United States and Canadian Economies

United States

Growth in the U.S. economy slowed during the second and third quarters of 2006. Faltering residential investment slowed overall growth despite continued strength in consumer spending, exports and non-residential business investment. After growing by 5.6% in the first quarter, GDP growth slowed to 2.6% at annualized rates in the second quarter and 1.6% in the third quarter.

Labour markets continued to improve, however, the rate of monthly job gains slowed, averaging 137,000 per month during the first nine months compared to 165,000 per month during 2005. With job gains exceeding labour force growth, the unemployment rate declined to 4.6% in September, down from 4.9% at the end of 2005.

The Federal Reserve Board (Fed) continually raised interest rates from June 2004 to June 2006 with 17 successive 0.25 percentage point increases as the U.S. economy expanded and labour markets improved. However, since June it has become evident that weakness in housing is slowing overall economic growth and, with inflation remaining in check, the Fed put further rate increases on hold.

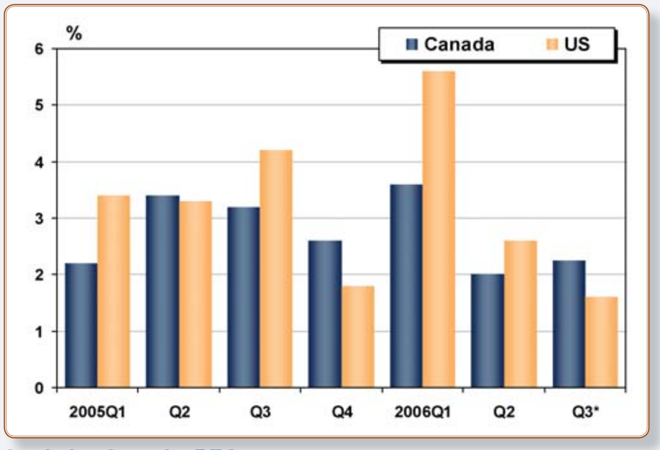
The U.S. current account deficit continued to increase during the first three quarters of this year and is expected to rise to 7% of GDP in 2006—driven by high oil prices and strong domestic demand. Despite the high deficit, the U.S. dollar managed to hold its own against major currencies during the first three quarters of 2006.

It is expected that weakness in the housing sector will keep real GDP growth near 2.0% in the final quarter of 2006 and into the first half of 2007 as the economy experiences a mid-business cycle slowdown. However, past depreciation of the U.S. dollar and strong global economic activity should help U.S. exports. Also, solid balance sheets and strong corporate profits should keep business investment strong. These positive factors should more than offset declining housing investment and possible weakness in big ticket consumer purchases. Overall, U.S. economic growth is expected to average roughly 3.0% in 2006 and 2.6% in 2007.

Canada

The Canadian economy continued to grow in the first nine months of 2006—real GDP increased by 3.6% and 2.0% in the first and second quarters respectively and is estimated to have grown by roughly 2.0 to 2.5% in the third quarter. Economic growth was led by gains in consumer spending and business investment while declines in residential investment and exports weakened growth.

Real GDP Growth
Canada and the United States



Statistics Canada; BEA
* Canadian growth rate is estimated

Labour markets continued to improve with employment up by 2.0% during the first nine months of this year compared to the same period in 2005. The seasonally adjusted unemployment rate was 6.4% in September down from 6.6% at the beginning of the year.

With the unemployment rate near 30 year lows and the economy operating near full capacity, the Bank of Canada steadily raised the overnight rate from 2.5% in September 2005 to 4.25% in May of this year. However, in recent months with the U.S. economy slowing, exports stalling and core inflation steady, the Bank suspended any further rate increases.

The Canadian dollar exhibited modest appreciation during the first 10 months of 2006. Interest rate increases and strong mineral and oil prices continued to support the dollar. As of the end of October, the Canadian dollar was hovering near 89 cents U.S., up from roughly 86.5 cents at the start of the year. The Canadian dollar is expected to remain in the 85 to 90 cent U.S. range in the coming quarters, supported by high commodity prices.

Most forecasters currently expect real GDP growth to average 2.8% in 2006 and 2.5% in 2007. A slowing U.S. economy and a high Canadian dollar will slow export demand and negatively impact growth in Central and Eastern Canada, particularly in Ontario and Quebec, but booming commodity markets and preparations for the 2010 Vancouver Olympics should keep growth strong in the Western provinces.