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# Monthly Economic Indicators

**June 2005**

**Includes Special Reports on:  
Canada's National Accounts and  
Labour Productivity for First Quarter 2005**


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)

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# MONTHLY ECONOMIC INDICATORS


## June 2005

### HIGHLIGHTS


 **Real Gross Domestic Product (GDP) strengthened modestly to 2.3% (annual rate) in the first quarter of 2005, fuelled by consumer spending and investment in machinery and equipment (M&E).**

 **In March, real GDP (at basic prices) fell marginally by 0.1% after increases in January and February.**

 **35,400 new jobs were created in May and a total of 64,700 in the past two months. The unemployment rate remained at 6.8% in May and fell to 5.7% in British Columbia, its lowest level since January 1981.**

 **Combined with other economic indicators, this bodes well for continued growth in the second quarter.**

 **Labour productivity growth in the business sector slowed to 0.7% (annual rate) in the first quarter.**

 **In the United States (U.S.), real GDP growth in the first quarter was revised up to 3.5% (annual rate). The faster U.S. growth led to a stronger gain in labour productivity growth in the business sector (2.6%) than in Canada.**

 **The Canadian dollar has rebounded to over 80 cents U.S., in part due to rising oil prices.**

### Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$97 B)	1,061.9	-0.1	2.4	Mar.
Goods	329.8	-0.6	1.4	Mar.
Services	733.6	0.1	2.8	Mar.
Composite Index	203.6	0.4	5.3	Apr.
Employment (000's)	16,153	0.2	1.3	May
Full-time	13,161	0.2	1.4	May
Part-time	2,992	0.4	1.2	May
Unemployment* (%)	6.8	6.8	7.1	May
Youth*	12.5	12.3	13.7	May
Adult*	5.7	5.7	5.9	May
CPI inflation*	2.4	2.3	1.6	Apr.
Retail Sales (\$M)	30,409	0.2	5.7	Mar.
Housing Starts (000's)**	218.8	-5.0	-5.5	May
Trade Balance* (\$M)	5,055	4,804	5,422	Apr.
Exports	36,364	0.3	0.6	Apr.
Imports	31,309	-0.5	5.6	Apr.
M&E	8,991	0.0	6.4	Apr.

	June 15 ***	May	
		2005	2004
3-mth Corp. paper (%)*	2.60	2.59	2.07
Long bond yield (%)*	3.93	4.02	4.77
Canadian dollar (US¢)*	80.81	79.67	73.35

\*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

## June 2005

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This issue uses data available as of June 15, 2005. It has been prepared by Éric Chalifoux, Kevin Koch, Sue Moore and François Rimbaud of the Micro-Economic Analysis Directorate, under the direction of Robert Lamy and 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.

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# THE ECONOMY

## Real GDP by Industry



### Economic activity fell in March...

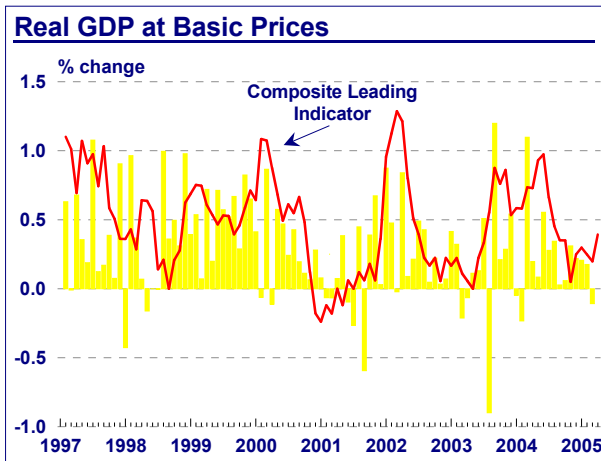
- Real GDP at basic prices edged down 0.1% in March following an increase of 0.2% in both February and January. The decline occurred in both the business and non-business sectors. On a year-over-year basis, economic activity rose by 2.4% led by a strong gain in the business sector (2.6%).

### ...because of lower production in the goods sector...

- Goods production fell 0.6% in March after declining 0.4% in February. Production in the manufacturing sector fell 0.9% with losses concentrated in the durable goods industries. Output in the automotive sector dropped significantly as manufacturers responded to changing demand. On the other hand, activity in the utilities sector increased 1.3% with gains in the generation of electricity and the distribution of natural gas.

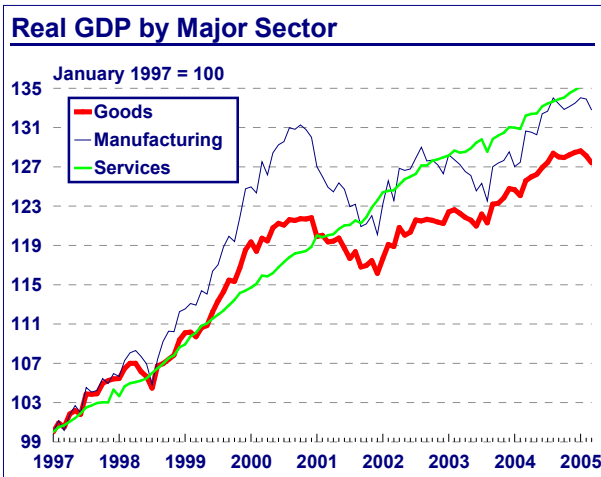
### ...and slower growth in the services sector

- Service output edged up 0.1% in March after rising 0.5% in February with gains led by wholesalers and administrative and waste management services. Educational services declined strongly in March mostly due to walkouts by students in Quebec. Moreover, retailing activity fell 0.2% with losses concentrated in automotive and clothing and accessories stores.



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

March 2005	\$ millions	monthly change	% Change since last	
			month	year
<b>Total Economy</b>	<b>1,061,948</b>	<b>-1,152</b>	<b>-0.1</b>	<b>2.4</b>
<b>Business Sector</b>	<b>903,724</b>	<b>-857</b>	<b>-0.1</b>	<b>2.6</b>
<b>Goods-producing</b>	<b>329,789</b>	<b>-1,917</b>	<b>-0.6</b>	<b>1.4</b>
Agri., Forest, Fish, Hunt*	23,942	-137	-0.6	1.3
Mining & Oil & Gas Extraction	36,462	-340	-0.9	-2.9
Utilities	26,818	335	1.3	8.7
Construction	59,709	-170	-0.3	2.0
Manufacturing	183,267	-1,573	-0.9	1.6
<b>Services-producing</b>	<b>733,584</b>	<b>878</b>	<b>0.1</b>	<b>2.8</b>
Wholesale Trade	69,897	568	0.8	7.0
Retail Trade	61,727	-127	-0.2	3.8
Transportation & Warehousing	51,056	-55	-0.1	3.2
Information & Cultural	44,014	122	0.3	3.7
FIRE**	215,159	455	0.2	3.3
Professional***	46,805	129	0.3	1.4
Admin. & Waste Mgmt	22,404	119	0.5	2.5
Education	45,727	-487	-1.1	2.2
Health & Social	63,025	158	0.3	0.9
Arts, Entertain. & Recreation	9,407	-99	-1.0	-2.2
Accommodation & Food	23,538	-68	-0.3	0.8
Other	24,859	41	0.2	1.8
Public Administration	57,886	184	0.3	1.4



\*Agriculture, Forestry, Fishing & Hunting

\*\*Finance, Insurance & Real Estate

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

# THE ECONOMY



## Consumer Spending and Confidence

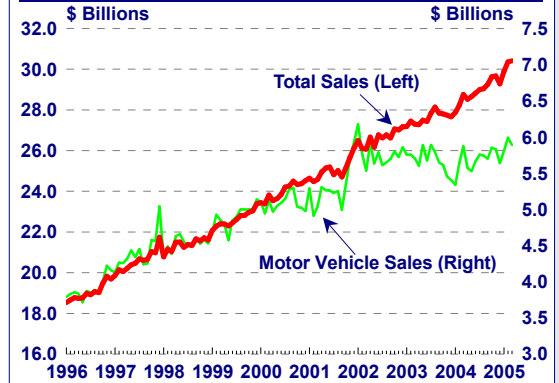
### Consumption strengthened in the first quarter...

- Growth in real consumer spending picked up significantly to 6.3% in the first quarter, driven by low interest rates, strong income growth over the past year and solid consumer confidence.
  - The strong increase in consumption was led by over 10% growth in purchases of both durables and semi-durables. Spending on services, accounting for more than half of spending, rose by 4.4%.
- Consumer spending increased at a faster pace than disposable income leading to a first ever recorded negative personal savings rate of 0.6%.

### ...and prospects are good for solid consumer spending in the second quarter

- The index of consumer confidence recovered by 1.2% in May and remained well above its 10-year average (113.8).
  - The increase in confidence was witnessed in all regions except Quebec, where it fell by 0.4%.
- Motor vehicle sales rebounded 1.6% in April, following a 4.1% decline in March. However, preliminary figures point to a 6.0% decline in May.
- High consumer confidence and stronger job creation so far in the second quarter bode well for consumption. The Consensus Forecasts project growth of 2.8% (annual rate) in consumer spending in the second quarter.

### Total Retail and Motor Vehicle Sales



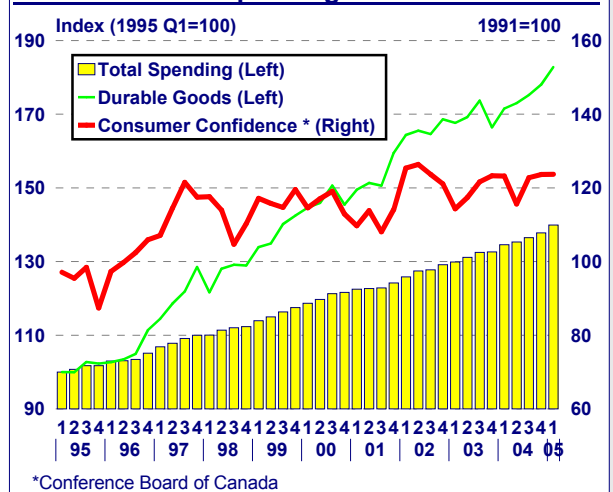
### Retail Sales and Consumer Credit

	March 2005 \$ millions	% Change since	
		last month	last year
<b>Total Retail Sales (S.A.)</b>	30,409	0.2	5.7
Food	6,027	1.2	8.1
Drug Stores	1,983	1.0	6.2
Clothing	1,746	-0.7	1.9
Furniture	1,976	-1.3	7.8
Automotive	10,181	-0.8	4.9
General Merch. Stores	3,666	1.1	4.9
All other Stores	4,829	0.9	5.8
Total ex. motor vehicles	23,276	0.9	7.4
<b>Consumer Credit</b>	278	1.0	11.0

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	2003	2004	2004 Q4	2005 Q1
<b>Real Consumption (97\$)</b>	619,401	640,630	648,794	658,810
% change	3.1	3.4	3.8	6.3
Durable Goods	95,189	98,119	100,130	102,848
% change	2.1	3.1	6.6	11.3
Semi-Durable Goods	56,474	59,583	60,344	61,905
% change	3.4	5.5	0.0	10.8
Non-Durable Goods	140,349	143,583	145,154	147,405
% change	2.3	2.3	4.0	6.3
Services	328,208	340,385	344,352	348,096
% change	3.7	3.7	3.7	4.4
<b>Disposable Income</b>	719,553	747,496	757,772	759,996
% change	3.7	3.9	3.5	1.2
<b>Saving Rate (%)</b>	2.4	1.4	1.0	-0.6
<b>Debt-to-Income Ratio (%)</b>	100.7	103.8	105.0	106.6

### Real Consumer Spending and Confidence



# THE ECONOMY



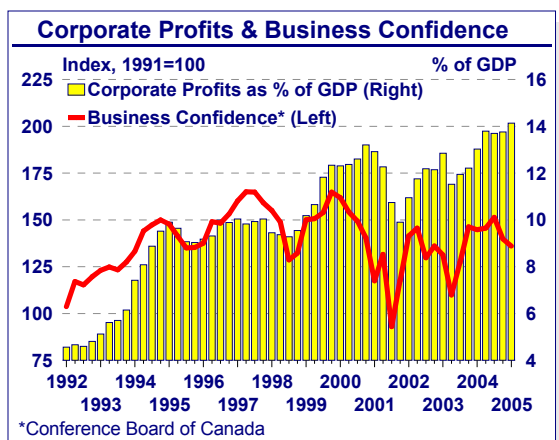
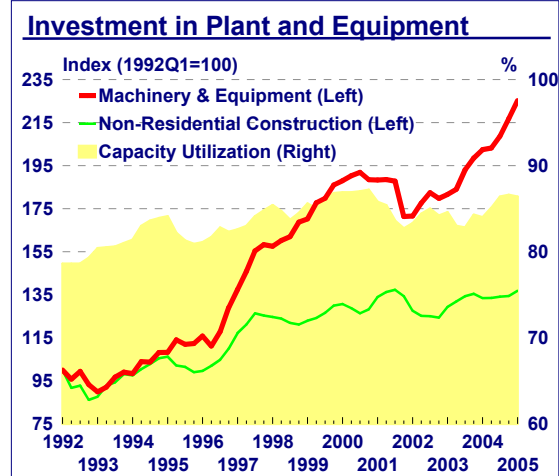
## Business Investment

### Investment rose strongly again in the first quarter...

- Real business fixed investment rose 12.7% in the first quarter, following a 9.9% gain in the previous quarter. Growth in investment has been very strong in the past three quarters.
  - After gains of 11.4% and 16.5% in the previous two quarters, investment in machinery and equipment (M&E) grew very strongly by 16.3% in the first quarter.
  - Investment in non-residential structures picked up sharply to 7.5% in the first quarter, the largest increase in more than a year.

### ...amid higher profits

- The profit share of GDP rose to 14.1% in the first quarter, the highest level ever recorded. Operating profits (income minus expenses before deductions) rose 14.5%, after an upwardly revised gain of 13.9% in the previous quarter.
  - Financial companies reported 25.7% growth in operating profits. Chartered banks were the main contributors to this increase.
  - Non-financial companies reported 11.0% growth in operating profits, following a 23.2% gain in the previous quarter. Manufacturing industries' profits rebounded 4.8% after a decline of 20.5% in the previous quarter.
- The capacity utilization rate declined slightly in the first quarter, but remained well above its 10-year average (84.4%). Combined with record profits and healthy business confidence, this bodes well for future investment growth.



## Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	2003	2004	2004 Q2	2004 Q3	2004 Q4	2005 Q1
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1997\$)</b>	85,415	93,754	91,675	94,175	97,838	101,599
% change	6.4	9.8	1.5	11.4	16.5	16.3
<b>Non-residential Construction (1997\$)</b>	47,534	47,936	47,815	48,018	48,124	49,007
% change	5.7	0.8	0.3	1.7	0.9	7.5
<b>Capacity Utilization (% , Non-farm goods)</b>	83.7	85.5	85.1	86.4	86.6	86.4
Capacity Utilization (Mfg. sector)	81.4	84.7	84.0	86.3	86.5	87.0
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	160,967	193,608	197,284	192,740	199,104	205,948
% change	10.4	20.3	28.5	-8.9	13.9	14.5
Profits - Non-financial industries	118,204	144,320	148,352	143,044	150,704	154,704
% change	4.9	22.1	45.1	-13.6	23.2	11.0
Profits - Financial industries	42,764	49,289	48,932	49,700	48,400	51,244
% change	29.1	15.3	-9.2	6.4	-10.1	25.7
<b>Business Credit</b>	903,474	940,033	932,508	947,818	960,166	976,668
% change	1.4	4.0	5.7	6.7	5.3	7.1



# THE ECONOMY

## Housing



### Residential construction declined in the first quarter...

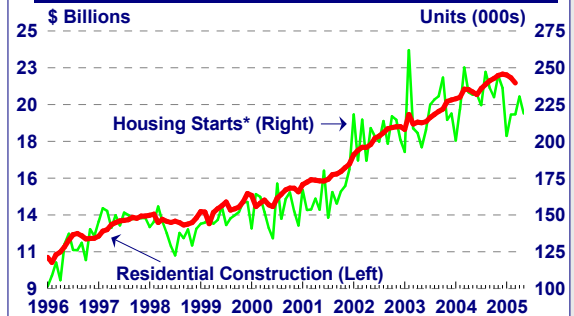
- Investment in residential construction fell by 1.5% in the first quarter, the first decline in five years.
  - The decline was a result of a 6.3% drop in new housing construction, following an average increase of 7.8% in the seven previous quarters.
  - Ownership transfer costs and renovation rose by 7.2% and 1.8 %, respectively.
  - Renovation expenditures increased (1.8%) at their slowest pace since the second quarter of 2002. Meanwhile, ownership transfer costs recovered (7.2%) from two consecutive declines, reflecting higher sales of existing homes.

### ...and housing starts rebounded so far in the second quarter

- Housing starts declined to 218,800 in May, following a 5.5% gain in April\*.
  - The sharp rebound in residential building permits in April, a leading indicator of new housing construction, suggests stronger housing starts in the coming months. Assuming no growth in June, housing starts should increase by 18.5% in the second quarter.
- So far this year, housing starts have averaged 218,000, below the 227,400 average over the same period last year.
- The June Consensus Forecasts expect housing starts to decline by 9.4% to 211,000 in 2005.

\* Analysts have pointed out that previously delayed construction (due to bad weather) could partly explain April's strong increase.

### 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)	21,566	-1.4%	1.8%
<b>Building Permits, \$M (2)*</b>	3,158	7.8%	0.8%
<b>Sales of Existing Homes (2)**</b> (# of units, major markets)	28,061	1,448	180
<b>Housing Starts, (3)***</b> (# of units, SAAR)	218,800	-11,600	-12,800
Newfoundland & Labrador	2,100	500	-600
Prince Edward Island	1,100	600	0
Nova Scotia	5,600	-1,000	1,500
New Brunswick	4,500	900	0
Quebec	47,200	-10,400	-9,400
Ontario	70,400	-11,100	-17,500
Manitoba	3,800	-300	-500
Saskatchewan	2,900	200	-4,300
Alberta	44,400	3,700	14,800
British Columbia	36,600	5,300	3,000

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

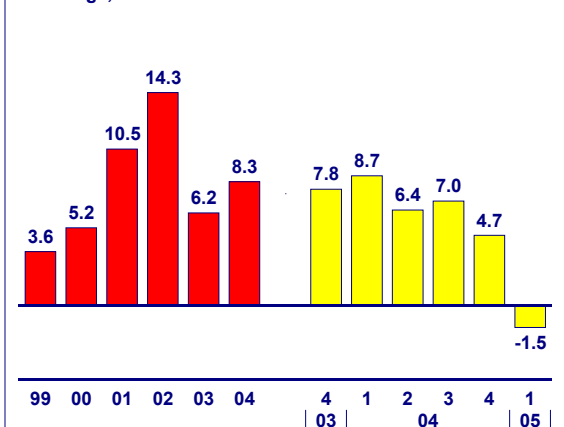
Sources: \*Statistics Canada; \*\*Canadian Real Estate Association; \*\*\*Canada Mortgage and Housing Corporation

### Real Investment in Residential Structures

\$97 Millions, SAAR (unless otherwise noted)				
	2003	2004	2004 Q4	2005 Q1
Residential Construction	61,688	66,801	68,209	67,944
% change	6.2	8.3	4.7	-1.5
New Housing	30,687	33,323	34,068	33,519
% change	6.1	8.6	6.4	-6.3
Alterations & Improvements	22,229	24,215	25,264	25,380
% change	7.9	8.9	15.1	1.8
Ownership & Transfer Costs	8,841	9,382	9,128	9,288
% change	2.8	6.1	-17.9	7.2

### Growth in Real Residential Construction

% change, SAAR



# THE ECONOMY



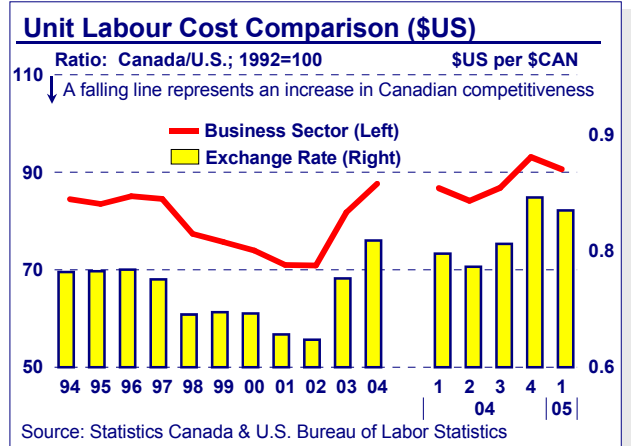
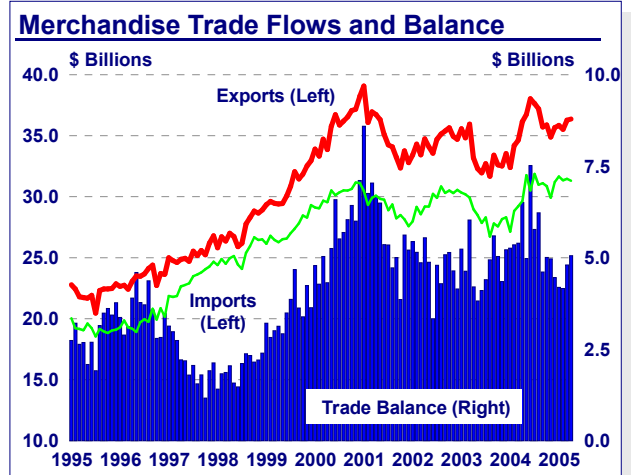
## Trade and Competitiveness

### Exports increased while imports declined in April...

- Merchandise exports rose 0.3% in April, after a 2.1% gain in March, led by strong gains in machinery and equipment and agricultural and fishing products. The rise in exports of machinery and equipment was led by the aircraft and telecommunication industries. Furthermore, telecommunication exports reached their highest level since June 2001. Geographically, exports to the European Union surged 7.5% in April. Overall, real exports fell 1.5% while prices increased 1.8%.
- Imports declined 0.5% in April after a 0.4% gain in March. Imports of energy products and industrial goods and materials fell the most. Imports of machinery and equipment remained unchanged after increasing in the previous four months. Overall, real imports declined 1.5% and prices rose 1.0%.

### ...pushing the trade surplus higher

- Canada's trade surplus increased by \$251 million to \$5.1 billion in April. The trade surplus with the U.S. fell by \$159 million to \$8.2 billion and the trade deficit with other countries decreased by \$410 million to \$3.1 billion.
- However, in real terms, the merchandise trade balance fell to \$9.7 billion (annual rate) in April, but the level is still above the first quarter average.



### Merchandise Trade

April 2005	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	March 2005	April 2005	Jan.-Apr. 2004	Jan.-Apr. 2005	Mar. to Apr. 2005	Mar. to Apr. 2005	Jan.-Apr. 2004 to Jan.-Apr. 2005	
<b>Exports</b>	<b>36,272</b>	<b>36,364</b>	<b>137,362</b>	<b>143,993</b>	<b>92</b>	<b>0.3</b>	<b>4.8</b>	
to United States	29,501	29,378	112,132	117,263	-123	-0.4	4.6	
<b>Imports</b>	<b>31,468</b>	<b>31,309</b>	<b>114,841</b>	<b>125,783</b>	<b>-159</b>	<b>-0.5</b>	<b>9.5</b>	
from United States	21,186	21,222	80,197	84,907	36	0.2	5.9	
<b>Trade Balance</b>	<b>4,804</b>	<b>5,055</b>	<b>22,521</b>	<b>18,210</b>	<b>251</b>			
with United States	8,315	8,156	31,935	32,356	-159			
<b>Exports by Commodity</b>								
Agriculture/Fishing Products	2,412	2,470	10,074	9,778	58	2.4	-2.9	
Energy Products	6,174	6,070	20,593	23,293	-104	-1.7	13.1	
Forestry Products	3,143	3,111	12,518	12,525	-32	-1.0	0.1	
Industrial Goods & Materials	7,182	7,180	24,741	28,170	-2	0.0	13.9	
Machinery & Equipment	7,866	8,153	30,109	31,392	287	3.6	4.3	
Automotive Products	6,877	6,794	29,514	28,335	-83	-1.2	-4.0	
Other Consumer Goods	1,432	1,454	5,738	5,805	22	1.5	1.2	
<b>Imports by Commodity</b>								
Agriculture/Fishing Products	1,785	1,829	6,994	7,326	44	2.5	4.7	
Energy Products	2,537	2,331	7,058	9,929	-206	-8.1	40.7	
Forestry Products	261	263	996	1,056	2	0.8	6.0	
Industrial Goods & Materials	6,731	6,484	22,768	26,199	-247	-3.7	15.1	
Machinery & Equipment	8,991	8,991	33,135	35,619	0	0.0	7.5	
Automotive Products	6,131	6,458	24,702	25,640	327	5.3	3.8	
Other Consumer Goods	4,106	3,969	15,337	16,206	-137	-3.3	5.7	





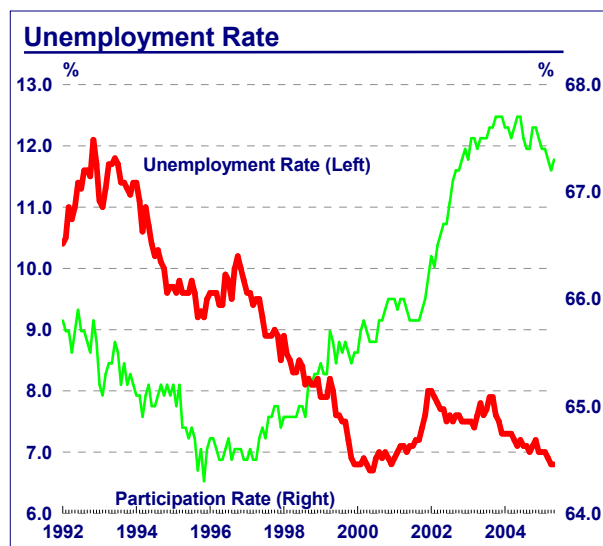
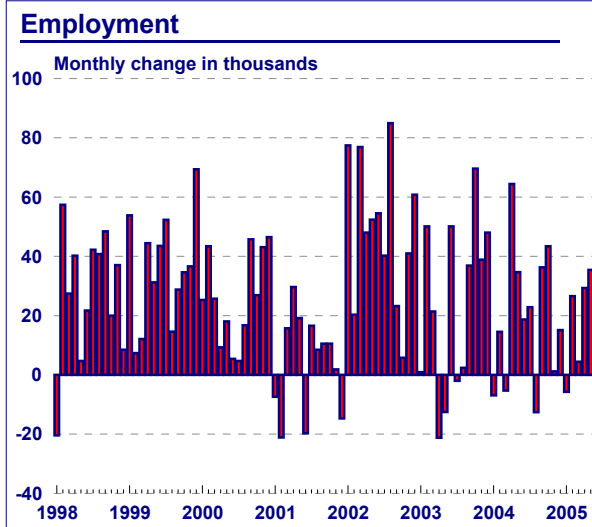
## Employment and Unemployment

### Employment rose further in May...

- Employment rose 35,400 in May, following an increase of 29,300 in April. Employment rose in both full-time (23,300) and part-time (12,000).
- Since the beginning of the year, employment has increased 0.6% (or 90,000), mostly in full-time employment.
- Reversing an earlier trend, the employment gain in May was in the private sector (57,500) while employment in the public sector declined (16,800). So far this year, public sector employment is up 28,600 while private paid employment and self-employment are up 18,600 and 42,700, respectively.
- Youth employment rose 12,300 in May, following a slight increase in April. So far this year, youth employment is down 0.7%, mostly in part-time jobs.

### ...but the unemployment rate remained at 6.8%

- The unemployment rate remained at 6.8% as the employment gain was offset by higher labour force participation.
- Higher labour force participation among youth pushed the youth unemployment rate up to 12.5% in May, from 12.3 in April.
- The employment rate remained at 62.7%, near its record high of 62.8%.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2004 May	2005 April	2005 May	last month	last year	year-to- date	last month	last year
<b>Employment</b>	15,938.2	16,117.7	16,153.1	35.4	214.9	90.0	0.2	1.3
<b>Full-time</b>	12,981.8	13,137.9	13,161.2	23.3	179.4	62.5	0.2	1.4
<b>Part-time</b>	2,956.4	2,979.9	2,991.9	12.0	35.5	27.5	0.4	1.2
<b>Youth 15-24</b>	2,460.1	2,455.2	2,467.5	12.3	7.4	-17.4	0.5	0.3
<b>Adult 25+</b>	13,478.1	13,662.6	13,685.6	23.0	207.5	107.4	0.2	1.5
<b>Self-employed</b>	2,474.3	2,501.6	2,496.1	-5.5	21.8	42.7	-0.2	0.9
<b>Unemployment</b>	1,226.5	1,172.4	1,178.1	5.7	-48.4	-38.8	0.5	-3.9
<b>Unemployment Rate</b>	7.1	6.8	6.8	0.0	-0.3	-0.2		
<b>Youth 15-24</b>	13.7	12.3	12.5	0.2	-1.2	-0.2		
<b>Adult 25+</b>	5.9	5.7	5.7	0.0	-0.2	-0.2		
<b>Labour Force</b>	17,164.7	17,290.1	17,331.2	41.1	166.5	51.2	0.2	1.0
<b>Participation Rate</b>	67.7	67.2	67.3	0.1	-0.4	-0.2		
<b>Employment Rate</b>	62.8	62.7	62.7	0.0	-0.1	-0.1		



## Industry Overview

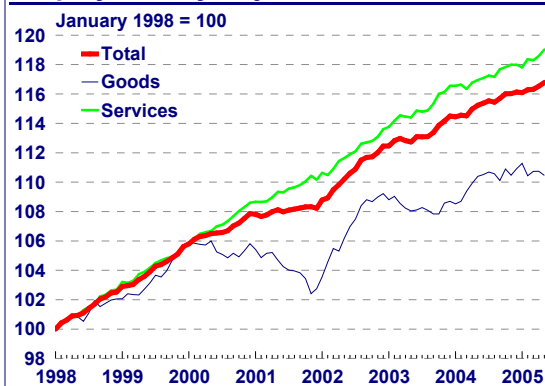
### Goods sector employment fell on losses in manufacturing and construction...

- Employment in the Goods sector declined (10,400) in May, after remaining stable in April. Declines in both manufacturing (18,800) and construction (14,900) were partly offset by increases in agriculture (14,700) and natural resources (8,800).
- As manufacturers continue to adjust to a higher Canadian dollar value, job losses in the sector are steadily increasing. Manufacturing employment is down 62,200 since the beginning of the year. Construction employment, meanwhile, declined following a large gain (25,600) in April.

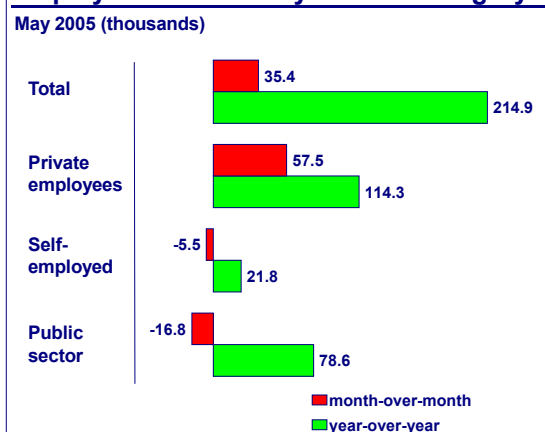
### ...while service sector employment increased strongly on gains in trade, transportation and warehousing

- Employment in the services sector jumped 45,800 in May, following a 28,900 increase in April. Trade industries led the increase with employment gains of 44,800. Transportation and warehousing also registered a strong increase (24,600) while the largest decline was witnessed within educational services (18,300).
- So far this year, employment in services is up 106,400 (with most of the gains in April and May) compared to an increase of 39,900 in the corresponding period last year.

### Employment by Major Sector



### Employment Growth by Worker Category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2004 May	2005 April	2005 May	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	4,005.0	4,017.9	4,007.5	-10.4	2.5	-16.4	-0.3	0.1
Agriculture	329.5	331.7	346.4	14.7	16.9	24.7	4.4	5.1
Natural Resources*	283.9	304.1	312.9	8.8	29.0	11.7	2.9	10.2
Utilities	136.2	125.3	125.0	-0.3	-11.2	0.4	-0.2	-8.2
Construction	944.7	1,018.8	1,003.9	-14.9	59.2	8.9	-1.5	6.3
Manufacturing	2,310.7	2,238.1	2,219.3	-18.8	-91.4	-62.2	-0.8	-4.0
<b>Services-producing</b>	11,933.2	12,099.8	12,145.6	45.8	212.4	106.4	0.4	1.8
Trade	2,483.5	2,536.3	2,581.1	44.8	97.6	56.9	1.8	3.9
Transportation*	814.9	784.5	809.1	24.6	-5.8	22.5	3.1	-0.7
FIRE*	949.6	998.7	1,005.1	6.4	55.5	20.7	0.6	5.8
Professional/Scientific	1,010.6	1,041.3	1,048.9	7.6	38.3	19.1	0.7	3.8
Business/Building	629.0	634.2	650.4	16.2	21.4	17.6	2.6	3.4
Educational Services	1,043.4	1,104.4	1,086.1	-18.3	42.7	29.4	-1.7	4.1
Health Care/Social Assistance	1,745.9	1,714.4	1,706.0	-8.4	-39.9	-30.4	-0.5	-2.3
Information/Culture/Recreation	721.0	727.7	729.9	2.2	8.9	-3.4	0.3	1.2
Accommodation & Food	1,002.5	996.3	987.9	-8.4	-14.6	-28.8	-0.8	-1.5
Other Services	707.7	704.4	691.4	-13.0	-16.3	-10.6	-1.8	-2.3
Public Administration	825.1	857.5	849.6	-7.9	24.5	13.4	-0.9	3.0

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

# LABOUR MARKET TRENDS



## Provincial Overview

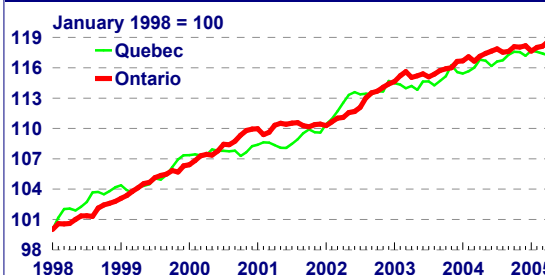
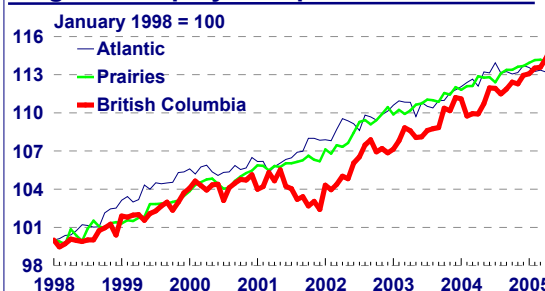
### May's employment growth was driven by two provinces...

- In May, Ontario led all provinces in terms of employment gains (32,200) followed by British Columbia (17,700). They also lead in terms of year-to-date increases, registering gains of 56,200 and 42,500, respectively.
- Within the Prairies, employment grew in both Alberta (4,500) and Manitoba (2,700). Employment was relatively unchanged in Saskatchewan.
- Ontario registered its fourth consecutive increase, mostly in construction, transportation and warehousing. Meanwhile, Quebec employment declined (27,300) for a fourth consecutive month, mostly in the public sector.
- Employment rose in both New Brunswick (3,700) and Nova Scotia (3,200). Employment declined by 600 in Prince Edward Island while it remained relatively unchanged in Newfoundland & Labrador.

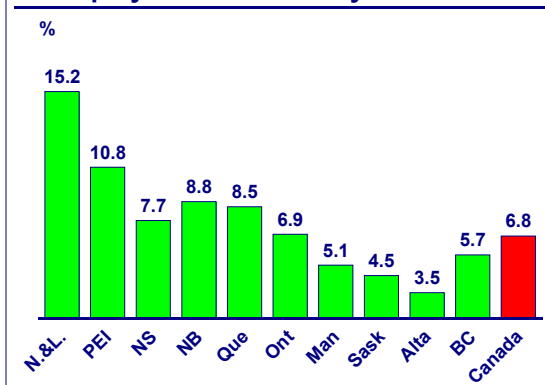
### ...while the unemployment rate fell in most provinces

- British Columbia's unemployment rate declined to 5.7%, its lowest level since January 1981. The unemployment rate also fell in Alberta and Saskatchewan (to 3.5% and 4.5%, respectively), but rose in Manitoba.
- The unemployment rate rose in both Quebec and Ontario. However, in Ontario's case, it was due to higher labour force participation.
- The unemployment rate declined in three Atlantic provinces, with Prince Edward Island registering the sole increase.

### Regional employment patterns



### Unemployment Rates --May 2005



### Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since	
	2005 May	(000's)	%	(000's)	%	2005 May	last month	last year
Canada	16,153.1	35.4	0.2	214.9	1.3	6.8	0.0	-0.3
Newfoundland & Labrador	211.8	-0.4	-0.2	-4.4	-2.0	15.2	-0.9	-0.7
Prince Edward Island	67.5	-0.6	-0.9	1.7	2.6	10.8	0.4	-1.3
Nova Scotia	448.1	3.2	0.7	5.0	1.1	7.7	-0.7	-1.2
New Brunswick	354.6	3.7	1.1	3.5	1.0	8.8	-0.5	-1.0
Quebec	3,677.6	-27.3	-0.7	-10.6	-0.3	8.5	0.6	0.4
Ontario	6,409.7	32.2	0.5	96.7	1.5	6.9	0.1	0.0
Manitoba	578.6	2.7	0.5	3.0	0.5	5.1	0.3	-0.2
Saskatchewan	484.9	-0.3	-0.1	5.3	1.1	4.5	-0.5	-0.4
Alberta	1,788.3	4.5	0.3	31.0	1.8	3.5	-0.5	-0.8
British Columbia	2,132.0	17.7	0.8	83.7	4.1	5.7	-0.4	-1.8



## Consumer and Commodity Prices

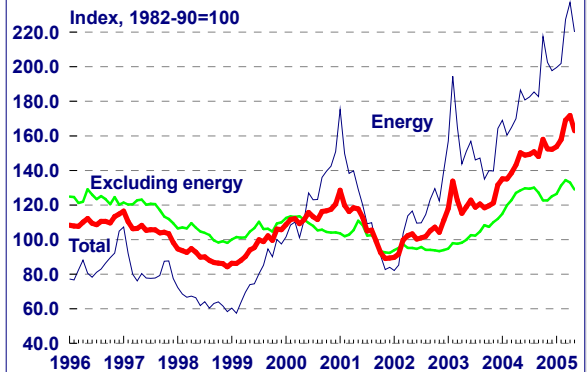
### Inflation rose to 2.4% in April...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) was 2.4% in April, up from 2.3% in March. Excluding energy, inflation moderated slightly to 1.6% from 1.7% in March.
- On a month-to-month basis (seasonally adjusted), the CPI increased 0.3% in April following a 0.4% rise in March.
- Year-over-year inflation in April was highest in Newfoundland & Labrador, Manitoba, and Saskatchewan. Inflation remained the lowest in Alberta and British Columbia, at 2.3% and 2.0%, respectively.
- The year-over-year increase in commodity prices was 8.5% in May, down from 20.1% in April, and the lowest since early 2004. Energy price inflation slowed to 18.0% from 39.6% in April. On a monthly basis, commodity prices fell 5.2% in May compared to a 1.7% rise in April. Excluding energy, commodity prices declined 3.0% in May, following a 1.0% fall in April.

### ...but the core inflation rate moderated to 1.7%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, fell to 1.7% in April from 1.9% in March, below the midpoint of the 1%-3% official target range.

### Commodity Prices (\$US basis)



### Consumer Prices

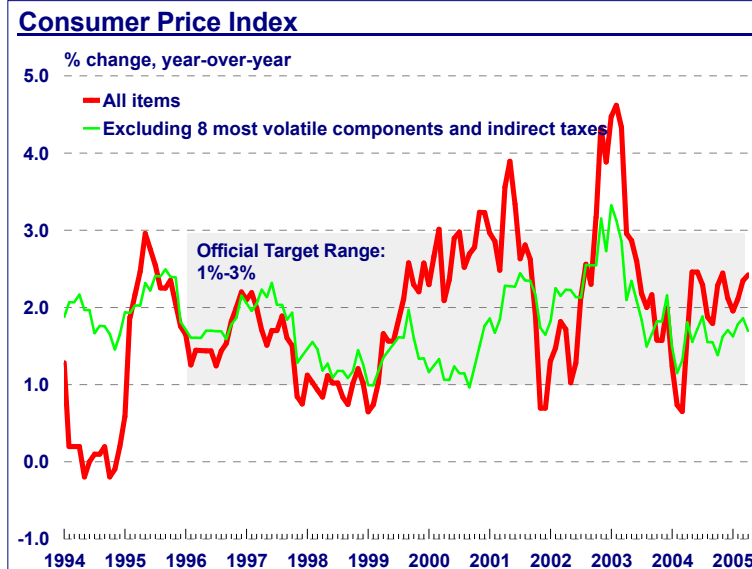
April 2005

	Index (1992=100)	% Change since	
		* last month	last year
<b>All items CPI</b>	126.9	0.3	2.4
Food	128.3	0.9	4.0
Shelter	123.4	0.3	3.2
Household operations	115.5	-0.2	-0.1
Clothing & Footwear	102.9	-1.6	-0.9
Transportation	149.5	0.8	4.2
Health & Personal Care	120.9	0.3	1.6
Recreation, Educ. & Reading	126.8	0.2	-0.2
Alcohol & Tobacco	146.5	0.1	3.0
<b>Excl. 8 Most Volatile</b>	126.0	0.1	1.7
Energy	161.9	N/A	10.7

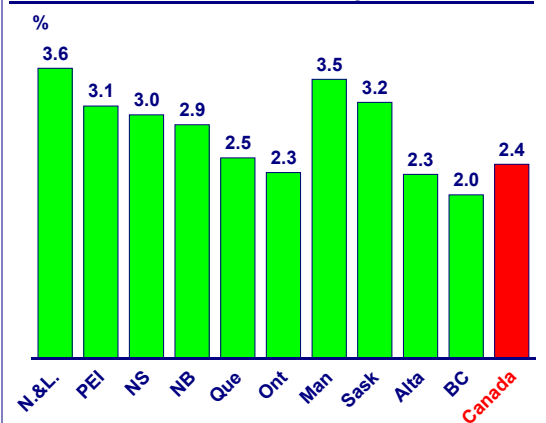
\* All items CPI & components seasonally adjusted

### Commodity Prices (May 2005)

Index, 1982-90=100	162.9	-5.2	8.5
Excluding Energy	129.0	-3.0	0.4
Energy	220.1	-7.2	18.0



### Provincial CPI Inflation -- April 2005



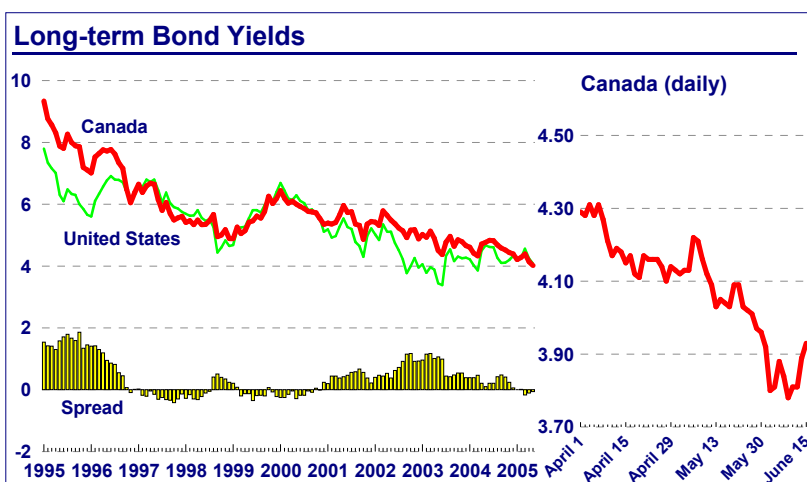
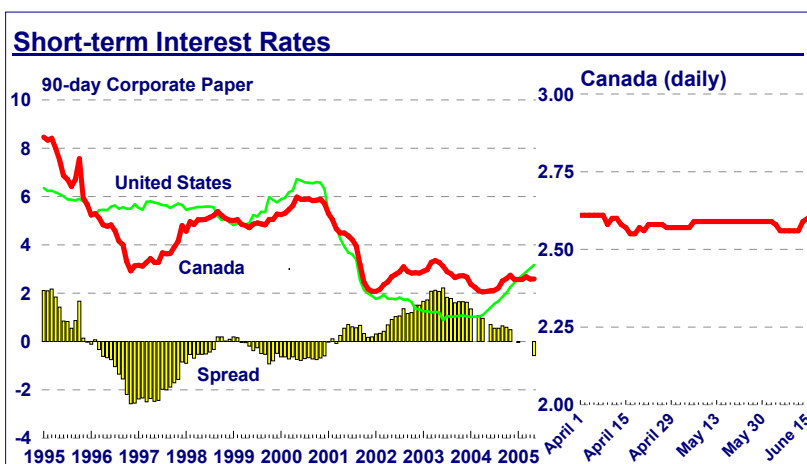


### Canadian short-term rates continued to hold steady...

- The Bank of Canada held the target for the overnight rate unchanged at 2.5% on May 25, as economic developments since the previous announcement date were generally consistent with the Bank's outlook. In the United States, the Federal Reserve raised the fed funds rate by 25 basis points on May 3 to 2.75%, bringing the cumulative rate increases since September 2004 to 2 percentage points. In its latest statement, the Federal Reserve re-iterated its commitment to raising rates at a measured pace, which will likely continue on June 30, the next FOMC meeting.
- Canadian short-term rates have remained near 2.6% in the past few months. Meanwhile, U.S. rates continued to rise in June and were 3.3% on June 14. As such, the negative spread between Canada-U.S. rates has widened from about -55 bps to -70 bps.

### ...and North American long-term yields recovered somewhat in June

- U.S. long-term rates trended down to a recent low of 3.9% on June 7, down from 4.6% in late March. More positive economic news have since boosted bond yields by about 20 basic points to 4.1% on June 14. In Canada, yields were 3.9% on June 14, up from a low of 3.8% on June 7. The negative Canada-U.S. spread on long-term yields widened to -20, about the same as in mid-April.
- With declining long-term yields, mortgage rates moderated further in June. One-year mortgage rates were 4.75% on June 15, down from 4.90% in mid-May, and five-year rates fell back to 5.70% from 6.05%.



### Key Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
2003	2.66	1.62	4.66	0.39
2004	2.57	0.16	4.39	0.06
December	2.57	0.16	4.39	0.06
January	2.56	-0.04	4.21	0.00
February	2.57	-0.16	4.28	0.01
March	2.68	-0.31	4.39	-0.17
April	2.58	-0.48	4.14	-0.11
May	2.59	-0.58	4.02	-0.06
June 15 *	2.60	-0.70	3.93	-0.19

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
2003	2.75	4.50	4.75	6.45
2004	2.50	4.25	4.80	6.05
December	2.50	4.25	4.80	6.05
January	2.50	4.25	4.80	6.05
February	2.50	4.25	4.80	6.05
March	2.50	4.25	5.05	6.25
April	2.50	4.25	4.90	6.05
May	2.50	4.25	4.85	5.95
June 15 *	2.50	4.25	4.75	5.70

\* Bank of Canada's Weekly Financial Statistics

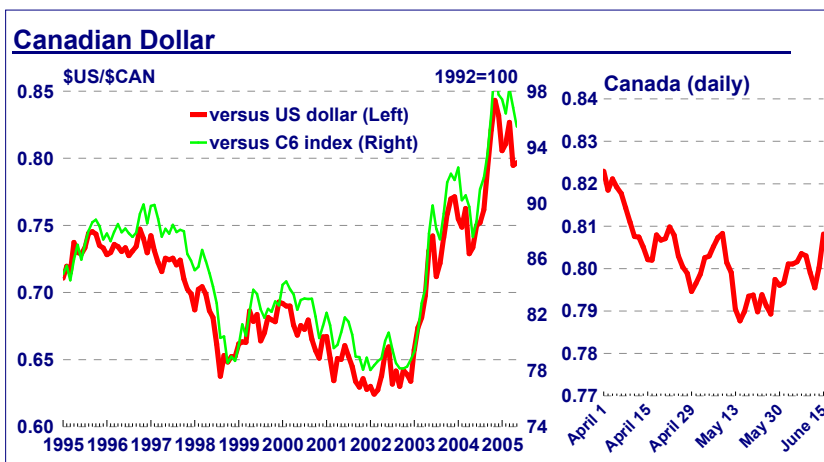


### The Canadian dollar recovered to over US¢80

- The Canadian dollar closed at US¢80.8 on June 16, up 2.5% from May 16 (US¢78.8). Higher oil prices, which rose to US\$55 in recent weeks from below US\$50 in mid-May, gave some support to the Canadian dollar. The dollar was offset by the impact of the widening of the negative spread between Canadian and U.S. short-term interest rates.
- In comparison, the Canadian dollar gained some strength against the euro and Japanese yen in May. The dollar appreciated 6.2% against the euro from May 16 to June 14, when it closed at its strongest level since September 2003. Vis-à-vis the Japanese yen, the Canadian dollar appreciated 3.4% from May 16 to June 14, but remained 2.0% below its peak on April 6.

### North American stock indices regained some ground

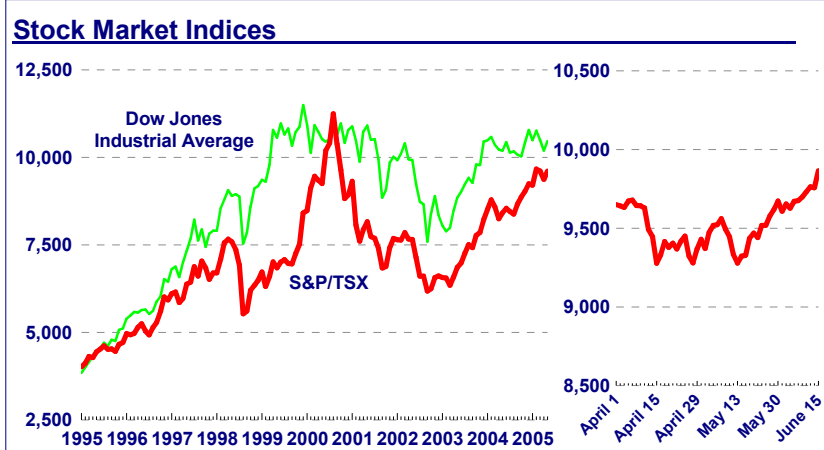
- Higher oil prices have helped underpin Canadian equity markets. The S&P/TSX index closed on June 14 at 9,823, 5.9% higher than on May 13 (9,278). Most sub-indices, notably energy, recovered from a decline in April.
- The Dow Jones closed at 10,548 on June 14, up 4.0% from 10,140 on May 13, and about the same as the level in mid-April. Declining long-term bonds yields in May has helped push up U.S. equity markets.



### The Canadian Dollar

(close)	\$US vs. \$CAN	index vs. C-6 (92=100)	\$CAN vs. EURO	yen vs. \$CAN
2003	0.7713	91.65	1.628	82.86
2004	0.8319	97.74	1.629	85.27
December	0.8319	97.74	1.629	85.27
January	0.8057	97.41	1.618	83.49
February	0.8107	96.40	1.633	84.75
March	0.8267	98.17	1.568	88.65
April	0.7946	96.82	1.619	83.31
May	0.7967	95.45	1.545	86.48
June 15	0.8081	97.12*	1.499	88.28

\* Bank of Canada's Weekly Financial Statistics



### Key Stock Market Indexes

	May Close	% change from	
		last month	last year
<b>S&amp;P/TSX</b>	<b>9,607</b>	<b>2.5</b>	<b>14.1</b>
Energy	235	5.6	42.1
Metals & Mining	289	-0.6	31.0
Utilities	170	3.8	18.0
Materials	155	0.7	3.2
Industrial	81	1.8	10.5
Financial	160	0.5	14.6
Gold	181	1.0	-12.7
Telecommunication	78	0.6	29.2
Information Technology	29	7.7	-11.0
Consumer Discretionary	98	4.5	8.8
Consumer Staples	205	0.8	17.2
<b>S&amp;P 500</b>	<b>1,191.5</b>	<b>3.0</b>	<b>6.3</b>
<b>Dow Jones</b>	<b>10,468</b>	<b>2.7</b>	<b>2.7</b>



# THE UNITED STATES ECONOMY



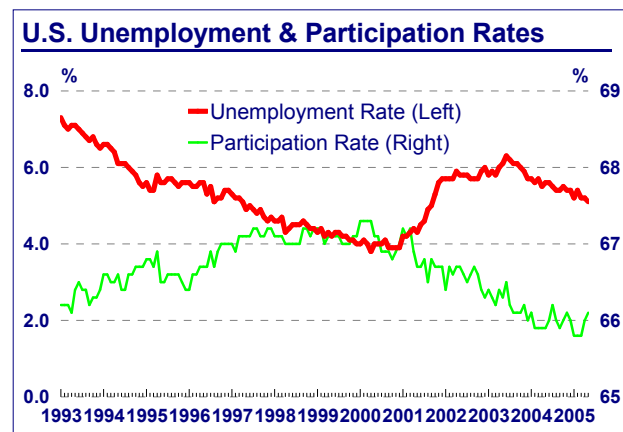
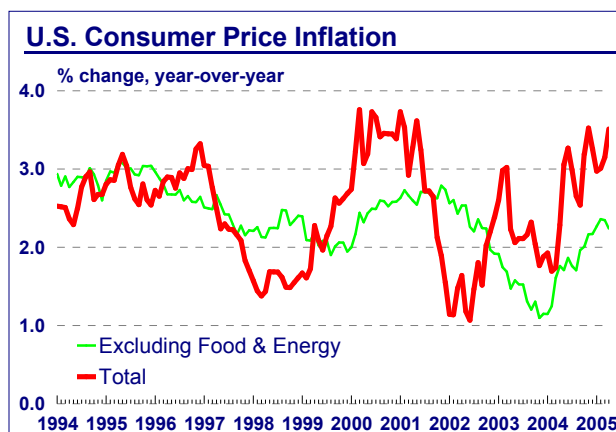
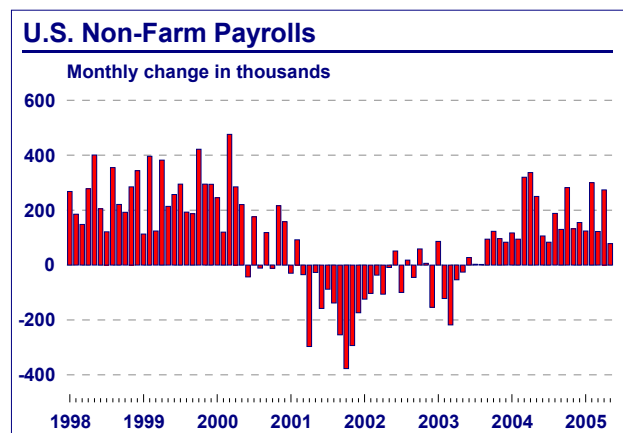
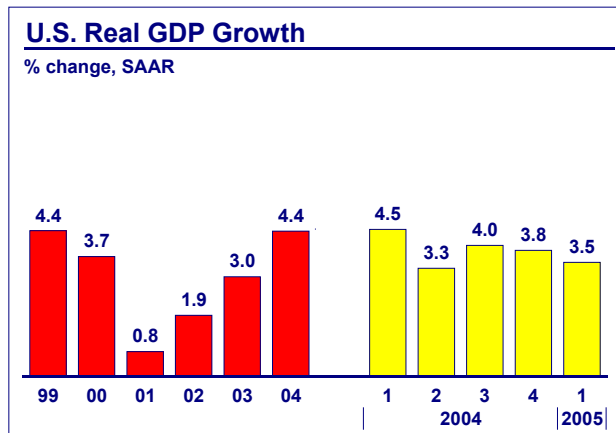
## U.S. Economic Trends

### The U.S. economy grew 3.5% in the first quarter...

- First quarter real GDP was revised upward to 3.5% from 3.1%, helped by a downward revision to imports. The strong gain in the first quarter follows an increase of 3.8% in real GDP in the fourth quarter of 2004. The increase in economic activity was supported by ongoing solid growth in consumer spending, albeit at a slower pace, a build-up in business inventory investment, and stronger growth in exports. Real personal disposable income declined 1.2% in the first quarter; however, this comes on the heel of a 10.8% jump in the previous quarter, boosted by a special dividend payment by Microsoft.

### ...and should continue to grow strongly in the second quarter

- Non-farm employment rose by 78,000 in May, the smallest increase in six months, after increasing by 274,000 in April. Assuming no growth in June, employment would increase by 1.1% in the second quarter, less than the 1.7% gain in the first quarter. The unemployment rate edged down to 5.1% from 5.2% in April.
- The Institute of Supply and Management (ISM) manufacturing index was 51.4 in May, down 1.9 points from April, the sixth consecutive decline. Nevertheless, the index remained above 50, indicating that the manufacturing sector continued to expand.
- Industrial production rebounded by 0.4% from the 0.3% decline in April. The capacity utilization rate also rebounded, rising 0.3 percentage point to 79.4%.
- Privately-owned housing starts rebounded by 0.2% in May. However, in April and May, housing starts averaged 3.6% below the first quarter average. In May, building permits fell by 4.6%, suggesting weaker new housing activity in the coming months.
- The June Consensus Forecasts expect a rise of 3.2% (annual rate) in real GDP in the second quarter.



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

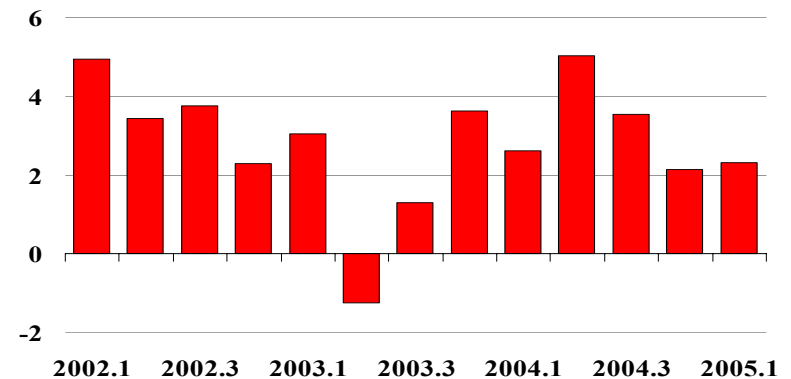
# **Special Report**

## **National Accounts: Canada's Economic Situation First Quarter of 2005**

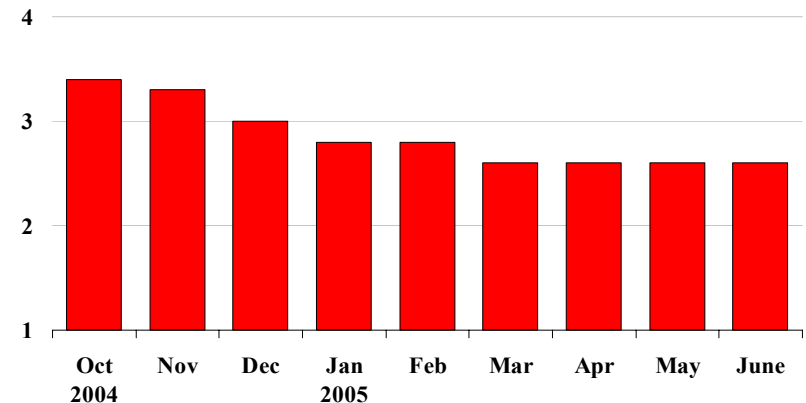
# Growth increased slightly in the first quarter...

- Real GDP grew 2.3% in the first quarter, up modestly from the 2.1% gain in the previous quarter. Growth in 2004 was revised up to 2.9% from 2.8%.
- The latest Consensus Forecasts anticipate a rise of 2.0% in real GDP in the second quarter.
- In previous Consensus Forecasts surveys, the 2005 outlook has been downwardly revised from 3.3% last October to 2.6% in June, largely reflecting the lagged effects of the dollar appreciation.
- The Federal Budget forecast for 2005 real GDP growth is 2.9%. Both IMF and OECD are predicting growth of 2.8%.

**Growth in Real GDP**  
(%, annual rates)



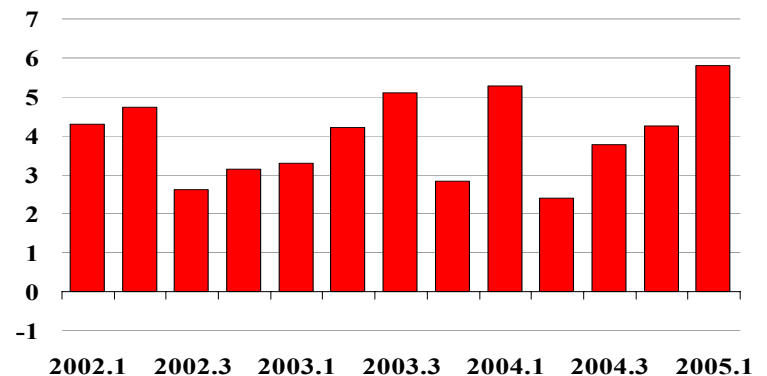
**Evolution of Consensus Forecasts for 2005 Real GDP growth (%)**



# ...driven by stronger domestic demand and a rebound in exports

- Real final domestic demand, notably consumer spending and investment in machinery and equipment, was the main contributor to growth in the first quarter.
- Stronger domestic demand led to stronger import growth in the first quarter.
- Real exports rebounded significantly after two quarters of decline. Exports of energy products, machinery and equipment, and industrial goods and materials contributed the most to export growth.
- In the U.S., real GDP growth remained strong in the first quarter at 3.5% (preliminary estimate), compared to 3.8% in the previous quarter. Growth in the U.S. has been higher than in Canada for the last four quarters.

**Growth in Final Domestic Demand**  
(%, annual rates)



**Growth in Exports and Imports\***  
(%, annual rates)



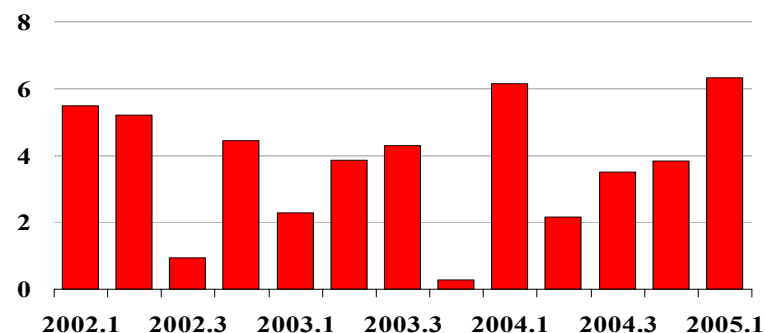
\*Goods and services

# Consumer spending was a key contributor to growth in domestic demand...

- Growth in real consumer spending on goods and services strengthened sharply to 6.3% in the first quarter. This was led by over 10% growth in purchases of durables and semi-durable goods.
- The stronger increase in consumer spending relative to disposable income resulted for the first time on record in a negative personal saving rate (0.6%) in the first quarter.
- Real residential investment fell by 1.7% in the first quarter after six very strong quarterly gains. The decline was attributable to lower new housing construction. In the first quarter, housing starts in all areas fell by 34.2% to 213,400. Nevertheless, new housing activity still remains at high levels, supported by low mortgage rates, rising income, and solid consumer confidence.

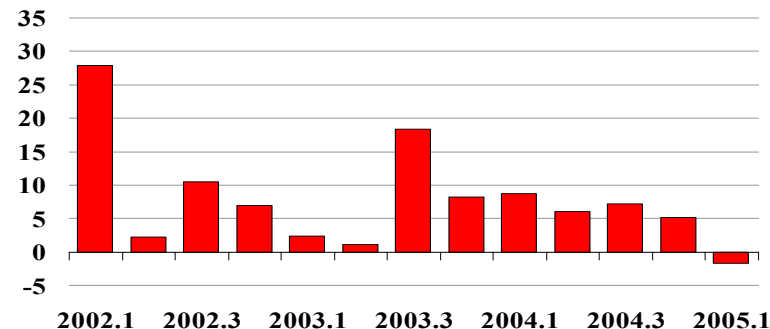
### Growth in Consumer Spending

(%, annual rates)



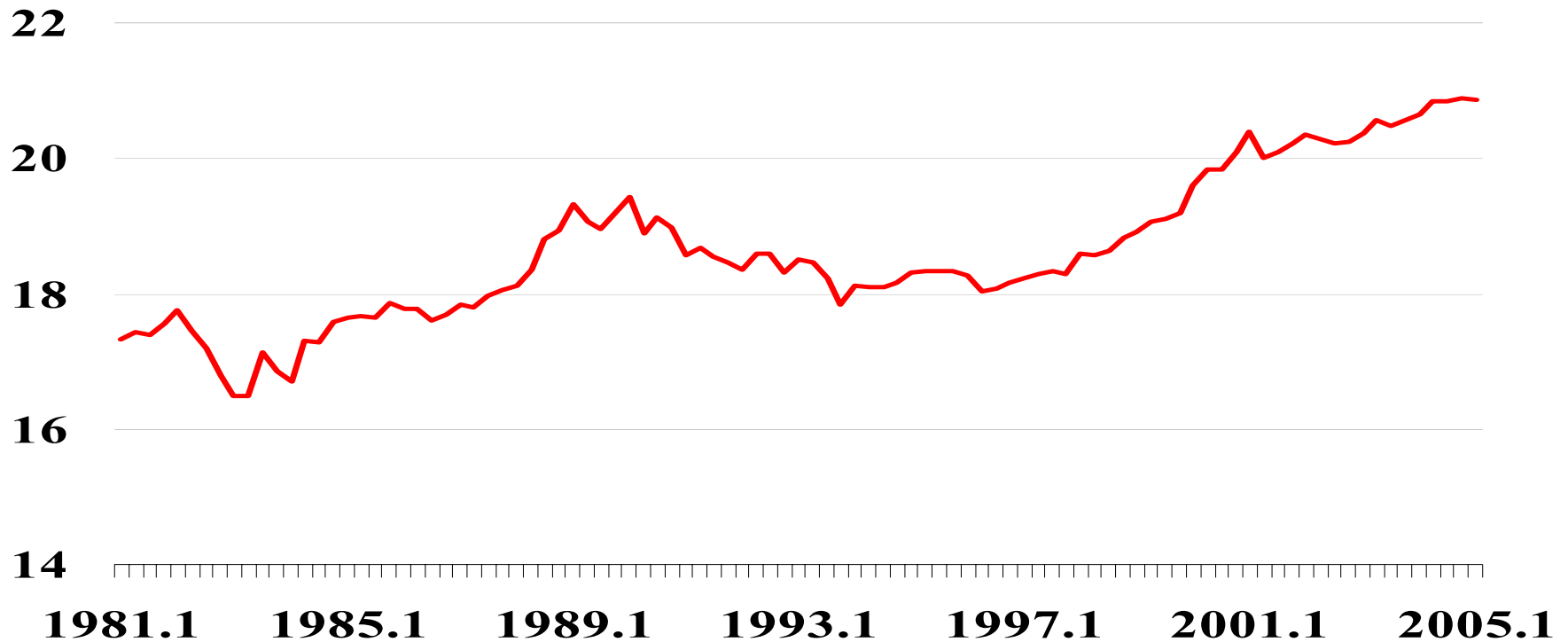
### Growth in Residential Investment

(%, annual rates)



...supported by strong gains in disposable income, low interest rates, solid job creation...

## Real Disposable Income Per Capita (in thousand of dollars)

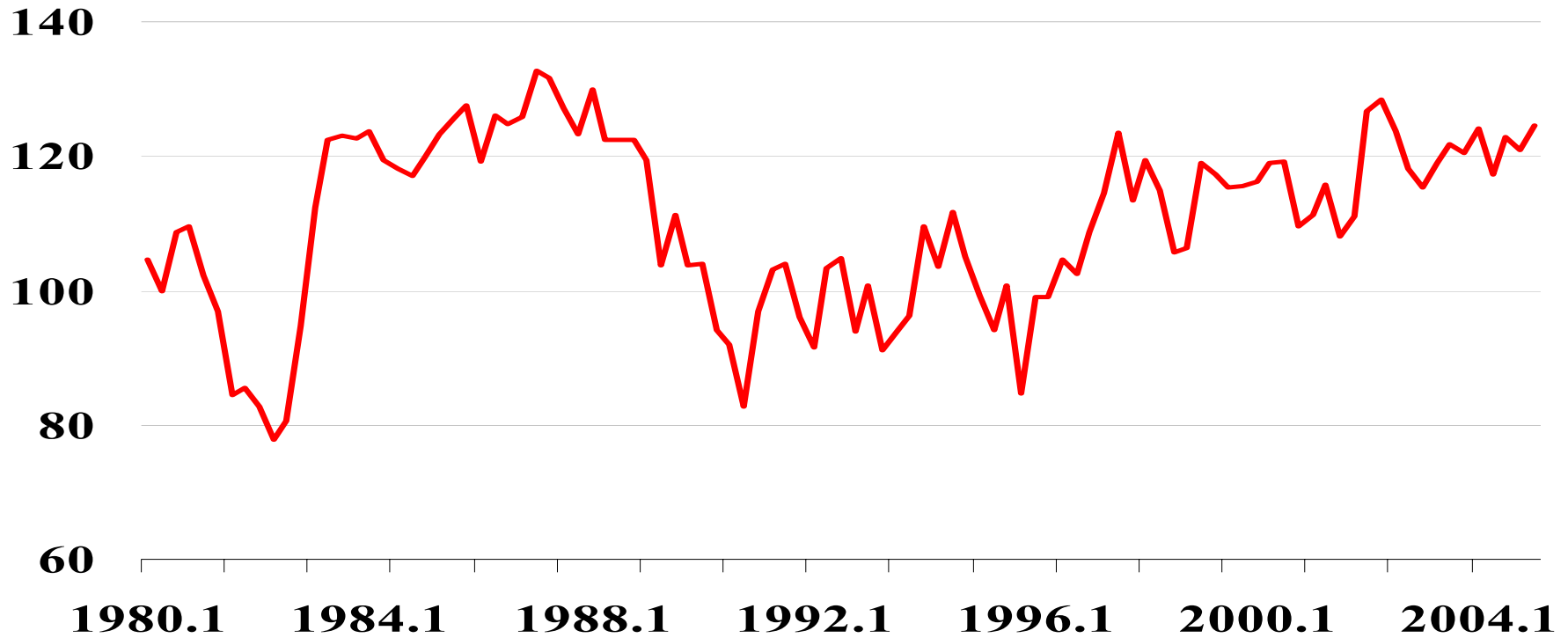




...and healthy consumer confidence

## Consumer Confidence

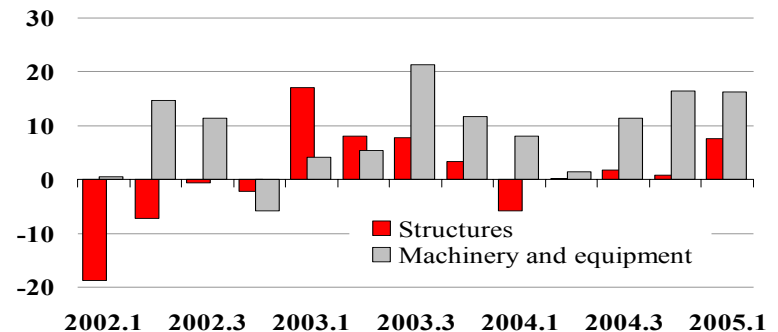
(index 1997 = 100)



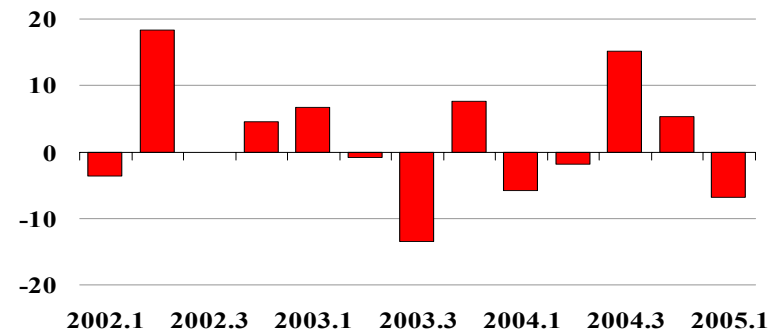
# Business investment growth, notably in machinery and equipment, has strengthened significantly...

- Real business investment in non-residential structures grew by 7.5% after very modest gains in the previous three quarters.
- Real investment in machinery and equipment continued to grow at a robust pace (16.3%) in the first quarter. The strong gain augurs well for future productivity growth.
- Real business inventories increased at a slower pace in the first quarter, rising by \$15.8 billion compared to an increase of \$22.7 billion in the previous quarter. As a result, inventories subtracted about 2 percentage points from growth in the first quarter.

**Growth in Non-Residential Investment**  
(%, annual rates)

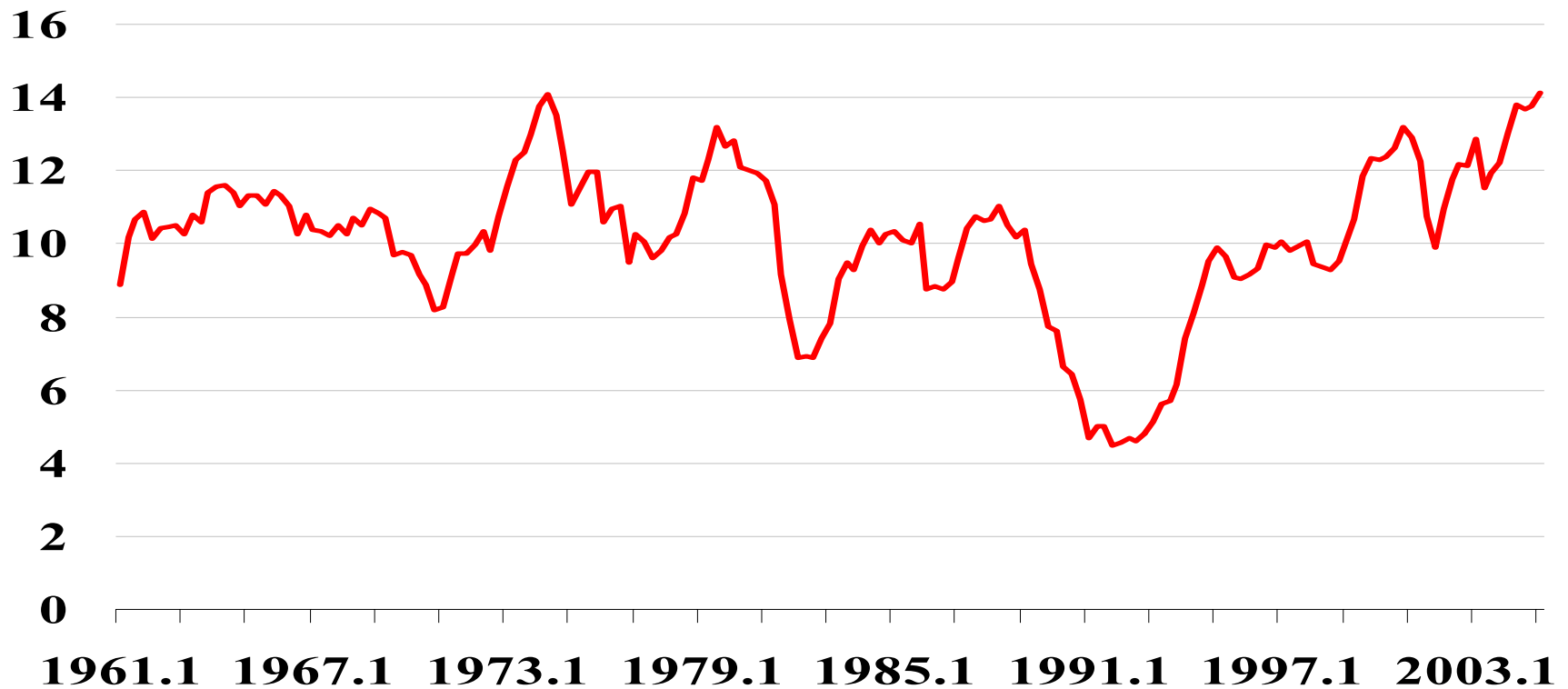


**Business Investment in Inventories**  
(annualized change, \$1997 billions)



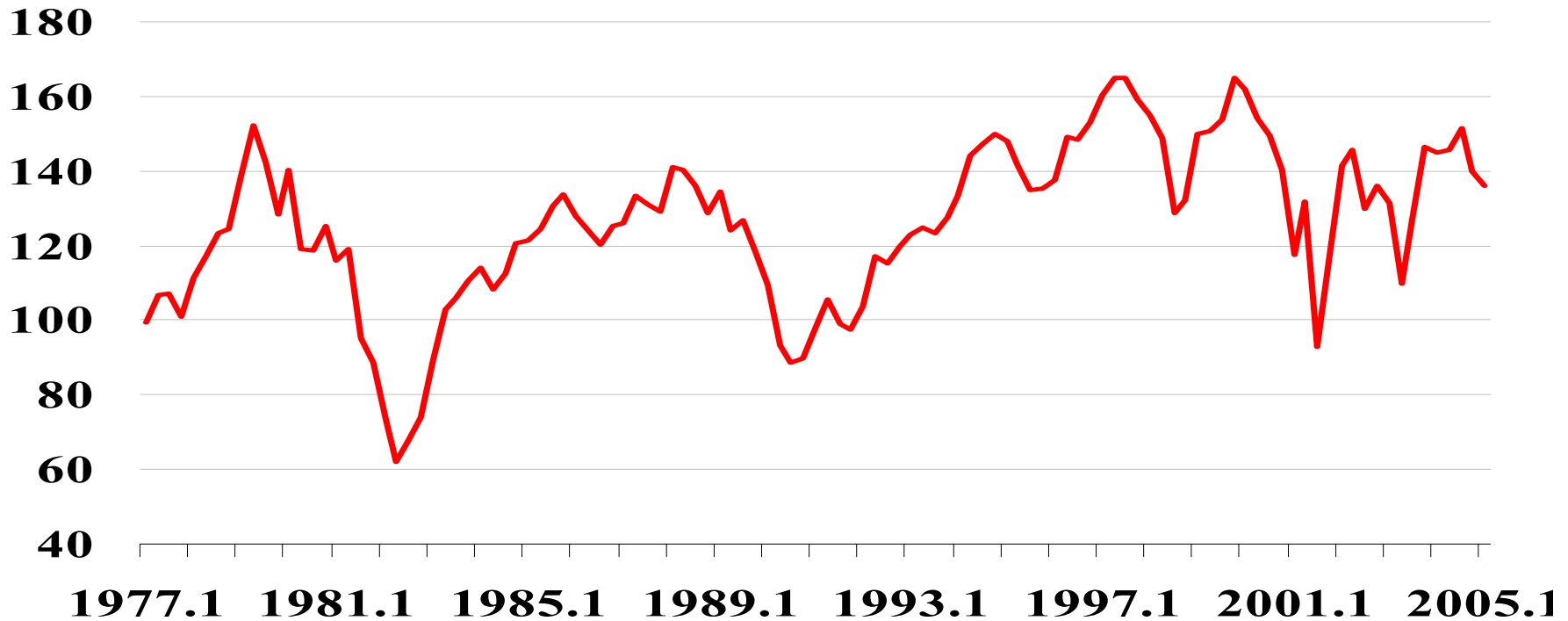
...supported by record before-tax corporate profits...

## Before-Tax Corporate Profits (as a share of GDP)



**...and strong business confidence  
in the economic environment**

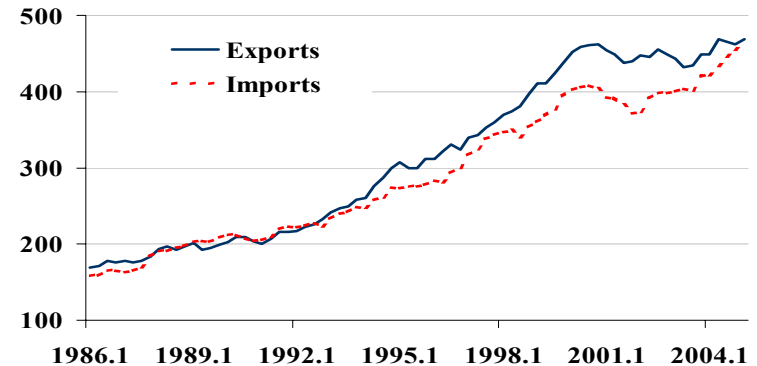
## **Business Confidence** (index 1991 = 100)



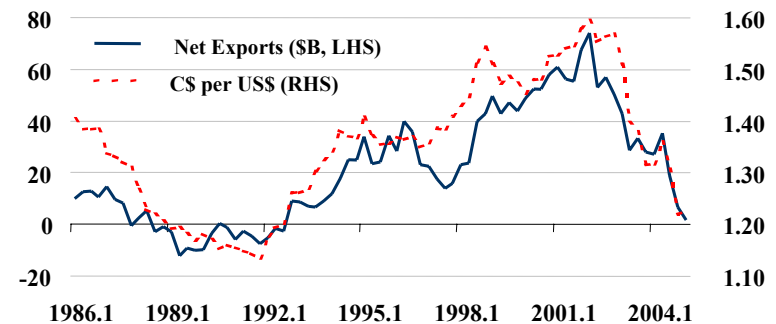
# The Canadian dollar appreciation led to a substantial reduction in real net exports

- Real exports rebounded by 5.9% in the first quarter, due to a recovery in exports of goods and stronger growth in exports of services. Among the goods sector, substantial gains were recorded in exports of energy products, machinery and equipment, and industrial goods and materials.
- The rate of increase in real imports picked up to 10.6% in the first quarter, led by a substantial gain in goods imports, notably machinery and equipment. Growth in services import weakened sharply to 7.9%.
- As a result, the real net trade balance continued to shrink in the first quarter, down to \$1.6 billion, its the lowest level since the third quarter of 1992. The deterioration in the trade balance primarily reflects the substantial appreciation of the Canadian dollar in the past few years.

**Real Exports and Imports**  
(\$1997 billions)



**Real Net Exports and  
Canada-U.S. Exchange Rate\***



\* A decline in the exchange rate means an appreciation

# **Special Report**

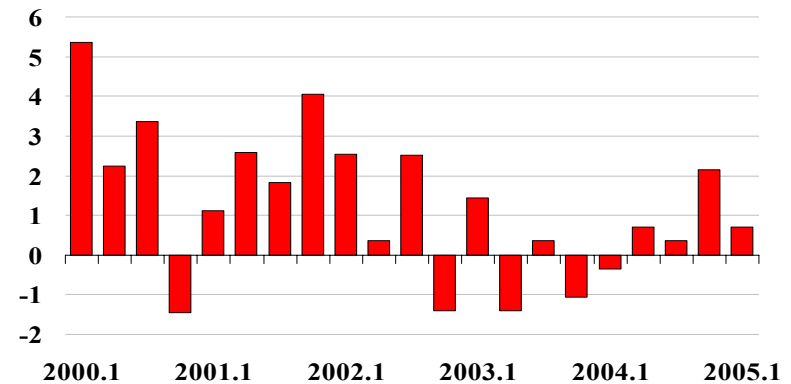
## **Labour Productivity in the Business Sector: First Quarter of 2005**



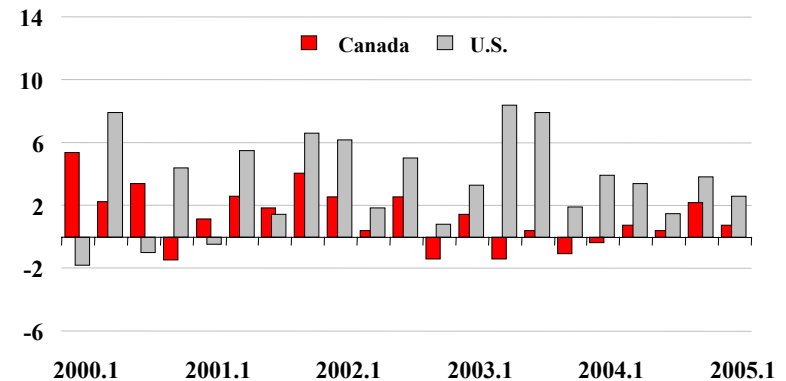
# Labour productivity growth remained modest in the first quarter and still below that of the U.S.

- Growth in labour productivity in the business sector in Canada moderated to an annualized rate of 0.7% in the first quarter of 2005 from 2.1% in the previous quarter. The moderation was attributable to an increase in growth in the number of hours worked as output growth remained stable.
- Labour productivity growth remained well below that of the U.S. for the 14th consecutive quarter, reflecting strong real GDP growth in the U.S. In the U.S., growth in labour productivity in the business sector slowed but still remained solid at 2.6% in the first quarter.
- Strong growth, averaging 15% in the past three quarters, in machinery and equipment investment bodes well for labour productivity growth in Canada.

**Growth of Labour Productivity**  
(% change at annual rates)



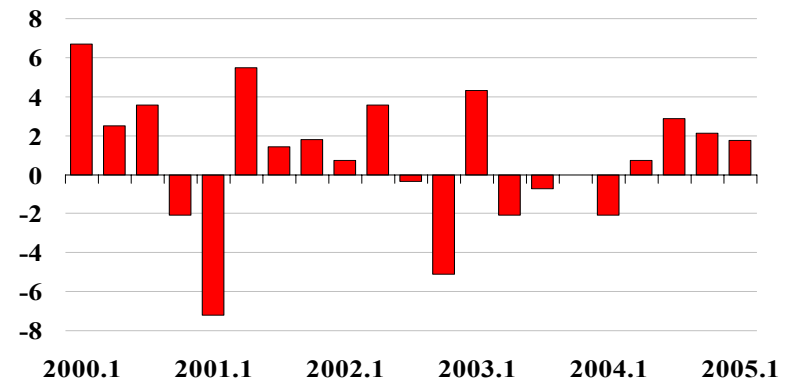
**Growth of Labour Productivity:  
Canada versus U.S.**  
(% change at annual rates)



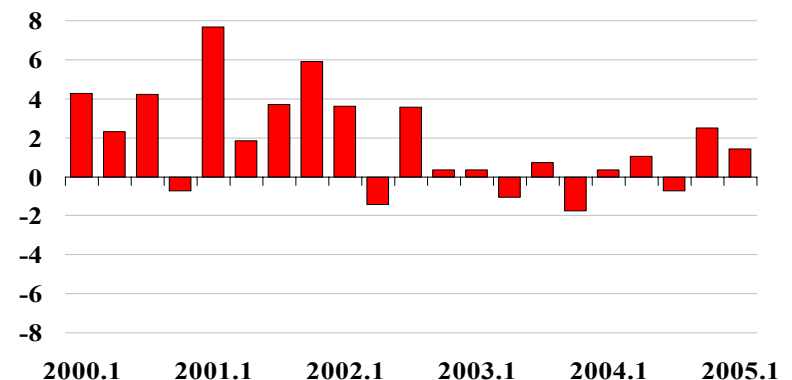
# Goods and services sector labour productivity growth weakened in the first quarter

- Labour productivity in the goods sector grew by 1.8% (annual rate) in the first quarter of 2005 down from 2.1% growth in the previous quarter. The manufacturing sector maintained its posting labour productivity growth of 3.5% after average gains of 7.0% in the previous two quarters.
- In the services sector, labour productivity grew by 1.4% in the first quarter, down from the previous quarter. On average, the rate of increase in labour productivity in the services sector has been fairly flat in the past eight quarters.

**Growth of Labour Productivity:  
Goods Sector**  
(% change at annual rates)

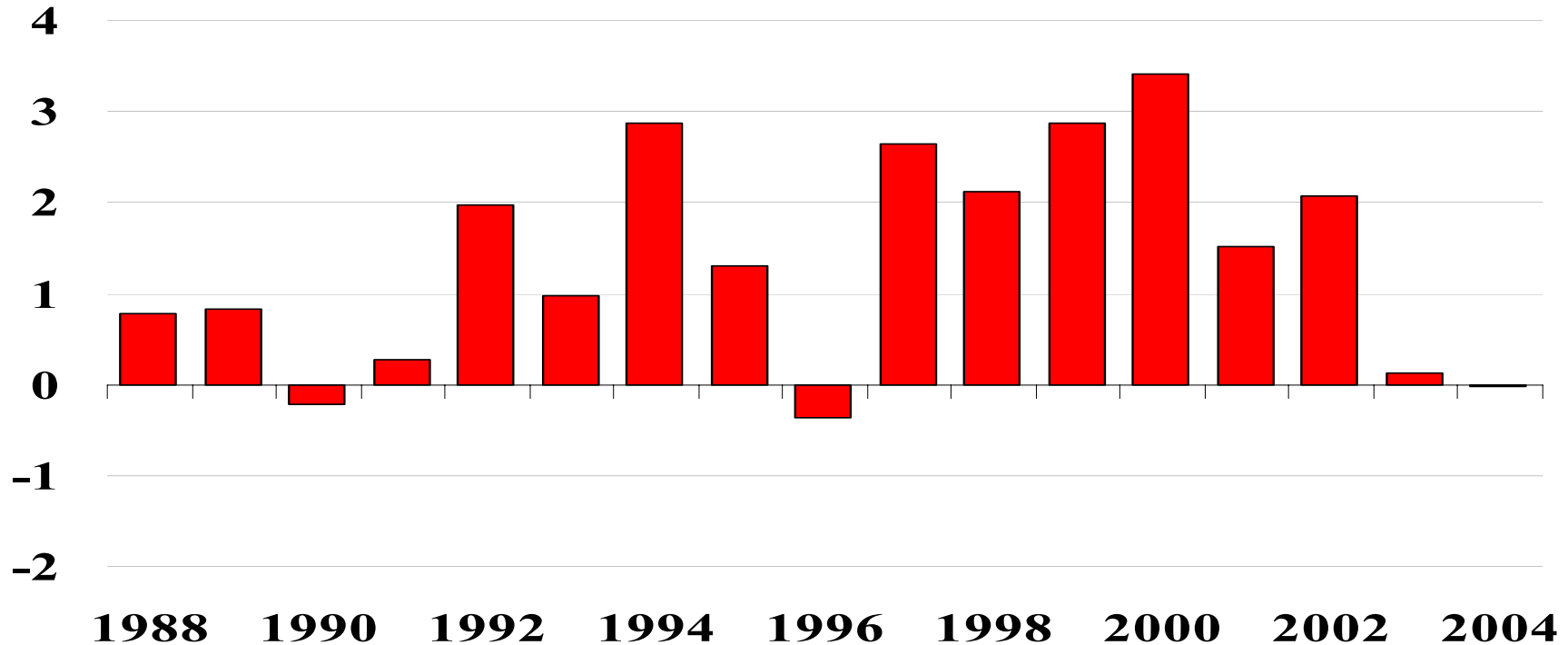


**Growth of Labour Productivity:  
Services Sector**  
(% change at annual rates)



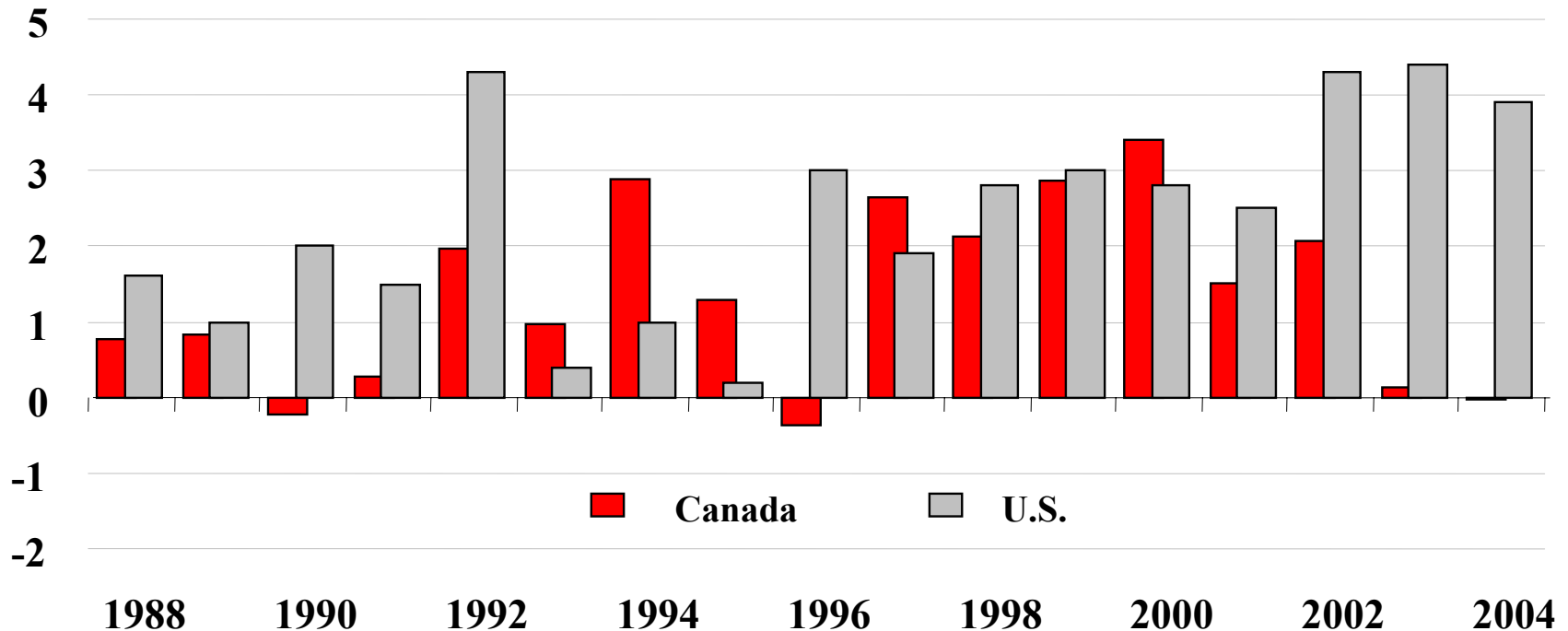
# Labour productivity growth in Canada was almost flat in 2003 and 2004...

## Annual Labour Productivity Growth in the Business Sector (% change)



...and has been well below that of the U.S. in the past four years

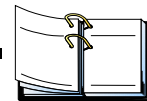
## Annual Labour Productivity Growth in the Business Sector: Canada versus U.S. (% change)



## COMING UP

### Key Future Data Releases and Planned Events

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#### CANADA

Consumer Price Index - May	June 24
Real GDP by Industry - April	June 30
Labour Force Survey - June	July 8
Key Policy Interest Rate Announcement	July 12
Canadian International Merchandise Trade - May	July 13
Monthly Survey of Manufacturing - May	July 14
Financial Statistics for Enterprises - 2nd Quarter 2005	August 25
Balance of International Payments - 2nd Quarter 2005	August 30
National Economic and Financial Accounts - 2nd Quarter 2005	August 31

#### UNITED STATES

GDP - 1st Quarter 2005 (final)	June 29
Federal Open Market Committee Meeting	June 29/30
The Employment Situation - June	July 8
International Trade in Goods and Services - May	July 13
Consumer Price Index - June	July 14

Note: The June 2005 MEI uses data available as of June 15, 2005