

WEEKLY ECONOMIC REVIEW

February 3, 2006

U.S. data released today indicate tightening labour markets. The U.S. unemployment rate fell to 4.7 per cent in January, the lowest since July 2001. U.S. employment increased by 193,000 in January and figures for previous five months were revised up.

In 2005, U.S. productivity rose by 2.7 per cent, while labour costs rose by 2.4 per cent. U.S. productivity decreased 0.6 per cent in the fourth quarter of 2005, the first decline since the first quarter of 2005. Unit labour costs increased 3.5 per cent in the fourth quarter, after falling 0.5 per cent in the first and 1.2 per cent in the second quarter.

Ending his eighteen year reign on Tuesday, Alan Greenspan raised federal funds rate for the fourteenth consecutive time by a quarter of percentage point to 4.5 per cent, up 3.5 percentage points from June 2004. On Wednesday, Ben Bernanke took over as the Fed's 14th Chairman. Rising labour costs, slowing productivity and tightening labour markets are likely to be a concern for Bernanke in deciding another rate hike at its next meeting in March.

The European Central Bank held its key lending rate steady at 2.25 per cent, but is likely to tighten monetary policy over the coming months. Economic growth in the Euro zone is expected to improve in 2006, following sluggish performance in 2005.

Cdn Dollar (C¢/US\$)		
↔	Feb 3, 2006	87.2¢
	Jan 27, 2006	87.2¢
	2005-06 YTD	83.3¢
WTI Oil \$US/bbl		
↓	Feb 2, 2006	\$64.68
	Jan 26, 2006	\$66.26
	2005-06 YTD	\$59.56
Nymex Natural Gas C\$/mcf*		
January Contract		
↔	Feb 3, 2006	\$9.58
	Jan 27, 2006	\$9.75
*Estimate based on Nymex Futures Market Price		

With real GDP advancing by 0.2 per cent in October and November, the Canadian economy is estimated to have expanded by 2.5 per cent in the final quarter of 2005, slightly below its potential rate of about 3 per cent. However, the Bank of Canada is likely to proceed with further quarter point rate hikes in the near-term as the Bank sees the economy growing above 3 per cent in 2006.

The Canadian dollar increased to 87.8 cents US earlier this week on higher energy and gold prices. However, oil prices retreated in the past couple of days, taking some shine off from the rising loonie. Rising inventories and easing concerns about supply disruptions from Iran led to declines in crude oil prices.

Economic Indicators Released this Week	Reference Period	Month/Previous Month	Month/Previous Year's Month	Year-to-date ¹
Industrial Product Price Index (1997=100)	December			
Canada	111.0	-0.3%	2.5%	1.5%
Raw Materials Price Index (1997=100)	December			
Canada	146.9	-1.2%	16.8%	12.9%
GDP (millions chained \$1997)	November			
Canada	1,083,916	0.2%	3.0%	N/A

Source: Statistics Canada

¹Year-to-date 2005 compared to the same time period in 2004. For example: January-November 2005 versus January-November 2004