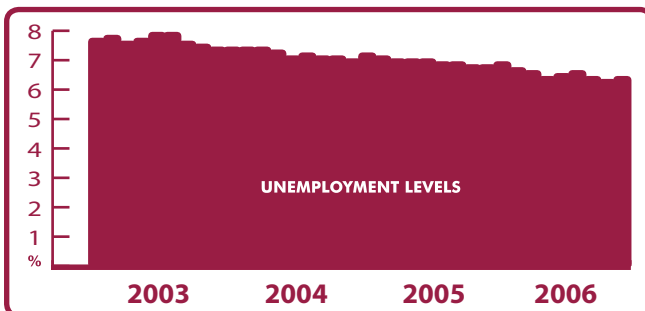


INFLATION EDGES UP

Inflation picked up in April, rising at a 2.4 per cent annual pace, largely the result of higher fuel prices drivers had to pay at the pumps. However, core consumer price inflation (CPI) – the Bank of Canada’s preferred measure which strips out the eight most volatile items in the index – cooled from 1.7 per cent in March to 1.6 per cent in April after rising 0.4 per cent in the previous month. In general, core CPI inflation has been relatively stable since August 2005. On a monthly basis, the All-items index rose by 0.5 per cent between March and April 2006, the same increase as the month before. Excluding energy, it fell by 0.1 per cent, largely because of a decline in prices of women’s clothing.

UNEMPLOYMENT: A 30-YEAR LOW

Employment rose by an estimated 22,000 in April, while the unemployment rate edged higher by 0.1 per cent to 6.4 per cent. However, the unemployment rate is still hovering around a 30-year low. So far in 2006, employment growth has risen 124,000 – double the pace of growth observed over the first four months of last year. The employment gain in April was the result of a 26,000 increase in full-time work, continuing the long-term trend of full-time growth. Part-time employment has remained at much the same level over the last three years. While the bulk of Canada’s employment gains in April came from Ontario, job growth in Alberta was well ahead of the rest of the country during the first four months of 2006.



LEADING INDICATOR STRONG

The composite leading indicator continued to rise, up 0.5 per cent in April after a 0.6 per cent gain in March. Consumer spending took the lead in growth, as the burst of demand in the stock and housing markets early in the year moderated in the spring. Stronger sales of durable goods offset a downturn in the housing component as it returned to more normal levels following exceptional gains at the start of the year.

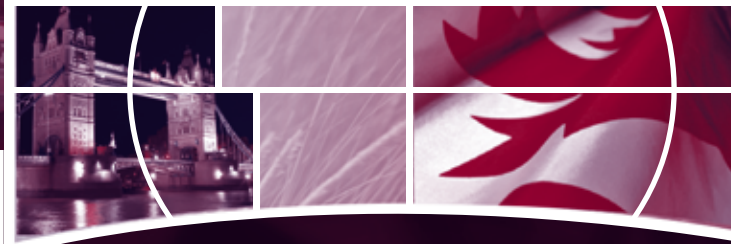
PULSE OF THE ECONOMY

Real Annual GDP		
Growth in first quarter 2006		3.2%
Unemployment rate		
April 2006		6.4%
Inflation		
All items (CPI), April 2006		2.4%
Canadian Exports		
March 2006, change over Feb.		+1.1%
Canadian Imports		
March 2006, change over Feb.		+3.6%
Prime Interest Rate		
May 2006		6.0%
Exchange Rate		
Late May 2006 C\$1.00 buys US\$0.90 and UK£0.48		

Sources: Finance Canada, Statistics Canada, Bank of Canada

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Canada at a Glance

The Economy



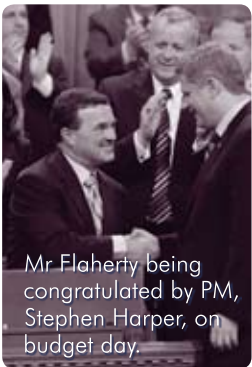
Government of Canada
High Commission of Canada

Gouvernement du Canada
Haut-commissariat du Canada

Finance Minister Jim Flaherty presented his government's first budget in early May 2006, following through on campaign promises to reduce taxes at the same time as tightening the reins on public spending and accelerating debt reduction.

The budget delivers \$20 billion in tax relief over two years – more tax relief than the previous four budgets combined, said the Finance Minister. The Goods and Services Tax (GST) will be cut by one percentage point to six per cent from July 1, 2006. The general corporate income tax rate drops to 19 per cent from 21 per cent by 2010, the corporate surtax will be eliminated from January 1, 2008, and the federal capital tax has been dropped retroactively as of January 1, 2006.

To encourage Canadian companies to hire apprentices, the government is introducing a tax credit of up to 10 per cent of the wages paid to qualified workers. The credit will have a maximum of \$2,000 per year.



Mr. Flaherty being congratulated by PM, Stephen Harper, on budget day.

A permanent reduction in the lowest tax rate to 15.5 per cent from 16 per cent will take effect July 1, 2006, with the lowest tax rate at 15 per cent from January 1, 2005 until June 30, 2006. As a result of these personal income tax and GST reductions, Mr Flaherty says families earning between \$15,000 and \$30,000 a year will be better off by almost \$300 in 2007. Families earning between \$45,000 and \$60,000 will save almost \$650.

The government plans to put aside \$3 billion annually for debt reduction, lowering the debt-to-GDP ratio to 25 per cent by 2013-14 from 35.5 per cent in 2005-06. Based on economic growth of 3.0 per cent this year and 2.7 per cent in 2007, it expects to achieve a surplus of roughly \$600 million this year and \$1.4 billion the next.

LENDING RATES UP AGAIN

The Bank of Canada raised its key overnight interest rate in May for the seventh straight time, maintaining its tightening strategy but indicating that further rate hikes are unlikely in the immediate future barring unforeseen circumstances. The central bank boosted its interest rate to 4.25 per cent, the highest level in almost five years. 'With today's increase, the target for the overnight rate is now at a level that is expected to keep the Canadian economy on the base-case path projected in the April monetary policy report and to return inflation to the 2.0 per cent target,' said the bank.

IMPORTS BURGEONING, TRADE SURPLUS SLIDES

Both imports and exports registered gains in March after two months of modest declines in the trade of merchandise goods. Exports increased 1.1 per cent to \$38.3 billion, while imports were up 3.6 per cent to \$33.1 billion. As a result, the trade surplus fell from a revised \$5.9 billion in February to \$5.1 billion in March. An increase in machinery and equipment, primarily the result of strong aircraft exports, pushed up exports in March. Increases in imports of crude petroleum, machinery and equipment, as well as consumer goods and automotive goods returned imports to near-record levels. After hitting a record high of \$41.3 billion in December 2005, exports had declined in January and February as shipments of vehicles, aircraft and lumber retreated. Falling energy prices also contributed to the decline.

EXPORTS TO UK UP 13 PER CENT

Canada's merchandise exports to the United Kingdom rose 13 per cent in the first quarter of 2006 for a value of \$2.37 billion. The increase was broad-ranging across key trade sectors and was bolstered in particular by a near 20 per cent increase in machinery exports. Imports, conversely, were down 3.0 per cent on the same quarter last year, registering \$2.55 billion on the back of a



softening in oil imports during January and February. The UK continues to be by far the top EU export market for Canadian goods, but the first quarter saw Germany ease into top position for Canadian imports from Europe, compared to the first three months of 2005.

A HEALTHY ECONOMY

Economic activity picked up in the first quarter of 2006 as real gross domestic product (GDP) advanced 0.9 per cent on the heels of continued strength in investment and personal expenditure. In March, monthly output edged up 0.1 per cent after a 0.3 per cent advance in February. Year-on-year to the first quarter, the economy still grew at the healthy pace of 3.2 per cent, helped in part by continued expansion in the construction sector and strong retail sales.

RETAIL SALES HIT RECORD

Retail sales continued to climb in March after edging down in February, capping the strongest quarterly gain in four years. Retail sales increased by 1.5 per cent in March from the previous month to reach a record high of \$32.1 billion. March's advance boosted this year's first quarter results by 2.2 per cent over those of the previous three-month period. Record sales were enjoyed by almost all types of retailers during this quarter and, even excluding vehicle retailers, sales in the first quarter were still up by 2.2 per cent.