

# MONTHLY ECONOMIC INDICATORS

## December 2001 / January 2002

### HIGHLIGHTS

-  ***Output recovered partially in October and was down from its third quarter average.***
-  ***Employment fell in December and the unemployment rate surged to 8.0%, its highest level since April 1999.***
-  ***On the positive side, consumer spending, led by auto sales and housing activity, has rebounded following a setback in September.***
-  ***In an effort to stimulate the economy, the Bank of Canada has lowered its policy interest rates further, prompting commercial banks to reduce the prime rate to 3.75%, the lowest on record.***

### Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$97 B)	932.1	0.3	-0.6	Oct
Goods	291.9	0.2	-4.9	Oct
Services	640.2	0.3	1.5	Oct
Composite Index	166.2	-0.1	-0.7	Nov
Employment (000's)	15,091	-0.1	0.2	Dec
Full-time	12,337	-0.1	-0.2	Dec
Part-time	2,754	-0.2	1.7	Dec
Unemployment* (%)	8.0	7.5	6.8	Dec
Youth*	14.0	13.7	12.5	Dec
Adult*	6.9	6.3	5.7	Dec
CPI inflation*	0.7	1.9	3.2	Nov
Retail Sales (\$M)	24,207	1.7	3.7	Oct
Housing Starts (000's)	175.5	4.0	14.9	Dec
Trade Balance* (\$M)	4,177	4,310	5,700	Oct
Exports	32,373	-1.0	-10.1	Oct
Imports	28,196	-0.6	-7.0	Oct
M&E	8,638	-0.6	-16.5	Oct
3-mth Corp. paper* (%)	2.06	2.17	5.71	Jan 2
Long bond yield* (%)	5.70	5.59	5.56	Jan 2
Canadian dollar* (US¢)	62.66	63.58	66.69	Jan 4

\*Data in levels only – % change not reported.

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/sc\\_ecnmy/mera/engdoc/03.html](http://strategis.ic.gc.ca/sc_ecnmy/mera/engdoc/03.html).



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# MONTHLY ECONOMIC INDICATORS

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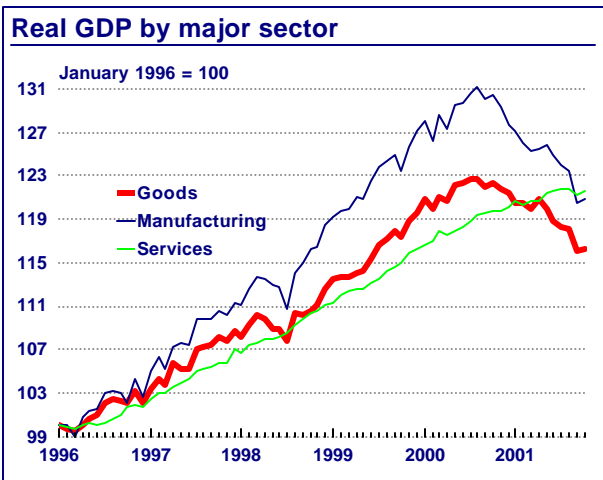
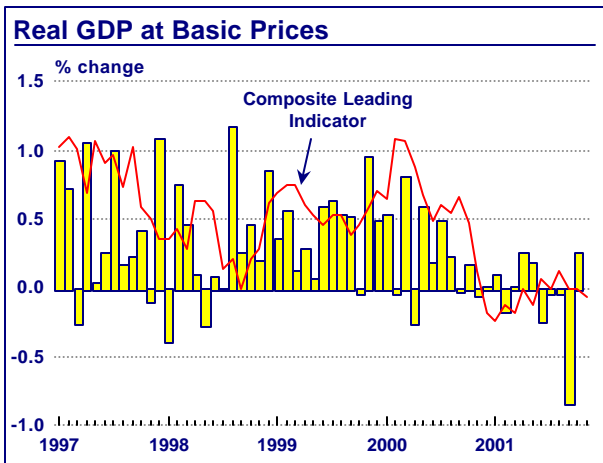
## Real GDP by Industry

### Output recovers partially in October...

- Real GDP at basic prices increased 0.3% in October, a partial recovery from the 0.8% decline in September. The October level is 0.3% below the third quarter average output, which was down 1.6% (annual rate) from the previous quarter.

### ...with gains in both the Goods and Services sectors

- Services output rose 0.3% in October, following 0.4% decrease in September. A decline in the number of hotel room cancellations led to a rebound in the accommodation industry. Air transportation output rose 2.0% in October, a modest increase compared to the 19.9% decline in September. Flight reductions that began in September continued in October. Retailing activity rose sharply due to a surge in motor vehicle sales, spurred by generous incentive programs. Wholesaling of automotive products and computer equipment in October were largely responsible for the decline in wholesaling activity.
- Goods sector output rose 0.2% in October after declining 1.7% in September. Manufacturing output rose slightly as higher pulp exports led to a surge in paper production. Motor vehicle production partially recovered in October from parts shortages caused by border delays in September. Mining, Oil and Gas Extraction declined further in October as lower oil and gas prices continued to discourage exploration. Construction activity edged up due to an increase in residential construction as buyers took advantage of historically low interest rates.



### Real GDP at Basic Prices (1997 dollars)

October 2001	\$ millions	monthly change	% Change since last	
			month	year
<b>Total Economy</b>	<b>932,121</b>	<b>2,348</b>	<b>0.3</b>	<b>-0.6</b>
<b>Business Sector</b>	<b>787,637</b>	<b>1,978</b>	<b>0.3</b>	<b>-1.0</b>
<b>Goods-producing</b>	<b>291,896</b>	<b>657</b>	<b>0.2</b>	<b>-4.9</b>
Agri., Forest, Fish, Hunt*	20,531	-227	-1.1	-7.1
Mining & Oil & Gas Extraction	35,832	-407	-1.1	-1.4
Utilities	27,157	585	2.2	-3.8
Construction	49,738	364	0.7	1.5
Manufacturing	158,638	342	0.2	-7.4
<b>Services-producing</b>	<b>640,225</b>	<b>1,691</b>	<b>0.3</b>	<b>1.5</b>
Wholesale Trade	55,273	-273	-0.5	-1.0
Retail Trade	51,276	1,140	2.3	2.0
Transportation & Warehousing	42,504	-23	-0.1	-5.2
Information & Cultural	44,448	5	0.0	8.3
FIRE**	183,837	309	0.2	2.7
Professional***	39,977	-316	-0.8	-0.7
Admin & Waste Mgmt	20,361	85	0.4	2.7
Education	43,271	-81	-0.2	0.3
Health & Social	53,775	193	0.4	1.3
Arts, Entertain. & Recreation	8,828	51	0.6	1.9
Accommodation & Food	22,056	396	1.8	-2.5
Other	20,977	-46	-0.2	2.4
Public Administration	53,642	251	0.5	4.4

\*Agriculture, forestry, fishing & hunting

\*\*Finance, Insurance & Real Estate

\*\*\*Professional, scientific & technical

# THE ECONOMY

## Consumer Spending and Attitudes



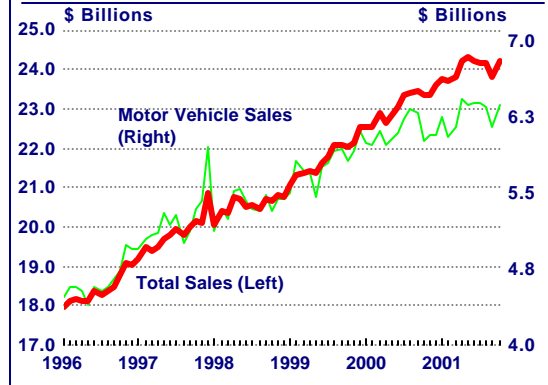
### Consumer spending was lacklustre in the third quarter...

- Consumer spending fell 0.3% (annual rate) in the third quarter, marking the first decline since 1995.
- Auto sales fell in the third quarter despite generous dealer incentives, and other goods spending appears to have been affected by the September 11 attacks. Spending on services rose on the quarter as a strong boost in telecommunications spending offset declines in air transportation and accommodation spending.

### ...but is showing signs of recovery

- After a sharp drop in September, retail sales rebounded in October led by auto sales. Moreover, motor vehicle sales were up sharply in November and December (unofficial report), pointing to a very strong rebound in the fourth quarter. Average department store sales, including sales by concessions in October and November were higher than that of third quarter.
- An encouraging sign for consumer spending was the rebound in personal disposable income in the third quarter. Overall, these indicators point to a rebound in fourth quarter consumer spending.

### Total Retail and Motor Vehicle Sales



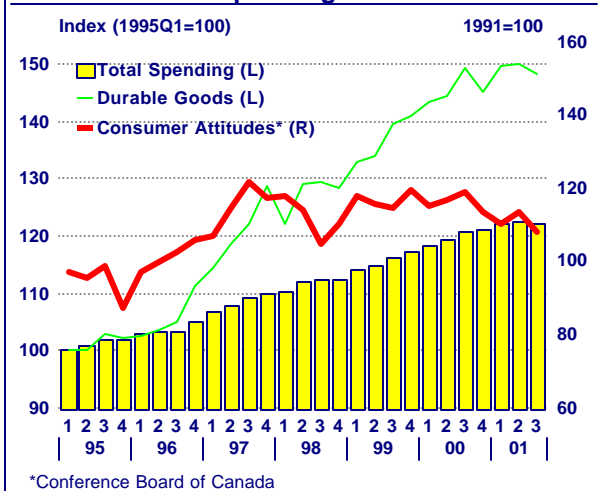
### Retail Sales and Consumer Credit

	October 2001 \$ millions	% Change since	
		last month	last year
<b>Total Retail Sales (S.A.)</b>	24,207	1.7	3.7
Food	5,409	0.1	4.3
Drug Stores	1,223	1.0	6.9
Clothing	1,341	3.5	3.5
Furniture	1,370	1.5	6.8
Automotive	9,557	1.8	3.1
General Merch. Stores	2,714	3.5	2.3
All other Stores	2,593	1.9	2.9
Total ex. motor vehicles	17,849	1.1	2.9
<b>Consumer Credit</b>	205	0.0	5.7

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)		2001 Q2	2001 Q3
	1999	2000		
<b>Real Consumption (97\$)</b>	546,451	566,229	578,210	577,763
% change	3.4	3.6	0.6	-0.3
Durable Goods	76,956	81,882	84,364	83,342
% change	7.5	6.4	1.2	-4.8
Semi-Durable Goods	48,212	50,476	52,641	51,944
% change	3.0	4.7	5.3	-5.2
Non-Durable Goods	128,133	130,347	131,488	131,217
% change	2.0	1.7	-1.2	-0.8
Services	293,192	303,674	310,018	311,479
% change	3.1	3.6	0.6	1.9
<b>Disposable Income</b>	597,710	631,023	651,452	657,040
% change	5.0	5.6	-1.0	3.5
<b>Saving Rate (%)</b>	4.2	3.9	2.6	3.3
<b>Debt-to-Income Ratio (%)</b>	96.1	94.4	95.3	95.6

### Real Consumer Spending and Attitudes



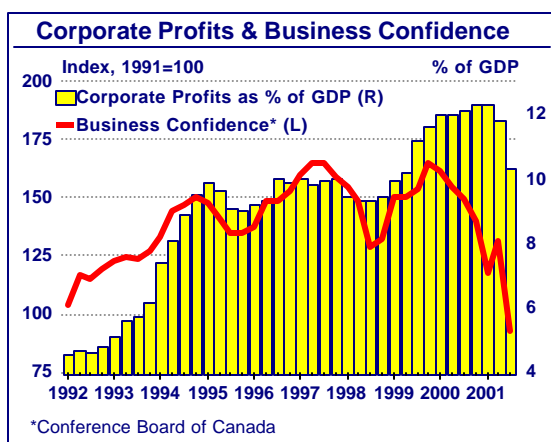
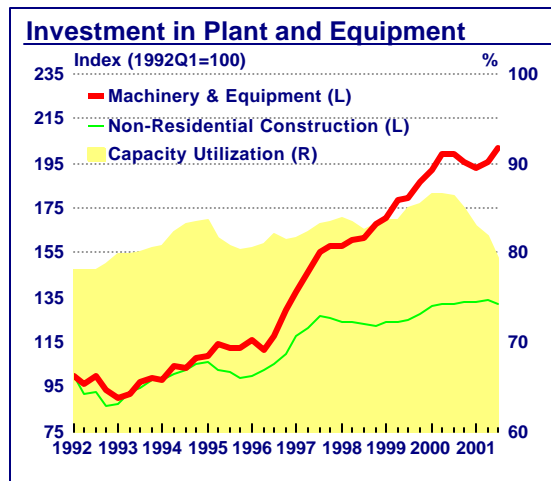


### *Business investment rises further in the third quarter, due to special factors...*

- Business investment in machinery and equipment (M&E) rose by nearly 13% (annual rate) in the third quarter, building on solid growth in the second quarter. A huge gain in Transportation Equipment related to the importation of a floating drilling rig in Nova Scotia accounted for nearly all of the advance. However, excluding non-motor vehicles, business investment in M&E fell 13.3%.
- Non-residential construction fell sharply in the third quarter after three straight quarterly gains. The decline was largely the result of a major drop in the engineering component.

### *...but underlying conditions point to near-term weakness*

- The short-term outlook for investment spending is not encouraging. Corporate operating profits in the non-financial industries fell for the third straight quarter to a 2-year low. Capacity utilization reported its fifth straight quarterly decline.
- Imports of M&E fell again in October but less so than in September. Monthly GDP data indicate a decline in non-residential building for the second straight month in October.



<b>Business Investment and Corporate Finances</b>						
<b>\$ Millions, SAAR (unless otherwise noted)</b>						
	1999	2000	2000 Q4	2001 Q1	2001 Q2	2001 Q3
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1997\$)</b>	80,703	88,550	88,135	87,048	88,200	90,900
<i>% change</i>	10.5	9.7	-7.0	-4.8	5.4	12.8
<b>Non-residential Construction (1997\$)</b>	44,873	47,274	47,566	47,704	47,859	47,241
<i>% change</i>	1.8	5.3	2.7	1.2	1.3	-5.1
<b>Capacity Utilization (% , Non-farm goods)</b>	84.4	86.1	85.0	83.0	81.9	79.4
Capacity Utilization (Mfg. sector)	85.6	86.3	84.8	81.5	80.0	77.4
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	168,323	197,733	192,832	173,880	175,552	150,328
<i>% change</i>	20.3	17.5	-9.6	-33.9	3.9	-46.2
Profits - Non-financial industries	118,153	139,248	139,252	134,772	129,000	113,912
<i>% change</i>	27.0	17.9	-5.1	-12.3	-16.1	-39.2
Profits - Financial industries	50,169	58,488	53,584	39,108	46,552	36,416
<i>% change</i>	6.8	16.6	-19.9	-71.6	100.8	-62.6
<b>Business Credit</b>	736,456	788,083	808,245	813,711	813,888	827,810
<i>% change</i>	5.8	7.0	7.3	2.7	0.1	7.0



### Housing activity picks up in the third quarter...

- Business investment in residential construction edged up 4.2% (annual rate) in the third quarter, the fifth consecutive quarterly increase.
- New housing construction, renovation activity, and sales of existing homes, all reported increases. These gains were supported by lower interest rates and rising disposable income.

### ...and remains robust in the fourth quarter

- Following a setback in the wake of the September attacks, housing activity has resumed. For example, average housing starts in the fourth quarter were higher than that of the third quarter. Similarly, average existing home sales for October and November exceeded the third quarter average. Residential construction rose sharply in October as buyers took advantage of historically low interest rates.
- Pointing to continued strength in the housing sector in the near term, residential building permits surged 6.6% in November, after a 1.7% gain in October.

### Housing Activity



### Monthly Housing Indicators

	levels	Change since	
		last month	last year
<b>Residential Construction (1)</b> (\$97M, basic prices)	14,748	2.3%	3.9%
<b>Building Permits, \$M (2)</b>	2,006	6.6%	18.4%
<b>Sales of Existing Homes (2)</b> (# of units)	24,919	1,995	
<b>Housing Starts, # of units (3)</b>	175,500	6,700	22,800
Newfoundland	1,800	200	1,000
Prince Edward Island	300	-300	-100
Nova Scotia	4,200	1,300	2,200
New Brunswick	3,000	1,200	400
Quebec	29,500	8,000	6,400
Ontario	69,800	-1,100	2,700
Manitoba	1,400	-200	100
Saskatchewan	1,800	0	0
Alberta	27,400	-200	3,700
British Columbia	14,800	-2,200	4,200

1 - October data; 2 - November data; 3 - December data  
Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association

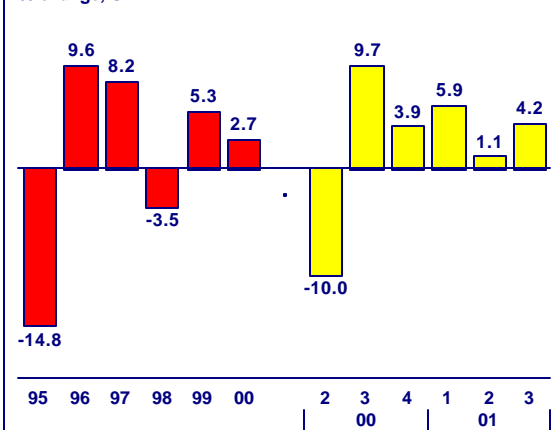
### Real Investment in Residential Structures

\$97 Millions, SAAR (unless otherwise noted)

	1999	2000	2001 Q2	2001 Q3
Construction by Business sector	44,222	45,399	46,734	47,216
% change	5.3	2.7	1.1	4.2
New Housing	22,322	22,857	23,529	23,599
% change	7.7	2.4	-1.9	1.2
Alterations & Improvements	15,117	15,809	15,748	15,988
% change	2.0	4.6	-7.1	6.2
Ownership & Transfer Costs	6,705	6,976	7,628	7,824
% change	0.7	4.0	31.7	10.7
<b>Residential Construction</b>	<b>44,466</b>	<b>45,643</b>	<b>46,948</b>	<b>47,454</b>
% change	5.3	2.6	1.1	4.4

### Growth in Real Residential Construction

% change, SAAR



# THE ECONOMY



## Trade and Competitiveness

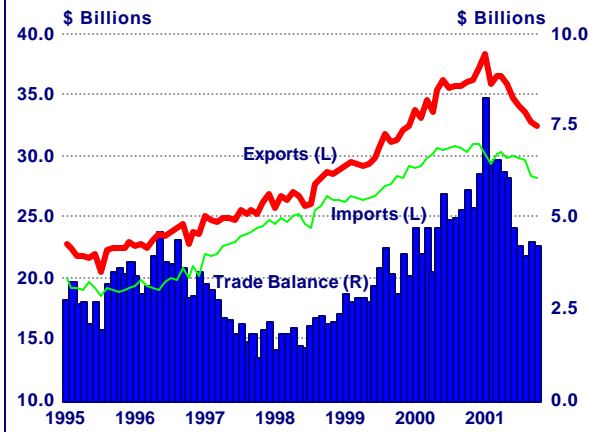
### Imports and exports fall in October...

- Exports fell 1.0% in October to its lowest level since November 1999, the seventh straight monthly decline. Exports fell in four of the seven major categories, namely Automotive Products, Industrial Goods & Materials, and Agricultural & Fishing Products. Machinery & Equipment led the growth for exports as greater demand coupled with delivery delays from September pushed exports of aircraft up 49.4% in October to a record of \$1.7 billion.
- Imports edged down 0.6% on the month as a large decline in the imports of Energy products offset small gains in the imports of Agricultural & Fishing Products and Industrial Goods & Materials.

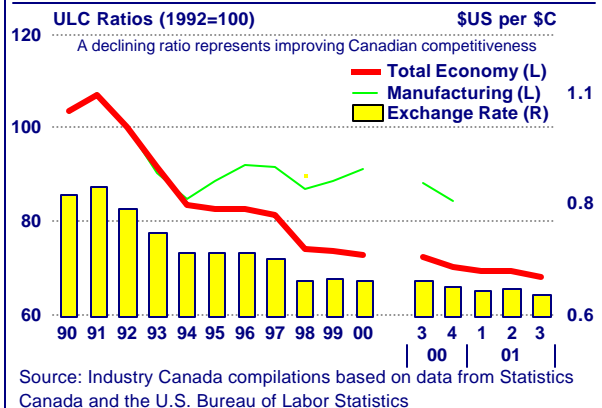
### ...and the trade surplus narrows further

- Canada's merchandise trade surplus decreased to \$4.2 billion in October. The cumulative surplus for the first ten months of the year was \$54.8 billion, \$6.9 billion higher than last year.

### Merchandise Trade Flows and Balance



### Canada-U.S. Unit Labour Cost Ratios



### Merchandise Trade

October 2001	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)	% Change	
	September 2001	October 2001	2000 Jan-Oct.	2001 Jan-Oct.		Sept. to Oct. 2001	Sept. to Oct. 2001
<b>Exports</b>	32,687	32,373	349,230	350,421	-314	-1.0	-10.1
to United States	27,925	27,466	296,565	298,972	-459	-1.6	-11.0
<b>Imports</b>	28,376	28,196	301,330	295,641	-180	-0.6	-7.0
from United States	20,401	20,275	222,574	215,193	-126	-0.6	-9.0
<b>Trade Balance</b>	4,310	4,177	47,900	54,780	-133		
with United States	7,524	7,191	73,991	83,779	-333		
<b>Exports by Commodity</b>							
Agriculture/Fishing Products	2,698	2,634	22,715	25,631	-64	-2.4	17.8
Energy Products	3,489	3,506	41,557	50,728	17	0.5	-25.1
Forestry Products	3,099	3,123	35,031	32,642	24	0.8	-9.0
Industrial Goods & Materials	5,670	5,363	54,916	55,360	-307	-5.4	-3.8
Machinery & Equipment	7,655	7,885	88,138	83,172	230	3.0	-15.2
Automotive Products	7,584	7,422	82,218	77,284	-162	-2.1	-9.9
Other Consumer Goods	1,321	1,286	12,201	13,174	-35	-2.6	0.9
<b>Imports by Commodity</b>							
Agriculture/Fishing Products	1,721	1,757	15,379	16,929	36	2.1	9.3
Energy Products	1,439	1,212	14,383	15,631	-227	-15.8	-12.8
Forestry Products	238	234	2,545	2,422	-4	-1.7	-7.5
Industrial Goods & Materials	5,599	5,645	58,457	57,752	46	0.8	-1.9
Machinery & Equipment	8,688	8,638	101,461	95,488	-50	-0.6	-16.5
Automotive Products	5,995	6,015	65,255	60,611	20	0.3	-5.8
Other Consumer Goods	3,598	3,574	33,073	35,689	-24	-0.7	2.8

# LABOUR MARKET TRENDS



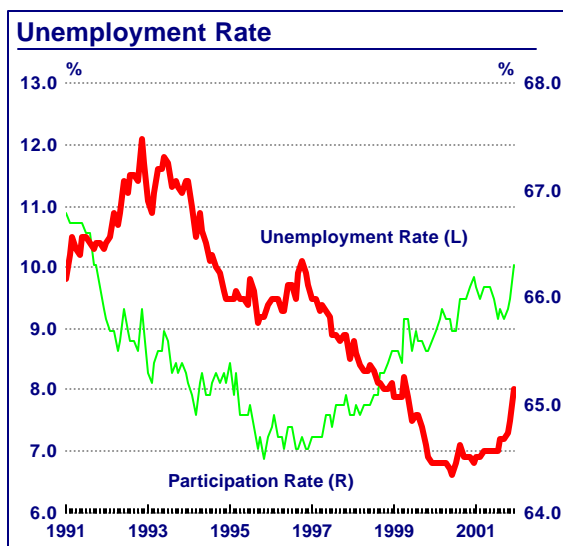
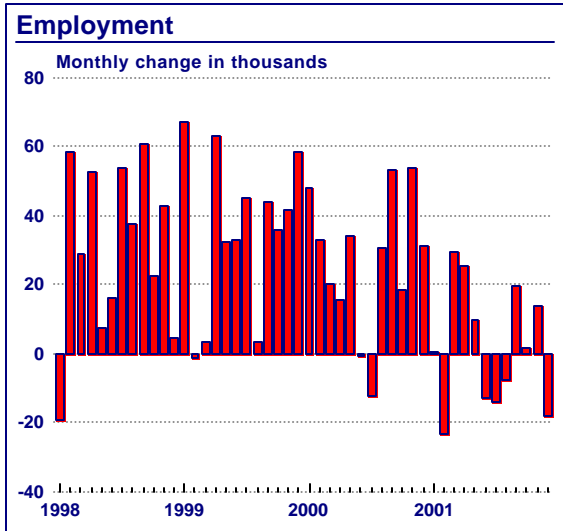
## Employment and Unemployment

### Employment conditions soften further in December...

- Employment fell by about 18,000 in December, the biggest drop in 10 months, offsetting the gains recorded in the last two months. Employment losses in December continued to be concentrated in full-time jobs (-11,000) for the third consecutive month. In line with these developments, total hours worked in all industries declined 1.1% in the fourth quarter, suggesting that output eased in this quarter.
- After large gains in 2000 (+325,000), employment rose by only 25,000 in 2001. Gains were all in part-time jobs (+45,000), while full-time employment edged down 20,000.

### ... and unemployment surges to 8%

- A large increase in the labour force, accompanied by a decline in employment, pushed the unemployment rate up by 0.5 percentage point to 8.0% in December, its highest since April 1999. The unexpected sharp rise in the participation rate in December reversed the downward trend in the previous months.
- Over 2001, youth employment fell by 44,000 (-1.9%) after rising 95,000 (+4.2%) a year earlier. Adult employment rose by 68,000 in 2001, but an increase in the labour force pushed the unemployment rate up 1.2 percentage points, to 6.9%.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2000 December	2001 November	2001 December	last month	last year	year-to- date	last month	last year
<b>Employment</b>	15,066.7	15,109.3	15,091.4	-17.9	24.7	24.7	-0.1	0.2
Full-time	12,357.5	12,348.3	12,337.1	-11.2	-20.4	-20.4	-0.1	-0.2
Part-time	2,709.2	2,761.0	2,754.3	-6.7	45.1	45.1	-0.2	1.7
Youth 15-24	2,344.4	2,305.8	2,300.9	-4.9	-43.5	-43.5	-0.2	-1.9
Adult 25+	12,722.3	12,803.5	12,790.5	-13.0	68.2	68.2	-0.1	0.5
Self-employed	2,363.8	2,314.8	2,281.2	-33.6	-82.6	-82.6	-1.5	-3.5
<b>Unemployment</b>	1,103.3	1,232.1	1,318.4	86.3	215.1	215.1	7.0	19.5
<b>Unemployment Rate</b>	6.8	7.5	8.0	0.5	1.2	1.2		
Youth 15-24	12.5	13.7	14.0	0.3	1.5	1.5		
Adult 25+	5.7	6.3	6.9	0.6	1.2	1.2		
<b>Labour Force</b>	16,170.0	16,341.4	16,409.8	68.4	239.8	239.8	0.4	1.5
<b>Participation Rate</b>	66.2	66.0	66.3	0.3	0.1	0.1		
<b>Employment Rate</b>	61.7	61.1	60.9	-0.2	-0.8	-0.8		





## Industry Overview

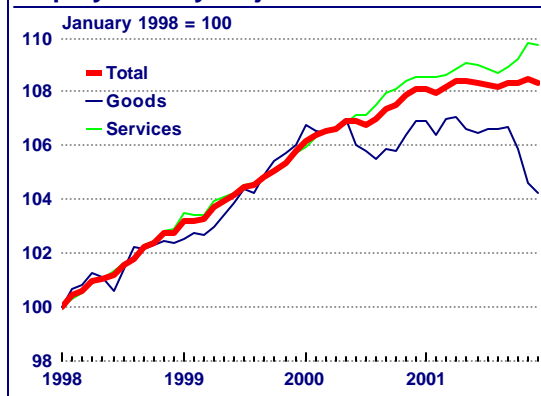
### Employment continues to decline in the Goods sector...

- Employment in the Goods sector fell for the third consecutive month (-16,000) in December. All of the major industry groups, except Construction, posted losses. For the year as a whole, the general economic slowdown affected mainly the Manufacturing sector, with job losses totaling 111,000, the highest decline since 1991. Losses were concentrated in computer and electronic manufacturing products (-40,000). The Agriculture sector also recorded losses (-35,000) in 2001, continuing the downward trend that began in early 1999.

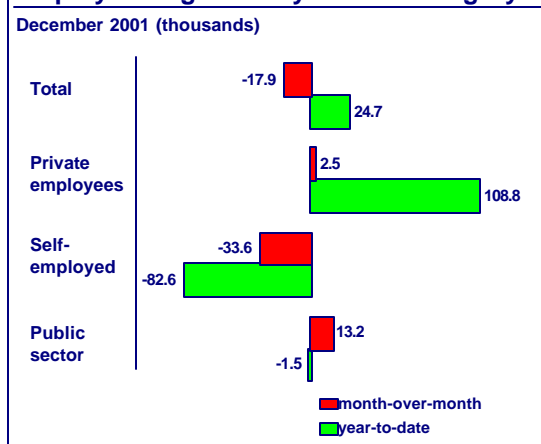
### ...while it slows in the Service sector

- Employment in Services industries edged down 2,000 in December, following three consecutive monthly gains. The largest losses occurred in Trade (-16,000) and Professional/Scientific sectors (-15,000). However, from December 2001 to December 2000, employment in Services industries increased by 123,000, with Trade, Health Care & Social assistance accounting for most of the overall job creation. The Transportation sector recorded the largest year-over-year loss (-42,000).
- After large gains at the end of the nineties, self-employment declined (-83,000) in 2001 for the second consecutive year.

### Employment by major sector



### Employment growth by worker category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2000 December	2001 November	2001 December	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	3,890.4	3,808.1	3,792.4	-15.7	-98.0	-98.0	-0.4	-2.5
Agriculture	347.5	323.1	312.8	-10.3	-34.7	-34.7	-3.2	-10.0
Natural Resources*	277.8	291.6	291.1	-0.5	13.3	13.3	-0.2	4.8
Utilities	117.7	122.8	121.7	-1.1	4.0	4.0	-0.9	3.4
Construction	818.8	846.9	848.9	2.0	30.1	30.1	0.2	3.7
Manufacturing	2,328.7	2,223.7	2,217.9	-5.8	-110.8	-110.8	-0.3	-4.8
<b>Services-producing</b>	11,176.2	11,301.2	11,299.0	-2.2	122.8	122.8	-0.0	1.1
Trade	2,354.7	2,446.4	2,430.3	-16.1	75.6	75.6	-0.7	3.2
Transportation*	787.9	751.0	745.8	-5.2	-42.1	-42.1	-0.7	-5.3
FIRE*	882.0	869.2	873.0	3.8	-9.0	-9.0	0.4	-1.0
Professional/Scientific	988.7	985.3	969.9	-15.4	-18.8	-18.8	-1.6	-1.9
Management/Administrative	559.2	570.6	569.6	-1.0	10.4	10.4	-0.2	1.9
Educational Services	952.2	974.8	970.9	-3.9	18.7	18.7	-0.4	2.0
Health Care/Social Assistance	1,523.9	1,559.1	1,565.2	6.1	41.3	41.3	0.4	2.7
Information/Culture/Recreation	700.7	706.0	696.9	-9.1	-3.8	-3.8	-1.3	-0.5
Accommodation & Food	965.8	977.0	991.4	14.4	25.6	25.6	1.5	2.7
Other Services	698.5	685.6	698.4	12.8	-0.1	-0.1	1.9	-0.0
Public Administration	762.5	776.2	787.6	11.4	25.1	25.1	1.5	3.3

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



## Provincial Overview

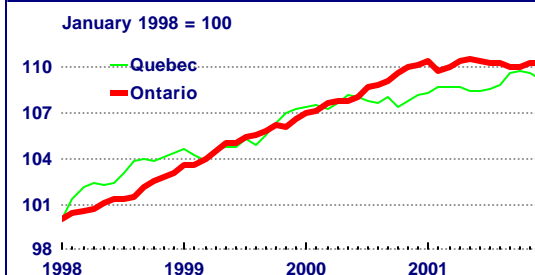
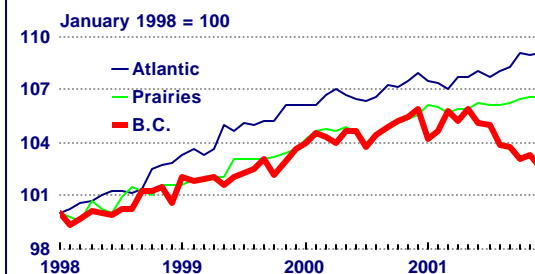
### Recent job losses have been concentrated in B.C. and Quebec...

- In December, Quebec and B.C.'s employment fell by 11,000, the largest drops among provinces. Quebec's losses were mainly in the manufacturing sector. However, Quebec (+35,000) and Alberta (+31,000), led the country in terms of employment gains for the year. The situation is different in B.C. where recent job losses brought the total decline in employment to 59,000 in 2001. Many of these losses were in logging, forestry and wood products and were largely related to the softwood lumber trade dispute between Canada and the U.S. Saskatchewan employment went down for the fourth consecutive month, as the agriculture sector continued to decline, resulting in more than 13,000 job losses in 2001.
- In contrast, employment has trended up in the Atlantic region, led by Newfoundland and Nova Scotia. In 2001, employment was up by 11,500 in the region, with Newfoundland gaining 10,000 jobs and Nova Scotia 2,000. Ontario's employment was little changed in the last two months, after declining in most parts of the year. In 2001, the manufacturing sector suffered from weaker U.S. demand, loosing 81,000 jobs.

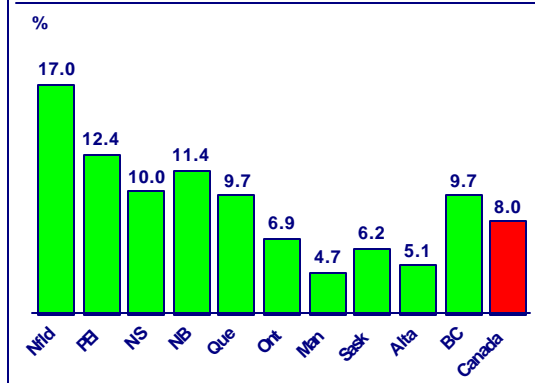
### ...but the unemployment rate is rising in most provinces

- The unemployment rate rose by 1.2 percentage points in B.C. to 9.7%, the highest since 1996. Large increases in the labour force in December pushed the jobless rates up 0.8 percentage point to 9.7% in Quebec, 10.0% in Nova Scotia and 17.0% in Newfoundland. Manitoba's jobless rate fell to 4.7%, the lowest among the provinces, as a result of a rise in employment and a decline in the participation rate.

### Regional employment patterns



### Unemployment Rates -- December 2001



### Provincial Employment and Unemployment Trends

	Employment (thousands)				Unemployment rate (%)			
	Levels	Change since last month		Change since last year		Levels	Change since	
	2001 December	(000's)	%	(000's)	%	last month	last year	
Canada	15,091.4	-17.9	-0.1	24.7	0.2	8.0	0.5	1.2
Newfoundland	214.4	3.5	1.7	9.7	4.7	17.0	0.8	-0.7
P.E.I.	66.3	-0.4	-0.6	1.0	1.5	12.4	0.1	0.5
Nova Scotia	427.6	-2.8	-0.7	2.2	0.5	10.0	0.8	1.0
New Brunswick	336.9	1.0	0.3	-1.4	-0.4	11.4	0.0	1.4
Quebec	3,486.8	-10.5	-0.3	35.2	1.0	9.7	0.8	1.7
Ontario	5,970.6	1.1	0.0	10.1	0.2	6.9	0.1	0.9
Manitoba	565.5	1.1	0.2	9.3	1.7	4.7	-0.2	-0.1
Saskatchewan	465.9	-1.5	-0.3	-13.3	-2.8	6.2	0.2	0.9
Alberta	1,644.2	1.4	0.1	30.9	1.9	5.1	0.5	0.3
B.C.	1,913.3	-10.7	-0.6	-59.0	-3.0	9.7	1.2	2.6

# PRICES and FINANCIAL MARKETS

## Consumer and Commodity Prices



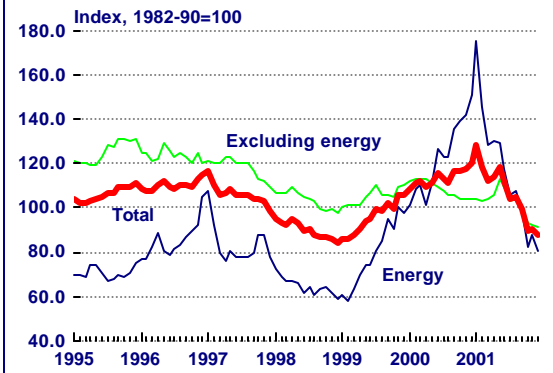
### Falling energy prices push CPI inflation down sharply...

- Inflation slowed sharply to 0.7% in November, from 1.9% in October. This was the smallest price increase since February 1999.
- Energy prices fell 12.5% on a year-over-year basis, the largest decline in almost fifteen years. Excluding energy prices, CPI inflation rose 2.1%. Contributing to this rise were higher prices for food, cigarettes - reflecting increases in federal and provincial taxes - rent and housing replacement cost. Lower cost for motor vehicle and traveller accommodation had a dampening effect.

### ...and the "core" rate falls below the midpoint of the official target range

- The "core" rate of inflation, which excludes the index's eight most volatile components and indirect taxes, was down to 1.7% in November from 2.2% in October, below the midpoint of the 1%-3% target range set jointly by the Bank of Canada and the Department of Finance.
- In December, commodity prices were down 3.2% from November. This reflected a sharp fall in energy prices and a continued downward trend for non-energy prices from their peak in mid-2001. On a yearly basis, commodity prices fell 27.0%.

### Commodity Prices (\$U.S. basis)



### Consumer Prices

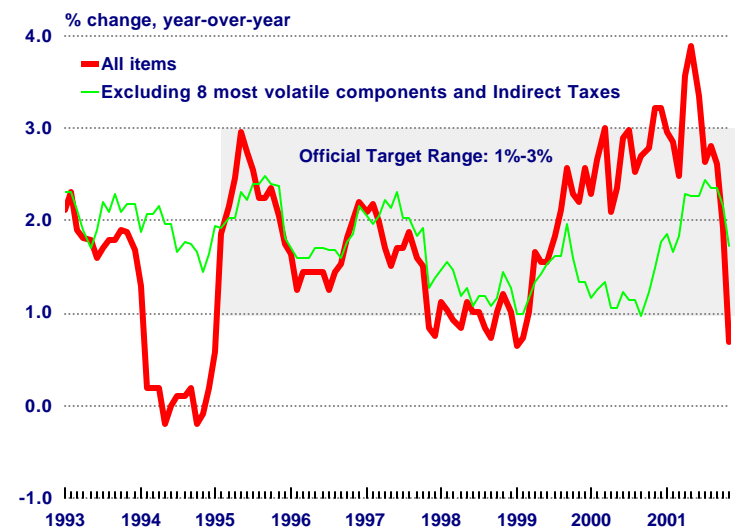
November 2001

	Index (1992=100)	% Change since	
		last month	last year
All items CPI	115.8	-0.9	0.7
Food	117.3	0.4	3.9
Shelter	112.0	-1.4	0.7
Household operations	112.7	-0.3	1.8
Clothing & Footwear	105.2	-1.9	-0.2
Transportation	126.9	-2.6	-5.3
Health & Personal Care	114.7	-0.3	1.6
Recreation, Educ. & Reading	123.2	-1.0	0.7
Alcohol & Tobacco	111.7	4.6	13.3
Excl. 8 Most Volatile/Indirect Taxes	117.4	-0.3	1.7
Energy	119.5	-8.8	-12.5

### Commodity Prices (December)

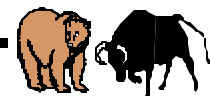
Index, 1982-90=100	88.0	-3.2	-27.0
Excluding Energy	91.8	-0.9	-11.9
Energy	80.8	-8.0	-46.5

### Consumer Price Index



### Provincial CPI Inflation -- November 2001



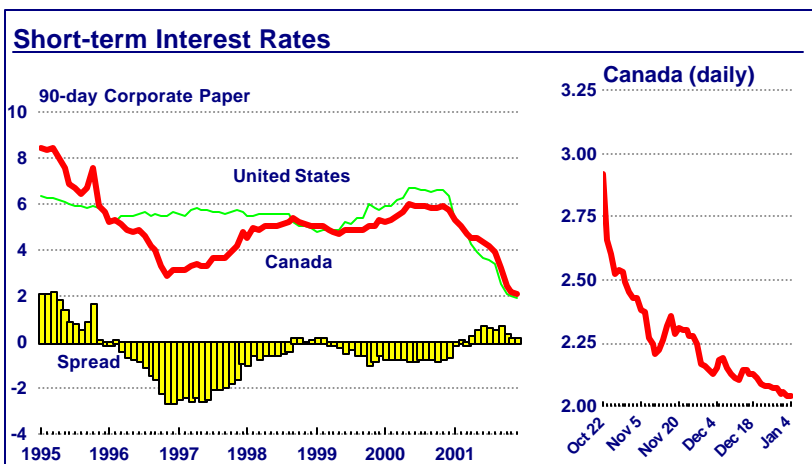


### Monetary policy has been expansionary in North America

- The U.S. Federal Reserve cut its key rate for the eleventh time to 1.75% in December and left the door open for further cuts. On January 15, the Bank of Canada reduced its overnight target rate by a further 25 basis points to 2.00%. North American policy rates are now down to their lowest level in more than forty years.
- With the latest economic reports suggesting that the worst might be over, market participants expect the easing cycle to come to an end soon. However, central banks are expected to keep monetary conditions accommodative given the expectations of a slow recovery.

### Long-term yields recover

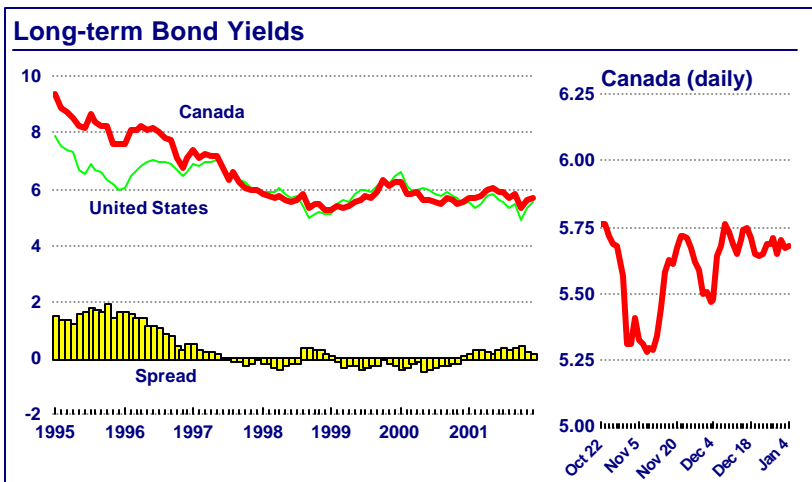
- The plunge in long yields initiated by the cancellation of 30-year U.S. treasuries issuance and by a deterioration in economic prospects reversed throughout November and December. Investors switched some funds into equities in anticipation of improving economic conditions and an end to monetary policy easing soon.
- After hitting a low of 5.28% in November, Canadian long-term yields hovered around 5.70% in December and closed out at that level on January 2. Reflecting this stabilizing trend, long-term mortgage rates showed little movement, standing at 6.85% for the 5-year term.



### Key Money Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
1999	5.27	-0.49	6.23	-0.22
2000	5.71	-0.60	5.56	0.11
July 2001	4.22	0.61	5.94	0.36
Aug	3.96	0.57	5.67	0.31
Sept	3.19	0.67	5.86	0.36
Oct	2.45	0.33	5.31	0.42
Nov	2.17	0.17	5.59	0.23
Dec	2.08	0.19	5.69	0.17
Jan 2, 2002	2.06	0.18	5.70	0.14

A positive spread indicates that Canadian rates are above their U.S. counterparts.



### Key Lending Rates

(end of period)	Bank Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
1999	5.00	6.50	7.35	8.25
2000	6.00	7.50	7.70	7.95
July 2001	4.50	6.00	6.45	7.75
Aug	4.25	5.75	6.20	7.60
Sept	3.75	5.25	5.45	7.15
Oct	3.00	4.50	4.90	6.90
Nov	2.50	4.00	4.60	6.85
Dec	2.50	4.00	4.60	6.85
Jan 2, 2002	2.50	4.00	4.60	6.85

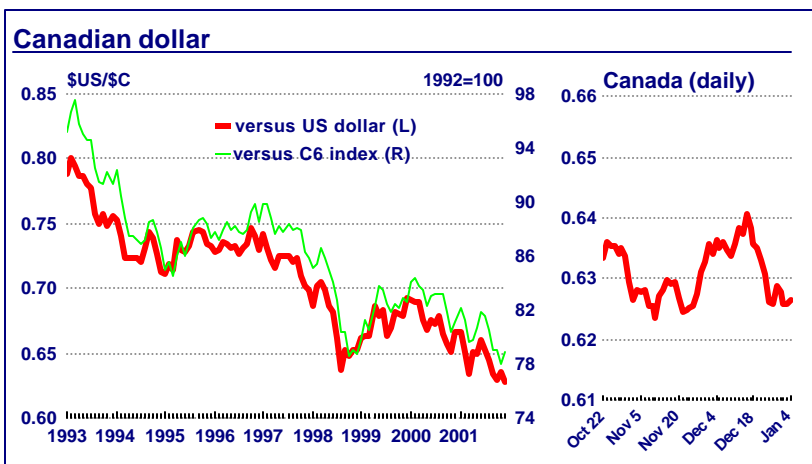


### The Canadian dollar retreats in jittery markets...

- After climbing above the US¢64 mark in mid-December from November's record low of US¢62.34, the Canadian dollar has retreated subsequently. The recent volatility in the Canadian currency reflected the uncertainty about the global economic outlook and commodity prices combined with Argentina's financial difficulties and the introduction of Euro notes and coins.
- The value of the Canadian currency fell 6.5% in 2001, closing out the year at US¢62.8. Against other major currencies, the performance of the Canadian dollar was mixed. It gained almost 10% against the Japanese yen but closed near year-ago levels against other key currencies.

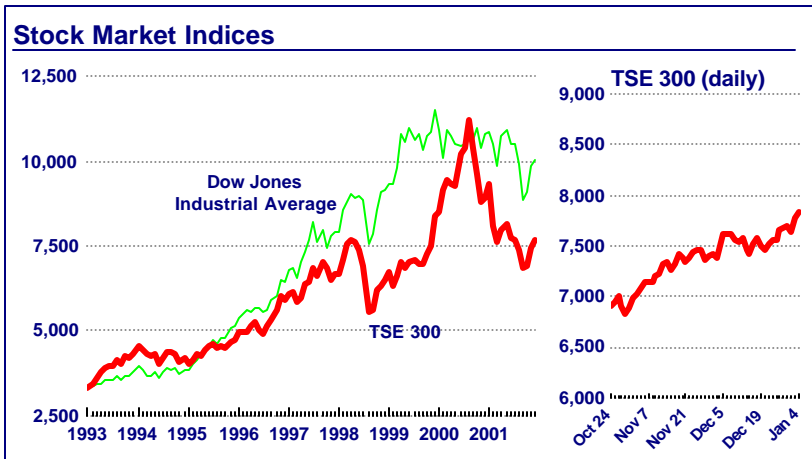
### ...while the recovery in North American equity markets is sustained

- Despite recent losses, the broader North American equity market indices have recovered strongly from their September lows, with both the TSE 300 and the Dow Jones up about 20% to 7644 and 9924, respectively, on January 15. The recovery reflects improved optimism about economic and profit outlook, with some renewed interest in high-tech stocks, which have suffered large losses over the past two years.
- Overall, the TSE 300 lost 14% of its value in 2001, following a gain of 6% in 2000. Meanwhile, the Dow Jones recorded back to back declines of 6% in 2000 and 7% in 2001.



### The Canadian Dollar

(close)	\$US vs. \$Cdn	index vs. C-6 (92=100)	EURO vs. \$Cdn	yen vs. \$Cdn
1999	0.6929	82.67	N/A	69.66
2000	0.6669	81.19	1.365	73.64
July 2001	0.6525	81.51	1.319	81.35
Aug	0.6448	80.60	1.390	78.70
Sept	0.6335	79.01	1.430	75.67
Oct	0.6294	78.98	1.422	77.29
Nov	0.6358	78.08	1.414	76.90
Dec	0.6278	78.95	1.407	80.76
Jan 2, 2002	0.6260	78.19	1.420	82.40



### Key Stock Market Indexes

	December Close	% change from	
		last month	last year
<b>TSE 300</b>	<b>7,688</b>	<b>3.5</b>	<b>-13.9</b>
Oil & Gas	9,099	4.6	6.1
Metals & Minerals	4,160	3.8	11.0
Utilities	11,938	-1.7	-25.2
Paper & Forest	4,950	5.9	2.5
Merchandising	6,583	5.2	19.2
Financial Services	10,994	1.9	0.3
Goods	5,076	5.3	16.9
<b>S&amp;P 500</b>	<b>1,148.1</b>	<b>0.8</b>	<b>-13.0</b>
<b>Dow Jones</b>	<b>10,022</b>	<b>1.7</b>	<b>-7.1</b>



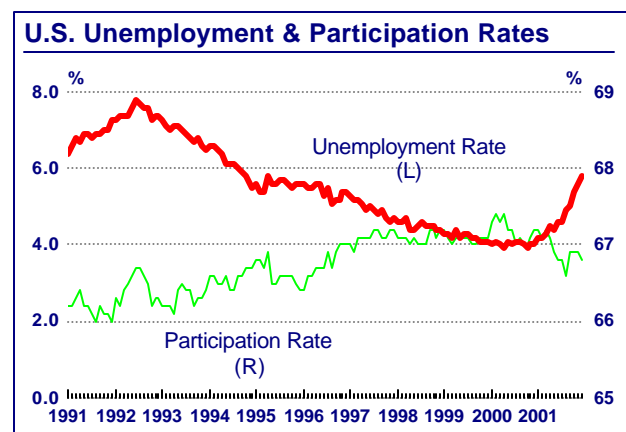
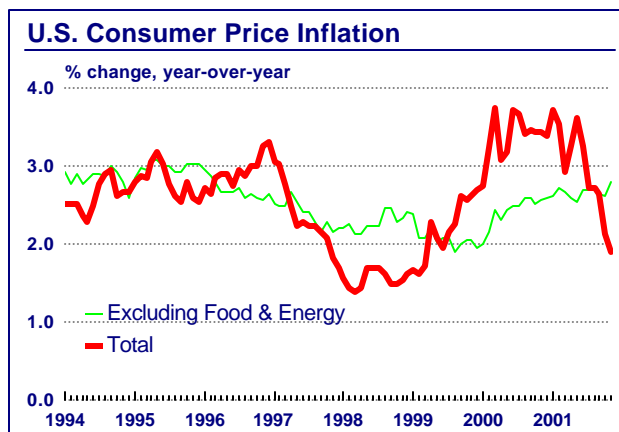
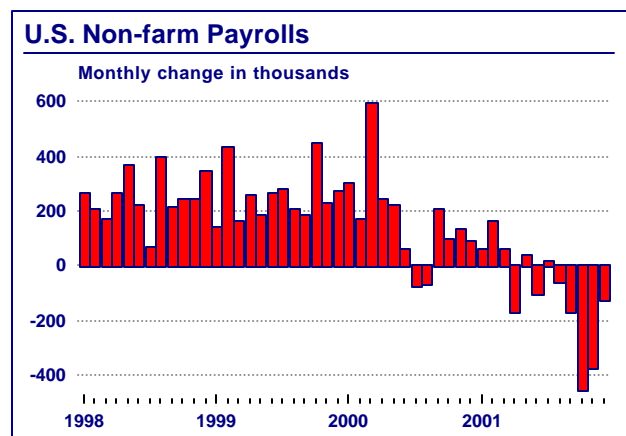
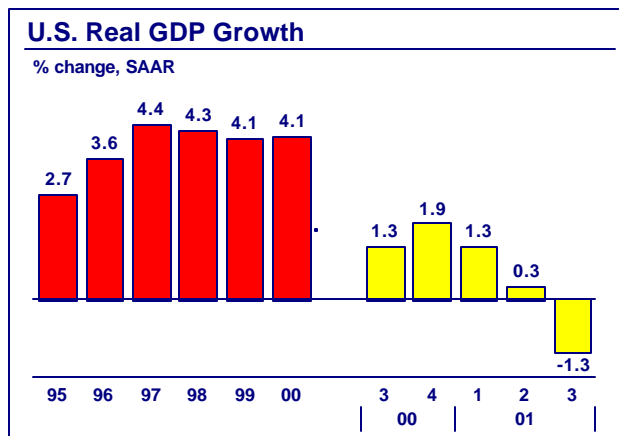
## U.S. Economic Trends

### The U.S. economy contracts in the third quarter...

- Based on final estimates, U.S. real GDP fell 1.3% (annual rate) in the third quarter, down from a preliminary estimate of -1.1% and an advance estimate of -0.4%. The downward revision from the advance estimate reflected a slower pace in government spending, deeper cuts in private inventory investment and lower residential fixed investment. In line with this, non-farm labour productivity growth was revised down to 1.5% in the third quarter from the 2.7% initially estimated.
- There has been some encouraging developments including a rebound in consumer confidence in December and signs of bottoming out in the manufacturing sector. The Institute for Supply Management (formerly the NAPM) reported that its index that tracks conditions in manufacturing industries jumped to 48.2 in December - a reading above/below 50 suggests expansion/contraction - the strongest reading since October 2000. The upturn was driven in large part by a sharp improvement in new orders, which rose above the break-even point to 54.9 from 48.8 in November, and a 3.5 percentage points increase in production, from 47.1 percent in November to 50.6 percent in December.

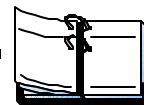
### ...and employment fell again in December...

- In December, the unemployment rate climbed 0.2 percentage point to 5.8 percent, its highest level since April 1995. Non-farm payroll employment declined by 124,000 over the month bringing total job losses over the last four months to 1.1 million. For December, large declines continued in manufacturing (-133,000 jobs), air transportation (-26,000) and retail trade (-77,000). Employment increased in health services, private education and government.
- Over 2001, the number of unemployed persons increased by 2.6 million and the unemployment rate rose by 1.8 percentage points. 2001 was a particularly bad year for manufacturing, which shed 1.3 million jobs - or about 7 percent of its work force.



## COMING UP

### Key Future Data Releases and Planned Events



#### CANADA

International Trade – November .....	January 18
Survey of Manufacturing – November .....	January 22
Consumer Price Index – December .....	January 22
Real GDP by Industry – November .....	January 31
Business Conditions Survey – January .....	February 1
Labour Force Survey – January .....	February 8
Financial Statistics for Enterprises – 4th Quarter 2001 .....	February 27
National Economic & Financial Accounts – 4th Quarter 2001 .....	February 28
Balance of International Payments – 4th Quarter 2001 .....	February 28
Next scheduled date for a bank rate announcement .....	March 5
Capacity Utilization Rates – 4th Quarter 2001 .....	March 11

#### UNITED STATES

Consumer Price Index – December .....	January 16
International Trade – November .....	January 18
Federal Open Market Committee meeting .....	January 29, 30
GDP – 4th Quarter 2001, Advance .....	January 30
Employment Situation – January .....	February 1

Note: the December 2001 / January 2002 MEI uses data available as of January 11, 2002