



Industry
Canada

Industrie
Canada

Micro-Economic ***Monitor***

Third Quarter 2003

Micro-Economic Analysis Directorate, Policy Sector, Industry Canada

This document is based on data up to December 31 and is also available on the Internet at
http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/vwGeneratedInterE/h_ra01867e.html

Canada

Table of Contents

Overview

A

Domestic Scene

Real Economic Activity

B

Income Side

C

Labour Situation

D

Sectoral Overview

E

Productivity and Competitiveness

F

International Accounts

G

Price Movements

H

Financial Variables

I

Fiscal Track

J

U.S. Developments

K

Overview

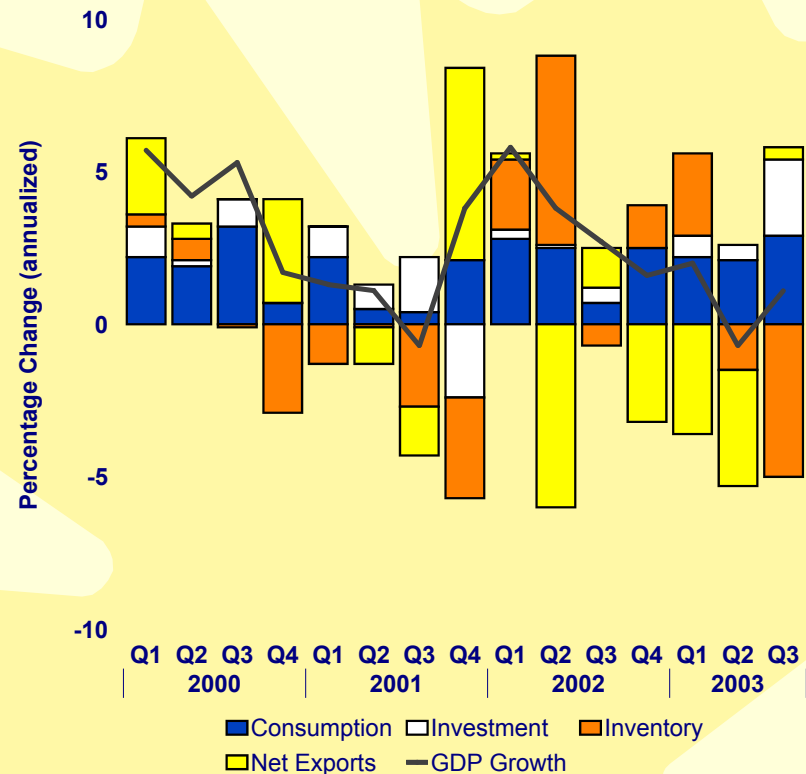
Real GDP growth edged up in the third quarter...

Real GDP rose by 1.1% (annualized) in the third quarter, after declining by 0.7% in the second. Despite weaker overall growth than expected, final domestic demand rose sharply (5.7%), more than offsetting the drag on growth from a depletion of inventories. Disposable income continued to rise, while corporate profits resumed growth, helped by a recovery in manufacturing profits.

Manufacturing output fell 2.0% in the third quarter, despite a recovery in September. This was the fourth consecutive quarterly decline, reflecting in part the sharp appreciation of the Canadian dollar. Manufacturing employment rose by 24,000 in November, but was still 3.3% lower than in November 2002.

Labour productivity in the business sector rose at an annual rate of 2.9% in the third quarter, the best performance in over a year. United States (U.S.) productivity surged at a rapid pace of 8.8%, the best performance in nearly 20 years.

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.

Source: Statistics Canada

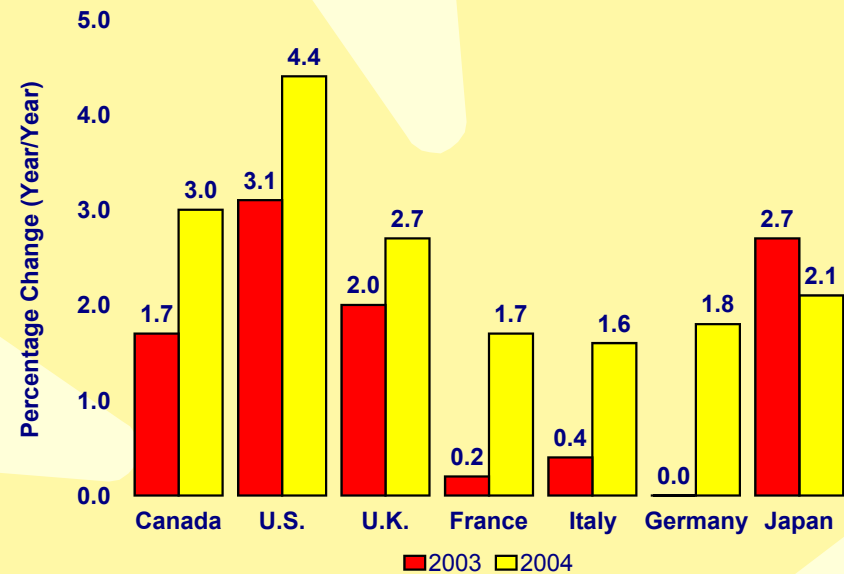
...and the economic situation is expected to improve further

Recent indicators in both Canada and the U.S. point to robust growth in the fourth quarter. In Canada, employment rose 54,000 in November, bringing total job creation to 166,000 over the past three months. In the U.S., 328,000 jobs have been created over the past four months, in contrast to similar job losses earlier in the year.

The December Consensus forecast projects Canada's real GDP growth at 1.7% in 2003 and 3.0% in 2004. Meanwhile, the U.S. economy is expected to grow 3.1% in 2003 and 4.4% in 2004.

With signs of improving economic conditions and prospects, the Bank of Canada again kept its overnight lending rate at 2.75% on December 2. The U.S. Federal Reserve left its policy rate at 1.0% on December 9.

Real GDP Growth Outlook



Source: Consensus Forecasts (U.K.), December 2003
Consensus Economics Inc.



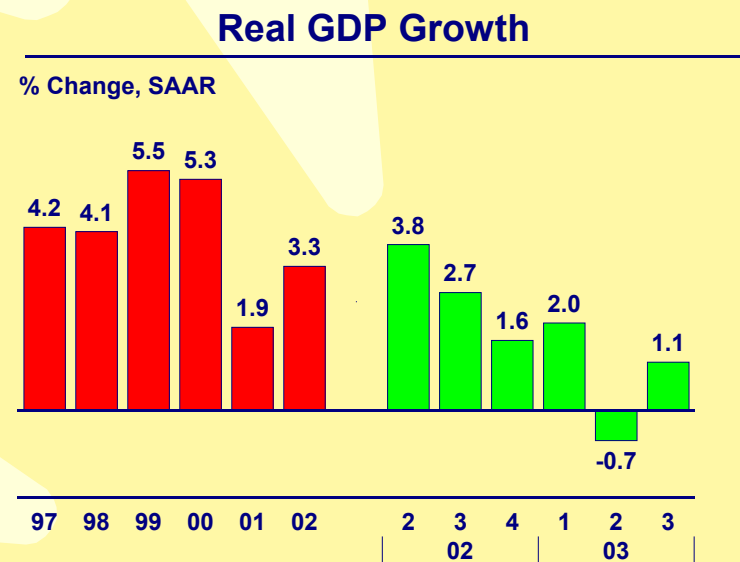
Domestic Scene

Real Economic Activity

The economy recovered in the third quarter...

Real GDP growth resumed in the third quarter, rising at an annualized rate of 1.1% after declining by 0.7% in the second quarter.

- Final domestic demand, supported by strength in consumer and business spending, rose by 5.7%, offsetting the dampening effect of a depletion in inventories.



Source: Statistics Canada

Real GDP growth was revised down from 2.6% to 2.0% in the first quarter and from -0.3% to -0.7% in the second quarter. In light of these revisions, the consensus forecast for real GDP growth for 2003 was lowered from 2.0% in November to 1.7% in December.

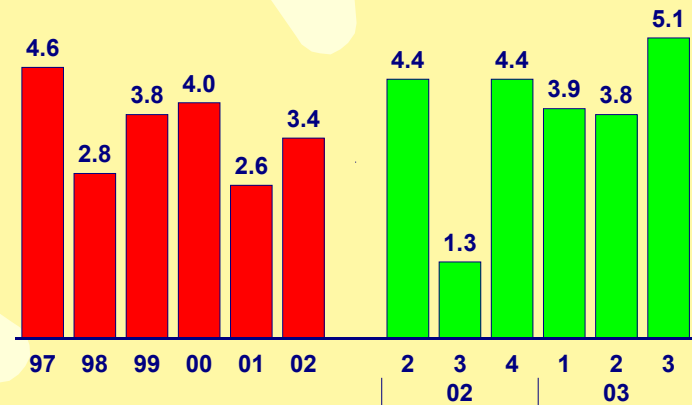
...on strong growth in consumer spending,...

Consumer spending rose 5.1% following a rise of 3.8% in the second quarter.

- Spending on durables rose 17%, stimulated by the hot housing market, low interest rates and rising income.
- In addition, spending on non-durables recovered after declining in the second quarter due to SARS and other factors.

Real Consumer Expenditure Growth

% Change, SAAR



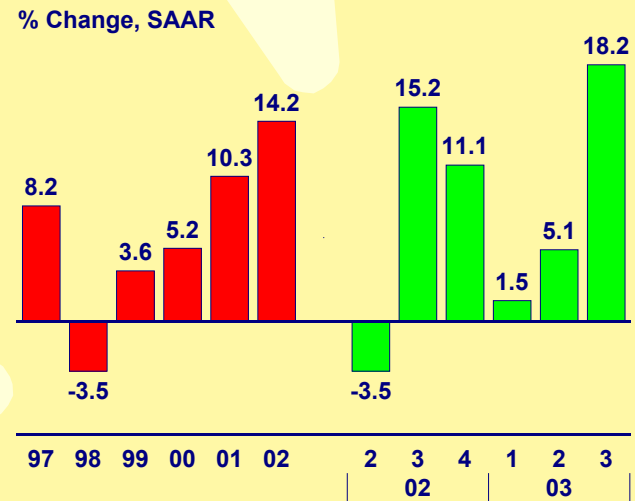
Source: Statistics Canada

...buoyant housing activity,...

Residential investment rose 18.2% in the third quarter, the largest rise since the first quarter of 2002.

- Housing starts in October reached levels not seen since the housing boom of the late 1980s, but moderated in November. For these two months, average housing starts were down by 9.1% (annualized) from third quarter levels.

Real Residential Construction Growth



Source: Statistics Canada

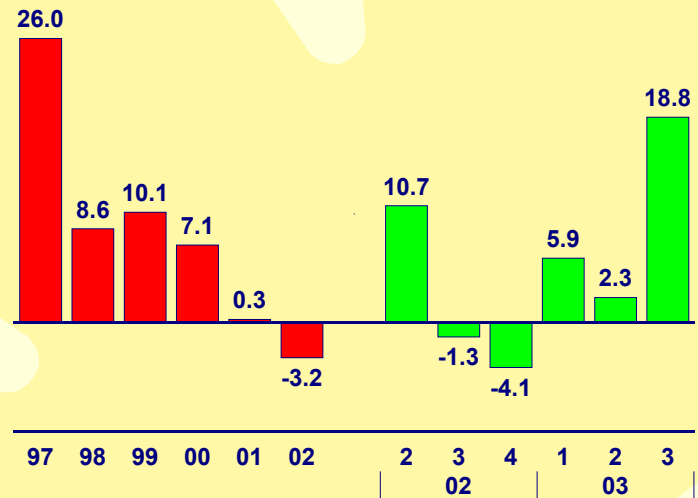
...an acceleration in investment in Machinery and Equipment,...

Business investment in Machinery and Equipment (M&E) showed its largest increase in two years, rising 18.8% on the heels of a rise of 2.3% in the second quarter.

- Declining prices, associated with the appreciation of the Canadian dollar, and rising profits have underpinned a recovery in real capital spending.
- Spending on trucks and computers & other office equipment drove the increase.

Real Machinery & Equipment Investment

% Change, SAAR



Source: Statistics Canada

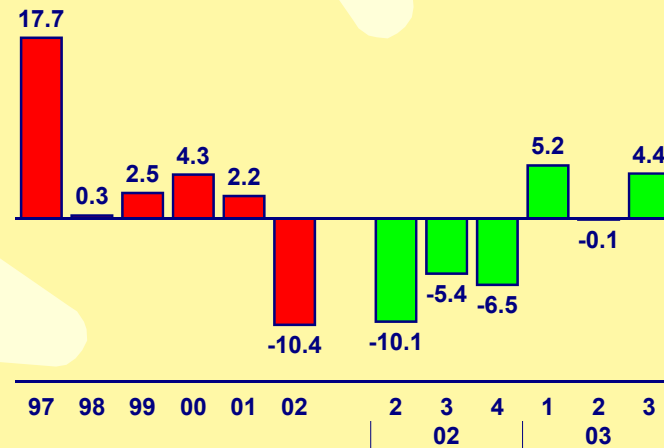
...a recovery in non-residential construction...

Non-residential construction increased by 4.4% after no growth in the second quarter.

- Outlays on buildings increased and oil and gas drilling activity prompted an increase in outlays on engineering construction.

Real Non-residential Construction Growth

% Change, SAAR



Source: Statistics Canada

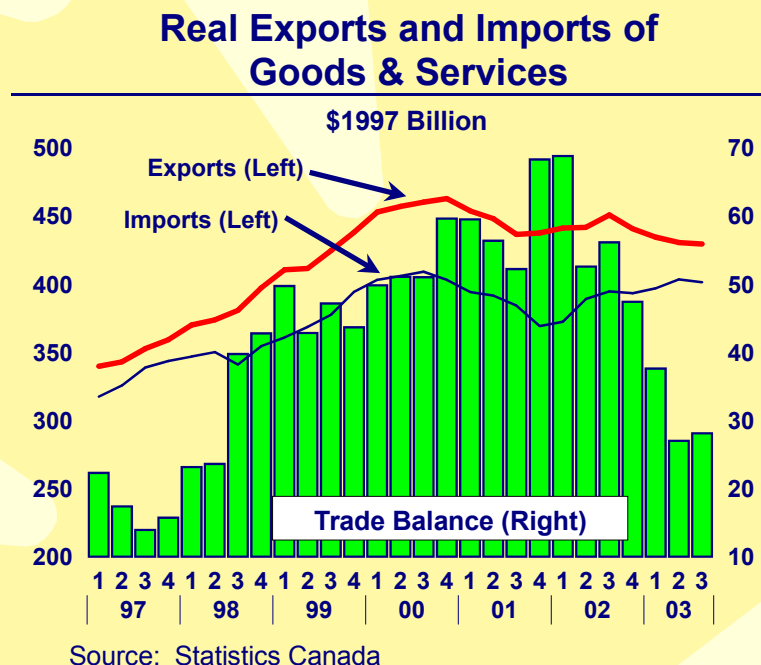
...and a slight improvement in the trade surplus, as imports fell more than exports

Real exports fell 0.9% for the fourth consecutive quarter.

- Exports of aircraft, automotive products and manufactured goods declined, partly due to the significant appreciation of the Canadian dollar this year.

Real imports fell 2.1% after rising by 6.8% in the second quarter.

- Imports of automotive products fell as demand was largely met by depleting inventory stocks. Imports of industrial goods and materials also declined.



Businesses ran down inventories built up over the last five quarters

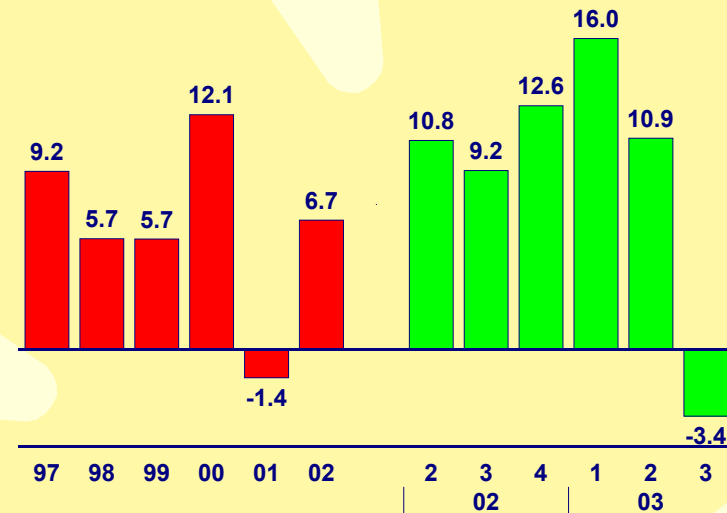
Real non-farm business inventories were reduced by \$3.4 billion in the third quarter, the first decline since the first quarter of 2002.

- The decline in inventories shed 5.0 percentage points from real GDP growth.
- Inventories of motor vehicles and lumber were reduced to satisfy domestic and U.S. demand.

The inventory-to-sale ratio fell for the first time in four quarters.

Non-farm Business Inventory Investment

\$1997 Billion, SAAR



Source: Statistics Canada

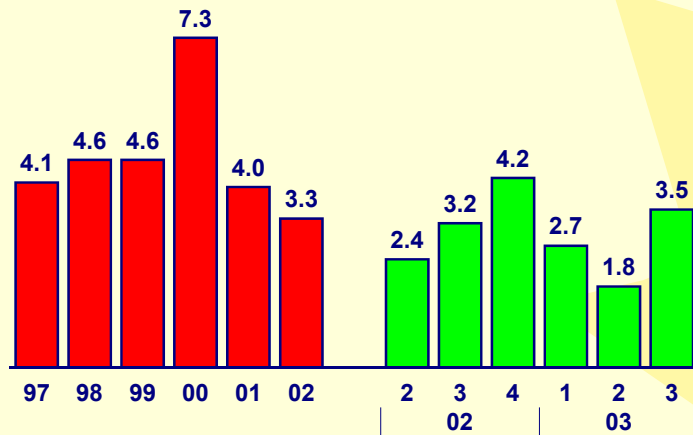
Domestic Scene

Income Side

Personal income posted stronger growth in the third quarter...

Growth in Personal Income

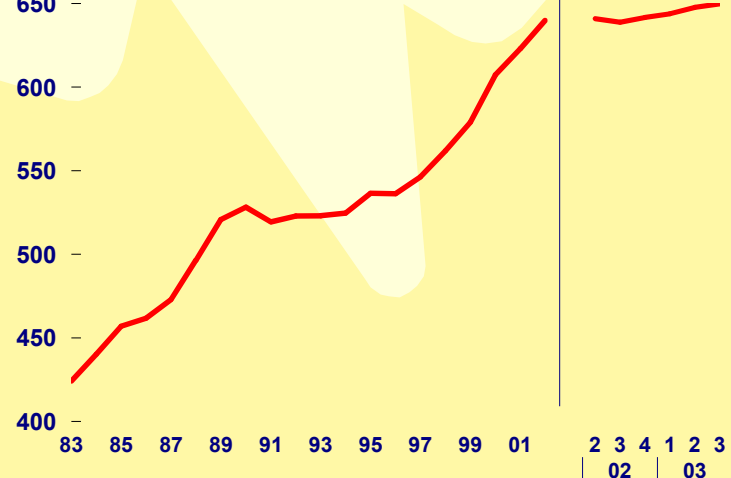
% Change, SAAR



Source: Statistics Canada

Real Personal Disposable Income*

\$1997 Billions, SAAR



*Converted to real dollars using the chain price index for personal expenditure on goods and services.
Source: Statistics Canada and Industry Canada

Personal income grew 3.5% (annualized) in the third quarter, up from 1.8% growth in the second. In addition to continued growth in wages, salary and supplementary labour income, the third quarter marks the first back to back gains in investment income since 2000.

Personal disposable income rose 3.1%. After accounting for inflation (1.8%), however, real personal disposable income grew 1.3%, down from an increase of 2.4% in the second quarter.

...but consumer spending rose even faster, pushing down the savings rate

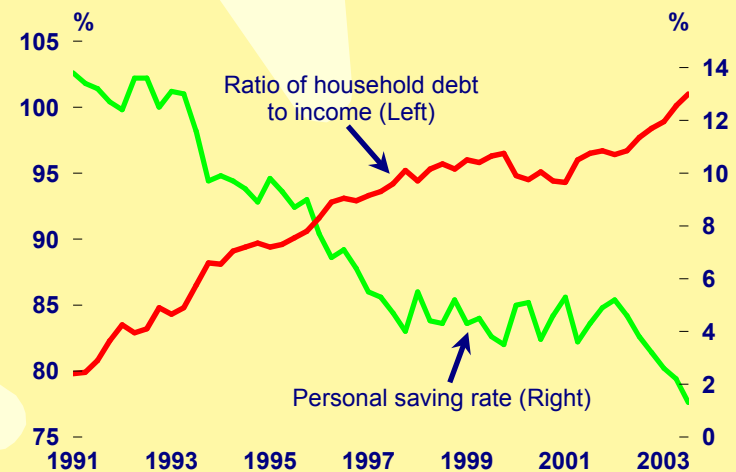
A rise of 5.1% in consumer spending combined with a more modest increase in personal income growth led the personal savings rate to fall from 2.4% in the second quarter to 1.3% in the third.

Consumer credit and mortgages rose a combined 6.9% in the third quarter, pushing the personal income-to-debt ratio up further to 101%.

Mortgage debt has been rising, reflecting the hot housing market. Consumer debt, which represents 37.6% of household debt, also rose in the third quarter. The credit card debt share of consumer credit, trending upward since 1999, appears to have levelled off since the beginning of the year.

While the drop in the savings rate and the rise in the debt ratio may cause concern about the sustainability of consumer-led growth, net worth has been steadily increasing and is now five times more than personal disposable income.

Personal Debt and Savings Rate

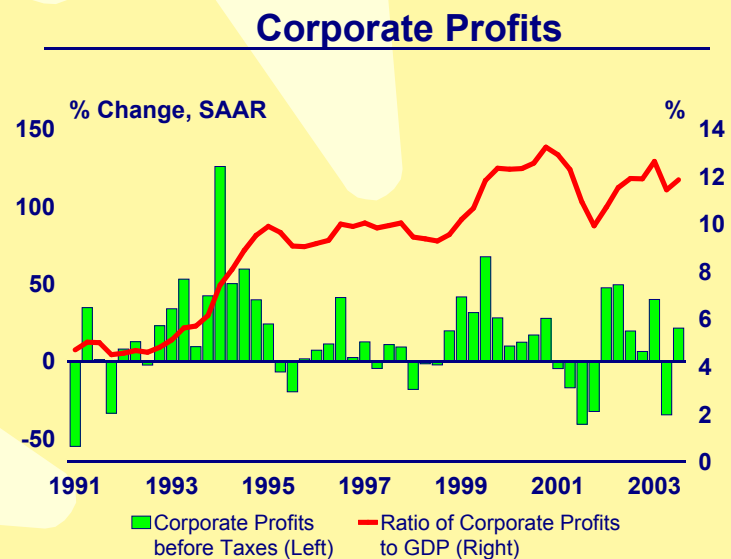


Source: Statistics Canada

Corporate profits recovered

Corporate operating profits rose 21.2% (annualized) in the third quarter, following a 34.8% drop in the second. For the first three quarters of the year, corporate profits are 11.1% higher than in the corresponding quarters a year ago.

The profit share of GDP recovered to 11.9% in the third quarter from 11.4% in the previous quarter and remained well above its 10-year average of 10.4%.



Source: Statistics Canada

Domestic Scene

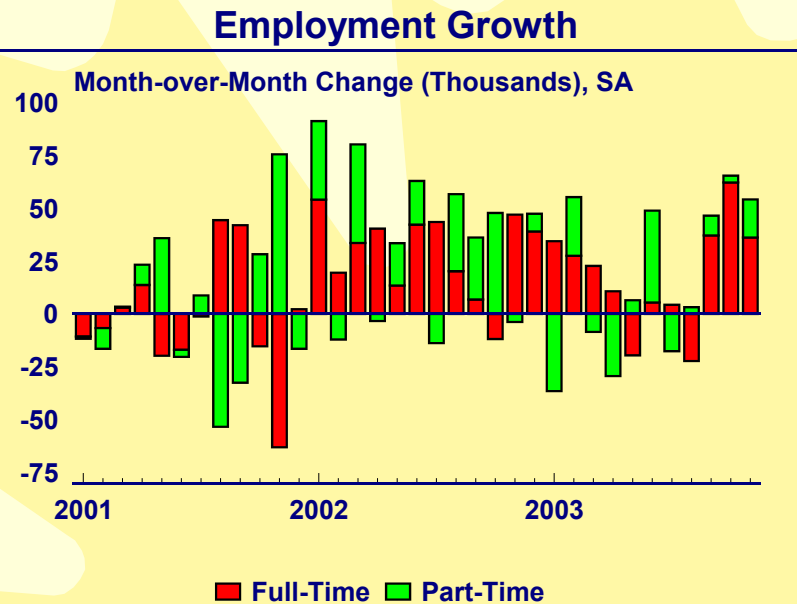
Labour Situation

Labour market conditions improved further in November...

In November, employment rose by 54,000, the third straight monthly increase. Since August, employment has grown by 166,000, much stronger than the 52,000 increase over the first eight months of the year.

- Two-thirds of the job gains in November were attributed to full-time employment (36,000), bringing the total number of full-time jobs created in 2003 to 198,400.**

218,000 jobs have been created so far in 2003, compared to 513,000 a year earlier.



Source: Statistics Canada

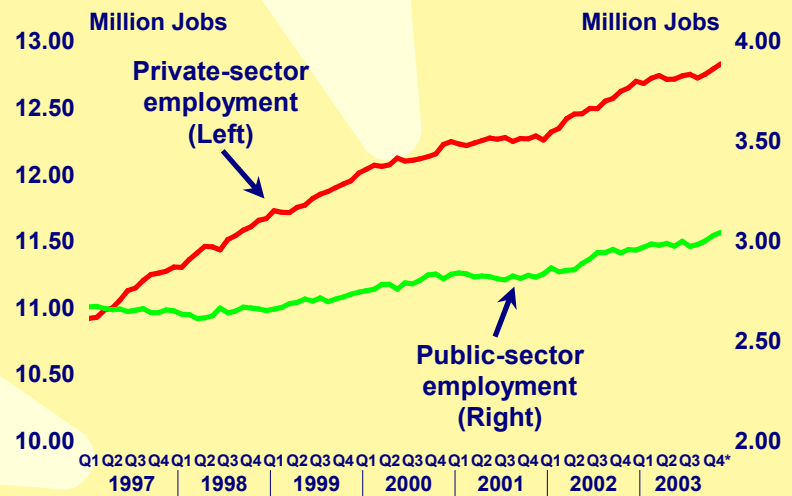
...with robust job gains in both the private and public sectors

Paid employment rose (45,000) in November with impressive gains in both private (29,000) and public sector employment (16,000).

- After remaining essentially flat for the first eight months of the year, the number of employees in the private sector is now higher by 66,000 since the start of 2003, while the number of public sector employees has increased by 88,000.

Self-employment was up 9,000 in November, the second straight monthly increase. Since the beginning of 2003, self-employment has risen by 64,000.

Employment: Private vs. Public



*Data for 2003Q4 includes October and November only.

Source: Statistics Canada

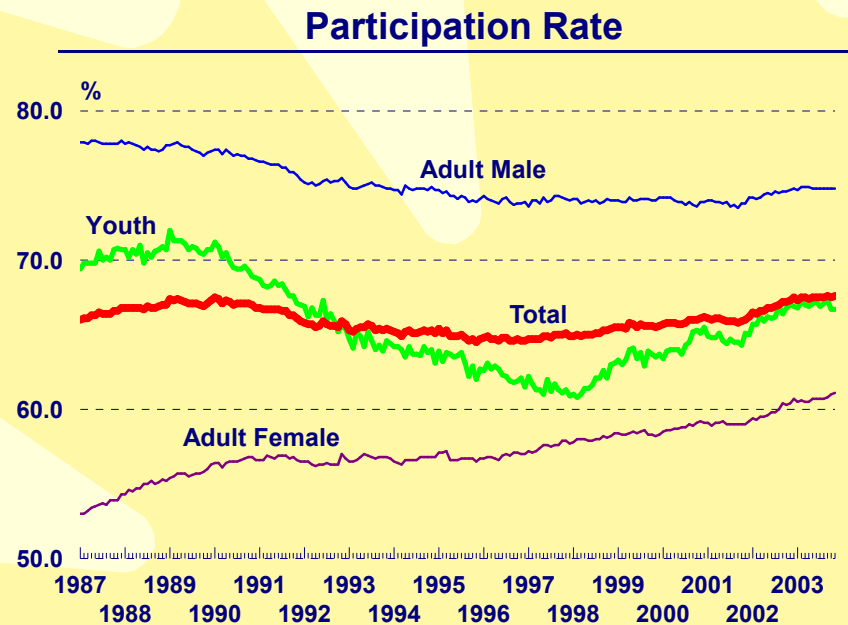
The labour force grew again, leaving the participation rate at a record high...

The labour force increased by 34,000 in November, the fifth consecutive monthly increase. The participation rate remains at an all-time high of 67.6%.

The rate for adult men has recovered from a low of 73.5% in September 2001, to 74.8% in May 2003, a level that it has maintained as of November 2003.

The adult female participation rate continued its long-term upward trend, reaching a peak of 61.1% in November.

After reaching a record high of 67.3% in September, the youth participation rate edged down to 66.7% in October and remained at this level in November.



Source: Statistics Canada

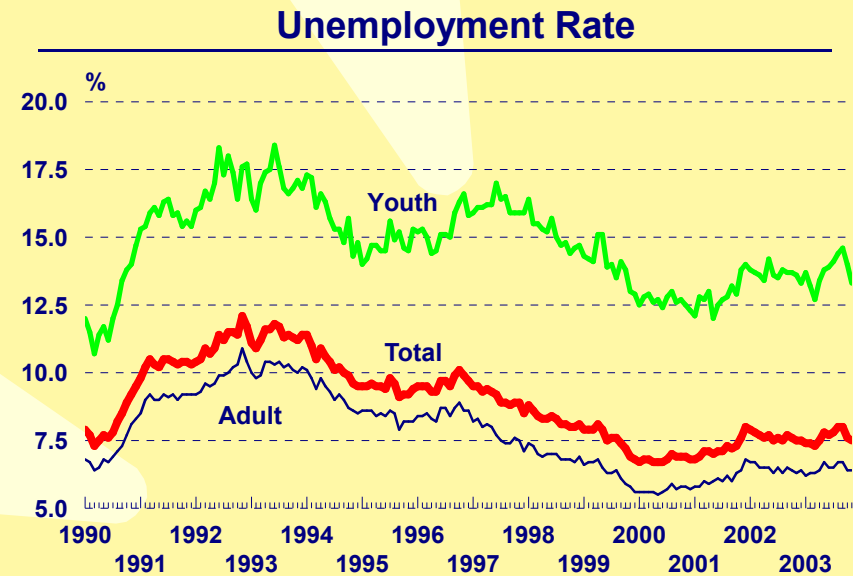
...and the unemployment rate edged down to 7.5%

The unemployment rate declined by 0.1 percentage point to 7.5% in November, its lowest level since April 2003.

After rising to a five-year high of 14.6% in September, the youth unemployment rate fell to 13.3% in November, reflecting strong gains in employment (22,000) and a fall in the youth labour force.

The adult unemployment rate remained at 6.4% for the second straight month in November, reflecting a 6.5% unemployment rate for men and a 6.2% rate for women.

- Employment among adult men edged up 14,000 in November, all in full-time jobs, while employment among adult women rose by 18,000 based entirely on part-time work.



Source: Statistics Canada

Most provinces have benefited from recent job gains...

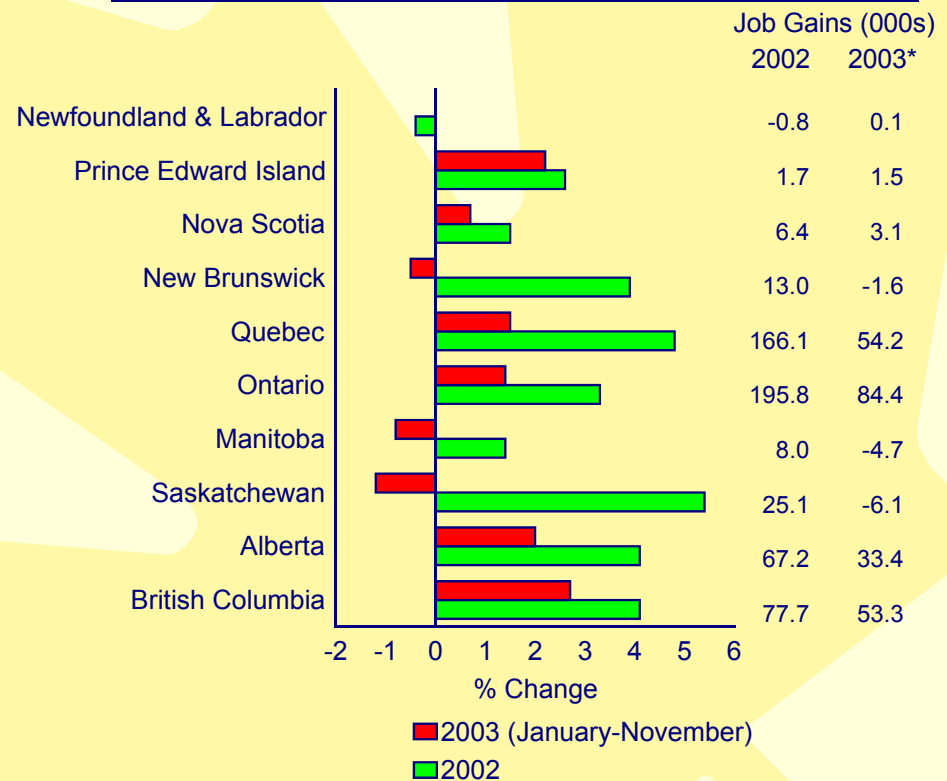
Quebec posted the largest job gains in November (54,000). Since August, Quebec has led the provinces in job creation (89,000), more than offsetting its job losses of 35,000 in the first eight months of the year.

Strong November job gains were also reported in New Brunswick (5,000) on the strength of construction and manufacturing, bringing its three-month total to 10,000. In Alberta, 16,000 jobs have been created since August and 33,000 since January.

Despite the November decline in Ontario, 37,000 jobs have been created since August and 84,000 so far this year. Recent job gains have been in manufacturing, public administration, and trade.

So far in 2003, seven provinces posted job gains, while Saskatchewan, Manitoba and New Brunswick reported job losses.

Employment Growth by Province



* Figures for 2003 are year-to-date (January-November)
Source: Statistics Canada

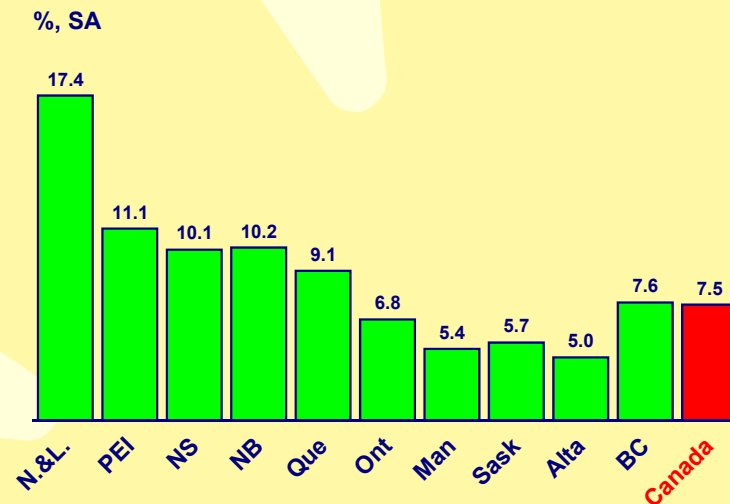
...and lower unemployment rates

In November, strong job gains pushed down the unemployment rate in New Brunswick (0.6 percentage point) and Quebec (0.2). A reduced labour force lowered the rate in Ontario (0.2) and British Columbia (0.2). Since August, the unemployment rate has declined the most in British Columbia (1.1), Quebec (0.9) and New Brunswick (0.9).

In Nova Scotia, the unemployment rate has declined (0.4) since August. Newfoundland and Labrador had the highest increase in the unemployment rate in the last three months (1.8) and major job losses were responsible for the decline (0.9) in November.

Alberta's unemployment rate has remained unchanged since August.

Unemployment Rates: November 2003



Source: Statistics Canada

Domestic Scene

Sectoral Overview

Output in goods-producing industries rebounded in the third quarter...

Real GDP in the goods-producing industries recovered in September, leading to a 1.2% rise (annualized) in the third quarter after a decline of 3.7% in the second.

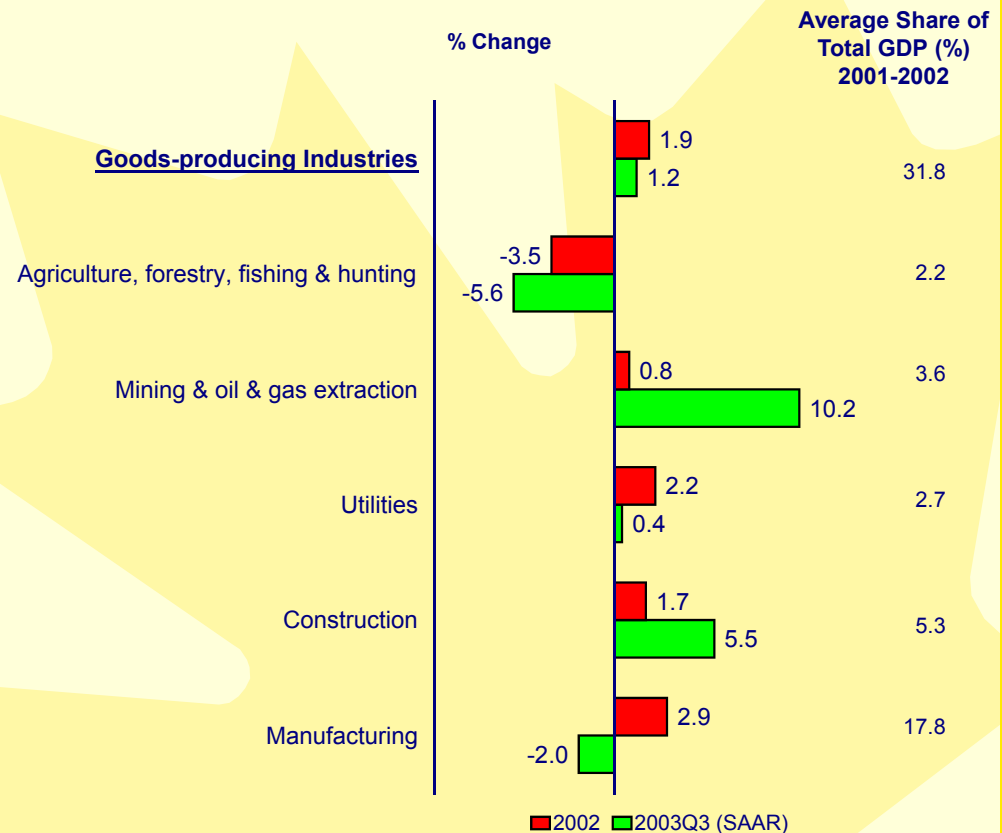
Mining & oil & gas (10.2%) posted the largest gain, due to diamond finds. Construction (5.5%) also performed well, as low interest rates continued to underpin a vibrant housing sector.

Manufacturing output, despite a recovery in September, fell 2.0% in the third quarter. The weakness was widespread with output in 15 of the 21 major groups decreasing.

- This was the fourth consecutive quarterly decline, similar to the high-tech bubble burst in 2001. Since its peak in the third quarter of 2002, manufacturing output has fallen 2.8%, due to the strengthening of the dollar and weak global economic conditions.

Agriculture and forestry posted the largest decline in output (5.6%), as the softwood lumber dispute and a rising dollar held back forestry and logging operations.

Real GDP Growth by Industry: 2003Q3



Source: Statistics Canada

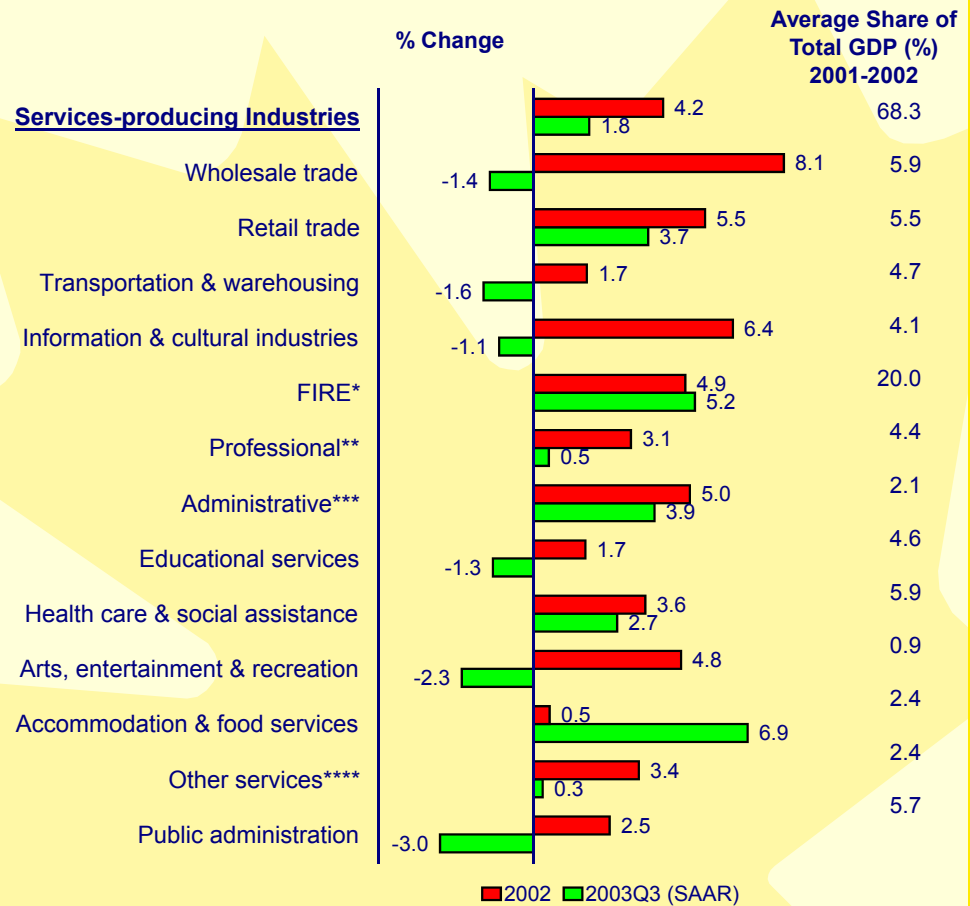
...while most of the service sector continued to grow

Service sector output recovered in September and grew 1.8% (annualized) in the third quarter, up from an increase of 1.4% in the second quarter. Seven of thirteen major groups posted increases.

- Travel and tourism regained some ground from losses due to the war in Iraq and SARS. Accommodations & food posted a large gain (6.9%). The output of air transportation and travel agents were up significantly.
- Finance companies (FIRE) posted strong growth (5.2%), as the housing market was buoyant and stock market activity improved.
- Retail output was up 3.7% as strong housing activities boosted sales of furniture & appliances and incentives advanced car & truck sales.

Output in public administration posted the largest drop (3.0%) largely due to the power outage in Ontario, while a fall in trade reduced output in transport & warehousing.

Real GDP Growth by Industry: 2003Q3



* Includes Finance & insurance, real estate & renting & leasing & management of companies & enterprises
 ** Includes Professional, scientific & technical services
 *** Includes Administrative & support, waste management & remediation services
 **** except public administration

Source: Statistics Canada

Corporate operating profits resumed growth in the third quarter

Corporate profits rose 3.7% in the third quarter, despite the adverse effects of the August power outage in Ontario. Profits are up 5.8% from a year ago and 42.5% from their trough in the fourth quarter of 2001.

Profits of non-financial enterprises increased \$1.3 billion (or 4.3%), led by manufacturing, retail, construction and mining. However, manufacturing profits are still down 13.4% from a year earlier.

- Higher third quarter profits in manufacturing (+ \$353 million or 4.2%) were tempered by the power blackout and a strong dollar. Profits of motor vehicles and parts manufacturers more than accounted for the overall increase in manufacturing, as 12 of 17 industries reported lower profits.

Profits of financial enterprises rose 2.1%, led by bank profits, which pushed operating profits of deposit credit intermediaries from \$4.3 billion to a record \$4.8 billion and up nearly 72% on a year-over-year basis. Bank profits have risen for four consecutive quarters. Meanwhile, insurers and all other financial enterprises saw their profits slide.

Corporate Operating Profits, 2003Q3

	2003Q3 Level (\$M)	Difference		
		03Q2-03Q3 (\$M)	02Q3-03Q3 (%)	
Total - All Industries	41,627	1,487	3.7	11.3
Total Non-Financial	31,205	1,273	4.3	5.8
Agriculture, forestry, fishing & hunting	424	-22	-4.9	-10.5
Mineral fuels	4,550	42	0.9	51.7
Mining except mineral fuels	327	182	125.5	26.7
Utilities	762	-79	-9.4	12.1
Construction	785	84	12.0	13.3
Manufacturing industries	8,821	353	4.2	-13.4
Wholesale trade industries	3,339	56	1.7	21.1
Retail trade industries	2,607	331	14.5	15.2
Transportation and warehousing	1,253	75	6.4	-26.6
Information and cultural industries	2,100	20	1.0	6.9
Real estate, rental and leasing	3,538	90	2.6	17.5
Professional/Scientific	636	13	2.1	-4.6
Management of companies	2,765	56	2.1	-17.5
Other services to business	528	81	18.1	5.2
Education services	-23	4	-14.8	4.5
Health care and social assistance	624	17	2.8	14.1
Arts, entertainment and recreation	138	31	29.0	74.7
Accommodation and food services	402	-12	-2.9	-21.6
Other services	393	5	1.3	88.9
Total Financial	10,421	213	2.1	31.7
Depository credit intermediation	4,776	438	10.1	71.5
Non-depository credit intermediation	1,343	-43	-3.1	0.0
Insurers	1,881	-69	-3.5	68.9
Funds and other financial vehicles	4,003	1,305*	n/a	n/a
Other financial intermediaries	2,422	-112	-4.4	-9.2

* Funds and other financial vehicles recorded a loss of \$1,932 in the first quarter of 2003.

Source: Statistics Canada

Employment increased in the Goods and Services sectors in November

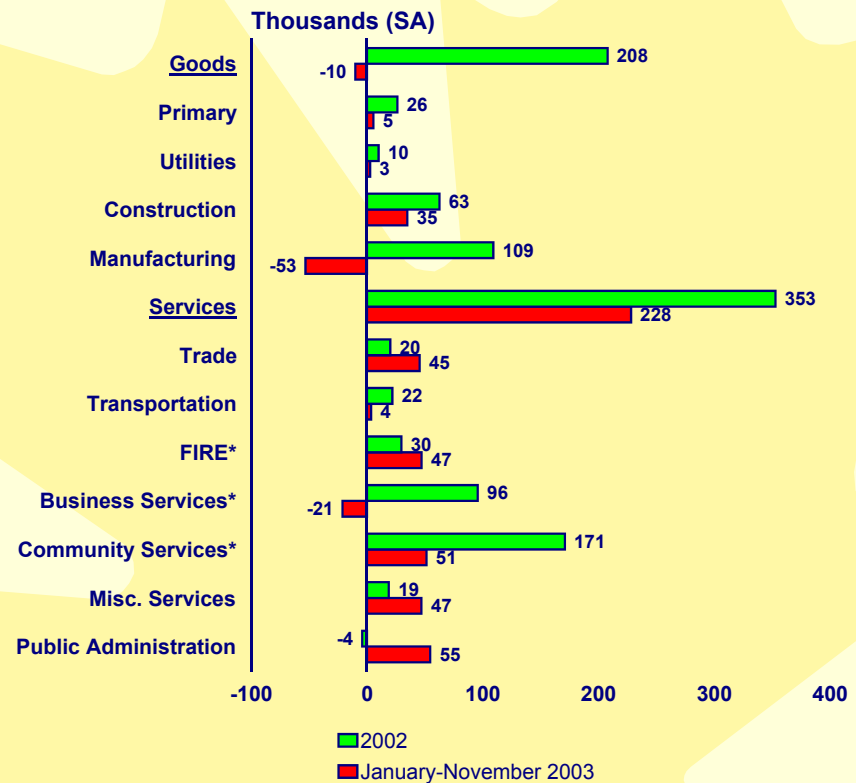
Employment in the Service sector increased by 32,000 in November, bringing job gains to 141,000 in the last three months, and 228,000 in the last eleven months.

- The largest gains in November were posted by trade, information & culture, and educational services. These increases offset significant losses in transportation and health care & social assistance.

Employment in the Goods sector rose by 22,000 in November, the best performance this year. Despite the recent gains, 10,000 jobs have been lost on a year-to-date basis.

- The rise in November was mainly due to a rebound in manufacturing employment (24,000). This sector, however, has lost 53,000 jobs this year as a result of the sharp appreciation of the dollar and the earlier weakness in the U.S. economy.

Job Growth by Industry



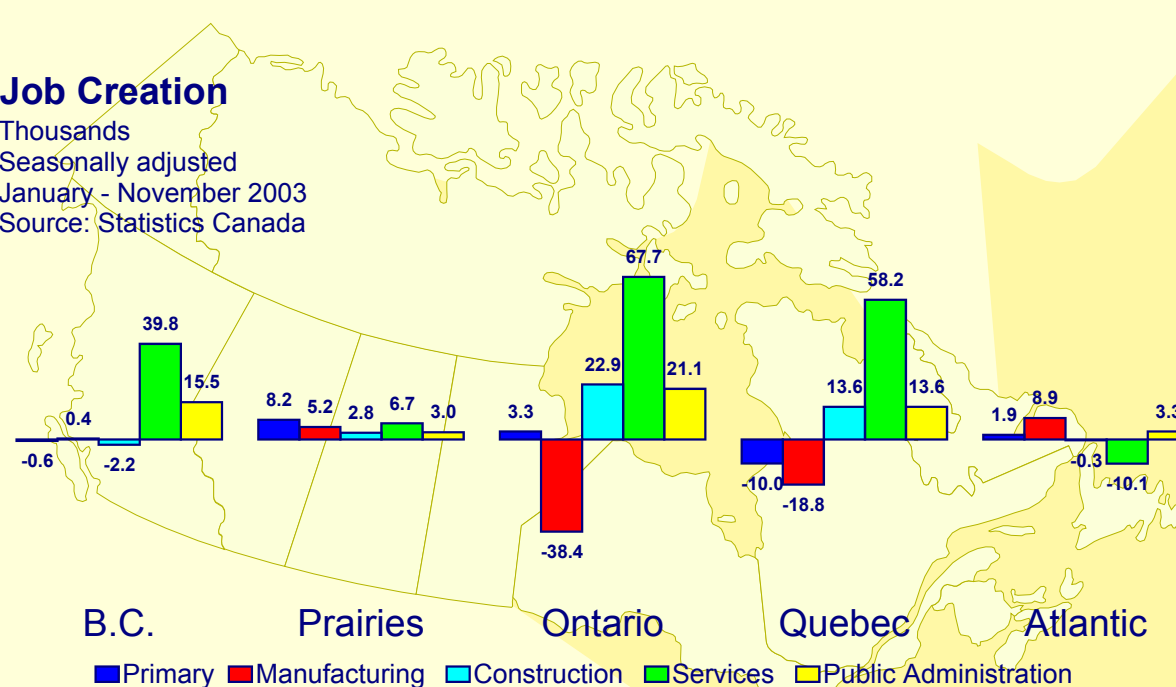
* FIRE: Finance, Insurance, Real Estate and Leasing
 Business Services: Management, Administrative, Professional, Scientific & Technical Services
 Community Services: Educational Services, Health & Social Assistance.

Source: Statistics Canada

In 2003, manufacturing job losses were concentrated in Ontario and Quebec

Job Creation

Thousands
Seasonally adjusted
January - November 2003
Source: Statistics Canada



On a year-to-date basis, manufacturing employment decreased in Ontario (-39,000) and Quebec (-19,000), while the other regions reported small employment increases. Primary sector employment in Quebec and British Columbia continued to report overall declines, while construction employment rose in all regions, except Atlantic and British Columbia.

Employment gains in Services were solely due to gains in Ontario, Quebec, and British Columbia. Meanwhile, employment in public administration posted gains in all regions.

Wage settlements were up in the third quarter

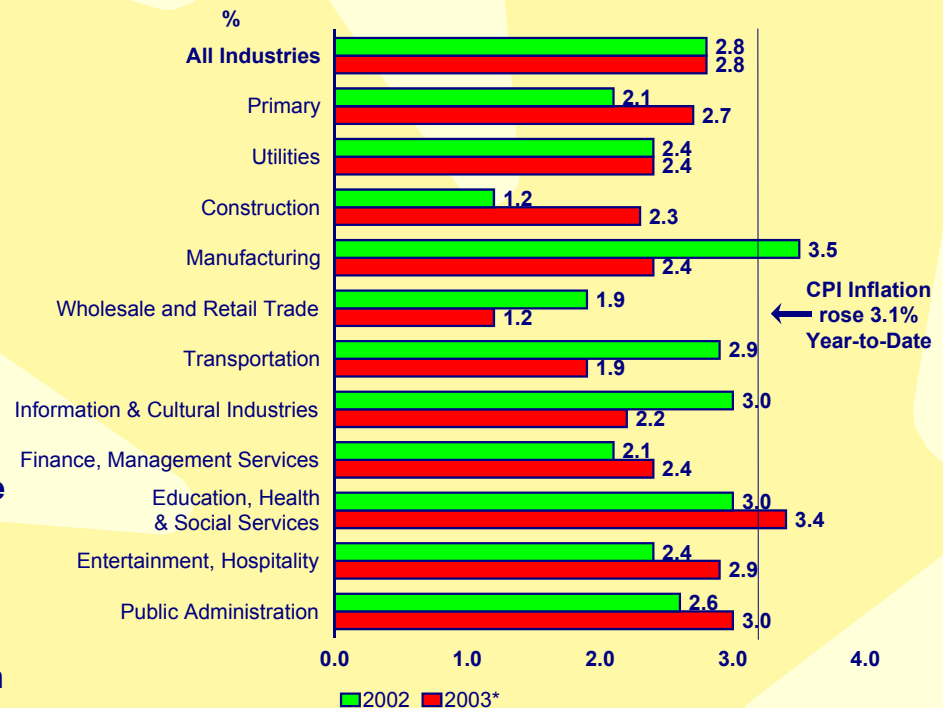
Wage settlements averaged 3.2% in the third quarter, higher than the 2.6% reported for the second quarter. Most of the agreements settled were in the public sector.

- The largest settlements were in education, health & social services (4.3%), and public administration (3.4%).

However, in the first three quarters of 2003, the average wage settlement was 0.3 percentage point below inflation, with gains in 10 of 11 industry groups at or below CPI inflation.

- Public sector wage settlements (3.2%) were sharply higher than those in the Private sector (1.4%). However, private sector settlements were moderated by the three Air Canada agreements in June, which included a wage freeze or a wage reduction averaging -0.5% over the life of the contracts.

Wage Settlements by Industry



Effective average annual adjustments in base wage rates from major collective bargaining agreements.

* 2003 data cover agreements reached over the January to September period.

Source: Human Resources Development Canada

Capacity utilization fell in most industries in the third quarter

Capacity utilization edged down 0.1 percentage point to 81.2% in the third quarter, reflecting the power outage in Ontario and the appreciation of the Canadian dollar.

The capacity utilization rate in Manufacturing fell to 82.2%, the third consecutive decline.

- This was broad based, as 14 of 21 groups posted decreases, particularly Textile Mills, Petroleum & Coal products and Leather. Lumber manufacturers cleared out their inventories to meet demand in construction, helping inventory levels drop in manufacturing.

- Among the industries reporting higher capacity utilization were Plastics and Non-Metallic Minerals, which benefited from strong housing activity.

In the non-manufacturing sectors, utilization rates posted sharp declines in Forestry & Logging and Electric Power Generation. The only increase was posted by Mining & Oil & Gas Extraction.

Capacity Utilization¹ : Non-farm Goods-producing Industries

	Level (%) 2003Q3	Change (% points)		10-year Average
		Q/Q	Y/Y	
Total Industrial	81.2	-0.1	-1.9	82.6
Forestry & logging	77.8	-10.6	-11.0	82.0
Mining & oil & gas extraction	70.5	2.0	1.9	76.4
Electric power *	84.1	-0.6	-5.4	84.4
Construction	85.6	0.0	-1.2	83.5
Total Manufacturing	82.2	-0.3	-2.4	83.8
Food	78.2	0.4	-3.0	80.6
Beverage & tobacco products	75.1	-0.6	-5.2	80.6
Textile mills	74.7	-3.2	-3.0	81.4**
Textile product mills	71.4	-1.4	-10.5	78.7**
Clothing	71.0	-2.2	-11.8	82.5
Leather & allied products	64.2	-2.9	-8.5	74.9
Wood products	97.0	0.1	1.9	87.6
Paper	94.1	-0.6	1.7	90.7
Printing & related support activities	70.1	-0.5	-1.9	77.6
Petroleum and coal products	94.6	-3.0	-2.3	93.0
Chemical	82.7	-2.3	0.8	82.4
Plastic & rubber products	89.2	3.5	-0.6	84.5
Non-metallic mineral products	92.9	3.1	9.1	80.1
Primary metal	91.3	0.3	-0.6	90.6
Fabricated metal products	81.8	-0.3	-3.5	81.4
Machinery	77.6	-0.6	-3.8	81.3
Computer & electronic products	68.0	-0.7	1.5	79.9
Electrical equipment	69.2	-2.1	-4.3	83.1
Transportation equipment	84.3	0.0	-7.5	86.2
Furniture & related products	77.9	-1.3	-5.6	81.8
Miscellaneous manufacturing	78.0	0.1	-5.5	81.8

* Electric power generation, transmission & distribution

** Represents available data between 1997Q1-2003Q3

¹ Capacity utilization rates have been revised back to the first quarter of 2001 to include revisions in the source data.

Source: Statistics Canada



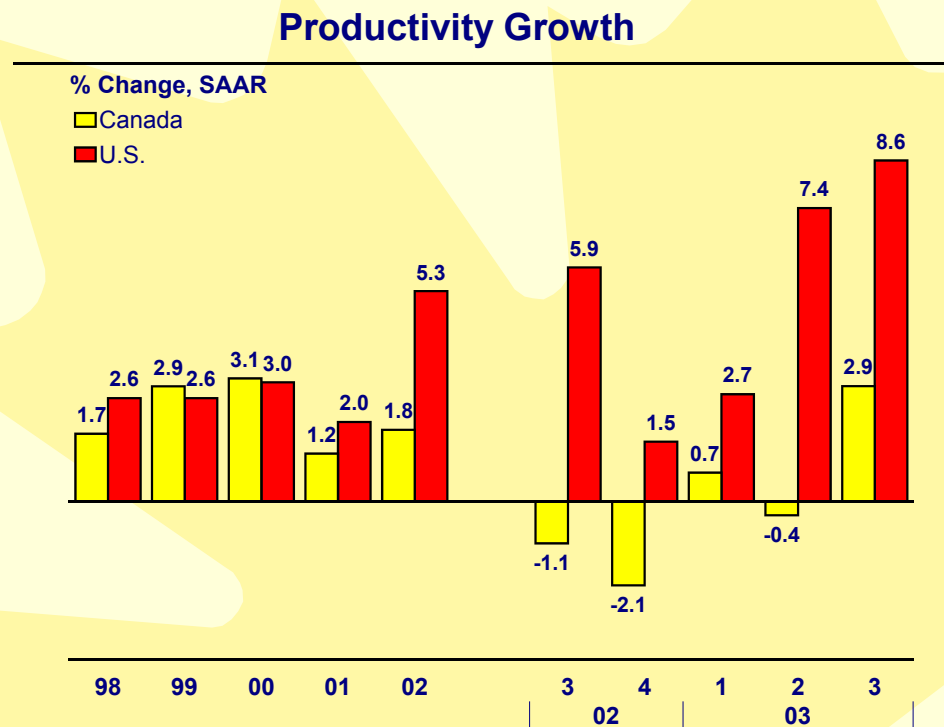
Domestic Scene

Productivity & Competitiveness

Labour productivity rose in the third quarter, but not as vigorously as in the U.S.

Labour productivity in Canada's business sector increased 2.9% at an annualized rate in the third quarter, reflecting a rise of 0.6% in output and a decline of 2.1% in hours worked. This is the strongest quarterly gain in more than a year.

Meanwhile, U.S. labour productivity in the business sector rose at an annualized rate of 8.6%, as output increased 10.2% and hours worked edged up 1.4%. The output increase was the largest since a 11.2% rise in the first quarter of 1984.

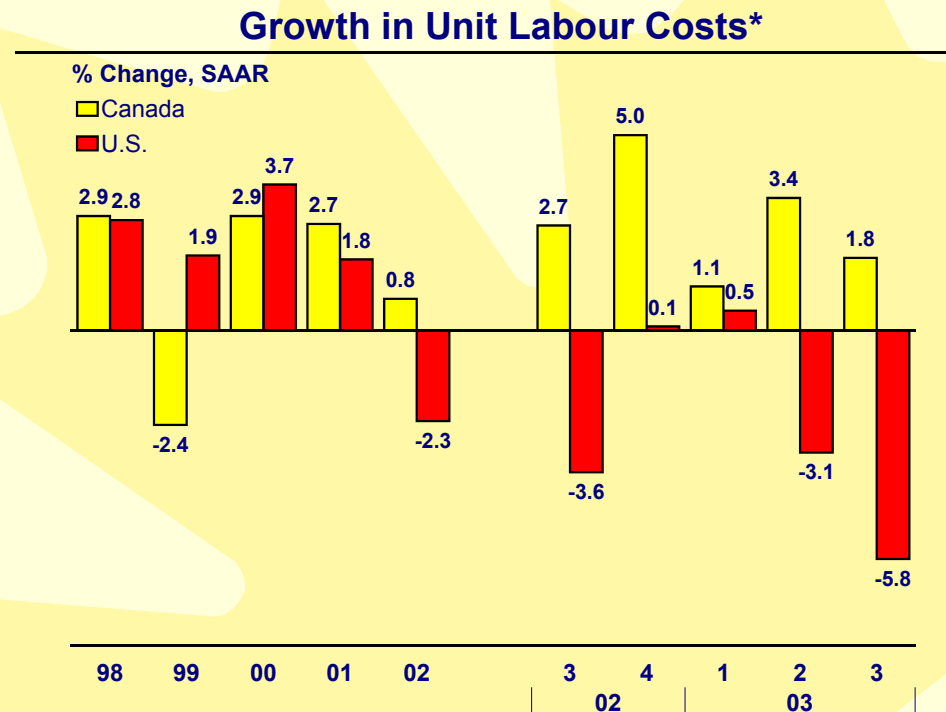


Source: Industry Canada calculations

Unit labour costs growth moderated, but continued to fall in the U.S. ...

Growth in unit labour costs of Canadian businesses moderated from 3.4% to 1.8% in the third quarter. This solely reflected stronger productivity performance as wages rose (4.7%) faster in the third quarter than in the second (3.3%).

In the U.S., unit labour costs continued to fall (5.8%), as labour productivity grew much faster than hourly compensation. This is a bigger drop than the 3.1% decline recorded in the previous quarter.



* For the business sector

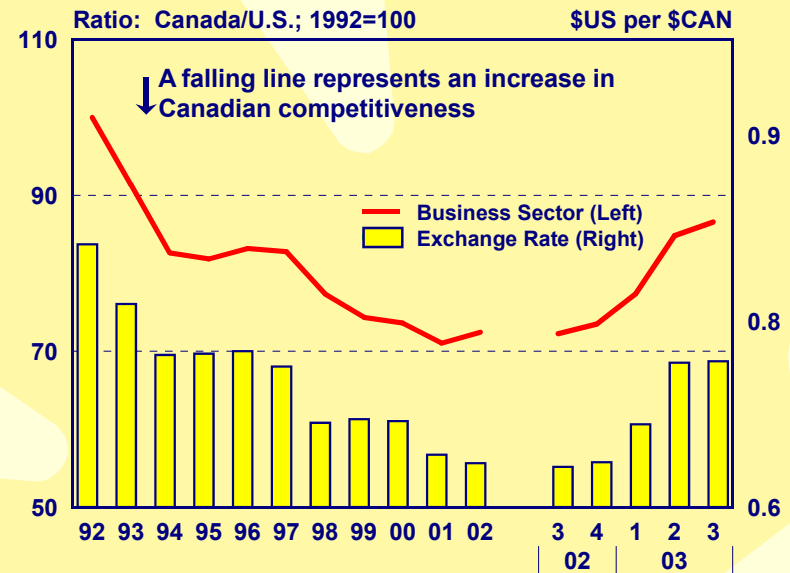
Source: Statistics Canada, Bureau of Labour Statistics and Industry Canada calculations.

...eroding Canadian firms competitiveness

The competitiveness of Canada's business sector relative to the U.S. deteriorated further in the third quarter, largely due to a stronger labour productivity performance south of the border. The Canadian dollar rose only slightly in the third quarter (0.3%), but has been a major factor in reducing Canada's competitiveness so far this year.

The continuing strength of the Canadian dollar vis-à-vis its U.S. counterpart, averaging about US¢76 in the fourth quarter (or 5.2% from the third quarter), points to further deterioration in Canada's competitiveness.

Unit Labour Cost Comparison (\$US)



Source: Industry Canada calculations based on data from the U.S. Bureau of Labour Statistics and Statistics Canada

Domestic Scene

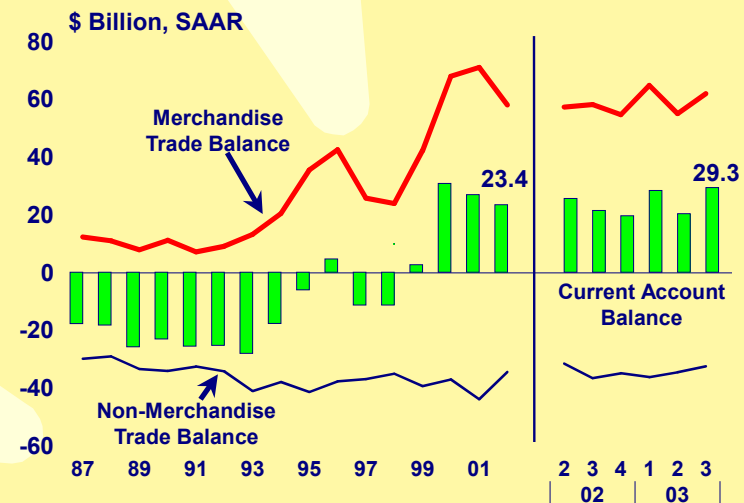
International Accounts

Current account surplus rose in the third quarter...

Canada's current account surplus rose \$2.3 billion to \$7.3 billion (\$29.3 billion annualized) in the third quarter. This was the highest surplus in more than two years.

- Higher surplus on the merchandise trade and lower deficits in services and in investment income were responsible for the improved current account surplus.

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.

Source: Statistics Canada

...reflecting improved merchandise trade surplus

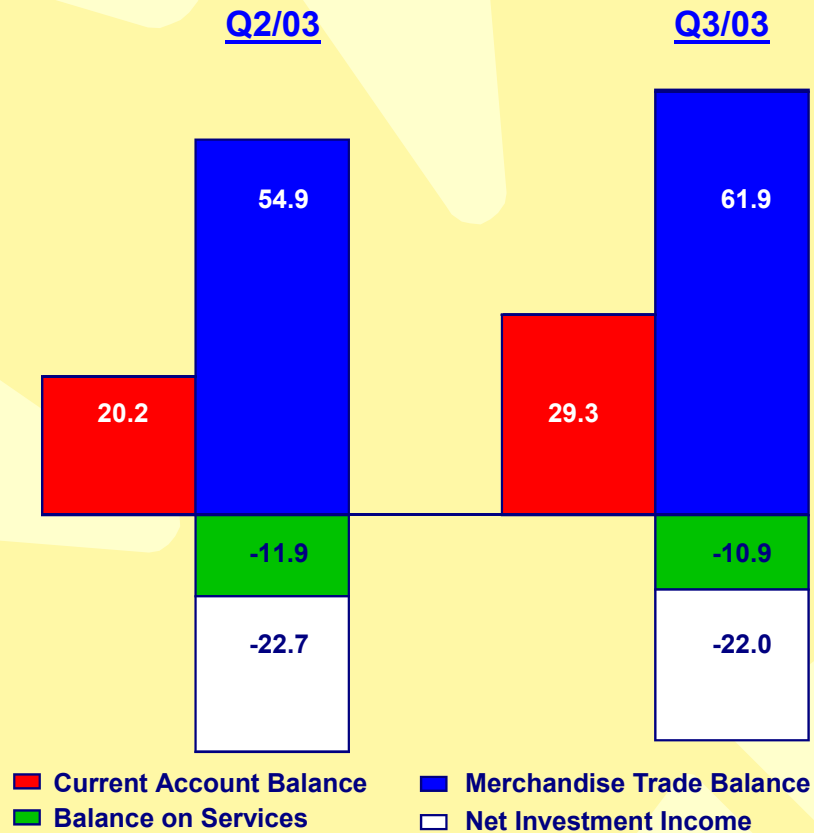
The merchandise trade surplus increased by \$1.8 billion to \$15.5 billion (\$61.9 billion annualized) in the third quarter, as imports fell more than exports.

Meanwhile, the deficit in services decreased by \$0.2 billion to \$2.7 billion. The deficit for international travel continued to be high, as travel receipts were still affected by SARS.

Furthermore, the deficit on investment income edged down \$0.2 billion to \$5.5 billion, as profits to foreign direct investors in Canada diminished, mainly in the energy sector.

Main Components of the Current Account

\$ Billion, SAAR



Source: Statistics Canada

Merchandise exports continued to decrease, but at a slower pace...

Merchandise exports declined 1.1% in the third quarter, after posting a loss of 5.3% in the second. Losses were led by the machinery & equipment and automotive sectors, reflecting in part the power outage in August.

In September, exports increased 4.7%, led by automotive (+10.4%) and consumer goods (+6.7%). Motor vehicle manufacturers resumed production with the 2004 models after the power outage in August.

The cumulative exports for the first nine months of 2003 were down 1.4% from the same period of 2002. All major categories declined except energy, which was propelled by higher prices. The drop in exports was concentrated in the U.S.

Merchandise Exports, January to September 2003

	\$ Billion	% Change Jan.-Sept./02 - Jan.-Sept./03
Total	305.2	-1.4
<u>By Trade Partner</u>		
U.S.	253.6	-2.3
Japan	7.7	2.9
E.U.	17.6	2.9
All Others	26.3	3.4
<u>By Principal Commodity</u>		
Agricultural & Fishing Products	21.7	-6.6
Energy Products	47.5	36.3
Forestry Products	25.8	-8.1
Industrial Goods & Materials	49.2	-6.8
Machinery & Equipment	67.9	-7.0
Automotive Products	66.2	-10.3
Other Consumer Goods	13.0	-1.6

Source: Statistics Canada

...while merchandise imports also posted a decline

Merchandise imports fell 2.5% in the third quarter, after declining 4.7% in the second. The reduction was largely due to lower imports of automotive products and industrial goods & materials.

In September, imports rose 4.5% as automotive (+11.4%) and energy (+10.5%) imports posted strong gains. Imports increased for all major sectors except consumer goods and forestry products.

In the first nine months of 2003 compared to the same period in 2002, imports fell 2.7%, led by lower imports of machinery & equipment and automotive products. Regionally, lower imports from the U.S., Japan and the E.U. offset gains with all other regions.

**Merchandise Imports,
January to September 2003**

	\$ Billion	% Change Jan.-Sept./02 - Jan.-Sept./03
Total	258.3	-2.7
<u>By Trade Partner</u>		
U.S.	181.0	-5.2
Japan	8.2	-5.5
E.U.	26.7	-0.3
All Others	42.4	8.1
<u>By Principal Commodity</u>		
Agricultural & Fishing Products	16.4	0.2
Energy Products	15.1	28.5
Forestry Products	2.3	-2.5
Industrial Goods & Materials	49.1	-4.7
Machinery & Equipment	74.4	-6.1
Automotive Products	57.4	-5.2
Other Consumer Goods	34.8	1.1

Source: Statistics Canada

Foreign investors reduced their holdings of Canadian bonds, but bought more equities

In the third quarter, Canadians invested \$0.6 billion abroad while foreigners lowered their investment by \$4.3 billion in Canada.

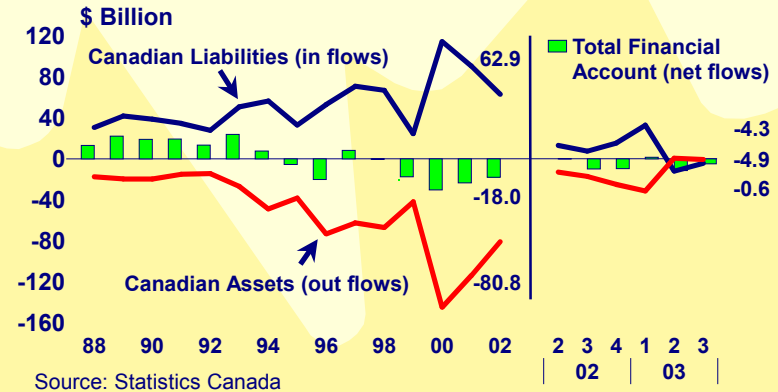
Direct Investment

Canadian direct investment abroad was \$4.9 billion in the third quarter. At \$2.0 billion, foreign direct investment in Canada was at its lowest level in more than eight years. It was mostly related to reinvested earnings and small acquisitions.

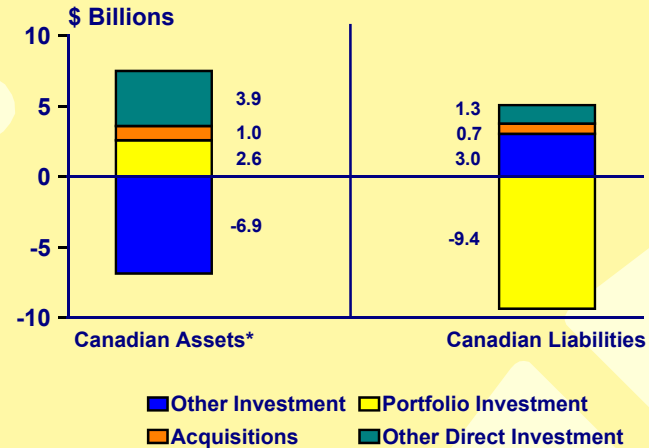
Portfolio Investment

Canadians bought \$2.6 billion of foreign stocks, recovering to the level of the fourth quarter of 2002. Foreign investors reduced their holdings of Canadian bonds by a record \$12.3 billion. They purchased \$5.3 billion of Canadian shares, double the amount bought in the second quarter, as the stock markets continued to improve.

Financial Account (Net Flows)



Financial Account Components Q3/2003



* Reverse of BOP sign
Source: Statistics Canada

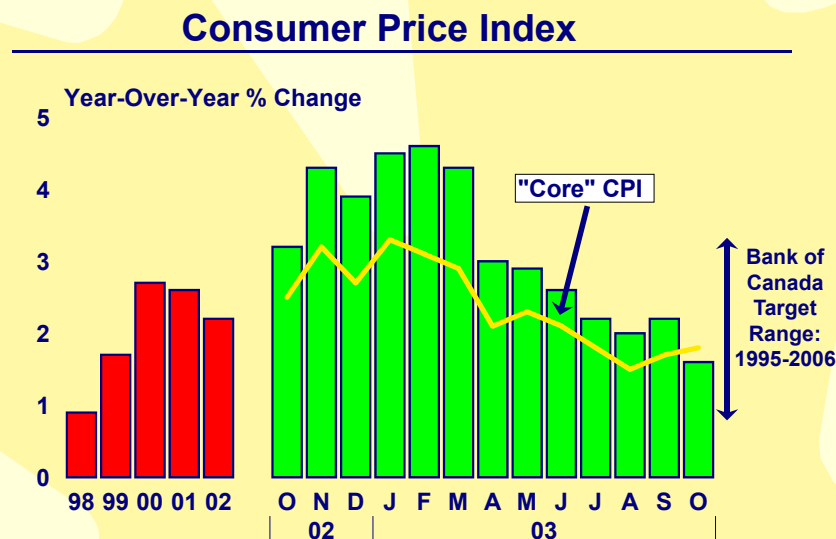
Domestic Scene

Price Movements

Inflation moderated in October...

The year-over-year change in the Consumer Price Index (CPI) was 1.6% in October, down from over 4.0% earlier in the year when escalating energy prices pushed up inflation. Natural gas and fuel prices have posted smaller increases in recent months.

"Core" inflation – which excludes the most volatile components of the overall CPI and indirect taxes, and is the target for monetary policy – rose slightly to 1.8%, but remained below the midpoint of the official 1-3% target range.



In May 2001, the Bank of Canada and the Finance Department announced the renewal of the inflation target for monetary policy until 2006. The Bank also refined its measure for the underlying trend in inflation as measured by "core" inflation.

The "Core" CPI excludes prices for: fruit, fruit preparations and nuts; vegetables and vegetable preparations; gasoline; fuel oil; natural gas; mortgage interest; inter-city transportation; and tobacco products. It also excludes the effect of changes in indirect taxes.

Source: Statistics Canada & Bank of Canada

...as energy-sensitive components rose slower compared to others

At 1.6% in October, CPI inflation was the lowest since June 2002, and down from 2.2% in September.

- Smaller year-over-year increases in transportation and shelter costs contributed the most to the moderation in inflation.

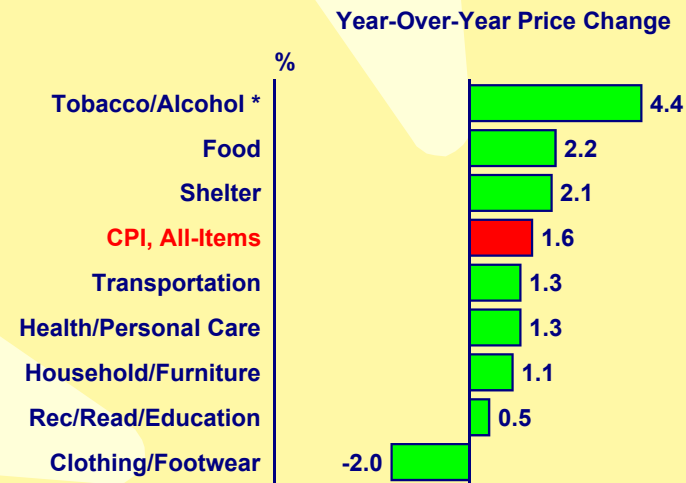
- Alcohol & tobacco product prices also rose more slowly, as did prices for household operations and furnishings, down from a seven-month high in September.

Energy prices fell 1.0%, the first decline since September 2002.

- Lower gasoline and fuel oil prices offset higher natural gas prices, which rose at a slower pace than in September.

- Excluding energy, CPI inflation was unchanged in September at 1.9%.

Components of CPI: October 2003



* Increases in provincial and federal sales taxes on cigarettes between November 2001 and July 2002 pushed the Tobacco & Alcohol price index well above its prior level. Therefore, the impact of taxes was completely eliminated in July 2003. The year-over-year increase in the index between November 2001 and June 2003 ranged between 9.9% and 22.8%.

Source: Statistics Canada

Industrial prices fell further in October

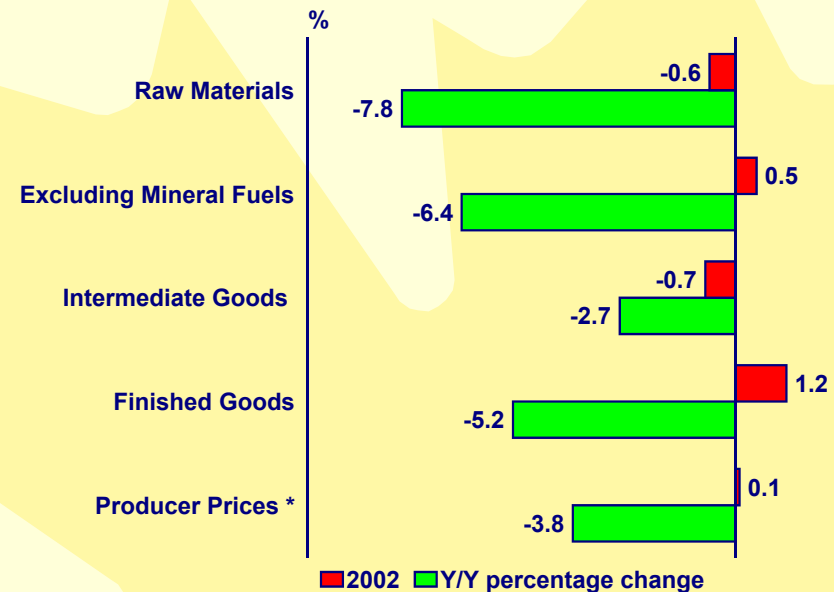
Industrial product prices – those received by producers at the factory gate – fell 3.8% year-over-year in October. This followed a drop of 2.7% in September. The appreciation of the dollar this year has helped to reduce prices.*

- Motor vehicle, pulp and paper, and communications product prices contributed most to the decline.
- On a monthly basis, prices decreased by 0.9% after three consecutive increases. This reflected decreases in motor vehicle, lumber, as well as petroleum and coal product prices.

Raw material prices fell 7.8%, following a 8.9% drop in September.

- Lower mineral fuel prices accounted for more than half of the decrease, with smaller contributions from price declines of vegetable and animal products.
- On a monthly basis, mineral fuel prices increased, pushing the raw material price index up 1.1%.

Price Chain - October 2003



* The increase in the value of the Canadian dollar relative to the U.S. currency so far this year has caused a decline in the prices received by producers of exported products quoted in U.S. dollars - particularly, motor vehicles, pulp, paper and wood products. Excluding the effect of the exchange rate, the IPPI would have increased 0.9% year-over-year and remained unchanged in October from September instead of falling 0.9%.

Source: Statistics Canada

Domestic Scene

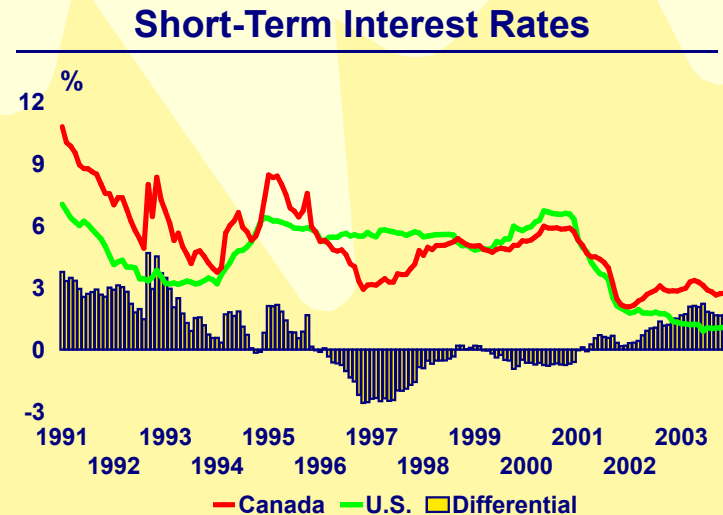
Financial Variables

The Bank of Canada and the U.S. Federal Reserve left interest rates unchanged

The Bank of Canada held the overnight rate steady at 2.75% on December 2. Recent developments showed evidence of underlying strength in the economy, but at the same time core inflation remained below target.

In the U.S., the Federal Reserve left its federal funds rate unchanged at 1.0% on December 9, noting that the low rate made important contributions to output and the improvement in the labour market. The slack in the economy and low inflation led the Fed to conclude that the accommodative monetary stance could remain for a while.

The spread between the Canadian 90-day corporate paper rate and its U.S. counterpart have changed little in the last three months, averaging about 160 bps.



Last data point plotted: December 10, 2003

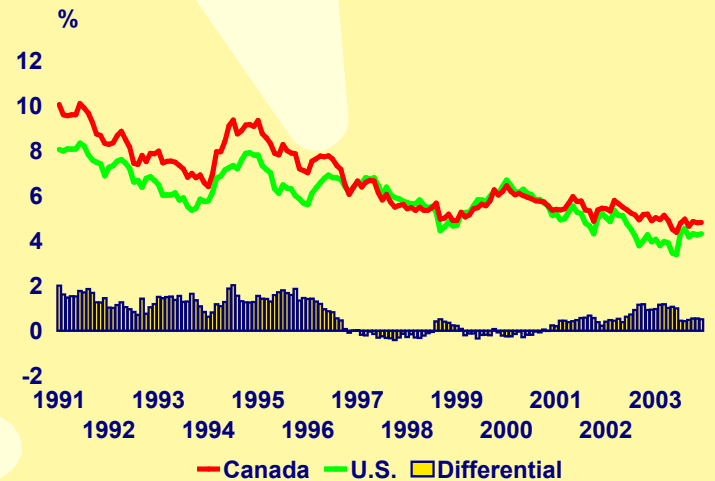
Source: Bank of Canada, 90-day prime corporate paper, last Wednesday in the month

Bond yields trended upward slightly since late September

Long-term bond yields trended higher in October and November in Canada. South of the border, evidence of healthy economic activity in the third quarter and the fading risk of deflation has also firmed U.S. long-term bond yields after a dip in June.

- After falling to 4.5% on October 1, the 10-year Canadian bond yield increased to 4.8% on December 11.
- In recent months, the Canada-U.S. 10-year yield differential has remained near 55 bps, its level on December 11.

Long-Term Interest Rates



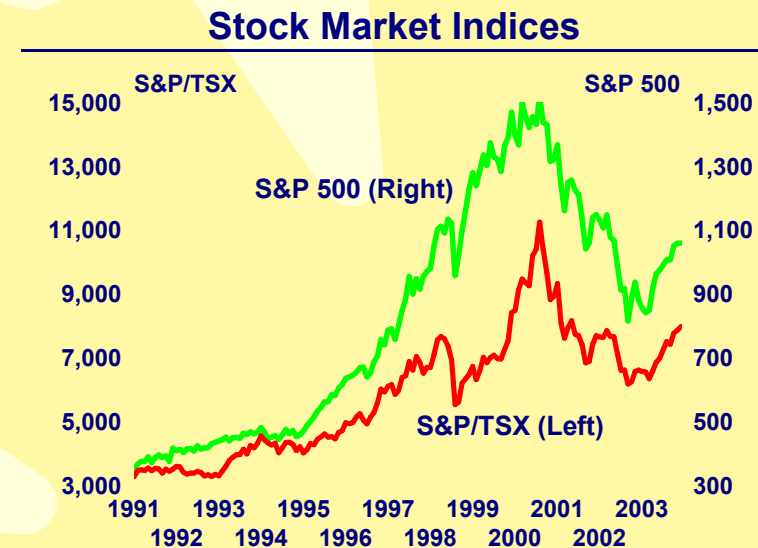
Last data point plotted: December 10, 2003

Source: Bank of Canada, 10-year Government bond, last Wednesday in the month

Equity markets rose on prospects of economic growth

The improving outlook for North America and evidence of a pick-up in the global economy provided support for equity markets, which continued rising from a low in March. The boost in economic activity has particularly benefited some cyclical stocks.

- Since early March, the S&P/TSX index increased by 1717 points (+28%) to 7946 on December 11. In the U.S., the S&P 500 rose 268 points (+33%) to 1069.



Last data point plotted: December 10, 2003

On May 1st, Canada's main equity index was renamed the Standard & Poor/Toronto Stock Exchange index (S&P/TSX).

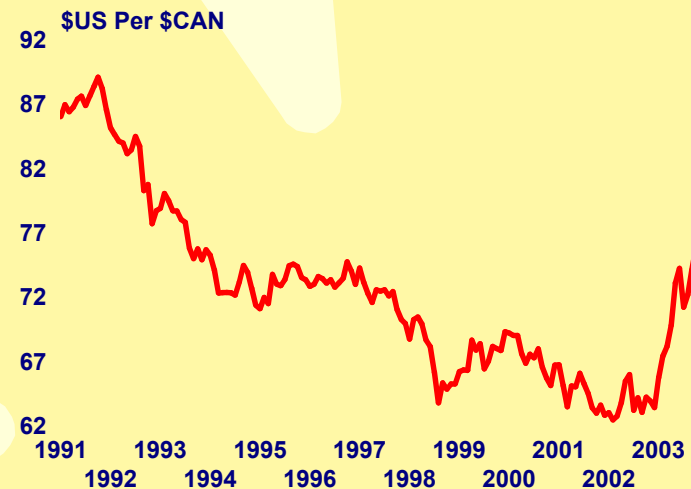
Source: Statistics Canada

The Canadian dollar continued to strengthen in recent months

Following strong gains in September and October, the appreciation of the Canadian dollar eased in November. Healthy third quarter performance in the U.S. compared to weak economic growth in Canada gave the U.S. dollar some support. However, the gap in Canada-U.S. interest rates and the large U.S. current account deficit continue to weigh on the U.S. dollar.

- The Canadian currency increased 21% from US63.8¢ at the start of 2003 to US77.1¢ on December 31.
- The Canadian dollar has also appreciated against most other currencies, including the Euro, British Pound, and Swiss Franc. However, its rise compared to these currencies has been far less and limited to regaining value lost over the past year or two.

Canada-U.S. Exchange Rate



Last data point plotted: December 10, 2003

Source: Bank of Canada

Domestic Scene

Fiscal Track

Small surplus expected for 2003-04

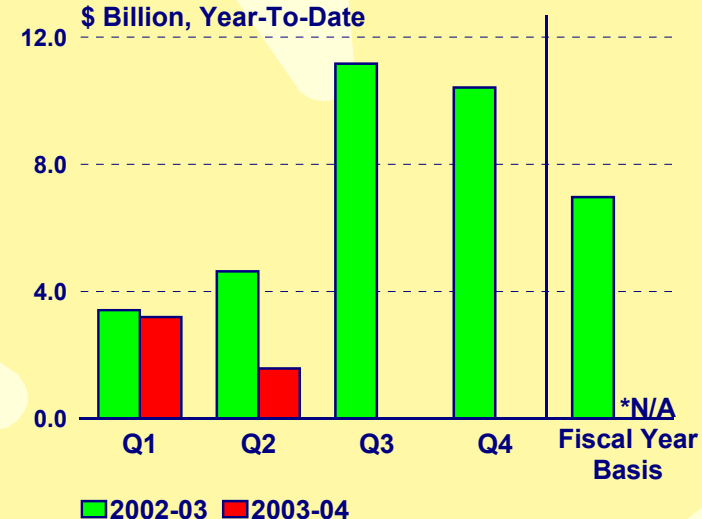
The federal government recorded a fiscal surplus of \$7 billion in 2002-03, the sixth consecutive surplus. The surplus was used to further reduce federal debt, bringing the total reduction to more than \$52 billion since 1997-98. The debt-to-GDP ratio declined to roughly 44 percent.

Fiscal results for the April to October 2003 period show a cumulative surplus of \$635 million, down \$3.6 billion from the \$4.2 billion surplus recorded for the same period in 2002.

The Finance Minister presented the Economic and Fiscal Update on November 3, revising down the surplus by \$0.5 billion. The Update revealed that the government has announced \$1.2 billion in new spending primarily to respond to developments such as SARS and mad cow, and to fulfill Canada's international obligations. This reduced the surplus to \$2.3 billion, of which \$2.0 billion was committed to provinces.

Nova Scotia, New Brunswick, Quebec, Manitoba, Saskatchewan and Alberta are expected to record balanced budgets or surpluses in 2003-04. The three territories are expected to post deficits.

Federal Budgetary Balance



Source: Department of Finance Canada

* Fiscal year data for 2003-2004 is not yet available.



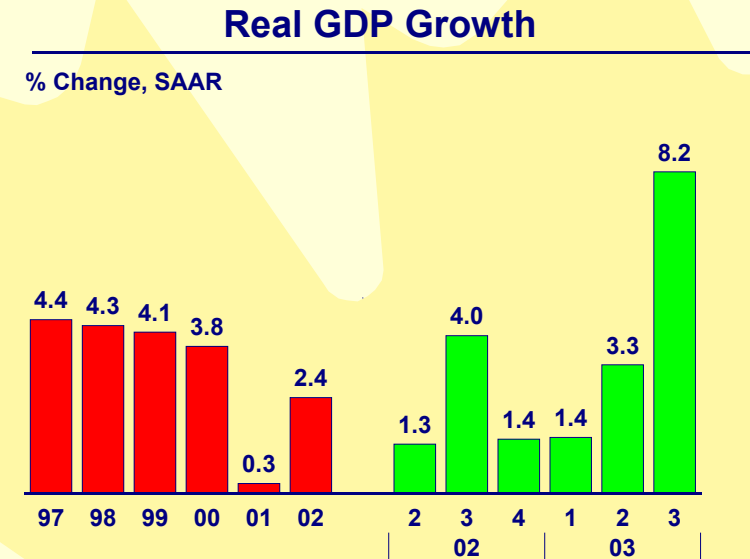
U.S. Developments

Real Economic Activity

The U.S. economy grew at a sizzling rate in the third quarter

Real GDP rose at an annualized rate of 8.2% in the third quarter (preliminary estimate), the highest growth since 1984.

- Business spending accelerated to 18.2% on a rebound in investment in equipment and software, and in residential investment. This came on top of a strengthening in consumer spending growth (6.4%).
- Exports rose by a strong 11%, ending three consecutive declines and helping to reduce the trade deficit and to bolster economic growth.



Source: U.S. Department of Commerce

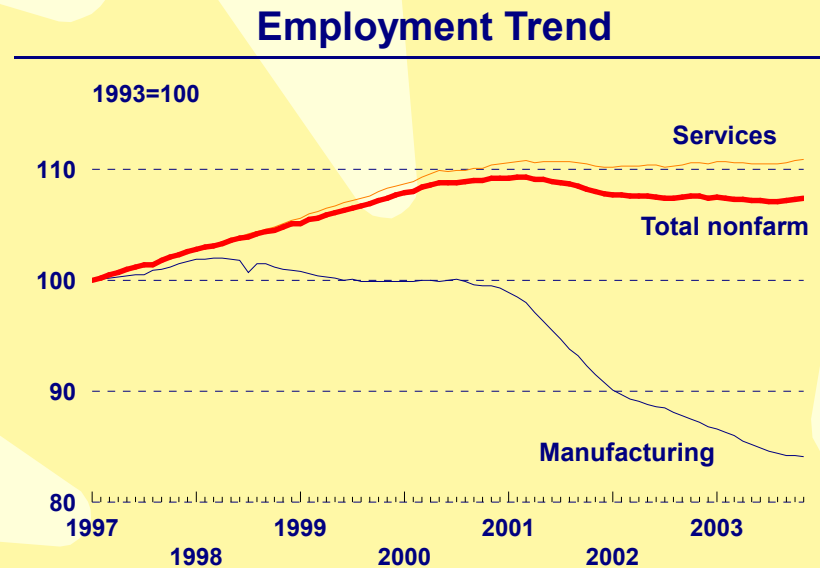
Recent indicators, including orders, the manufacturing and non-manufacturing indices from the Institute for Supply Management (ISM) and employment, all point to continued strength in the fourth quarter, despite signs of moderation in consumer spending and housing activity. In line with recent developments, the consensus outlook for real GDP growth in 2003 was raised from 2.9% in November to 3.1% in December. Inflation has trended down since the beginning of 2003. Total CPI inflation was 1.8% in November. Excluding food & energy, CPI inflation was 1.1%.

Employment continued its recovery in November

Nonfarm employment rose by 57,000 in November. This was the fourth consecutive increase after six months of declines. Large gains in the service sector were responsible for the turnaround.

- The pace of job losses in manufacturing has eased recently, with declines averaging 17,000 in September-November compared with average declines of 53,000 in the 12 months to August. This reflects the bottoming out of a manufacturing contraction, which has led companies to shed labour and improve productivity to face global competition.**

The unemployment rate was down to 5.9% in November from a peak of 6.4% in June. The participation rate edged up to 66.3%, but was well below the peak of 67.4% in early 2000.



Source: Bureau of Labour Statistics

For Further Information

We welcome your questions, comments and suggestions? You can reach us by ...

sending us a letter:

**Hossein Rostami
Director
Micro-Economic Analysis
Industry Canada
235 Queen Street, Room 540G
Ottawa, Ontario K1A 0H5**

e-mailing:

Rostami.Hossein@ic.gc.ca

phoning:

(613) 995-8452

or faxing us at:

(613) 952-1936

The *Micro-Economic Monitor* is prepared on a quarterly basis by the Micro-Economic Analysis Directorate of Industry Canada. The Monitor provides a quick and easy-to-read update on Canada's economic performance. It also provides topical in-depth reports on current economic issues from a micro-economic perspective. This report uses data available as of December 31, 2003.

The current analysis update was prepared by Eric Chalifoux, Stéphane Crépeau, Anik Dufour, Kevin Koch, Joseph Macaluso, Arif Mahmud, Sue Moore, François Poitras, François Rimbaud, and Marc Vachon under the direction of Hossein Rostami. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for administrative support.

ISSN 1206-260X