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# Monthly Economic Indicators

**December 2004**

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/epic/internet/ineas-aes.nsf/en/h\\_ra01898e.html](http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html)

Canada 

# MONTHLY ECONOMIC INDICATORS

## December 2004

### HIGHLIGHTS

-  **Real Gross Domestic Product (GDP) rose at a robust pace (3.2%) in the third quarter, despite no growth in September. Growth was fuelled by domestic demand as exports declined.**
-  **Employment was flat in November, while the unemployment rate rose by 0.2 percentage point to 7.3%. Manufacturing employment fell further, bringing total job losses to 52,000 in that sector since July.**
-  **Merchandise exports declined further in October while imports rose, resulting in a further narrowing of the trade surplus.**
-  **Overall, available indicators point to slower growth in the fourth quarter.**
-  **In the United States (U.S.), real GDP growth for the third quarter was revised up to 3.9% and recent indicators point to continued solid growth in the fourth quarter.**
-  **The Bank of Canada kept its overnight rate at 2.5% on December 7. The U.S. Federal Reserve, however, raised its fed funds rate by a further 25 basis points to 2.25% on December 14.**
-  **The Canadian dollar has retreated in recent days, falling to just about US¢81 cents on December 15 from a 12-year high of about US¢85 cents in late November.**

### Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$97 B)	1,052.6	0.0	3.4	Sep.
Goods	331.0	-0.1	3.8	Sep.
Services	722.6	0.0	3.1	Sep.
Composite Index	200.2	0.2	7.8	Oct.
Employment (000's)	16,115	0.0	1.5	Nov.
Full-time	13,134	-0.2	2.0	Nov.
Part-time	2,981	1.0	-0.6	Nov.
Unemployment* (%)	7.3	7.1	7.5	Nov.
Youth*	13.2	13.4	13.3	Nov.
Adult*	6.1	5.9	6.4	Nov.
CPI inflation*	2.3	1.8	1.6	Oct.
Retail Sales (\$M)	29,137	0.2	4.7	Sep.
Housing Starts (000's)**	238.2	5.9	9.9	Nov.
Trade Balance* (\$M)	4,351	5,043	4,854	Oct.
Exports	35,625	-1.1	10.1	Oct.
Imports	31,274	0.9	13.7	Oct.
M&E	8,770	-0.3	13.0	Oct.

		November	
		December 15 ***	2004
3-mth Corp. paper (%)*	2.55	2.74	2.73
Long bond yield (%)*	4.22	4.44	4.79
Canadian dollar (US¢)*	81.65	84.32	76.98

\*Data in levels only – % change not reported

\*\*Canada Mortgage and Housing Corporation

\*\*\*Bank of Canada's Weekly Financial Statistics

All other data from Statistics Canada

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# MONTHLY ECONOMIC INDICATORS

## December 2004

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This issue uses data available as of December 15, 2004. It has been prepared by Éric Chalifoux, Stéphane Crépeau, Kevin Koch, Joseph Macaluso, Sue Moore, François Poitras and François Rimbaud of the Micro-Economic Analysis Directorate, under the direction of Hossein Rostami. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for production support.

Sources of information primarily include 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.

Please address comments to Hossein Rostami at (613) 995-8452 or through the Internet at [rostami.hossein@ic.gc.ca](mailto:rostami.hossein@ic.gc.ca).



### A decline in exports led to a moderation in growth in the third quarter...

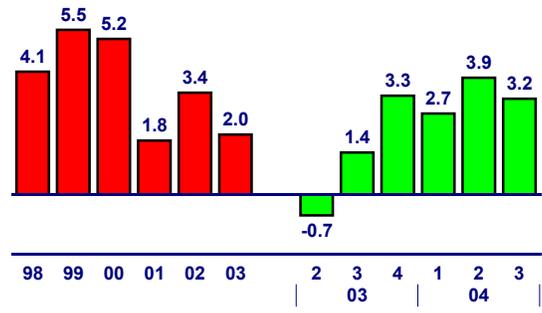
- Real gross domestic product (GDP) increased 3.2% (all rates annualized) in the third quarter, after increasing 3.9% in the previous quarter.
- Consumer spending and business investment in machinery and equipment both picked up in the third quarter, advancing 3.0% and 8.2%, respectively.
- Business inventory accumulation surged from \$2.3 billion (chained 1997 dollars) in the second quarter to \$16.9 billion in the third quarter. The build-up was widespread across manufacturers, wholesalers and retailers, especially related to motor vehicles.
- Net exports shaved about 5.0 percentage points from GDP growth, as exports fell 2.0% and imports rose 13.0%. In the second quarter, exports grew 18.0%.
- Statistics Canada revised down real GDP growth in the first two quarters of 2004. This, together with recent signs of an economic slowdown, led Consensus Forecasts (December issue) to revise down the growth outlook for 2004 and 2005 by 0.3 percentage point to 2.7% and 3.0%, respectively.

### ...while profits continued to rise at a healthy pace

- Pre-tax corporate profits rose 8.5% following a 33.0% increase in the second quarter. At 13.9% of GDP, corporate profits are well above the historical average of about 10%.
- Personal disposable income rose 2.0% in the third quarter, down from 5.0% in the second, reflecting an increase in taxes (Ontario health premiums). The savings rate fell to nearly zero, the lowest on record, from a downwardly revised 0.5% in the third quarter.

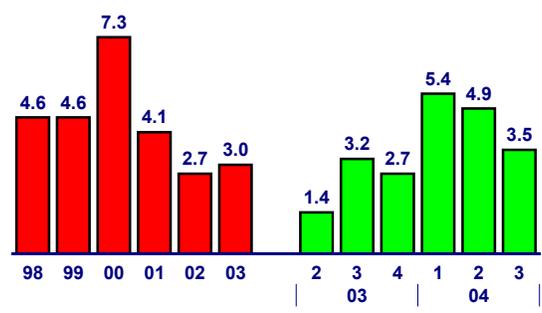
### Real GDP Growth

% Change, SAAR

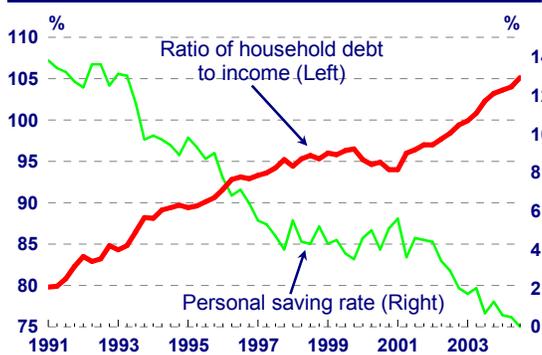


### Growth in Personal Income

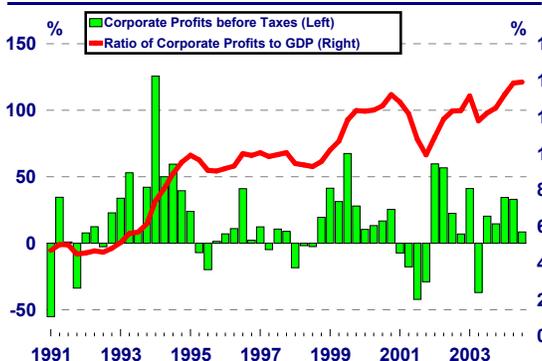
% Change, SAAR



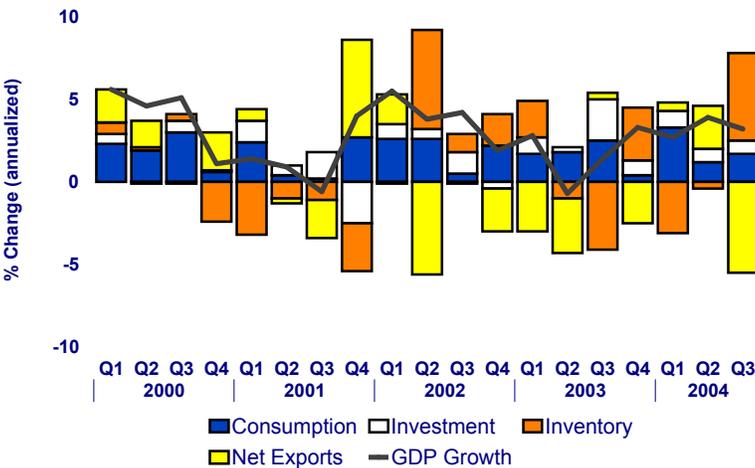
### Personal Debt and Savings Rate



### Corporate Profits



### Contributions to Quarterly Real GDP Growth\* (Annualized)



\* For the purpose of simplification and given their relative stability over time, contributions from government expenditures are not shown.

# THE ECONOMY

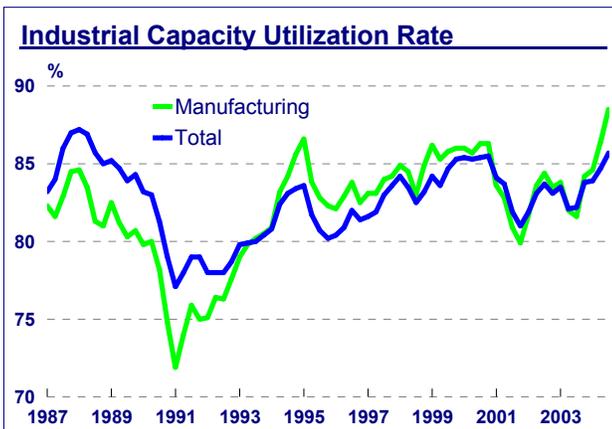
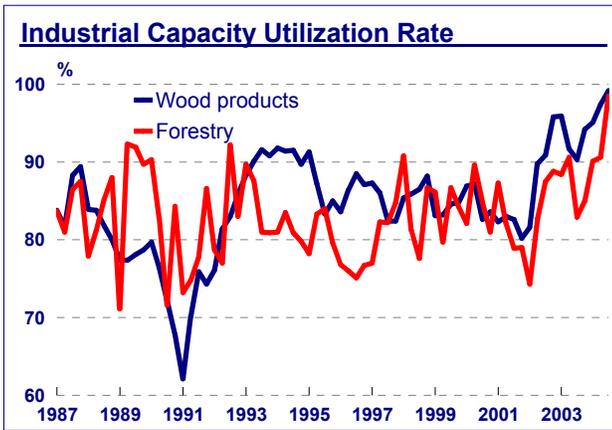
## Capacity Utilization Rate

### **Strong manufacturing output pushed its capacity utilization to a record high in the third quarter...**

- The capacity utilization rate for non-farm goods-producing industries recorded its fifth consecutive quarterly increase in the third quarter. Industries operated at 85.7% of their production capacity, 1.5 points below the peak reached in the first quarter of 1988. The increase was mainly driven by the manufacturing sector, which posted an annualized increase of 8.4% in output.
- Capacity utilization in the manufacturing sector stood at 88.5% in the third quarter of 2004, up 6.9 percentage points from a year ago and a record high since the availability of data in 1987. Over the past year, capacity utilization rates have increased in 16 out of 21 industries, with double-digit increases in chemical, fabricated metal products, machinery, and computer and electronic products. Moreover, 10 industries were operating at more than 90% of their capacity and well above their 10-year average.
- Benefiting from strong housing demand in Canada and the U.S., the forestry and logging industry was using 98.5% of its capacity in the third quarter, an increase of 7.9 points from the second quarter and a record level. Furthermore, the forestry and logging sector was operating 15.2 points above its 10-year average.

### **...but there are signs of weakening in the fourth quarter**

- The appreciation of the Canadian dollar vis-à-vis the greenback, high energy prices and slowing foreign demand are depressing manufacturing activity in the fourth quarter. Manufacturing shipments declined for the second month in a row in October (1.3%) while fewer new orders were received and finished product inventories continued to increase. In addition, the manufacturing sector lost 18,000 jobs in November, bringing total job losses to 52,000 since July.



### **Capacity Utilization: Non-farm Goods-producing Industries**

	Level (%) 2004Q3	Change (% points) Q/Q	Y/Y	10-year Average
<b>Total Industrial</b>	<b>85.7</b>	<b>1.0</b>	<b>3.5</b>	<b>83.1</b>
Forestry & logging	98.5	7.9	15.6	83.3
Mining & oil & gas extraction	74.8	-0.7	-1.2	76.6
Electric power *	85.2	1.1	0.9	84.6
Construction	84.5	-1.3	-3.6	84.9
<b>Total Manufacturing</b>	<b>88.5</b>	<b>2.1</b>	<b>6.9</b>	<b>84.1</b>
Food	84.7	1.7	5.4	80.8
Beverage & tobacco products	76.6	0.2	2.5	80.4
Textile mills	79.7	3.6	7.4	80.5**
Textile product mills	75.3	0.4	-0.9	79.2**
Clothing	69.2	-2.2	-6.2	82.0
Leather & allied products	60.5	-2.0	-8.4	74.0
Wood products	99.2	1.8	8.9	87.3
Paper	91.9	1.6	1.7	90.3
Printing & related support activities	72.7	1.1	2.1	77.5
Petroleum and coal products	91.9	-1.3	-2.4	93.7
Chemical	93.9	4.2	13.0	83.0
Plastic & rubber products	91.9	0.7	4.9	85.2
Non-metallic mineral products	92.4	-2.6	0.0	82.0
Primary metal	98.2	1.0	5.2	91.1
Fabricated metal products	90.7	4.6	10.5	81.6
Machinery	90.5	4.9	12.5	81.5
Computer & electronic products	85.1	3.6	14.1	80.5
Electrical equipment	79.0	1.8	7.5	82.5
Transportation equipment	90.9	1.7	8.1	87.0
Furniture & related products	76.3	1.0	0.3	81.3
Miscellaneous manufacturing	79.3	0.8	2.7	81.6

\* Electric power generation, transmission & distribution

\*\* Represents available data between 1997Q1-2004Q3



## International Accounts

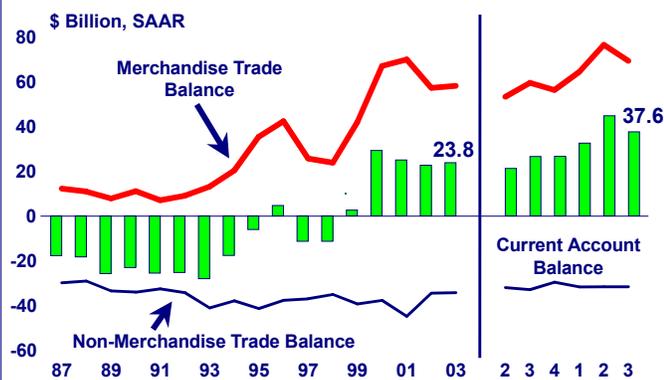
### The current account surplus moderated in the third quarter...

- The current account surplus decreased \$1.8 billion to \$9.4 billion (\$37.6 billion annualized) in the third quarter, primarily due to a lower surplus on trade in goods and a higher deficit on investment income.
- The surplus on trade in goods stood at \$17.3 billion (\$69.3 billion annualized) as imports rose (2.5%) more than exports (0.4%). The increase in imports was led by automotive products, industrial goods and crude petroleum. The deficit in services declined \$0.3 billion to \$2.6 billion. Moreover, the deficit on investment income increased \$0.3 billion to \$5.4 billion, resulting from lower profits earned by Canadian direct investors.

### ...while Canadian direct investment abroad continued to increase

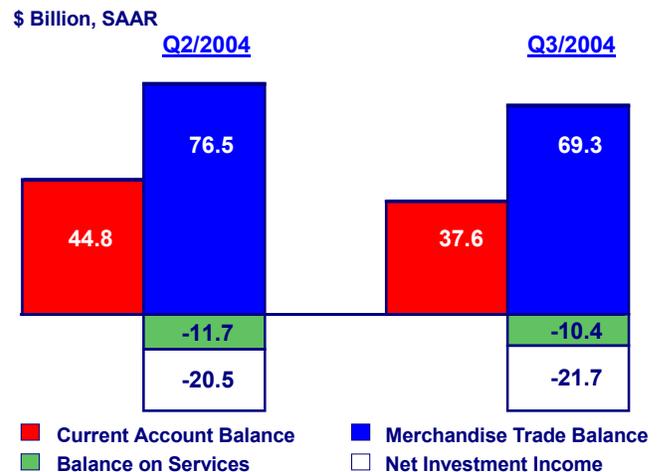
- Canadian direct investment abroad rose by \$11.1 billion, after a record increase in the second quarter. Foreign direct investment in Canada rose to \$5.8 billion, up from an outflow in the previous quarter. On an industry basis, the investment was led by machinery and transportation. Foreign portfolio investment in Canada increased by \$10.8 billion, as investors bought Canadian bonds and equities, but sold short-term instruments. The rise in equities was led by the largest share offering in Canadian history (Petro-Canada) and a corporate restructuring.
- Despite a net outflow of \$6.3 billion in the third quarter, Canada's external debt increased to \$192.9 billion (14.7% of GDP) from \$176.6 billion (13.7% of GDP). However, the external debt as a percentage of GDP had been steadily declining from a peak of 44.3% in 1994.

#### Current Account & Trade Balances

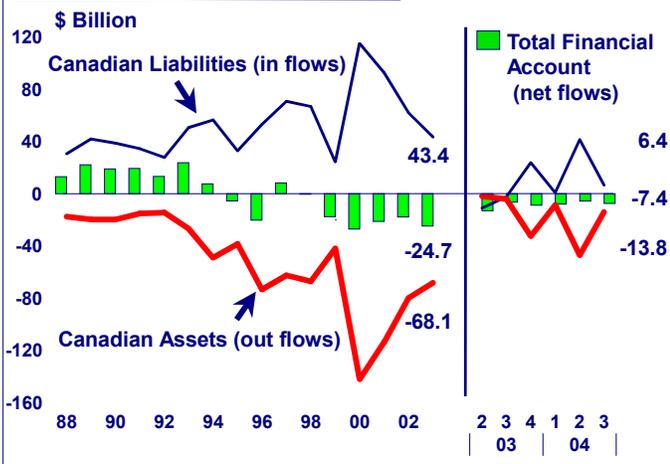


The merchandise trade balance represents net exports of goods. The non-merchandise trade balance represents net exports of services plus net receipts of investment income and transfers.

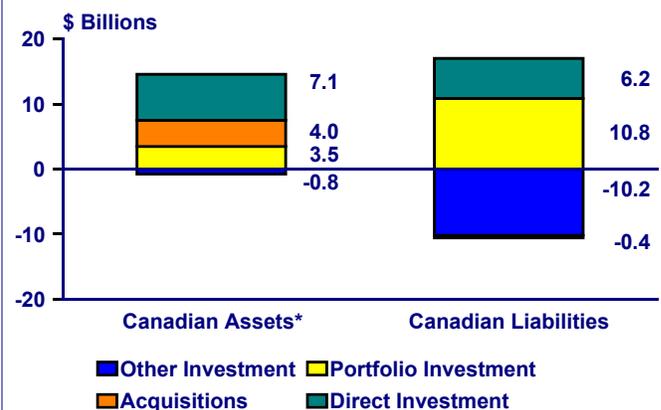
#### Main Components of the Current Account



#### Financial Account (Net Flows)



#### Financial Account Components, Q3/2004



\* Reverse of BOP sign



## Productivity & Competitiveness

### *Productivity declined in Canada and rose in the U.S. in the third quarter...*

- Labour productivity in Canada's business sector declined 1.1% (annual rate) in the third quarter, as the number of hours worked grew at a faster pace than output. Productivity continued its lacklustre performance of the previous five quarters. At the same time, meanwhile, U.S. productivity rose 2.4% as output grew at a faster pace than the number of hours worked. This is the sixth straight quarter in which Canadian businesses have posted lower productivity performance than those of the U.S.

### *...while unit labour costs grew faster in the U.S.*

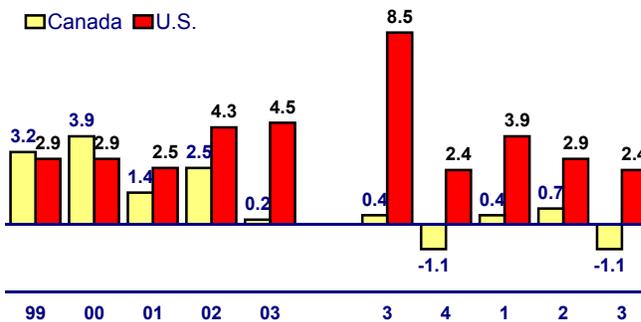
- Canada's unit labour costs in the business sector rose 1.1% in the third quarter, as productivity edged down and wages remained unchanged. In the U.S., unit labour costs rose 1.5% as hourly compensation increased at a faster pace than productivity. It was the first time since the second quarter of 2002 that Canadian business had a lower unit labour cost growth than their U.S. counterpart. Higher productivity growth in the U.S. has been translated into higher growth in hourly compensation, i.e. a year-over-year rise of 4.0% in the U.S. versus no growth in Canada in the third quarter.

### *A higher Canadian dollar eroded Canada's competitiveness*

- A decline in Canada's productivity relative to that of the U.S., combined with the appreciation of the loonie vis-à-vis the U.S. currency, led to a deterioration in competitiveness in the Canadian business sector. The Canadian dollar has appreciated further in the fourth quarter, averaging about US¢82 (mid-December) and an increase of about 7.0% over the third quarter. This should result in further erosion of Canada's competitiveness, pushing it near the level reached in 1993.

### Productivity Growth

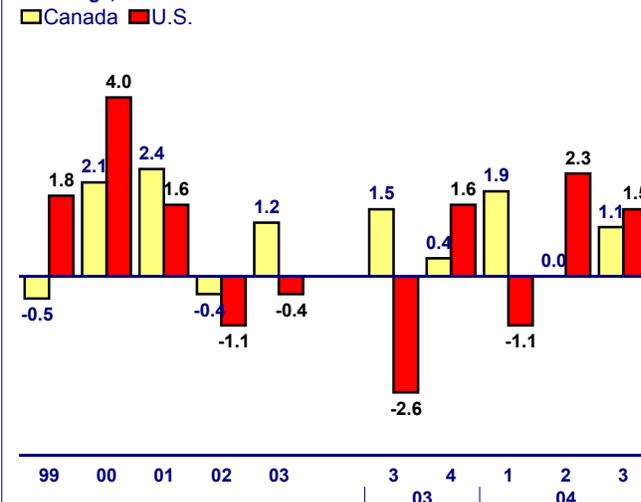
% Change, SAAR



Source: Industry Canada calculations

### Growth in Unit Labour Costs\*

% Change, SAAR



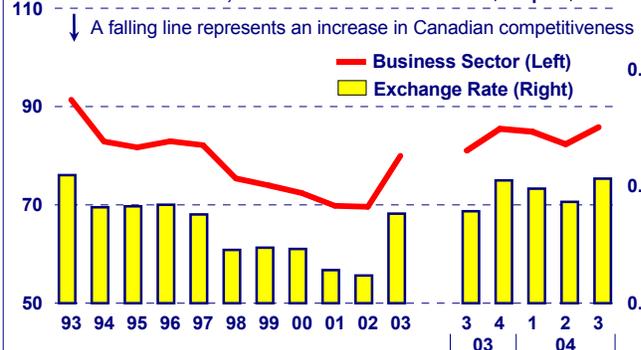
\* For the business sector

Source: Statistics Canada, U.S. Bureau of Labour Statistics and Industry Canada calculations.

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

Ratio: Canada/U.S.; 1992=100

\$US per \$CAN



Source: Statistics Canada & U.S. Bureau of Labor Statistics



## Real GDP by Industry

### Economic activity paused in September

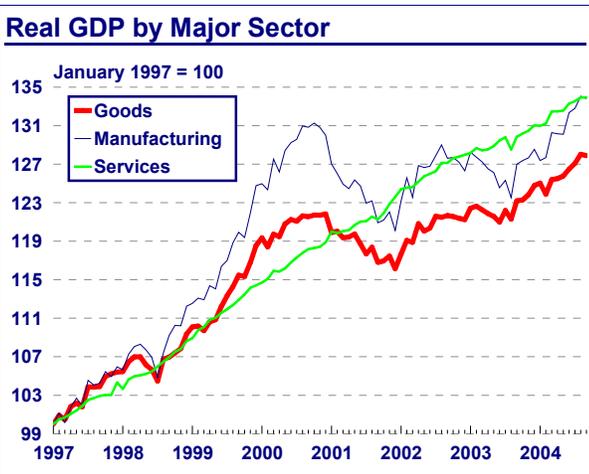
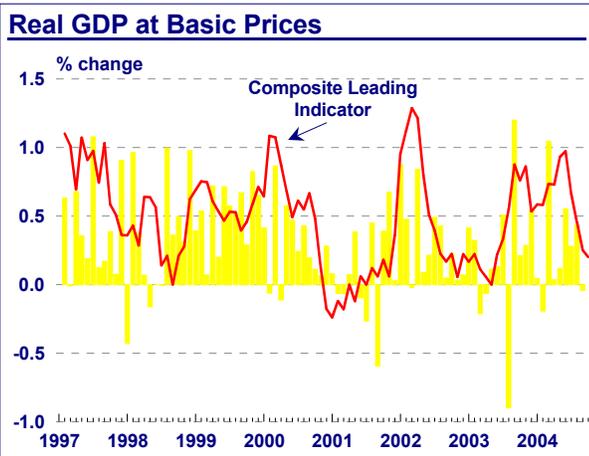
- Real GDP at basic prices posted no growth in September after robust growth in the previous three months. However, in September, real GDP was 3.4% higher than a year earlier and business output was 3.6% higher. Real GDP increased 3.9% (annualized) in the third quarter, up from 3.8% in the second.

### Weakness was concentrated in mining and manufacturing in the goods sector...

- Goods production was down 0.1% in September, after rising 0.7% in August. Industrial production was down 0.3% after six months of expansion. Lower output in mining and manufacturing accounted for the decline as utilities' output (0.4%) was up. The mining sector was affected by the lower output of diamond mines and lingering strikes in the iron mines. Drilling and rigging activities were hampered by unseasonably bad weather in the Prairies. Manufacturing was weakened by the slow-down in export demand. However, September's manufacturing output was 5.4% higher than a year earlier. In the third quarter, output in the goods sector rose 5.6% (annualized), led by agriculture (10.3%), manufacturing (8.4%) and utilities (8.1%).

### ...and arts & entertainment, wholesale and transportation in the service sector

- Service output was flat in September after an increase of 0.3% in August. Increases in eight industries, namely accommodations and other services, were offset by declines in five others, led by entertainment, wholesale and transportation. The National Hockey League lock-out affected entertainment. Lower exports hampered wholesaling and transportation; however, their outputs were substantially higher than a year ago. The outputs of finance and education were also substantially higher than a year earlier. In the third quarter, output in the service sector rose 3.1% (annualized), led by wholesale (7.8%), health (6.8%) and retail (6.0%).



### Real GDP at Basic Prices (1997 chained dollars)

#### September 2004

	\$ millions	monthly change	% Change since last	
			month	year
<b>Total Economy</b>	<b>1,052,568</b>	<b>-439</b>	<b>0.0</b>	<b>3.4</b>
<b>Business Sector</b>	<b>894,049</b>	<b>-529</b>	<b>-0.1</b>	<b>3.6</b>
<b>Goods-producing</b>	<b>331,048</b>	<b>-414</b>	<b>-0.1</b>	<b>3.8</b>
Agri., Forest, Fish, Hunt*	24,146	350	1.5	5.6
Mining & Oil & Gas Extraction	37,679	-306	-0.8	-0.2
Utilities	26,095	94	0.4	3.1
Construction	58,268	-57	-0.1	2.8
Manufacturing	184,687	-343	-0.2	5.4
<b>Services-producing</b>	<b>722,635</b>	<b>-7</b>	<b>0.0</b>	<b>3.1</b>
Wholesale Trade	66,755	-274	-0.4	6.5
Retail Trade	60,038	139	0.2	3.9
Transportation & Warehousing	50,049	-142	-0.3	5.0
Information & Cultural	43,205	4	0.0	2.1
FIRE**	211,321	188	0.1	3.4
Professional***	46,327	-93	-0.2	2.0
Admin. & Waste Mgmt	22,243	32	0.1	2.9
Education	46,002	87	0.2	3.5
Health & Social	63,164	67	0.1	1.8
Arts, Entertain. & Recreation	9,519	-241	-2.5	0.0
Accommodation & Food	23,352	152	0.7	2.1
Other	24,577	134	0.5	1.6
Public Administration	57,581	-82	-0.1	1.4

\*Agriculture, Forestry, Fishing & Hunting

\*\*Finance, Insurance & Real Estate

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

# THE ECONOMY

## Consumer Spending and Attitudes



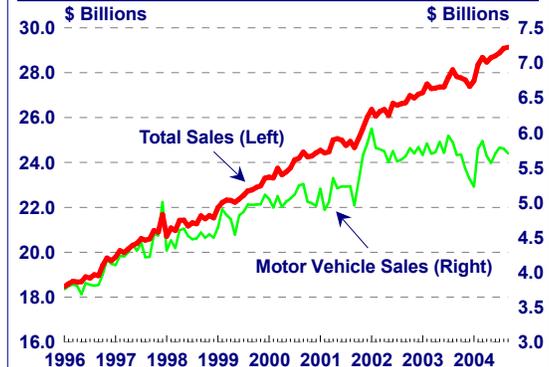
### Real consumption grew faster in the third quarter...

- Real consumption grew 3.0% in the third quarter, following an upwardly revised increase of 2.1% in the second.
- While growth in services (2.1%) was similar to that in the second quarter, spending on goods rose at a faster pace. Notably, spending on furniture, furnishing and household equipment and maintenance rose 9.5% as a result of the strong housing market.

### ...despite slower growth in disposable income

- Disposable income grew 2.0% in the third quarter, down from 5.0% in the second. Meanwhile, the savings rate declined 0.5 percentage point to 0.0%, the lowest rate since 1961.
- The consumer confidence index stood at 120.4 in November, similar to October's level. While respondents were less upbeat about their current situation, they were more optimistic about the future.
- Sales of new motor vehicles rose 7.7% in October and preliminary figures point to a 3.7% decline in November. Assuming no growth in December, sales of new motor vehicles will rise 8.0% in the fourth quarter.
- These developments point to sustained growth in consumption in the fourth quarter.

### Total Retail and Motor Vehicle Sales



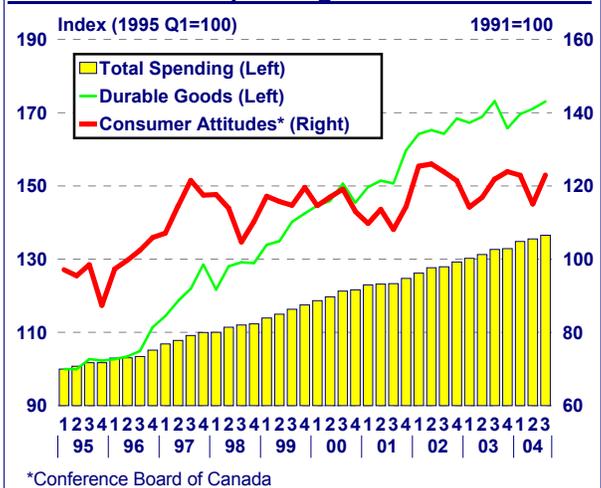
### Retail Sales and Consumer Credit

	September 2004 \$ millions	% Change since	
		last month	last year
<b>Total Retail Sales (S.A.)</b>	29,137	0.2	4.7
Food	5,703	0.6	5.8
Drug Stores	1,927	0.5	6.5
Clothing	1,697	1.4	3.8
Furniture	1,913	1.8	7.4
Automotive	9,631	-1.0	3.2
General Merch. Stores	3,533	0.2	5.0
All other Stores	4,734	0.9	5.0
Total ex. motor vehicles	22,246	0.6	6.1
<b>Consumer Credit</b>	264	0.8	10.6

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	2002	2003	2004 Q2	2004 Q3
<b>Real Consumption (97\$)</b>	601,594	620,444	638,154	642,868
% change	3.4	3.1	2.1	3.0
Durable Goods	93,099	94,923	96,213	97,345
% change	8.3	2.0	3.5	4.8
Semi-Durable Goods	54,472	56,142	58,800	60,071
% change	3.8	3.1	3.5	8.9
Non-Durable Goods	137,196	140,078	142,562	143,271
% change	2.3	2.1	0.2	2.0
Services	317,627	330,098	341,421	343,202
% change	2.6	3.9	2.3	2.1
<b>Disposable Income</b>	692,691	713,548	738,176	741,904
% change	3.8	3.0	5.0	2.0
<b>Saving Rate (%)</b>	3.2	1.4	0.5	0.0
<b>Debt-to-Income Ratio (%)</b>	98.1	101.6	104.0	105.1

### Real Consumer Spending and Attitudes



# THE ECONOMY



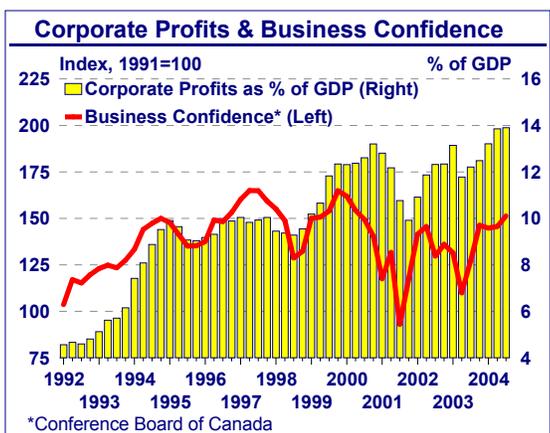
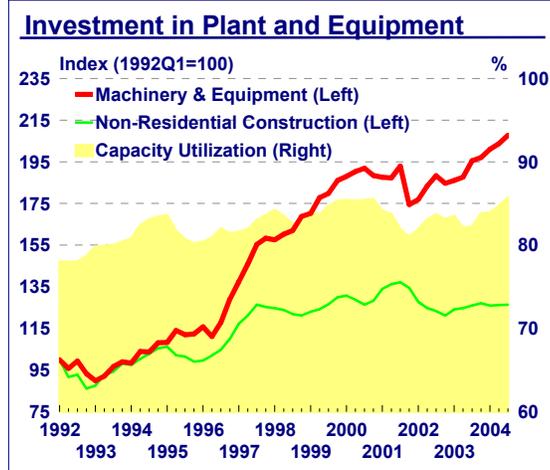
## Business Investment

### Investment in machinery and equipment continued to rise at a robust pace...

- Led by machinery and equipment (M&E), business fixed investment rose 4.5% in the third quarter, following a similar increase (4.6%) in the second.
  - M&E investment rose 8.2% in the third quarter. This followed a 5.5% increase in the second quarter and represented the seventh straight increase.
  - Investment in non-residential structures rose 0.6% in the third quarter, following an increase of 0.9% in the second.

### ...while corporate profits remained record high

- Operating profits were essentially unchanged in the third quarter, as the increase in financial industries offset small losses in the non-financial sector. This followed four straight quarters of double-digit increases.
  - The largest declines were witnessed in information and cultural industries (80.1%) and manufacturing (7.0%). Despite this recent decline, operating profits in the manufacturing sector are 39.1% higher than at the end of 2003.
- Record high profits and high capacity utilization rates, as well as the substantial appreciation of the Canadian dollar over the past two years, bodes well for sustained growth in investment.



### Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	2002	2003	2003 Q4	2004 Q1	2004 Q2	2004 Q3
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1997\$)</b>	82,715	86,441	88,920	90,688	91,906	93,735
% change	-1.2	4.5	3.2	8.2	5.5	8.2
<b>Non-residential Construction (1997\$)</b>	44,493	44,928	45,501	45,100	45,197	45,262
% change	-8.3	1.0	3.5	-3.5	0.9	0.6
<b>Capacity Utilization (% , Non-farm goods)</b>	83.0	82.9	83.8	83.9	84.7	85.7
Capacity Utilization (Mfg. sector)	83.3	82.9	84.2	84.6	86.4	88.5
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	149,969	172,118	178,676	194,124	205,244	205,320
% change	4.8	14.8	17.7	39.3	25.0	0.1
Profits - Non-financial industries	115,798	128,203	131,604	142,680	155,400	154,448
% change	8.8	10.7	19.5	38.2	40.7	-2.4
Profits - Financial industries	34,169	43,915	47,072	51,444	49,840	50,876
% change	-6.8	28.5	13.0	42.7	-11.9	8.6
<b>Business Credit</b>	890,035	904,784	911,063	921,495	936,013	951,642
% change	3.8	1.7	2.5	4.7	6.5	6.8

# THE ECONOMY

## Housing



### Housing moderated in the third quarter...

- Residential construction grew 3.3% in the third quarter, half the growth posted in the second quarter.
- The slow-down was noticeable in the resale of existing homes where ownership and transfer costs dropped 15.6% after an increase of 25.6% the previous quarter.
- Renovations accelerated posting growth of 12.3% after a 2.1% rise in the second quarter. New housing grew by 4.7% following a 3.9% increase in the second quarter.

### ...and slowed further in the fourth quarter

- The value of residential building permits issued rose 3.0% in October, after three consecutive monthly declines.
- Housing starts rose 5.9% in November. However, the average monthly housing starts in the first two months of the fourth quarter were 6.6% lower than the third quarter level.
- Housing starts for the first 11 months of 2004 averaged 231,800 and on track to a 17-year high.
- In November, half of the provinces posted increases in housing starts, led by British Columbia (20.9%), Saskatchewan (14.3%) and Quebec (10.5%). In Ontario, housing starts fell 2.8%.
- Moreover, the price of new housing has been rising at a more moderate pace in recent months. In October, it was 5.6% higher than a year earlier, lower than the 6.2% increase posted in June.

### 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)	21,493	0.2%	8.4%
<b>Building Permits, \$M (2)*</b>	3,073	3.0%	9.1%
<b>Sales of Existing Homes (3)**</b> (# of units)	25,558	345	72
<b>Housing Starts, (3)***</b> (# of units, SAAR)	238,200	13,200	21,400
Newfoundland & Labrador	2,200	-500	-800
Prince Edward Island	900	0	300
Nova Scotia	4,300	-300	-1,300
New Brunswick	3,300	-100	-700
Quebec	62,100	5,900	5,100
Ontario	81,000	-2,300	2,600
Manitoba	4,700	300	300
Saskatchewan	4,800	600	2,200
Alberta	39,600	1,500	4,800
British Columbia	35,300	8,100	8,900

1 - September data; 2 - October data; 3 - November data

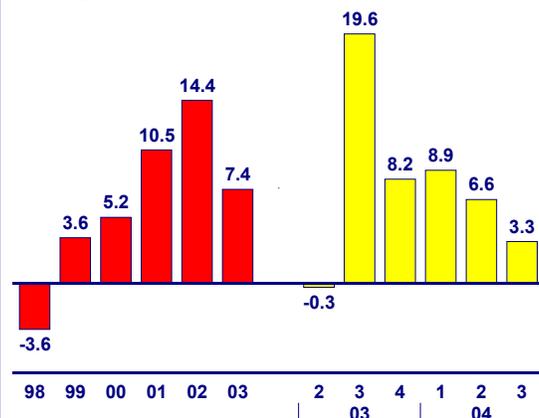
Sources: \*Statistics Canada; \*\*Canadian Real Estate Association; \*\*\*Canada Mortgage and Housing Corporation

### Real Investment in Residential Structures

\$97 Millions, SAAR (unless otherwise noted)				
	2002	2003	2004 Q2	2004 Q3
Residential Construction	58,133	62,452	67,247	67,792
% change	14.4	7.4	6.6	3.3
New Housing	28,900	30,678	32,995	33,377
% change	23.2	6.2	3.9	4.7
Alterations & Improvements	20,600	22,619	24,100	24,808
% change	4.7	9.8	2.1	12.3
Ownership & Transfer Costs	8,639	9,204	10,148	9,728
% change	11.5	6.5	25.1	-15.6

### Growth in Real Residential Construction

% change, SAAR





### Exports declined further in October...

- Merchandise exports declined 1.1% in October, the fourth consecutive decline and the lowest level since March. The decline was mostly concentrated in the U.S. where the appreciation of the Canadian dollar vis-à-vis the greenback is making Canada's exports less competitive. However, half of the decline was due to lower exports of forestry products to the U.S., reflecting in part lower prices. Exports to non-U.S. destinations rose 1.2%. Overall, export volumes increased 0.1% while prices declined 1.2%.

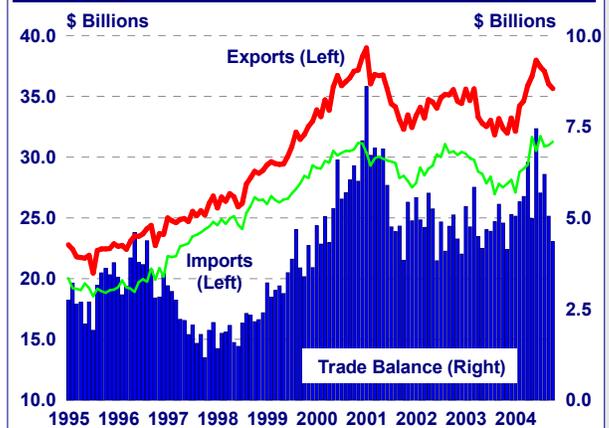
### ...while imports continued to rise...

- Imports increased 0.9% in October following an increase of 0.4% in September. Imports from all major trading areas except the U.S. rose. Most of the increase came from higher imports of energy products (16.5%), reflecting a record high in crude petroleum imports. Import volumes rose 2.2% and prices fell 1.3%.

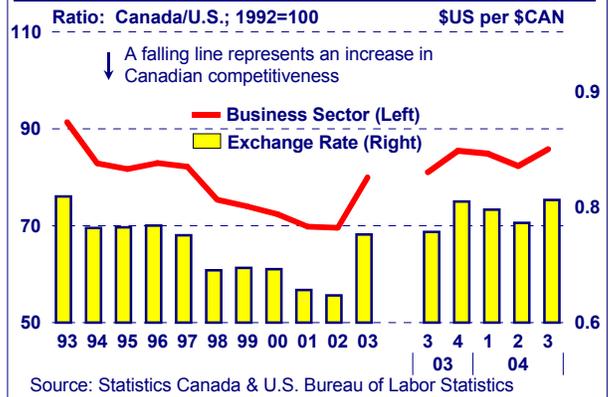
### ...pushing the trade surplus lower

- Canada's trade surplus declined by \$0.7 billion to \$4.4 billion, the lowest level in a year. The trade surplus with the U.S. fell to \$7.6 billion and the trade deficit with other countries widened to \$3.3 billion, the highest level since May.

**Merchandise Trade Flows and Balance**



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



Source: Statistics Canada & U.S. Bureau of Labor Statistics

### Merchandise Trade

October 2004	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change
	September 2004	October 2004	Jan.-Oct. 2003	Jan.-Oct. 2004	Sep. to Oct. 2004	Sep. to Oct. 2004	Jan.-Oct. 2003 to Jan.-Oct. 2004
<b>Exports</b>	<b>36,024</b>	<b>35,625</b>	<b>334,826</b>	<b>357,604</b>	<b>-399</b>	<b>-1.1</b>	<b>6.8</b>
to United States	29,276	28,796	277,035	291,488	-480	-1.6	5.2
<b>Imports</b>	<b>30,981</b>	<b>31,274</b>	<b>285,869</b>	<b>301,326</b>	<b>293</b>	<b>0.9</b>	<b>5.4</b>
from United States	21,337	21,185	200,697	208,081	-152	-0.7	3.7
<b>Trade Balance</b>	<b>5,043</b>	<b>4,351</b>	<b>48,957</b>	<b>56,278</b>	<b>-692</b>		
with United States	7,939	7,611	76,338	83,407	-328		
<b>Exports by Commodity</b>							
Agriculture/Fishing Products	2,420	2,457	24,283	26,081	37	1.5	7.4
Energy Products	5,814	5,774	51,512	55,996	-40	-0.7	8.7
Forestry Products	3,362	3,121	28,562	33,014	-241	-7.2	15.6
Industrial Goods & Materials	6,598	6,461	54,944	64,265	-137	-2.1	17.0
Machinery & Equipment	7,615	7,665	74,603	77,122	50	0.7	3.4
Automotive Products	7,410	7,521	73,046	75,466	111	1.5	3.3
Other Consumer Goods	1,408	1,397	14,328	14,469	-11	-0.8	1.0
<b>Imports by Commodity</b>							
Agriculture/Fishing Products	1,807	1,835	18,033	17,807	28	1.5	-1.3
Energy Products	2,155	2,510	16,340	20,084	355	16.5	22.9
Forestry Products	273	260	2,538	2,625	-13	-4.8	3.4
Industrial Goods & Materials	6,435	6,454	54,469	60,513	19	0.3	11.1
Machinery & Equipment	8,796	8,770	82,157	86,753	-26	-0.3	5.6
Automotive Products	6,623	6,334	64,011	64,411	-289	-4.4	0.6
Other Consumer Goods	3,989	4,058	38,600	39,413	69	1.7	2.1



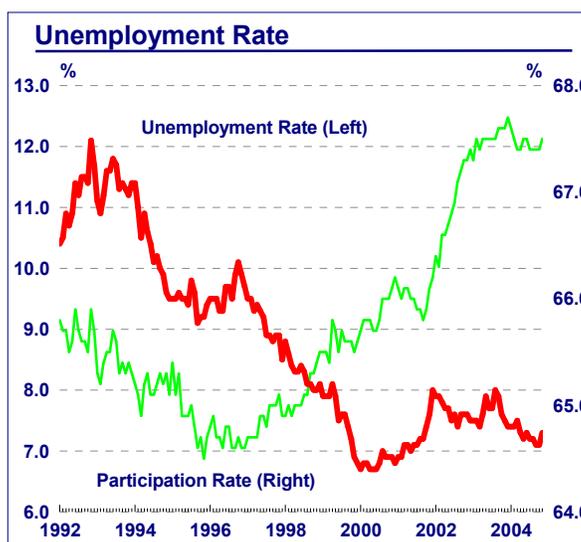
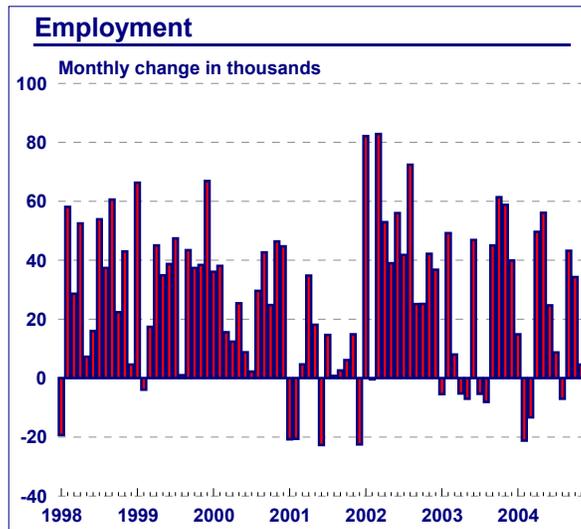
## Employment and Unemployment

### Employment edged up in November...

- Employment rose 5,000 in November, following robust growth in the previous two months (78,000). All gains were in part-time employment (30,000). However, since the beginning of the year, full-time employment has risen 217,000 (1.7%), offsetting a decline of 22,000 (0.7%) in part-time.
- Youth employment declined 4,000, all in part-time. So far this year, youth employment has risen 23,000 (0.9%).
- Job gains were among self-employed (19,000) and the public sector (9,000), while private sector employment decreased 23,000. So far this year, job creation has been almost equally divided among the three categories. However, job growth in the private sector has been more moderate (0.6%) than that for self-employed (2.7%) and the public sector (2.2%).
- The participation and employment rates remained near their historical peaks.

### ...but the unemployment rate rose to 7.3%

- The unemployment rate rose 0.2 percentage point to 7.3% in November as more people entered the labour force.
- The youth unemployment rate edged down to 13.2% as less youths sought jobs. In contrast, the unemployment rate for adults rose by 0.2 percentage point to 6.1% as more people looked for work.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2003 November	2004 October	2004 November	last month	last year	year-to- date	last month	last year
<b>Employment</b>	15,880.8	16,110.7	16,115.3	4.6	234.5	194.6	0.0	1.5
<b>Full-time</b>	12,880.9	13,159.7	13,134.4	-25.3	253.5	217.2	-0.2	2.0
<b>Part-time</b>	2,999.9	2,951.0	2,981.0	30.0	-18.9	-22.4	1.0	-0.6
<b>Youth 15-24</b>	2,423.2	2,445.3	2,441.7	-3.6	18.5	22.9	-0.1	0.8
<b>Adult 25+</b>	13,457.7	13,665.4	13,673.7	8.3	216.0	171.9	0.1	1.6
<b>Self-employed</b>	2,441.7	2,485.3	2,504.0	18.7	62.3	66.6	0.8	2.6
<b>Unemployment</b>	1,285.5	1,230.6	1,261.7	31.1	-23.8	-5.1	2.5	-1.9
<b>Unemployment Rate</b>	7.5	7.1	7.3	0.2	-0.2	-0.1		
<b>Youth 15-24</b>	13.3	13.4	13.2	-0.2	-0.1	-0.8		
<b>Adult 25+</b>	6.4	5.9	6.1	0.2	-0.3	0.0		
<b>Labour Force</b>	17,166.3	17,341.2	17,377.0	35.8	210.7	189.6	0.2	1.2
<b>Participation Rate</b>	67.6	67.4	67.5	0.1	-0.1	-0.2		
<b>Employment Rate</b>	62.6	62.7	62.6	-0.1	0.0	-0.1		



## Industry Overview

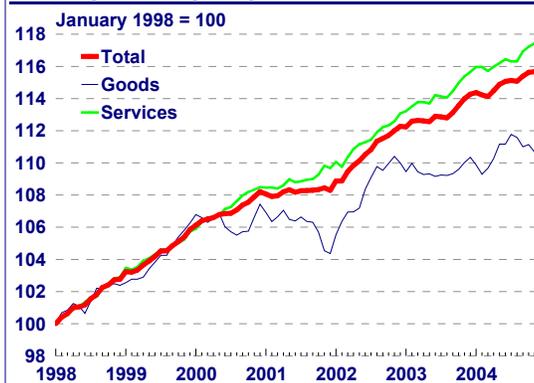
### Further manufacturing job losses pushed employment down in the Goods sector...

- Employment in the Goods sector decreased 17,000 in November, following an increase of 5,000 in October. Most losses were in manufacturing (18,000), while employment edged up in natural resources (4,000) and construction (1,000). So far this year, the Goods sector has gained 12,000 jobs (0.3%), as strong gains in construction (57,000) offset losses in manufacturing (28,000) and agriculture (19,000).
- Since July, employment in the manufacturing sector has declined 52,000. This reflected a number of factors, including rising oil prices and the appreciation of the Canadian dollar. More than 100,000 jobs have been lost in the manufacturing sector since its peak in November 2002.

### ...but employment continued to grow in the Services sector

- Employment rose 21,000 in the Services sector, following gains both in September (64,000) and October (30,000). The largest gain was in FIRE\* (21,000), offsetting the decline recorded in October. The largest loss was in the accommodation & food services sector (13,000).
- Employment in the service sector rose 183,000 (1.5%) in the first eleven months of 2004. Most gains were concentrated in trade (79,000), FIRE\* (56,000), professional, scientific and technical services (44,000) and health care & social assistance (28,000). So far this year, losses were only in accommodation & food (25,000), business, building & other support and public administration services (3,000).

### Employment by Major Sector



### Employment Growth by Worker Category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2003 November	2004 October	2004 November	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	4,003.5	4,044.0	4,027.2	-16.8	23.7	11.9	-0.4	0.6
Agriculture	339.9	330.0	327.9	-2.1	-12.0	-18.6	-0.6	-3.5
Natural Resources*	293.4	296.3	300.7	4.4	7.3	4.7	1.5	2.5
Utilities	133.8	130.3	127.7	-2.6	-6.1	-3.0	-2.0	-4.6
Construction	949.5	1,012.9	1,014.1	1.2	64.6	57.0	0.1	6.8
Manufacturing	2,286.9	2,274.6	2,256.8	-17.8	-30.1	-28.2	-0.8	-1.3
<b>Services-producing</b>	11,877.3	12,066.7	12,088.1	21.4	210.8	182.7	0.2	1.8
Trade	2,491.9	2,545.1	2,556.1	11.0	64.2	78.7	0.4	2.6
Transportation*	771.2	779.2	785.6	6.4	14.4	3.4	0.8	1.9
FIRE*	951.9	991.6	1,012.8	21.2	60.9	56.1	2.1	6.4
Professional/Scientific	996.0	1,032.3	1,028.8	-3.5	32.8	44.3	-0.3	3.3
Business/Building	616.5	641.4	629.5	-11.9	13.0	-8.1	-1.9	2.1
Educational Services	1,054.8	1,052.1	1,067.1	15.0	12.3	6.0	1.4	1.2
Health Care/Social Assistance	1,708.1	1,755.1	1,760.3	5.2	52.2	28.1	0.3	3.1
Information/Culture/Recreation	721.8	723.5	718.5	-5.0	-3.3	1.5	-0.7	-0.5
Accommodation & Food	1,031.7	1,016.9	1,004.1	-12.8	-27.6	-25.4	-1.3	-2.7
Other Services	698.7	700.8	701.2	0.4	2.5	1.6	0.1	0.4
Public Administration	834.6	828.6	824.2	-4.4	-10.4	-3.4	-0.5	-1.2

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

# LABOUR MARKET TRENDS



## Provincial Overview

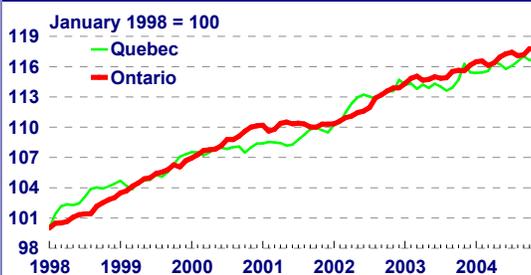
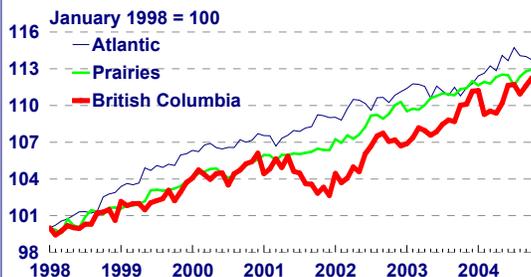
### Most provinces experienced little employment change in November...

- All western provinces registered small employment gains in November. In British Columbia (B.C.), a strong increase in part-time employment (24,000) was accompanied by full-time job losses (23,000). B.C.'s employment has risen 22,000 (1.0%) so far this year.
- Ontario lost 2,000 jobs in November, but employment has risen 86,000 (1.4%) so far this year. Quebec's employment edged up 1,000, following a decline of 12,000 in October.
- All Atlantic provinces, except Newfoundland & Labrador, recorded employment gains in November. So far this year, Prince Edward Island (2.3%), New Brunswick (2.3%) and Nova Scotia (2.0%) have posted the strongest employment growth among all provinces.

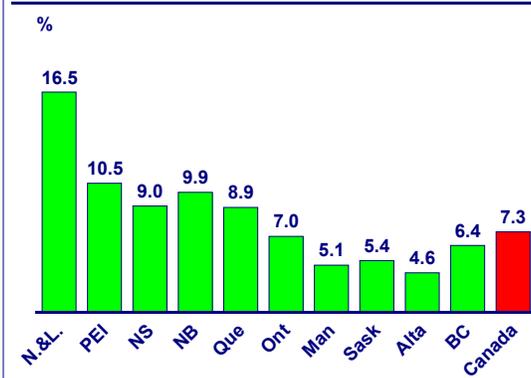
### ...while the unemployment rate increased in five provinces

- In line with a large decrease in the labour force, B.C.'s unemployment rate fell to 6.4%, its lowest monthly level since August 1981. At 4.6%, Alberta's unemployment rate still remained the lowest among the provinces.
- Lower employment and a higher labour force pushed up Ontario's unemployment rate 0.5 percentage point to 7.0%. Despite small employment gains, Quebec's unemployment rate rose to 8.9% as more people sought jobs.
- The unemployment rate decreased by 1.3 percentage points to 10.5% in Prince Edward Island, but it rose 0.7 percentage point to 16.5% in Newfoundland & Labrador.

### Regional employment patterns



### Unemployment Rates -- November 2004



### Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since	
	2004 November	(000's)	%	(000's)	%	2004 November	last month	last year
Canada	16,115.3	4.6	0.0	234.5	1.5	7.3	0.2	-0.2
Newfoundland & Labrador	216.6	-3.0	-1.4	3.0	1.4	16.5	0.7	-1.0
Prince Edward Island	71.8	2.0	2.9	2.2	3.2	10.5	-1.3	-0.5
Nova Scotia	448.0	1.3	0.3	11.7	2.7	9.0	0.2	-1.0
New Brunswick	354.2	0.5	0.1	5.9	1.7	9.9	-0.2	-0.3
Quebec	3,722.5	1.8	0.0	13.1	0.4	8.9	0.3	-0.2
Ontario	6,371.7	-2.2	-0.0	115.6	1.8	7.0	0.5	0.2
Manitoba	579.9	0.9	0.2	11.9	2.1	5.1	0.0	-0.2
Saskatchewan	494.6	1.4	0.3	8.3	1.7	5.4	0.2	-0.2
Alberta	1,763.2	0.8	0.0	21.5	1.2	4.6	-0.1	-0.3
British Columbia	2,092.9	1.2	0.1	41.4	2.0	6.4	-0.5	-1.1

# PRICES and FINANCIAL MARKETS

## Consumer and Commodity Prices



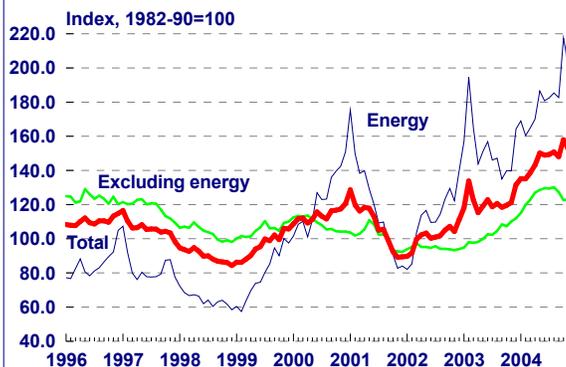
### Higher gasoline prices pushed up inflation to 2.3% in October...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) rose to 2.3% in October from 1.8% in September. This was mainly due to gasoline prices, which rose 20.3% compared to 7.2% in September. Excluding energy, inflation in October (1.5%) was slightly higher than in September (1.4%).
- Inflation rose in all provinces, except Alberta where it remained at 1.5% in October. Newfoundland & Labrador, Manitoba, and Saskatchewan posted the largest rise in inflation, about 1.1 percentage points.
- On a month-to-month basis (seasonally adjusted), the CPI rose 0.4% following a 0.2% rise in September.
- The year-over-year increase in commodity prices was 25.8% in November, down from 32.1% in October, due to a moderation in energy price inflation. Energy prices rose 45.0% in November compared to 55.5% in October. On a monthly basis, commodity prices fell 3.5% following a 6.8% jump in October. Excluding energy prices, commodity prices were unchanged from September.

### ...but the "core" rate fell to 1.4%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, moderated to 1.4% in October from 1.5% in September, below the midpoint of the 1%-3% official target range.

### Commodity Prices (\$US basis)



### Consumer Prices

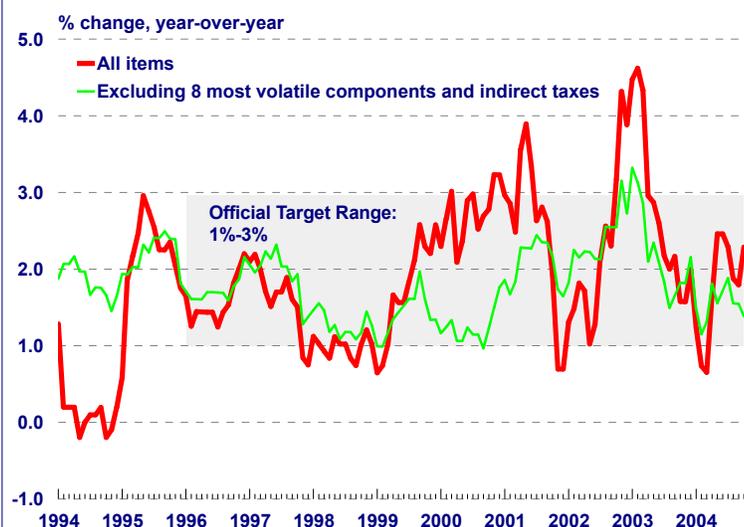
October 2004

	Index (1992=100)	% Change since	
		last month	last year
<b>All items CPI</b>	125.2	0.2	2.3
Food	125.3	0.5	3.5
Shelter	121.8	0.5	3.0
Household operations	115.0	-0.3	-0.1
Clothing & Footwear	105.4	0.5	0.4
Transportation	144.6	0.6	3.5
Health & Personal Care	119.1	-0.1	1.2
Recreation, Educ. & Reading	128.4	-0.8	0.1
Alcohol & Tobacco	144.5	-0.1	5.5
<b>Excl. 8 Most Volatile/Indirect Taxes</b>	124.7	0.0	1.4
Energy	154.9	2.1	13.1

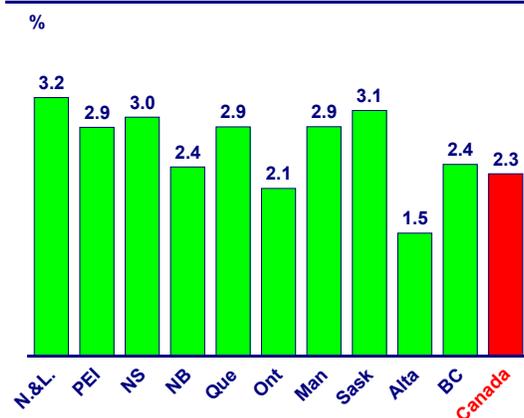
### Commodity Prices (November 2004)

Index, 1982-90=100	152.5	-3.5	25.8
Excluding Energy	122.7	0.0	11.4
Energy	202.5	-6.9	45.0

### Consumer Price Index



### Provincial CPI Inflation -- October 2004





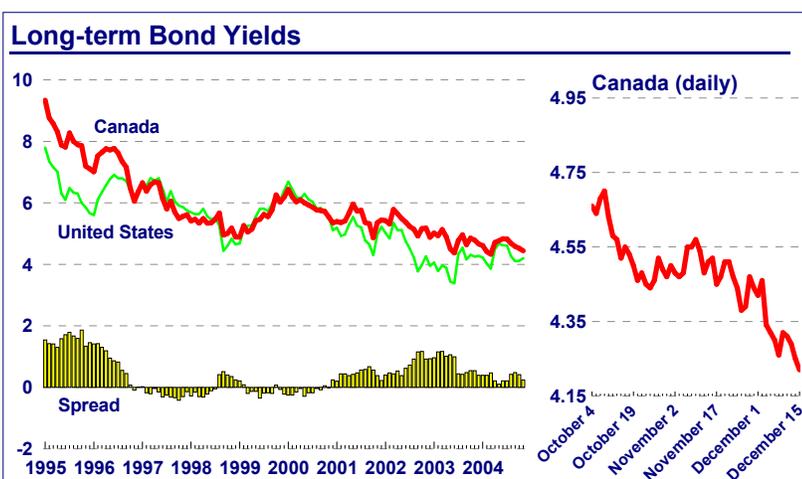
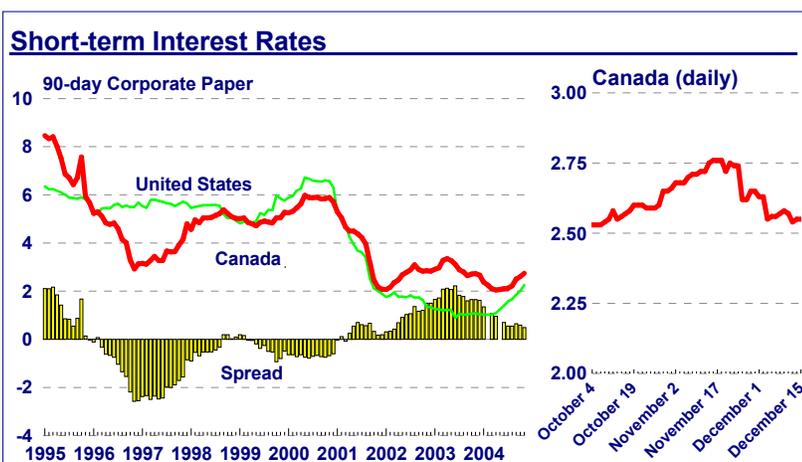
## Short-term and Long-term Interest Rates

### The Bank of Canada paused in December...

- The Bank of Canada left its target for the overnight rate unchanged at 2.5% on December 7. The rapid appreciation of the dollar, moderating global growth, as well as signs of economic slowdown in Canada were important factors behind the decision. In the United States, the Federal Reserve raised its fed funds rate by 25 basis points (bps) to 2.25% on December 14, the fifth consecutive rate increase, encouraged by good growth prospects, improving labour market conditions, and low and stable inflation.
- The rate on three-month corporate paper in Canada was 2.55% on December 14 compared to 2.76% on November 18. In the U.S., short-term rates rose from 2.1% in early November to 2.39% on December 13. With Canadian rates trending down while U.S. rates edged higher, the rate differential narrowed to 16 bps.

### ...and long-term yields edged down in Canada

- Increased uncertainties about economic prospects in the U.S. and Canada have led to volatility in bond markets and a narrowing of the spread between Canadian and U.S. bond yields. In the U.S., 10-year yields were 4.13% on December 14, down from 4.40% in early December, but similar to yields in mid-November. In Canada, yields fell from 4.50% in mid-November to 4.25% on December 14, resulting in a narrowing of the rate spread to about 15 bps, down from about 40 bps in October.
- One-year mortgage rates were 4.90% on December 8, steady from one month ago. Five-year mortgage rates eased further to 6.15% on December 8, from 6.30% in November.



### Key Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
2002	2.83	1.50	4.88	0.93
2003	2.66	1.62	4.66	0.39
June	2.10	0.70	4.83	0.21
July	2.12	0.55	4.82	0.21
August	2.22	0.55	4.68	0.42
September	2.50	0.65	4.58	0.48
October	2.60	0.59	4.52	0.41
November	2.74	0.49	4.44	0.24
Dec. 15 *	2.55	0.14	4.22	0.13

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	Mortgage Rate 5 year
2002	2.75	4.50	4.90	6.70
2003	2.75	4.50	4.75	6.45
June	2.00	3.75	4.70	6.70
July	2.00	3.75	4.60	6.55
August	2.00	3.75	4.40	6.30
September	2.25	4.00	4.80	6.30
October	2.50	4.25	4.90	6.40
November	2.50	4.25	5.00	6.30
Dec. 15 *	2.50	4.25	4.80	6.05

\* Bank of Canada's Weekly Financial Statistics

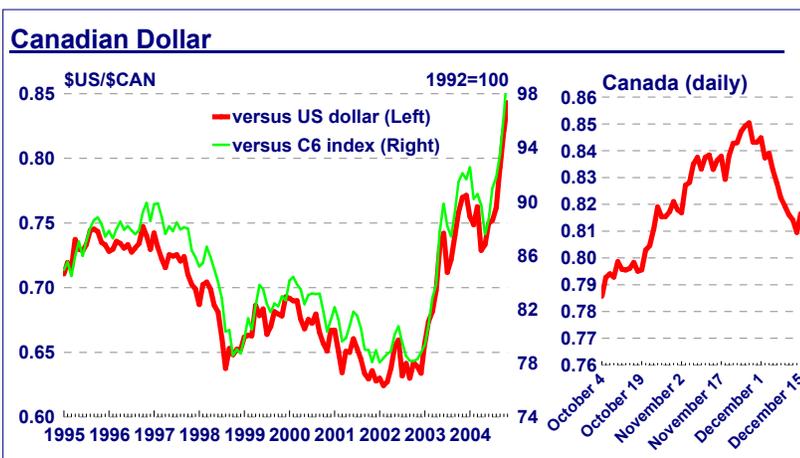


### The Canadian dollar lost some ground in December

- Since closing above US¢85 on November 26, the dollar has retreated 4.8% to close just below US¢81 on December 14. This reflected growing evidence of slowing economic conditions in Canada, particularly in the export-dependent manufacturing sector, declining commodity prices, and a partial recovery in the U.S. dollar against major currencies. However, the loonie is still up about 10% above its value in May (US¢73.4). While the U.S. dollar has recovered somewhat in recent weeks, some analysts expect the greenback to trend down further as the U.S. twin deficits are expected to remain large.
- The Canadian dollar also lost some ground against the euro and Japanese yen, wiping out gains since late summer. From recent highs on November 10, the dollar depreciated 4.8% against the euro and 8.2% against the yen.

### Stock markets rose towards the end of the year

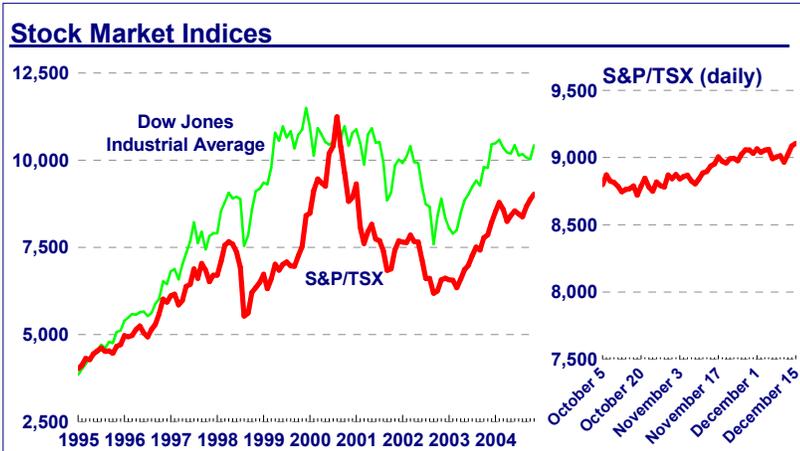
- The stronger dollar helped push the S&P/TSX index above 9,000 in recent weeks, with the index closing at 9,086 on December 14. All sub-indices, except for financial stocks, recorded gains in November, especially metals & mining (11.0%) and energy (4.7%).
- Oil prices eased about 12% from mid-November, supporting U.S. stock markets in the last month. The Dow Jones closed at 10,676 on December 14 and has been around 10,500 since mid-November. This is 9.5% above its recent low of 9,750 on October 25.



### The Canadian Dollar

(close)	\$US vs. \$CAN	index vs. C-6 (92=100)	\$CAN vs. EURO	yen vs. \$CAN
2002	0.6339	78.80	n/a	n/a
2003	0.7713	91.65	1.628	82.86
June	0.7497	88.68	1.627	81.59
July	0.7522	91.00	1.599	83.64
August	0.7616	91.80	1.599	83.19
September	0.7926	93.52	1.569	87.21
October	0.8210	96.36	1.559	86.88
November	0.8432	99.92	1.577	86.76
Dec. 15	0.8165	97.39*	1.642	85.13

\* Bank of Canada's Weekly Financial Statistics



### Key Stock Market Indexes

	November Close	% change from	
		last month	last year
<b>S&amp;P/TSX</b>	<b>9,030</b>	<b>1.8</b>	<b>14.9</b>
Energy	201	4.7	43.9
Metals & Mining	262	11.0	32.6
Utilities	158	4.4	4.5
Materials	168	7.1	13.3
Industrial	71	1.1	-2.3
Financial	147	-2.7	13.7
Gold	222	2.2	-6.2
Telecommunication	69	6.5	12.7
Information Technology	32	0.8	25.9
Consumer Discretionary	89	2.1	6.6
Consumer Staples	188	5.7	12.6
<b>S&amp;P 500</b>	<b>1,173.8</b>	<b>3.9</b>	<b>10.9</b>
<b>Dow Jones</b>	<b>10,428</b>	<b>4.0</b>	<b>6.6</b>



## U.S. Economic Trends

### U.S. economic growth accelerated in the third quarter...

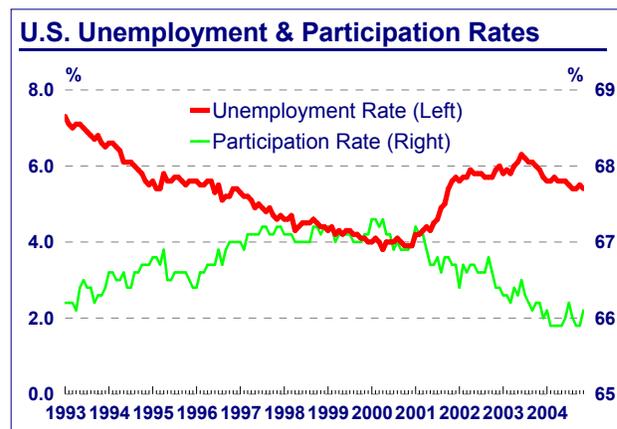
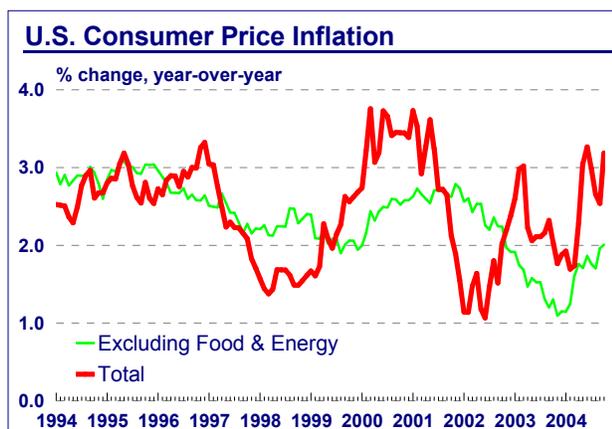
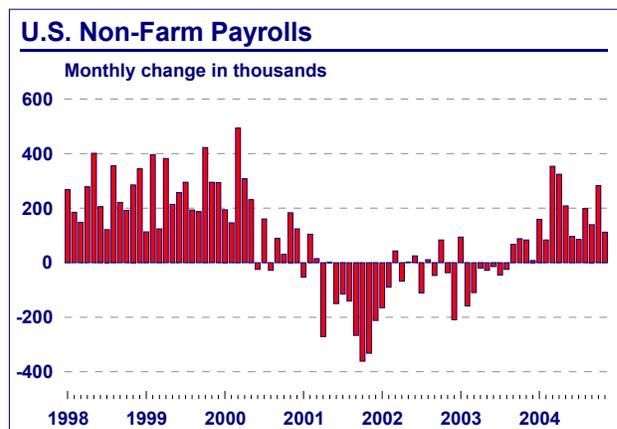
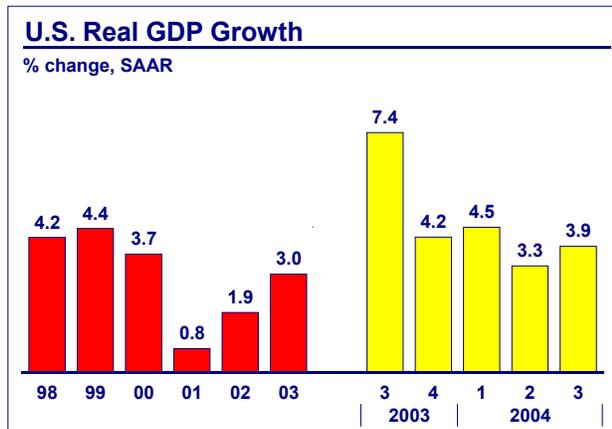
- According to preliminary estimates, real gross domestic product (GDP) increased at an annual rate of 3.9% in the third quarter, up from 3.3% in the second quarter and higher than the advanced estimate of 3.7%. Preliminary estimates confirmed that higher consumption growth (5.1% vs. 1.6%) and a lesser drag from net exports were the main factors behind higher growth. On the income side, lower profits in the financial sector led to a 2.3% drop in corporate profits, the first drop since the first quarter of 2003. Moreover, personal outlays grew faster than personal disposable income, resulting in a lower personal saving rate (0.5%).

### ...and growth should stay robust in the fourth quarter

- Industrial production increased 0.7% in October following a 0.1% rise in September. Moreover, the Institute of Supply Management (ISM) manufacturing and non-manufacturing indices rose to 57.8 and 61.5 in November, respectively, suggesting the economy is expanding further. Also, consumers kept buying as real expenditures increased 0.3% in October, following a 0.5% rise in September. Non-farm payrolls rose by only 112,000 in November, less than expected and below the monthly average (185,000) so far in 2004.

### The trade deficit increased in October on track to set a record high in 2004

- The trade deficit increased to US\$55.0 billion in October from US\$50.9 billion in September, primarily due to an increase in goods deficit (to US\$59.7 from US\$55.0 billion). Despite further depreciation of the U.S. dollar against major currencies in 2004, the merchandise trade deficit has risen to US\$540 billion (or 6.1% of GDP) in the first nine months of this year from US\$454 billion (5.0% of GDP) for the same period of 2003. At the same time, the trade deficit with China has risen to US\$113 billion from US\$89 billion in 2003. There are growing calls on China to contribute to the correction of that imbalance by revaluing its currency. While the U.S. dollar depreciation is viewed as an important factor in reducing trade imbalances, the U.S. also needs to raise its national savings by slowing its domestic demand and lowering its large fiscal deficit.

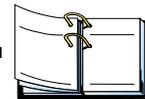


Source: U.S. Bureau of Economic Analysis & U.S. Bureau of Labor Statistics

## COMING UP

### Key Future Data Releases and Planned Events

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#### CANADA

Consumer Price Index - November	December 17
Real GDP by Industry - October	December 23
Labour Force Survey - December	January 7
Canadian International Merchandise Trade - November	January 12
Key Policy Interest Rate Announcement	January 20
Monthly Survey of Manufacturing - November	January 20
Financial Statistics for Enterprises - 4th Quarter 2004	February 25
Balance of International Payments - 4th Quarter 2004	February 25
National Economic and Financial Accounts - 4th Quarter 2004	February 28

#### UNITED STATES

Consumer Price Index - November	December 17
GDP - 3rd Quarter 2004 (final)	December 22
The Employment Situation - December	January 7
International Trade in Goods and Services - November	January 12
Federal Open Market Committee Meeting	February 1/2

Note: The December 2004 MEI uses data available as of December 15, 2004