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# Monthly Economic Indicators

**September/October 2003**

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at [http://strategis.ic.gc.ca/sc\\_ecnmy/mera/engdoc/03.html](http://strategis.ic.gc.ca/sc_ecnmy/mera/engdoc/03.html).

Canada

# MONTHLY ECONOMIC INDICATORS

## September/October 2003

### HIGHLIGHTS

- 
**After stalling in the second quarter, real Gross Domestic Product (GDP) jumped 0.6% in July. Gains were widespread across sectors.**
- 
**Canada's labour market bounced back in September, creating 46,000 jobs, overwhelmingly in full-time positions.**
- 
**In the United States (U.S.), real GDP rose 3.3% (annual rate) in the second quarter and recent indicators suggest that growth has strengthened in the third quarter.**
- 
**These developments combined with a strong housing market point to an economic growth pick up in Canada in the third quarter.**
- 
**The Canadian dollar has risen to levels not seen in almost 10 years. The loonie's appreciation is exerting downward pressure on inflation which fell to 2.0% in August.**
- 
**In light of these developments, the Bank of Canada left its overnight rate at 2.75% on October 15, while the U.S. Federal Reserve kept its fed funds rate at 1.0% in mid-September.**

### Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$97 B)	1,017.0	0.6	1.9	July
Goods	316.2	1.0	0.0	July
Services	702.4	0.4	2.9	July
Composite Index	183.4	0.5	2.7	Aug
Employment (000's)	15,748	0.3	1.4	Sep
Full-time	12,774	0.3	1.4	Sep
Part-time	2,974	0.3	1.7	Sep
Unemployment* (%)	8.0	8.0	7.7	Sep
Youth*	14.6	14.4	13.7	Sep
Adult*	6.7	6.7	6.5	Sep
CPI inflation*	2.0	2.2	2.6	Aug
Retail Sales (\$M)	26,574	0.8	3.8	July
Housing Starts (000's)**	234.6	-1.1	17.4	Sep
Trade Balance* (\$M)	5,221	4,793	4,440	Aug
Exports	31,938	-3.8	-9.2	Aug
Imports	26,717	-5.9	-13.1	Aug
M&E	7,979	-3.5	-12.2	Aug

		September	
		October 14***	2003
3-mth Corp. paper (%)*	2.69	2.64	2.90
Long bond yield (%)*	4.90	4.64	4.92
Canadian dollar (US¢)*	75.55	74.08	63.00

\*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**

## **September/October 2003**

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This report uses data available as of October 14, 2003. It has been prepared by Éric Chalifoux, Anik Dufour, Kevin Koch, Joseph Macaluso, Arif Mahmud, Sue Moore, François Poitras, François Rimbaud, and Patrick Taylor of the Micro-Economic Analysis Directorate, under the direction of Hossein Rostami. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for production support.

Sources of information include, primarily, 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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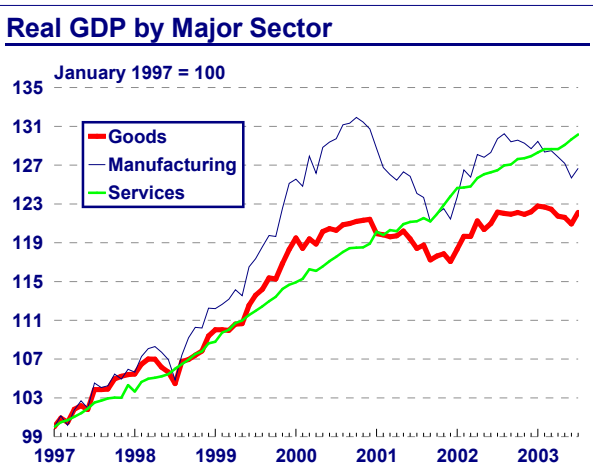
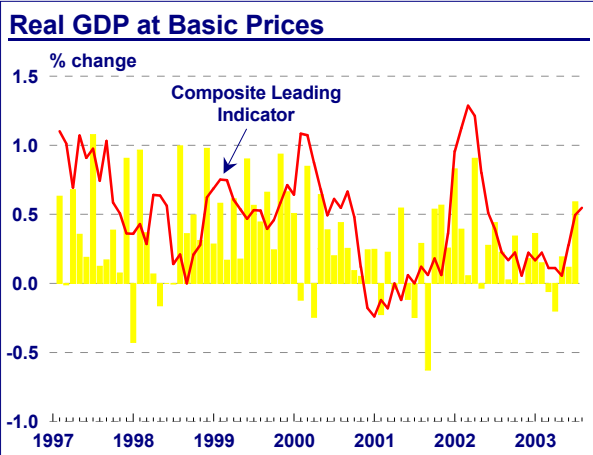
## Real GDP by Industry

### Economic activity rebounds in July...

- After being flat in the second quarter, real gross domestic product (GDP) surged 0.6% in July, the largest monthly gain in economic activity since April 2002. All sectors of the economy posted gains except the primary goods and Arts, Entertainment & Recreation sectors. July's real GDP was 2.8% (annual rate) above the second quarter level, providing a solid base for the third quarter. Even if output was adversely affected by the outage in August, analysts expect real GDP growth in the third quarter to be about 3.0%.

### ...as activity levels advanced across the economy

- Production in the Goods sector rose 1.0% in July after declining 1.0% in the second quarter. Manufacturers led the increase buoyed by the strong motor vehicle sector. However, international trade difficulties led to a reduction in activities in Agriculture, Forestry, Fishing & Hunting.
- Services output increased 0.4% in July, compared with a 0.5% gain in the second quarter. Professional, Scientific & Technical services, Wholesale and Retail Trade reported the strongest increases. This reflects low interest rates, strong consumer confidence and sales incentives by motor vehicle manufacturers, propelling new car sales.



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

July 2003	\$ millions	monthly change	% Change since last	
			month	year
<b>Total Economy</b>	<b>1,016,991</b>	<b>5,971</b>	<b>0.6</b>	<b>1.9</b>
<b>Business Sector</b>	<b>860,806</b>	<b>5,713</b>	<b>0.7</b>	<b>1.8</b>
<b>Goods-producing</b>	<b>316,186</b>	<b>3,111</b>	<b>1.0</b>	<b>-0.0</b>
Agri., Forest, Fish, Hunt*	22,750	-105	-0.5	4.5
Mining & Oil & Gas Extraction	36,721	729	2.0	3.6
Utilities	26,102	496	1.9	-3.2
Construction	54,580	366	0.7	4.0
Manufacturing	174,848	1,361	0.8	-2.4
<b>Service-producing</b>	<b>702,425</b>	<b>2,752</b>	<b>0.4</b>	<b>2.9</b>
Wholesale Trade	63,225	372	0.6	5.5
Retail Trade	56,826	331	0.6	3.5
Transportation & Warehousing	46,860	183	0.4	0.4
Information & Cultural	42,548	60	0.1	2.8
FIRE**	205,776	1,006	0.5	2.8
Professional***	44,855	62	0.1	4.4
Admin. & Waste Mgmt	22,566	164	0.7	5.1
Education	46,230	72	0.2	1.5
Health & Social	61,085	268	0.4	4.5
Arts, Entertain. & Recreation	9,427	-6	-0.1	6.6
Accommodation & Food	22,333	158	0.7	-3.5
Other	24,059	32	0.1	1.5
Public Administration	57,628	63	0.1	2.7

\*Agriculture, Forestry, Fishing & Hunting

\*\*Finance, Insurance & Real Estate

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

# THE ECONOMY

## Consumer Spending and Attitudes

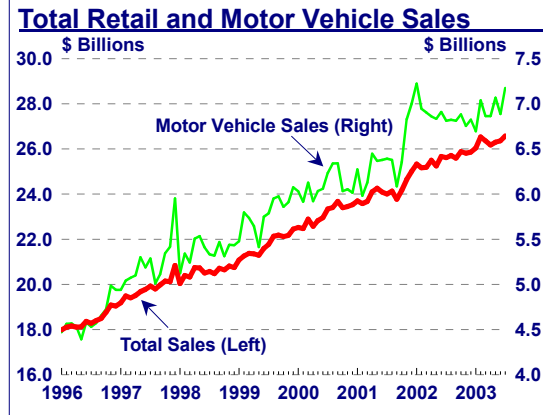


### Consumer spending rose further in the second quarter...

- Real consumer spending rose 2.7% (annual rate) following a rise of 4.4% in the first quarter. The slowdown stemmed from spending on non-durable goods, semi-durable goods, and services. On the other hand, real spending on durable goods, such as furniture and household appliances, rebounded sharply.
- Real disposable income rose in the second quarter, reflecting a healthy growth in income together with falling inflation.

### ...and remains robust amid rising consumer confidence

- Real retail sales rose for the third straight month in July, rising 0.6% following a 0.5% gain in June. This is 1.2% higher than their second quarter level.
  - The average of motor vehicle sales in July and August was 6.6% higher than the level in the second quarter.
- The consumer confidence index rose to 122.0 in the third quarter, up from 116.2% in the second quarter. This largely reflects improved expectations concerning the labour market.

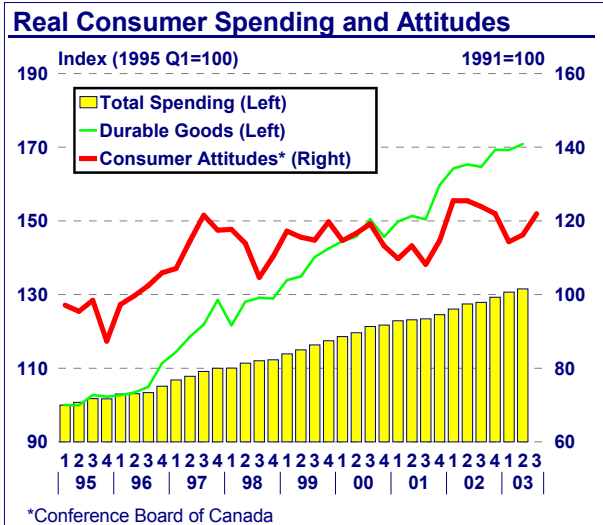


### Retail Sales and Consumer Credit

	July 2003 \$ millions	% Change since	
		last month	last year
<b>Total Retail Sales (S.A.)</b>	26,574	0.8	3.8
Food	5,845	-1.1	4.1
Drug Stores	1,363	0.7	5.4
Clothing	1,372	-1.7	2.1
Furniture	1,630	1.3	8.3
Automotive	10,665	2.9	3.7
General Merch. Stores	2,919	-0.2	2.5
All other Stores	2,780	-0.8	2.1
Total ex. motor vehicles	19,399	-0.4	3.2
<b>Consumer Credit</b>	238	1.6	9.1

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	2001	2002	2003 Q1	2003 Q2
<b>Real Consumption (97\$)</b>	581,590	601,198	615,288	619,394
% change	2.6	3.4	4.4	2.7
Durable Goods	85,958	93,294	95,186	96,100
% change	4.2	8.5	-0.1	3.9
Semi-Durable Goods	52,310	54,341	55,557	55,910
% change	3.8	3.9	5.6	2.6
Non-Durable Goods	133,791	136,534	139,601	139,623
% change	1.2	2.1	4.6	0.1
Services	309,887	317,885	325,789	328,715
% change	2.7	2.6	5.3	3.6
<b>Disposable Income</b>	667,376	698,479	712,580	717,216
% change	4.4	4.7	3.1	2.6
<b>Saving Rate (%)</b>	4.5	4.2	2.3	2.4
<b>Debt-to-Income Ratio (%)</b>	95.9	97.3	99.1	100.1



# THE ECONOMY



## Business Investment

### Investment rose in the second quarter, despite lower profits

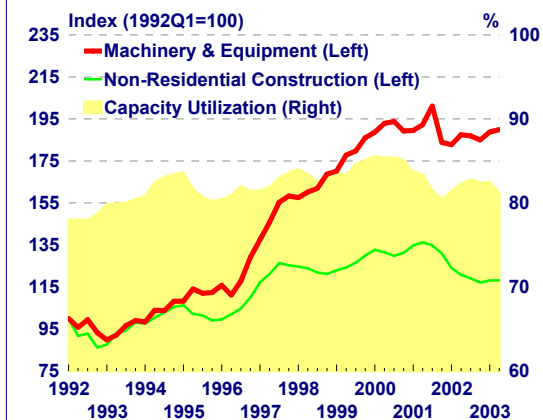
- Real business investment in Machinery & Equipment (M&E) rose 2.4% (annual rate) in the second quarter, the first back-to-back increases since 2001.
- Corporate operating profits fell 26.1% during the second quarter, the first quarterly drop since the last quarter of 2001. However, so far this year, profits are 15.0% higher than in 2002.
- Reflecting the appreciation of the Canadian dollar, the cost of investment in M&E has declined.
  - In the second quarter, the price of M&E\* was down 6.7% from its level in the last quarter of 2002, while import prices were down 10.8%.

### Business confidence recovered in the third quarter

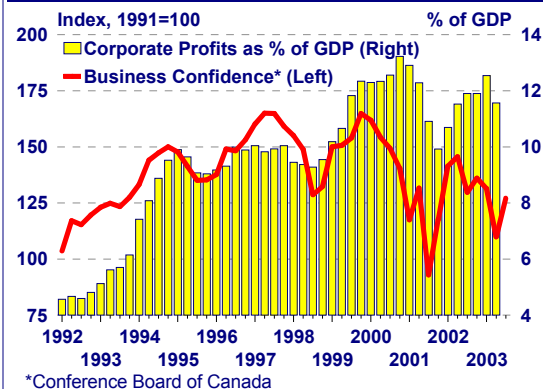
- The Business confidence index rose to 127.2 during the third quarter, from 109.9 in the second. This reflected improved expectation about firms' financial position and profitability in the next six months. In addition, there was a significant increase in the number of executives who thought this was a good time to undertake capital expenditures.

\*Statistics Canada's Machinery & Equipment Price Indexes, released on August 14.

### Investment in Plant and Equipment



### Corporate Profits & Business Confidence



\*Conference Board of Canada

## Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	2001	2002	2002 Q3	2002 Q4	2003 Q1	2003 Q2
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1997\$)</b>	86,494	83,720	84,340	83,453	85,199	85,703
% change	0.3	-3.2	-1.3	-4.1	8.6	2.4
<b>Non-residential Construction (1997\$)</b>	48,047	43,044	42,631	41,920	42,289	42,307
% change	2.2	-10.4	-5.4	-6.5	3.6	0.2
<b>Capacity Utilization (% , Non-farm goods)</b>	82.3	82.2	82.8	82.4	82.5	81.2
Capacity Utilization (Mfg. sector)	81.9	83.5	84.4	84.0	83.7	82.5
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	138,563	146,312	149,624	155,212	174,380	161,700
% change	-16.1	5.6	14.2	15.8	59.3	-26.1
Profits - Non-financial industries	102,845	113,379	117,980	120,892	136,872	122,820
% change	-19.0	10.2	26.7	10.2	64.3	-35.2
Profits - Financial industries	35,718	32,934	31,644	34,320	37,508	38,880
% change	-6.3	-7.8	-20.8	38.4	42.7	15.5
<b>Business Credit</b>	855,487	886,748	888,637	893,542	902,273	906,354
% change	5.5	3.7	1.9	2.2	4.0	1.8



### Residential construction rose further in the second quarter...

- Residential construction increased for the fourth straight quarter, rising 3.5% in the second quarter compared to 3.8% in the first.
- At the industry level, residential construction rose 1.1% in July and was up 3.2% (annual rate) from the second quarter average.

### ...and the housing market remained vigorous in the third quarter

- Housing starts surged 15.6% in the third quarter following a 9.4% decline in the second quarter. In July and August, building permits rose 9.0% on average from the second quarter and average existing home sales for the two months were 15.4% higher than in the second quarter.
- The increase in housing starts has been broadly based with six provinces posting increases in the third quarter. They are particularly strong in Ontario and Quebec, however, the largest growths for the third quarter were posted by British Columbia and Manitoba.

### 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)	19,442	1.1%	6.1%
<b>Building Permits, \$M (2)*</b>	2,624	-8.3%	-0.5%
<b>Sales of Existing Homes (2)**</b> (# of units)	26,910	-2,868	3,184
<b>Housing Starts, (3)***</b> (# of units, SAAR)	234,600	-2,600	34,800
Newfoundland & Labrador	2,200	-300	-100
Prince Edward Island	900	200	300
Nova Scotia	4,500	-300	-100
New Brunswick	3,700	-300	-200
Quebec	54,900	-4,800	10,500
Ontario	87,600	-100	10,200
Manitoba	5,100	-800	0
Saskatchewan	3,300	-300	-1,300
Alberta	40,300	1,400	2,600
British Columbia	32,100	2,700	12,900

1 - July data; 2 - August data; 3 - September data

Sources: \*Statistics Canada; \*\*Canadian Real Estate Association;

\*\*\*Canada Mortgage and Housing Corporation

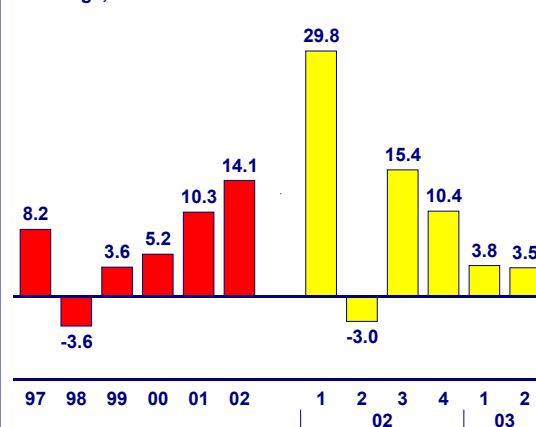
### Real Investment in Residential Structures

\$97 Millions, SAAR (unless otherwise noted)

	2001	2002	2003 Q1	2003 Q2
Residential Construction	50,705	57,854	60,427	60,952
% change	10.3	14.1	3.8	3.5
New Housing	23,374	28,782	30,082	29,785
% change	5.7	23.1	-7.0	-3.9
Alterations & Improvements	19,629	20,605	21,900	22,736
% change	16.1	5.0	17.6	16.2
Ownership & Transfer Costs	7,748	8,484	8,524	8,572
% change	11.2	9.5	14.1	2.3

### Growth in Real Residential Construction

% change, SAAR







## Trade and Competitiveness

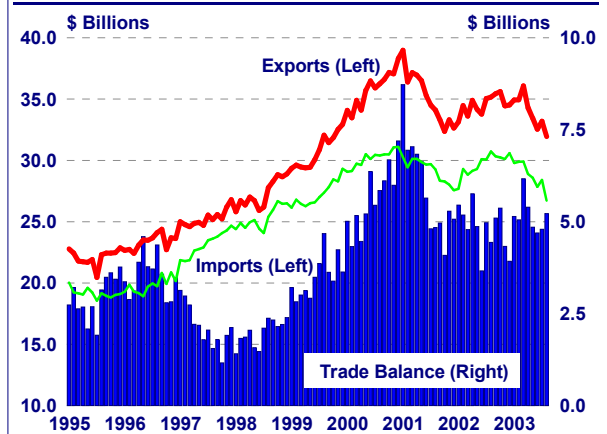
### Imports fell more than exports in August...

- Merchandise exports fell by 3.8% to \$31.9 billion in August while imports dropped by 5.9% to \$26.7 billion. The declines were largely due to the power outage, which particularly affected the automotive industry. Exports of energy products also recorded a large drop. Exports to the U.S. fell by 4.6% while exports to other countries rose by 0.4%, led by a 12.2% rise in exports to the European Union.
- Imports of automotive products, machinery & equipment, and industrial goods & material posted large declines. Imports from the U.S. and from other countries fell by 4.0% and 10.4%, respectively.

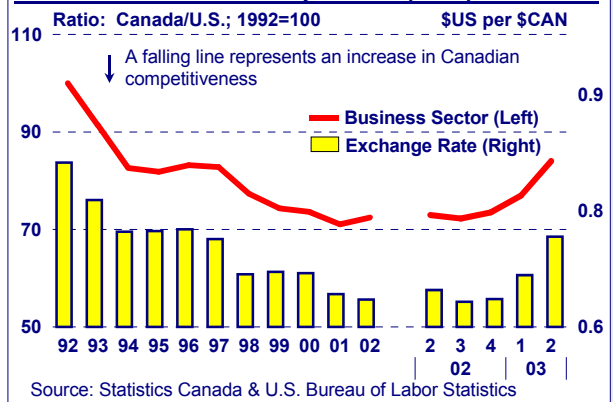
### ...raising the trade surplus

- The merchandise trade surplus rose by \$0.4 billion from July to \$5.2 billion in August, its highest level in four months. This reflected a decline of \$0.9 billion in the deficit with non-U.S. trading partners, partly offset by a fall of \$0.5 billion in the surplus with the U.S.
- In the first eight months of this year, the trade surplus improved from the same period of 2002, solely reflecting a price-induced rise in the surplus of energy products. The surplus in manufacturing, particularly automotive products, fell significantly due in part to the rapid appreciation of the Canadian dollar that has led to a deterioration in Canada's competitiveness (as measured by relative unit labour cost in Canada and the U.S.).

### Merchandise Trade Flows and Balance



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



### Merchandise Trade

August 2003	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	July 2003	August 2003	Jan.-Aug. 2002	Jan.-Aug. 2003	July to Aug. 2003	July to Aug. 2003	Jan.-Aug. 2002 to Jan.-Aug. 2003	
<b>Exports</b>	<b>33,191</b>	<b>31,938</b>	<b>274,289</b>	<b>271,340</b>	<b>-1,253</b>	<b>-3.8</b>	<b>-1.1</b>	
to United States	27,857	26,581	229,791	225,992	-1,276	-4.6	-1.7	
<b>Imports</b>	<b>28,398</b>	<b>26,717</b>	<b>235,166</b>	<b>230,020</b>	<b>-1,681</b>	<b>-5.9</b>	<b>-2.2</b>	
from United States	19,733	18,954	169,197	161,302	-779	-3.9	-4.7	
<b>Trade Balance</b>	<b>4,793</b>	<b>5,221</b>	<b>39,123</b>	<b>41,320</b>	<b>428</b>			
with United States	8,124	7,627	60,594	64,690	-497			
<b>Exports by Commodity</b>								
Agriculture/Fishing Products	2,349	2,404	20,756	19,222	55	2.3	-7.4	
Energy Products	5,133	4,944	30,264	42,643	-189	-3.7	40.9	
Forestry Products	2,835	2,889	24,976	22,623	54	1.9	-9.4	
Industrial Goods & Materials	5,379	5,208	46,961	43,565	-171	-3.2	-7.2	
Machinery & Equipment	7,254	7,281	64,780	60,447	27	0.4	-6.7	
Automotive Products	7,411	6,673	65,331	58,518	-738	-10.0	-10.4	
Other Consumer Goods	1,394	1,387	11,633	11,431	-7	-0.5	-1.7	
<b>Imports by Commodity</b>								
Agriculture/Fishing Products	1,797	1,733	14,459	14,571	-64	-3.6	0.8	
Energy Products	1,660	1,319	10,343	13,185	-341	-20.5	27.5	
Forestry Products	248	251	2,075	2,029	3	1.2	-2.2	
Industrial Goods & Materials	5,376	5,117	45,714	43,913	-259	-4.8	-3.9	
Machinery & Equipment	8,269	7,979	70,332	66,146	-290	-3.5	-6.0	
Automotive Products	6,296	5,394	53,491	51,284	-902	-14.3	-4.1	
Other Consumer Goods	3,793	3,842	30,505	31,023	49	1.3	1.7	





## Employment and Unemployment

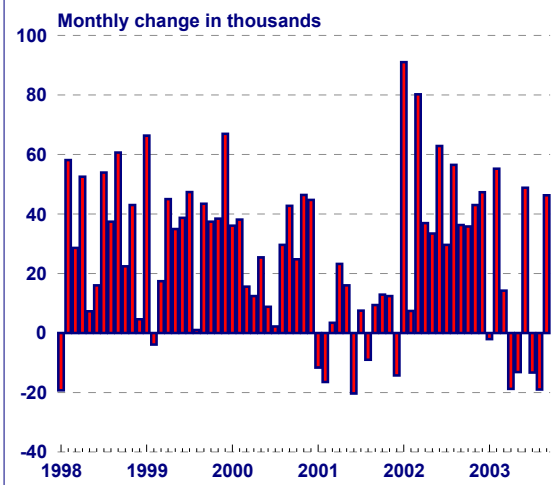
### Employment rebounded in September...

- Employment surged 46,000 in September, following small declines the previous two months. Since the beginning of the year, employment has grown 0.6% (98,000), much slower than the 2.9% (434,000) growth observed over the same period in 2002.
- Employment gains in September were mostly in full-time jobs (37,000). So far this year, all employment gains have been in full-time positions (100,000).
- Employment increased for both adults (40,000) and youths (6,000) in September. Since last December, however, youths lost 6,000 jobs.
- Despite the power outage in August, the number of hours worked edged down only 0.3% in the third quarter, after falling 0.9% in the second. This reflects a shift towards full-time employment in the third quarter.

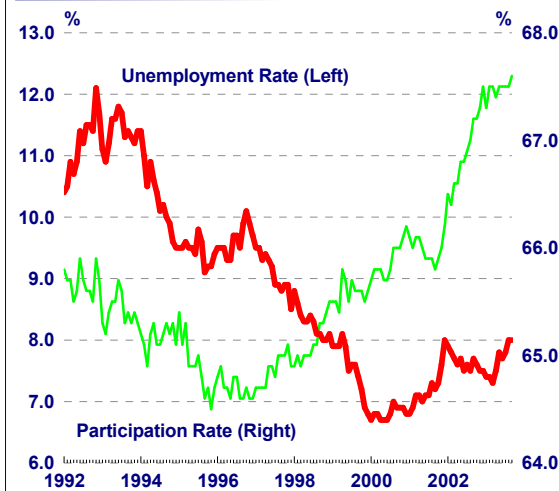
### ...but the unemployment rate remained unchanged

- The unemployment rate was unchanged at 8.0% in September, as an increase in the labour force offset the gains in employment. In the case of youth, an increase in the labour force pushed the unemployment rate up 0.2 point to 14.6%, the highest rate since May 1999.

### Employment



### Unemployment Rate



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2002 September	2003 August	2003 September	last month	last year	year-to- date	last month	last year
<b>Employment</b>	15,523.6	15,701.6	15,747.9	46.3	224.3	98.2	0.3	1.4
<b>Full-time</b>	12,599.4	12,736.5	12,773.6	37.1	174.2	100.2	0.3	1.4
<b>Part-time</b>	2,924.1	2,965.1	2,974.4	9.3	50.3	-1.9	0.3	1.7
<b>Youth 15-24</b>	2,375.1	2,392.7	2,398.8	6.1	23.7	-5.7	0.3	1.0
<b>Adult 25+</b>	13,148.5	13,308.9	13,349.1	40.2	200.6	103.9	0.3	1.5
<b>Self-employed</b>	2,374.9	2,437.9	2,428.4	-9.5	53.5	49.9	-0.4	2.3
<b>Unemployment</b>	1,290.2	1,366.2	1,369.6	3.4	79.4	94.0	0.2	6.2
<b>Unemployment Rate</b>	7.7	8.0	8.0	0.0	0.3	0.5		
<b>Youth 15-24</b>	13.7	14.4	14.6	0.2	0.9	1.3		
<b>Adult 25+</b>	6.5	6.7	6.7	0.0	0.2	0.3		
<b>Labour Force</b>	16,813.8	17,067.8	17,117.6	49.8	303.8	192.3	0.3	1.8
<b>Participation Rate</b>	67.2	67.5	67.6	0.1	0.4	0.1		
<b>Employment Rate</b>	62.0	62.1	62.2	0.1	0.2	-0.2		



## Industry Overview

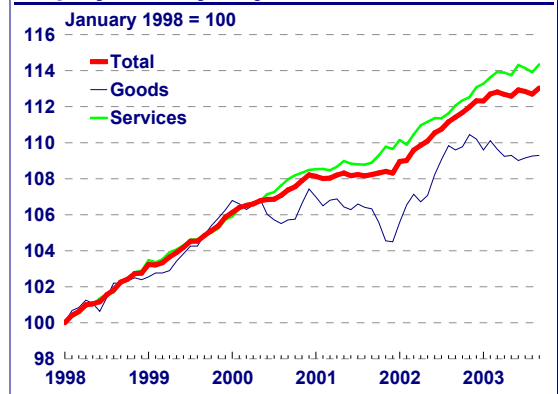
### Employment rose slightly in the Goods sector...

- Employment in the Goods sector edged up 1,400 in September, as the gains in Construction (11,000) and the Primary sector (9,000) offset the losses recorded in Manufacturing (15,000) and Utilities (4,000).
- Manufacturing has lost 78,000 jobs since the beginning of 2003, due to a higher Canadian dollar and weakness south of the border early in the year. This contrasts to the first nine months of 2002, when Manufacturing created 111,000 jobs.
- Construction has continued to benefit from a strong housing market, gaining 44,000 jobs so far this year.

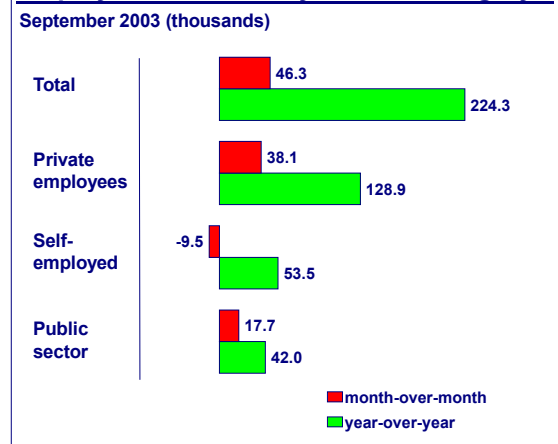
### ...and surged in the Services sector

- Employment in Services increased by 45,000 in September, following a loss of 23,000 jobs the previous month. The largest gains were in Health Care & Social Assistance (18,000), Trade (16,000) and Finance, Insurance, Real Estate & Leasing (13,000).
- Only four groups posted job losses: Other service category (18,000); Accommodation & Food (5,000); Professional, Scientific and Technical Services (3,000), and Transportation and Warehousing (1,200).
- The Services sector has created 131,000 (1.1%) jobs so far this year, more than offsetting job losses in the Goods sector (33,000 or 0.8%).

### Employment by Major Sector



### Employment Growth by Worker Category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2002 September	2003 August	2003 September	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	3,988.1	3,975.6	3,977.0	1.4	-11.1	-33.0	0.0	-0.3
Agriculture	342.3	333.0	332.8	-0.2	-9.5	-22.4	-0.1	-2.8
Natural Resources*	267.2	283.4	292.7	9.3	25.5	22.4	3.3	9.5
Utilities	138.5	135.3	131.8	-3.5	-6.7	0.7	-2.6	-4.8
Construction	895.5	944.1	955.2	11.1	59.7	43.9	1.2	6.7
Manufacturing	2,344.6	2,279.8	2,264.5	-15.3	-80.1	-77.7	-0.7	-3.4
<b>Services-producing</b>	11,535.5	11,726.1	11,770.9	44.8	235.4	131.3	0.4	2.0
Trade	2,428.0	2,448.6	2,464.9	16.3	36.9	18.4	0.7	1.5
Transportation*	787.6	765.8	764.5	-1.3	-23.1	-1.3	-0.2	-2.9
FIRE*	905.5	928.3	940.9	12.6	35.4	37.3	1.4	3.9
Professional/Scientific	1,012.1	999.8	996.4	-3.4	-15.7	-24.4	-0.3	-1.6
Management/Administrative	586.3	592.8	599.9	7.1	13.6	-12.4	1.2	2.3
Educational Services	1,035.5	1,035.4	1,040.0	4.6	4.5	-10.2	0.4	0.4
Health Care/Social Assistance	1,633.5	1,672.7	1,690.7	18.0	57.2	35.9	1.1	3.5
Information/Culture/Recreation	691.9	711.5	718.5	7.0	26.6	25.0	1.0	3.8
Accommodation & Food	999.2	1,023.8	1,018.9	-4.9	19.7	2.7	-0.5	2.0
Other Services	679.1	718.8	700.8	-18.0	21.7	5.7	-2.5	3.2
Public Administration	776.8	828.5	835.3	6.8	58.5	54.3	0.8	7.5

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

# LABOUR MARKET TRENDS



## Provincial Overview

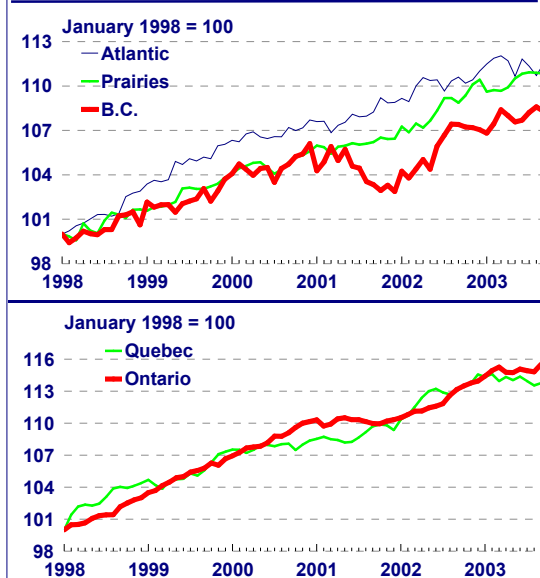
### Job gains were concentrated in Ontario and Alberta...

- Ontario (39,000) gained most of the jobs in September, all full-time. The largest increases were in Construction, Finance, Insurance, Real Estate and Leasing as well as Education Services. Ontario has gained 86,000 jobs (1.4%) so far this year.
- Alberta (10,000) posted strong employment gains in Retail and Wholesale Trade. However, other western provinces posted small job losses. Employment rose in all of the Atlantic provinces, except P.E.I. In the meantime, Quebec posted an increase of 7,000 jobs, all part-time. After a strong 2002, Quebec's employment is now 0.7% below the level of the beginning of this year.

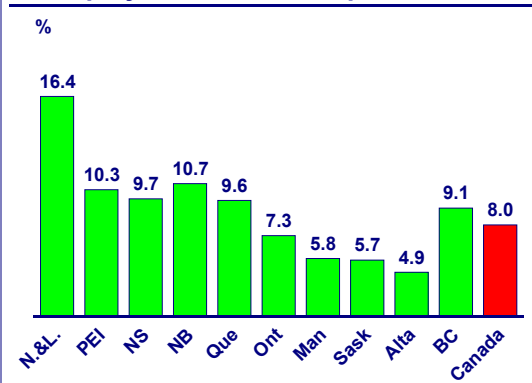
### ...and the unemployment rate rose in most provinces

- Ontario's unemployment rate rose 0.2 point to 7.3%, as its labour force rose by 50,000. Job losses pushed up the unemployment rates of Manitoba, British Columbia and Saskatchewan. Newfoundland & Labrador posted the highest rate of unemployment, as an increase in the labour force pushed it up 0.8 point to 16.4%.
- Small job gains and lower labour forces decreased unemployment rates in Nova Scotia and Quebec. Despite labour force increases, the unemployment rate fell in both Alberta and New Brunswick.
- The unemployment rate remained at 10.3% in P.E.I.

Regional employment patterns



Unemployment Rates -- September 2003



## Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since	
	2003 September	(000's)	%	(000's)	%	2003 September	last month	last year
Canada	15,747.9	46.3	0.3	224.3	1.4	8.0	0.0	0.3
Newfoundland & Labrador	220.4	0.8	0.4	7.3	3.4	16.4	0.8	-0.8
Prince Edward Island	68.9	-0.8	-1.1	0.6	0.9	10.3	0.0	-1.4
Nova Scotia	436.2	3.3	0.8	6.6	1.5	9.7	-0.8	-0.1
New Brunswick	342.7	4.1	1.2	-6.1	-1.7	10.7	-0.4	0.5
Quebec	3,628.6	7.2	0.2	22.6	0.6	9.6	-0.4	1.2
Ontario	6,251.7	38.5	0.6	127.4	2.1	7.3	0.2	0.0
Manitoba	563.7	-8.3	-1.5	-4.7	-0.8	5.8	0.9	0.9
Saskatchewan	482.7	-3.4	-0.7	-4.7	-1.0	5.7	0.1	0.2
Alberta	1,735.0	10.2	0.6	58.7	3.5	4.9	-0.2	-0.9
British Columbia	2,018.0	-5.3	-0.3	16.7	0.8	9.1	0.4	0.9



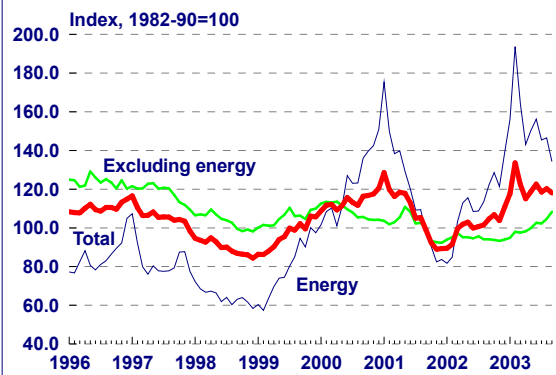
### Inflation fell to 2.0% in August...

- The year-over-year increase in the Consumer Price Index (CPI) was 2.0% in August, down from 2.2% in July and from a high of 4.6% in February. A large decline in electricity prices and a smaller rise in food prices lowered inflation. Gasoline prices rose 6.3% following July's 0.1% decline, mitigating the moderation in total inflation. Excluding the energy sub-index, inflation fell from 1.8% to 1.6%.
- On a monthly basis, the CPI edged up 0.2% after having risen 0.1% in the previous three months. Vehicle insurance premiums rose 1.9% following July's 0.2% increase. Electricity prices were up 0.3% after a decline in July.
- In September, the year-over-year increase in commodity prices was 12.8%, down from 18.5% in August. This entirely reflected a slowdown in energy prices as non-energy prices accelerated for the second straight month. On a monthly basis, commodity prices fell 1.8%. An 8.3% drop in energy prices more than offset a rise of 3.5% in non-energy prices.

### ...and the "core" rate declined to 1.5%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, fell from 1.8% in July to 1.5% in August. This was the lowest core rate since November 2000 and was below the midpoint of the 1%-3% official target range.

### Commodity Prices (\$US basis)



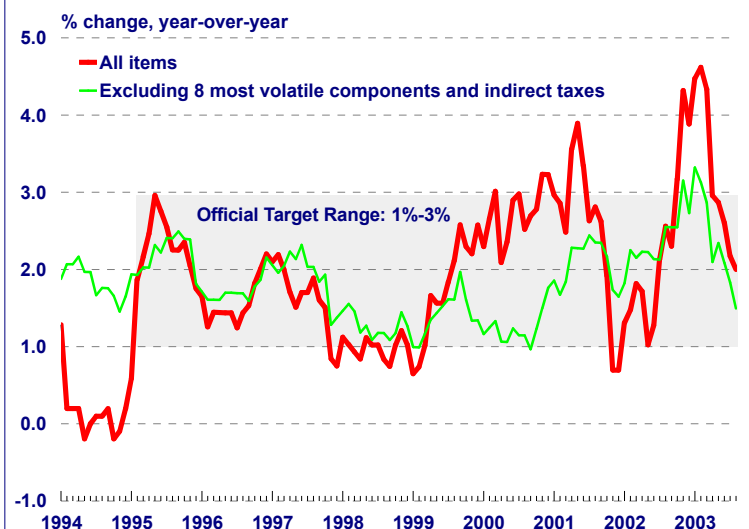
### Consumer Prices

	Index (1992=100)	% Change since	
		last month	last year
<b>All items CPI</b>	122.5	0.2	2.0
Food	122.1	-0.9	1.6
Shelter	117.7	0.1	3.1
Household operations	114.7	0.1	0.3
Clothing & Footwear	101.8	0.2	-3.0
Transportation	142.4	1.8	3.9
Health & Personal Care	117.4	0.4	1.6
Recreation, Educ. & Reading	128.0	0.1	-0.4
Alcohol & Tobacco	137.1	0.4	5.6
<b>Excl. 8 Most Volatile/Indirect Taxes</b>	122.4	0.2	1.5
Energy	143.5	4.3	7.6

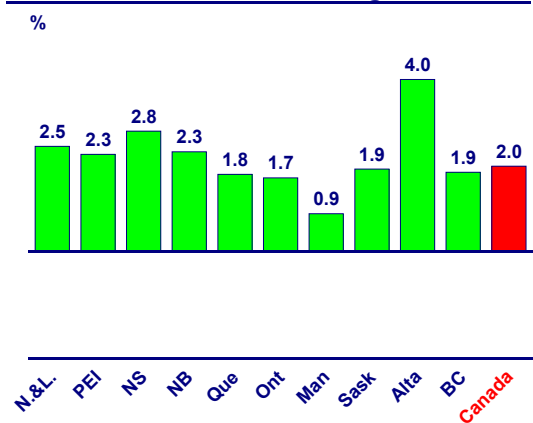
### Commodity Prices (September 2003)

Index, 1982-90=100	118.1	-1.8	12.8
Excluding Energy	108.3	3.5	15.1
Energy	134.3	-8.3	9.8

### Consumer Price Index



### Provincial CPI Inflation -- August 2003





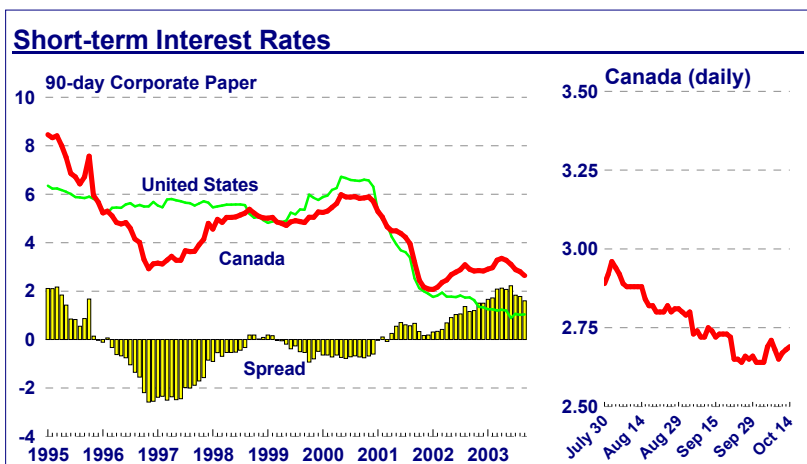
## Short-term and Long-term Interest Rates

### North American central banks maintained low short-term interest rates

- The Bank of Canada left its overnight rate unchanged on October 15 at 2.75%. The Bank had cut rates by a total of 50 basis points (bps) in July and September to support economic activity following a series of adverse shocks. On September 16, the Federal Reserve (Fed) left its policy rate unchanged at 1.0%. The Fed indicated that the risk to sustained growth in the medium-term remained balanced, but the risk of a fall in inflation persisted. The next policy decisions are scheduled for October 28 in the U.S. and December 2 in Canada.
- In line with the recent policy-rate cuts, rates on 3-month corporate paper in Canada fell from 3.2% in mid-July to 2.7% in October. Their U.S. counterparts remained fairly steady, at about 1.1%. As a result, the rate differential fell from 220 bps in mid-July to 163 bps on October 14.

### Bond yields have been volatile in recent months

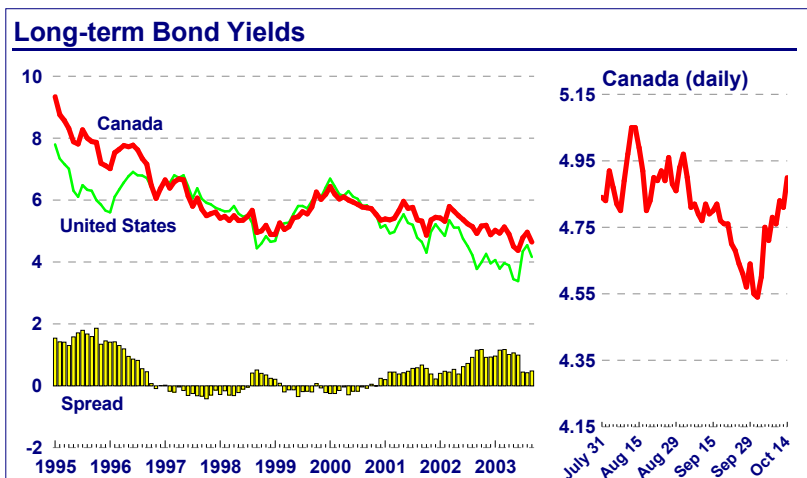
- North American bond yields trended down between March 2002 and June 2003, reflecting growing inflows of funds into fixed income markets amid geopolitical uncertainty and economic weakness. Signs of strengthening economic activity, along with expectations of increased borrowings by the U.S. government, caused a sharp recovery in yields this summer. This was moderated by declining inflation and expectations of continued low short-term interest rates. Canadian long-term yields have increased by about 85 bps since mid-June to 4.9% on October 14, while U.S. yields have risen by 125 bps to 4.37%. This reduced the interest rate differential from nearly 100 bps in June to 50 bps in October.
- One-year mortgage rates have remained at 4.55% since mid-July, while five-year rates have eased from 6.55% in mid-August to 6.40% on October 14.



### Key Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
2001	2.08	0.19	5.44	0.22
2002	2.83	1.50	4.88	0.93
April	3.35	2.12	4.90	1.01
May	3.27	2.07	4.50	1.06
June	3.11	2.22	4.37	0.99
July	2.89	1.83	4.78	0.44
Aug	2.80	1.78	4.96	0.42
Sep	2.64	1.60	4.64	0.48
Oct. 14*	2.69	1.63	4.90	0.53

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	5 year
2001	2.25	4.00	4.60	6.85
2002	2.75	4.50	4.90	6.70
April	3.25	5.00	5.35	6.65
May	3.25	5.00	5.05	6.15
June	3.25	5.00	4.85	5.80
July	3.00	4.75	4.55	6.20
Aug	3.00	4.75	4.55	6.35
Sep	2.75	4.50	4.55	6.30
Oct. 14*	2.75	4.50	4.55	6.40

\* Bank of Canada's Weekly Financial Statistics

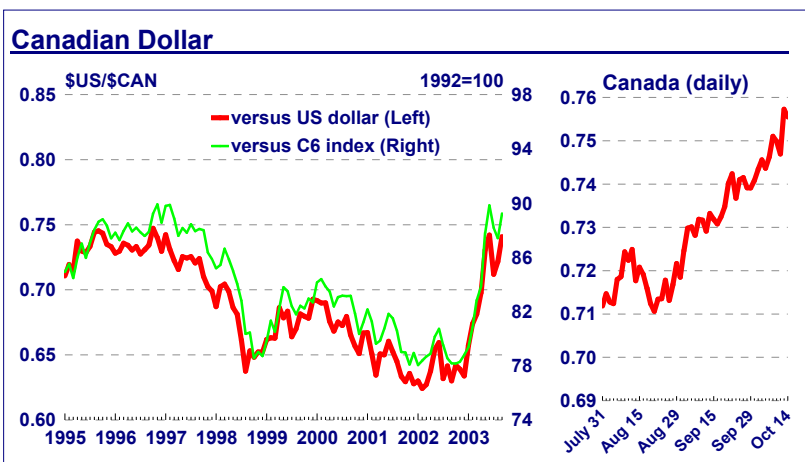


### The Canadian dollar reached its highest level in nearly ten years

- The Canadian dollar rose to a high of US¢75.7 on October 10, a level last seen in January 1994, but fell back somewhat in the following days. The dollar has risen by nearly US12 cents (19.0%) so far this year, the most rapid appreciation of this magnitude on record.
- Other currencies have also strengthened vis-à-vis the U.S. dollar, with the Australian dollar rising 23%, the New Zealand dollar 14%, the Euro 13% and the Yen 9.6%. The loonie has also benefited from rising commodity prices, higher Canadian interest rates and Canada's favourable fundamentals, including fiscal and current account surpluses.

### Major North American indices were up by 30% from the lows of one year ago

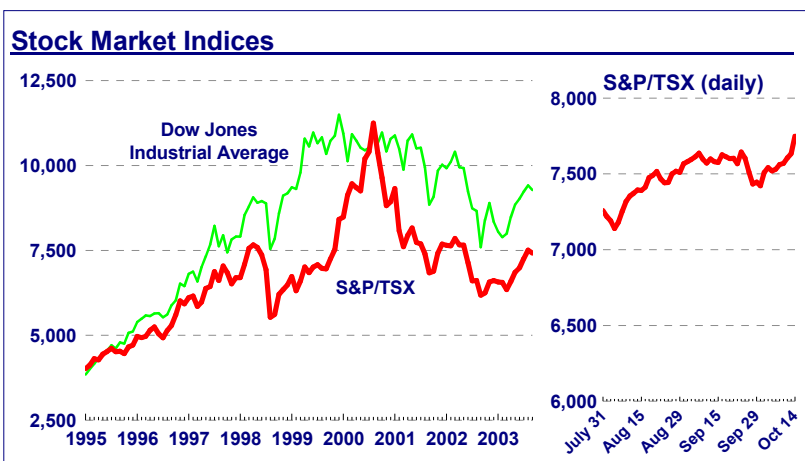
- North American stock indices have staged a recovery since touching a low in October 2002, although this ascent was interrupted in the first quarter of 2003 by concerns over the war in Iraq. The S&P/TSX was up by 33% (+1,874 points) from the lows of October 2002 and the Dow Jones by 32% (+2,345 points). The largest advances were in information technology and diversified metals & mining.
- The S&P/TSX retreated to 7,421 at the end of September on profit-taking, but rose back to 7,749 on October 14. Meanwhile, the Dow Jones rose from 9,275 to 9,813.



### The Canadian Dollar

(close)	\$US vs. \$CAN	index vs. C-6 (92=100)	\$CAN vs. EURO	yen vs. \$CAN
2001	0.6278	78.95	1.387	80.76
2002	0.6339	78.80	1.483	78.20
April	0.6976	83.84	1.584	82.21
May	0.7307	87.81	1.601	84.77
June	0.7421	89.83	1.579	87.50
July	0.7118	88.16	1.570	85.87
Aug	0.7217	87.40	1.556	84.95
Sep	0.7408	89.23	1.536	84.18
Oct. 14*	0.7555	90.64**	1.551	82.58

\* Bank of Canada; \*\* October 8



### Key Stock Market Indexes

	September Close	% change from	
		last month	last year
<b>S&amp;P/TSX</b>	<b>7,421</b>	<b>-1.2</b>	<b>20.1</b>
Energy	135	-2.4	6.3
Metals & Mining	161	4.7	46.6
Utilities	141	-2.7	3.5
Materials	129	-1.8	12.2
Industrial	71	-1.3	20.1
Financial	121	-1.1	24.9
Gold	194	-4.4	4.0
Telecommunication	58	-4.2	32.0
Information Technology	24	4.1	117.2
Consumer Discretionary	80	-1.1	15.6
Consumer Staples	161	-1.1	4.95
<b>S&amp;P 500</b>	<b>1,006.6</b>	<b>-0.1</b>	<b>23.46</b>
<b>Dow Jones</b>	<b>9,275</b>	<b>-1.5</b>	<b>22.17</b>





## U.S. Economic Trends

### Real GDP surged ahead in the second quarter...

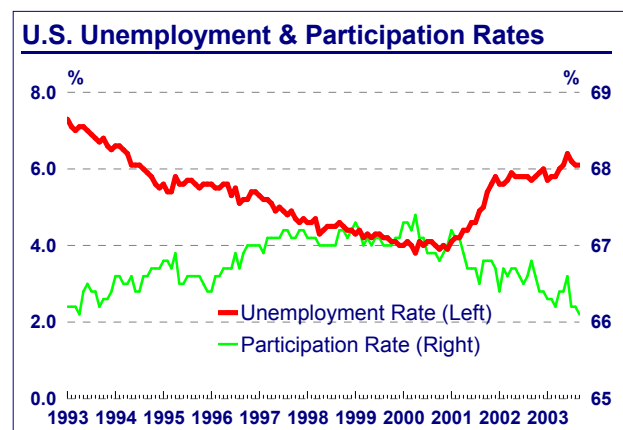
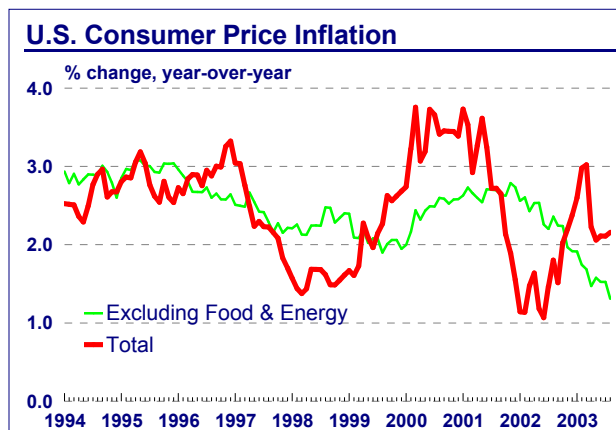
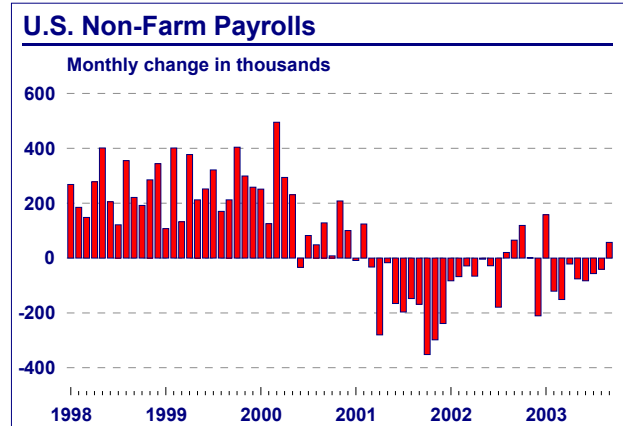
- Real GDP grew 3.3% (annual rate) in the second quarter of 2003, following 1.4% growth in the first. Defence spending and consumer spending on durable goods were the main sources of strength while net exports reduced growth by 1.3 percentage points.

### ...and indicators point to continued strong growth

- The U.S. economy is positioned for a strong performance in the third quarter. Consumers continued to positively respond to low interest rates and fiscal stimulus as real personal consumption expenditures (PCE) rose 0.7% in July and 0.5% in August, mostly due to motor vehicle sales. Real PCE for the two months were 6.1% (annual rate) above the level in the second quarter. Also, housing starts remained at high levels during the summer. On the production side, industrial production rose a robust 0.7% in July and edged up again in August, offsetting a decline in the second quarter. Moreover, the Institute of Supply Management manufacturing index registered above the 50-point mark in September (an index value greater than 50 indicates an expanding sector).

### The labour market rebounded in September

- September marked the first expansion in the labour market since January 2003. Non-farm employment rose 57,000, after declining 41,000 (upwardly revised) in August, with job gains in the construction and service sectors. Manufacturing employment continued to drop in September (-29,000), but at a slower pace than in previous months. The unemployment rate remained at 6.1% in September.
- Productivity in the non-farm sector rose 6.8% (annual rate) in the second quarter following a rise of 2.1% in the first quarter. Rising productivity is helping keep inflation low. CPI inflation edged up slightly in September to 2.2% (year-over-year), while core inflation fell further to 1.3%.



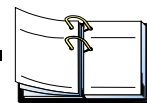
Source: U.S. Bureau of Economic Analysis & U.S. Bureau of Labor Statistics



## COMING UP

### Key Future Data Releases and Planned Events

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#### CANADA

Consumer Price Index - September	October 21
Real GDP by industry - August	October 31
Labour Force Survey - October	November 7
Canadian International Merchandise Trade - September	November 13
Monthly Survey of Manufacturing - September	November 14
Financial Statistics for Enterprises - 3rd Quarter	November 27
Balance of International Payments - 3rd Quarter	November 27
National Economic and Financial Accounts - 3rd Quarter	November 28
Key Policy Interest Rate Announcement	December 2

#### UNITED STATES

Consumer Price Index - September	October 16
Federal Open Market Committee Meeting	October 28
GDP - 3rd Quarter 2003 (advance)	October 30
The Employment Situation - October	November 7
International Trade in Goods and Services - September	November 13

Note: The September / October 2003 MEI uses data available as of October 14, 2003