

# WEEKLY ECONOMIC REVIEW

May 19, 2006

Concerns regarding U.S. inflation and interest rates weighed heavily on global markets this week. The U.S. Consumer Price Index (CPI) rose to an annual rate of 3.5 percent in April, increasing the likelihood that the Federal Reserve Board will seek to curb U.S. inflationary pressures through further increases in interest rates. The U.S. CPI report sparked a major sell-off in already-nervous equity markets, with the Dow Jones Industrial Index recording its largest single-day loss in over three years.

Canada's headline inflation rate rose slightly in April, to 2.4 per cent. However, the core inflation rate (which excludes the eight most volatile components of the CPI) fell to 1.6 per cent, well within the Bank of Canada's target range of 1 to 3 per cent.

The benign Canadian inflation report, along with the prospect of higher U.S. interest rates and a broadly-based pullback in global commodity prices turned market sentiment against the Canadian dollar this week. The loonie has given back roughly 2 cents against the U.S. dollar since reaching a 28-year high of 91 cents US on May 11.

<b>Cdn Dollar (C¢/US\$)</b>		
↓	May 19, 2006	89.0¢
	May 12, 2006	90.2¢
	2006-07 YTD	88.6¢
<b>WTI Oil \$US/bbl</b>		
↓	May 18, 2006	\$69.45
	May 11, 2006	\$73.32
	2006-07 YTD	\$70.57
<b>Nymex Natural Gas C\$/mcf*</b>		
<b>June Contract</b>		
↓	May 19, 2006	\$6.66
	May 12, 2006	\$7.14
*Estimate based on Nymex Futures Market Price		

Energy markets remained largely on the defensive, amid further evidence of ample U.S. energy inventories, a lowered OPEC forecast for 2006 world oil demand, and generally negative sentiment in global commodity markets.

Canadian retail sales rose 1.5 per cent in March, exceeding expectations and capping off the strongest quarterly gain in sales in four years. Alberta's retail trade sector continued to show remarkable strength, with sales up 15.4 per cent through the first three months of 2006.

Economic Indicators Released this Week	Reference Period	Month/Previous Month	Month/Previous Year's Month	Year-to-date <sup>1</sup>
<b>Consumer Price Index (1997=100)</b>	<b>April</b>			
<b>Alberta</b>	138.3	0.9%	3.5%	3.5%
<b>Canada</b>	130.0	0.5%	2.4%	2.4%
<b>United States (1982-84=100)</b>	201.5	0.6%	3.5%	5.1%
<b>Manufacturing Shipments (\$ Millions)</b>	<b>March</b>			
<b>Alberta</b>	5,246	0%	9.4%	12.0%
<b>Canada</b>	51,390	1.6%	3.0%	1.0%
<b>Wholesale Trade (\$ Millions)</b>	<b>March</b>			
<b>Alberta</b>	5,187	2.3%	18.9%	18.5%
<b>Canada</b>	41,443	0.8%	8.6%	9.0%
<b>Retail Trade (\$ Millions)</b>	<b>March</b>			
<b>Alberta</b>	4,483	0.4%	14.9%	15.4%
<b>Canada</b>	32,109	1.5%	5.9%	5.8%

Source: Statistics Canada and Canada Mortgage and Housing Corporation

<sup>1</sup>Year-to-date 2006 compared to the same time period in 2005. For example: January-March 2006 versus January-March 2005

**Alberta Finance**