



Industry
Canada

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Monthly Economic Indicators

September 2004




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

Canada 

MONTHLY ECONOMIC INDICATORS

September 2004

HIGHLIGHTS

-  **Economic growth increased to 4.3% in the second quarter from 3% in the first, largely reflecting strong foreign demand.**
-  **Employment edged down in August, as full-time employment continued to rise (15,000) while part-time employment fell (22,000). The unemployment rate remained at 7.2%.**
-  **Recent indicators, including exports, housing starts and auto sales point to a moderation of growth in the third quarter.**
-  **In the United States, economic growth moderated to 2.8% in the second quarter and recent indicators point to continued growth in the third.**
-  **The Bank of Canada raised its over-night rate by 25 basis points to 2.25 per cent, indicating that the economy was now close to its production capacity.**
-  **The Canadian dollar closed at over 77 US cents on September 15, near a 10-year high in January and up 7.5% from a recent low of 71.7 US cents in May.**

Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$97 B)	1,044.2	0.3	3.3	June
Goods	328.8	0.2	4.5	June
Services	716.7	0.4	2.7	June
Composite Index	198.5	0.6	9.2	July
Employment (000's)	16,033	0.0	2.0	Aug.
Full-time	13,075	0.1	2.5	Aug.
Part-time	2,959	-0.8	0.0	Aug.
Unemployment* (%)	7.2	7.2	8.0	Aug.
Youth*	13.7	13.4	14.4	Aug.
Adult*	6.0	5.9	6.7	Aug.
CPI inflation*	2.3	2.5	2.2	July
Retail Sales (\$M)	28,694	0.2	4.9	June
Housing Starts (000's)**	241.5	10.5	3.4	Aug.
Trade Balance* (\$M)	6,244	7,547	4,626	July
Exports	37,685	-1.2	14.1	July
Imports	31,441	2.8	10.7	July
M&E	8,711	-1.8	5.7	July

		August	
		September 15***	2004
3-mth Corp. paper (%)*	2.42	2.22	2.80
Long bond yield (%)*	4.63	4.68	4.96
Canadian dollar (US¢)*	77.09	76.16	72.17

*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

September 2004

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This issue uses data available as of September 15, 2004. It has been prepared by Éric Chalifoux, Stéphane Crépeau, Kevin Koch, Joseph Macaluso, Sue Moore, and François Rimbaud of the Micro-Economic Analysis Directorate, under the direction of 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

National Economic and Financial Accounts



Fueled by a surge in exports, the economy accelerated in the second quarter...

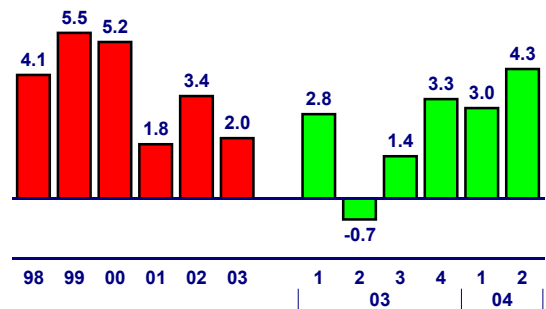
- Real gross domestic product (GDP) increased 4.3% (all rates annualized) in the second quarter after increasing 3.0% in the previous quarter.
- Exports surged 21.6% due to widespread increase in goods exports. With import growth (13.3%) advancing at a slower pace, net exports added 3.4 percentage points to GDP growth.
- Growth in final domestic demand moderated to 1.7% in the second quarter from 5.9% in the first. Consumer spending advanced 1.3% compared to 6.4% growth in the first, mostly due to slower spending on semi-durable (2.3%) and durable goods (3.7%).
- Business inventory accumulation slowed further from \$1.0 billion in the first quarter to \$0.1 billion in the second quarter. Farm inventories accumulated while non-farm (manufacturers, retailers, and wholesalers) inventories were depleted, which led to a further decline in the inventory-to-sales ratio to a record low.

...and personal income and profits rose further

- Personal disposable income rose 8.0% in the second quarter, up from 6.6% in the first. With consumer spending increasing slower than disposable income, the savings rate rose from 0.8% in the first quarter to 1.5%.
- Corporate profits rose 28.6% following a 35.8% increase in the first quarter. With healthy profit gains by manufacturers, oil and gas producers, and retailers, corporate profits remained around 13% of GDP in the second quarter (compared to the historical average of 10%).

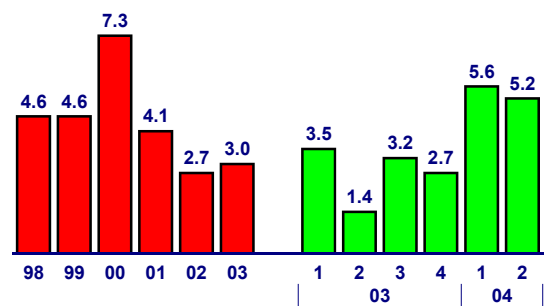
Real GDP Growth

% Change, SAAR

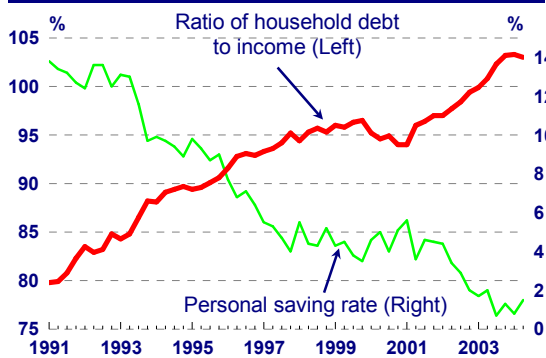


Growth in Personal Income

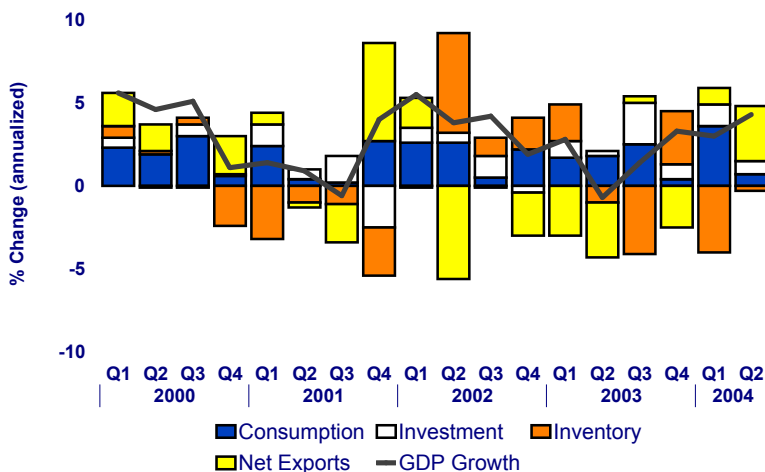
% Change, SAAR



Personal Debt and Savings Rate

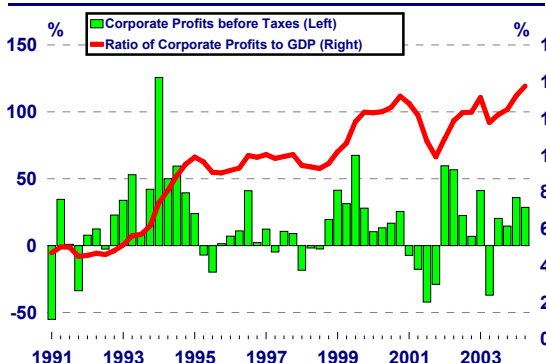


Contributions to Quarterly Real GDP Growth* (Annualized)



* For the purpose of simplification and given their relative stability over time, contributions from government expenditures are not shown.

Corporate Profits





International Accounts

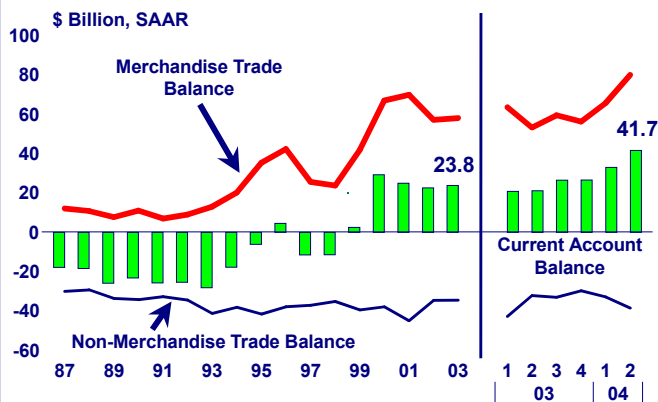
Current account balance posted a twentieth consecutive surplus in the second quarter...

- Canada's current account surplus rose \$2.2 billion to \$10.4 billion (\$41.7 billion annualized) in the second quarter, the second highest level ever. The increase was led by the merchandise trade surplus.
- The surplus on trade in goods reached \$20.0 billion (\$80.2 billion annualized) as exports rose (10.1%) more than imports (7.8%). The increase in exports was led by automotive products, industrial goods, and energy products.
- The deficit in services edged down (\$0.1 billion) to \$2.9 billion. Moreover, the deficit on investment income increased \$1.5 billion to \$6.8 billion, as profits earned by foreign direct investors rose markedly.

...while Canadian direct investment abroad reached record levels

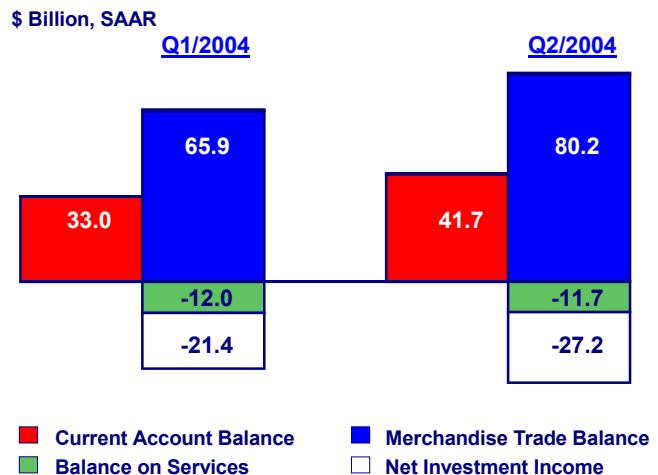
- Canadian direct investment abroad surged to \$33.0 billion, due to acquisitions that included the largest Canadian takeover of a foreign company (Manulife of Canada bought John Hancock Insurance in the U.S.). Foreign direct investment in Canada decreased to \$3.3 billion from \$5.0 billion, driven by reinvested earnings. Most of the investment went into the machinery and transportation industries. On the other side, the same acquisitions which involved an exchange of shares helped push foreign portfolio investment into Canada to \$22.9 billion, the largest amount in ten quarters.

Current Account & Trade Balances

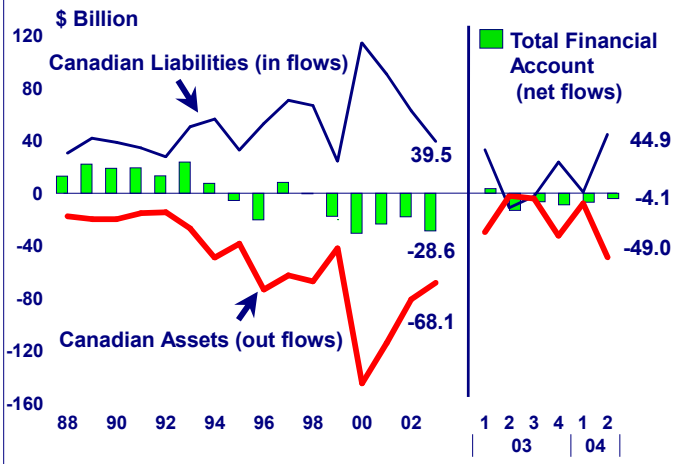


The merchandise trade balance represents net exports of goods.
The non-merchandise trade balance represents net exports of services plus net receipts of investment income and transfers.

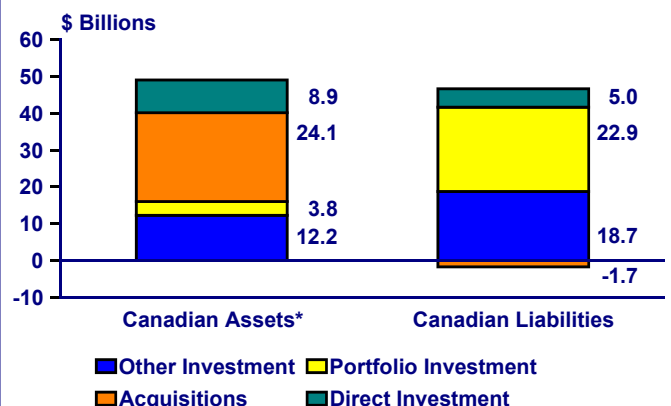
Main Components of the Current Account



Financial Account (Net Flows)



Financial Account Components, Q2/2004



* Reverse of BOP sign



Productivity & Competitiveness

Productivity grew slower in Canada than the U.S. in the second quarter...

- Labour productivity in Canada's business sector rose 0.4% (annual rate) in the second quarter, as real GDP growth slightly exceeded the increase in hours worked. Since the strong gain of 4.3% in the first quarter of 2003, productivity has been virtually flat for five consecutive quarters. Meanwhile, although it slowed considerably, labour productivity growth in the U.S. (1.5%) outpaced that of Canada for the fifth straight quarter. Both U.S. output (3.2%) and the number of hours worked (1.6%) increased in the second quarter.

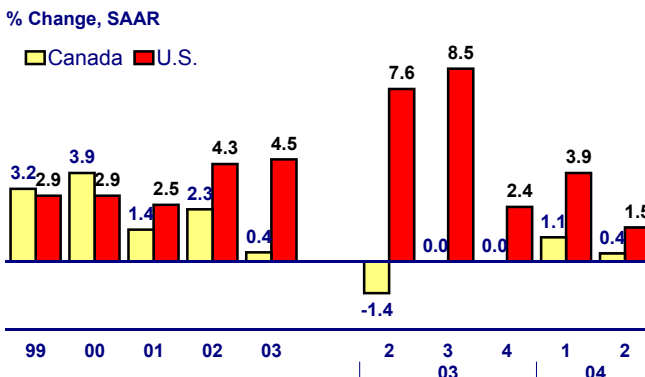
...but faster growth in U.S. wages...

- Canada's labour costs in the business sector declined 0.4% in the second quarter, as productivity edged up and wages remained unchanged. This was the first quarterly decrease since the third quarter of 2002. In the U.S., unit labour costs rose 2.1% as hourly compensation (3.7%) increased at a faster pace than productivity.

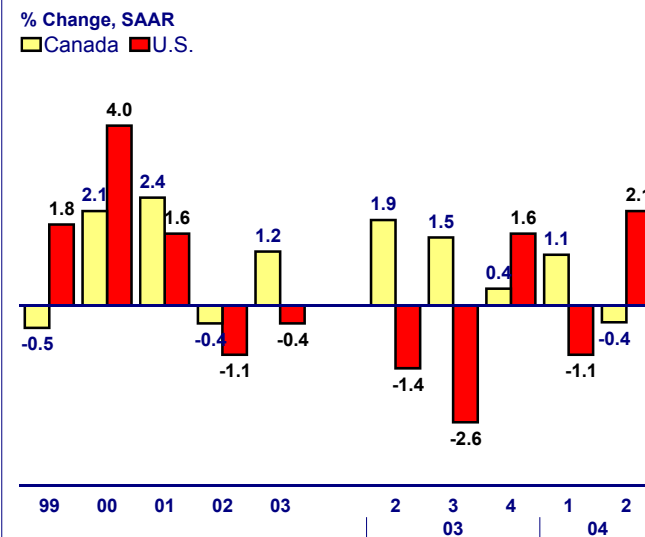
...and lower Canadian dollar improved Canada's relative competitiveness

- A decline in unit labour costs in Canada relative to that in the U.S., combined with the depreciation of the loonie vis-à-vis the U.S. currency, led to an improvement in competitiveness in the Canadian business sector. The small recovery in Canada's competitiveness in the past two quarters follow a substantial erosion, reflecting the appreciation of the Canadian dollar during 2003.

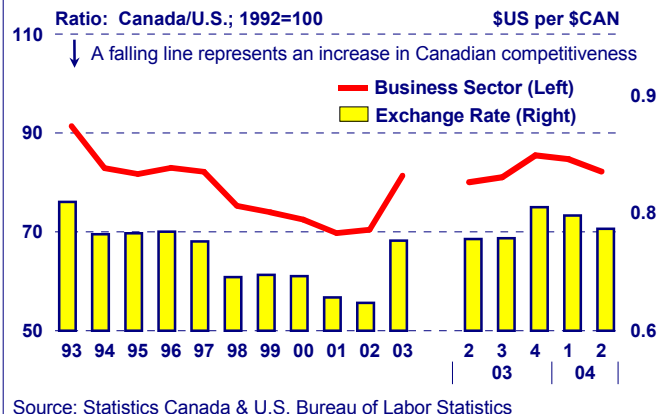
Productivity Growth



Growth in Unit Labour Costs*



Unit Labour Cost Comparison (\$US)





Real GDP by Industry

Economic activity continued to increase in June...

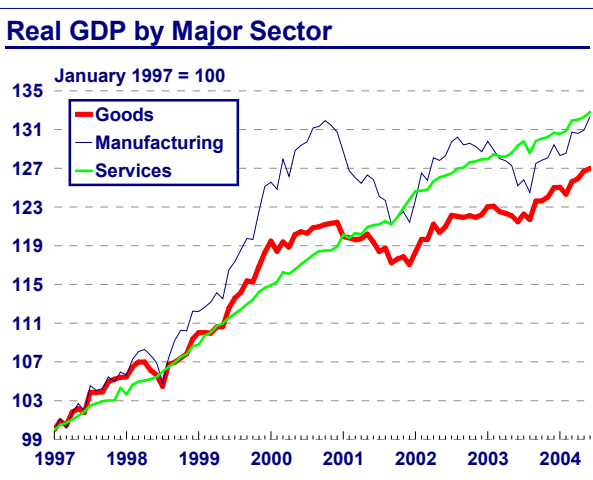
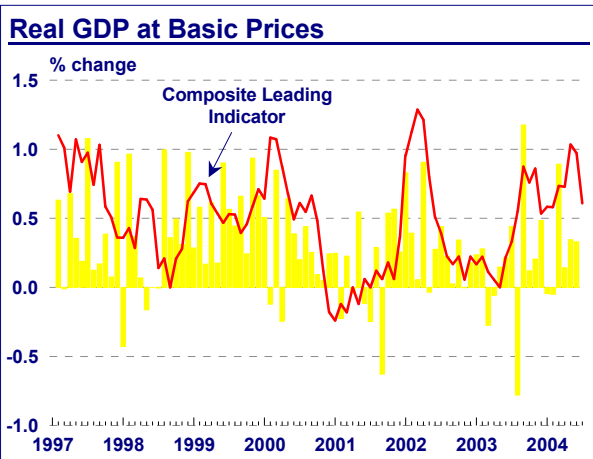
- Real GDP at basic prices rose 0.3% in June, the same pace as in the previous month and the fourth consecutive monthly increase. Higher exports spurred activity in the manufacturing and wholesaling sectors. Total output rose 1.1% in the second quarter, up from a 0.6% rise in the previous quarter.

...as output in the goods sector rose...

- Production in the goods sector increased 0.2% after growing 0.6% in May. The manufacturing sector, led by aerospace, automotive, fabricated metals, and machinery posted a stellar performance due to strong foreign demand. After surging in May, output in the mining and oil & gas sector declined, albeit the higher oil prices. Furthermore, construction activity fell after recording a strong increase in the previous month.

...and the service sector expanded

- Services-producing industries output rose 0.4% after increasing 0.2% in the previous month. The health care and social assistance sector rebounded strongly as a labour dispute came to an end in British Columbia. Moreover, wholesale trade was up 1.1%, as automotive production rose strongly.



Real GDP at Basic Prices (1997 chained dollars)

June 2004	\$ millions	monthly change	% Change since last	
			month	year
Total Economy	1,044,176	3,433	0.3	3.3
Business Sector	886,491	2,023	0.2	3.7
Goods-producing	328,756	674	0.2	4.5
Agri., Forest, Fish, Hunt*	24,065	174	0.7	2.4
Mining & Oil & Gas Extraction	38,453	-541	-1.4	4.6
Utilities	25,757	51	0.2	0.7
Construction	56,423	-549	-1.0	3.4
Manufacturing	182,649	1,905	1.1	5.7
Services-producing	716,701	2,797	0.4	2.7
Wholesale Trade	66,591	699	1.1	6.6
Retail Trade	58,247	175	0.3	3.1
Transportation & Warehousing	48,628	168	0.3	4.9
Information & Cultural	42,884	-16	0.0	1.1
FIRE**	209,656	22	0.0	2.7
Professional***	45,638	171	0.4	2.2
Admin. & Waste Mgmt	22,780	39	0.2	2.3
Education	46,241	405	0.9	1.8
Health & Social	61,630	750	1.2	1.2
Arts, Entertain. & Recreation	9,367	18	0.2	-0.5
Accommodation & Food	22,942	-74	-0.3	4.0
Other	24,487	81	0.3	1.7
Public Administration	58,838	336	0.6	1.0

*Agriculture, Forestry, Fishing & Hunting

**Finance, Insurance & Real Estate

***Professional, Scientific & Technical services

THE ECONOMY



Consumer Spending and Attitudes

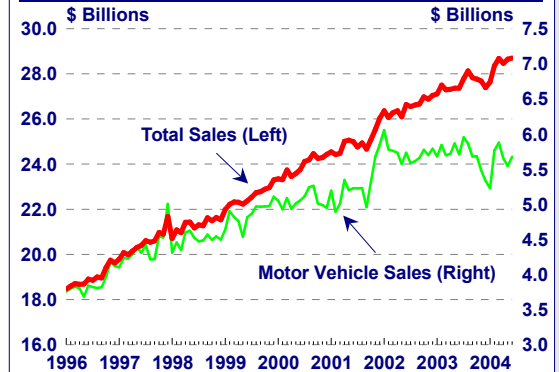
Consumption is slowing down...

- Real consumption grew 1.3% in the second quarter, following an increase of 6.4% in the first.
- Spending on durable and semi-durable goods as well as services increased at a slower pace while the consumption of non-durable goods registered a decrease.
- New motor vehicle sales rose 2.3% in July, following a 2.0% decrease in June. Preliminary data indicate a 1.3% decline in sales in August. Assuming no growth in September, new motor vehicle sales would slip 1.0% in the third quarter, following a 4.7% increase in the second.

...but consumer fundamentals are still strong

- Real personal disposable income increased 5.0% in the second quarter, following a 3.9% increase in the first. The savings rate rose to 1.5% in the second quarter, up from 0.8% in the first, as personal disposable income rose faster than consumer spending.
- The consumer confidence index remained at a high level in August and the survey showed improved sentiment regarding the purchase of big-ticket items.

Total Retail and Motor Vehicle Sales



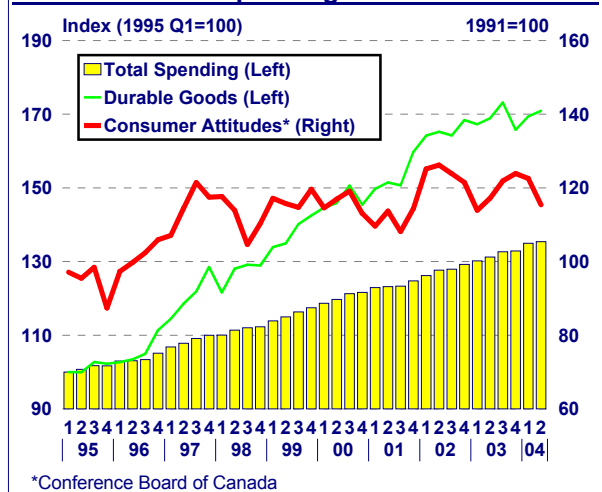
Retail Sales and Consumer Credit

June 2004	\$ millions	% Change since	
		last month	last year
Total Retail Sales (S.A.)	28,694	0.2	4.9
Food	5,605	-0.4	2.7
Drug Stores	1,923	2.2	8.9
Clothing	1,652	-1.0	0.7
Furniture	1,820	-1.4	4.5
Automotive	9,708	1.5	5.0
General Merch. Stores	3,473	-0.4	3.1
All other Stores	4,513	-1.3	9.0
Total ex. motor vehicles	21,770	-0.5	6.4
Consumer Credit	257	1.0	9.8

Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	2002	2003	2004 Q1	2004 Q2
Real Consumption (97\$)	601,594	620,444	635,614	637,677
% change	3.4	3.1	6.4	1.3
Durable Goods	93,099	94,923	95,286	96,145
% change	8.3	2.0	9.2	3.7
Semi-Durable Goods	54,472	56,142	58,391	58,720
% change	3.8	3.1	15.7	2.3
Non-Durable Goods	137,196	140,078	142,661	142,269
% change	2.3	2.1	5.3	-1.1
Services	317,627	330,098	339,967	341,399
% change	2.6	3.9	4.9	1.7
Disposable Income	692,691	713,548	731,080	745,344
% change	3.8	3.0	6.6	8.0
Saving Rate (%)	3.2	1.4	0.8	1.5
Debt-to-Income Ratio (%)	98.1	101.6	103.3	103.0

Real Consumer Spending and Attitudes



THE ECONOMY



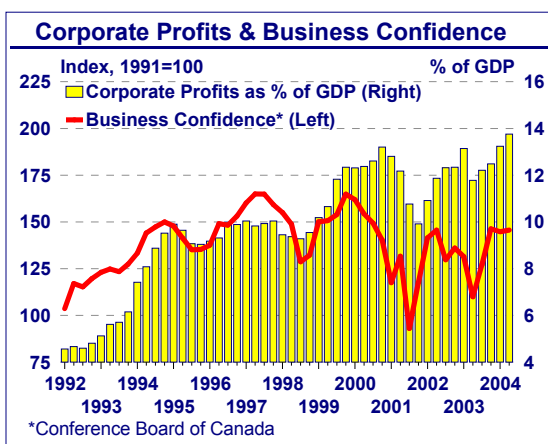
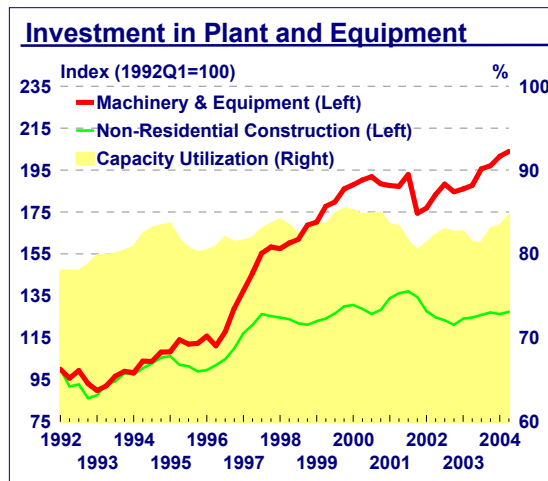
Business Investment

Business investment increased further in the second quarter...

- Business fixed investment rose 4.1% in the second quarter, following an upwardly-revised 4.8% increase in the first quarter.
 - Machinery & Equipment investment rose 4.5%, following a revised 9.6% increase in the first quarter.
 - Investment in non-residential structures rose 3.4%, following a decrease of 2.3% in the first.
- Helped by both rising exports and improved terms of trade, corporate operating profits rose by 17.5% in the second quarter, following an upwardly revised jump of 41.7% in the first.
 - Both manufacturing and oil and gas extraction industries registered impressive profit increases (53.2% and 51.4% respectively). Together, they accounted for over 2/3 of the second quarter's rise in corporate operating profits.

...and prospects are good for continued growth

- The manufacturing capacity utilization rate rose to 86.6% in the second quarter, a level not seen since the fourth quarter of 1999.
- The Business Confidence index remained high at the end of the second quarter (June). High levels of business confidence, capacity utilization and profits bode well for sustained growth in investment.



Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	2002	2003	2003 Q3	2003 Q4	2004 Q1	2004 Q2
BUSINESS INVESTMENT						
Machinery & Equipment (1997\$)	82,715	86,441	88,229	88,920	90,973	91,985
% change	-1.2	4.5	17.8	3.2	9.6	4.5
Non-residential Construction (1997\$)	44,493	44,928	45,109	45,501	45,238	45,613
% change	-8.3	1.0	4.0	3.5	-2.3	3.4
Capacity Utilization (% , Non-farm goods)	82.3	82.1	81.3	83.0	83.4	84.6
Capacity Utilization (Mfg. sector)	83.3	83.0	81.6	84.2	85.0	86.6
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	149,969	172,118	171,528	178,676	194,936	202,952
% change	4.8	14.8	22.8	17.7	41.7	17.5
Profits - Non-financial industries	115,798	128,203	125,872	131,604	143,232	153,088
% change	8.8	10.7	19.0	19.5	40.3	30.5
Profits - Financial industries	34,169	43,915	45,656	47,072	51,704	49,860
% change	-6.8	28.5	34.2	13.0	45.6	-13.5
Business Credit	892,255	907,824	908,565	914,381	924,253	937,870
% change	3.9	1.7	1.6	2.6	4.4	6.0

THE ECONOMY

Housing



Housing activity remained brisk in the second quarter...

- Residential construction rose 6.1% in the second quarter following a 12% increase in the first.
- Sales of existing homes rose 33.7% in the second quarter, following a decline of 4.1% in the first. However, monthly figures seem to indicate a downward trend as sales decreased for a fourth consecutive month in July.

...but could soften somewhat in the third

- The value of residential building permits issued fell (10.3%) in July, following a 25.4% increase in June.
- Following a 5.8% decline in July, housing starts rose 10.5% in August. Assuming no growth in September, housing starts will show small (2.0%) growth in the third quarter, following a 13.5% increase in the second.
- In the resale market, the average house price in Canada was lower in June and July (2.4% and 1.6%, respectively) and could indicate the housing market is stabilizing. Nonetheless, compared to the corresponding period last year, it was 8.2% higher in July and 6.9% higher in June.
- Mortgage rates remain attractive, but have trended up and are expected to rise further. Most analysts expect a softening of housing activity in the coming quarters.

Housing Activity



*Canada Mortgage and Housing Corporation

Monthly Housing Indicators

	Levels	Change since	
		Last month	Last year
Residential Construction (1)* (\$97M, basic prices)	20,954	-1.3%	8.4%
Building Permits, \$M (2)*	3,111	-10.3%	10.8%
Sales of Existing Homes (2)** (# of units)	27,090	-449	-2,474
Housing Starts, (3)*** (# of units, SAAR)	241,500	22,900	8,000
Newfoundland & Labrador	2,500	-100	-200
Prince Edward Island	800	-100	300
Nova Scotia	4,900	800	0
New Brunswick	3,700	0	-1,100
Quebec	53,900	-3,000	-6,800
Ontario	92,500	11,300	6,600
Manitoba	7,400	2,500	2,200
Saskatchewan	4,000	1,000	400
Alberta	33,100	1,100	-3,600
British Columbia	38,700	9,400	10,200

1 - June data; 2 - July data; 3 - August data
Sources: *Statistics Canada; **Canadian Real Estate Association; ***Canada Mortgage and Housing Corporation

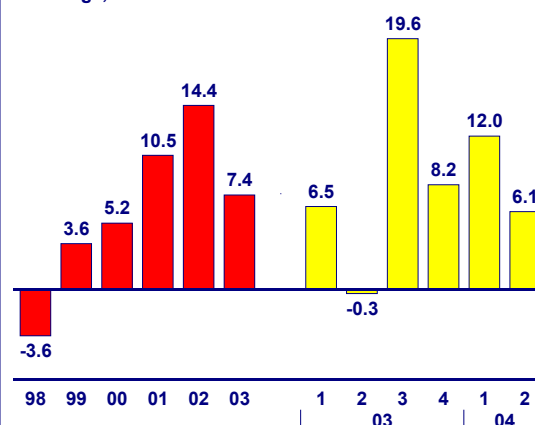
Real Investment in Residential Structures

\$97 Millions, SAAR (unless otherwise noted)

	2002	2003	2004 Q1	2004 Q2
Residential Construction	58,133	62,452	66,634	67,632
% change	14.4	7.4	12.0	6.1
New Housing	28,900	30,678	33,072	33,449
% change	23.2	6.2	12.9	4.6
Alterations & Improvements	20,600	22,619	24,000	24,040
% change	4.7	9.8	13.1	0.7
Ownership & Transfer Costs	8,639	9,204	9,628	10,128
% change	11.5	6.5	7.1	22.4

Growth in Real Residential Construction

% change, SAAR





Trade and Competitiveness

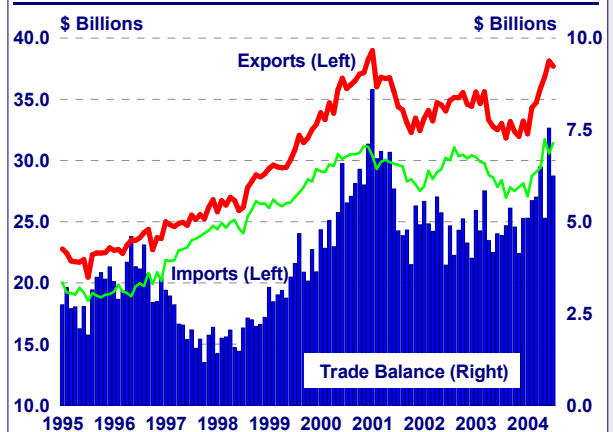
Exports fell and imports rose in July...

- Merchandise exports decreased 1.2% in July, putting an end to a string of five consecutive monthly increases. All principal commodity groupings posted a decrease except energy products. Furthermore, exports to all major trading areas declined with the exception of Japan and the European Union. Exports to China rose substantially in the first seven months of 2004. China is now the fourth destination in importance for Canadian exports. Export prices were unchanged in July.
- Imports increased 2.8% in July, largely reflecting increased imports of automotive products, industrial goods & materials, other consumer goods and high energy prices. Moreover, imports from almost all major principal trading regions posted an increase. Import prices declined 1.2% and import volumes rose 4.0%.

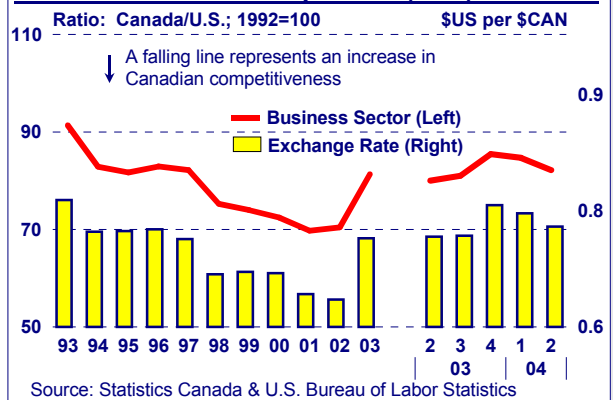
...and the trade surplus decreased

- As a result of lower exports and higher imports, Canada's trade surplus declined to \$6.2 billion in July. The trade surplus with the U.S. decreased to \$8.8 billion and the deficit with other countries was virtually unchanged. Nonetheless, year-to-date, exports rose 5.2% and imports increased 2.2% compared to the same period of the previous year. Furthermore, over the same period the trade surplus increased \$7.9 billion to \$41.7 billion.

Merchandise Trade Flows and Balance



Unit Labour Cost Comparison (\$US)



Merchandise Trade

July 2004	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	June 2004	July 2004	Jan.-July 2003	Jan.-July 2004	June to July 2004	June to July 2004	Jan.-July 2003 to Jan.-July 2004	
Exports	38,127	37,685	237,456	249,768	-442	-1.2	5.2	
to United States	30,999	30,623	197,301	203,616	-376	-1.2	3.2	
Imports	30,580	31,441	203,614	208,048	861	2.8	2.2	
from United States	20,985	21,837	142,761	144,280	852	4.1	1.1	
Trade Balance	7,547	6,244	33,842	41,720	-1,303			
with United States	10,014	8,786	54,540	59,336	-1,228			
Exports by Commodity								
Agriculture/Fishing Products	2,903	2,884	16,922	18,623	-19	-0.7	10.1	
Energy Products	6,177	6,292	37,558	38,770	115	1.9	3.2	
Forestry Products	3,534	3,462	19,675	23,071	-72	-2.0	17.3	
Industrial Goods & Materials	6,859	6,596	38,418	44,698	-263	-3.8	16.3	
Machinery & Equipment	8,249	8,153	52,992	54,199	-96	-1.2	2.3	
Automotive Products	7,970	7,602	51,677	52,972	-368	-4.6	2.5	
Other Consumer Goods	1,551	1,503	10,095	10,338	-48	-3.1	2.4	
Imports by Commodity								
Agriculture/Fishing Products	1,802	1,799	12,797	12,428	-3	-0.2	-2.9	
Energy Products	1,993	2,197	11,750	13,295	204	10.2	13.1	
Forestry Products	281	278	1,783	1,823	-3	-1.1	2.2	
Industrial Goods & Materials	6,227	6,339	38,823	41,320	112	1.8	6.4	
Machinery & Equipment	8,869	8,711	58,165	60,147	-158	-1.8	3.4	
Automotive Products	6,498	7,025	46,228	44,759	527	8.1	-3.2	
Other Consumer Goods	3,950	4,014	27,181	27,347	64	1.6	0.6	



Employment and Unemployment

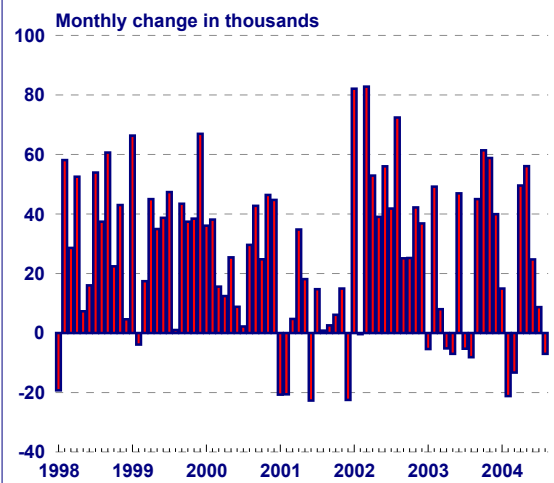
Employment was down slightly in August...

- Employment fell by 7,000 in August, following an increase of 9,000 in July. Since August 2003, when the recent upward trend began, employment has increased 318,000 (2.0%), all full-time positions.
- Hours worked increased 0.2% in August and 2.5% since the start of 2004.
- Adult employment rose by 21,000 in August, raising job gains since the start of 2004 to 122,000. Meanwhile, youth employment decreased by 28,000, resulting in year-to-date losses of 10,000.
- Private sector employment (i.e. paid employees and self-employed) rose by 14,000 jobs in August, with gains since the start of the year reaching 89,000. Meanwhile, public sector employment declined by 21,000, lowering job gains since last December to 23,000 (0.8%).
- The participation rate was unchanged at 67.4% in August and the employment rate edged down 0.1 percentage point to 62.5%. These are close to the all-time highs posted in December 2003.

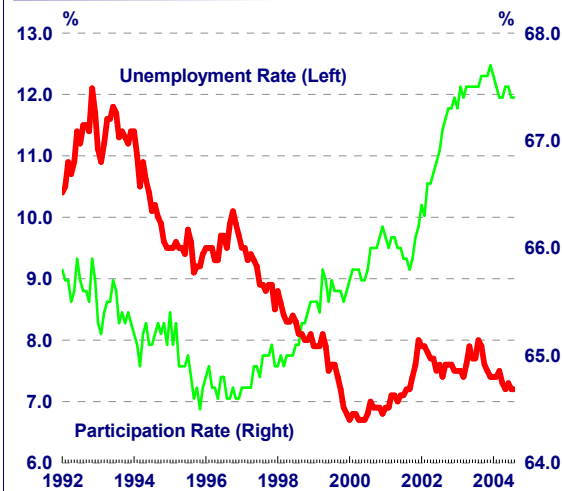
...and the unemployment rate remained unchanged at 7.2%

- The unemployment rate was unchanged in August after edging down 0.1 percentage point to 7.2% in July. The unemployment rate for adult men edged down, while those for adult women and youths edged up. The unemployment rate was 6.0% for adults and 13.7% for youths.

Employment



Unemployment Rate



Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2003 August	2004 July	2004 August	last month	last year	year-to- date	last month	last year
Employment	15,715.6	16,040.2	16,033.2	-7.0	317.6	112.5	0.0	2.0
Full-time	12,755.9	13,059.3	13,074.7	15.4	318.8	157.5	0.1	2.5
Part-time	2,959.7	2,980.9	2,958.5	-22.4	-1.2	-44.9	-0.8	0.0
Youth 15-24	2,391.3	2,436.9	2,409.0	-27.9	17.7	-9.8	-1.1	0.7
Adult 25+	13,324.2	13,603.3	13,624.2	20.9	300.0	122.4	0.2	2.3
Self-employed	2,438.6	2,476.5	2,476.8	0.3	38.2	39.4	0.0	1.6
Unemployment	1,357.5	1,235.5	1,246.0	10.5	-111.5	-20.8	0.8	-8.2
Unemployment Rate	8.0	7.2	7.2	0.0	-0.8	-0.2		
Youth 15-24	14.4	13.4	13.7	0.3	-0.7	-0.3		
Adult 25+	6.7	5.9	6.0	0.1	-0.7	-0.1		
Labour Force	17,073.1	17,275.7	17,279.2	3.5	206.1	91.8	0.0	1.2
Participation Rate	67.5	67.4	67.4	0.0	-0.1	-0.3		
Employment Rate	62.2	62.6	62.5	-0.1	0.3	-0.2		



Industry Overview

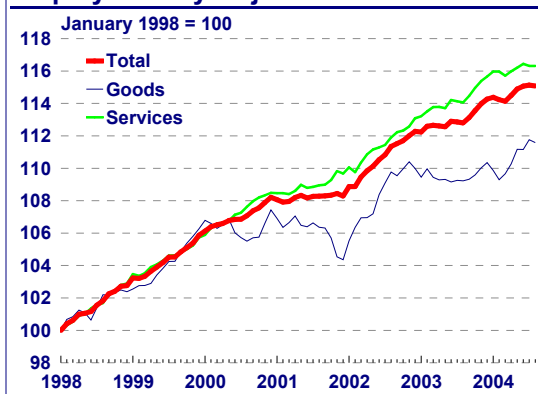
Employment in the Goods sector edged down...

- Employment in the Goods sector declined by 7,000 in August, after increasing by 22,000 in July. The loss of 20,000 jobs in Manufacturing and of 6,000 in Agriculture more than offset gains in Construction (9,000), Natural Resources (6,000) and Utilities (5,000).
- So far this year, the Goods sector has gained 45,000 jobs, with all categories posting gains, notably Construction (52,000), except Agriculture. Manufacturing employment has changed little in the last three months. Prior to this, the sector had created over 33,000 jobs from September 2003 to May 2004, recouping only one-third of manufacturing job losses since August 2002.

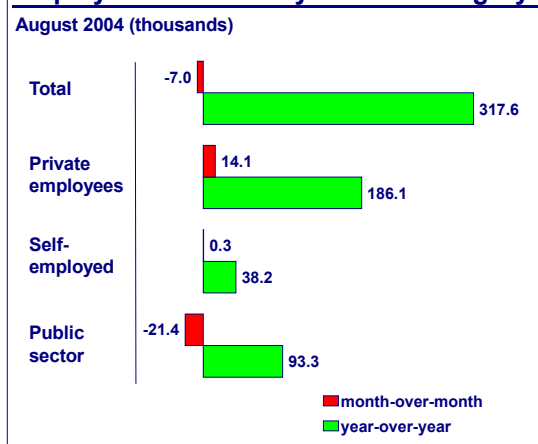
...while employment in the Services sector was virtually unchanged

- Employment in Services edged down 300 in August, following a decrease of 13,000 in July. In August, the largest job gains were posted in Finance, Insurance, Real Estate & Leasing (27,000). The largest losses were posted by Educational Services (29,000).
- Service employment has risen 67,000 so far this year. Most groupings have posted job gains, notably Professional/Scientific (50,000) and Financial, Insurance, Real Estate & Leasing (43,000), while job losses have been concentrated in Educational Services (49,000), Accommodation & Food (29,000) and Public Administration (13,000). On a year-over-year basis, the Services sector has gained 232,000 jobs.

Employment by Major Sector



Employment Growth by Worker Category



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2003 August	2004 July	2004 August	last month	last year	year-to-date	last month	last year
Goods-producing	3,974.4	4,067.0	4,060.4	-6.6	86.0	45.1	-0.2	2.2
Agriculture	334.7	330.8	325.0	-5.8	-9.7	-21.5	-1.8	-2.9
Natural Resources*	283.9	293.4	299.5	6.1	15.6	3.5	2.1	5.5
Utilities	135.3	134.1	138.8	4.7	3.5	8.1	3.5	2.6
Construction	942.5	999.9	1,008.8	8.9	66.3	51.7	0.9	7.0
Manufacturing	2,278.1	2,308.8	2,288.4	-20.4	10.3	3.4	-0.9	0.5
Services-producing	11,741.2	11,973.1	11,972.8	-0.3	231.6	67.4	0.0	2.0
Trade	2,456.5	2,496.7	2,485.8	-10.9	29.3	8.4	-0.4	1.2
Transportation*	765.8	811.4	806.2	-5.2	40.4	24.0	-0.6	5.3
FIRE*	932.5	972.3	999.2	26.9	66.7	42.5	2.8	7.2
Professional/Scientific	1,000.9	1,032.5	1,034.9	2.4	34.0	50.4	0.2	3.4
Business/Building	595.0	628.7	637.3	8.6	42.3	-0.3	1.4	7.1
Educational Services	1,037.7	1,040.9	1,012.2	-28.7	-25.5	-48.9	-2.8	-2.5
Health Care/Social Assistance	1,672.7	1,733.6	1,746.5	12.9	73.8	14.3	0.7	4.4
Information/Culture/Recreation	712.6	719.6	733.4	13.8	20.8	16.4	1.9	2.9
Accommodation & Food	1,022.6	1,018.3	1,001.0	-17.3	-21.6	-28.5	-1.7	-2.1
Other Services	714.8	695.9	701.5	5.6	-13.3	1.9	0.8	-1.9
Public Administration	830.2	823.2	815.0	-8.2	-15.2	-12.6	-1.0	-1.8

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

LABOUR MARKET TRENDS



Provincial Overview

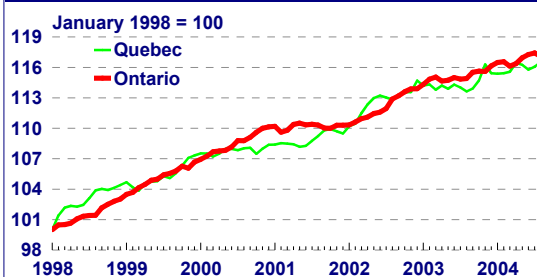
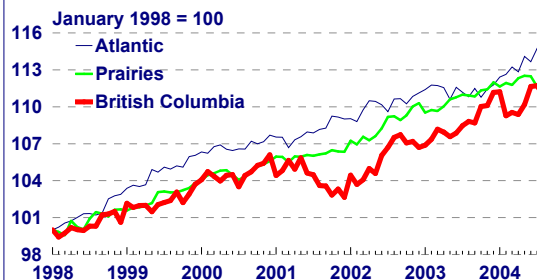
Job gains were concentrated in Quebec and Alberta...

- Employment in Quebec rose by 15,000 (0.4%) in August, with major contributions by Construction and Business Services. In Alberta, Construction, Finance and Agriculture contributed to a gain of 14,000 jobs (0.8%). Manitoba gained 4,000 jobs.
- Ontario posted the largest job loss in August (19,000), largely in Educational Services (20,000) and Manufacturing (20,000), reversing the gain in July. British Columbia lost 15,000 jobs, mostly youth (14,000) and concentrated in Trade (11,000). Newfoundland & Labrador lost 5,000 jobs. Other provinces posted job changes of 3,000 or less.
- On a year-over-year basis, all provinces posted gains, except Prince Edward Island (-0.6). The largest gains were in New Brunswick (4.8%), Nova Scotia (3.1%), and Quebec (2.6%). Ontario, Alberta and British Columbia each posted gains of 1.9%.

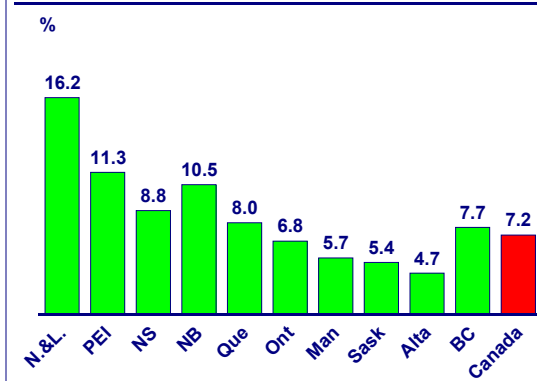
...while the unemployment rate rose in most provinces

- Job gains pushed the unemployment rate down in Quebec, while job losses pushed the unemployment rate up in Newfoundland & Labrador, Prince Edward Island, Nova Scotia and British Columbia. Labour force increases, not offset by job creation, pushed the unemployment rate up in New Brunswick, Manitoba and Saskatchewan.
- Since August 2003, the unemployment rate has fallen in most provinces, particularly in Quebec, Nova Scotia and British Columbia. The unemployment rate has risen in Prince Edward Island, Manitoba and Newfoundland & Labrador.

Regional employment patterns



Unemployment Rates -- August 2004



Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since	
	2004 August	(000's)	%	(000's)	%	2004 August	last month	last year
Canada	16,033.2	-7.0	0.0	317.6	2.0	7.2	0.0	-0.8
Newfoundland & Labrador	221.2	-5.3	-2.3	1.8	0.8	16.2	1.2	0.5
Prince Edward Island	69.4	-0.1	-0.1	-0.4	-0.6	11.3	0.1	0.9
Nova Scotia	446.7	-2.5	-0.6	13.4	3.1	8.8	0.4	-1.5
New Brunswick	355.7	1.6	0.5	16.3	4.8	10.5	0.5	-0.5
Quebec	3,717.0	14.5	0.4	92.5	2.6	8.0	-0.2	-1.9
Ontario	6,336.4	-18.8	-0.3	118.2	1.9	6.8	0.0	-0.3
Manitoba	574.3	3.5	0.6	3.3	0.6	5.7	0.1	0.8
Saskatchewan	487.6	0.8	0.2	1.0	0.2	5.4	0.2	-0.2
Alberta	1,757.9	13.7	0.8	32.0	1.9	4.7	0.0	-0.5
British Columbia	2,067.0	-14.5	-0.7	39.5	1.9	7.7	0.4	-0.9

PRICES and FINANCIAL MARKETS

Consumer and Commodity Prices



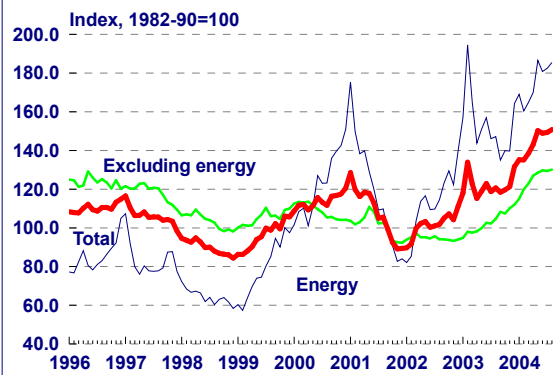
Inflation was 2.3% in July...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) moderated to 2.3% in July from 2.5% in June. Gasoline prices increased in July (17.9%), but at a slower rate than in June (24.5%). Excluding energy, inflation in July (1.6%) was the same as in June.
- Inflation moderated in all provinces except Ontario, where it was unchanged. Ontario experienced the smallest reduction in gasoline prices of all provinces.
- On a month-to-month basis (seasonally adjusted), the CPI was unchanged after rising 0.1% in June.
- The year-over-year increase in commodity prices was 25.0% in August following a 25.8% increase in July. On a monthly basis, commodity prices rose 1.0% following a 0.3% increase in July. Excluding energy prices, commodity prices rose 0.5% in August following a 0.2% decrease in July, the first decline in nine months.

...and the "core" rate rose to 1.7%

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

Commodity Prices (\$US basis)



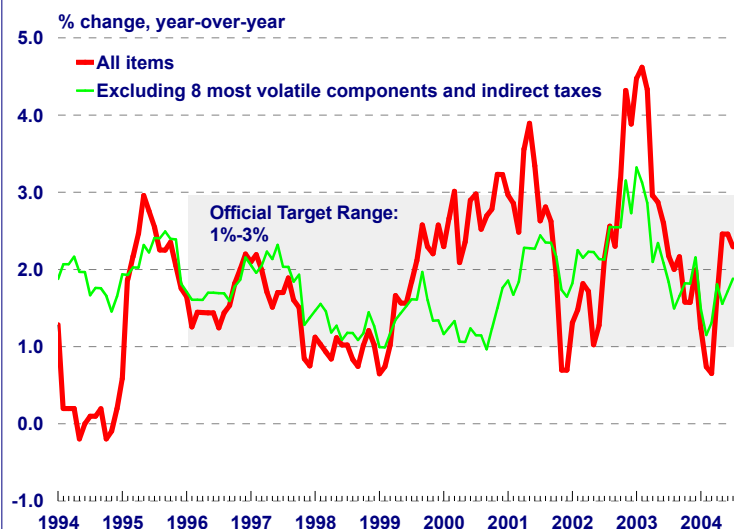
Consumer Prices

	Index (1992=100)	% Change since	
		last month	last year
July 2004			
All items CPI	125.0	-0.1	2.3
Food	125.6	0.0	1.9
Shelter	120.6	0.2	2.6
Household operations	114.9	-0.1	0.3
Clothing & Footwear	100.9	-1.0	-0.7
Transportation	146.2	-0.6	4.5
Health & Personal Care	119.2	0.1	2.0
Recreation, Educ. & Reading	128.9	0.3	0.8
Alcohol & Tobacco	144.2	0.1	5.6
Excl. 8 Most Volatile/Indirect Taxes	124.5	0.2	1.9
Energy	152.3	-1.6	10.7

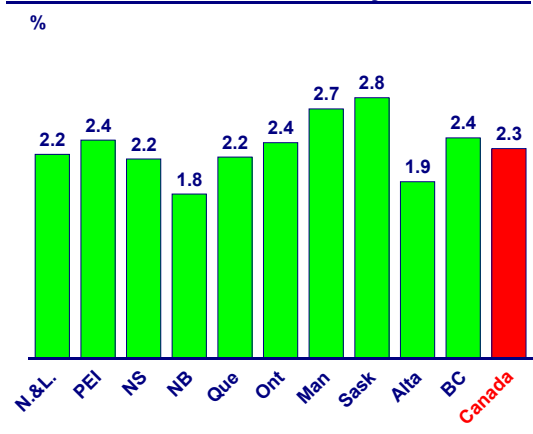
Commodity Prices (August 2004)

Index, 1982-90=100	150.8	1.0	25.0
Excluding Energy	130.1	0.5	24.4
Energy	185.4	1.6	26.0

Consumer Price Index



Provincial CPI Inflation -- July 2004





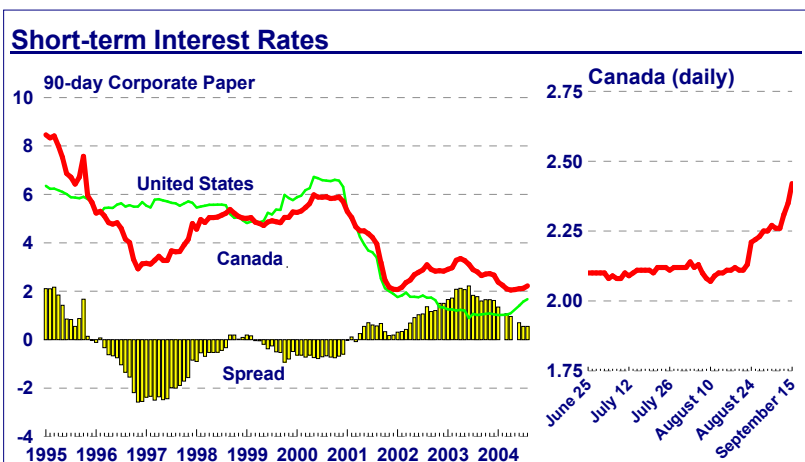
Short-term and Long-term Interest Rates

The Bank of Canada raised interest rates in September

- The Bank of Canada raised its target for the overnight rate by 25 basis points (bps) to 2.25% on September 8, indicating the Canadian economy grew faster in the first half of the year than the Bank had expected. With core inflation near the mid-point of its target range and the Canadian economy now operating close to production capacity, the Bank is expected to raise interest rates further in the coming months. In the United States, the Federal Reserve has raised its fed funds rate 50 bps to 1.50% since July. With growth showing signs of revival, the Fed is widely expected to raise its policy rate further on September 21.
- The rate on three-month corporate paper in Canada was 2.42% on September 13, up from 2.10% one month ago. Its U.S. counterpart was 1.77% on September 9 and has been steadily increasing from about 1.0% in April. The rate differential widened to 65 bps from a recent low of 46 bps in mid-August, but remained smaller than at the beginning of the year (160 bps).

Canadian long-term rates edged up

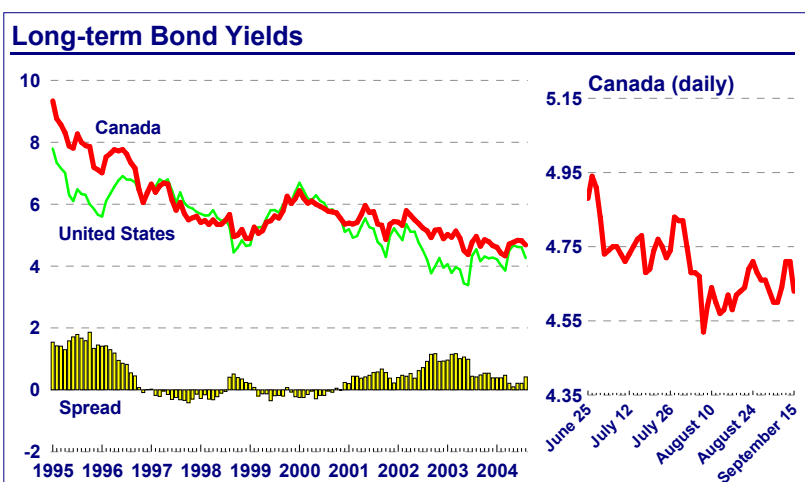
- Uncertainty about the strength of economic expansion in the United States continued to impact long-term bond yields in recent weeks. U.S. 10-year yields fell to 4.17% on September 13, down from 4.26% in August. On the other hand, rates in Canada have reflected its strong second quarter growth. Bond yields edged up from a recent low of 4.52% on August 6 to 4.62% on September 13.
- One-year mortgage rates were 4.60% on September 8 after dipping to 4.40% in mid-August. Five-year mortgage rates rose to 6.40% on September 8, up 10 bps from August.



Key Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
2002	2.83	1.50	4.88	0.93
2003	2.66	1.62	4.66	0.39
March	2.10	1.07	4.33	0.47
April	2.05	0.96	4.71	0.21
May	2.07	N/A	4.77	0.10
June	2.10	0.70	4.83	0.21
July	2.12	0.55	4.82	0.21
August	2.22	0.55	4.68	0.42
Sep. 15*	2.42	0.61	4.63	0.45

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	5 year
2002	2.75	4.50	4.90	6.70
2003	2.75	4.50	4.75	6.45
March	2.25	4.00	4.30	5.70
April	2.00	3.75	4.45	6.15
May	2.00	3.75	4.55	6.50
June	2.00	3.75	4.70	6.70
July	2.00	3.75	4.60	6.55
August	2.00	3.75	4.40	6.30
Sep. 15*	2.25	4.00	4.80	6.45

* Bank of Canada's Weekly Financial Statistics

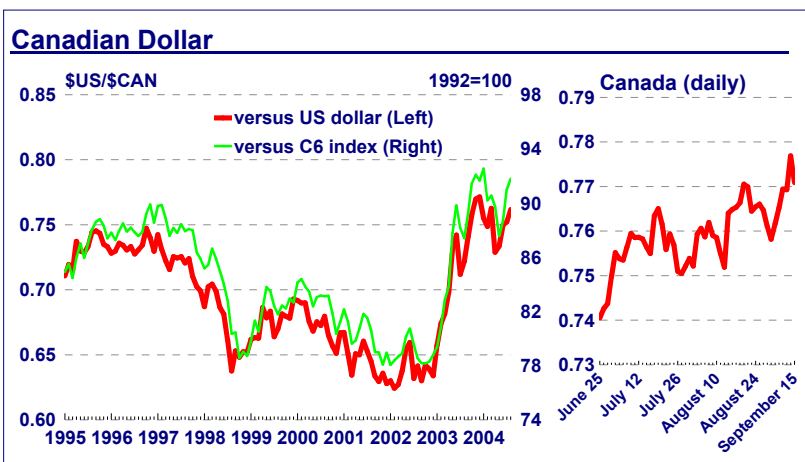


The Canadian dollar has performed well against major currencies

- The Canadian dollar closed at US¢77.1 on September 15, 7.5% higher than its recent low on May 17 (US¢71.7) and 1.7% higher since August 30. A widening Canada-U.S. interest rate differential as well as continued strength in commodity prices have underpinned the Canadian dollar in the past while. At the same time, renewed concern about the large U.S. budget and trade deficits have likely weighed against the U.S. dollar.
- The strength in the Canadian dollar has been reflected against the euro and Japanese yen as well. From early June to mid-September, the dollar appreciated about 6.0% against both the euro and the yen.

North American stock markets gained some strength since mid-August

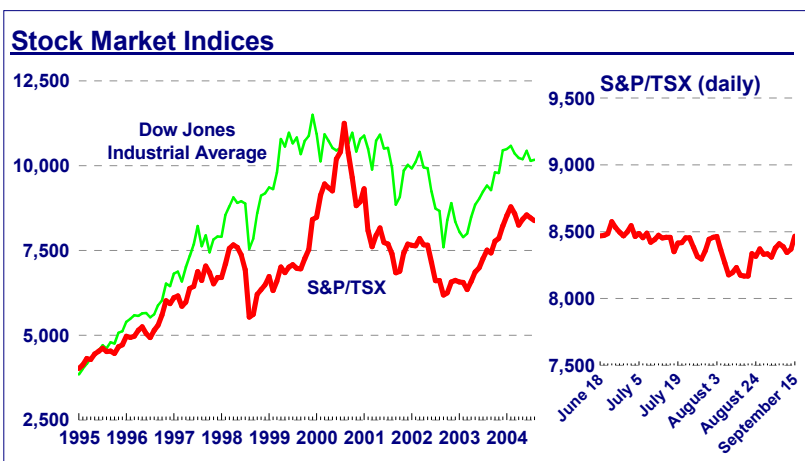
- The S&P/TSX rose 1.5% from early September to close at 8,467 on September 15. The sharp increase was due mostly to energy stocks, whose demand increased as oil prices rose. In August, however, the energy sub-index fell 3.5%, along with sub-indices for telecommunications and finance.
- In August, the Dow Jones regained some of its strength after falling in July. The index closed on September 15 at 10,231, 4.2% above its recent low on August 9, but remained below levels at the end of June (10,480).



The Canadian Dollar

(close)	\$US vs. \$CAN	index vs. C-6 (92=100)	\$CAN vs. EURO	yen vs. \$CAN
2002	0.6339	78.80	n/a	n/a
2003	0.7713	91.65	1.628	82.86
March	0.7626	90.55	1.615	79.53
April	0.7288	89.74	1.644	80.54
May	0.7335	87.57	1.662	80.23
June	0.7497	88.68	1.627	81.59
July	0.7522	91.00	1.599	83.64
August	0.7616	91.80	1.599	83.19
Sep. 15	0.7709	*92.79	1.578	84.96

* Bank of Canada's Weekly Financial Statistics



Key Stock Market Indexes

	August Close	% change from	
		last month	last year
S&P/TSX	8,377	-1.0	11.5
Energy	173	-3.5	24.5
Metals & Mining	223	2.0	45.1
Utilities	145	3.6	-0.2
Materials	151	4.5	15.1
Industrial	69	-3.5	-3.2
Financial	142	-0.5	16.8
Gold	203	7.5	0.2
Telecommunication	61	-1.4	1.4
Information Technology	29	-6.0	25.4
Consumer Discretionary	85	-2.4	5.3
Consumer Staples	171	-2.1	4.6
S&P 500	1,104.2	0.2	9.5
Dow Jones	10,174	0.3	8.1

THE UNITED STATES ECONOMY



U.S. Economic Trends

U.S. economic growth slowed in the second quarter...

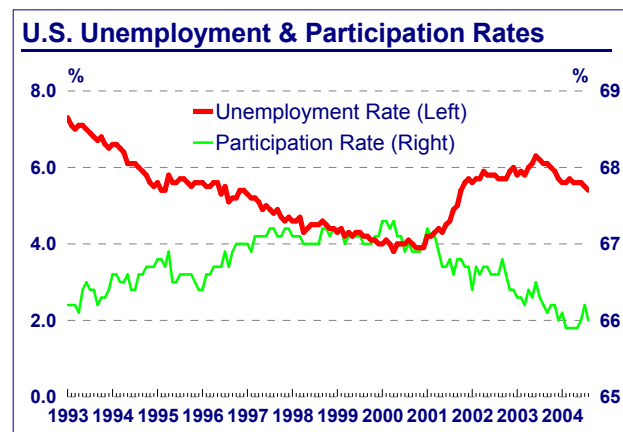
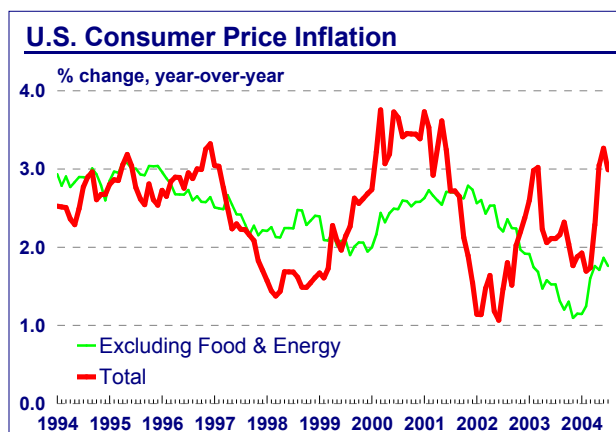
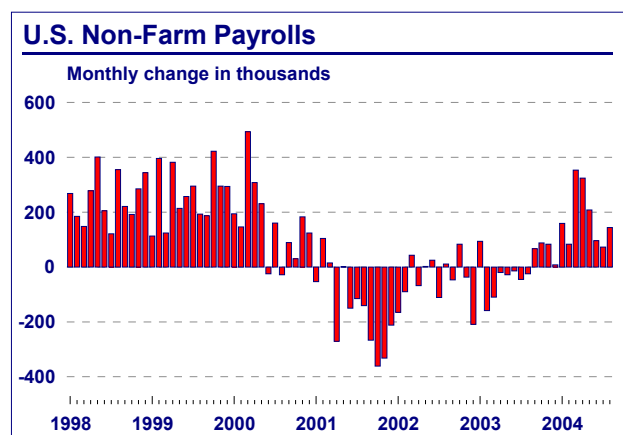
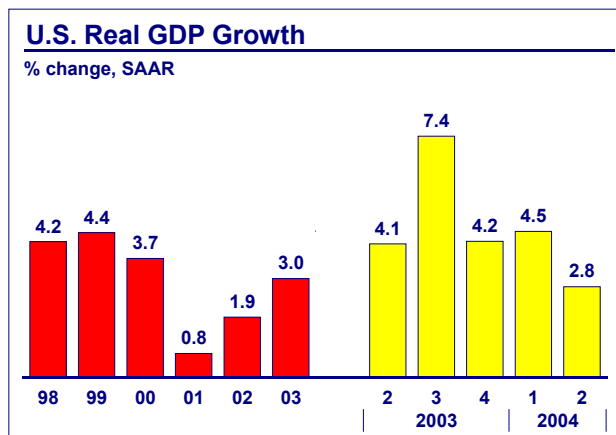
- Real GDP growth grew 2.8% (annual rate) in the second quarter of 2004, down from an increase of 4.5% in the first quarter. Weaker consumer spending growth and a significant negative contribution from net exports were largely responsible for the slowdown. However, business investment continued to grow at a healthy pace in the second quarter, especially in equipment and software. The rate is 0.2 percentage point less than the advance estimate released in July, reflecting a downward revision to net exports.

...and recent data point to sustained growth in the third quarter

- Recent indicators, including consumer spending, retail sales (excluding auto sales), industrial production and employment suggest that the soft patch in the U.S. economy was temporary and that healthy growth has resumed in the third quarter. Despite little growth in August and assuming no growth in September, the industrial production would increase by about 3.0% (annualized) in the third quarter. Non-farm employment rose by 144,000 in August, the largest increase since May. Job growth averaged only 104,000 in the last three months, but has risen by almost 1.7 million since August 2003.

The current account deficit widens sharply

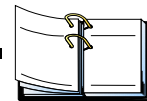
- The U.S. current account deficit widened to \$664.8 billion (annualized) or 5.7% of GDP in the second quarter from \$558.8 billion in the first. The current account deficit has steadily risen from 1.6% of GDP in 1997 to 4.8% in 2003, resulting in the U.S. external debt to GDP rising to over 30%. This, together with the large fiscal deficit, is seen to threaten the U.S. and the global economy. According to the Congressional Budget Office, the fiscal deficit is expected to be \$422 billion in 2004 and \$384 billion in 2005.



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

COMING UP

Key Future Data Releases and Planned Events



CANADA

Consumer Price Index - August	September 17
Real GDP by Industry - July	September 30
Labour Force Survey - September	October 8
Canadian International Merchandise Trade - August	October 14
Monthly Survey of Manufacturing - August	October 15
Key Policy Interest Rate Announcement	October 19
Financial Statistics for Enterprises - 3rd Quarter 2004	November 24
Balance of International Payments - 3rd Quarter 2004	November 29
National Economic and Financial Accounts - 3rd Quarter 2004	November 30

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Consumer Price Index - August	September 16
Federal Open Market Committee Meeting	September 21
GDP - 2nd Quarter 2004 (final)	September 29
The Employment Situation - September	October 8
International Trade in Goods and Services - August	October 14

Note: The September 2004 MEI uses data available as of September 15, 2004