






MONTHLY ECONOMIC INDICATORS

September 2001

HIGHLIGHTS

-  **The economy slows sharply in the second quarter, with output edging up only 0.4% (annual rate).**
-  **Household demand softens noticeably and exports remain weak, but investment is up for the first time in four quarters.**
-  **Employment falls for the third straight month in August, raising the unemployment rate to 7.2%.**
-  **Reduced prospects for a quick turnaround prompt the Bank of Canada to cut its key interest rate again on August 28.**
-  **Inflation falls to 2.6% in July, after reaching a ten-year high of 3.9% two months ago.**

Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$92 B)	797.6	-0.2	1.2	June
Goods	254.5	-0.7	-1.8	June
Services	543.1	-0.0	2.8	June
Composite Index	166.2	0.0	1.1	July
Employment (000's)	15,074	-0.1	1.1	Aug
Full-time	12,365	0.3	1.5	Aug
Part-time	2,709	-1.8	-0.5	Aug
Unemployment* (%)	7.2	7.0	7.1	Aug
Youth*	12.7	12.4	13.0	Aug
Adult*	6.1	6.0	5.9	Aug
CPI inflation*	2.6	3.3	3.0	July
Retail Sales (\$M)	24,232	-0.3	5.2	June
Housing Starts (000's)	169.2	11.6	14.6	Aug
Trade Balance* (\$M)	5,798	6,536	5,635	June
Exports	36,113	-1.4	-0.1	June
Imports	30,315	0.8	-0.6	June
M&E	9,496	0.7	-7.5	June
3-mth Corp. paper* (%)	3.92	4.22	5.90	Sept 5
Long bond yield* (%)	5.81	5.94	5.51	Sept 5
Canadian dollar* (US¢)	63.84	65.25	67.96	Sept 7

*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.



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MONTHLY ECONOMIC INDICATORS

September 2001

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This report uses data available as of September 7, 2001. It has been prepared by Anik Dufour, Joe Macaluso, Arif Mahmud, and Karen Smith of the Micro-Economic Analysis Directorate, under the direction of Raynald Létourneau and Shane Williamson. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for production support. All information is taken from public sources, primarily Statistics Canada, the Bank of Canada and the Canada Mortgage and Housing Corporation. Please address comments to Shane Williamson at 613-995-8452 or through the Internet at williamson.shane@ic.gc.ca.

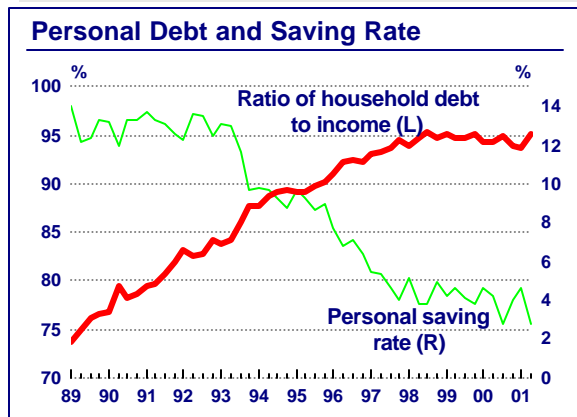
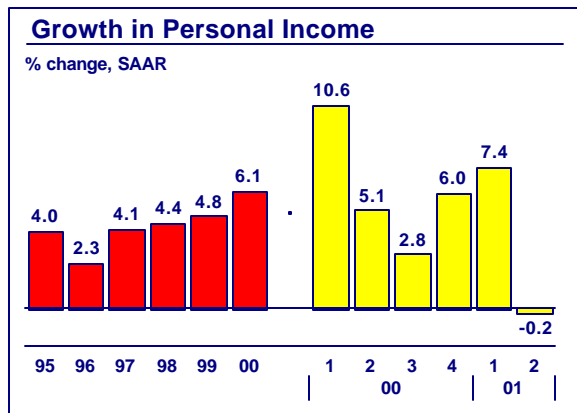
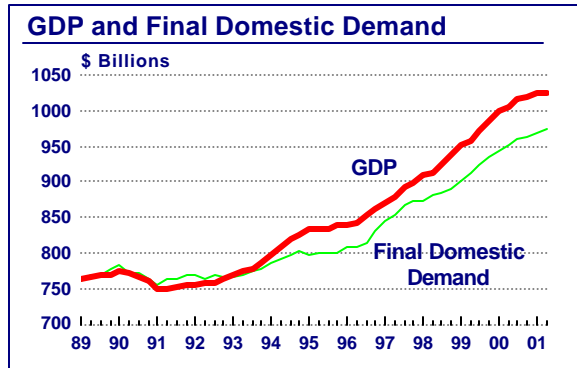
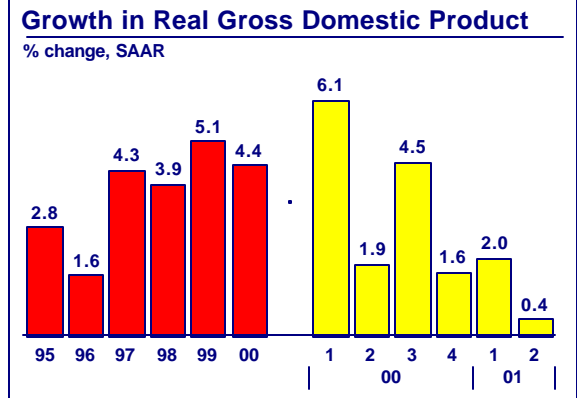


Output growth slows sharply in the second quarter...

- Real GDP edged up a modest 0.4% (annual rate) in the second quarter of 2001, the slowest pace of growth since 1995.
- The production slowdown was due to weakening household demand and falling exports. However, business investment posted its first increase in four quarters.
- In real terms, exports fell 3.1% (annual rate) in the second quarter, the third consecutive decline. Demand for telecommunications equipment remains very weak, but automotive exports surged with stronger demand in the U.S. market.
- Real imports rose 2.1%, rebounding from a steep decline in the first quarter. The increase was led by higher imports of automotive products, reflecting increased activity in the motor vehicle industry.

...and personal income declines slightly

- Personal income edged down an annualized 0.2% in the second quarter, following average increases of over 6% in the previous five quarters. The decrease was due to a sharp drop in federal transfers, which had been boosted in the first quarter by a \$1.5 billion payout for the relief of heating expenses. Growth in labour income slowed to 1.9%, the smallest gain in five years.
- Declining incomes coupled with higher spending lowered the personal saving rate to 2.8% in the second quarter. The household debt-to-income ratio rose to 95.1%.
- Corporate profits fell 6.4% (annual rate) in the second quarter. Lower energy prices and continued weakness in export-oriented Manufacturing industries were key factors behind the overall decline.



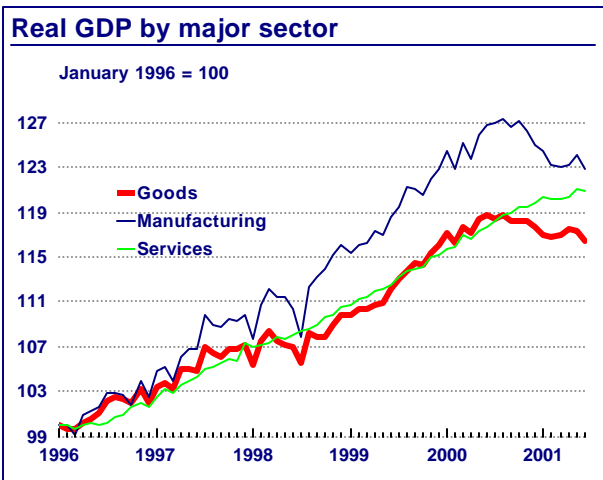
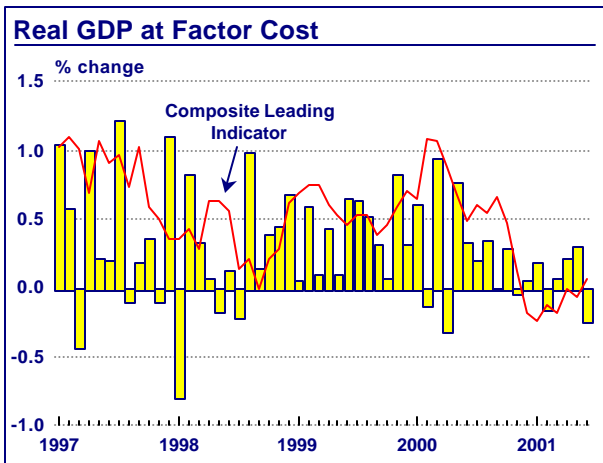


Production falls in June...

- Real GDP at factor cost fell back 0.2% in June, the first decline in four months. Statistics Canada's composite leading indicator was unchanged in July, pointing to continued sluggish economic growth.

...led by a reduction in Manufacturing and Mining

- Output in the Goods sector decreased 0.7% in June. Manufacturing fell back sharply with further declines in output of telecommunications equipment, and the first drop in automotive production after three months of growth. The Mining sector tumbled due to a sharp drop in drilling activity, although this represents a return to more normal levels following a sharp increase early in April.
- Services output was flat in June. Continuing strike activity in the health sector and the completion of canvassing for the 2001 Census led to a sharp drop in Government Services. Declining stock market activity led to lower output in the Finance industry, while Wholesaling activity continues to be hit by falling demand for computers. These declines were offset by higher output in other industry groups, including a gain in the Communications sector driven by growing demand for long distance and cellular phone services.



Real GDP at Factor Cost (1992 dollars)

June 2001

	\$ millions	monthly change	% Change since last month	% Change since last year
Total Economy	797,632	-1,963	-0.2	1.2
Business sector	666,318	-1,567	-0.2	1.1
Goods	254,527	-1,793	-0.7	-1.8
Agriculture	12,738	75	0.6	-3.5
Fishing & Trapping	684	20	3.0	-1.9
Logging & Forestry	4,535	71	1.6	-9.6
Mining*	27,805	-739	-2.6	-0.4
Manufacturing	139,799	-1,368	-1.0	-3.1
Construction	42,616	93	0.2	2.2
Other Utilities	26,350	55	0.2	-0.3
Services	543,105	-170	-0.0	2.8
Transport & Storage	36,628	-35	-0.1	0.2
Communications	32,393	324	1.0	8.8
Wholesale Trade	51,013	-142	-0.3	0.0
Retail Trade	52,848	23	0.0	4.5
Finance & Insurance	44,590	-195	-0.4	2.6
Real Estate & Ins. Agent	85,211	204	0.2	3.4
Business services	51,987	58	0.1	5.1
Government services	48,973	-371	-0.8	4.1
Education	41,488	99	0.2	1.6
Health & Social Services	46,364	-83	-0.2	-0.2
Accommodation & Food	21,435	-73	-0.3	1.8
Other	30,175	21	0.1	0.9

*Includes Quarrying and Crude Petroleum & Natural Gas

THE ECONOMY

Consumer Spending and Attitudes

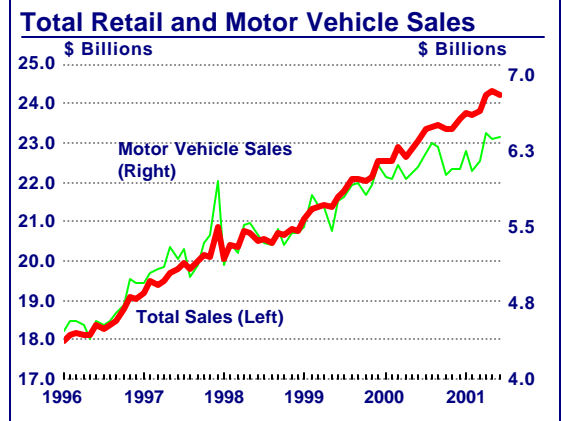


Consumer spending slows in the second quarter...

- Consumer spending edged up 1.1% (annual rate) in the second quarter, slowing from a solid advance in the previous quarter.
- While manufacturers' incentives continued to boost auto sales, mild weather resulted in lower expenditures on natural gas and other fuels.
- Clothing expenditures advanced strongly, but spending was little changed across a broad range of goods and services.

...and may remain weak

- Real personal disposable income fell 5.6% in the second quarter, negating a comparable gain in the previous quarter.
- Although consumer confidence rebounded slightly in the second quarter, some indicators suggest that household spending will remain weak. Employment has fallen in June, July and August, and preliminary data for July point to lower auto sales. Recent interest rate cuts have resulted in reduced consumer lending rates, which may help boost demand.



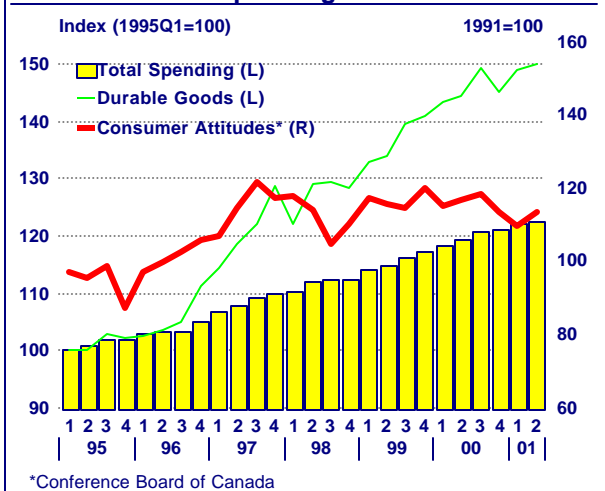
Retail Sales and Consumer Credit

	June 2001 \$ millions	% Change since	
		last month	last year
Total Retail Sales (S.A.)	24,232	-0.3	5.2
Food	5,303	-0.4	4.8
Drug Stores	1,204	-0.2	7.3
Clothing	1,316	-1.1	3.6
Furniture	1,341	1.5	7.1
Automotive	9,765	-0.5	5.8
General Merch. Stores	2,737	0.9	4.5
All other Stores	2,565	-1.1	3.4
Total ex. motor vehicles	17,851	-0.5	5.3
Consumer Credit (unadjusted)	201	0.8	7.2

Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)		2001 Q1	2001 Q2
	1999	2000		
Real Consumption (92\$)	546,451	566,229	576,989	578,511
% change	3.4	3.6	3.4	1.1
Durable Goods	76,956	81,882	83,864	84,309
% change	7.5	6.4	11.3	2.1
Semi-Durable Goods	48,212	50,476	51,953	52,680
% change	3.0	4.7	5.8	5.7
Non-Durable Goods	128,133	130,347	131,852	131,465
% change	2.0	1.7	0.7	-1.2
Services	293,192	303,674	309,548	310,359
% change	3.1	3.6	2.3	1.1
Disposable Income	597,710	631,023	655,168	653,092
% change	5.0	5.6	6.5	-1.3
Saving Rate (%)	4.2	3.9	4.6	2.8
Debt-to-Income Ratio (%)	96.1	94.4	93.6	95.1

Real Consumer Spending and Attitudes



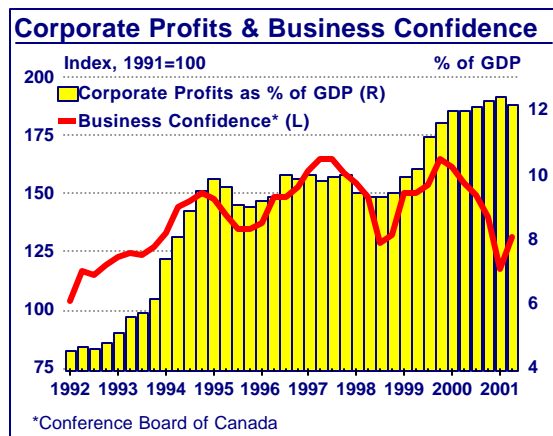
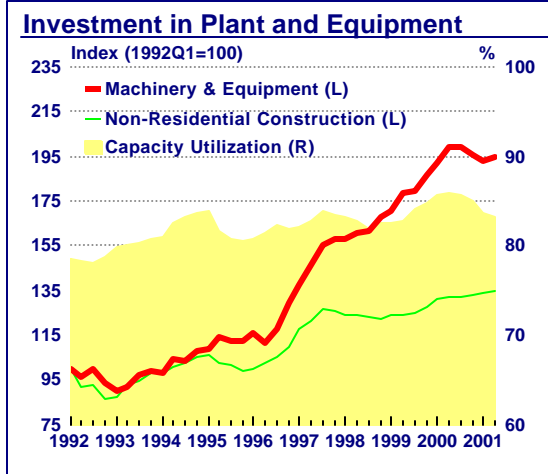


Business investment rebounds in the second quarter...

- Business investment in machinery and equipment (M&E) increased by nearly 5% (annual rate), following three straight quarterly declines. Higher spending on automobiles and software were the main contributors to this rise. Purchases of computers, other office equipment and industrial machinery were all down on the quarter.
- Non-residential construction activity increased for a third straight quarter, but at a reduced pace due to a slowdown in the engineering component.

...but underlying conditions are soft

- Business confidence picked up in the second quarter following five straight declines. However, corporate operating profits in the non-financial industries posted its largest drop in over three years, due in large part to lower energy prices and weak demand in Manufacturing.
- Capacity utilization has fallen for four straight quarters, as the slump in the telecommunications equipment industry offset significant increases in mining activity and an upturn in the automotive sector.



Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	1999	2000	2000 Q3	2000 Q4	2001 Q1	2001 Q2
BUSINESS INVESTMENT						
Machinery & Equipment (1992\$)	80,703	88,550	89,756	88,135	86,878	87,910
% change	10.5	9.7	-0.1	-7.0	-5.6	4.8
Non-residential Construction (1992\$)	44,873	47,274	47,252	47,566	47,856	48,109
% change	1.8	5.3	-0.5	2.7	2.5	2.1
Capacity Utilization (% , Non-farm goods)	83.5	85.5	85.7	84.9	83.6	83.2
Capacity Utilization (Mfg. sector)	84.5	85.8	86.3	85.1	82.7	82.0
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	168,323	197,733	197,740	192,832	177,684	178,752
% change	20.3	17.5	-7.5	-9.6	-27.9	2.4
Profits - Non-financial industries	118,153	139,248	141,100	139,252	137,988	131,536
% change	27.0	17.9	1.8	-5.1	-3.6	-17.4
Profits - Financial industries	50,169	58,488	56,644	53,584	39,696	47,216
% change	6.8	16.6	-26.3	-19.9	-69.9	100.2
Business Credit	736,402	788,263	794,263	808,428	813,783	813,461
% change	5.8	7.0	5.0	7.3	2.7	-0.2



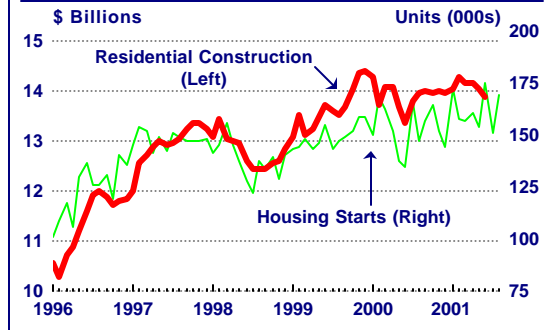
The Housing sector cools in the second quarter...

- Business investment in residential construction edged up a modest 0.4% (annual rate) in the second quarter, ending a string of three solid quarterly advances.
- Declining construction of new housing offset record sales of existing homes and increased renovation activity.

...but may resume growth in the last half of 2001

- Housing starts have been volatile in recent months, rising sharply in June, falling back in July and then posting a solid rebound in August. Sales of existing homes were down in July from a record second quarter.
- The Canada Mortgage and Housing Corporation expects that even with the slowing North American economy, residential construction will still benefit from favourable mortgage rates, strong employment and income gains over the past two years, tax cuts and rising migration.

Housing Activity



Monthly Housing Indicators

	levels	Change since	
		last month	last year
Residential Construction (1) (\$92M, factor cost basis)	13,892	-1.1%	3.8%
Building Permits, \$M (2)	1,763	-10.2%	8.2%
Sales of Existing Homes (2) (# of units)	21,861	-447	
Housing Starts, # of units (3)	169,200	17,600	21,500
Newfoundland	1,100	0	200
Prince Edward Island	200	-400	-300
Nova Scotia	2,800	-100	-1,100
New Brunswick	2,300	500	700
Quebec	21,500	-500	-2,400
Ontario	79,900	21,700	17,900
Manitoba	1,700	-600	-400
Saskatchewan	1,100	-1,300	-1,200
Alberta	23,600	1,600	3,700
British Columbia	12,500	-3,300	3,800

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

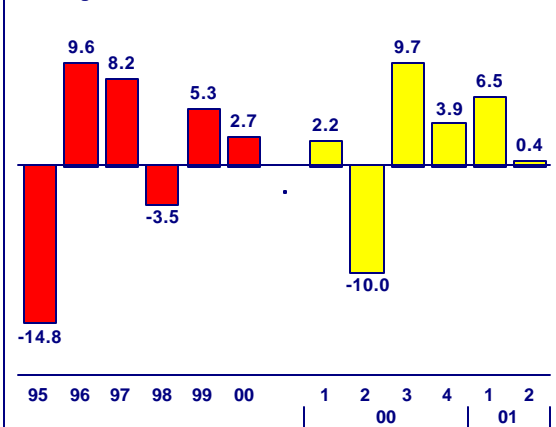
Real Investment in Residential Structures

\$92 Millions, SAAR (unless otherwise noted)

	1999	2000	2001 Q1	2001 Q2
Construction by Business sector	44,222	45,399	46,675	46,727
% change	5.3	2.7	6.5	0.4
New Housing	22,322	22,857	23,716	23,538
% change	7.7	2.4	15.6	-3.0
Alterations & Improvements	15,117	15,809	16,028	15,744
% change	2.0	4.6	-8.0	-6.9
Ownership & Transfer Costs	6,705	6,976	7,124	7,616
% change	0.7	4.0	7.3	30.6
Residential Construction	44,466	45,643	46,885	46,941
% change	5.3	2.6	5.8	0.5

Growth in Real Residential Construction

% change, SAAR





Trade and Competitiveness

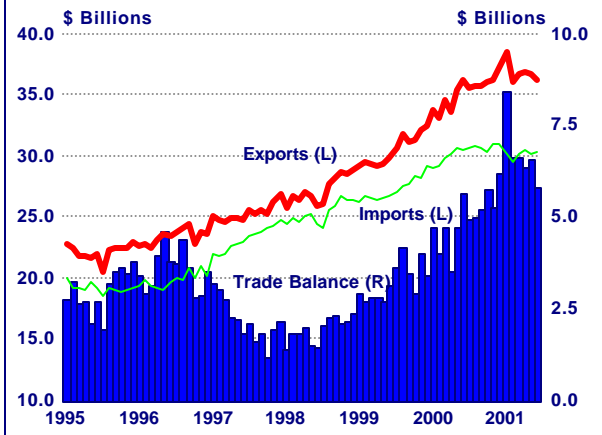
Exports fall sharply in June ...

- Exports were down 1.4% in June, mainly owing to a sharp decrease in the value of exports of Energy Products. This in turn was due to a combination of lower prices and reduced volumes of electricity exports. Automotive Products posted a strong advance, the fourth increase in as many months.
- In contrast to falling exports, imports edged up 0.8% on the month. Strong increases in imports of Automotive Products and Other Consumer Goods offset lower imports of Energy Products and Industrial Goods. The decline in Industrial Goods was due mainly to reduced imports of precious metals.

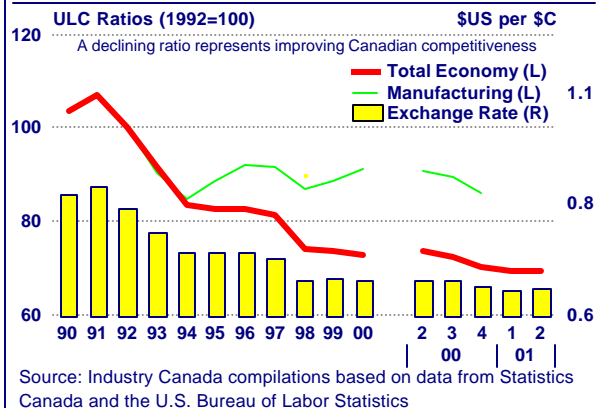
...leading to a lower trade surplus

- Canada's merchandise trade surplus fell to \$5.8 billion in June. The cumulative surplus for the first six months of the year was \$40.3 billion, \$13.2 billion higher than last year.

Merchandise Trade Flows and Balance



Canada-U.S. Unit Labour Cost Ratios



Merchandise Trade

June 2001	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)	% Change		
	May 2001	June 2001	2000 Jan-June	2001 Jan-June		May to June 2001	May to June 2001	June 2000 to June 2001
Exports	36,614	36,113	206,339	220,742	-501	-1.4	-0.1	
to United States	31,008	30,672	174,795	187,882	-336	-1.1	-0.2	
Imports	30,078	30,315	179,181	180,432	237	0.8	-0.6	
from United States	22,009	22,340	133,001	131,996	331	1.5	-1.0	
Trade Balance	6,536	5,798	27,158	40,310	-738			
with United States	8,999	8,332	41,794	55,886	-667			
Exports by Commodity								
Agriculture/Fishing Products	2,656	2,631	13,457	15,280	-25	-0.9	13.6	
Energy Products	5,910	5,359	22,988	37,194	-551	-9.3	15.0	
Forestry Products	3,369	3,329	21,263	19,978	-40	-1.2	-5.3	
Industrial Goods & Materials	5,642	5,545	32,540	33,618	-97	-1.7	-1.0	
Machinery & Equipment	8,380	8,450	51,741	52,140	70	0.8	-9.2	
Automotive Products	8,009	8,228	49,841	46,788	219	2.7	-0.5	
Other Consumer Goods	1,346	1,313	7,191	8,032	-33	-2.5	7.8	
Imports by Commodity								
Agriculture/Fishing Products	1,674	1,706	9,038	10,029	32	1.9	12.3	
Energy Products	1,779	1,575	8,316	10,109	-204	-11.5	9.8	
Forestry Products	242	244	1,523	1,479	2	0.8	-5.4	
Industrial Goods & Materials	6,046	5,661	35,085	35,389	-385	-6.4	-6.4	
Machinery & Equipment	9,429	9,496	59,767	58,955	67	0.7	-7.5	
Automotive Products	6,160	6,631	39,515	36,089	471	7.6	0.5	
Other Consumer Goods	3,499	3,654	19,522	21,301	155	4.4	11.1	

LABOUR MARKET TRENDS



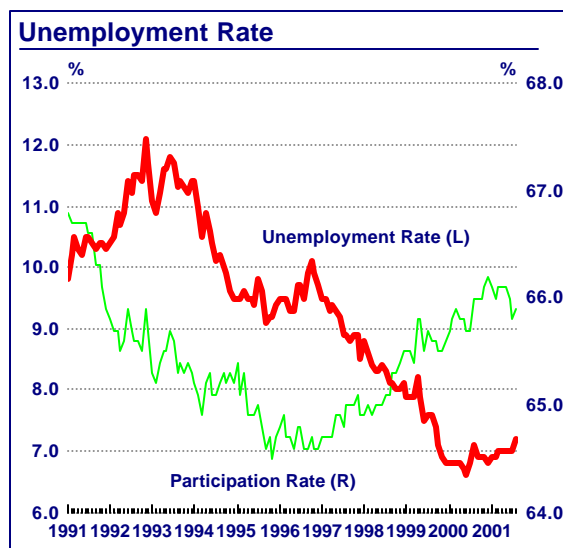
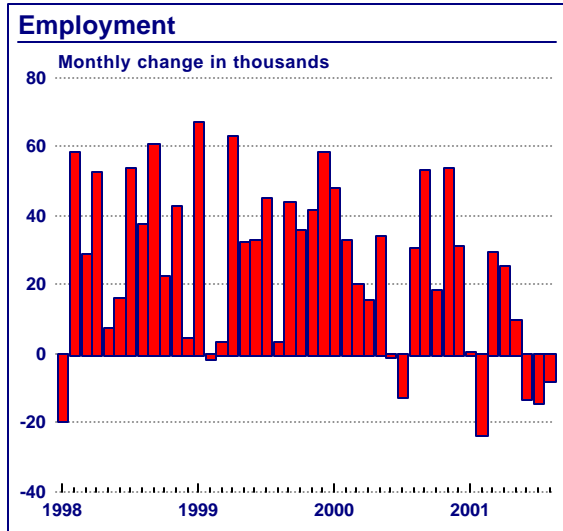
Employment and Unemployment

Employment falls for the third straight month in August...

- Reflecting the slowing economy, the pace of job creation has slowed considerably this year. Employment fell by 8,000 in August, the third drop in as many months. Moreover, employment is up only 7,000 in the first eight months of the year, compared to a solid gain of 325,000 for all of 2000.
- One positive sign is that full-time employment was up 41,000 in August, although this was offset by a larger drop in part-time work (-49,000).

...while the unemployment rate edges up 0.2 percentage points to 7.2%

- After holding steady at 7.0% for five straight months, the national unemployment rate edged up 0.2 percentage points to 7.2% in August. Job losses were modest during the month, but were accompanied by an increase in the labour force.
- Youth employment fell by 9,000, leading to a 0.3 point increase in the youth unemployment rate (12.7%). Adult employment levels were flat, but unemployment edged up 0.1 points to 6.1% due to an increase in the labour force.



Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2000 August	2001 July	2001 August	last month	last year	year-to-date	last month	last year
Employment	14,909.9	15,081.7	15,074.0	-7.7	164.1	7.3	-0.1	1.1
Full-time	12,188.0	12,324.1	12,365.4	41.3	177.4	7.9	0.3	1.5
Part-time	2,721.9	2,757.6	2,708.5	-49.1	-13.4	-0.7	-1.8	-0.5
Youth 15-24	2,286.1	2,320.2	2,311.4	-8.8	25.3	-33.0	-0.4	1.1
Adult 25+	12,623.8	12,761.5	12,762.6	1.1	138.8	40.3	0.0	1.1
Self-employed	2,388.9	2,310.2	2,308.8	-1.4	-80.1	-55.0	-0.1	-3.4
Unemployment	1,141.0	1,140.7	1,172.9	32.2	31.9	69.6	2.8	2.8
Unemployment Rate	7.1	7.0	7.2	0.2	0.1	0.4		
Youth 15-24	13.0	12.4	12.7	0.3	-0.3	0.2		
Adult 25+	5.9	6.0	6.1	0.1	0.2	0.4		
Labour Force	16,050.9	16,222.4	16,246.8	24.4	195.9	76.8	0.2	1.2
Participation Rate	66.0	65.8	65.9	0.1	-0.1	-0.3		
Employment Rate	61.3	61.2	61.1	-0.1	-0.2	-0.6		



Industry Overview

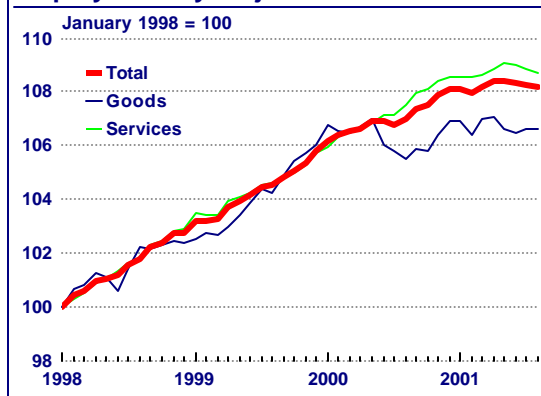
Employment in the Goods sector is little changed in August...

- Employment in the Goods sector edged up 1,000 in August, with solid job gains in Natural Resources and Utilities. These gains were largely offset by losses in Agriculture and Manufacturing, both of which remain quite weak. Employment in Manufacturing is down 44,000 so far this year, while Agriculture has lost 21,000 jobs. Construction edged up slightly in August, bringing gains so far this year to 21,000.

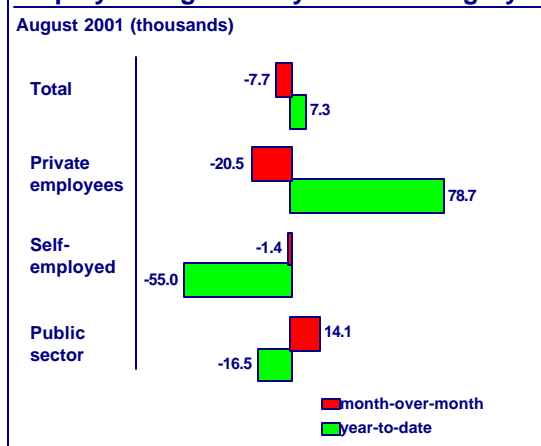
...but Services industries post a third consecutive loss

- Employment in Services industries fell by 9,000 in August, the third straight drop. The largest job loss was posted by Trade, following sharp gains in the past four months. Employment in Professional, Scientific & Technical Services fell for the third time in four months, but Health Care & Social Assistance industries as well as Public Administration rebounded from recent losses.
- A slight drop in self-employment brought year-to-date losses to 55,000.

Employment by major sector



Employment growth by worker category



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2000 August	2001 July	2001 August	last month	last year	year-to-date	last month	last year
Goods-producing	3,839.8	3,879.8	3,880.7	0.9	40.9	-9.7	0.0	1.1
Agriculture	365.8	332.6	326.8	-5.8	-39.0	-20.7	-1.7	-10.7
Natural Resources*	282.8	295.0	300.9	5.9	18.1	23.1	2.0	6.4
Utilities	115.8	125.3	128.7	3.4	12.9	11.0	2.7	11.1
Construction	811.0	839.3	839.5	0.2	28.5	20.7	0.0	3.5
Manufacturing	2,264.4	2,287.5	2,284.7	-2.8	20.3	-44.0	-0.1	0.9
Services-producing	11,070.0	11,201.9	11,193.2	-8.7	123.2	17.0	-0.1	1.1
Trade	2,343.0	2,390.7	2,369.7	-21.0	26.7	15.0	-0.9	1.1
Transportation	766.7	775.9	786.9	11.0	20.2	-1.0	1.4	2.6
FIRE*	866.1	874.7	870.0	-4.7	3.9	-12.0	-0.5	0.5
Professional/Scientific	949.3	973.9	956.3	-17.6	7.0	-32.4	-1.8	0.7
Management/Administrative	557.8	560.9	562.4	1.5	4.6	3.2	0.3	0.8
Educational Services	955.3	970.0	958.0	-12.0	2.7	5.8	-1.2	0.3
Health Care/Social Assistance	1,534.9	1,524.5	1,543.6	19.1	8.7	19.7	1.3	0.6
Information/Culture/Recreation	677.8	721.8	725.6	3.8	47.8	24.9	0.5	7.1
Accommodation & Food	940.0	983.9	982.3	-1.6	42.3	16.5	-0.2	4.5
Other Services	721.1	672.8	673.2	0.4	-47.9	-25.3	0.1	-6.6
Public Administration	757.9	752.8	765.3	12.5	7.4	2.8	1.7	1.0

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



Provincial Overview

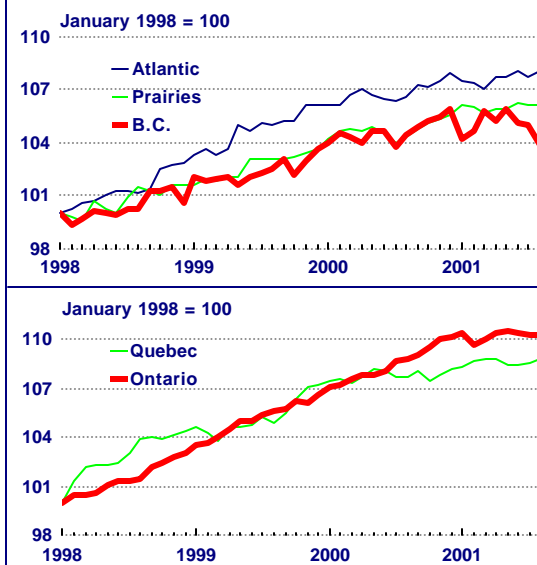
B.C. leads job losses in August...

- B.C. posted the largest job loss among all provinces in August (-20,000), raising its unemployment rate by 0.7 points to 7.9%. Employment in Alberta and Manitoba also fell, but so too did their respective labour forces, resulting in a 0.1 point drop in unemployment in each province.
- Job losses in Nova Scotia, PEI and Ontario contributed to higher unemployment rates in these provinces.

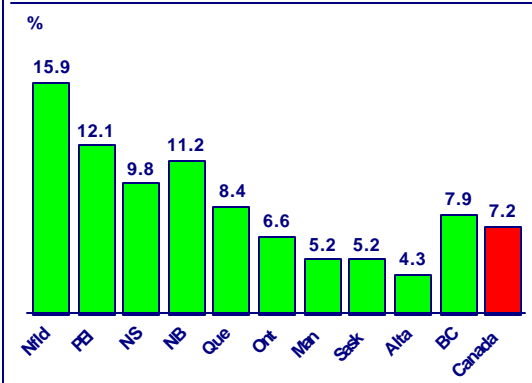
...as Newfoundland, New Brunswick, Quebec and Saskatchewan are the only provinces recording higher employment

- Although employment was up 10,000 in Quebec, its unemployment rate rose 0.2 points to 8.4% due to a larger increase in the labour force. Similarly, employment increased by 3,000 in Newfoundland, but the unemployment rate nonetheless rose 0.3 points to 15.9%. Net job gains over the first eight months of the year in this province total 9,000.
- Higher employment in Saskatchewan and New Brunswick resulted in lower unemployment rates in August.

Regional employment patterns

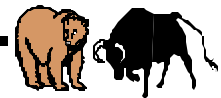


Unemployment Rates -- August 2001



Provincial Employment and Unemployment Trends

	Employment (thousands)				Unemployment rate (%)			
	Levels 2001 August	Change since last month		Change since last year		Levels	Change since last month	
		(000's)	%	(000's)	%		last month	last year
Canada	15,074.0	-7.7	-0.1	164.1	1.1	7.2	0.2	0.1
Newfoundland	213.2	2.9	1.4	9.4	4.6	15.9	0.3	0.1
P.E.I.	65.5	-0.3	-0.5	1.6	2.5	12.1	0.5	-0.7
Nova Scotia	423.0	-1.5	-0.4	5.7	1.4	9.8	0.1	0.3
New Brunswick	333.1	1.8	0.5	-3.4	-1.0	11.2	-0.7	1.0
Quebec	3,473.2	10.0	0.3	36.6	1.1	8.4	0.2	-0.1
Ontario	5,967.5	-1.5	-0.0	79.0	1.3	6.6	0.3	0.5
Manitoba	553.0	-1.1	-0.2	-5.0	-0.9	5.2	-0.1	0.1
Saskatchewan	476.9	3.9	0.8	-2.8	-0.6	5.2	-0.6	-0.6
Alberta	1,633.6	-1.5	-0.1	54.3	3.4	4.3	-0.1	-1.0
B.C.	1,935.0	-20.3	-1.0	-11.3	-0.6	7.9	0.7	0.1



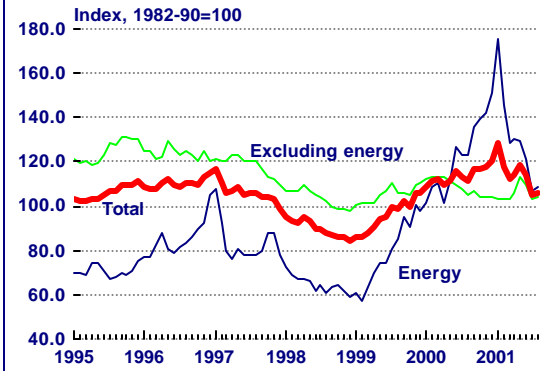
Inflation drops to 2.6% in July...

- Consumer price inflation was 2.6% in July, down sharply from 3.3% in June and a ten-year high of 3.9% in May.
- Energy prices recorded their smallest year-over-year increase in two years (+2.8%), accounting for only one-tenth of the overall increase in prices. Natural gas prices were up 38%, less than half of the rise recorded in June. Higher food prices continue to have a significant impact on inflation, accounting for almost one-third of the overall increase.

...and the "core" rate remains within the official target range

- The "core" rate of inflation, which excludes the index's eight most volatile components and indirect taxes, edged up to 2.4% in July. This is within the 1%-3% target range set jointly by the Bank of Canada and the Department of Finance.
- The downward pressure on commodity prices persisted in August, with a decline of 5.5% from year-ago levels. Energy prices fell 12% from last August, and are down almost 40% from their January peak. Non-energy commodity prices recorded a third consecutive year-over-year drop.

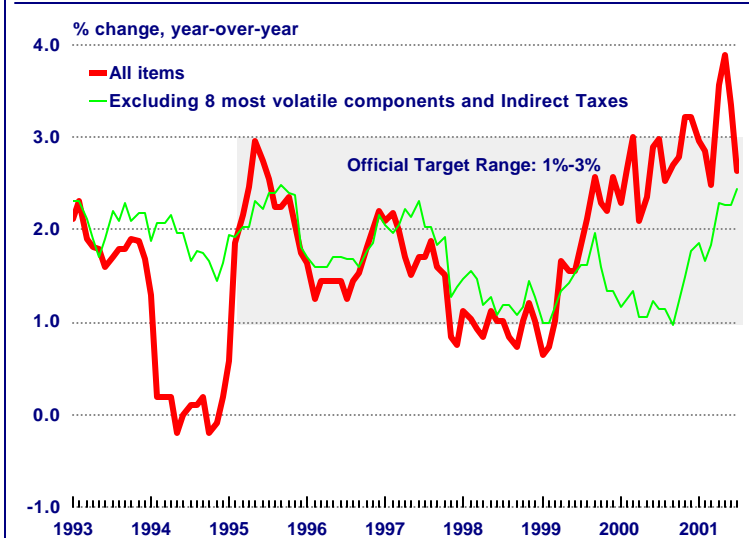
Commodity Prices (\$U.S. basis)



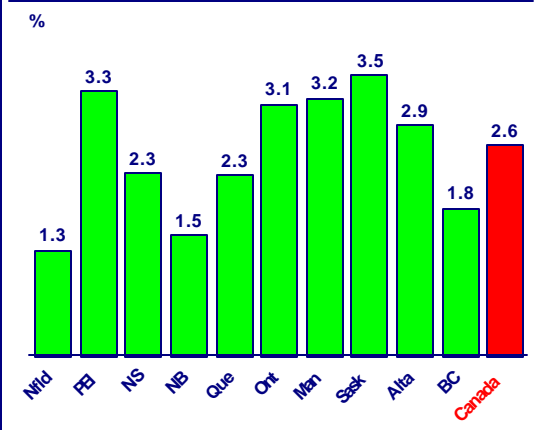
Consumer Prices

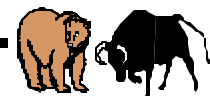
	Index (1992=100)	% Change since	
		last month	last year
July 2001			
All items CPI	117.1	-0.3	2.6
Food	118.6	0.4	4.6
Shelter	113.7	-0.4	4.6
Household operations	112.4	0.0	1.7
Clothing & Footwear	105.8	1.2	1.1
Transportation	130.4	-2.0	-0.6
Health & Personal Care	114.8	-0.1	2.5
Recreation, Educ. & Reading	126.2	0.5	1.0
Alcohol & Tobacco	105.7	0.3	7.9
Excl. 8 Most Volatile/Indirect Taxes	117.5	0.3	2.4
Energy	133.1	-6.1	2.8
Commodity Prices (August)			
Index, 1982-90=100	105.5	0.8	-5.5
Excluding Energy	103.9	0.4	-1.4
Energy	108.6	1.6	-11.9

Consumer Price Index



Provincial CPI Inflation -- July 2001



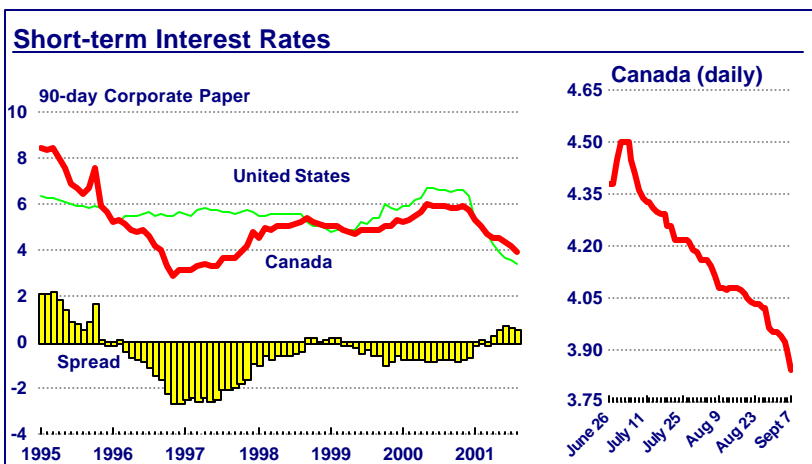


Cautious investors send short-term rates lower...

- The Bank of Canada reduced its Overnight Rate by 25 basis points on August 28, bringing the total reduction since January to 175 basis points. By comparison, the comparable U.S. Federal Funds rate has been cut by 300 basis points to 3.0% over the same period.
- Weak economic data persuaded investors that the easing cycle would continue, sending short rates still lower. Yields on the 90-day corporate paper fell below the 4.0% mark to close at 3.92% on September 5. The impact of earlier rate cuts also affected medium-term maturities, with 5-year mortgage rates falling for the first time since May.

...while a flight to safety triggers a rally in bond markets

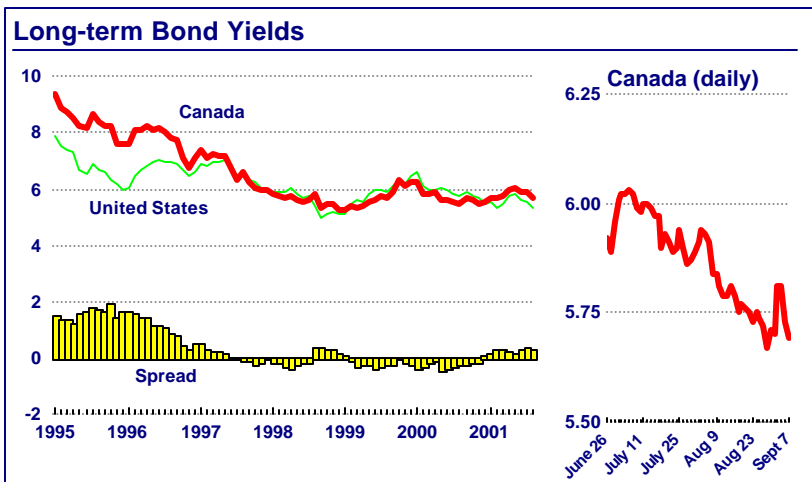
- Dampened expectations of a quick recovery prompted investors to move out of equity markets and towards safer fixed-income securities, pushing long-term yields sharply lower in August. The situation was reversed early in September, as renewed interest in low-priced equities and the recent weakening of the Canadian dollar triggered considerable profit-taking activity in bond markets.



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
Mar 2001	4.66	-0.08	5.79	0.32
April	4.49	0.25	5.97	0.19
May	4.49	0.55	6.03	0.17
June	4.38	0.70	5.89	0.27
July	4.22	0.61	5.94	0.36
Aug	3.96	0.57	5.67	0.31
Sept 5	3.92	0.50	5.81	0.33

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
Mar 2001	5.25	6.75	6.70	7.25
April	5.00	6.50	6.80	7.50
May	4.75	6.25	6.70	7.75
June	4.75	6.25	6.70	7.75
July	4.50	6.00	6.45	7.75
Aug	4.25	5.75	6.20	7.60
Sept 5	4.25	5.75	6.20	7.45

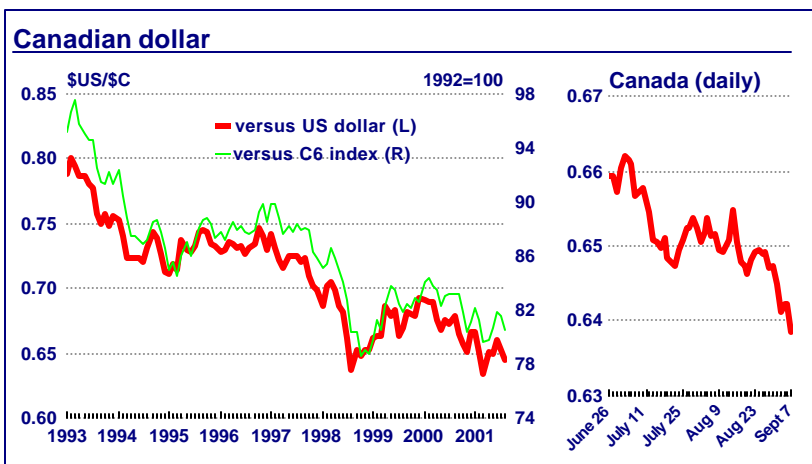


The Canadian dollar depreciates in August...

- Increased expectations of more interest rate cuts at home and further weakness in the U.S. – which would tend to reduce our exports and lower commodity prices – caused the Canadian dollar to lose ground in August.
- The Canadian dollar continued to fall in early September, sliding to US¢63.8 on September 7. This is well below the recent high of US¢66 early in July, and only half-a-cent above the dollar's record low of August 1998.

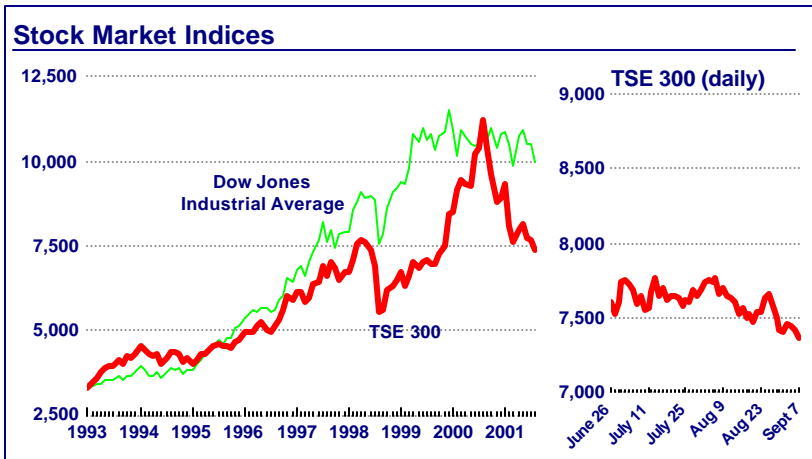
...alongside falling North American equity markets

- North American stock prices declined further in August and early September, as investors withdrew from stock markets on reports of soft economic data and disappointing earnings results. The TSE 300 index closed out the month of August at 7,399, down 3.8% from July.
- Canada's major index is down roughly 4,000 points from its historical peak of 11,400 reached just twelve months ago. In the U.S., the Dow Jones index of blue-chip companies dipped below 10,000, while the more broadly based S&P500 index fell to a three-year low.



The Canadian Dollar

(close)	\$US vs. \$Cdn	index vs. C-6 (92=100)	DM vs. \$Cdn	yen vs. \$Cdn
1999	0.6929	82.67	1.313	69.66
2000	0.6669	81.19	1.433	73.64
Mar 2001	0.6344	79.62	1.382	77.95
April	0.6508	79.85	1.406	79.44
May	0.6500	80.73	1.451	78.93
June	0.6605	81.82	1.504	80.24
July	0.6525	81.51	1.483	81.35
Aug	0.6448	80.60	1.407	78.70
Sept 7	0.6384			



Key Stock Market Indexes

	August Close	% change from	
		last month	last year
TSE 300	7,399	-3.8	-34.2
Oil & Gas	8,355	-5.1	9.1
Metals & Minerals	4,075	-0.5	12.1
Utilities	12,688	-6.3	-10.2
Paper & Forest	4,923	2.1	-9.2
Merchandising	6,401	3.1	20.4
Financial Services	11,184	1.3	20.6
Gold	4,830	7.4	18.2
Price-Earnings Ratio*	N/A	N/A	N/A
S&P 500	1,134	-6.4	-25.3
Dow Jones	9,950	-5.4	-11.3

*columns 2 & 3 reflect change in levels



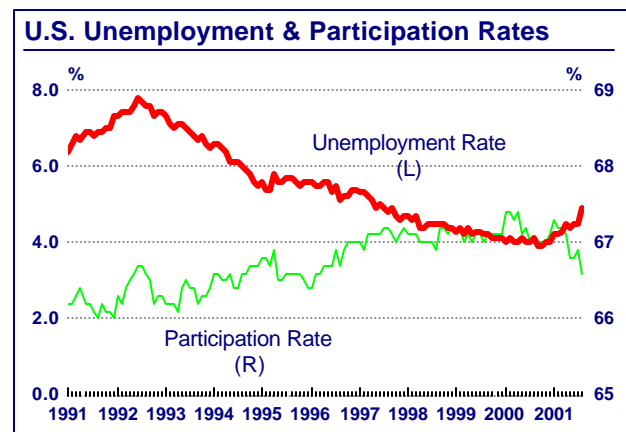
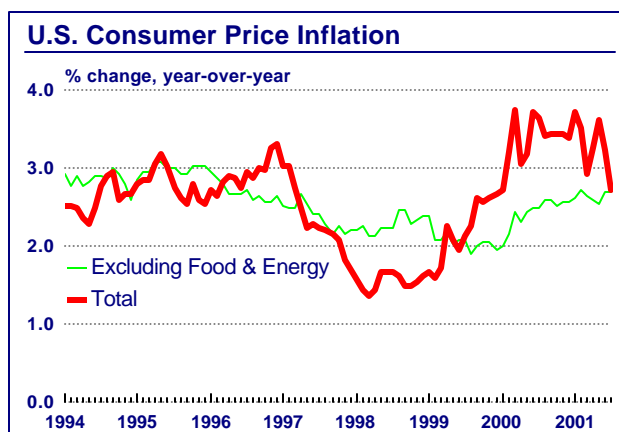
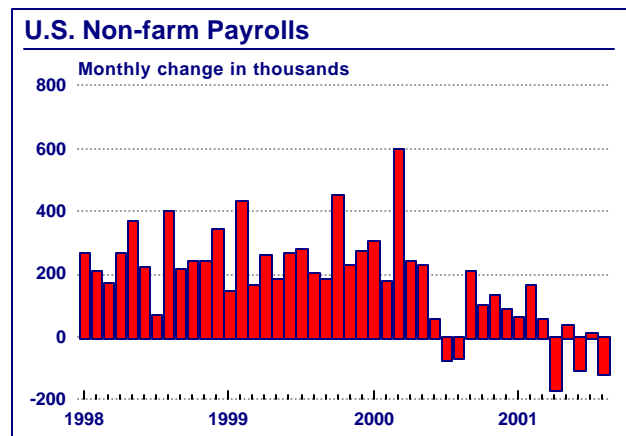
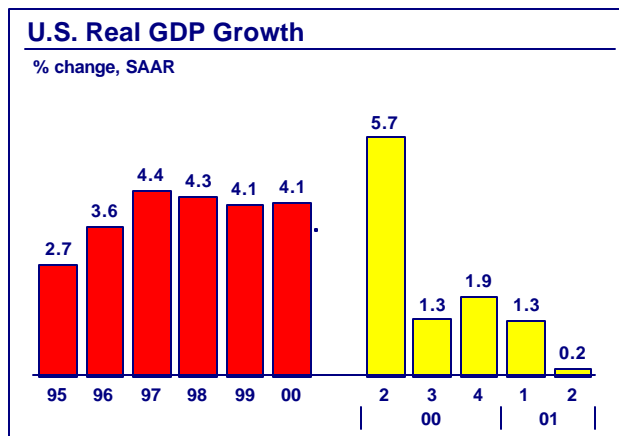
U.S. Economic Trends

The U.S. economy pauses in the second quarter...

- Preliminary estimates suggest that U.S. real GDP edged up 0.2% (annual rate) in the second quarter of 2001, the lowest rate in eight years. While consumer spending and residential investment posted solid advances, business investment continued to fall. A reduction in inventories also slowed production in the quarter.
- The U.S. unemployment rate rose sharply to 4.9 percent in August, the highest rate since September 1997. Due primarily to another large drop in manufacturing, non-farm payroll employment declined by 113,000 in August. Employment also declined in transportation and public utilities, but most other major industries showed little or no change.

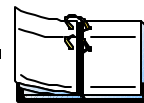
...and the Federal Reserve cuts interest rates again

- The U.S. Federal Reserve cut interest rates an additional 25 basis points at its August 21 meeting, lowering the federal funds rate to 3.5%, down 300 basis points from the beginning of the year. The move was prompted by concern over weak business profits and depressed capital spending.
- CPI inflation slowed to 2.7% in July on a year-over-year basis due to a sharp drop in the year-over-year rise in the cost of gasoline and other energy products. Core inflation was stable at 2.7% on the month.



COMING UP

Key Future Data Releases and Planned Events



CANADA

Consumer Price Index – August	September 18
Survey of Manufacturing – July	September 19
International Trade – July	September 19
GDP at factor cost – July	September 28
Labour Force Survey – September	October 5
Next scheduled date for a bank rate announcement	October 23
Business Conditions Survey – October	November 1
Financial Statistics For Enterprises – 3rd Quarter 2001	November 29
National Economic & Financial Accounts – 3rd Quarter 2001	November 30
Balance of International Payments – 3rd Quarter 2001	November 30
Capacity Utilization Rates – 3rd Quarter 2001	December 11

UNITED STATES

Consumer Price Index – August	September 18
International Trade – July	September 19
GDP – 2nd Quarter 2001, Final	September 28
Federal Open Market Committee meeting	October 2
Employment Situation – September	October 5

Note: the September MEI uses data available as of September 7, 2001