

MONTHLY ECONOMIC INDICATORS

September/October 2002

HIGHLIGHTS

-  **Real GDP increased for the tenth consecutive month in July, fuelled by growth in the goods-producing sector.**
-  **In September, 41 000 jobs were created, mostly part-time. This brought total job creation to 427 000 jobs since the beginning of the year, evidence of a vibrant job market.**
-  **These and other indicators, such as retail sales, housing activity and exports point to continued, but moderate growth in the third quarter.**
-  **The Bank of Canada left its policy rate unchanged at 2.75% on October 16. On September 24, the Federal Reserve also kept its policy rate unchanged at 1.75%.**
-  **Global economic weakness and increasing geopolitical turmoil in the Middle-East weighed considerably on stock markets and the Canadian dollar over the summer.**

Key Monthly Economic Indicators

		<u>% Change since</u>		
		<u>last month</u>	<u>last year</u>	
Real GDP (\$97 B)	977.9	0.4	3.4	July
Goods	306.9	1.2	3.7	July
Services	671.2	0.1	3.2	July
Composite Index	178.4	0.2	7.3	Aug
Employment (000's)	15,517	0.3	2.9	Sep
Full-time	12,592	0.0	1.5	Sep
Part-time	2,924	1.6	9.1	Sep
Unemployment* (%)	7.7	7.5	7.2	Sep
Youth*	13.7	13.8	13.2	Sep
Adult*	6.5	6.3	6.0	Sep
CPI inflation*	2.6	2.1	2.8	Aug
Retail Sales (\$M)	25,608	-0.3	6.5	July
Housing Starts (000's)	200.6	-6.6	30.4	Sep
Trade Balance* (\$M)	4,857	3,762	4,343	July
Exports	34,890	3.4	2.5	July
Imports	30,032	0.2	1.1	July
M&E	8,703	-3.7	-12.1	July

	<u>September</u>		
	<u>October 16</u>	<u>2002</u>	<u>2001</u>
3-mth Corp. paper (%)*	2.89	2.90	3.05
Long bond yield (%)*	5.22	4.92	5.30
Canadian dollar (US¢)*	63.14	63.00	63.89

*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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Real GDP by Industry

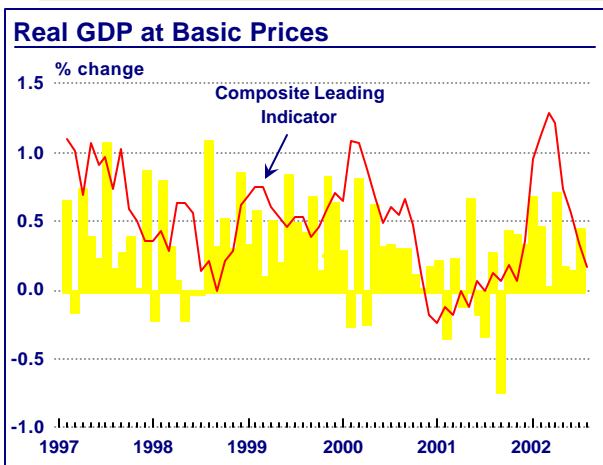
Strong output growth in July...

- Real GDP at basic prices* increased by a healthy 0.4% in July, following a 0.1% increase in June. Industrial production rose 1.5% in July, due to solid gains in the manufacturing sector.

...as U.S. demand for new vehicles boosted manufacturing and the heat wave propelled demand for electricity

- Output in the Goods-producing industries rose 1.2% in July, largely due to a 1.4% increase in Manufacturing and a 2.9% increase in Utilities. Manufacturing production was boosted by the transportation sector, which took advantage of a surge in vehicle sales in the United States. The sharp rise in Utilities output was due to an increase in the demand for electricity caused by a heat wave. Construction output also contributed to the overall growth as demand for new houses remained robust. However, the overall increase was moderated by lower output in Agriculture (due to the drought in western Canada), Forestry, Fishing & Hunting.
- Output in the service sector edged up 0.1% in July, following a 0.3% increase in June. Seven of the thirteen major sectors recorded higher output levels, led by Information & Cultural industries and Administration & Waste Management. The largest losses were in Arts, Entertainment & Recreation, and Retail Trade reflecting lower retail sales, particularly in auto sales.

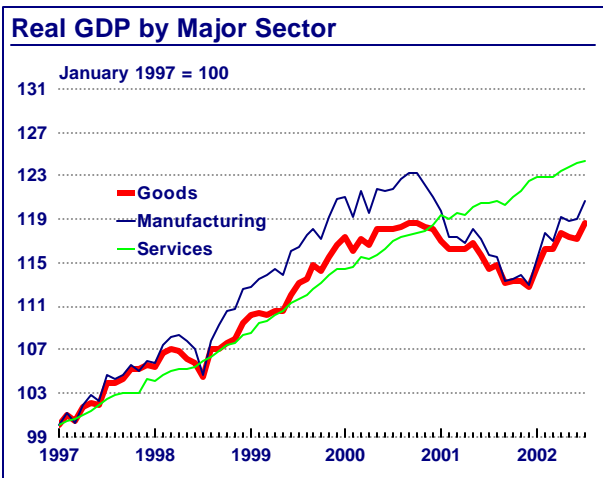
*Starting with July data, the Chain-Fisher formula is used to derive monthly GDP estimates. The change is applied from January 1997 and will be pushed back to January 1961 within a year.



Real GDP at Basic Prices (1997 chained dollars)

July 2002

	\$ millions	monthly change	% Change since last month	% Change since last year
Total Economy	977,905	4,356	0.4	3.4
Business Sector	829,898	4,423	0.5	3.6
Goods-producing	306,878	3,771	1.2	3.7
Agri., Forest, Fish, Hunt*	21,314	-50	-0.2	-2.9
Mining & Oil & Gas Extraction	37,430	324	0.9	1.1
Utilities	28,544	814	2.9	6.1
Construction	52,814	320	0.6	5.5
Manufacturing	166,322	2,360	1.4	4.2
Service-producing	671,219	546	0.1	3.2
Wholesale Trade	57,358	375	0.7	5.1
Retail Trade	53,825	-374	-0.7	5.0
Transportation & Warehousing	45,158	-107	-0.2	0.1
Information & Cultural	46,317	460	1.0	8.9
FIRE**	193,428	240	0.1	3.2
Professional***	44,796	-12	0.0	1.3
Admin & Waste Mgmt	21,233	150	0.7	5.2
Education	44,308	69	0.2	1.3
Health & Social	56,927	196	0.3	3.2
Arts, Entertain. & Recreation	8,962	-291	-3.1	2.9
Accommodation & Food	22,847	-46	-0.2	-0.2
Other	22,011	23	0.1	2.5
Public Administration	54,984	-95	-0.2	2.4



*Agriculture, forestry, fishing & hunting

**Finance, Insurance & Real Estate

***Professional, scientific & technical services



Consumer Spending and Attitudes

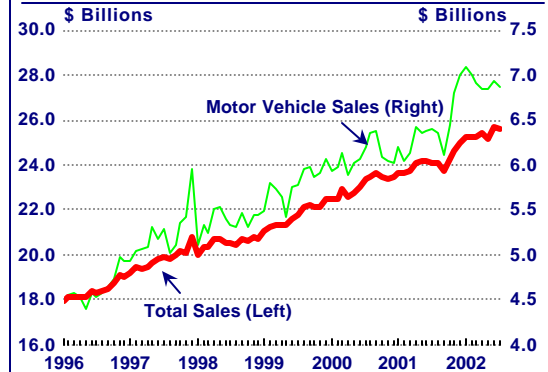
Consumer spending remained robust in the second quarter

- Real consumer spending rose 3.0% (annual rate) in the second quarter compared to 2.8% in the first quarter.
- The second quarter increase was led by a 5.0% rise in spending on services, up from 0.5% in the first quarter. In contrast, spending on durables fell 0.7% in the second quarter, due to a 4.3% drop in motor vehicle spending. Purchases of motor vehicles, however, remained near record levels.

Consumer fundamentals remain strong

- Personal disposable income rose 6.0% in the second quarter after a 7.0% gain in the first. Strong employment figures in the third quarter augur well for personal income growth. Moreover, the level of consumer confidence remains near a 15-year record.
- However, following a 1.9% gain in June, monthly retail sales edged down 0.3% in July, reflecting, in part, lower motor vehicle sales (1.5% decline). Motor vehicle sales rebounded 4.1% in August.
- Overall, these indicators point at moderation in consumer spending growth in the third quarter.

Total Retail and Motor Vehicle Sales



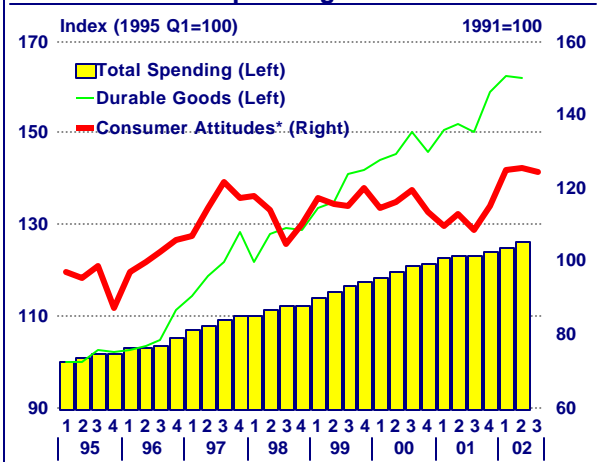
Retail Sales and Consumer Credit

	July 2002 \$ millions	% Change since	
		last month	last year
Total Retail Sales (S.A.)	25,608	-0.3	6.5
Food	5,566	0.5	4.7
Drug Stores	1,296	-0.2	7.9
Clothing	1,355	-3.3	4.8
Furniture	1,491	-1.6	10.5
Automotive	10,318	0.2	8.0
General Merch. Stores	2,865	-1.1	4.3
All other Stores	2,715	-0.5	4.9
Total ex. motor vehicles	18,736	-0.1	6.1
Consumer Credit	216	0.8	6.5

Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	2000	2001	2002 Q1	2002 Q2
Real Consumption (97\$)	565,487	579,999	588,822	593,119
% change	3.7	2.6	2.8	3.0
Durable Goods	82,234	85,939	91,251	91,091
% change	6.1	4.5	9.2	-0.7
Semi-Durable Goods	50,440	52,360	54,287	54,369
% change	4.5	3.8	8.0	0.6
Non-Durable Goods	131,791	133,186	134,207	134,739
% change	2.2	1.1	2.6	1.6
Services	301,173	308,888	309,896	313,672
% change	3.7	2.6	0.5	5.0
Disposable Income	637,673	665,924	685,544	695,596
% change	6.9	4.4	7.0	6.0
Saving Rate (%)	4.8	4.6	5.3	5.3
Debt-to-Income Ratio (%)	94.4	95.2	95.8	95.8

Real Consumer Spending and Attitudes



*Conference Board of Canada

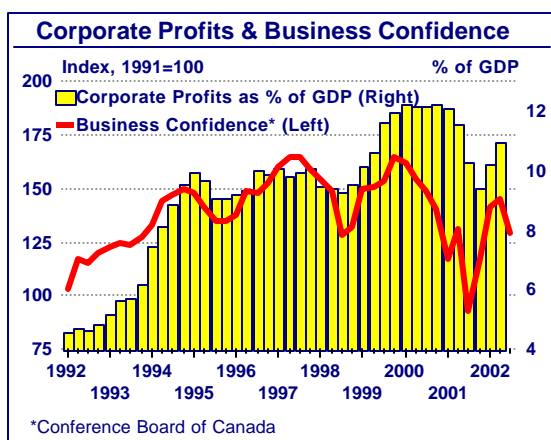
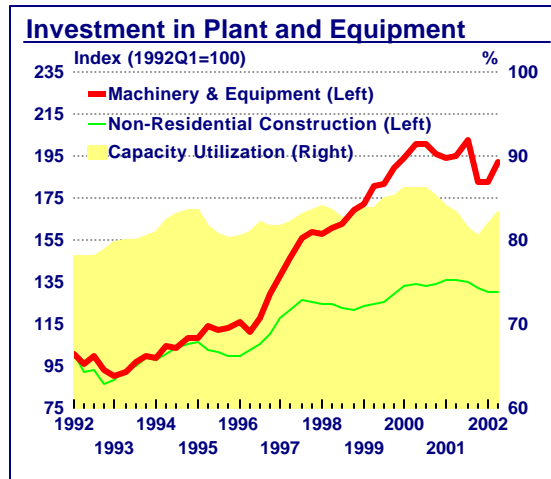


Business investment in machinery and equipment rose sharply

- Real business investment in machinery and equipment jumped 20.6% in the second quarter, following a slight increase of 1.9% in the first quarter, and a sharp decline of 34.5% in the fourth quarter of 2001.
- Real non-residential construction edged up 0.4% in the second quarter, ending three straight quarterly declines. Moreover, the value of investment in non-residential building construction increased in the third quarter, up 3.5% from the second quarter.
- According to the survey on Private and Public Investment Intentions released in July by Statistics Canada, capital spending is expected to increase 4.5% in 2002 as opposed to a 1.0% decline anticipated in February.
- A second quarterly increase in overall corporate profits and in the capacity utilization rate should help sustain the recovery in investment.

...but business confidence edged down

- The Conference Board's Index of Business Confidence declined in the second quarter, following three consecutive increases. This may reflect geopolitical concerns in the Middle-East and increased economic uncertainty caused by renewed weakness in the global economy.



Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	2000	2001	2001 Q3	2001 Q4	2002 Q1	2002 Q2
BUSINESS INVESTMENT						
Machinery & Equipment (1997\$)	89,094	87,145	91,295	82,118	82,509	86,456
% change	9.3	-2.2	17.3	-34.5	1.9	20.6
Non-residential Construction (1997\$)	47,762	48,126	48,165	47,230	46,470	46,514
% change	6.4	0.8	-3.9	-7.5	-6.3	0.4
Capacity Utilization (% , Non-farm goods)	85.9	82.3	81.3	80.5	81.9	83.2
Capacity Utilization (Mfg. sector)	86.0	80.9	79.9	78.9	80.9	82.7
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	173,029	147,758	142,688	127,248	140,004	155,016
% change	28.5	-14.6	-28.8	-36.8	46.5	50.3
Profits - Non-financial industries	136,086	113,095	104,704	97,968	108,924	121,832
% change	35.6	-16.9	-40.0	-23.4	52.8	56.5
Profits - Financial industries	36,944	34,662	37,984	29,276	31,084	33,184
% change	7.9	-6.2	18.8	-64.7	27.1	29.9
Business Credit	790,360	831,826	837,197	847,200	848,151	853,388
% change	6.9	5.2	6.5	4.9	0.4	2.5



Housing

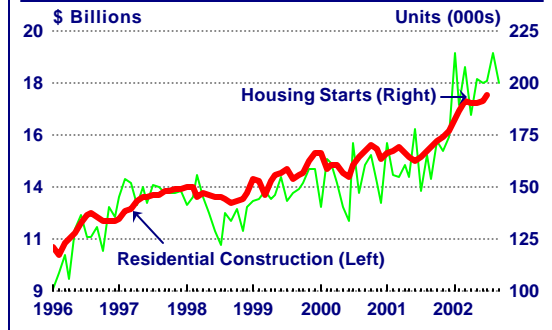
Housing activity slowed down in the second quarter

- Following three quarters of increases, real residential construction spending experienced a modest decline in the second quarter.

...but picked up in the third quarter

- Even as sales of existing homes were down 1.3% from the second quarter, housing activity strengthened in the third quarter. Housing starts rose by 4.8% following a modest deceleration in the second quarter. The average value of building permits for July and August was up 2.4% from the second quarter level.
- Despite strong activity in the housing sector, the new housing price index has risen by only 4.2% from August 2001 to August 2002. This, combined with rising disposable income and low interest rates has kept housing affordability at a high level.
- Persistently low mortgage rates, steady job growth and high consumer confidence should continue to underpin the housing market.

Housing Activity



Monthly Housing Indicators

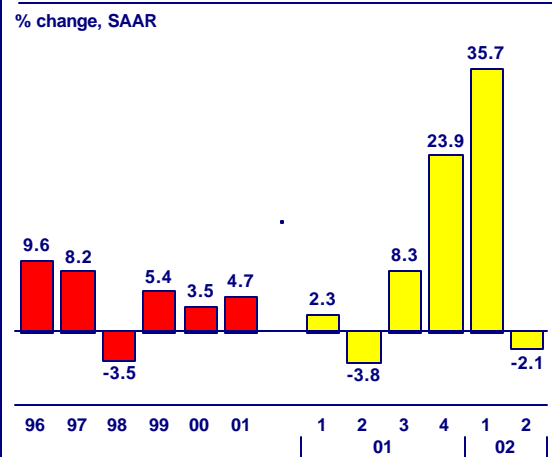
	Levels	Change since	
		Last month	Last year
Residential Construction (1) (\$97M, basic prices)	17,524	1.5%	18.5%
Building Permits, \$M (2)	2,537	3.7%	39.5%
Sales of Existing Homes (3) (# of units)	24,459	767	2,633
Housing Starts, # of units (3)	200,600	-14,200	46,800
Newfoundland	1,200	-300	0
Prince Edward Island	400	-400	200
Nova Scotia	3,900	1,200	800
New Brunswick	2,000	300	-400
Quebec	37,700	3,300	16,200
Ontario	78,300	-8,600	-700
Manitoba	1,800	-100	200
Saskatchewan	2,300	100	1,100
Alberta	32,800	9,500	8,700
British Columbia	29,200	8,700	16,300

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

Real Investment in Residential Structures

	\$97 Millions, SAAR (unless otherwise noted)			
	2000	2001	2002 Q1	2002 Q2
Construction by Business sector	45,796	47,967	54,276	53,995
% change	3.5	4.7	35.7	-2.1
New Housing	22,475	23,866	27,907	28,704
% change	0.7	6.2	47.0	11.9
Alterations & Improvements	16,521	16,529	16,916	17,028
% change	9.3	0.0	10.7	2.7
Ownership & Transfer Costs	7,050	7,754	9,464	8,432
% change	5.0	10.0	50.3	-37.0
Residential Construction	46,043	48,201	54,456	54,253
% change	3.4	4.7	35.3	-1.5

Growth in Real Residential Construction





Trade and Competitiveness

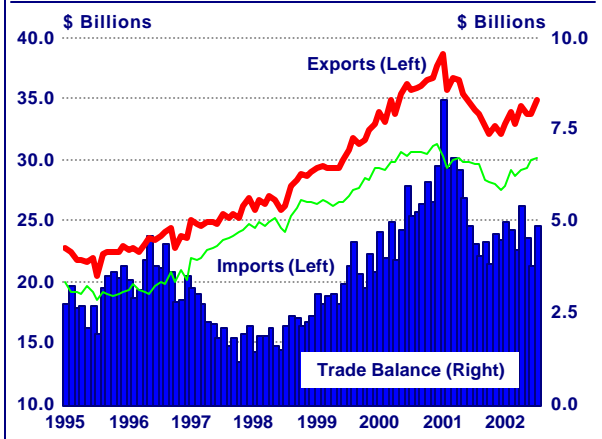
Exports to the U.S. were stronger in July...

- Merchandise exports increased 3.4% in July, led by a 4.2% rise of exports to the United States. Exports of Automotive products (+7.6%) and Other Consumer goods (+8.9%) boosted export growth in July. Following a decline in June, exports of forestry products were up 4.1%, as higher volumes were partially offset by a price decline. Exports have been recovering since the beginning of the year due to an increase in demand for cars and trucks in the United States in response to dealer incentives.
- By contrast, imports increased slightly (0.2%), driven by imports of Agricultural and Fishing products (6.2%). Imports of Machinery and Equipment declined by 3.7%, partially the result of lower communications equipment imports. The volume of Industrial Goods and Materials was also down.

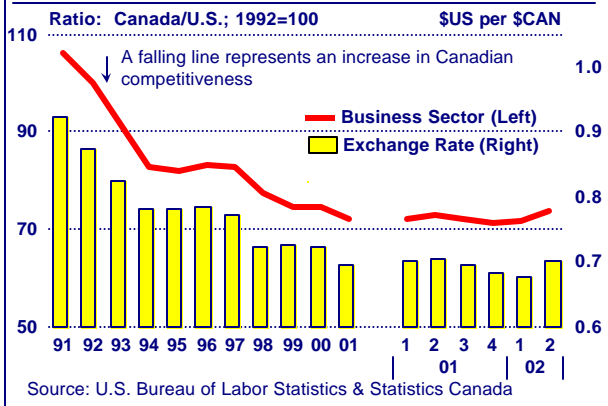
...leading to a higher trade surplus

- The merchandise trade surplus increased \$1.1 billion to \$4.9 billion in July, rebounding from two consecutive monthly drops.
- Canada's trade surplus with the U.S. increased \$850 million to over \$8.1 billion, while the trade deficit with all other trading partners decreased \$240 million to \$3.3 billion.

Merchandise Trade Flows and Balance



Canada-United States Unit Labour Cost Ratios



Merchandise Trade

July 2002	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	June 2002	July 2002	Jan.-July 2001	Jan.-July 2002	June to July 2002	June to July 2002	Jan.-July 2001 to Jan.-July 2002	
Exports	33,748	34,890	251,538	236,420	1,142	3.4	-6.0	
to United States	28,488	29,676	213,189	200,573	1,188	4.2	-5.9	
Imports	29,986	30,032	208,925	204,039	46	0.2	-2.3	
from United States	21,174	21,508	152,696	146,873	334	1.6	-3.8	
Trade Balance	3,762	4,857	42,613	32,381	1,095			
with United States	7,314	8,168	60,493	53,700	854			
Exports by Commodity								
Agriculture/Fishing Products	2,499	2,552	17,789	17,766	53	2.1	-0.1	
Energy Products	4,119	4,230	38,452	26,701	111	2.7	-30.6	
Forestry Products	2,791	2,906	23,654	21,473	115	4.1	-9.2	
Industrial Goods & Materials	5,962	5,983	39,181	40,366	21	0.4	3.0	
Machinery & Equipment	7,781	7,943	60,130	55,178	162	2.1	-8.2	
Automotive Products	8,053	8,663	54,376	56,602	610	7.6	4.1	
Other Consumer Goods	1,356	1,477	9,329	9,989	121	8.9	7.1	
Imports by Commodity								
Agriculture/Fishing Products	1,773	1,883	11,637	12,579	110	6.2	8.1	
Energy Products	1,440	1,489	11,437	8,963	49	3.4	-21.6	
Forestry Products	263	268	1,709	1,807	5	1.9	5.7	
Industrial Goods & Materials	5,821	5,779	40,865	39,884	-42	-0.7	-2.4	
Machinery & Equipment	9,038	8,703	68,631	60,955	-335	-3.7	-11.2	
Automotive Products	6,724	6,913	41,945	46,146	189	2.8	10.0	
Other Consumer Goods	3,899	3,943	24,872	26,512	44	1.1	6.6	

LABOUR MARKET TRENDS



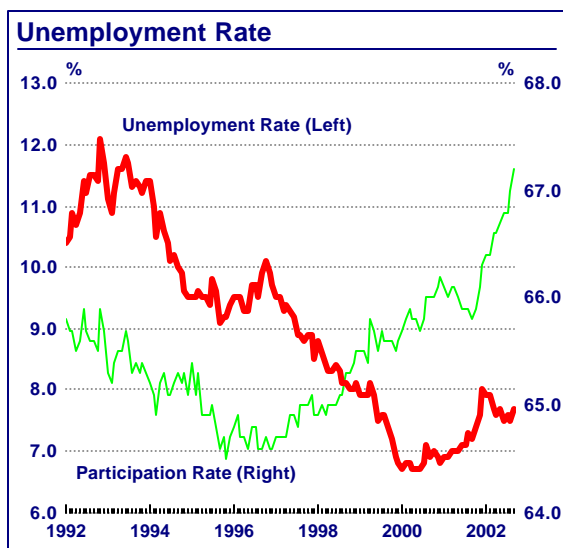
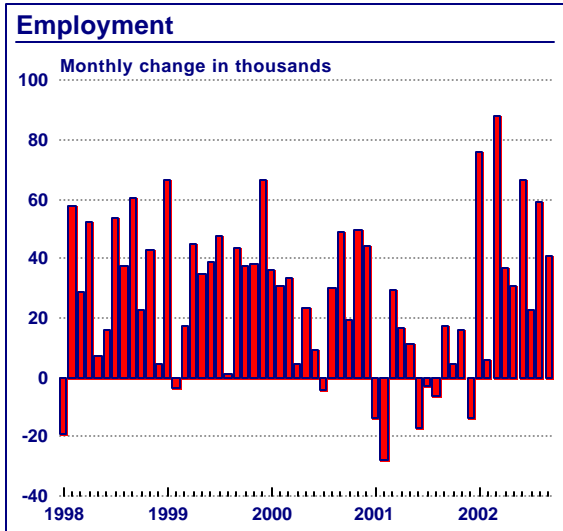
Employment and Unemployment

Despite solid employment gains in September...

- The labour market remained strong in September with employment up by 41 000, following an increase of 59 000 in August. This brought total employment gains to 427 000 (or 2.8%) so far this year, the best performance since 1987. Over the same period, 36 000 jobs were lost in the United States (See the annex in the U.S. economy section).
- September gains were concentrated in part-time work. Nonetheless, on a year-to-date basis, full-time employment was up 255 000 (+2.1%). At the same time, the number of part-time jobs increased by 171 000 (+6.2%).
- Adult employment climbed by 46 000 in September. Youth employment edged down (-5 300), as full-time losses more than offset part-time job gains.

...the unemployment rate rose to 7.7%

- The unemployment rate rose by 0.2 percentage point to 7.7%, as an increase in the labour force more than offset employment gains.
- The participation rate reached 67.2%, its highest level in twelve years. Since the end of 1995, the participation rate has trended upward as improving labour market conditions have prompted more people to search for work.



Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2001 September	2002 August	2002 September	last month	last year	year-to- date	last month	last year
Employment	15,083.8	15,476.0	15,516.7	40.7	432.9	426.5	0.3	2.9
Full-time	12,403.1	12,597.4	12,592.4	-5.0	189.3	255.2	0.0	1.5
Part-time	2,680.8	2,878.6	2,924.3	45.7	243.5	171.3	1.6	9.1
Youth 15-24	2,297.5	2,382.1	2,376.8	-5.3	79.3	76.5	-0.2	3.5
Adult 25+	12,786.4	13,093.9	13,139.9	46.0	353.5	350.0	0.4	2.8
Self-employed	2,305.1	2,354.9	2,373.5	18.6	68.4	91.9	0.8	3.0
Unemployment	1,172.8	1,262.0	1,289.0	27.0	116.2	-29.8	2.1	9.9
Unemployment Rate	7.2	7.5	7.7	0.2	0.5	-0.3		
Youth 15-24	13.2	13.8	13.7	-0.1	0.5	-0.3		
Adult 25+	6.0	6.3	6.5	0.2	0.5	-0.4		
Labour Force	16,256.6	16,738.0	16,805.7	67.7	549.1	396.7	0.4	3.4
Participation Rate	65.8	67.0	67.2	0.2	1.4	0.9		
Employment Rate	61.1	62.0	62.0	0.0	0.9	1.1		



Industry Overview

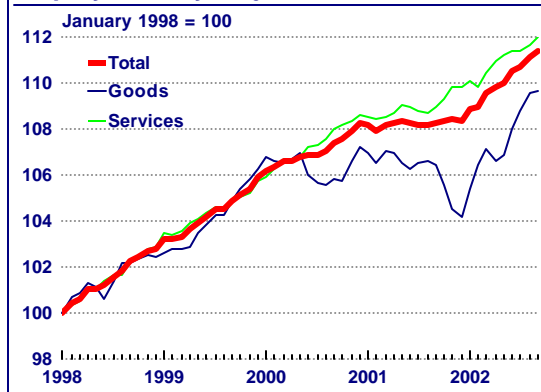
Job creation was modest in Goods industries...

- Employment in the Goods sector rose by only 2 000 in September. This followed average job gains of over 33 000 in the previous three months. Employment gains were concentrated in Agriculture and Utilities.
- Manufacturing employment fell by 17 000 with losses in transportation equipment, computer and electronic products, and wood products, among other industries. Despite the monthly losses, manufacturing employment was up 1.9% in the third quarter, after rising 1.0% in the second quarter.

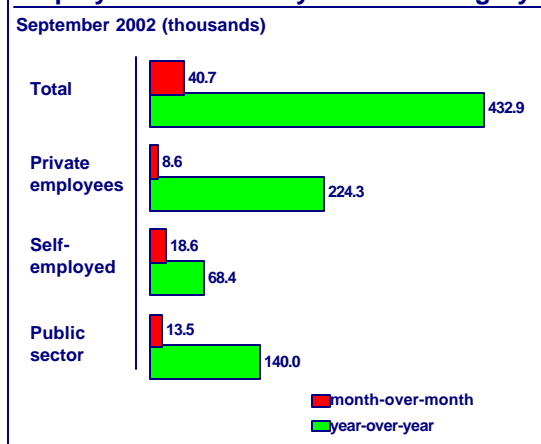
...but strong in Services

- Services recorded 39 000 new jobs in September, mostly part-time. Gains were widespread with seven of the eleven major sectors reporting higher employment, with a solid rise of 30 000 in Transportation & Warehousing. Losses were mostly concentrated in the Information, Culture & Recreation industry.
- September employment gains were about evenly split between self-employed and employees. Self-employment has strengthened since March, with gains of 92 000, following two years of steady declines.
- Employment in the private and public sectors rose in September. So far this year, it has increased by 2.1% and 4.5%, respectively.

Employment by Major Sector



Employment Growth by Worker Category



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2001 September	2002 August	2002 September	last month	last year	year-to- date	last month	last year
Goods-producing	3,872.0	3,986.6	3,988.7	2.1	116.7	197.3	0.1	3.0
Agriculture	321.3	327.0	341.5	14.5	20.2	28.8	4.4	6.3
Natural Resources*	302.9	268.4	267.1	-1.3	-35.8	-23.8	-0.5	-11.8
Utilities	123.1	131.7	137.6	5.9	14.5	15.9	4.5	11.8
Construction	846.8	893.4	893.4	0.0	46.6	44.8	0.0	5.5
Manufacturing	2,277.9	2,366.0	2,349.1	-16.9	71.2	131.7	-0.7	3.1
Services-producing	11,211.9	11,489.4	11,528.0	38.6	316.1	229.2	0.3	2.8
Trade	2,391.9	2,418.2	2,427.7	9.5	35.8	-4.8	0.4	1.5
Transportation*	766.5	757.2	787.5	30.3	21.0	41.8	4.0	2.7
FIRE*	875.2	909.9	907.6	-2.3	32.4	34.8	-0.3	3.7
Professional/Scientific	968.7	997.0	1,012.8	15.8	44.1	43.1	1.6	4.6
Management/Administrative	565.6	591.8	584.6	-7.2	19.0	15.6	-1.2	3.4
Educational Services	969.5	1,032.1	1,035.1	3.0	65.6	64.4	0.3	6.8
Health Care/Social Assistance	1,552.5	1,611.0	1,631.3	20.3	78.8	66.5	1.3	5.1
Information/Culture/Recreation	704.3	726.0	690.3	-35.7	-14.0	-6.5	-4.9	-2.0
Accommodation & Food	953.0	984.9	996.0	11.1	43.0	4.8	1.1	4.5
Other Services	698.3	689.6	679.5	-10.1	-18.8	-18.7	-1.5	-2.7
Public Administration	766.3	771.6	775.5	3.9	9.2	-12.0	0.5	1.2

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

LABOUR MARKET TRENDS



Provincial Overview

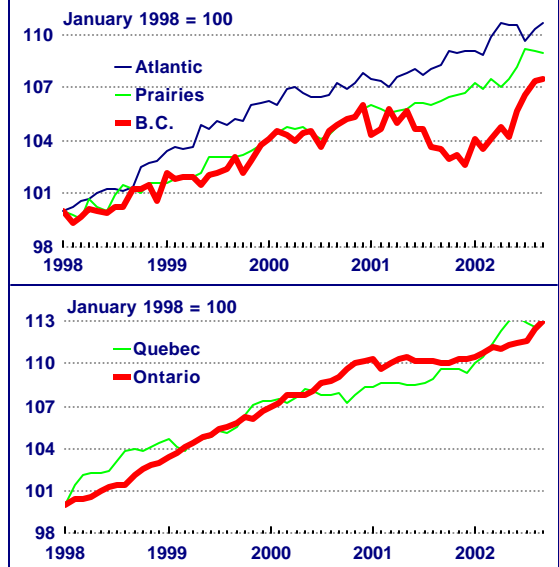
Most provinces gained jobs, notably Ontario...

- Seven out of ten provinces reported higher employment in September. Ontario recorded by far the highest increase (+32 000), with most gains in trucking and education services. Quebec reported 9 000 new jobs, partly offsetting the cumulative losses (21 000 jobs) of the previous two months.
- Employment was down by 13 000 in Alberta (-0.8%), with losses widespread. Trade, Accommodation & Food and Other Services recorded the largest losses.

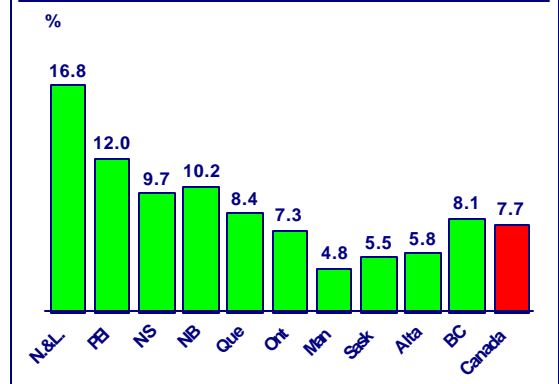
...while the unemployment rate rose in half of the provinces, particularly in Alberta and Newfoundland

- The unemployment rate increased by 1.1 percentage points to 16.8% in Newfoundland & Labrador, as employment plummeted 3 300(-1.5%). It also increased to 5.8% in Alberta, up 0.7 percentage point from August.
- Despite employment gains, the unemployment rate also rose in British Columbia, Saskatchewan and Ontario.
- The unemployment rate fell in Manitoba, Quebec, New Brunswick and Prince Edward Island.

Regional employment patterns



Unemployment Rates -- September 2002



Provincial Employment and Unemployment Trends

	Employment (thousands)				Unemployment Rate (%)			
	Levels	Change since last month		Change since last year		Levels	Change since last year	
	2002 September	(000's)	%	(000's)	%	2002 September	last month	last year
Canada	15,516.7	40.7	0.3	432.9	2.9	7.7	0.2	0.5
Newfoundland & Labrador	213.7	-3.3	-1.5	1.9	0.9	16.8	1.1	1.4
Prince Edward Island	68.3	0.9	1.3	2.3	3.5	12.0	-0.4	0.3
Nova Scotia	429.6	-0.2	0.0	4.0	0.9	9.7	0.0	0.2
New Brunswick	348.4	5.4	1.6	14.0	4.2	10.2	-0.3	-1.1
Quebec	3,602.5	8.7	0.2	106.6	3.0	8.4	-0.1	-0.1
Ontario	6,119.2	32.3	0.5	164.4	2.8	7.3	0.1	0.7
Manitoba	568.3	2.2	0.4	9.0	1.6	4.8	-0.2	-0.5
Saskatchewan	487.4	6.0	1.2	18.8	4.0	5.5	0.1	-0.4
Alberta	1,676.7	-12.7	-0.8	39.5	2.4	5.8	0.7	1.8
British Columbia	2,002.5	1.3	0.1	72.4	3.8	8.1	0.3	0.3



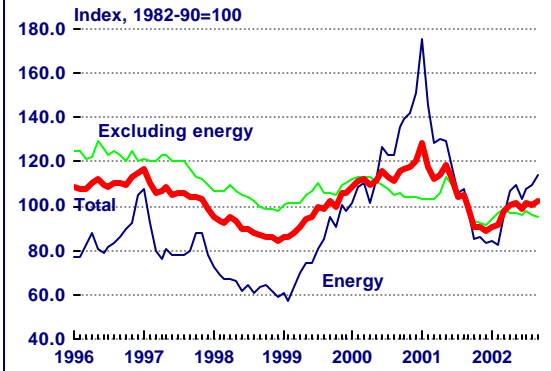
Inflation increases to 2.6% in August...

- On a year-over-year basis, consumer price inflation was 2.6% in August, up from 2.1% in July. Increases in both car insurance premiums and health care costs pushed inflation up. Energy prices, which have been rising from last December's lows, were back to their year-ago level.
- On a monthly basis, the CPI rose 0.4% in August, less than July's 0.5% rise. After rising by more than seven percent in each of the previous two months, cigarette prices edged up a modest 0.2%. Further downward pressure came from a 0.6% decline in food prices. Energy prices rose 3.4% compared to a 1.6% rise in July.
- In September, commodity prices were up 2.5% on a year-over-year basis, ending fifteen consecutive declines. The sharp recovery in energy prices since late 2001 has been driving commodity prices up.

...and the "core" rate has risen above the 2% mark

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, rose to 2.5% in August, up from 2.1% in July. This was above the midpoint of the 1%-3% target range.

Commodity Prices (\$US basis)



Consumer Prices

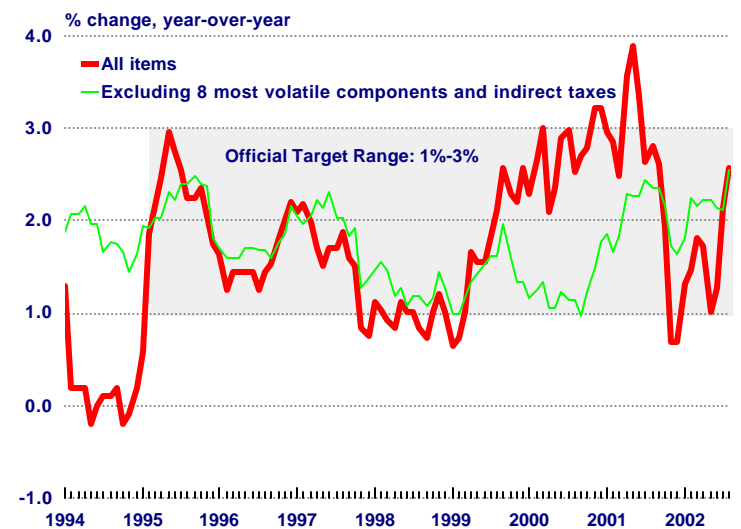
August 2002

	Index (1992=100)	% Change since	
		last month	last year
All items CPI	120.1	0.4	2.6
Food	120.2	-0.6	2.1
Shelter	114.2	0.9	0.4
Household operations	114.3	0.1	1.6
Clothing & Footwear	105.0	0.0	-1.5
Transportation	137.0	1.2	4.7
Health & Personal Care	115.6	0.2	1.2
Recreation, Educ. & Reading	128.5	0.1	1.8
Alcohol & Tobacco	129.8	0.2	22.0
Excl. 8 Most Volatile/Indirect Taxes	120.6	0.5	2.5
Energy	133.4	3.4	0.0

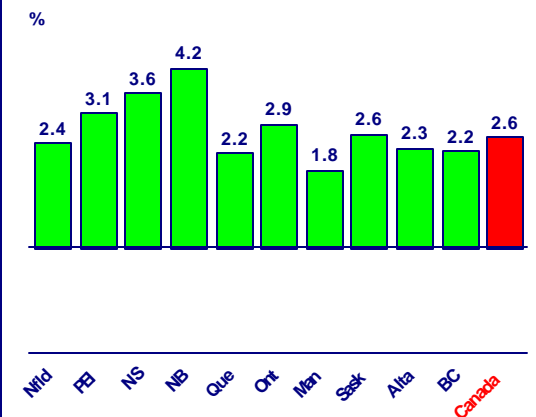
Commodity Prices (September 2002)

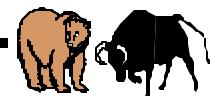
Index, 1982-90=100	102.0	1.5	2.5
Excluding Energy	95.2	-0.7	-4.5
Energy	114.5	4.9	15.7

Consumer Price Index



Provincial CPI Inflation -- August 2002



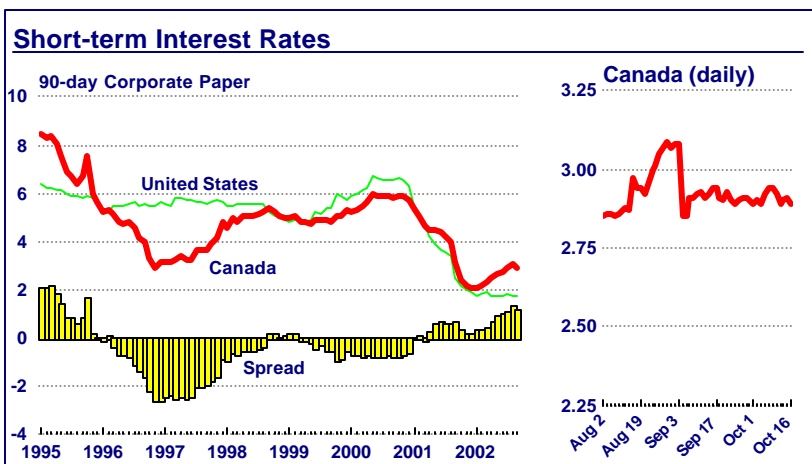


North American central banks remained on the sidelines

- Pointing to the possible dampening impact of renewed global economic weakness on the Canadian economy, the Bank of Canada left its policy rate unchanged at 2.75% on September 4 and October 16. The U.S. Federal Reserve also kept its policy rate unchanged at 1.75% on September 24, although some committee members favoured a reduction to help revive U.S. growth.

Risk aversion pushes North American bond yields further down

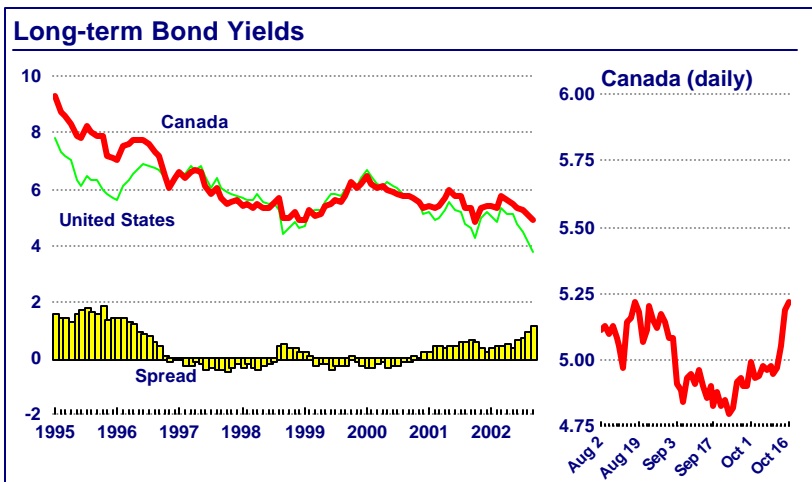
- Fears of increasing risk in the Middle-East led investors to switch more funds into the fixed income market, pushing North American bond prices up during the summer. As a result, the 10-year Canadian bond yield dropped to a low of 4.8% (the lowest since 1998) on September 23, one percentage point below its high (5.8%) of March 25. Meanwhile, its U.S. counterpart fell even more steeply to 3.7%, bringing the interest rate spread at the end of September to 115 basis points (bps), up from 98 bps in the previous month and the highest since April 1996.
- In early October, however, an improved stock market pushed bond yields up as funds were switched back to equities.



Key Market Rates

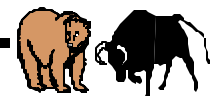
(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
2000	5.71	-0.60	5.35	0.24
2001	2.08	0.19	5.44	0.22
April 2002	2.46	0.69	5.64	0.53
May	2.68	0.91	5.49	0.38
June	2.78	1.03	5.37	0.62
July	2.88	1.06	5.23	0.72
Aug	3.09	1.36	5.14	0.92
Sep	2.90	1.16	4.92	1.15
Oct 16	2.89	1.15	5.22	1.16

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



Key Lending Rates

(end of period)	Overnight Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
2000	5.75	7.50	7.70	7.95
2001	2.25	4.00	4.60	6.85
April 2002	2.25	4.00	5.40	7.45
May	2.25	4.00	5.55	7.40
June	2.50	4.25	5.55	7.25
July	2.75	4.50	5.35	7.05
Aug	2.75	4.50	5.35	6.80
Sep	2.75	4.50	5.30	6.70
Oct 16	2.75	4.50	5.30	6.70

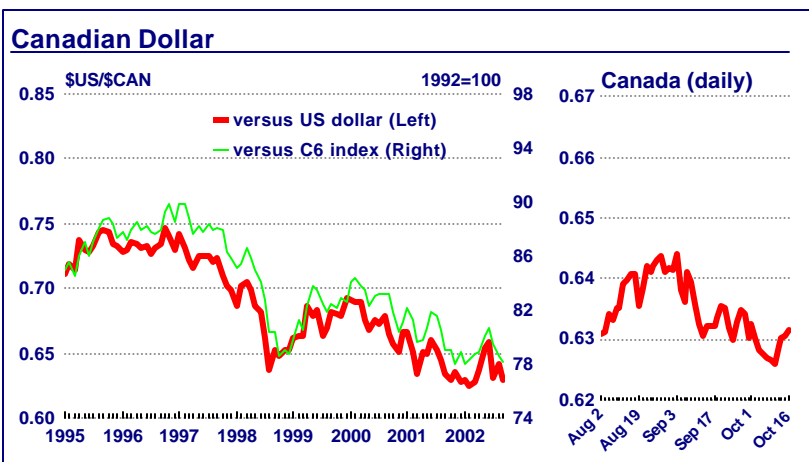


The Canadian dollar recovered in October

- Weakness in the global economy and commodity prices, along with global investor demand for more liquid U.S. assets completely overshadowed the favourable economic news in Canada, causing the dollar to lose August gains. More recently, following a low of US¢62.6 on October 9, the loonie recovered somewhat, closing at US¢63.1 on October 16.
- Compared to late July, the two North American currencies have appreciated against the Japanese Yen and remained little changed against the Euro.

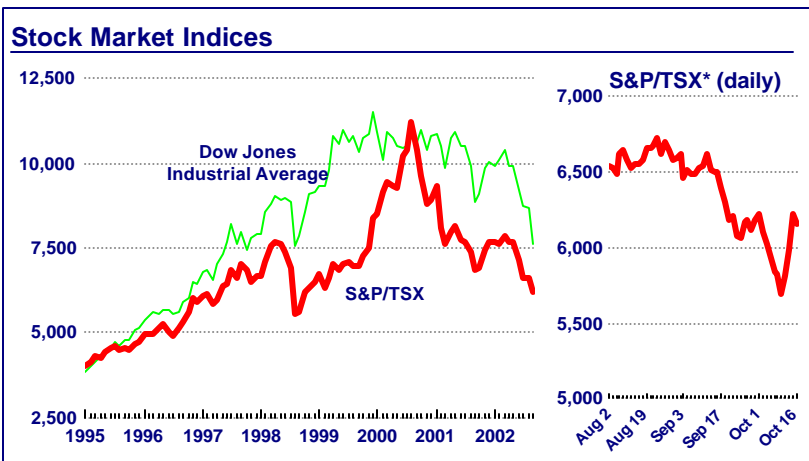
Fear and a disappointing profit outlook pulled down stock market indices to four-year lows

- Stock market indices worldwide have been declining in recent months amid fears of turmoil in the Middle-East and concern about weakness in the global economy. In North America, stocks lost value as both industrial and technological companies lowered their earnings projections, adding to the outflow of funds toward assets with more predictable returns.
- The S&P/TSX plunged to 5695 on October 9, its lowest level since April 1997, while the Dow Jones index dropped to 7286 on the same day. More recently, stock markets recovered somewhat, helped by some good economic news. The S&P/TSX closed at 6157 on October 16.



The Canadian Dollar

(close)	\$US vs. \$CAN	index vs. C-6 (92=100)	\$CAN vs. EURO	yen vs. \$CAN
2000	0.6669	81.19	1.370	73.64
2001	0.6278	78.95	1.387	80.76
April 2002	0.6376	78.89	1.401	82.69
May	0.6545	80.15	1.421	81.51
June	0.6595	80.73	1.465	80.46
July	0.6318	79.53	1.535	76.25
Aug	0.6415	78.54	1.533	75.88
Sep	0.6300	78.18	1.546	76.81
Oct 16	0.6314	77.87	1.556	78.47



Key Stock Market Indexes

	September Close	% change from	
		last month	last year
S&P/TSX *	6,180	-6.5	-9.6
Oil & Gas	10,328	0.4	24.4
Metals & Minerals	3,260	-9.1	-5.8
Utilities	9,527	0.8	-15.7
Paper & Forest	4,526	-10.0	9.3
Merchandising	6,731	-5.9	11.8
Financial Services	9,368	-7.1	-10.6
Gold	6,060	1.1	11.9
S&P 500	815.3	-11.0	-21.7
Dow Jones	7,592	-12.4	-14.2



U.S. Economic Trends

Real GDP growth moderated in the second quarter

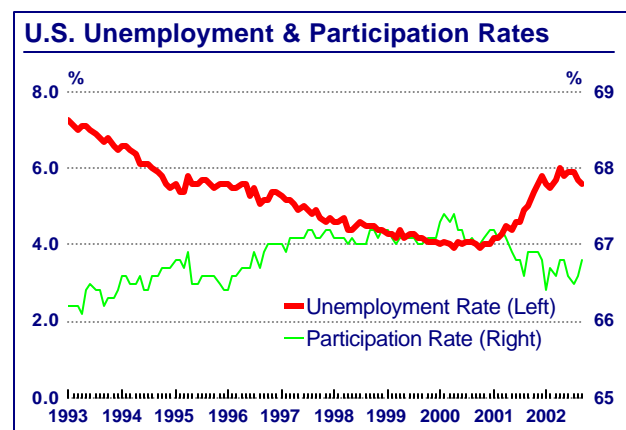
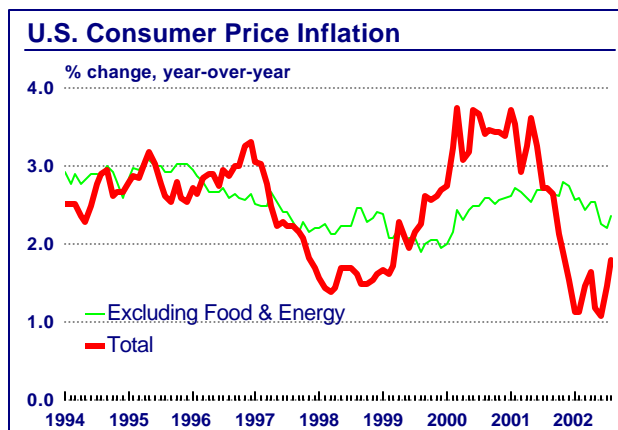
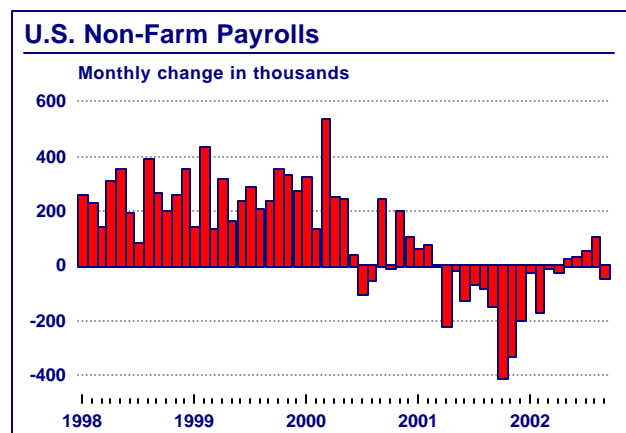
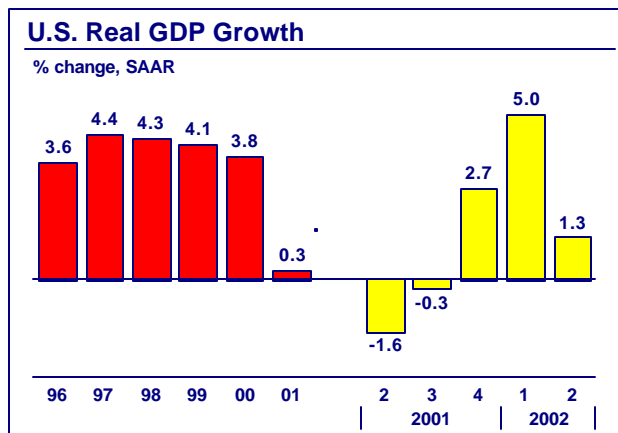
- Final estimates revealed a 1.3% increase in U.S. real GDP (annualized) in the second quarter, revised up from 1.1% reported in the preliminary estimates. Private inventory investment continued to contribute to growth as did personal consumption expenditures and federal spending. Compared to the first quarter, decelerations in both consumption and investment, and the growth in imports contributed to lower GDP growth.

...but likely to rebound in the third quarter

- Recent economic indicators point to strong consumer spending in the third quarter, which should lift growth. Retail sales rose at the annualized rate of 7.4% in the third quarter following a 4.5% increase in the second quarter. This was fuelled by higher auto sales as consumers took advantage of dealer incentives.
- However, the manufacturing sector has recently weakened. The Institute of Supply Management composite index for manufacturing fell from 50.5 in August to 49.5 in September, the lowest reading since last December. Manufacturing output also fell and employment losses in the sector increased in August and September. This, combined with deteriorating consumer confidence, which fell to 80.4 in October (the lowest level since September 1993), is raising concerns that the U.S. recovery may be fragile.

The labour market remained weak in September

- The unemployment rate fell slightly in September to reach 5.6%. Following four months of modest growth, non-farm payroll employment dropped by 43 000 in September.
- On a year-over-year basis, the Consumer Price Index rose 1.8% in August and core inflation increased from 2.2% in July to 2.4% in August.





Annex

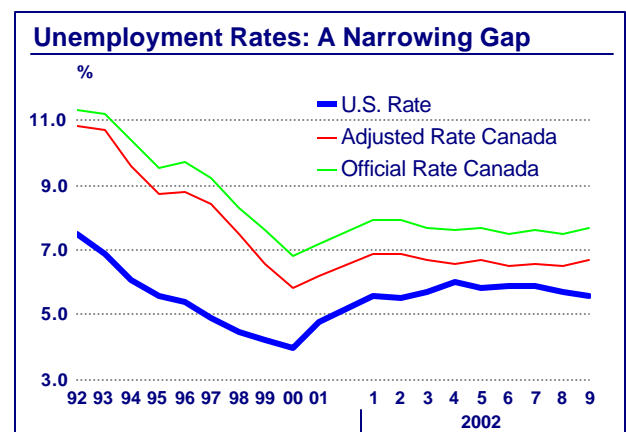
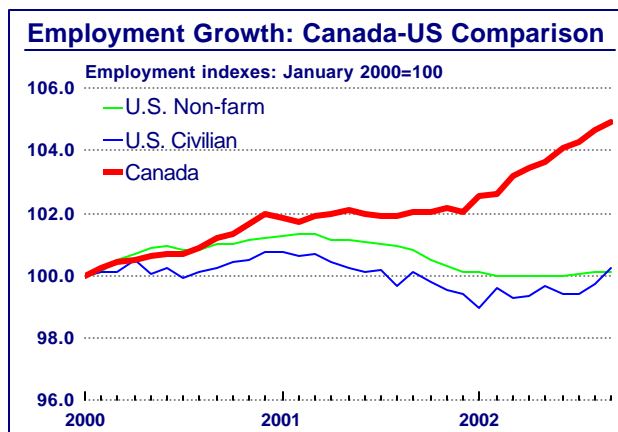
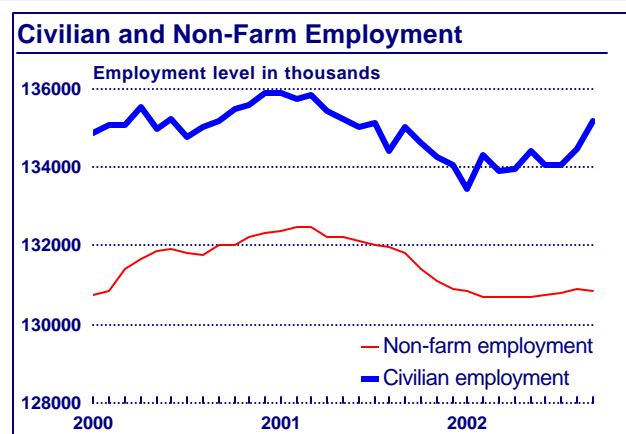
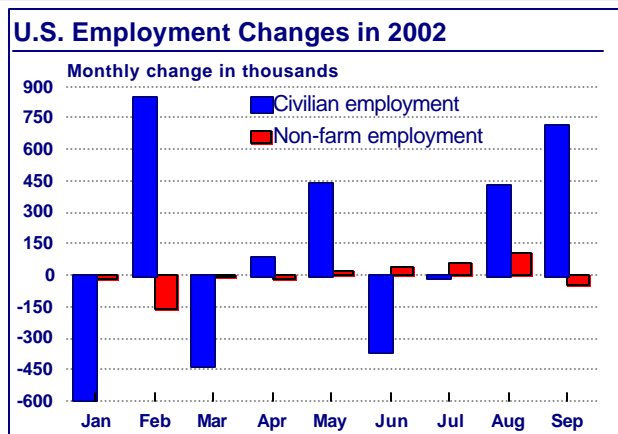
Monthly Employment Changes: Different Surveys and... Different Stories

- The U.S. Bureau of Labor Statistics releases information on labour market conditions, which are based on two separate surveys. When non-farm employment is reported, it is estimated from the Current Establishment Statistics (CES) survey, a payroll-based survey. The survey is administered to a monthly sample of nearly 400 000 business establishments. The data exclude certain categories of workers (proprietors, self-employed, farm workers and domestic workers). When civilian employment is reported, it is estimated from the Current Population Survey (CPS), a survey administered to 60 000 households, providing statistics on the labour force, employment and unemployment. The CPS is broader in scope, covering more categories of workers and has historically been more volatile than the payroll data (CES).
- Monthly changes in non-farm employment often make headlines. Estimates show that non-farm employment decreased by 43 000 in September, indicating weakness in the labour market. On the other hand, civilian employment rose by 711 000 in September, portraying a picture of improving conditions.

How does Canada and the United States compare?

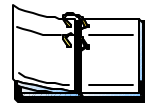
- Each series indicates that U.S. employment in September is close to its January 2000 level. When compared to either series, Canada has fared much better in terms of employment growth in the last couple of years. Canada's employment numbers are drawn from the Labour Force Survey (LFS), a household-based survey. Yet, there are differences between the CPS and the LFS. If the CPS definition of unemployment was applied to Canada, this country's unemployment rate would be 6.7% for September instead of 7.7%, that is only 1.1% higher than that of the U.S. instead of 2.1% as officially reported.

*For more details, see Sorrentino Constance; International Unemployment Rates: How Comparable Are They?; *Monthly Labour Review*; June 2000.



COMING UP

Key Future Data Releases and Planned Events



CANADA

Survey of Manufacturing - August	October 17
International Trade - August	October 18
Consumer Price Index - September	October 23
Real GDP by industry - August	October 31
Labour Force Survey - October	November 8
Financial Statistics for Enterprises - 3rd Quarter	November 28
Balance of International Payments - 3rd Quarter	November 29
National Economic and Financial Accounts - 3rd Quarter	November 29

UNITED STATES

Consumer Price Index - September	October 18
International Trade in Goods and Services - August	October 18
GDP - 3rd Quarter (advance)	October 31
The Employment Situation - October	November 1
Federal Open Market Committee meeting	November 6

Note: The September/October 2002 MEI uses data available as of October 16, 2002