4.93	1.15
March	3.28	2.08	5.13	1.17
April	3.35	2.12	4.90	1.01
May	3.27	2.07	4.50	1.06
June	3.11	2.22	4.37	0.99
July 16*	2.94	1.92	4.70	0.73

A positive spread indicates that Canadian rates are above their U.S. counterparts. \* Bank of Canada's Weekly Financial Statistics



#### Key Lending Rates

(end of period)	Overnight Rate	Prime Lending Rate	Mortgage Rate	
			1 year	5 year
2001	2.25	4.00	4.60	6.85
2002	2.75	4.50	4.90	6.70
January	2.75	4.50	4.90	6.45
February	2.75	4.50	4.90	6.60
March	3.00	4.75	5.35	6.85
April	3.25	5.00	5.35	6.65
May	3.25	5.00	5.05	6.15
June	3.25	5.00	4.85	5.80
July 16*	3.00	4.75	4.75	6.20

\* Bank of Canada's Weekly Financial Statistics

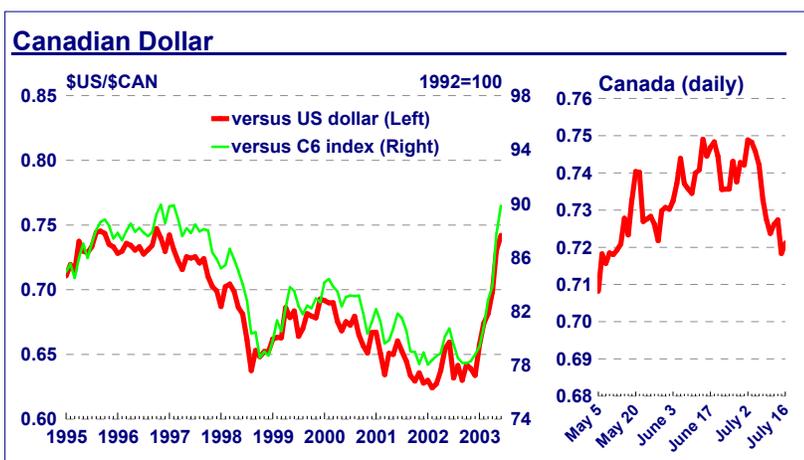


### The Canadian dollar was up by US¢11 in the first half of 2003

- The Canadian dollar started out the year at US¢63.8 and soared to a 6-year high of US¢74.9 on June 13. This rapid increase was driven by the widening short-term interest rate gap between the two currencies, relatively better economic conditions in Canada and a weakening U.S. currency. The U.S. dollar regained some strength subsequently, pushing the Canadian dollar lower to US¢72.1 on July 16.
- Against the Euro, the Canadian dollar has moved up by 5.1% from €61.3 at the beginning of 2003 to €64.4 on July 16 while it has climbed by 12.1%, from ¥76.1 to ¥85.3, vis-à-vis the Japanese currency.

### North American stock markets have showed positive gains so far this year

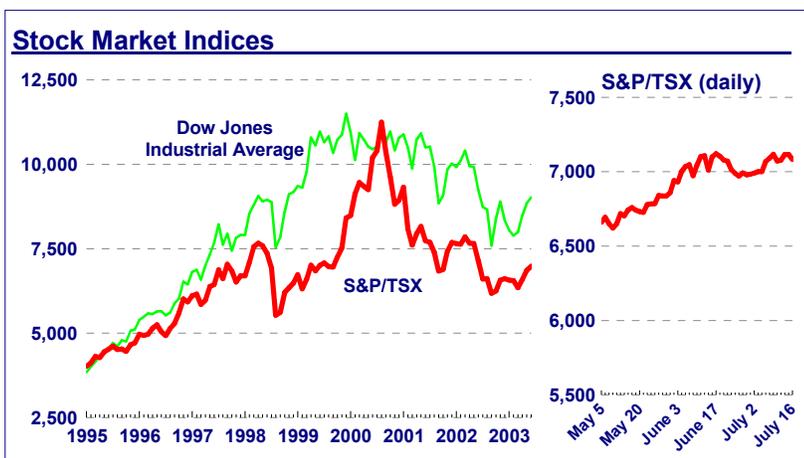
- North American equity markets recovered from the lows of March, moving above their levels of the beginning of 2003. Accommodative monetary conditions, a low U.S. dollar and tax cuts in the U.S. together contributed to shore up the confidence of investors.
- The S&P/TSX reached 7082 on July 16, up 477 points (+7.1%) since the beginning of the year while the Dow Jones has risen by 487 points (+5.7%) to 9095.



### The Canadian Dollar

(close)	\$US vs. \$CAN	index vs. C-6 (92=100)	\$CAN vs. EURO	yen vs. \$CAN
2001	0.6278	78.95	1.387	80.76
2002	0.6339	78.80	1.483	78.20
January	0.6572	79.37	1.637	77.07
February	0.6739	80.83	1.631	78.93
March	0.6813	82.83	1.594	80.40
April	0.6976	83.84	1.584	82.21
May	0.7307	87.81	1.601	84.77
June	0.7421	89.83	1.579	87.50
July 16*	0.7212	87.95	1.554	85.33

\* Bank of Canada's Weekly Financial Statistics



### Key Stock Market Indexes

	% change from		
	June Close	last month	last year
<b>S&amp;P/TSX</b>	<b>6,983</b>	<b>1.8</b>	<b>-2.3</b>
Oil & Gas	10,915	2.5	5.2
Metals & Minerals	3,655	2.4	-19.3
Utilities	11,013	4.0	19.7
Paper & Forest	4,111	1.1	-29.7
Merchandising	6,894	1.4	-9.9
Financial Services	11,335	2.9	6.3
Gold	5,549	1.4	-12.9
<b>S&amp;P 500</b>	<b>974.5</b>	<b>1.1</b>	<b>-1.5</b>
<b>Dow Jones</b>	<b>9,022</b>	<b>1.9</b>	<b>-2.4</b>



## U.S. Economic Trends

### Real GDP advanced somewhat in the first quarter...

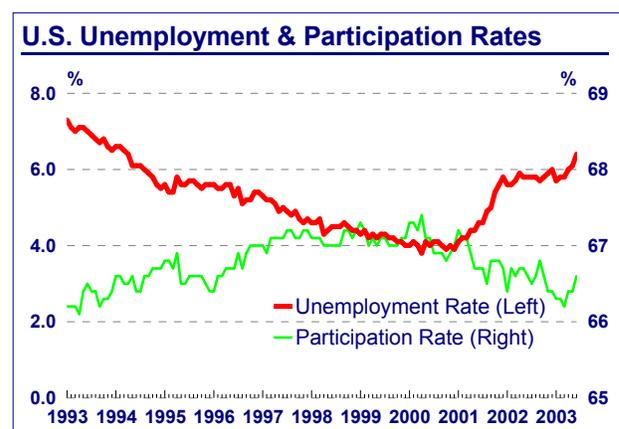
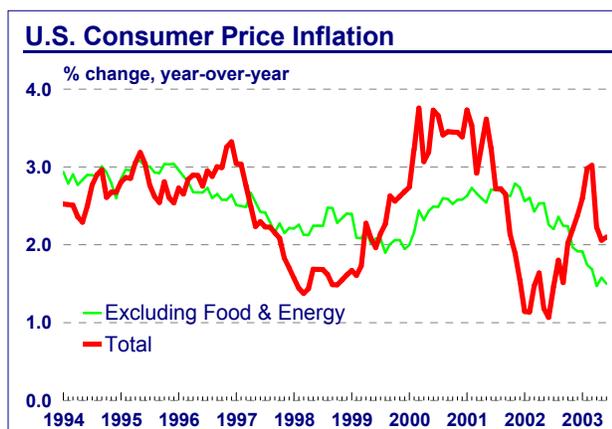
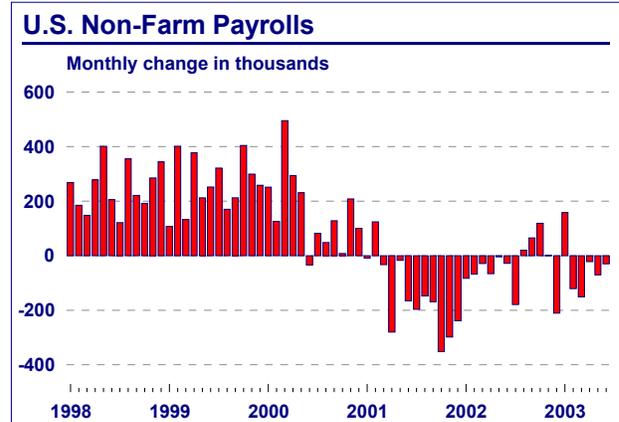
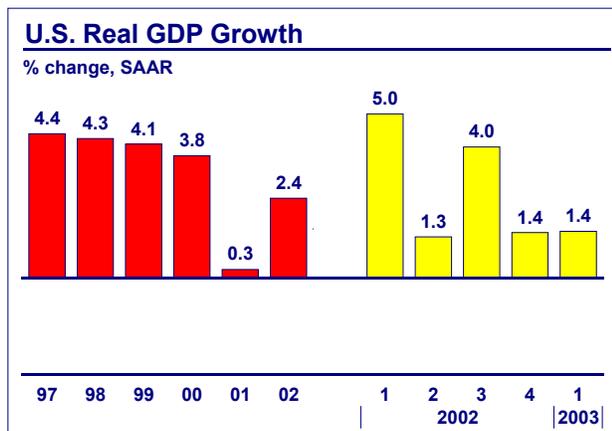
- Real GDP grew 1.4% (annualized) in the first quarter of 2003 (downwardly revised from 1.6%), unchanged from growth in the fourth quarter of 2002. The downward revision reflected a substantial decline in business investment (-5.3%) as well as slower inventory accumulation. On the other hand, exports declined at a lower rate than originally anticipated (-1.3%) and a reduction in imports (-6.2%) resulted in a net gain to GDP. Consumer spending, which grew 2.0% in the first quarter, also boosted GDP growth.

### ...and indicators point to a soft second quarter

- Recent indicators suggest second quarter growth will be similar to the first. The Institute of Supply Management manufacturing index edged up slightly in June to 49.8, but remained below the 50-mark for the fourth consecutive month (an index value greater than 50 indicates an expanding sector). Business investment has been slow to rebound, and the Consumer Sentiment Index (University of Michigan) decreased 2.4 points in June to 89.7. Still, analysts expect that low interest rates and fiscal stimulus (Bush tax package) will lead to a growth pick-up later this year.

### The labour market weakened further in June

- Non-farm employment dropped 30,000 in June after shedding 70,000 (upwardly revised) jobs in May. Job losses in manufacturing (-56,000) were partly offset by increases in other sectors, notably construction. The unemployment rate increased 0.3 percentage point in June to 6.4%, the highest level since April 1994.
- Productivity in the non-farm sector rose 1.9% (annual rate, upwardly revised) in the first quarter following a rise of 0.7% in the fourth quarter. On a year-over-year basis, CPI inflation remained unchanged in June at 2.1%. Core inflation decreased slightly in June to 1.5%.

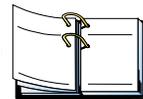


Source: U.S. Bureau of Economic Analysis & U.S. Bureau of Labor Statistics

## COMING UP

### Key Future Data Releases and Planned Events

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#### CANADA

Consumer Price Index - June	July 22
Real GDP by industry - May	July 30
Labour Force Survey - July	August 8
Canadian International Merchandise Trade - June	August 14
Financial Statistics for Enterprises - 2nd Quarter	August 27
Balance of International Payments - 2nd Quarter	August 28
National Economic and Financial Accounts - 2nd Quarter	August 29

#### UNITED STATES

GDP - 2nd Quarter 2003 (advance)	July 31
The Employment Situation - July	August 1
Federal Open Market Committee Meeting	August 12
International Trade in Goods and Services - June	August 14

Note: The June/July 2003 MEI uses data available as of July 16, 2003