



Industry
Canada

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Monthly Economic Indicators

October 2004

The "Monthly Economic Indicators" (MEI) provides a variety of economic analysis and data in a convenient format. The MEI does not interpret or evaluate government policies, and every attempt is made to present factual information in an informed and balanced manner consistent with generally accepted economic principles. It is available to all employees of Industry Canada in either hard or electronic copy, or can be accessed via the Internet at http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html

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MONTHLY ECONOMIC INDICATORS

October 2004

HIGHLIGHTS

-  **Real GDP growth moderated to 0.1% in July from 0.4% in June, largely reflecting a slowdown in the services sector. Nonetheless, this was the fifth consecutive monthly increase.**
-  **Employment growth resumed in September as 72,000 net full-time positions were created while 29,000 net part-time jobs were lost. The unemployment rate fell by 0.1 percentage point to 7.1%.**
-  **Recent indicators, including hours worked and retail sales suggest the Canadian economy grew in the third quarter, albeit at a slower pace than in the second (4.3%).**
-  **In the United States (U.S.), recent indicators point to continued growth in the third quarter, stemming from a revival of consumption growth.**
-  **In light of strong economic conditions and prospects for continued growth, the Bank of Canada raised its overnight rate by a further 25 basis points to 2.5% on October 19.**
-  **The Canadian dollar has risen to levels not since the early 1990s, reflecting rising energy prices and Canada's good economic fundamentals.**

Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$97 B)	1,046.5	0.1	3.1	July
Goods	328.3	0.2	3.8	July
Services	719.4	0.1	2.7	July
Composite Index	199.2	0.5	9.0	Aug.
Employment (000's)	16,076	0.3	2.0	Sep.
Full-time	13,147	0.5	2.8	Sep.
Part-time	2,930	-1.0	-1.5	Sep.
Unemployment* (%)	7.1	7.2	7.9	Sep.
Youth*	13.5	13.7	14.5	Sep.
Adult*	5.8	6.0	6.7	Sep.
CPI inflation*	1.9	2.3	2.0	Aug.
Retail Sales (\$M)	29,085	0.8	3.4	Aug.
Housing Starts (000's)**	231.0	-4.2	0.1	Sep.
Trade Balance* (\$M)	7,422	6,153	4,890	Aug.
Exports	37,708	-0.4	18.4	Aug.
Imports	30,286	-4.4	12.4	Aug.
M&E	8,514	-4.8	5.7	Aug.

		September	
		October 20 ***	2004
3-mth Corp. paper (%)*	2.60	2.50	2.64
Long bond yield (%)*	4.46	4.58	4.64
Canadian dollar (US¢)*	80.29	79.26	74.08

*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

October 2004

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This issue uses data available as of October 22, 2004. It has been prepared by Éric Chalifoux, Stéphane Crépeau, Kevin Koch, Joseph Macaluso, Sue Moore, François Poitras and François Rimbaud 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 primarily include Statistics Canada, as well as the Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Conference Board of Canada, U.S. Bureau of Economic Analysis, and U.S. Bureau of Labor Statistics. Unless cited otherwise, data contained in graphs and tables are derived from Statistics Canada.

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Real GDP by Industry

July marked the fifth consecutive increase in economic activity...

- Real GDP at basic prices rose 0.1% in July, the fifth consecutive monthly increase, following a 0.4% increase in June. July output was 1.9% (annual rate) above the second quarter level, pointing to a solid starting position for the third quarter. Other indicators including retail sales, manufacturing shipments and hours worked also point to continued, albeit slower, growth in the third quarter.

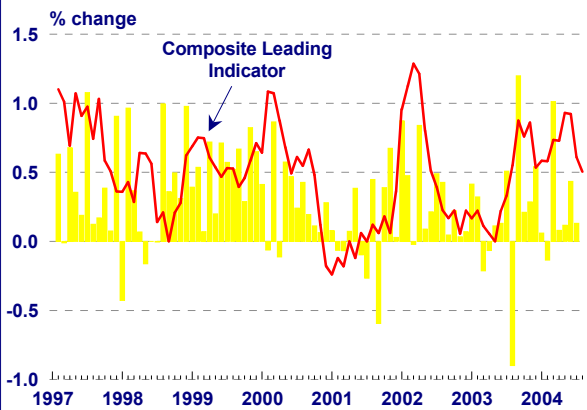
...as output in the goods sector rose...

- Goods production rose 0.2% in July after increasing 0.3% in June. Manufacturing output rose 0.3%, following 1.6% growth in June, and was 5.9% higher than one year ago. Growth in manufacturing was concentrated in motor vehicles (3.9%), information and communication technologies (ICT) products (2.6%), and wood products (2.8%). Meanwhile, construction output declined 0.3% in July, the fourth consecutive monthly decline. However, construction output in July was still 2.3% higher than a year earlier.

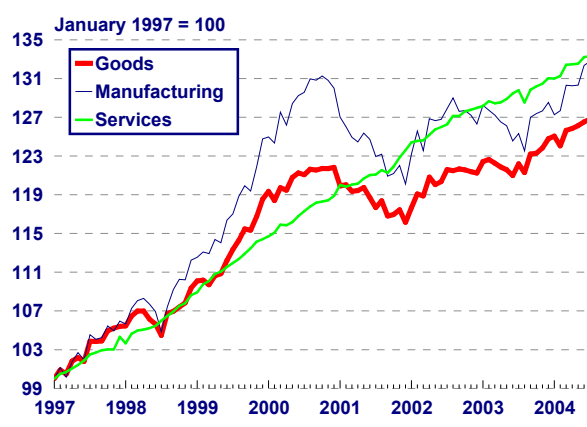
...and the service sector edged up

- Service output rose 0.1% in July compared to 0.5% in June. Higher sales of grain and building materials spurred wholesale trade (0.6%) while spending on big ticket items (e.g. cars, furniture and electronics) contributed to a 0.5% increase in retail sales. Losses were concentrated in education (1.1%) and transportation & warehousing (0.7%).

Real GDP at Basic Prices



Real GDP by Major Sector



Real GDP at Basic Prices (1997 chained dollars)

July 2004	\$ millions	monthly change	% Change since last	
			month	year
Total Economy	1,046,548	1,369	0.1	3.1
Business Sector	889,176	1,703	0.2	3.5
Goods-producing	328,340	773	0.2	3.8
Agri., Forest, Fish, Hunt*	23,538	81	0.3	3.4
Mining & Oil & Gas Extraction	37,997	88	0.2	1.3
Utilities	25,504	195	0.8	-0.8
Construction	57,527	-165	-0.3	2.3
Manufacturing	183,249	562	0.3	5.9
Services-producing	719,368	571	0.1	2.7
Wholesale Trade	66,417	391	0.6	7.0
Retail Trade	59,179	310	0.5	2.4
Transportation & Warehousing	50,260	-344	-0.7	5.6
Information & Cultural	43,109	138	0.3	1.4
FIRE**	210,402	364	0.2	3.2
Professional***	46,414	73	0.2	1.9
Admin. & Waste Mgmt	22,151	28	0.1	2.1
Education	45,250	-502	-1.1	0.8
Health & Social	62,840	123	0.2	1.3
Arts, Entertain. & Recreation	9,444	-25	-0.3	-3.1
Accommodation & Food	23,207	-74	-0.3	2.8
Other	24,522	-12	-0.0	1.4
Public Administration	57,680	166	0.3	1.4

*Agriculture, Forestry, Fishing & Hunting

**Finance, Insurance & Real Estate

***Professional, Scientific & Technical services

THE ECONOMY



Consumer Spending and Attitudes

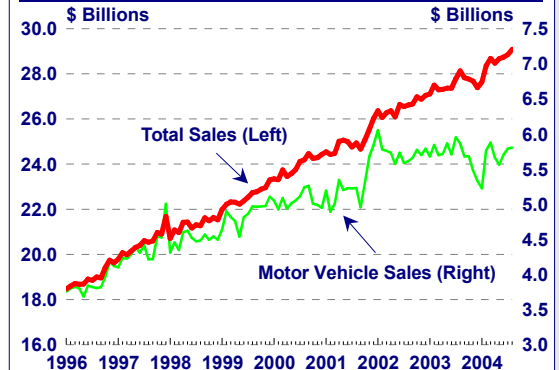
Consumption growth is poised to recover in the third quarter...

- After slowing in the second quarter, consumption is on track for higher growth in the third quarter despite sluggish automobile sales. New motor vehicle sales declined 1.2% in August, partly offsetting a 2.3% rise in July. Assuming no growth in September, new motor vehicle sales would slip 0.8% in the third quarter, following a 4.6% increase in the second.
- Nevertheless, retail sales rose 0.8% in August to a record high of \$29.1 billion, following 0.5% growth in July, and were 1.6% above the second quarter level. Retail sales were strongest in Ontario, New Brunswick, and Prince Edward Island. Ex-auto retail sales advanced 0.9% in August with growth across most sectors.

...amid rising income and confidence

- Real personal disposable income increased 5.0% in the second quarter, following a 3.9% increase in the first. In addition, employment growth resumed in September, boding well for improving confidence and income.
- The consumer confidence index climbed to 122.9 in September, up 1.6 points from August. Canadians were more upbeat about their family budgets and job prospects six months from now. Consumer confidence has trended up in recent months, rising 5.8 points since June.

Total Retail and Motor Vehicle Sales



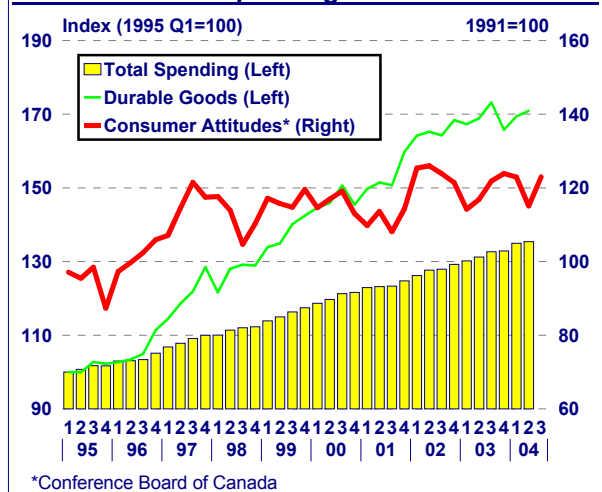
Retail Sales and Consumer Credit

	\$ millions	% Change since	
		last month	last year
Total Retail Sales (S.A.)	29,085	0.8	3.4
Food	5,679	0.8	4.7
Drug Stores	1,917	1.8	7.7
Clothing	1,666	-1.5	3.7
Furniture	1,867	0.8	3.2
Automotive	9,776	0.9	1.6
General Merch. Stores	3,527	-0.0	4.0
All other Stores	4,653	1.6	3.5
Total ex. motor vehicles	22,075	0.9	4.8
Consumer Credit	262	1.1	10.6

Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	2002	2003	2004 Q1	2004 Q2
Real Consumption (97\$)	601,594	620,444	635,614	637,677
% change	3.4	3.1	6.4	1.3
Durable Goods	93,099	94,923	95,286	96,145
% change	8.3	2.0	9.2	3.7
Semi-Durable Goods	54,472	56,142	58,391	58,720
% change	3.8	3.1	15.7	2.3
Non-Durable Goods	137,196	140,078	142,661	142,269
% change	2.3	2.1	5.3	-1.1
Services	317,627	330,098	339,967	341,399
% change	2.6	3.9	4.9	1.7
Disposable Income	692,691	713,548	731,080	745,344
% change	3.8	3.0	6.6	8.0
Saving Rate (%)	3.2	1.4	0.8	1.5
Debt-to-Income Ratio (%)	98.1	101.6	103.3	103.0

Real Consumer Spending and Attitudes



THE ECONOMY

Business Investment

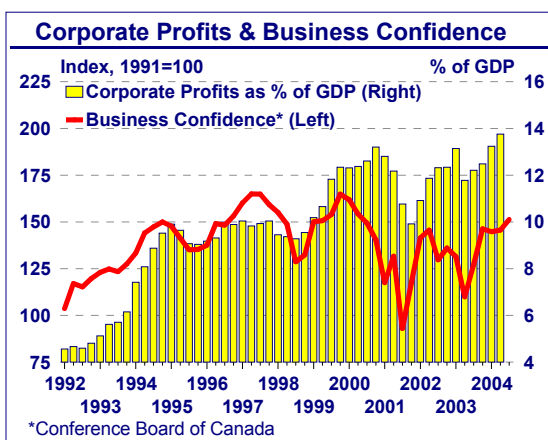
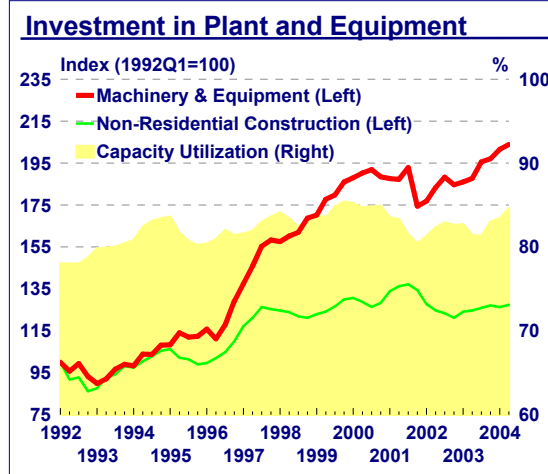


Indicators point to little growth in business investment in the third quarter...

- Following a 4.0% rebound in July, imports of machinery & equipment (M&E) fell 4.8% in August. Assuming no growth in September, M&E imports will decline 8.5% in the third quarter following a rise of 8.6% in the second.
- Real business investment in non-residential structures was down 2.7% in the third quarter. However, while business investment in commercial buildings was down 6.6%, investment in industrial buildings rose 10.6%.

...but rising business confidence and high profits bode well for investment prospects

- The business confidence index rose to 151.4 in the third quarter, up from 145.6 in the second. This mostly reflected an increase in the number of respondents who felt this was a good time to undertake expenditures.
- Corporation profits before taxes rose 28.6% in the second quarter to a new record of \$177 billion. They now stand at 13.8% of GDP, higher than the 10-year average of 10.9%.



Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	2002	2003	2003 Q3	2003 Q4	2004 Q1	2004 Q2
BUSINESS INVESTMENT						
Machinery & Equipment (1997\$)	82,715	86,441	88,229	88,920	90,973	91,985
% change	-1.2	4.5	17.8	3.2	9.6	4.5
Non-residential Construction (1997\$)	44,493	44,928	45,109	45,501	45,238	45,613
% change	-8.3	1.0	4.0	3.5	-2.3	3.4
Capacity Utilization (% , Non-farm goods)	82.3	82.1	81.3	83.0	83.4	84.6
Capacity Utilization (Mfg. sector)	83.3	83.0	81.6	84.2	85.0	86.6
CORPORATE FINANCES & ATTITUDES						
Corporate Operating Profits	149,969	172,118	171,528	178,676	194,936	202,952
% change	4.8	14.8	22.8	17.7	41.7	17.5
Profits - Non-financial industries	115,798	128,203	125,872	131,604	143,232	153,088
% change	8.8	10.7	19.0	19.5	40.3	30.5
Profits - Financial industries	34,169	43,915	45,656	47,072	51,704	49,860
% change	-6.8	28.5	34.2	13.0	45.6	-13.5
Business Credit	890,831	905,968	906,632	912,456	922,996	937,430
% change	3.9	1.7	1.5	2.6	4.7	6.4

THE ECONOMY

Housing



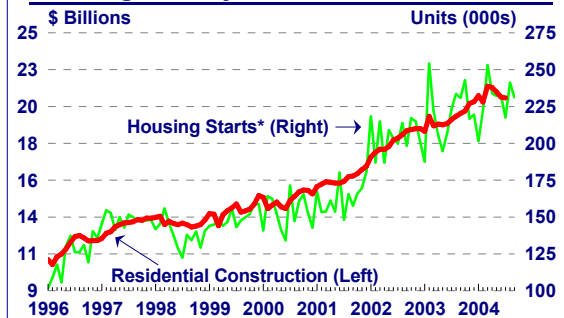
Housing activity is stabilizing...

- Residential construction fell again in July (0.2%), the fourth consecutive month of decline.
- The value of residential building permits issued fell 1.2% in August, the third decline in the last four months. Contractors took out \$2.15 billion in permits for single-family dwellings, up 0.6% from the previous record of \$2.14 billion in July. However, the value for multi-family dwellings fell 5.2% in August.
- Housing starts fell 4.2% in September, resulting in starts falling 1.2% in the third quarter from the second. The declines were concentrated in Ontario and Manitoba. In British Columbia, housing starts also fell (13.6%) from a recent high in August, but remained at high levels.

...and is expected to cool off

- Decelerating house prices in recent months also point to a stabilizing housing market in which the average house price has risen a more than 40% over the past four years.
- Low mortgage rates, strong employment growth, and pent-up demand led to double-digit growth in housing starts and record highs of new home sales. Most analysts now expect housing markets to move to a more balanced position from a seller's market, amid rising interest rates and saturated pent-up demand.

Housing Activity



*Canada Mortgage and Housing Corporation

Monthly Housing Indicators

	Levels	Change since	
		Last month	Last year
Residential Construction (1)* (\$97M, basic prices)	20,777	-0.2%	6.8%
Building Permits, \$M (2)*	3,074	-1.2%	17.5%
Sales of Existing Homes (3)** (# of units)	26,312	-58	-757
Housing Starts, (3)*** (# of units, SAAR)	231,000	-10,100	200
Newfoundland & Labrador	2,600	100	100
Prince Edward Island	700	-100	0
Nova Scotia	5,200	300	500
New Brunswick	4,200	500	-300
Quebec	52,500	-700	-3,400
Ontario	86,800	-5,700	1,100
Manitoba	4,300	-3,200	-100
Saskatchewan	4,000	0	800
Alberta	37,000	4,000	-900
British Columbia	33,700	-5,300	2,400

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

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

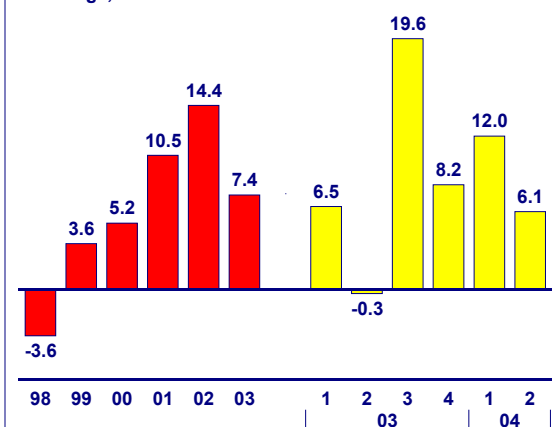
Real Investment in Residential Structures

\$97 Millions, SAAR (unless otherwise noted)

	2002	2003	2004 Q1	2004 Q2
Residential Construction	58,133	62,452	66,634	67,632
% change	14.4	7.4	12.0	6.1
New Housing	28,900	30,678	33,072	33,449
% change	23.2	6.2	12.9	4.6
Alterations & Improvements	20,600	22,619	24,000	24,040
% change	4.7	9.8	13.1	0.7
Ownership & Transfer Costs	8,639	9,204	9,628	10,128
% change	11.5	6.5	7.1	22.4

Growth in Real Residential Construction

% change, SAAR





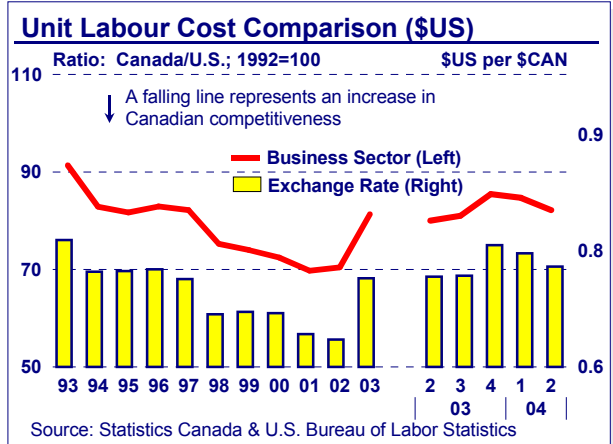
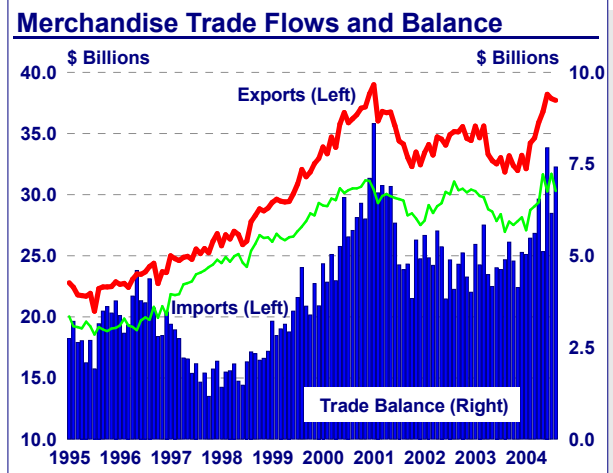
Trade and Competitiveness

Imports fell more than exports in August...

- Merchandise exports fell 0.4% in August after declining 0.9% the previous month. Export volumes declined even more (0.5%) as export prices rose (0.1%). Exports to the U.S. and Japan posted a decline while exports to other major trading areas increased. Losses were fairly widespread, led by energy products and machinery and equipment. Average real exports in July and August were 0.8% higher than the second quarter when they rose 5.0%. This suggests exports are likely to make less contribution to GDP growth in the third quarter than in the second quarter.
- Imports decreased 4.4% in August after increasing 4.7% in July. Imports from almost all principal trading partners declined. Moreover, imports of all major commodity groupings decreased led by energy products and forestry products. Import prices decreased 0.4% and import volumes declined 4.0%.

...pushing the trade surplus higher

- As a result of imports declining more than exports, Canada's trade surplus rose \$1.2 billion to \$7.4 billion. The trade surplus with the U.S. rose to \$10.1 billion and the trade deficit with other countries declined slightly. Over the January to August period, the trade surplus reached \$49.3 billion compared to \$38.7 billion the previous year.



Merchandise Trade

August 2004	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change	
	July 2004	August 2004	Jan.-Aug. 2003	Jan.-Aug. 2004	July to Aug. 2004	July to Aug. 2004	Jan.-Aug. 2003 to Jan.-Aug. 2004	
Exports	37,847	37,708	269,291	287,427	-139	-0.4	6.7	
to United States	31,057	30,692	223,449	234,850	-365	-1.2	5.1	
Imports	31,694	30,286	230,559	238,130	-1,408	-4.4	3.3	
from United States	22,019	20,581	161,729	164,769	-1,438	-6.5	1.9	
Trade Balance	6,153	7,422	38,732	49,297	1,269			
with United States	9,038	10,111	61,720	70,081	1,073			
Exports by Commodity								
Agriculture/Fishing Products	2,763	2,800	19,299	21,268	37	1.3	10.2	
Energy Products	6,486	6,318	42,389	45,407	-168	-2.6	7.1	
Forestry Products	3,477	3,469	22,593	26,557	-8	-0.2	17.5	
Industrial Goods & Materials	6,589	6,649	43,765	51,139	60	0.9	16.8	
Machinery & Equipment	8,107	7,947	60,231	61,995	-160	-2.0	2.9	
Automotive Products	7,599	7,715	58,336	60,714	116	1.5	4.1	
Other Consumer Goods	1,467	1,439	11,491	11,704	-28	-1.9	1.9	
Imports by Commodity								
Agriculture/Fishing Products	1,801	1,677	14,519	14,088	-124	-6.9	-3.0	
Energy Products	2,269	2,055	13,315	15,384	-214	-9.4	15.5	
Forestry Products	278	258	2,034	2,078	-20	-7.2	2.2	
Industrial Goods & Materials	6,330	6,056	43,916	47,333	-274	-4.3	7.8	
Machinery & Equipment	8,940	8,514	66,219	68,531	-426	-4.8	3.5	
Automotive Products	7,076	6,690	51,711	51,537	-386	-5.5	-0.3	
Other Consumer Goods	4,030	3,857	31,010	31,178	-173	-4.3	0.5	



Employment and Unemployment

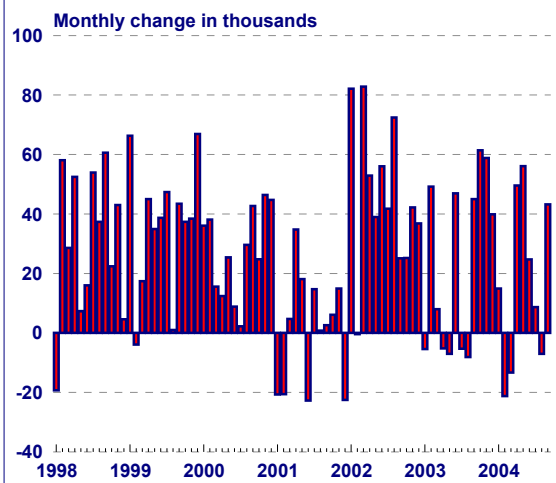
Employment surged in September...

- Employment surged by 43,000 in September, following a decline of 7,000 in August. This reflects an increase of 72,000 in full-time employment and a decrease of 29,000 part-time jobs. Since the beginning of the year, full-time employment has risen 229,000 (1.8%), offsetting a decline of 74,000 (2.4%) in part-time.
- The number of hours worked edged down 0.4% in September, but rose 2.0% in the third quarter.
- Youth employment rose 26,000, partially offsetting losses recorded in July and August, with gains all in full-time (40,000). So far this year, youth employment has risen by only 16,000 (0.7%).
- Employees in the public sector accounted for the bulk of job creation (36,000) in September (mainly at the provincial levels in Ontario and Quebec).
- The employment rate edged up 0.1 percentage point to 62.6% and remained near its historical peak.

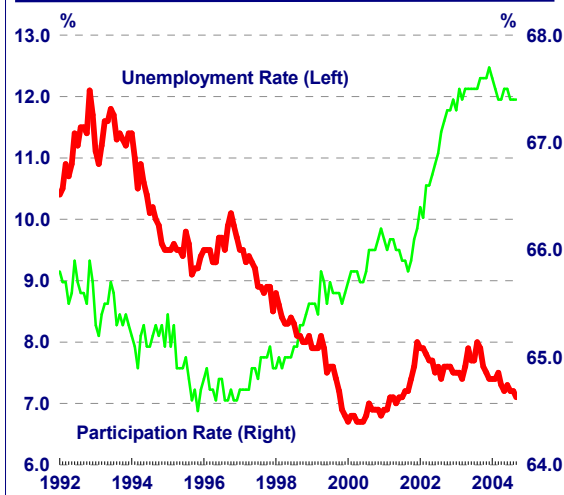
...pushing down the unemployment rate to 7.1%

- The unemployment rate edged down 0.1 percentage point to 7.1% in September, its lowest level in more than three years.
- The unemployment rate decreased by 0.2 percentage point for adults and for youths.

Employment



Unemployment Rate



Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2003 September	2004 August	2004 September	last month	last year	year-to- date	last month	last year
Employment	15,760.6	16,033.2	16,076.4	43.2	315.8	155.7	0.3	2.0
Full-time	12,787.2	13,074.7	13,146.5	71.8	359.3	229.3	0.5	2.8
Part-time	2,973.4	2,958.5	2,929.9	-28.6	-43.5	-73.5	-1.0	-1.5
Youth 15-24	2,398.0	2,409.0	2,434.8	25.8	36.8	16.0	1.1	1.5
Adult 25+	13,362.5	13,624.2	13,641.5	17.3	279.0	139.7	0.1	2.1
Self-employed	2,428.7	2,476.8	2,472.4	-4.4	43.7	35.0	-0.2	1.8
Unemployment	1,359.9	1,246.0	1,221.4	-24.6	-138.5	-45.4	-2.0	-10.2
Unemployment Rate	7.9	7.2	7.1	-0.1	-0.8	-0.3		
Youth 15-24	14.5	13.7	13.5	-0.2	-1.0	-0.5		
Adult 25+	6.7	6.0	5.8	-0.2	-0.9	-0.3		
Labour Force	17,120.5	17,279.2	17,297.8	18.6	177.3	110.4	0.1	1.0
Participation Rate	67.6	67.4	67.4	0.0	-0.2	-0.3		
Employment Rate	62.2	62.5	62.6	0.1	0.4	-0.1		



Industry Overview

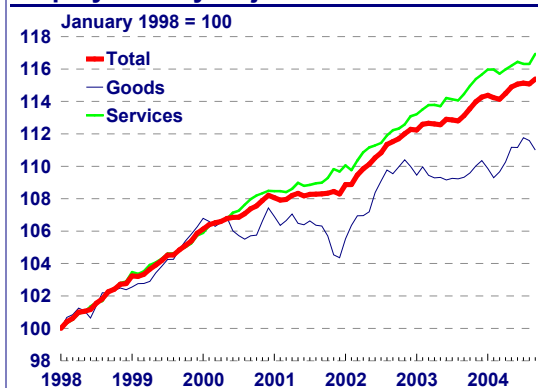
Employment in the Goods sector decreased...

- Employment in the Goods sector fell 21,000 in September, following a decline of 7,000 in August. So far this year, the Goods sector has gained only 24,000 jobs (0.6%), mostly in the construction sector (42,000).
- Manufacturing employment fell again in September and has decreased 28,000 in the last two months, wiping out job gains earlier in the year. Employment in this sector has changed little since last fall.
- Construction employment, which has benefited from a red-hot housing market over the past two years, fell 10,000 in September, the first monthly decline since February.

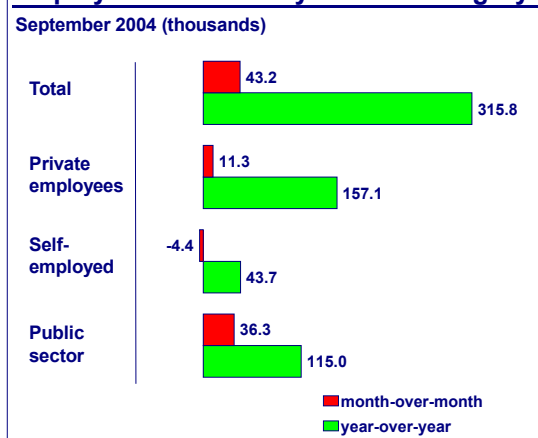
...while employment in the Services sector recorded strong growth

- Employment in the Services sector surged (64,000), following little change in August. The highest gain was recorded in educational services (34,000), offsetting declines recorded in July and August. The largest losses were in professional, scientific and technical services (14,000), but employment in this sector has trended up since the start of the year (37,000 or 3.7%).
- Employment in the service sector is up 132,000 so far this year, with major gains in FIRE* (51,000) and professional, scientific and technical services (37,000), health care and social assistance (23,000) and trade (23,000).

Employment by Major Sector



Employment Growth by Worker Category



Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2003 September	2004 August	2004 September	last month	last year	year-to- date	last month	last year
Goods-producing	3,978.1	4,060.4	4,039.2	-21.2	61.1	23.9	-0.5	1.5
Agriculture	334.4	325.0	325.7	0.7	-8.7	-20.8	0.2	-2.6
Natural Resources*	292.9	299.5	299.9	0.4	7.0	3.9	0.1	2.4
Utilities	131.8	138.8	134.3	-4.5	2.5	3.6	-3.2	1.9
Construction	952.4	1,008.8	998.7	-10.1	46.3	41.6	-1.0	4.9
Manufacturing	2,266.7	2,288.4	2,280.5	-7.9	13.8	-4.5	-0.3	0.6
Services-producing	11,782.5	11,972.8	12,037.2	64.4	254.7	131.8	0.5	2.2
Trade	2,465.1	2,485.8	2,499.9	14.1	34.8	22.5	0.6	1.4
Transportation*	766.1	806.2	798.0	-8.2	31.9	15.8	-1.0	4.2
FIRE*	942.1	999.2	1,007.2	8.0	65.1	50.5	0.8	6.9
Professional/Scientific	995.6	1,034.9	1,021.2	-13.7	25.6	36.7	-1.3	2.6
Business/Building	604.5	637.3	644.5	7.2	40.0	6.9	1.1	6.6
Educational Services	1,041.5	1,012.2	1,046.3	34.1	4.8	-14.8	3.4	0.5
Health Care/Social Assistance	1,694.1	1,746.5	1,754.7	8.2	60.6	22.5	0.5	3.6
Information/Culture/Recreation	717.3	733.4	720.4	-13.0	3.1	3.4	-1.8	0.4
Accommodation & Food	1,020.0	1,001.0	1,011.0	10.0	-9.0	-18.5	1.0	-0.9
Other Services	702.3	701.5	703.0	1.5	0.7	3.4	0.2	0.1
Public Administration	834.0	815.0	831.1	16.1	-2.9	3.5	2.0	-0.3

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

LABOUR MARKET TRENDS



Provincial Overview

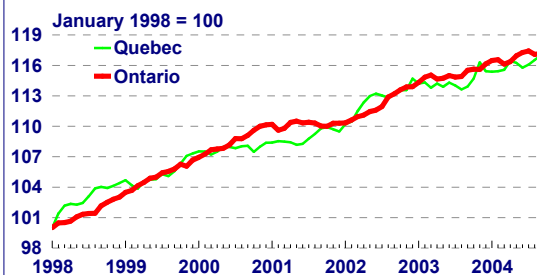
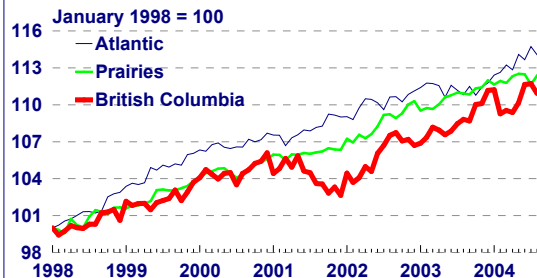
Job gains were concentrated in British Columbia and Quebec...

- Among western provinces, British Columbia recorded the highest employment increase (13,000 or 0.6%) offsetting most of the losses in August, with employment up 55,000 (2.7%) over the past year. Alberta employment rose 7,000 (0.4%) and Manitoba gained 4,000 jobs (0.6%), all part-time.
- Quebec posted the highest job gain (16,000 or 0.4%) in September, mostly in the manufacturing sector (22,000), following a similar increase in August. Ontario employment edged up 5,000 and so far this year has risen 55,000 (0.9%).
- Newfoundland & Labrador lost 2,000 jobs (0.8%) in September while other Atlantic provinces posted small changes. Employment has not changed much since last May in these provinces. Over the past year, only New Brunswick (3.8%) and Nova Scotia (2.5%) have posted solid employment growth.

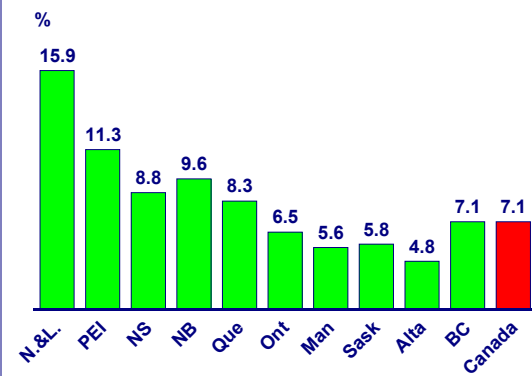
...while the unemployment rate decreased in most provinces

- Job gains, combined with a decrease in the labour force, pushed down the unemployment rates to 6.5% in Ontario and 7.1% in British Columbia in September.
- The unemployment rates rose to 8.3% in Quebec and 5.8% in Saskatchewan, as the labour force rose at a faster pace than employment.
- The unemployment rate declined 0.3 percentage point to 15.9% in Newfoundland & Labrador as less people sought jobs. The unemployment rates remained unchanged in other provinces.

Regional employment patterns



Unemployment Rates --September 2004



Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	<u>Levels</u>	<u>Change since last month</u>		<u>Change since last year</u>		<u>Levels</u>	<u>Change since last year</u>	
	2004 September	(000's)	%	(000's)	%	2004 September	last month	last year
Canada	16,076.4	43.2	0.3	315.8	2.0	7.1	-0.1	-0.8
Newfoundland & Labrador	219.5	-1.7	-0.8	-0.2	-0.1	15.9	-0.3	-0.7
Prince Edward Island	69.3	-0.1	-0.1	0.3	0.4	11.3	0.0	0.9
Nova Scotia	446.9	0.2	0.0	10.8	2.5	8.8	0.0	-0.9
New Brunswick	356.7	1.0	0.3	13.2	3.8	9.6	-0.9	-1.0
Quebec	3,732.5	15.5	0.4	98.9	2.7	8.3	0.3	-1.2
Ontario	6,341.1	4.7	0.1	89.3	1.4	6.5	-0.3	-0.7
Manitoba	577.8	3.5	0.6	14.1	2.5	5.6	-0.1	-0.2
Saskatchewan	488.3	0.7	0.1	5.5	1.1	5.8	0.4	0.1
Alberta	1,764.4	6.5	0.4	29.2	1.7	4.8	0.1	-0.2
British Columbia	2,079.9	12.9	0.6	54.7	2.7	7.1	-0.6	-1.8

PRICES and FINANCIAL MARKETS

Consumer and Commodity Prices



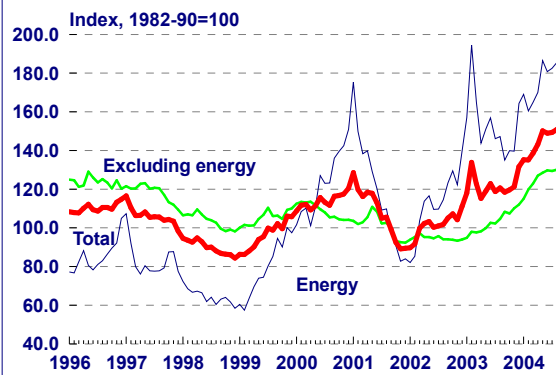
Inflation moderated to 1.9% in August...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) moderated to 1.9% in August from 2.3% in July. Gasoline prices, which increased less in August (7.8%) than in July (17.9%), have been mostly responsible for changes in the inflation rate in recent months. Excluding energy, inflation in August (1.5%) was slightly lower compared to July (1.6%).
- Inflation moderated in most provinces, led by Ontario (2.4% in July to 1.5% in August) and Saskatchewan (2.8% to 2.1%) where the increase in energy prices was less than in other provinces. Inflation increased in Newfoundland & Labrador, Prince Edward Island and Alberta.
- On a month-to-month basis (seasonally adjusted), the CPI fell 0.2% after no change in July.
- The year-over-year increase in commodity prices was 25.0% in September, the same as in August. Energy prices rose 35.3% year-over-year, the biggest rise in 16 months. On a monthly basis, commodity prices fell 1.9% following a 1.0% increase in August. Excluding energy prices, commodity prices fell 2.2% in September following a 0.5% increase in August.

...and the "core" rate fell to 1.5%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, fell to 1.5% in August from 1.7% in July, below the midpoint of the 1%-3% official target range.

Commodity Prices (\$US basis)

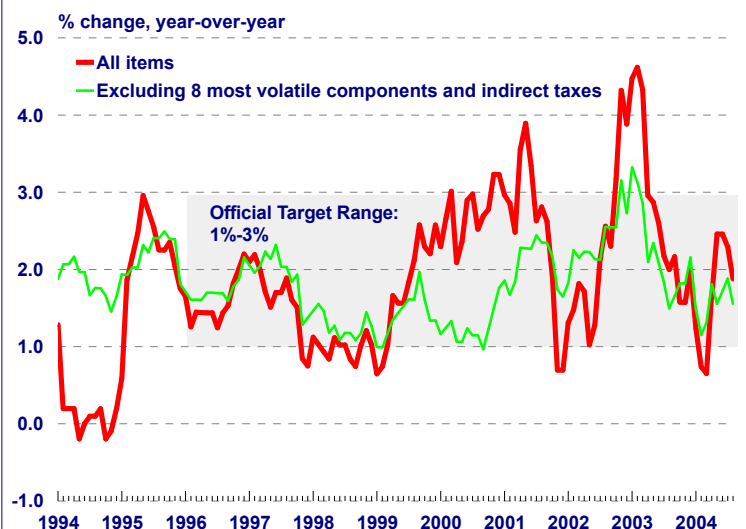


Consumer Prices

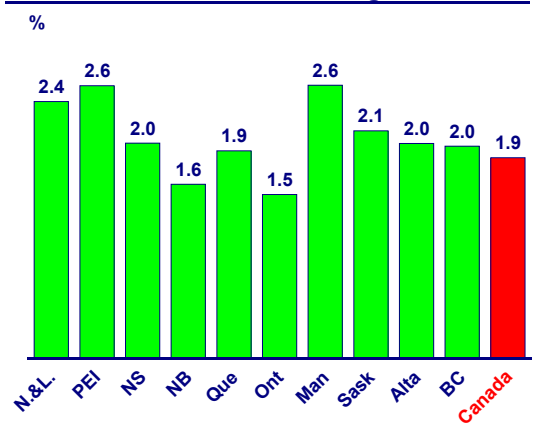
August 2004	Index (1992=100)	% Change since	
		last month	last year
All items CPI	124.8	-0.2	1.9
Food	125.3	-0.2	2.6
Shelter	120.9	0.2	2.7
Household operations	115.0	0.1	0.3
Clothing & Footwear	101.8	0.9	0.0
Transportation	144.7	-1.0	1.6
Health & Personal Care	118.8	-0.3	1.2
Recreation, Educ. & Reading	128.6	-0.2	0.5
Alcohol & Tobacco	144.7	0.3	5.5
Excl. 8 Most Volatile/Indirect Taxes	124.3	-0.2	1.6
Energy	152.4	0.1	6.2

Commodity Prices (September 2004)			
Index, 1982-90=100	148.0	-1.9	25.0
Excluding Energy	127.2	-2.2	17.5
Energy	182.7	-1.5	35.3

Consumer Price Index



Provincial CPI Inflation -- August 2004





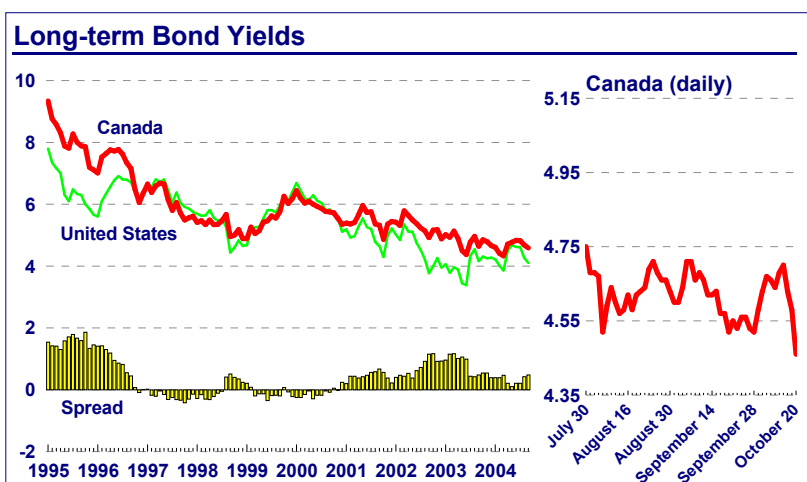
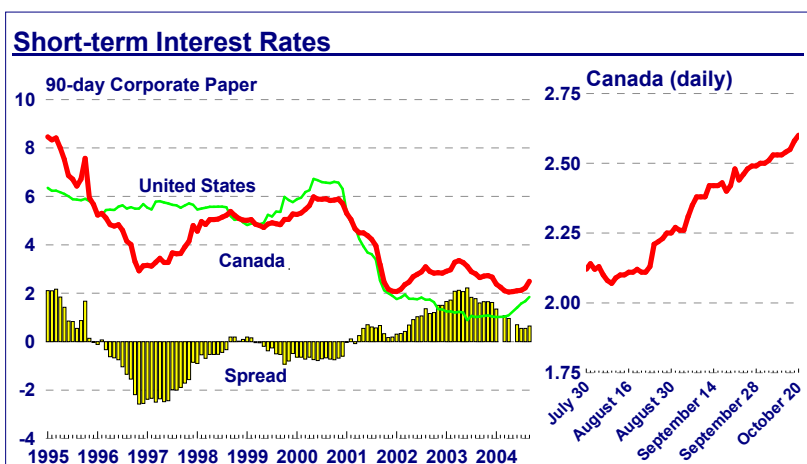
Short-term and Long-term Interest Rates

North American central banks continue raising interest rates...

- The Bank of Canada raised its target for the overnight rate by 25 basis points (bps) to 2.50% on October 19, following a 25 bps increase in September. The Bank stated that upward pressure on total inflation, due to higher oil prices and continued economic expansion, will likely require additional rate increases to keep inflation on target. In the United States, the Federal Reserve has raised its fed funds rate 75 bps to 1.75% since July. The next rate announcement date is on November 10.
- The rate on three-month corporate paper in Canada was 2.58% on October 18, up from 2.10% in mid-August while its U.S. counterpart was 1.91% on October 15. With short-term rates rising in both Canada and the U.S., the rate differential remained about 65 bps since September. At the beginning of the year, the spread against U.S. rates was higher (160 bps), reflecting a larger rise in U.S. short-term rates.

...but long-term yields remain low

- Modest, lower-than-expected employment growth in the U.S. in the third quarter and moderate inflation despite rising oil prices have kept long-term bond yields on a downward trend since June. U.S. 10-year yields fell to 4.05% on October 18, down from 4.80% in early June, but up 5 bps since the end of September. Yields in Canada have also edged down, but less than in the U.S., reflecting good economic news. On October 18, Canadian yields were 4.53% and the spread with U.S. yields widened to about 50 bps.
- One-year mortgage rates were 4.90% on October 13, up from 4.60% one month ago. Five-year mortgage rates were 6.50% on October 13, up from 6.30% at the end of September.



Key Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
2002	2.83	1.50	4.88	0.93
2003	2.66	1.62	4.66	0.39
April	2.05	0.96	4.71	0.21
May	2.07	N/A	4.77	0.10
June	2.10	0.70	4.83	0.21
July	2.12	0.55	4.82	0.21
August	2.22	0.55	4.68	0.42
September	2.50	0.65	4.58	0.48
Oct. 20*	2.60	0.64	4.46	0.45

A positive spread indicates that Canadian rates are above their U.S. counterparts. * Bank of Canada's Weekly Financial Statistics

Key Lending Rates

(end of period)	Overnight Rate	Prime Lending Rate	Mortgage Rate 1 year	Mortgage Rate 5 year
2002	2.75	4.50	4.90	6.70
2003	2.75	4.50	4.75	6.45
April	2.00	3.75	4.45	6.15
May	2.00	3.75	4.55	6.50
June	2.00	3.75	4.70	6.70
July	2.00	3.75	4.60	6.55
August	2.00	3.75	4.40	6.30
September	2.25	4.00	4.80	6.30
Oct. 20*	2.50	4.25	4.90	6.40

* Bank of Canada's Weekly Financial Statistics

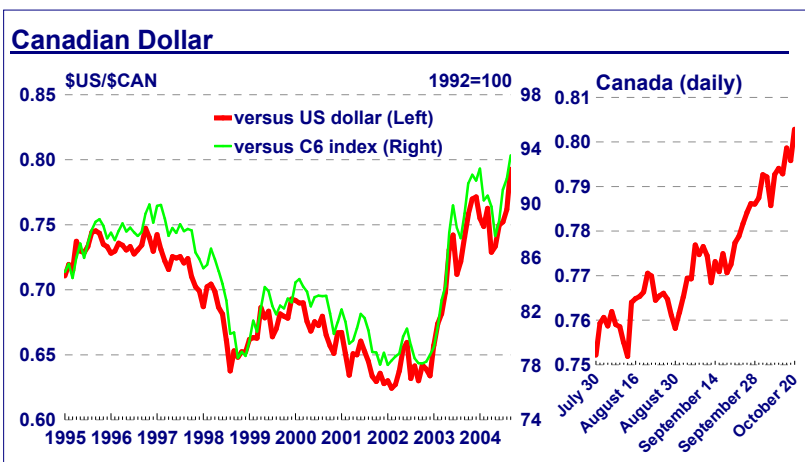


Solid economic fundamentals underpin strength in the Canadian dollar

- Robust growth, high commodity prices, and rising interest rates supported the Canadian dollar which closed at US¢80.3 on October 20. The loonie rose US¢3.1 (4.1%) against the U.S. dollar in September and 12.0% since its recent low in May (US¢71.7). Rising energy prices and positive developments in Canada, including a large upward revision to the federal fiscal surplus for 2003-04 (\$9.1 billion versus \$1.9 billion), were mostly responsible for the loonie's rise. The U.S. dollar also weakened during this time amid mixed economic data and renewed concerns about its current account and fiscal deficits.
- The Canadian dollar continued to perform well against the euro and Japanese yen. From recent lows in June to October 20, the dollar appreciated about 6.1% against the euro and 8.7% against the yen.

Canadian stocks have strengthened since mid-August

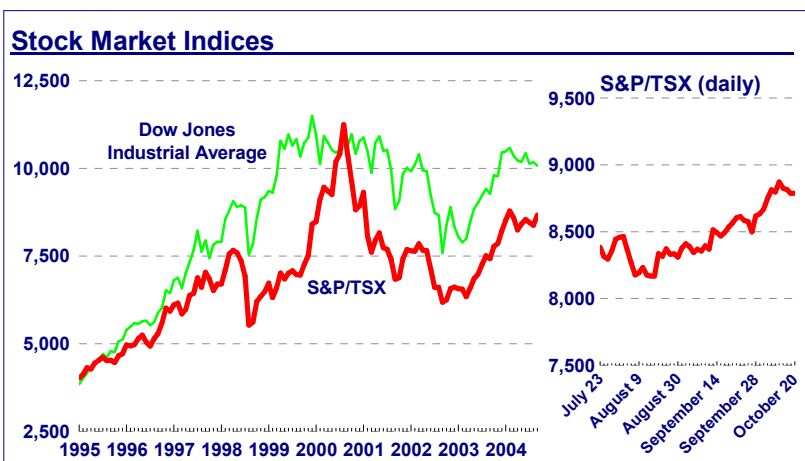
- The S&P/TSX closed at 8,788 on October 20, up 7.6% since mid-August. The steady rise in August and September was mostly in metals and mining stocks, which rose 10.9% in the month, as well as energy and gold stocks. Overall, all major sub-indices rose except for industrial and telecommunications.
- In comparison, the Dow Jones fell slightly in September (reflecting in part rising oil prices) after gaining some strength in August. The index closed at 9,887 on October 20, 4.2% below its level on September 14 and 2.2% below its three-month average (10,107).



The Canadian Dollar

(close)	\$US vs. \$CAN	index vs. C-6 (92=100)	\$CAN vs. EURO	yen vs. \$CAN
2002	0.6339	78.80	n/a	n/a
2003	0.7713	91.65	1.628	82.86
April	0.7288	89.74	1.644	80.54
May	0.7335	87.57	1.662	80.23
June	0.7497	88.68	1.627	81.59
July	0.7522	91.00	1.599	83.64
August	0.7616	91.80	1.599	83.19
September	0.7926	93.52	1.569	87.21
Oct. 20	0.8029	96.54*	1.567	86.88

* Bank of Canada's Weekly Financial Statistics



Key Stock Market Indexes

	September Close	% change from	
		last month	last year
S&P/TSX	8,668	3.5	16.8
Energy	187	8.6	38.5
Metals & Mining	247	10.9	53.8
Utilities	145	0.3	2.9
Materials	162	7.0	25.5
Industrial	69	-0.4	-2.4
Financial	144	1.5	19.8
Gold	215	6.0	11.2
Telecommunication	61	-0.6	5.2
Information Technology	30	0.9	21.5
Consumer Discretionary	86	1.3	7.8
Consumer Staples	177	3.6	9.5
S&P 500	1,114.6	0.9	10.7
Dow Jones	10,080	-0.9	8.7



U.S. Economic Trends

Second quarter real GDP growth was revised upward

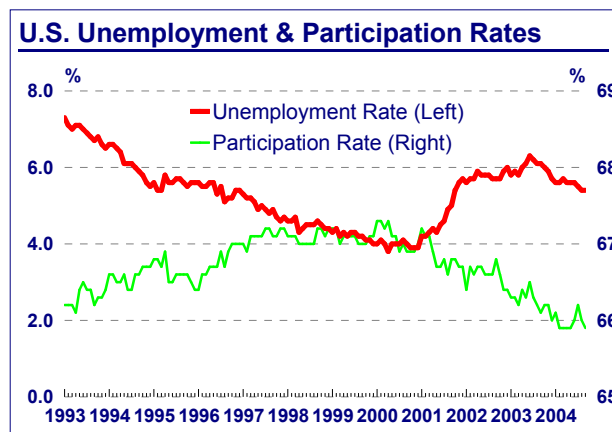
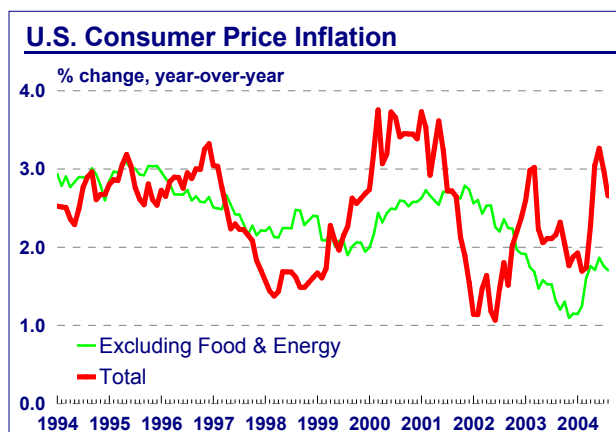
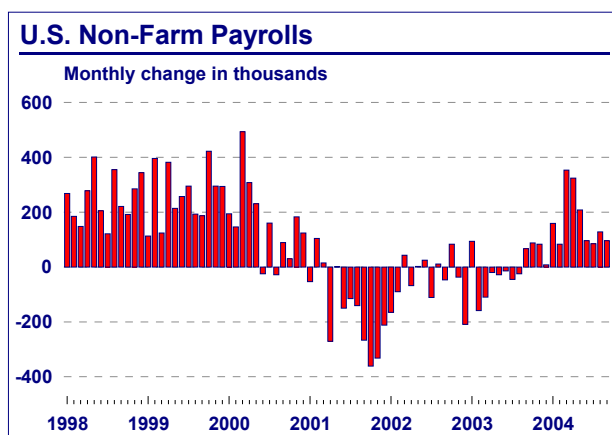
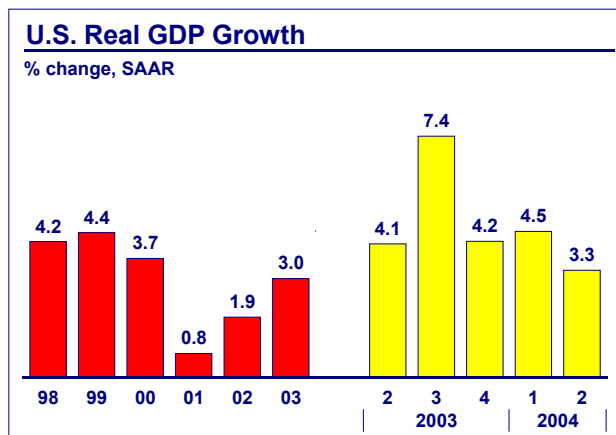
- Real GDP growth slowed from 4.5% (annual rate) in the first quarter to an upwardly revised 3.3% in the second. The revision primarily reflected a downward revision to imports and upward revisions to exports and inventory investment. Still, lower consumer spending growth (1.6%) was mostly responsible for the slowdown. However, equipment and software investment and residential investment continued to grow at a good pace.

Household spending growth should provide more support in the third quarter

- Consumer spending figures for July and August suggest a rebound in consumer spending growth to 4.0% in the third quarter. Moreover, helped by surging auto sales (4.6%), retail sales increased by 1.5% in September as consumers benefited from retailer discounting. Meanwhile, the housing market remained buoyant in the third quarter and the disappointing industrial production numbers in August and September likely reflected the negative impact of hurricanes. These indicators suggest healthy growth for the third quarter.

There are risks to the economic outlook

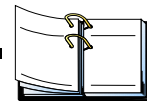
- Crude oil prices have increased substantially over the past year reaching US\$54.76 on October 14. Forecasters estimate that it might have already reduced economic growth by 0.6% to 0.8%. Rising oil price normally lead to higher inflation, lower profit by oil-using sectors and have a dampening effect on real disposable income and consumption. The manufacturing sector has been slowing and it is unlikely that the household sector will continue to sustain such high expenditures on houses and cars. An economic slowdown does not bode well for the large U.S. deficit and the possibility of using fiscal policy to stimulate the economy. Moreover, the U.S. current account deficit has been widening and this could result in greater volatility in currency markets. So far, oil price inflation has not resulted in significantly higher core inflation and inflationary expectations, which could explain why long-term rates have not gone up recently. While prospects remain for continued growth, there are clearly downside risks to the outlook.



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

COMING UP

Key Future Data Releases and Planned Events



CANADA

Consumer Price Index - September	October 26
Real GDP by Industry - August	October 29
Labour Force Survey - October	November 5
Canadian International Merchandise Trade - September	November 10
Monthly Survey of Manufacturing - September	November 15
Financial Statistics for Enterprises - 3rd Quarter 2004	November 24
Balance of International Payments - 3rd Quarter 2004	November 29
National Economic and Financial Accounts - 3rd Quarter 2004	November 30
Key Policy Interest Rate Announcement	December 7

UNITED STATES

GDP - 3rd Quarter 2004 (advance)	October 29
The Employment Situation - October	November 5
International Trade in Goods and Services - September	November 10
Federal Open Market Committee Meeting	November 10
Consumer Price Index - October	November 17

Note: The October 2004 MEI uses data available as of October 22, 2004