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# Monthly Economic Indicators

**August 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](http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html)

Canada 

# MONTHLY ECONOMIC INDICATORS

## August 2004

### HIGHLIGHTS

-  **Real gross domestic product (GDP) rose 0.3% in May, following a gain of 0.1% in April.**
-  **This, combined with continued strength in the housing market, strong increases in manufacturing shipments and net exports, suggest the economy expanded at a healthy pace in the second quarter.**
-  **Employment edged up 9,000 in July. Furthermore, manufacturing employment rose by 21,000, the first significant increase in more than a year.**
-  **In the United States (U.S.), GDP grew by 3.0 percent in the second quarter, less than anticipated by analysts.**
-  **On August 10, the U.S. Federal Reserve raised its federal funds rate by 25 basis points to 1.5%, the second consecutive increase since June 2004.**

### Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$97 B)	1,041.1	0.3	3.2	May
Goods	328.4	0.6	4.0	May
Services	713.9	0.1	2.9	May
Composite Index	197.8	1.1	9.2	June
Employment (000's)	16,040	0.1	2.0	July
Full-time	13,059	-0.3	2.3	July
Part-time	2,981	1.6	0.7	July
Unemployment* (%)	7.2	7.3	7.7	July
Youth*	13.4	13.3	14.1	July
Adult*	5.9	6.1	6.5	July
CPI inflation*	2.5	2.5	2.6	June
Retail Sales (\$M)	28,625	0.5	4.6	May
Housing Starts (000's)**	218.7	-5.8	-2.1	July
Trade Balance* (\$M)	8,626	5,788	4,671	June
Exports	39,044	4.4	20.1	June
Imports	30,418	-3.7	9.3	June
M&E	8,603	-10.2	5.3	June

		July	
		August 11***	2004
3-mth Corp. paper (%)*	2.09	2.12	2.89
Long bond yield (%)*	4.60	4.82	4.78
Canadian dollar (US¢)*	75.49	75.22	71.18

\*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

## August 2004

CONTENTS	Page
<b>The Economy</b>	
<i>Real GDP by Industry</i> .....	3
<i>Consumer Spending and Attitudes</i> .....	4
<i>Business Investment in Plant and Equipment</i> .....	5
<i>Housing</i> .....	6
<i>Trade and Competitiveness</i> .....	7
<b>Labour Market Trends</b>	
<i>Employment and Unemployment</i> .....	8
<i>Industry Overview</i> .....	9
<i>Provincial Overview</i> .....	10
<b>Prices and Financial Markets</b>	
<i>Consumer and Commodity Prices</i> .....	11
<i>Short-term and Long-term Interest Rates</i> .....	12
<i>Exchange Rates and Stock Prices</i> .....	13
<b>The United States Economy</b>	
<i>U.S. Economic Trends</i> .....	14
<b>Coming Up...</b>	
<i>Key Future Data Releases/Planned Events</i> .....	15

This issue uses data available as of August 13, 2004. It has been prepared by Éric Chalifoux, Stéphane Crépeau, Kevin Koch, Joseph Macaluso, Arif Mahmud, Sue Moore, François Poitras and François Rimbaud of the Micro-Economic Analysis Directorate, under the direction of François Poitras. Translation has been provided by Denis Sanfaçon 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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## Real GDP by Industry

### *Economic expansion continued in May...*

- Real GDP at basic prices rose 0.3% in May after increasing 0.1% in the previous month. Higher commodity prices led to increased production in the mining and oil & gas sector. Moreover, strong economic fundamentals continued to support the construction sector. Recent indicators point to stronger growth in the second quarter compared to the first quarter.

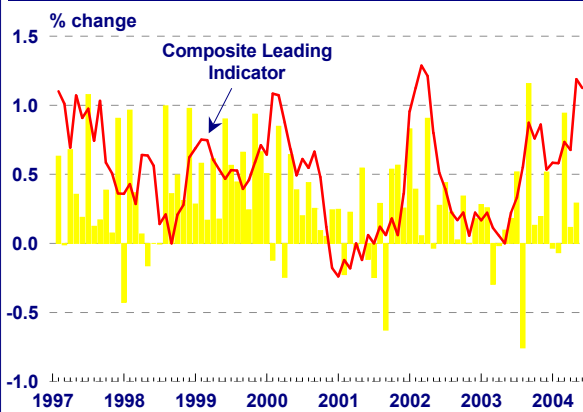
### *...as production in the goods sector increased...*

- Goods-producing industries output increased by 0.6% following a gain of 0.3% in April. Output in the mining and oil & gas extraction sector surged 2.0% buoyed by higher prices for energy products. Construction activity also advanced strongly as interest rates continued to be low. Industrial production (mining, utilities, and manufacturing) has risen 3.6% over the last year.

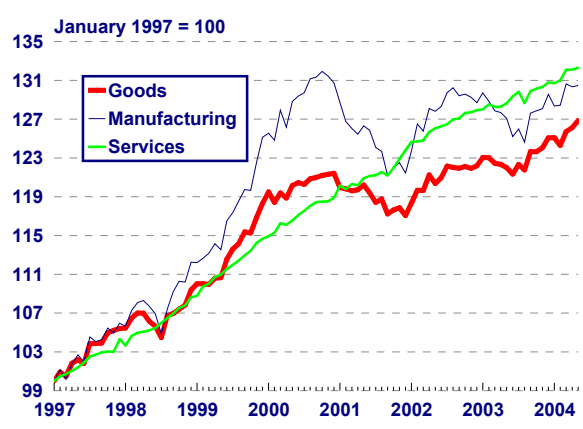
### *...and output in the service sector edged up*

- Output in the service sector edged up 0.1% after remaining unchanged in April. The increase was led by accommodation & food services and transportation & warehousing. The accommodation industry benefited from higher occupancy rates across the country. Furthermore, the end of the public sector strike in Newfoundland & Labrador helped the education, health care & social assistance and public administration sectors rebound. Meanwhile, wholesalers and retailers posted declines as new motor vehicle sales decreased.

**Real GDP at Basic Prices**



**Real GDP by Major Sector**



**Real GDP at Basic Prices (1997 chained dollars)**

May 2004

	\$ millions	monthly change	% Change since last	
			month	year
<b>Total Economy</b>	<b>1,041,143</b>	<b>3,030</b>	<b>0.3</b>	<b>3.2</b>
<b>Business Sector</b>	<b>884,821</b>	<b>2,304</b>	<b>0.3</b>	<b>3.7</b>
<b>Goods-producing</b>	<b>328,440</b>	<b>1,879</b>	<b>0.6</b>	<b>4.0</b>
Agri., Forest, Fish, Hunt*	23,635	-14	-0.1	0.2
Mining & Oil & Gas Extraction	38,845	780	2.0	8.2
Utilities	25,681	165	0.6	-0.7
Construction	58,563	396	0.7	7.5
Manufacturing	180,091	194	0.1	2.7
<b>Services-producing</b>	<b>713,925</b>	<b>1,069</b>	<b>0.1</b>	<b>2.9</b>
Wholesale Trade	66,270	-738	-1.1	6.8
Retail Trade	58,024	-116	-0.2	3.0
Transportation & Warehousing	48,278	520	1.1	5.1
Information & Cultural	42,438	81	0.2	0.2
FIRE**	209,824	112	0.1	3.5
Professional***	45,592	58	0.1	2.3
Admin. & Waste Mgmt	22,747	41	0.2	2.8
Education	45,557	399	0.9	0.4
Health & Social	60,870	235	0.4	0.5
Arts, Entertain. & Recreation	9,332	-26	-0.3	0.2
Accommodation & Food	23,109	378	1.7	5.5
Other	24,342	-75	-0.3	0.9
Public Administration	58,775	128	0.2	1.8

\*Agriculture, Forestry, Fishing & Hunting

\*\*Finance, Insurance & Real Estate

\*\*\*Professional, Scientific & Technical services

# THE ECONOMY



## Consumer Spending and Attitudes

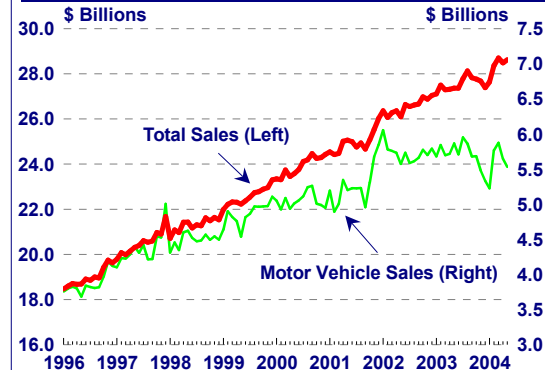
### Consumer spending has probably slowed in the second quarter...

- Following a decline of 0.1% in April, real retail sales dropped 0.2% in May. Lower sales of durable goods were responsible for the decrease. With no change in June, real retail sales would increase by 2.0% (annual rate) in the second quarter compared to 8.2% in the first quarter. In the meantime, the consumer confidence index slipped 5.7% in the second quarter after gaining 3.1% in the first quarter.
- New motor vehicle sales fell 1.9% in June, after a decline of 3.1% in May. Nevertheless, helped by a strong increase in April, sales of new motor vehicles increased by 19.6% (annual rate) in the second quarter compared to a 1.3% rise in the first quarter.

### ...but the good performance of the labour market continues to underpin consumption

- Employment increased for the fourth straight month in July. So far in 2004, a total of 119,500 jobs have been created compared to 81,200 for the same period last year. Such trends bode well for future personal income and consumption growth. Moreover, consumption is being supported by a higher net worth to disposable income ratio compared to the early 1990s.

### Total Retail and Motor Vehicle Sales



### Retail Sales and Consumer Credit

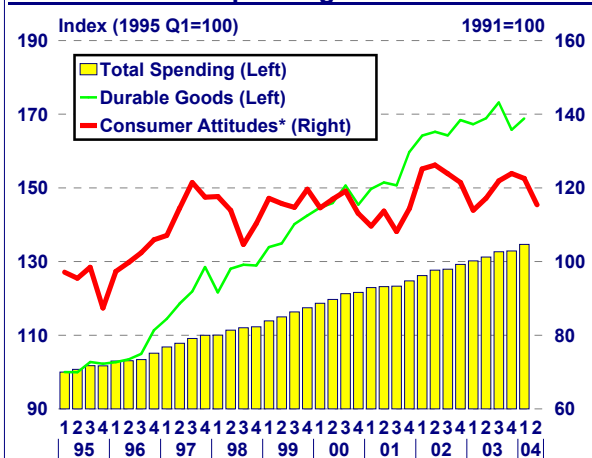
May 2004

	\$ millions	% Change since	
		last month	last year
<b>Total Retail Sales (S.A.)</b>	28,625	0.5	4.6
Food	5,621	1.6	4.8
Drug Stores	1,874	0.3	6.5
Clothing	1,671	-0.2	2.6
Furniture	1,862	0.8	7.8
Automotive	9,538	0.4	1.6
General Merch. Stores	3,512	-1.1	5.2
All other Stores	4,545	0.7	9.2
Total ex. motor vehicles	21,890	1.4	7.9
<b>Consumer Credit</b>	254	1.1	9.5

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	2002	2003	2003 Q4	2004 Q1
<b>Real Consumption (97\$)</b>	601,594	620,444	625,780	634,148
% change	3.4	3.1	0.7	5.5
Durable Goods	93,099	94,923	93,220	94,971
% change	8.3	2.0	-16.1	7.7
Semi-Durable Goods	54,472	56,142	56,297	58,385
% change	3.8	3.1	-1.1	15.7
Non-Durable Goods	137,196	140,078	140,836	142,369
% change	2.3	2.1	2.6	4.4
Services	317,627	330,098	335,907	339,106
% change	2.6	3.9	4.7	3.9
<b>Disposable Income</b>	692,691	713,548	719,504	727,172
% change	3.8	3.0	2.8	4.3
<b>Saving Rate (%)</b>	3.2	1.4	1.3	0.5
<b>Debt-to-Income Ratio (%)</b>	98.1	101.5	103.2	103.8

### Real Consumer Spending and Attitudes



\*Conference Board of Canada

# THE ECONOMY



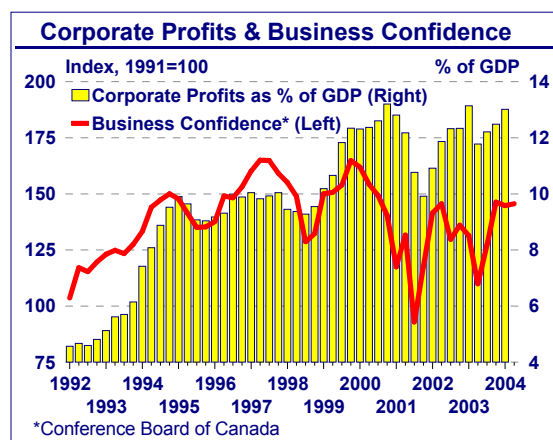
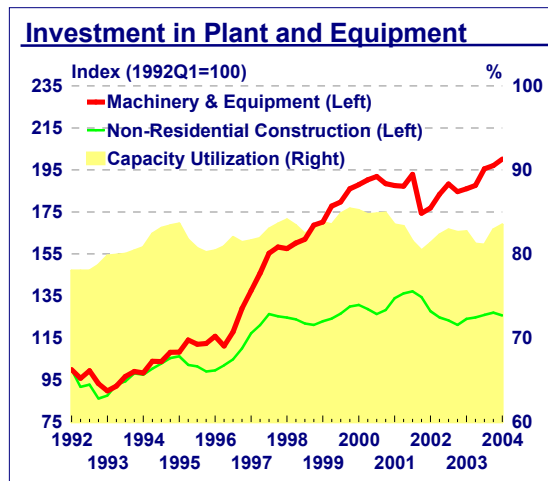
## Business Investment

### Further increase in business investment is expected in the second quarter...

- Machinery and Equipment (M&E) imports fell in June (10.1%) following a 13.9% increase in May. Shipments of machinery increased 4.7% in June, following a 0.5% increase in May. On a quarterly basis, imports of M&E rose 8.8% in the second quarter while shipments of machinery rose 28.2%
- The sale of non-residential building permits recovered in June, rising 32.6%. With this latest increase, builders took 10.3% more building permits than in the first quarter.
- Assuming no growth in June, non-residential building construction would increase by 2.7% in the second quarter.

### ...and the trend is expected to continue

- According to the last Business Conditions Survey (July 30, 2004), manufacturers were more upbeat for the third quarter than they were in the second.
  - The balance of opinion was generally improved. Higher optimism regarding the levels of orders received, backlogs of unfilled orders and production prospects could bode well for investment prospects.



### Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	2002	2003	2003 Q2	2003 Q3	2003 Q4	2004 Q1
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1997\$)</b>	82,715	86,441	84,681	88,229	88,920	90,329
% change	-1.2	4.5	3.6	17.8	3.2	6.5
<b>Non-residential Construction (1997\$)</b>	44,493	44,928	44,671	45,109	45,501	44,993
% change	-8.3	1.0	2.2	4.0	3.5	-4.4
<b>Capacity Utilization (% , Non-farm goods)</b>	82.3	82.0	81.2	81.1	82.9	83.5
Capacity Utilization (Mfg. sector)	83.3	83.0	82.2	81.7	84.2	84.9
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	149,969	172,118	162,928	171,528	178,676	189,464
% change	4.8	14.8	-25.4	22.8	17.7	26.4
Profits - Non-financial industries	115,798	128,203	120,508	125,872	131,604	140,044
% change	8.8	10.7	-36.2	19.0	19.5	28.2
Profits - Financial industries	34,169	43,915	42,420	45,656	47,072	49,424
% change	-6.8	28.5	20.2	34.2	13.0	21.5
<b>Business Credit</b>	893,287	910,157	907,033	911,097	917,273	927,552
% change	4.0	1.9	0.8	1.8	2.7	4.6

# THE ECONOMY

## Housing



### Housing activity was buoyant in the second quarter...

- Residential construction rose 0.8% in May, following a 1.0% increase in April. Assuming no growth in June, residential construction will rise 22.6% (annualized) in the second quarter.
- Following two consecutive quarterly drops, housing starts rose 13.5% in the second quarter.
- House prices have continued their ascent. They rose 10.4% in the second quarter, following an increase of 5.1% in the first.
- Unit sales rose 1.5% in June, following a 2.6% decrease in May. Unit sales rose 30.8% in the second quarter, following a 4.4% increase in the first.

### ...but could soften somewhat in the third

- While still high by historical standards, housing starts fell 5.8% in July to 218,700. However, the sale of building permits rose 24.2% in June, possibly indicating renewed building activity.
- Economic factors, notably low interest rates and the good performance of the labour market in 2004, have supported housing activity so far this year. However, the rapid pace of housing price increases as well as potential rate hikes in the near future might cool off the housing market.
- Analysts are expecting pent-up demand to be exhausted by the end of the year, which could contribute to lower housing starts in 2005.

### Housing Activity



\*Canada Mortgage and Housing Corporation

### Monthly Housing Indicators

	Levels	Change since	
		Last month	Last year
<b>Residential Construction (1)*</b> (\$97M, basic prices)	22,415	0.8%	15.9%
<b>Building Permits, \$M (2)*</b>	3,435	24.2%	30.2%
<b>Sales of Existing Homes (2)**</b> (# of units)	27,736	159	1,520
<b>Housing Starts, (3)***</b> (# of units, SAAR)	218,700	-13,400	-4,600
Newfoundland & Labrador	2,600	-200	300
Prince Edward Island	900	-400	100
Nova Scotia	4,100	-500	-1,100
New Brunswick	3,700	0	-1,400
Quebec	56,900	4,200	4,900
Ontario	81,300	-7,400	-3,300
Manitoba	4,900	900	1,600
Saskatchewan	3,000	300	0
Alberta	32,000	-8,100	-6,100
British Columbia	29,300	-2,200	400

1 - May data; 2 - June data; 3 - July data

Sources: \*Statistics Canada; \*\*Canadian Real Estate Association; \*\*\*Canada Mortgage and Housing Corporation

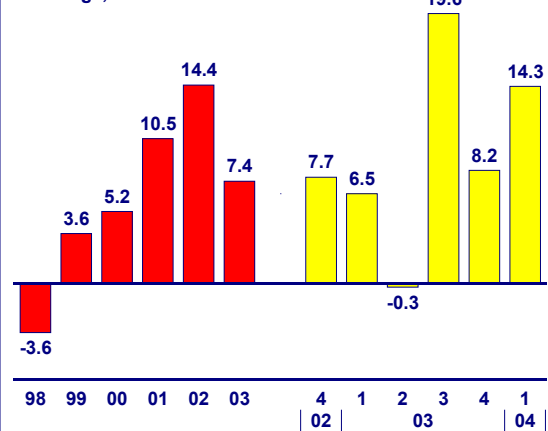
### Real Investment in Residential Structures

\$97 Millions, SAAR (unless otherwise noted)

	2002	2003	2003 Q4	2004 Q1
Residential Construction	58,133	62,452	64,778	66,977
% change	14.4	7.4	8.2	14.3
New Housing	28,900	30,678	32,087	33,450
% change	23.2	6.2	20.0	18.1
Alterations & Improvements	20,600	22,619	23,272	24,036
% change	4.7	9.8	7.6	13.8
Ownership & Transfer Costs	8,639	9,204	9,464	9,564
% change	11.5	6.5	-18.9	4.3

### Growth in Real Residential Construction

% change, SAAR



# THE ECONOMY



## Trade and Competitiveness

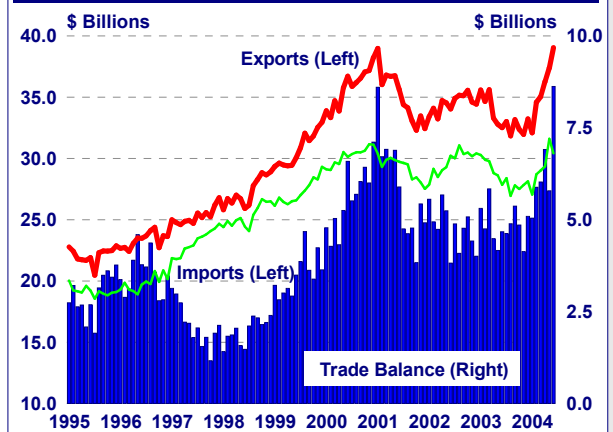
### Exports reached a record high in June...

- Merchandise exports rose 4.4% in June, the fifth consecutive monthly increase. All principal commodity groups posted an increase except Forestry products. Gains were led by Industrial Goods & Materials and Agricultural & Fishing products. Exports to all principal trading regions increased. Real export growth (4.1%) was strong as export prices rose only 0.3%.
- Imports fell 3.7% in June after reaching a record high in May. Lower imports of Machinery & Equipment accounted for most of the decline. Canadian companies imported less from almost all principal trading partners. Moreover, importers paid 0.4% less for their merchandise.

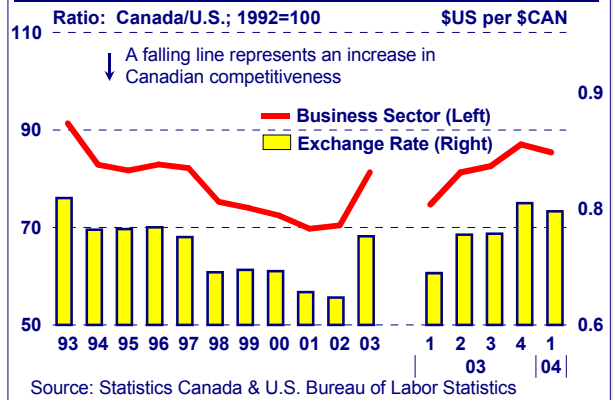
### ...and the trade surplus increased

- Canada's trade surplus hit a record high in June, reaching \$8.6 billion, as exports increased and imports fell. The trade surplus with the U.S. rose to \$10.7 billion and the deficit with other countries narrowed to \$2.1 billion.

### Merchandise Trade Flows and Balance



### Unit Labour Cost Comparison (\$US)



### Merchandise Trade

June 2004	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	May 2004	June 2004	Jan.-June 2003	Jan.-June 2004	May to June 2004	May to June 2004	Jan.-June 2003 to Jan.-June 2004	
<b>Exports</b>	<b>37,391</b>	<b>39,044</b>	<b>204,436</b>	<b>214,434</b>	<b>1,653</b>	<b>4.4</b>	<b>4.9</b>	
to United States	30,760	31,664	169,771	174,809	904	2.9	3.0	
<b>Imports</b>	<b>31,603</b>	<b>30,418</b>	<b>175,220</b>	<b>176,157</b>	<b>-1,185</b>	<b>-3.7</b>	<b>0.5</b>	
from United States	21,716	20,927	122,977	122,222	-789	-3.6	-0.6	
<b>Trade Balance</b>	<b>5,788</b>	<b>8,626</b>	<b>29,216</b>	<b>38,277</b>	<b>2,838</b>			
with United States	9,044	10,737	46,794	52,587	1,693			
<b>Exports by Commodity</b>								
Agriculture/Fishing Products	2,753	2,961	14,556	15,786	208	7.6	8.5	
Energy Products	6,035	6,427	32,189	33,082	392	6.5	2.8	
Forestry Products	3,634	3,534	16,812	19,640	-100	-2.8	16.8	
Industrial Goods & Materials	6,394	7,027	32,996	38,332	633	9.9	16.2	
Machinery & Equipment	7,766	8,191	45,860	45,934	425	5.5	0.2	
Automotive Products	7,938	8,060	44,295	45,457	122	1.5	2.6	
Other Consumer Goods	1,526	1,567	8,710	8,875	41	2.7	1.9	
<b>Imports by Commodity</b>								
Agriculture/Fishing Products	1,849	1,801	11,013	10,647	-48	-2.6	-3.3	
Energy Products	1,956	2,083	10,080	11,091	127	6.5	10.0	
Forestry Products	273	280	1,534	1,542	7	2.6	0.5	
Industrial Goods & Materials	6,124	6,254	33,445	34,976	130	2.1	4.6	
Machinery & Equipment	9,585	8,603	49,927	51,112	-982	-10.2	2.4	
Automotive Products	6,620	6,451	39,882	37,592	-169	-2.6	-5.7	
Other Consumer Goods	4,125	3,920	23,417	23,295	-205	-5.0	-0.5	





## Employment and Unemployment

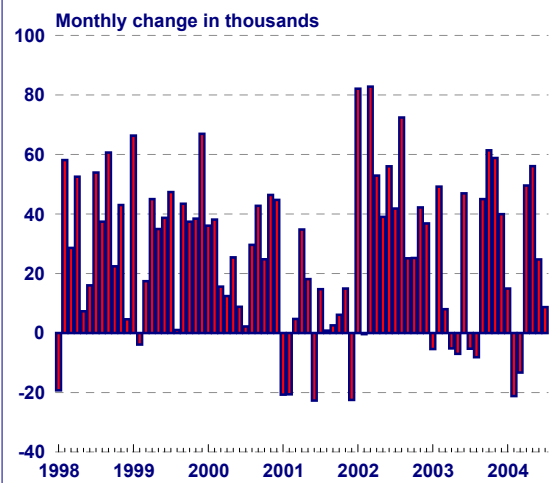
### Employment edged up slightly in July...

- Employment edged up 9,000 in July, following an increase of 25,000 in June. Since August 2003, when the recent upward trend began, employment has increased 325,000 (2.1%), with full-time employment rising 304,000 and part-time employment 21,000.
- Hours worked increased 1.3% in July and 2.3% since the start of 2004.
- Adult employment rose by 22,000 in July, raising job gains since the start of 2004 to 102,000. Meanwhile, youth employment decreased by 14,000, lowering year-to-date gains to 18,000.
- Private sector employment (i.e. paid employees and self-employed) rose by 39,000 jobs in July, with gains since the beginning of the year reaching 75,000, mostly in self-employed. Meanwhile, public sector employment declined by 30,000 in July, lowering gains since last December to 45,000 (1.5%).
- The participation rate edged down to 67.4% and the employment rate remained at 62.6%. These are close to the all-time highs posted in December 2003.

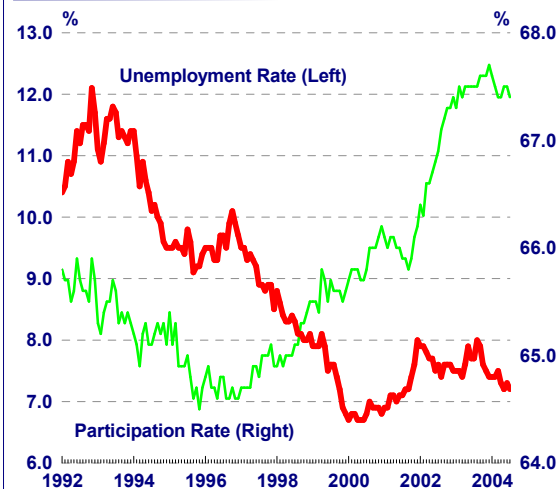
### ...and the unemployment rate edged down to 7.2%

- The unemployment rate edged down 0.1 percentage point to 7.2% in July, following a 0.1 point increase in June. July's drop was due to both a decrease in the labour force and an increase in employment. The unemployment rate for adults fell 0.2 point to 5.9%, but the youth unemployment rate rose 0.1 point to 13.4%.

### Employment



### Unemployment Rate



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2003 July	2004 June	2004 July	last month	last year	year-to- date	last month	last year
<b>Employment</b>	15,723.7	16,031.5	16,040.2	8.7	316.5	119.5	0.1	2.0
<b>Full-time</b>	12,764.1	13,098.2	13,059.3	-38.9	295.2	142.1	-0.3	2.3
<b>Part-time</b>	2,959.5	2,933.2	2,980.9	47.7	21.4	-22.5	1.6	0.7
<b>Youth 15-24</b>	2,393.4	2,450.6	2,436.9	-13.7	43.5	18.1	-0.6	1.8
<b>Adult 25+</b>	13,330.3	13,580.9	13,603.3	22.4	273.0	101.5	0.2	2.0
<b>Self-employed</b>	2,419.8	2,466.2	2,476.5	10.3	56.7	39.1	0.4	2.3
<b>Unemployment</b>	1,320.8	1,254.6	1,235.5	-19.1	-85.3	-31.3	-1.5	-6.5
<b>Unemployment Rate</b>	7.7	7.3	7.2	-0.1	-0.5	-0.2		
<b>Youth 15-24</b>	14.1	13.3	13.4	0.1	-0.7	-0.6		
<b>Adult 25+</b>	6.5	6.1	5.9	-0.2	-0.6	-0.2		
<b>Labour Force</b>	17,044.5	17,286.1	17,275.7	-10.4	231.2	88.3	-0.1	1.4
<b>Participation Rate</b>	67.5	67.5	67.4	-0.1	-0.1	-0.3		
<b>Employment Rate</b>	62.2	62.6	62.6	0.0	0.4	-0.1		



## Industry Overview

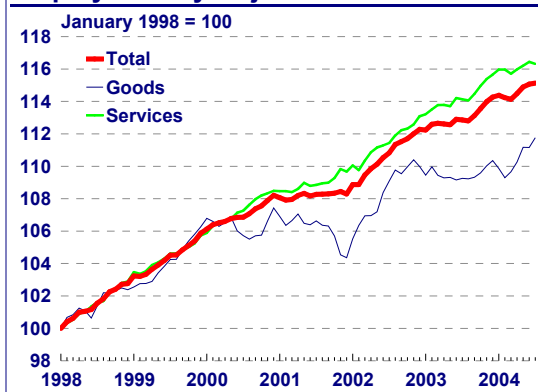
### Employment in the Goods sector resumed growth ...

- Employment in the Goods sector resumed growth by increasing by 22,000 in July, after a virtually flat performance in June. Gains of 21,000 jobs in Manufacturing and 19,000 in Construction more than offset small losses in the other three sectors.
- So far this year, the Goods sector has gained 52,000 jobs, including a gain of 43,000 in Construction and 24,000 in Manufacturing. The employment level in Manufacturing is still below its peak of August 2002.

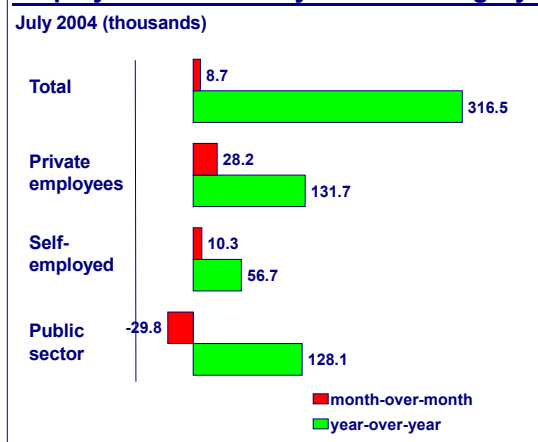
### ...while employment in the Services sector edged down

- Employment in Services decreased 13,000 in July, following increases of 23,000 in May and 25,000 in June. Service employment has risen 68,000 so far this year. The largest gains occurred in Professional, Scientific & Technical Services, Transportation & Warehousing and Trade. Educational Services has posted the largest loss. On a year-over-year basis, the Services sector has gained 225,000 jobs.
- In July, the largest job gains were posted in Professional, Scientific & Technical Services (18,000). The largest losses were posted by Health Care & Social Assistance (24,000) and Educational Services (20,000).

### Employment by Major Sector



### Employment Growth by Worker Category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2003 July	2004 June	2004 July	last month	last year	year-to-date	last month	last year
<b>Goods-producing</b>	3,975.5	4,045.1	4,067.0	21.9	91.5	51.7	0.5	2.3
Agriculture	334.6	340.0	330.8	-9.2	-3.8	-15.7	-2.7	-1.1
Natural Resources*	291.2	298.7	293.4	-5.3	2.2	-2.6	-1.8	0.8
Utilities	132.1	137.4	134.1	-3.3	2.0	3.4	-2.4	1.5
Construction	935.3	980.8	999.9	19.1	64.6	42.8	1.9	6.9
Manufacturing	2,282.3	2,288.1	2,308.8	20.7	26.5	23.8	0.9	1.2
<b>Services-producing</b>	11,748.2	11,986.4	11,973.1	-13.3	224.9	67.7	-0.1	1.9
Trade	2,452.8	2,491.7	2,496.7	5.0	43.9	19.3	0.2	1.8
Transportation*	762.0	819.5	811.4	-8.1	49.4	29.2	-1.0	6.5
FIRE*	931.8	977.0	972.3	-4.7	40.5	15.6	-0.5	4.3
Professional/Scientific	1,004.5	1,014.4	1,032.5	18.1	28.0	48.0	1.8	2.8
Business/Building	612.6	622.3	628.7	6.4	16.1	-8.9	1.0	2.6
Educational Services	1,035.4	1,061.1	1,040.9	-20.2	5.5	-20.2	-1.9	0.5
Health Care/Social Assistance	1,687.8	1,757.1	1,733.6	-23.5	45.8	1.4	-1.3	2.7
Information/Culture/Recreation	712.7	723.3	719.6	-3.7	6.9	2.6	-0.5	1.0
Accommodation & Food	1,017.1	1,014.9	1,018.3	3.4	1.2	-11.2	0.3	0.1
Other Services	713.8	690.0	695.9	5.9	-17.9	-3.7	0.9	-2.5
Public Administration	817.6	815.2	823.2	8.0	5.6	-4.4	1.0	0.7

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

# LABOUR MARKET TRENDS



## Provincial Overview

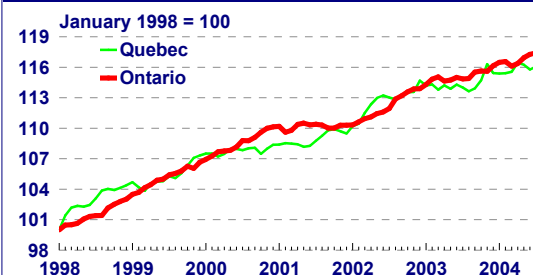
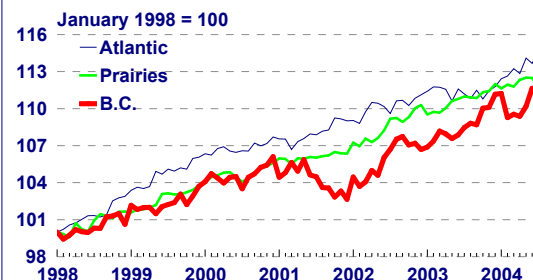
### Job gains were concentrated in Quebec, Ontario and Newfoundland & Labrador...

- Employment in Quebec rose by 10,000 (0.3%) in July, with major contributions by Construction and Business Services. In Ontario, Manufacturing and Public Administration contributed to a gain of 9,000 jobs (0.1%). Newfoundland & Labrador gained 5,000 jobs (2.4%), bringing gains since the start of 2004 to 11,000 (5.1%).
- Alberta posted the largest job loss in July (13,000), largely due to Educational Services (10,000) and Finance (8,000). Manitoba lost 5,000 jobs, while other provinces posted job changes of 3,000 or less.
- On a year-over-year basis, all provinces posted gains, except Prince Edward Island (unchanged). The largest gains were in Newfoundland & Labrador (4.1%), Nova Scotia (3.6%) and British Columbia (3.0%). Ontario and Quebec gained 2.3% and 1.8%, respectively.

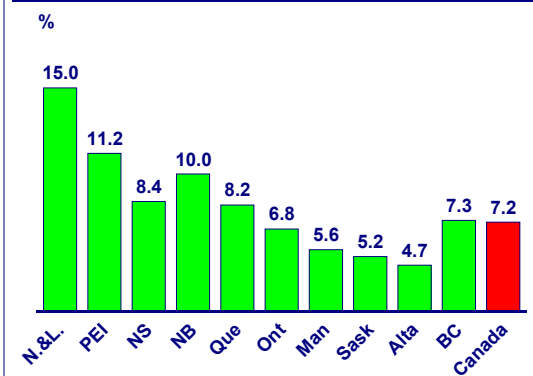
### ...and the unemployment rate edged down in most provinces

- The unemployment rate fell in six provinces, notably in Newfoundland & Labrador (1.6 percentage points to 15.0%), P.E.I. (0.8 point to 11.2%) and Nova Scotia (0.4 point to 8.4%), largely due to job gains. Smaller declines were posted in Ontario, B.C. and Manitoba, as the labour force fell in Manitoba and B.C.
- Only Alberta posted a slight unemployment rate increase (0.1 point to 4.7%) in July, largely due to job losses. The unemployment rate was unchanged elsewhere.
- Since July 2003, the unemployment rate has fallen in most provinces, particularly in B.C., Quebec and Newfoundland & Labrador. However, it has risen in P.E.I. and Manitoba.

### Regional employment patterns



### Unemployment Rates -- July 2004



### Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	<u>Levels</u>	<u>Change since last month</u>		<u>Change since last year</u>		<u>Levels</u>	<u>Change since</u>	
	2004 July	(000's)	%	(000's)	%	2004 July	last month	last year
<b>Canada</b>	16,040.2	8.7	0.1	316.5	2.0	7.2	-0.1	-0.5
<b>Newfoundland &amp; Labrador</b>	226.5	5.3	2.4	8.9	4.1	15.0	-1.6	-0.9
<b>Prince Edward Island</b>	69.5	1.5	2.2	0.0	0.0	11.2	-0.8	0.8
<b>Nova Scotia</b>	449.2	1.1	0.2	15.6	3.6	8.4	-0.4	-0.8
<b>New Brunswick</b>	354.1	2.3	0.7	9.4	2.7	10.0	0.0	-0.4
<b>Quebec</b>	3,702.5	9.6	0.3	65.6	1.8	8.2	0.0	-1.1
<b>Ontario</b>	6,355.2	8.6	0.1	139.9	2.3	6.8	-0.2	-0.4
<b>Manitoba</b>	570.8	-4.6	-0.8	0.4	0.1	5.6	-0.1	0.5
<b>Saskatchewan</b>	486.8	-3.0	-0.6	0.1	0.0	5.2	0.0	-0.3
<b>Alberta</b>	1,744.2	-13.3	-0.8	16.1	0.9	4.7	0.1	-0.1
<b>British Columbia</b>	2,081.5	1.2	0.1	60.5	3.0	7.3	-0.2	-1.2

# PRICES and FINANCIAL MARKETS

## Consumer and Commodity Prices



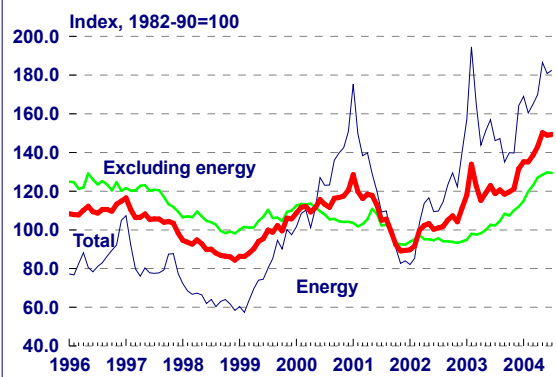
### Inflation was 2.5% in June...

- On a year-over-year basis, the Consumer Price Index (CPI) rose 2.5% in June, the same increase as in May. Higher gasoline prices (24.5%) continued to exert upward pressure on the total CPI, along with higher prices for cigarettes, tuition, and higher homeowner's replacement costs. Excluding energy, inflation was 1.6% in June compared to 1.3% in May.
- Except for Ontario, all ten provinces recorded higher inflation in June than in May. All provinces registered inflation above 2.0% in June ranging from 2.2% in New Brunswick to 2.9% in Manitoba and Saskatchewan.
- On a month-to-month basis (seasonally adjusted), the CPI rose by 0.1% in June compared to 0.6% in May.
- The year-over-year increase in commodity prices was 21.2% in June, which marked the third consecutive month that increases were over 20%. On a monthly basis, commodity prices fell 0.9%, following a 5.0% increase in May. Excluding energy prices, commodity prices increased 0.9% after increasing 1.2% in May.

### ...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 1.5% in May to 1.7% in June, below the midpoint of the 1%-3% official target range.

### Commodity Prices (\$US basis)



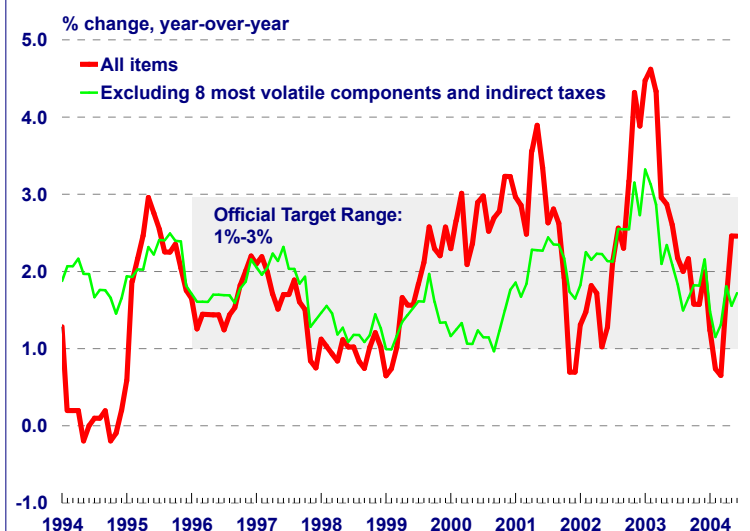
### Consumer Prices

	Index (1992=100)	% Change since	
		last month	last year
<b>All items CPI</b>	125.1	0.1	2.5
Food	125.6	1.0	1.9
Shelter	120.3	0.4	2.2
Household operations	115.0	-0.3	0.4
Clothing & Footwear	101.9	-0.9	0.9
Transportation	147.1	-0.7	5.4
Health & Personal Care	119.1	0.1	2.0
Recreation, Educ. & Reading	128.5	0.1	0.7
Alcohol & Tobacco	144.0	0.4	5.6
<b>Excl. 8 Most Volatile/Indirect Taxes</b>	124.3	0.1	1.7
Energy	154.8	-0.9	13.0

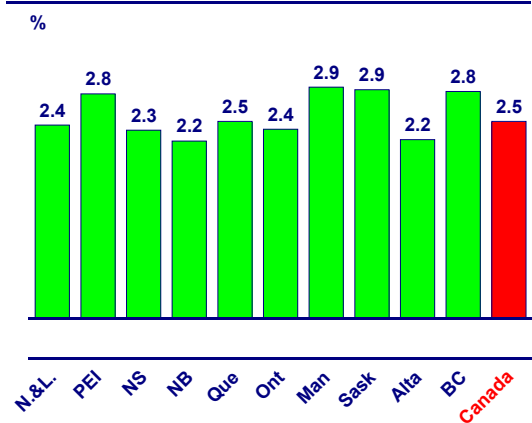
### Commodity Prices (July 2004)

Index, 1982-90=100	149.3	0.3	25.8
Excluding Energy	129.4	-0.2	26.5
Energy	182.5	0.9	24.9

### Consumer Price Index



### Provincial CPI Inflation -- June 2004





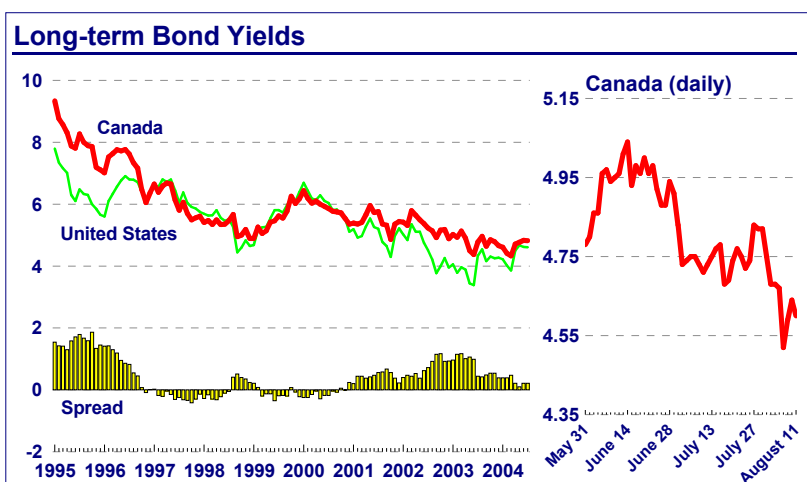
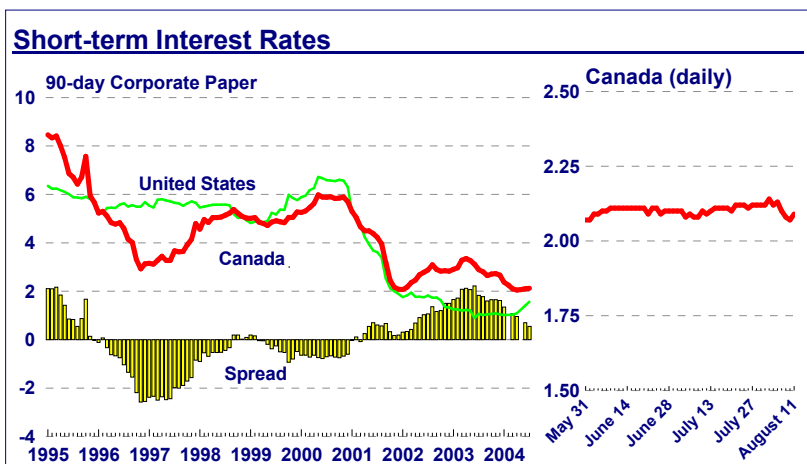
## Short-term and Long-term Interest Rates

### U.S. interest rates edged up again in August

- The U.S. Federal Reserve raised the federal funds rate another 25 basis points (bps) to 1.5% on August 10. According to the Fed's statement, the recent moderation of job creation and higher energy prices are not expected to significantly impact sustainable growth and price stability in the U.S. In Canada, monetary authorities have so far maintained the target for the overnight rate at 2.0%. However, the Canadian economy likely performed better in the first half of the year than forecast in April, which the Bank of Canada will take into consideration for its next policy adjustment scheduled on September 8.
- The rate on three-month corporate paper in Canada was 2.09% on August 11, and has been about 2.10% for five months. Its U.S. counterpart was 1.62% on August 11, up from 1.0% in April, which narrowed the rate differential to 47 bps from 96 bps in April.

### North American long-term rates fell further in August

- Despite optimistic outlooks from North American monetary authorities, evidence of a slowdown in the U.S. economic expansion, including lower than expected second quarter GDP growth, impacted long-term bond yields in recent weeks. U.S. 10-year yields fell to 4.30% on August 11. Canadian yields also fell in recent weeks, reaching 4.60% on August 11, down from about 5.0% in mid-June.
- One-year mortgage rates were 4.40% on August 11, lower than July's rates. Five-year mortgage rates fell to 6.30% on August 11, down from 6.70% at the end of June.



#### 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
February	2.25	N/A	4.41	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
Aug. 11*	2.09	0.47	4.60	0.30

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	Mortgage Rate 5 year
2002	2.75	4.50	4.90	6.70
2003	2.75	4.50	4.75	6.45
February	2.50	4.25	4.30	5.80
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
Aug. 11*	2.00	3.75	4.40	6.30

\* Bank of Canada's Weekly Financial Statistics

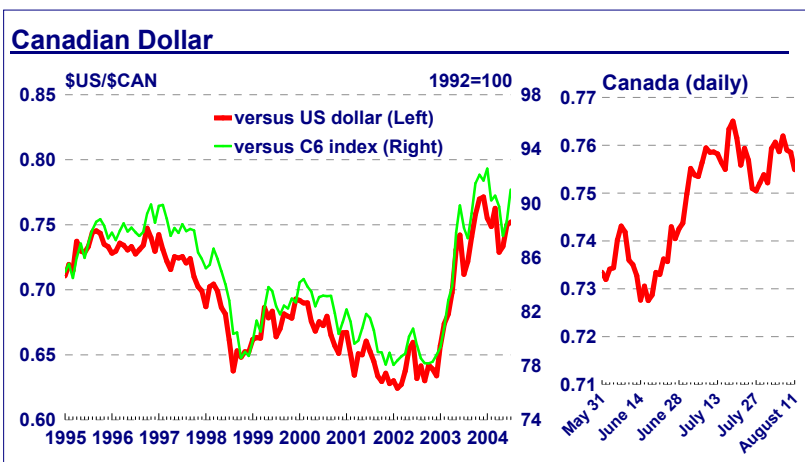


### The Canadian dollar strengthened further in July

- A narrowing spread between U.S. and Canadian interest rates appeared to have little impact on the Canadian dollar in July and early August. It closed at US¢75.5 on August 11 and has traded over US¢75 since the beginning of July. The sustained strength in the Canadian dollar, which has risen 3.8% against the U.S. dollar since mid-June, was likely due to evidence of good economic performance in Canada in the second quarter combined with some unexpected weakness in the U.S. economy.
- The Canadian dollar has performed well against the euro, appreciating 4.8% from mid-June to early August. The dollar then lost about 2.0% in a week to close at 1.62 on August 11. The Canadian dollar appreciated 5.1% against the Japanese yen from mid-June to August 11.

### North American stock markets paused in July

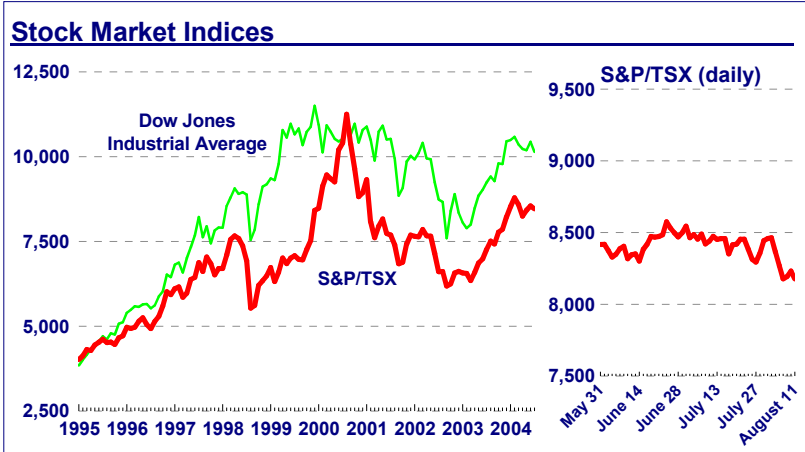
- Record high oil prices and disappointing employment data at the beginning of August in the United States as well as in Canada contributed to a decline in North American equity markets in July and early August. The S&P/TSX closed at 8,168 on August 11, down 3.4% since July 30. Except for a rise at the end of July, the S&P/TSX index mostly fell over the last month. Most sub-indices fell in July, including gold, metals & mining, and telecommunications.
- The Dow Jones closed on August 11 at 9,938, 2.4% below its recent high on August 2. Since June 23 (10,480), the index has also steadily fallen except for a brief rise in early August.



### 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
February	0.7487	90.19	1.669	81.60
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
Aug. 11	0.7549	*90.96	1.618	83.72

\* Bank of Canada's Weekly Financial Statistics



### Key Stock Market Indexes

	July Close	% change from	
		last month	last year
<b>S&amp;P/TSX</b>	<b>8,458</b>	<b>-1.0</b>	<b>16.5</b>
Energy	179	5.7	35.1
Metals & Mining	218	-3.0	54.8
Utilities	140	-0.7	-4.0
Materials	145	-3.0	20.4
Industrial	72	-3.2	2.8
Financial	143	1.6	19.6
Gold	189	-5.1	6.0
Telecommunication	62	5.1	3.1
Information Technology	31	-15.3	47.9
Consumer Discretionary	87	-4.0	10.7
Consumer Staples	174	-1.6	5.8
<b>S&amp;P 500</b>	<b>1,101.7</b>	<b>-3.4</b>	<b>11.3</b>
<b>Dow Jones</b>	<b>10,140</b>	<b>-2.8</b>	<b>9.8</b>



## U.S. Economic Trends

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

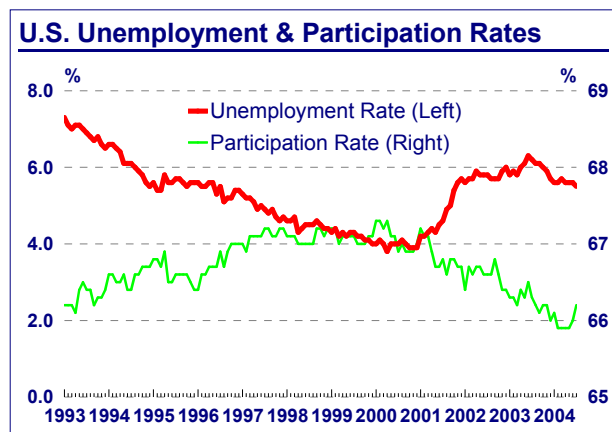
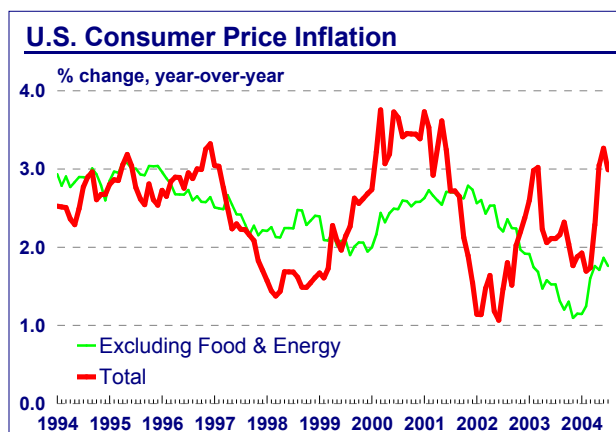
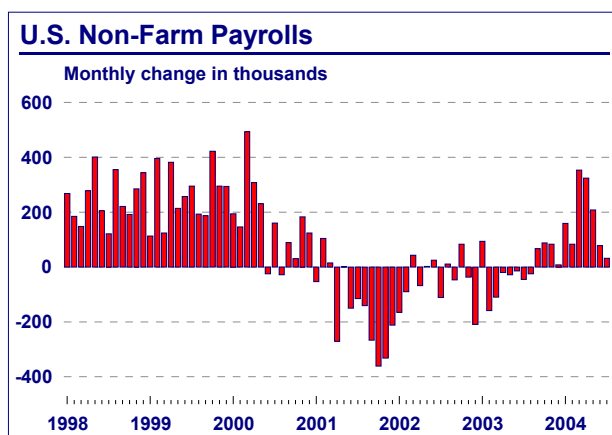
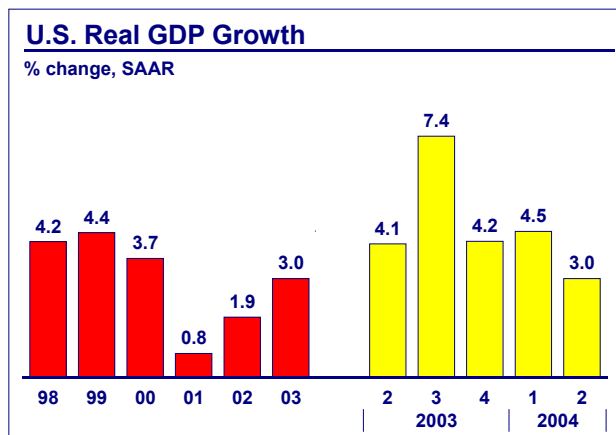
- According to advanced estimates, real GDP growth was 3.0% (annual rate) in the second quarter of 2004, down from 4.5% growth (upwardly revised from 3.9%) in the first quarter. Consumer spending growth slowed to 1.0%, the lowest growth rate in three years, and was the main factor behind the deceleration. On the other hand, business investment (8.9%) expanded for the fifth consecutive month and exports and residential investment posted strong gains.
- Productivity growth (non-farm business) in the second quarter was 2.9%, which was lower than 3.8% in the first quarter, but a good performance nonetheless.

### ...but the slowdown is expected to be temporary

- Recent indicators suggest that economic performance firmed in July. Retail sales rose 0.7%, including a 2.4% rise in vehicle sales, and surveys suggest consumer confidence rose. Likewise, the Institute of Supply Management (ISM) manufacturing index rose from already high levels, and industrial production advanced 0.4% in July. On the downside, non-farm employment increased only 32,000 in July compared with expectations of 241,000, following downward revisions for June. However, a continued strong performance in business investment, which averaged 10.3% over the last five quarters, could help sustain growth if the weakness in the labour market negatively impacts consumer spending.

### Inflation moderated somewhat in July

- The CPI increased 3.0% in July (year-over-year) compared to 3.3% in June. Energy prices rose less in July (14.4%) compared to June (16.8%) which contributed to the lower rate of inflation. Core inflation (which excludes food and energy) also fell to 1.8% from 1.9% in June.

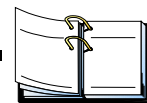


Source: U.S. Bureau of Economic Analysis & U.S. Bureau of Labor Statistics

## COMING UP

### Key Future Data Releases and Planned Events

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#### CANADA

Consumer Price Index - July	August 24
Financial Statistics for Enterprises - 2nd Quarter 2004	August 26
Balance of International Payments - 2nd Quarter 2004	August 30
National Economic and Financial Accounts - 2nd Quarter 2004	August 31
Real GDP by Industry - June	August 31
Key Policy Interest Rate Announcement	September 8
Labour Force Survey - August	September 10
Canadian International Merchandise Trade - July	September 10
Monthly Survey of Manufacturing - July	September 15

#### UNITED STATES

GDP - 2nd Quarter 2004 (preliminary)	August 27
The Employment Situation - August	September 3
International Trade in Goods and Services - July	September 10
Consumer Price Index - August	September 16
Federal Open Market Committee Meeting	September 21

Note: The August 2004 MEI uses data available as of August 13, 2004