



Industry  
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# Monthly Economic Indicators

**March 2005**

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](http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/en/h_ra01898e.html)


Canada 

# MONTHLY ECONOMIC INDICATORS


## March 2005


### HIGHLIGHTS


 **Growth in real Gross Domestic Product (GDP) slowed to 1.7% in the fourth quarter, mostly due to a decline in exports.**


 **Employment rose in February, while the unemployment rate was unchanged at 7.0%. Manufacturing employment fell further, and the construction sector posted its first decline since September.**

 **Merchandise exports declined in January as a result of a fall in energy exports. The trade surplus narrowed from December.**

 **In the United States (U.S.), real GDP growth for the fourth quarter was revised up to 3.8% from 3.1% in advance estimates.**

 **Consensus Forecasts revised down growth for Canada in 2005 by 0.2 percentage point to 2.6% while U.S. growth was revised up 0.2 percentage point to 3.8%.**

 **Labour productivity growth averaged zero percent in Canada in 2004 compared to 4.0% in the U.S., leading to a further widening of the productivity gap between the two countries.**

 **The Canadian dollar recovered some strength in recent weeks, despite a widening of the negative spread between Canadian and U.S. interest rates.**

### Key Monthly Economic Indicators

		% Change since		
		last month	last year	
Real GDP (\$97 B)	1,058.9	0.2	2.9	Dec.
Goods	333.8	0.4	3.3	Dec.
Services	726.1	0.2	2.7	Dec.
Composite Index	201.6	0.2	6.4	Jan.
Employment (000's)	16,084	0.2	1.5	Feb.
Full-time	13,118	0.2	1.7	Feb.
Part-time	2,966	0.2	0.9	Feb.
Unemployment* (%)	7.0	7.0	7.3	Feb.
Youth*	12.3	12.8	13.9	Feb.
Adult*	6.0	5.8	6.0	Feb.
CPI inflation*	2.0	2.1	1.2	Jan.
Retail Sales (\$M)	29,180	-1.4	6.6	Dec.
Housing Starts (000's)**	214.9	5.3	-2.9	Feb.
Trade Balance* (\$M)	4,006	5,209	4,979	Jan.
Exports	35,884	-1.6	11.3	Jan.
Imports	31,878	1.9	16.9	Jan.
M&E	8,750	1.6	11.7	Jan.

	March 23 ***	February	
		2005	2004
3-mth Corp. paper (%)*	2.68	2.57	2.25
Long bond yield (%)*	4.47	4.28	4.41
Canadian dollar (US¢)*	82.20	81.07	74.87

\*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

## March 2005

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This issue uses data available as of March 23, 2005. It has been prepared by Jean-François Arsenault, Éric Chalifoux, Stéphane Crépeau, Kevin Koch, Sue Moore 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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# THE ECONOMY

## National Economic and Financial Accounts



### Exports continued to pull growth down in the fourth quarter...

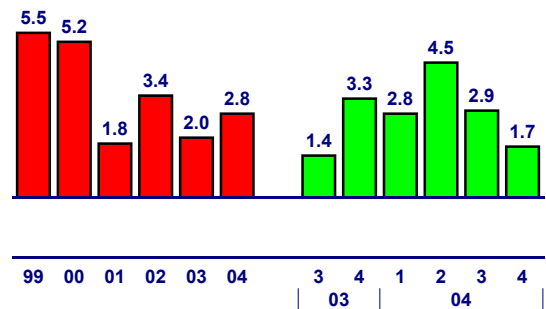
- Real gross domestic product (GDP) increased 1.7% (all rates annualized) in the fourth quarter, after increasing 2.9% in the previous quarter.
- Consumer spending and business investment in machinery and equipment both picked up in the fourth quarter, advancing 4.1% and 14.4%, respectively.
- Business inventory accumulation was \$22.4 billion in the fourth quarter, the highest level on record and an increase of \$4.2 billion from the previous quarter.
- Exports fell 3.5% in the fourth quarter, following a downwardly-revised 3.4% decline in the third quarter. Imports rose 8.4% in the fourth quarter.

### ...while incomes continued to rise at a healthy pace

- Pre-tax corporate profits rose 6.0%, below the double-digit pace in the first half of the year. At about 14% of GDP, corporate profits are at record highs.
- Personal disposable income rose 4.4% in the fourth quarter from 2.6% in the third, reflecting a 4.5% growth in wages and salaries. The savings rate fell to zero, the lowest on record from 0.3% in the third quarter.
- Consensus forecasts GDP growth in 2005 to be 2.6%, revised down from 2.8% in February.

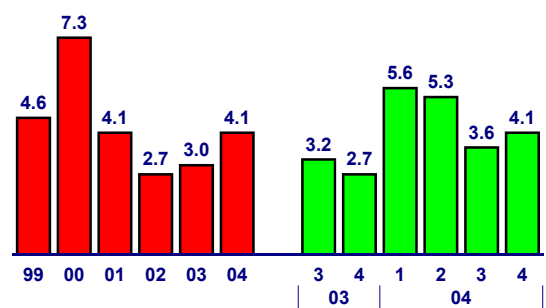
### Real GDP Growth

% Change, SAAR

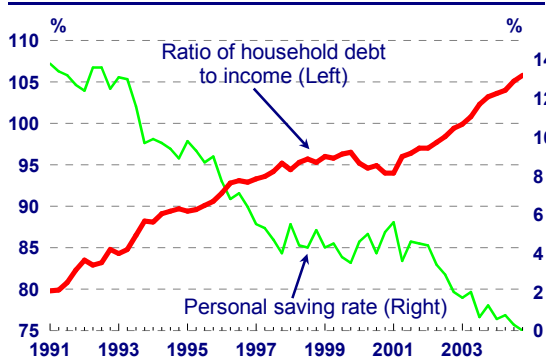


### Growth in Personal Income

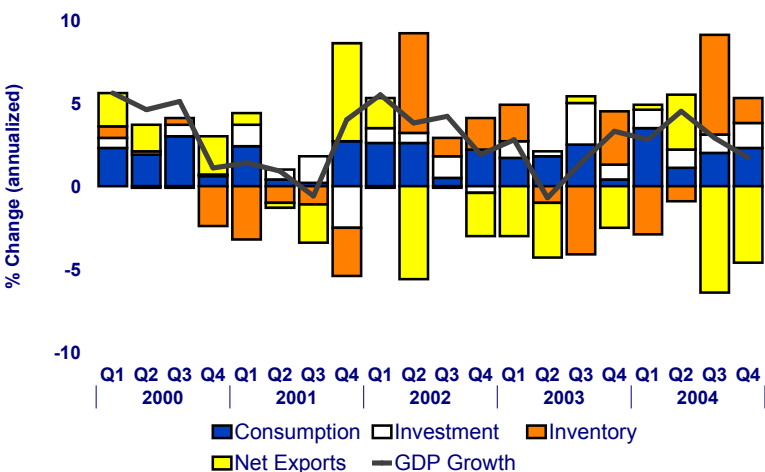
% Change, SAAR



### Personal Debt and Savings Rate

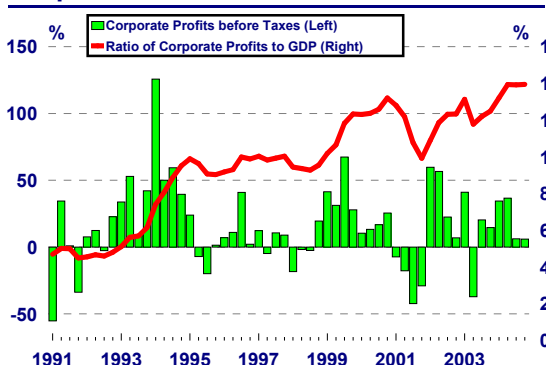


### Contributions to Quarterly Real GDP Growth\* (Annualized)



\* For the purpose of simplification and given their relative stability over time, contributions from government expenditures are not shown.

### Corporate Profits



# THE ECONOMY

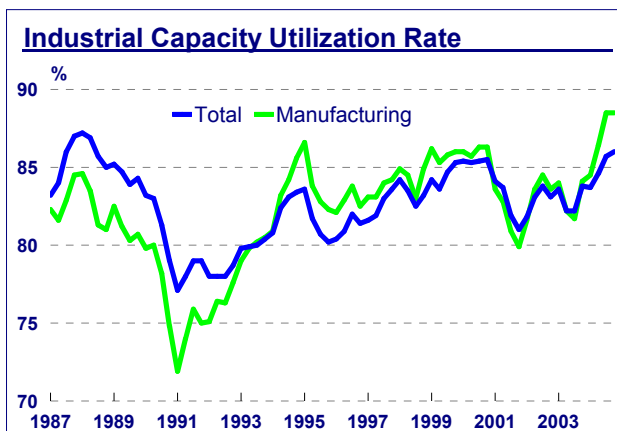
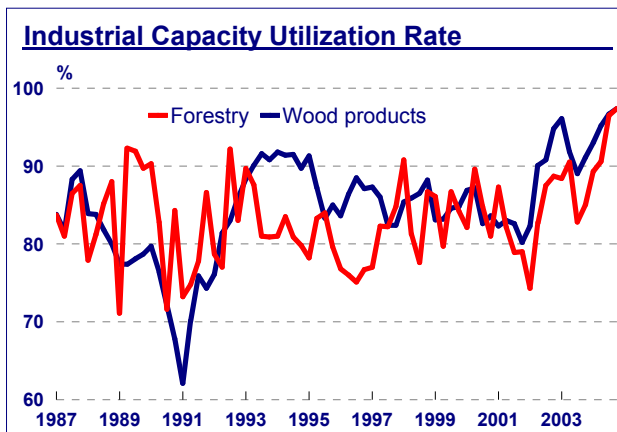
## Capacity Utilization Rate

### Industrial capacity utilization increased in the fourth quarter...

- The capacity utilization rate for non-farm goods-producing industries recorded its third consecutive quarterly increase in the fourth quarter. The increase was mainly driven by the electricity power generation, transmission and distribution sector. Industries operated at 86.0% of their production capacity, 1.2 points below the peak reached in the first quarter of 1988, but well above its 10-year average of 83.2%.
- Capacity utilization in the manufacturing sector, however, was unchanged at 88.5% in the fourth quarter of 2004, a record high since the availability of data in 1987. Capacity utilization rates increased in 11 out of 21 manufacturing industries, with notable increases in leather and allied products, furniture and related products, and non-metallic mineral products industries.

### ...and for the year as a whole

- In 2004, industries operated at 85.0% of production capacity, up from 83.0% in the previous year. The higher rate was largely attributable to the manufacturing sector, which benefited from robust international demand in the first half of the year.
- The strongest increases in capacity utilization in 2004 were recorded by computer and electronic products, machinery, and forestry and logging. The forestry and logging industry operated at 93.5% of capacity in 2004 as it benefited from continued strength in residential construction.



### Capacity Utilization: Non-farm Goods-producing Industries

	Level (%) 2004Q4	Change (% points)		10-year Average
		Q/Q	Y/Y	
<b>Total Industrial</b>	<b>86.0</b>	<b>0.3</b>	<b>2.0</b>	<b>83.2</b>
Forestry & logging	97.4	0.9	6.8	83.7
Mining & oil & gas extraction	75.4	0.8	0.9	76.4
Electric power *	87.5	2.2	-0.3	84.8
Construction	84.5	-0.4	-2.7	85.0
<b>Total Manufacturing</b>	<b>88.5</b>	<b>0.0</b>	<b>4.0</b>	<b>84.2</b>
Food	85.6	0.8	4.0	80.9
Beverage & tobacco products	75.7	0.3	-0.3	80.2
Textile mills	77.6	-1.5	1.8	80.5**
Textile product mills	81.4	1.6	-0.2	79.5**
Clothing	67.7	-2.1	-7.5	81.7
Leather & allied products	69.1	4.1	-1.9	73.9
Wood products	97.4	0.7	3.6	87.2
Paper	92.8	0.2	0.2	90.2
Printing & related support activities	75.8	-1.6	0.4	78.0
Petroleum and coal products	91.2	-1.8	-2.3	93.8
Chemical	92.6	-0.1	6.0	83.2
Plastic & rubber products	90.3	-0.5	1.8	85.3
Non-metallic mineral products	93.0	2.5	3.4	82.0
Primary metal	92.5	-3.5	2.4	90.8
Fabricated metal products	91.0	1.5	5.0	81.8
Machinery	90.6	1.0	8.0	81.6
Computer & electronic products	85.0	1.0	12.6	80.5
Electrical equipment	77.2	-0.7	5.7	82.3
Transportation equipment	91.9	-0.1	5.1	87.2
Furniture & related products	84.7	3.0	1.5	82.0
Miscellaneous manufacturing	79.5	-3.8	0.2	82.4

\* Electric power generation, transmission & distribution

\*\* Represents available data between 1997Q1-2004Q4



## International Accounts

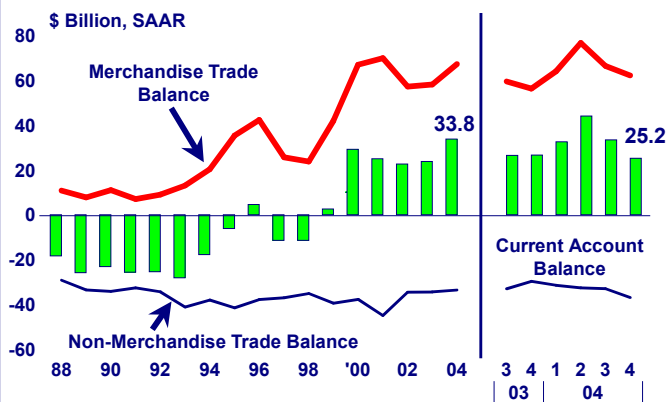
### The current account surplus declined further in the fourth quarter, but was a record high in 2004

- The current account surplus declined \$2.1 billion to \$6.3 billion (\$25.2 billion annualized) in the fourth quarter, primarily due to a lower surplus on trade in goods and a higher deficit on investment income. In 2004, the current account surplus increased \$10.0 billion compared to 2003 and reached a record of \$33.8 billion (or 2.6% of GDP).
- The surplus on trade in goods decreased to \$15.5 billion (\$62.2 billion annualized) as exports (2.6%) fell more than imports (2.0%) in the fourth quarter. All major export categories registered a decline except energy products as prices increased. The decline in imports was led by machinery and equipment, primarily due to lower prices, and automotive products. Moreover, the deficit on investment income increased \$0.7 billion to \$6.5 billion, resulting from lower profits earned by Canadians on their investment abroad. In 2004, the goods surplus reached a three year high (\$67.3 billion) as exports and imports also reached record levels.

### Canadian direct investment abroad fell in the fourth quarter

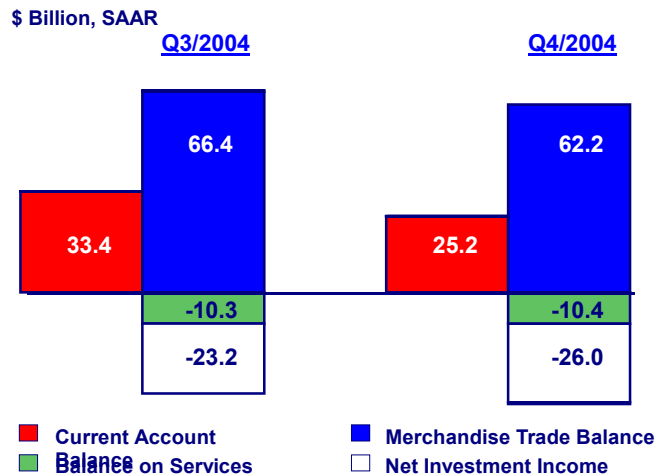
- Canadian direct investment abroad was \$8.3 billion, down significantly from the two previous quarters. Canada's direct investment abroad reached a four year high in 2004 (\$57.5 billion). Over 70% of the investment went to the United States. On an industry basis, the investment was led by finance and insurance and energy and metallic minerals. In the fourth quarter, there was a net outflow from Canada on foreign direct investment as Canadian repatriated assets held by foreign direct investors. For the year as a whole, foreign direct investment in Canada was \$8.5 billion, the smallest level since 1993. Foreign portfolio investment in Canada increased by \$14.8 billion in the fourth quarter, as investors bought equal amounts of Canadian bonds and equities.

#### Current Account & Trade Balances

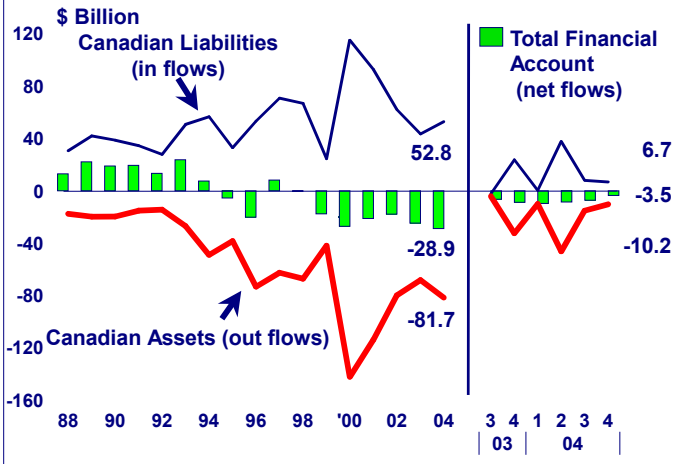


The merchandise trade balance represents net exports of goods.  
The non-merchandise trade balance represents net exports of services plus net receipts of investment income and transfers.

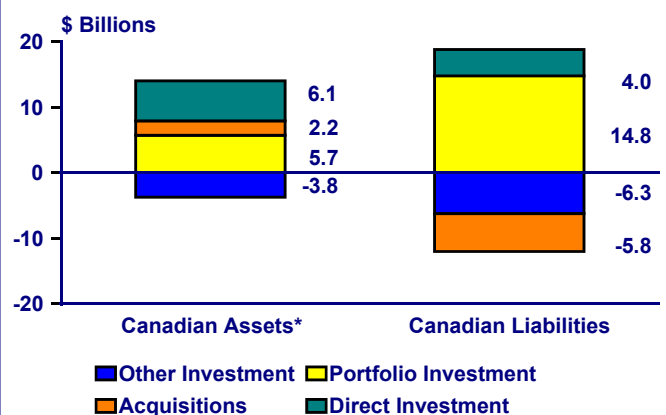
#### Main Components of the Current Account



#### Financial Account (Net Flows)



#### Financial Account Components, Q4/2004



\* Reverse of BOP sign



## Productivity & Competitiveness

### Canada-U.S. labour productivity gap widened further in 2004...

- Labour productivity growth in the business sector averaged zero in Canada in 2004, compared to 4.0% in the U.S.
- Canada's slower output growth (2.9% versus 5.1% in the U.S.) and its faster growth in hours worked explains its weaker productivity performance (2.8% versus 1.1%).
- In fact, labour productivity in the U.S. business sector grew at an average annual rate of 3.8% between 2000 and 2004, compared to only 1.1% per year in Canada. As a result, the Canada-U.S. labour productivity level gap widened over this period.

### ...and Canada's unit labour costs rose faster...

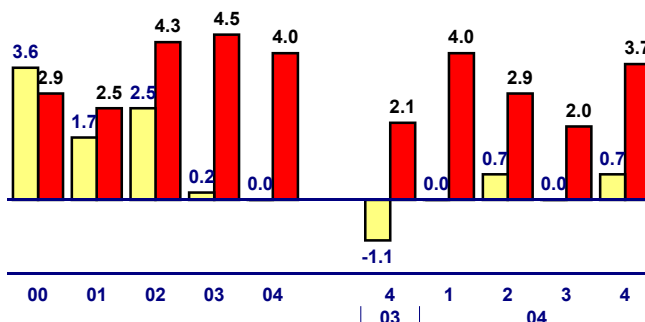
- Unit labour costs in the Canadian business sector rose by 1.1% in 2004, compared to only 0.5% in the U.S. This is the fourth consecutive year that growth in unit labour costs is higher in Canada than in the U.S.

### ...combined with a stronger Canadian dollar, eroded Canada's competitiveness

- Canada's competitiveness, as measured by relative unit labour costs in the two countries in \$US dollars, has deteriorated 24% over the last two years. This reflects Canada's lagging productivity performance and the appreciation of the Canadian dollar, which increased by more than 20% over the last two years.

### Productivity Growth

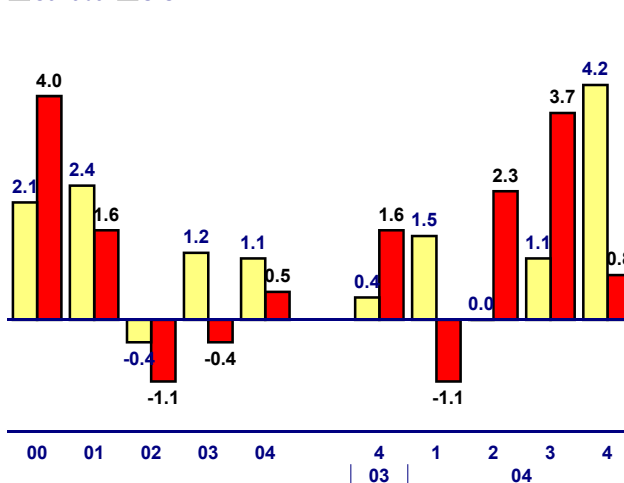
% Change, SAAR  
 ■ Canada ■ U.S.



Source: Industry Canada calculations

### Growth in Unit Labour Costs\*

% Change, SAAR  
 ■ Canada ■ U.S.



\* For the business sector

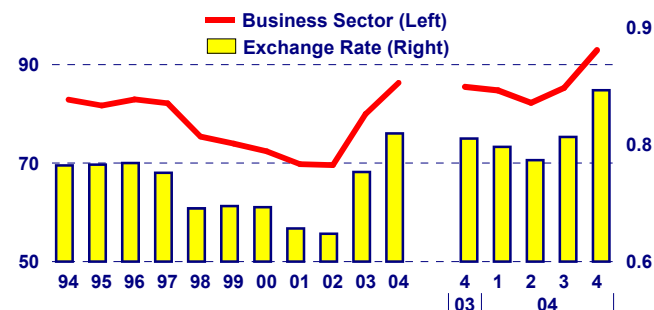
Source: Statistics Canada, U.S. Bureau of Labour Statistics and Industry Canada calculations.

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

Ratio: Canada/U.S.; 1992=100

\$US per \$CAN

↓ A falling line represents an increase in Canadian competitiveness



Source: Statistics Canada & U.S. Bureau of Labor Statistics



## Real GDP by Industry

### Economic activity grew further in December...

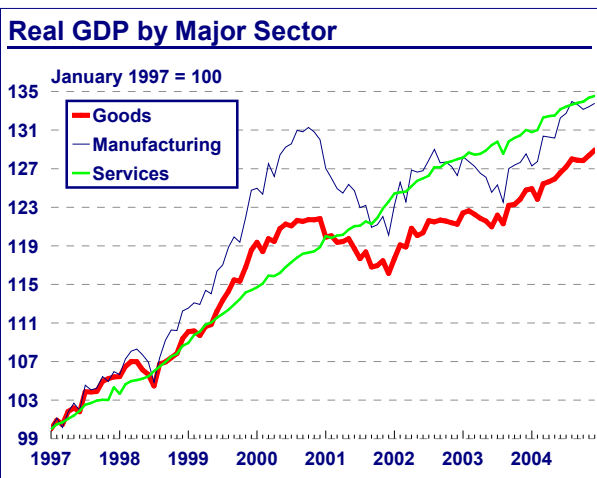
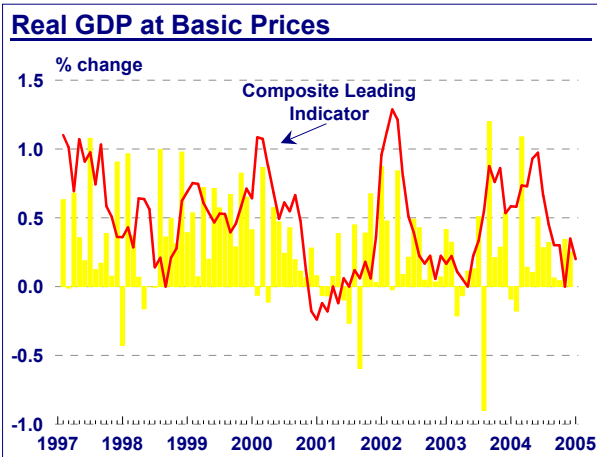
- Real GDP at basic prices rose 0.2% in December following an upwardly revised growth of 0.3% in November. Nonetheless, output increased 2.0% in the fourth quarter, down from a rise of 3.6% in the third. The increase in production in December was fairly widespread across both goods and services, with large gains in utilities, wholesale trade, FIRE and manufacturing.

### with the goods sector reporting strong results...

- Goods production was up 0.4% in December, the same pace as in November. Increased demand for electricity due to cold weather in Central Canada and the Prairies led to a 2.9% increase in utilities. Moreover, increased drilling, rigging and metal mining activities resulted in higher mining, oil & gas output (0.3%) while a partial recovery in the production of motor vehicles contributed to stronger manufacturing growth (0.3%). The construction sector continued its march forward, advancing 0.3% in December. However, agriculture, which represents only 7.3% of goods-producing industries, posted the sole decline (0.3%).

### and the service sector continuing to grow

- Service output increased 0.2% in December after rising 0.3% in November. Growth was driven by robust wholesale trade (0.8%) and increasing FIRE activity (0.2%). Wholesalers continued to reap the benefits of a rising currency in the form of cheaper imports while sustained housing activity benefited real estate agents. Moreover, arts, entertainment & recreation (1.8%) recovered as NHL fans started to redirect their spending towards other forms of entertainment. In contrast, retail trade declined substantially (1.5%), due in part to a strike by employees of Quebec liquor stores. Nonetheless, on a year-over-year basis, retail activity was still up 4.8%, reporting the strongest performance among services-producing industries.



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

December 2004	\$ millions	monthly change	% Change since last	
			month	year
<b>Total Economy</b>	<b>1,058,859</b>	<b>2,640</b>	<b>0.2</b>	<b>2.9</b>
<b>Business Sector</b>	<b>901,086</b>	<b>2,407</b>	<b>0.3</b>	<b>3.3</b>
<b>Goods-producing</b>	<b>333,815</b>	<b>1,485</b>	<b>0.4</b>	<b>3.3</b>
Agri., Forest, Fish, Hunt*	24,302	-61	-0.3	5.2
Mining & Oil & Gas Extraction	38,011	99	0.3	-0.2
Utilities	27,128	757	2.9	6.1
Construction	59,459	182	0.3	2.6
Manufacturing	184,663	492	0.3	4.1
<b>Services-producing</b>	<b>726,108</b>	<b>1,110</b>	<b>0.2</b>	<b>2.7</b>
Wholesale Trade	68,172	533	0.8	4.6
Retail Trade	59,548	-901	-1.5	4.8
Transportation & Warehousing	50,930	297	0.6	3.5
Information & Cultural	43,659	177	0.4	4.4
FIRE**	213,013	526	0.2	3.4
Professional***	46,411	-9	-0.0	2.0
Admin. & Waste Mgmt	22,242	36	0.2	2.5
Education	45,198	-97	-0.2	-0.2
Health & Social	63,173	163	0.3	1.1
Arts, Entertain. & Recreation	9,530	165	1.8	-0.2
Accommodation & Food	23,729	99	0.4	1.9
Other	24,743	79	0.3	1.3
Public Administration	57,470	76	0.1	0.8

\*Agriculture, Forestry, Fishing & Hunting

\*\*Finance, Insurance & Real Estate

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





### **Economic activity improved in 2004...**

- Real GDP at basic prices rose 3.0% in 2004 after rising 2.2% in 2003. The Canadian economy was propelled by higher natural resource prices, low interest rates and a strong U.S. demand. However, a stronger loonie coupled with weakening global demand contributed to a slowdown later in the year, particularly affecting the manufacturing sector. Economic activity in 2004 was fueled by the business sector, which posted 3.4% growth, up from 2.2% in 2003.

### **...as growth in the goods sector doubled, aided by a recovery in the manufacturing sector**

- In 2004, goods production grew 3.4%, up from 1.7% growth in 2003 and outpacing the service industries for the first time in the last four years. Growth was concentrated in the middle of the year, as the manufacturing sector benefited from strong U.S. demand. Moreover, low interest rates supported growth in the construction sector (3.8%) while the mining, oil & gas sector continued to grow (2.7%) as high prices and demand for natural resources were partly offset by various production difficulties. However, in the fourth quarter, the lagged effects of the loonie's appreciation were felt, with the manufacturing industry stalling and merchandise exports falling.

### **...while the services-producing industries continued to grow**

- Service output increased 2.8% in 2004, up from 2.5% in 2003. Growth was robust in most sectors, with the notable exception of arts, entertainment & recreation (0.4%) which suffered from the NHL lock-out. Wholesale trade (6.2%) benefited from cheaper imports while retail trade (3.9%) and accommodation & food (2.3%) were supported by strong consumer spending. Moreover, FIRE grew 3.5% as housing activity remained strong while transportation & warehousing (4.4%) benefited from strong growth in exports and the recovery in the manufacturing sector, particularly in the first half of the year. Output in the public sector slowed in 2004 as growth in health & social and public administration moderated to 1.4%, from 3.9% and 2.9% respectively in 2003.

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

#### **Percentage Growth**

	2001	2002	2003	2004	2004.Q1	2004.Q2	2004.Q3	2004.Q4
<b>Total Economy</b>	1.7	3.4	2.2	3.0	2.5	4.2	3.6	2.0
<b>Business Sector</b>	1.6	3.6	2.2	3.4	2.9	5.0	3.7	2.4
<b>Goods-producing</b>	-1.9	1.8	1.7	3.4	2.5	4.4	5.2	2.2
Agri., Forest, Fish, Hunt*	-5.7	-3.5	7.6	4.7	10.3	1.0	8.5	3.6
Mining & Oil & Gas Extraction	-0.9	0.6	3.9	2.7	0.1	3.5	-3.4	2.3
Utilities	-3.2	2.3	-2.3	0.1	3.8	-3.9	8.3	9.4
Construction	6.9	2.9	4.4	3.8	2.9	0.4	3.5	5.1
Manufacturing	-4.0	2.4	0.1	3.9	1.9	7.8	8.0	0.0
<b>Services-producing</b>	3.6	4.2	2.5	2.8	2.5	4.2	2.8	2.0
Wholesale Trade	2.2	7.1	5.6	6.2	-2.7	11.8	7.2	5.1
Retail Trade	5.7	5.3	2.8	3.9	7.9	2.4	6.8	2.6
Transportation & Warehousing	2.5	1.7	0.3	4.4	2.8	9.7	1.4	3.3
Information & Cultural	8.0	6.3	2.3	1.2	2.3	6.5	1.6	3.8
FIRE**	4.9	4.8	2.2	3.5	4.3	5.0	2.1	2.8
Professional***	1.6	4.5	3.1	1.9	3.8	3.8	-0.2	0.7
Admin. & Waste Mgmt	3.6	4.8	3.8	2.4	2.1	5.1	2.0	0.5
Education	1.2	1.1	0.6	0.6	-0.2	3.9	-0.4	0.6
Health & Social	3.2	3.8	3.9	1.4	0.4	-1.7	6.5	-0.1
Arts, Entertain. & Recreation	3.6	6.5	3.8	0.4	1.2	-0.9	3.6	-9.2
Accommodation & Food	2.8	1.9	-1.7	2.3	0.8	0.0	0.6	4.2
Other	3.9	2.9	1.8	1.4	1.0	1.5	-0.2	2.8
Public Administration	1.2	2.6	2.9	1.4	1.2	0.6	2.4	-1.3

\*Agriculture, Forestry, Fishing & Hunting

\*\*Finance, Insurance & Real Estate

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

# THE ECONOMY



## Consumer Spending and Attitudes

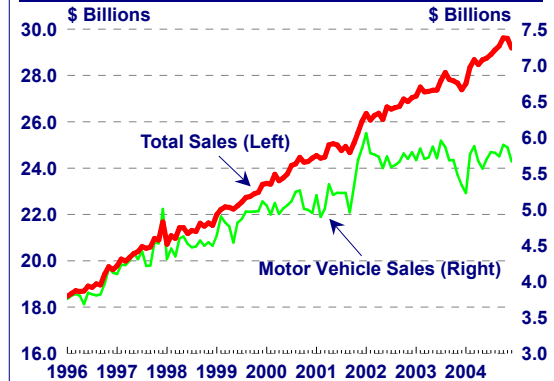
### Consumption grew at a faster pace in the fourth quarter...

- Real consumption grew 4.1% in the fourth quarter, following an upwardly revised increase of 3.6% in the third. For the year, it grew 3.5%, the largest increase since 2000.
  - Fourth quarter expenditures on durables, non-durables and services increased while spending on semi-durables posted a small decline.
- Expenditures on transportation and communication increased 6.6%. Lucrative financing incentives contributed to higher (3.6%) purchases of motor vehicles.

### ...amid rising income and high confidence

- Disposable income grew 4.4% in the fourth quarter, following an increase of 2.6% in the third.
  - With nominal consumption rising at a faster pace than disposable income, the savings rate has trended down in 2004, falling to 0.0% in the fourth quarter. Moreover, rising debt (of which 69.8% was mortgages) led to an increase in the debt-to-income ratio.
  - However, with household net worth rising, largely as a result of an increase in real estate assets, the low savings rate should not be cause for immediate concern.
- The Index of Consumer Attitudes retreated to 121.4 in February, but remained above its fourth quarter level of 2004. This reflected, in part, a lower number of respondents who felt this was a good time to make a big-ticket purchase.

### Total Retail and Motor Vehicle Sales



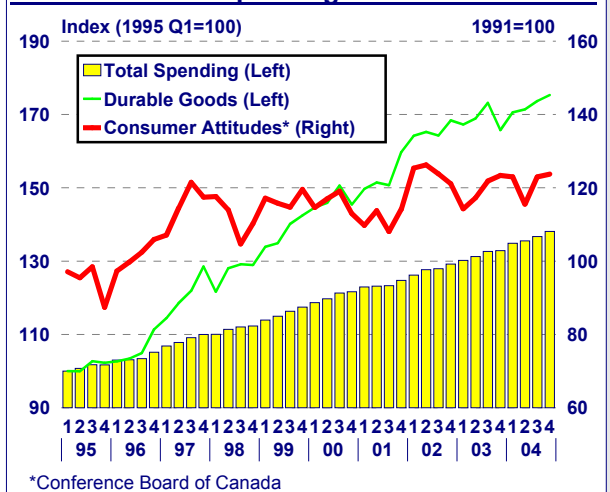
### Retail Sales and Consumer Credit

	December 2004	% Change since	
		last month	last year
<b>Total Retail Sales (S.A.)</b>	29,180	-1.4	6.6
Food	5,818	-0.8	6.9
Drug Stores	1,907	-2.4	5.1
Clothing	1,693	1.1	3.5
Furniture	1,876	0.1	2.6
Automotive	9,887	-2.0	10.3
General Merch. Stores	3,487	-0.5	5.0
All other Stores	4,513	-2.8	3.0
Total ex. motor vehicles	22,216	-1.1	6.4
<b>Consumer Credit</b>	272	1.0	11.2

### Real Consumer Spending and Household Finances

	\$ Millions, SAAR (unless otherwise noted)			
	2003	2004	2004 Q3	2004 Q4
<b>Real Consumption (97\$)</b>	620,444	641,863	643,833	650,300
% change	3.1	3.5	3.6	4.1
Durable Goods	94,923	97,156	97,669	98,601
% change	2.0	2.4	5.3	3.9
Semi-Durable Goods	56,142	59,285	60,047	60,031
% change	3.1	5.6	8.4	-0.1
Non-Durable Goods	140,078	143,453	143,511	145,274
% change	2.1	2.4	2.9	5.0
Services	330,098	342,878	343,636	347,336
% change	3.9	3.9	2.8	4.4
<b>Disposable Income</b>	713,548	741,230	744,116	752,180
% change	3.0	3.9	2.6	4.4
<b>Saving Rate (%)</b>	1.4	0.4	0.3	0.0
<b>Debt-to-Income Ratio (%)</b>	101.6	104.6	105.1	105.8

### Real Consumer Spending and Attitudes



# THE ECONOMY

## Business Investment

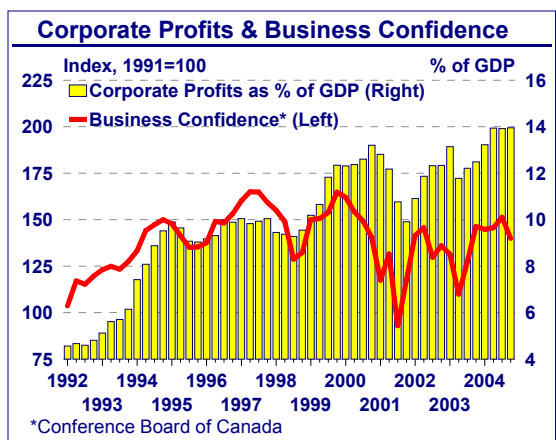
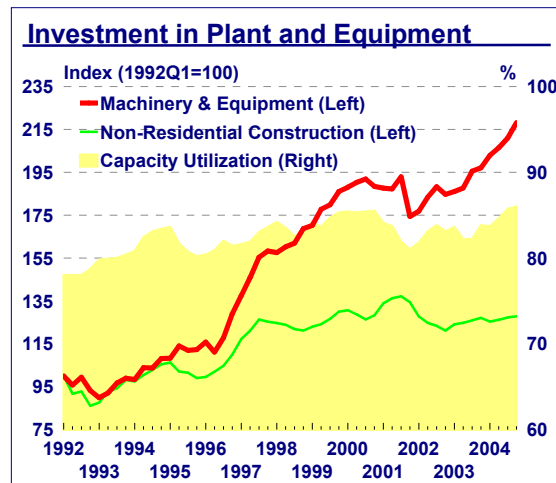


### Investment was brisk in the fourth quarter...

- Business fixed investment rose 9.3% in the fourth quarter, following an upwardly revised increase of 7.0% in the third. For the year, fixed investment grew 6.1% following an increase of 3.2% in 2003.
- Fourth quarter growth was led by Machinery & Equipment (M&E) investment which rose 14.4%, following an upwardly revised increase of 9.1% in the third. M&E investment rose 9.4% in 2004, following an increase of 4.5% in 2003.
- Investment in non-residential structures rose a modest 1.7% in the fourth quarter, following a 3.7% increase in the third. It rose 1.0% in 2004, the same as in 2003.

### ...as profits rose further to a record high

- Operating profits rose 9.9% in the fourth quarter, following an upwardly revised increase of 3.0% in the third. Profits rose 18.8% in 2004, to a record high of \$205 billion.
- Operating profits of non-financial industries, led by transportation and warehousing, rose 19.0% following a 0.6% increase in the third. Meanwhile, operating profits of financial industries retreated in the fourth quarter (as a result of year-end provision for future reorganization costs by banks).
- The capacity utilization rate rose further in the fourth quarter and was well above its 10-year average. High profits and capacity utilization rates bode well for investment prospects (see Special Report, pages 20 & 21).



### Business Investment and Corporate Finances

\$ Millions, SAAR (unless otherwise noted)

	2003	2004	2004 Q1	2004 Q2	2004 Q3	2004 Q4
<b>BUSINESS INVESTMENT</b>						
<b>Machinery &amp; Equipment (1997\$)</b>	86,441	94,598	91,569	93,153	95,206	98,464
% change	4.5	9.4	12.5	7.1	9.1	14.4
<b>Non-residential Construction (1997\$)</b>	44,928	45,361	44,900	45,177	45,589	45,777
% change	1.0	1.0	-5.2	2.5	3.7	1.7
<b>Capacity Utilization (% , Non-farm goods)</b>	83.0	85.0	83.7	84.6	85.7	86.0
Capacity Utilization (Mfg. sector)	83.0	87.0	84.5	86.4	88.5	88.5
<b>CORPORATE FINANCES &amp; ATTITUDES</b>						
<b>Corporate Operating Profits</b>	172,118	204,505	194,124	205,304	206,828	211,764
% change	14.8	18.8	39.3	25.1	3.0	9.9
Profits - Non-financial industries	128,203	154,083	142,732	155,416	155,632	162,552
% change	10.7	20.2	38.4	40.6	0.6	19.0
Profits - Financial industries	43,915	50,421	51,392	49,888	51,192	49,212
% change	28.5	14.8	42.1	-11.2	10.9	-14.6
<b>Business Credit</b>	904,396	940,831	920,195	933,348	948,840	960,943
% change	1.6	4.0	3.9	5.8	6.8	5.2

# THE ECONOMY

## Housing



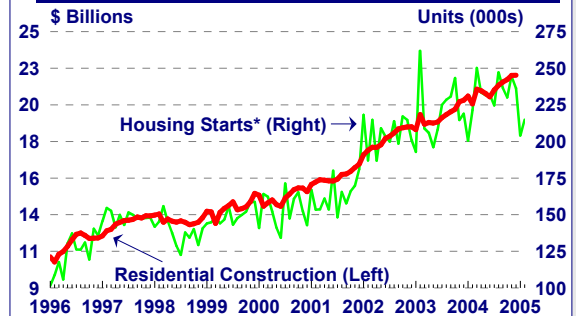
### Residential construction rose further in the fourth quarter

- Investment in residential structures rose 6.5% in the fourth quarter, following a 5.1% increase in the third. Investment in residential construction rose 8.4% in 2004, following a 7.4% increase in 2003.
- The increase was mostly the result of more renovation expenditures (15.0%) and new housing construction. However, the resale market slowed further as ownership transfer costs declined 11.5% in the fourth quarter, following a 13.5% decline in the third.

### ...but signals point to a cooling housing market

- The value of residential building permits declined 6.8% in January, and were 4.4% below their fourth quarter levels.
- Sales of existing homes rose 3.1%, in major markets in February, following a 0.5% decline in January. Assuming no growth in March, sales of existing homes in major markets will rise 4.2% in the first quarter, following a 10.2% decline in the fourth.
- The March Consensus Forecast expects housing starts to average 208,000 in 2005, down from 233,000 in 2004.

### 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)	22,061	0.0%	7.4%
<b>Building Permits, \$M (2)*</b>	3,039	-6.8%	6.4%
<b>Sales of Existing Homes (3)**</b> (# of units, major markets)	26,712	812	1,429
<b>Housing Starts, (3)***</b> (# of units, SAAR)	214,900	10,900	-6,500
Newfoundland & Labrador	3,900	1,000	-900
Prince Edward Island	1,300	-500	800
Nova Scotia	4,500	-100	1,200
New Brunswick	2,800	300	500
Quebec	54,600	-800	-4,100
Ontario	75,300	3,600	-2,300
Manitoba	4,100	300	-100
Saskatchewan	2,600	0	500
Alberta	34,700	3,900	-3,700
British Columbia	31,100	3,200	1,600

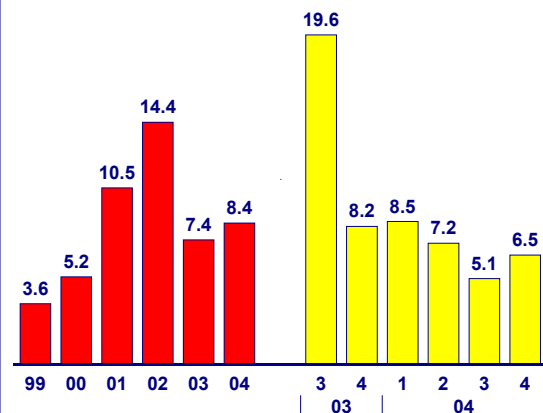
1 - December data; 2 - January data; 3 - February data  
Sources: \*Statistics Canada; \*\*Canadian Real Estate Association; \*\*\*Canada Mortgage and Housing Corporation

### Real Investment in Residential Structures

\$97 Millions, SAAR (unless otherwise noted)				
	2003	2004	2004 Q3	2004 Q4
Residential Construction	62,452	67,681	68,119	69,205
% change	7.4	8.4	5.1	6.5
New Housing	30,678	33,317	33,539	34,165
% change	6.2	8.6	7.2	7.7
Alterations & Improvements	22,619	24,627	24,804	25,688
% change	9.8	8.9	12.8	15.0
Ownership & Transfer Costs	9,204	9,830	9,872	9,576
% change	6.5	6.8	-13.5	-11.5

### Growth in Real Residential Construction

% change, SAAR



# THE ECONOMY



## Trade and Competitiveness

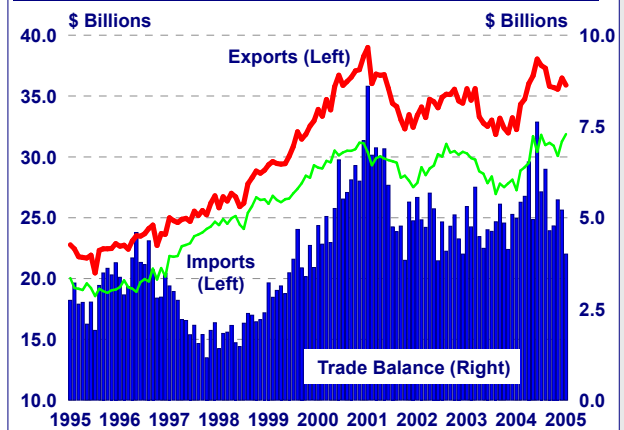
### Imports increased while exports decreased in January...

- Imports increased 1.9% in January after increasing 4.0% in December. Imports rose in all principal groupings except forestry products and other consumer goods. The increase was led by agricultural and fishing products and energy products. Imports from the U.S. were up 0.3% while non-U.S. imports rose 5.4%. Imports from the European Union and Japan surged as demand for alcoholic beverages and manufacturing assembly equipment increased. Overall, import prices were down 0.2% while volumes rose 2.1%.
- Merchandise exports declined 1.6% in January, after rising 2.6% in December. Exports in all principal groupings except energy products registered gains. The increase was mostly concentrated in exports of agricultural and fishing products. Excluding energy products, exports rose 0.8% in January. Exports to the U.S. were down 2.3% while exports to non-U.S. destinations rose 1.5%. Overall, export volumes were down 0.6% while prices decreased 1.0%.

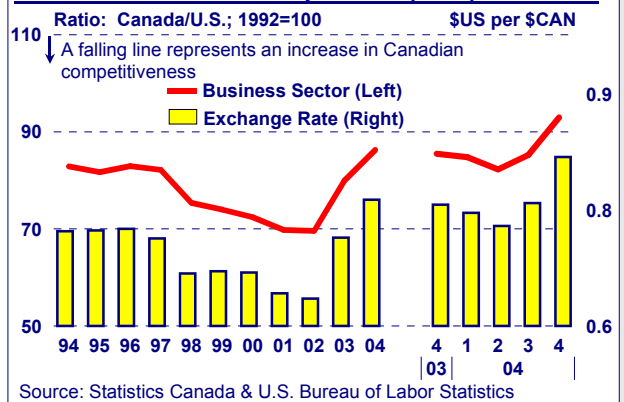
### ...pushing the trade surplus lower

- Canada's trade surplus declined by \$1.2 billion to \$4.0 billion in January. The trade surplus with the U.S. contracted by \$0.8 billion to \$8.1 billion and the trade deficit with other countries rose by \$0.4 billion to \$4.1 billion.

### Merchandise Trade Flows and Balance



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



### Merchandise Trade

January 2005	Levels (\$ millions)		Year-to-date (\$ millions)		Change (\$M)		% Change
	December 2004	January 2005	Jan.-Dec. 2003	Jan.-Dec. 2004	Dec. to Jan. 2005	Dec. to Jan. 2005	Jan.-Dec. 2003 to Jan.-Dec. 2004
<b>Exports</b>	<b>36,482</b>	<b>35,884</b>	<b>400,011</b>	<b>430,357</b>	<b>-598</b>	<b>-1.6</b>	<b>7.6</b>
to United States	30,183	29,492	330,376	351,937	-691	-2.3	6.5
<b>Imports</b>	<b>31,273</b>	<b>31,878</b>	<b>341,832</b>	<b>363,125</b>	<b>605</b>	<b>1.9</b>	<b>6.2</b>
from United States	21,350	21,418	239,871	249,982	68	0.3	4.2
<b>Trade Balance</b>	<b>5,209</b>	<b>4,006</b>	<b>58,179</b>	<b>67,232</b>	<b>-1,203</b>		
with United States	8,833	8,074	90,505	101,955	-759		
<b>Exports by Commodity</b>							
Agriculture/Fishing Products	2,363	2,468	29,258	30,699	105	4.4	4.9
Energy Products	6,751	5,910	60,499	69,199	-841	-12.5	14.4
Forestry Products	3,026	3,099	34,454	39,199	73	2.4	13.8
Industrial Goods & Materials	6,798	6,837	66,538	77,591	39	0.6	16.6
Machinery & Equipment	7,380	7,402	88,606	91,791	22	0.3	3.6
Automotive Products	7,425	7,519	87,374	90,324	94	1.3	3.4
Other Consumer Goods	1,423	1,462	17,184	17,299	39	2.7	0.7
<b>Imports by Commodity</b>							
Agriculture/Fishing Products	1,754	1,908	21,517	21,367	154	8.8	-0.7
Energy Products	2,584	2,641	19,625	24,886	57	2.2	26.8
Forestry Products	282	264	3,022	3,178	-18	-6.4	5.2
Industrial Goods & Materials	6,436	6,467	65,182	73,467	31	0.5	12.7
Machinery & Equipment	8,609	8,750	98,239	103,697	141	1.6	5.6
Automotive Products	6,549	6,678	76,360	77,303	129	2.0	1.2
Other Consumer Goods	4,096	4,018	46,260	47,665	-78	-1.9	3.0



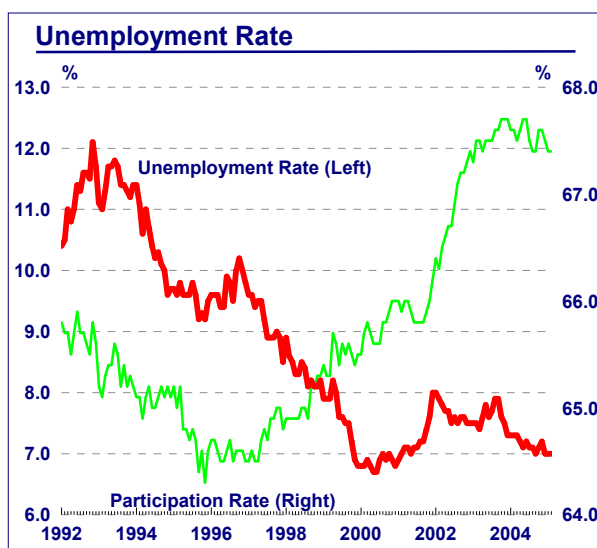
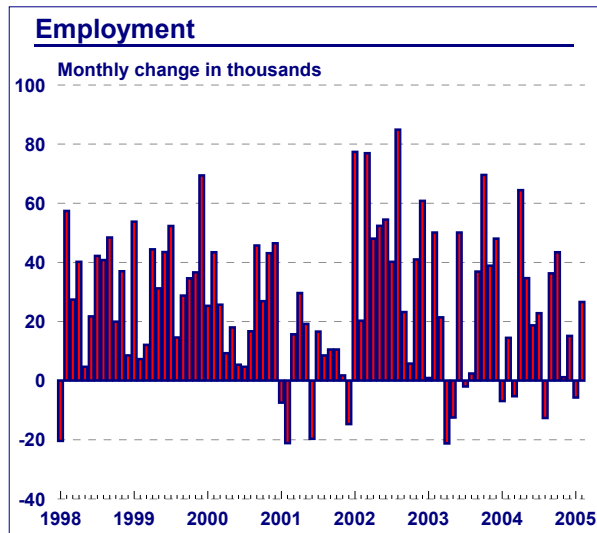
## Employment and Unemployment

### Employment increased in February...

- Employment edged up 26,600 in February, following three months of little change. The rise was due to a recovery in public sector employment, which rose by 38,400. Employment in the private sector fell, as paid employment declined by 35,600 while self-employment rose 23,700.
- Most employment gains were in full-time employment (21,200) while part-time employment rose by 5,300. In the last 12 months, 239,600 net jobs have been created, almost all in full-time.
- Youth employment rose 10,300, all in part-time. Over the past 12 months, youth employment is up 44,000 (or 1.8%).
- Both the participation and employment rates were unchanged at 67.4% and 62.7%, respectively.

### ...but the unemployment rate remained at 7.0%

- Despite higher employment, the unemployment rate was unchanged at 7.0%, as more people entered the labour force.
- The youth unemployment rate fell 0.5 percentage point to 12.3%, as employment increased and less people sought jobs.



### Labour Force Trends

(in thousands)	Levels			Change since			% Change since	
	2004 February	2005 January	2005 February	last month	last year	year-to-date	last month	last year
<b>Employment</b>	15,844.4	16,057.4	16,084.0	26.6	239.6	20.9	0.2	1.5
<b>Full-time</b>	12,903.2	13,096.6	13,117.8	21.2	214.6	19.1	0.2	1.7
<b>Part-time</b>	2,941.1	2,960.8	2,966.1	5.3	25.0	1.7	0.2	0.9
<b>Youth 15-24</b>	2,430.4	2,464.1	2,474.4	10.3	44.0	-10.5	0.4	1.8
<b>Adult 25+</b>	13,413.9	13,593.3	13,609.6	16.3	195.7	31.4	0.1	1.5
<b>Self-employed</b>	2,428.4	2,471.2	2,494.9	23.7	66.5	41.5	1.0	2.7
<b>Unemployment</b>	1,249.7	1,206.4	1,208.5	2.1	-41.2	-8.4	0.2	-3.3
<b>Unemployment Rate</b>	7.3	7.0	7.0	0.0	-0.3	0.0		
<b>Youth 15-24</b>	13.9	12.8	12.3	-0.5	-1.6	-0.4		
<b>Adult 25+</b>	6.0	5.8	6.0	0.2	0.0	0.1		
<b>Labour Force</b>	17,094.1	17,263.8	17,292.5	28.7	198.4	12.5	0.2	1.2
<b>Participation Rate</b>	67.6	67.4	67.4	0.0	-0.2	-0.1		
<b>Employment Rate</b>	62.6	62.7	62.7	0.0	0.1	-0.1		

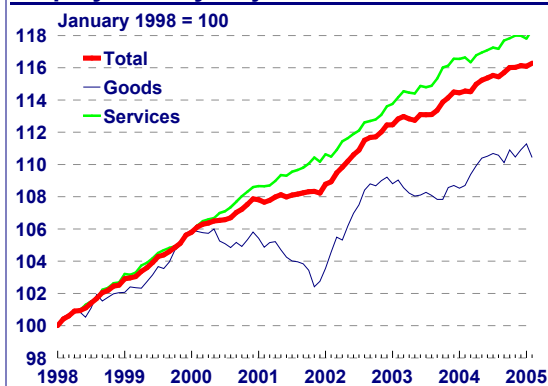


## Industry Overview

### Employment declined in the Goods sector...

- Employment in the Goods sector declined 30,300 in February, following an increase of 13,100 in January. Job losses in manufacturing (28,100), construction (11,000) and utilities (2,400) more than offset gains in agriculture (7,700) and natural resources (3,400).
- Since May 2004, employment in manufacturing has fallen 43,400. This sector has been affected by recent declines in exports, in part related to the strong Canadian dollar. However, despite job losses in February, the construction sector has created 81,000 (or 8.9%) jobs over the last 12 months.

### Employment by Major Sector



### ...but increased in the Services sector

- Services employment surged 56,800 in February, more than offsetting losses recorded in January. The increase was spread out among sectors, led by educational services (20,500), information, culture & recreation (15,000) and business, building & other support services (13,400). The largest loss was witnessed in accommodation & food services (20,200).
- So far this year, employment in transportation & warehousing (24,300), educational services (11,600) and FIRE\* (11,400) have reported the highest employment gains.

### Employment Growth by Worker Category



### Industrial Employment Trends

(in thousands)	Levels			Change since			% Change since	
	2004 February	2005 January	2005 February	last month	last year	year-to- date	last month	last year
<b>Goods-producing</b>	3,943.5	4,037.0	4,006.7	-30.3	63.2	-17.2	-0.8	1.6
Agriculture	328.3	317.1	324.8	7.7	-3.5	3.1	2.4	-1.1
Natural Resources*	281.6	297.2	300.6	3.4	19.0	-0.6	1.1	6.7
Utilities	128.5	122.1	119.7	-2.4	-8.8	-4.9	-2.0	-6.8
Construction	913.3	1,005.3	994.3	-11.0	81.0	-0.7	-1.1	8.9
Manufacturing	2,291.7	2,295.4	2,267.3	-28.1	-24.4	-14.2	-1.2	-1.1
<b>Services-producing</b>	11,900.9	12,020.4	12,077.2	56.8	176.3	38.0	0.5	1.5
Trade	2,494.6	2,542.5	2,548.5	6.0	53.9	24.3	0.2	2.2
Transportation*	815.9	792.9	798.0	5.1	-17.9	11.4	0.6	-2.2
FIRE*	923.0	985.1	989.2	4.1	66.2	4.8	0.4	7.2
Professional/Scientific	1,002.5	1,030.1	1,032.9	2.8	30.4	3.1	0.3	3.0
Business/Building	627.4	622.4	635.8	13.4	8.4	3.0	2.2	1.3
Educational Services	1,049.1	1,047.8	1,068.3	20.5	19.2	11.6	2.0	1.8
Health Care/Social Assistance	1,724.1	1,722.1	1,732.0	9.9	7.9	-4.4	0.6	0.5
Information/Culture/Recreation	735.2	721.0	736.0	15.0	0.8	2.7	2.1	0.1
Accommodation & Food	1,003.6	1,026.0	1,005.8	-20.2	2.2	-10.9	-2.0	0.2
Other Services	702.1	708.5	707.6	-0.9	5.5	5.6	-0.1	0.8
Public Administration	823.3	821.9	823.2	1.3	-0.1	-13.0	0.2	-0.0

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

# LABOUR MARKET TRENDS



## Provincial Overview

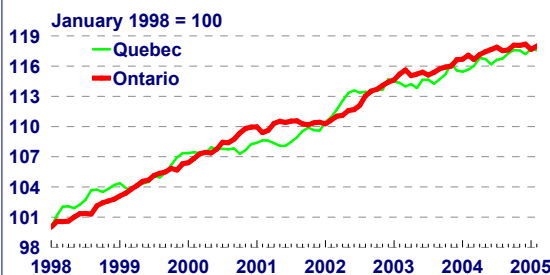
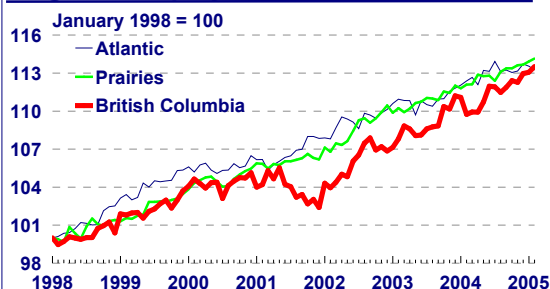
### Job gains were concentrated in British Columbia and Ontario in February...

- Employment increased in all western provinces in February. British Columbia (B.C.) recorded the highest employment gain (8,100), all in part-time.
- Ontario reported the highest employment gain among provinces (19,100), partially recovering from a loss of 28,300 jobs in January. In Quebec, a gain of 16,700 in part-time employment was offset by a decline of 20,200 full-time jobs.
- Employment decreased 2,800 in the Atlantic provinces, all in Newfoundland & Labrador (2,100) and Nova Scotia (1,800). Employment in the Atlantic provinces has been relatively unchanged over the last 9 months.

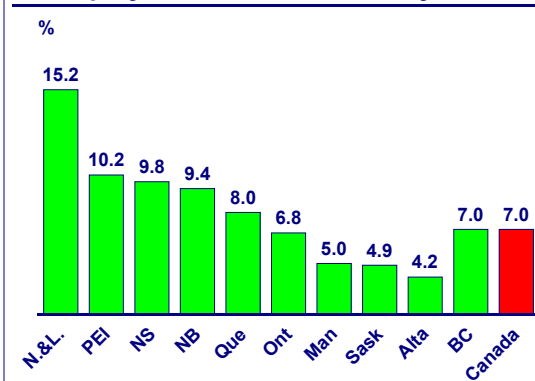
### ...and the unemployment rate decreased in five provinces

- B.C.'s unemployment rate jumped 0.5 percentage point to 7.0%, as more people sought jobs. A slight employment gain combined with less people seeking jobs pushed Alberta's unemployment rate down to 4.2%.
- Ontario's unemployment rate edged up to 6.8% as the labour force grew at a faster pace than employment. In contrast, Quebec's unemployment rate fell 0.4 percentage point to 8.0% as less people sought jobs.
- The unemployment rate rose to 9.8% and 15.2% in Nova Scotia and Newfoundland & Labrador, respectively, while it declined to 10.2% in Prince Edward Island and to 9.4% in New Brunswick.

### Regional employment patterns



### Unemployment Rates -- February 2005



### Provincial Employment and Unemployment Trends

	Employment (thousands)					Unemployment Rate (%)		
	Levels	Change since last month		Change since last year		Levels	Change since last year	
	2005 February	(000's)	%	(000's)	%	2005 February	last month	last year
Canada	16,084.0	26.6	0.2	239.6	1.5	7.0	0.0	-0.3
Newfoundland & Labrador	213.9	-2.1	-1.0	-1.6	-0.7	15.2	0.8	-0.7
Prince Edward Island	68.7	0.2	0.3	2.8	4.2	10.2	-0.3	-1.5
Nova Scotia	442.8	-1.8	-0.4	6.3	1.4	9.8	1.1	0.8
New Brunswick	351.2	0.9	0.3	0.8	0.2	9.4	-0.3	0.2
Quebec	3,716.2	-3.4	-0.1	61.0	1.7	8.0	-0.4	-0.8
Ontario	6,344.3	19.1	0.3	49.5	0.8	6.8	0.1	0.2
Manitoba	582.5	2.8	0.5	9.1	1.6	5.0	-0.1	0.2
Saskatchewan	488.3	0.9	0.2	11.6	2.4	4.9	0.0	-0.7
Alberta	1,776.3	1.8	0.1	30.5	1.7	4.2	-0.2	-0.9
British Columbia	2,099.8	8.1	0.4	69.7	3.4	7.0	0.5	-0.8



# PRICES and FINANCIAL MARKETS

## Consumer and Commodity Prices



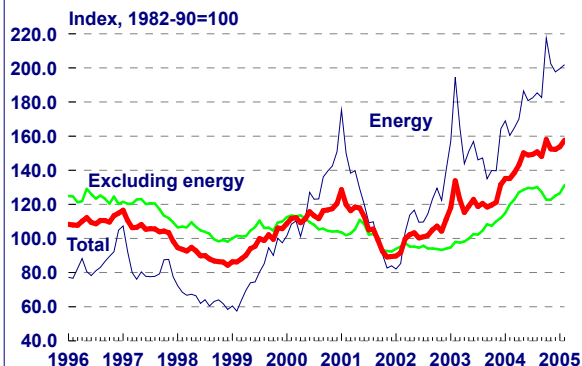
### Inflation moderated further to 2.0% in January...

- On a year-over-year basis, the increase in the Consumer Price Index (CPI) moderated to 2.0% in January, from 2.1% in December. The rise in gasoline prices slowed further to 8.6% from 12.1% in December. Excluding energy, inflation was 1.5% in January, down from 1.6% in December, due to a moderation in the rise of homeowners' replacement and insurance costs, and the price of automobiles.
- Inflation moderated in all provinces except British Columbia, where it edged up to 2.3%.
- On a month-to-month basis (seasonally adjusted), the CPI decreased 0.1% in January following no change in December.
- The year-over-year increase in commodity prices was 16.7% in February, up from 13.8% in January. Energy price inflation rose to 25.9% in February from 18.1%. On a monthly basis, commodity prices rose 2.5% after rising 0.9% in January. Excluding energy, commodity prices rose 3.8% from January, the largest monthly gain in one year.

### ...and the "core" rate fell to 1.6%

- The "core" rate of inflation, which excludes the eight most volatile components and indirect taxes, fell to 1.6% in January from 1.7% in December, below the midpoint of the 1%-3% official target range.

### Commodity Prices (\$US basis)



### Consumer Prices

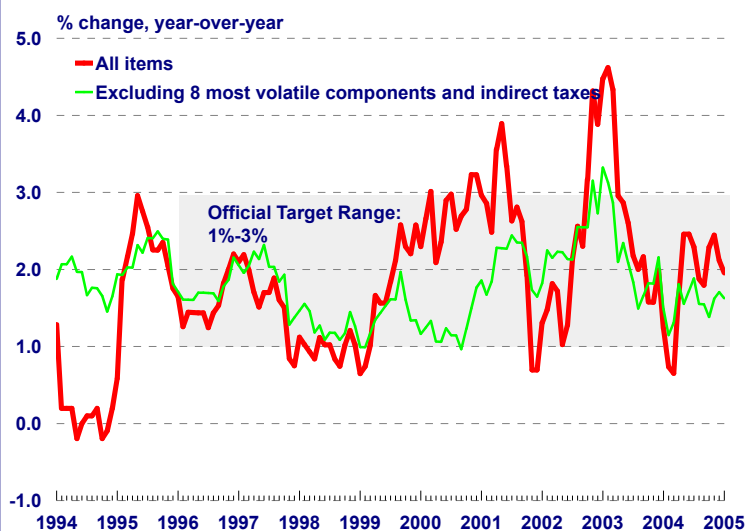
January 2005

	Index (1992=100)	% Change since	
		last month	last year
<b>All items CPI</b>	125.3	-0.1	2.0
Food	126.8	-0.3	2.5
Shelter	122.4	0.1	3.1
Household operations	115.3	0.0	0.3
Clothing & Footwear	100.0	-0.8	-2.2
Transportation	146.3	0.3	2.9
Health & Personal Care	119.0	-0.1	1.1
Recreation, Educ. & Reading	125.5	-1.1	0.2
Alcohol & Tobacco	145.1	0.4	3.1
<b>Excl. 8 Most Volatile/Indirect Taxes</b>	125.1	-0.1	1.6
<b>Energy</b>	149.1	1.2	7.3

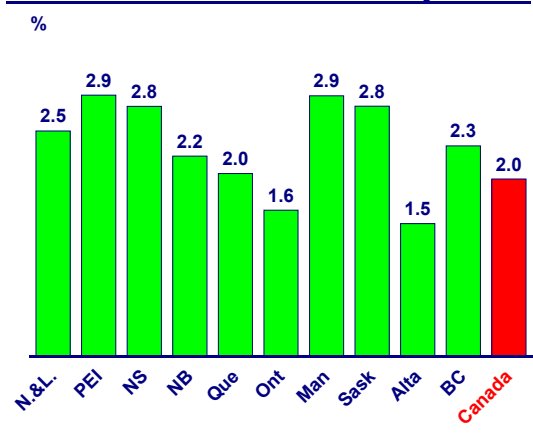
### Commodity Prices (February 2005)

	Index, 1982-90=100	2.5	16.7
Index, 1982-90=100	157.7	2.5	16.7
Excluding Energy	131.3	3.8	9.5
Energy	201.9	1.2	25.9

### Consumer Price Index



### Provincial CPI Inflation -- January 2005





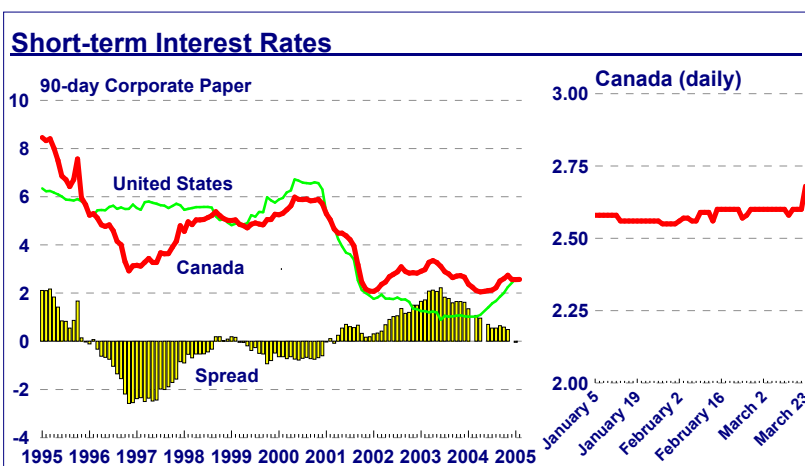
## Short-term and Long-term Interest Rates

### The U.S. short-term rate rose further in March...

- The Bank of Canada kept the target for the overnight rate unchanged at 2.5% on March 1, as developments since its January *Monetary Policy Report Update* point to continued low inflation and moderate economic growth in the near-term. On the other hand, new evidence of upward pressure on inflation in the United States in part led the Federal Reserve to continue raising the fed funds rate on March 22. Since June 2004, the Fed has raised the fed funds rate 175 bps to 2.75%.
- Canadian short-term rates were stable at 2.6% from mid-February to mid-March. Meanwhile, U.S. rates rose steadily from 2.7% on February 15 to 3.0% on March 21, and the negative spread between Canada-U.S. rates widened from about -10 bps to -35 bps.

### ...and North American long-term yields gained some ground

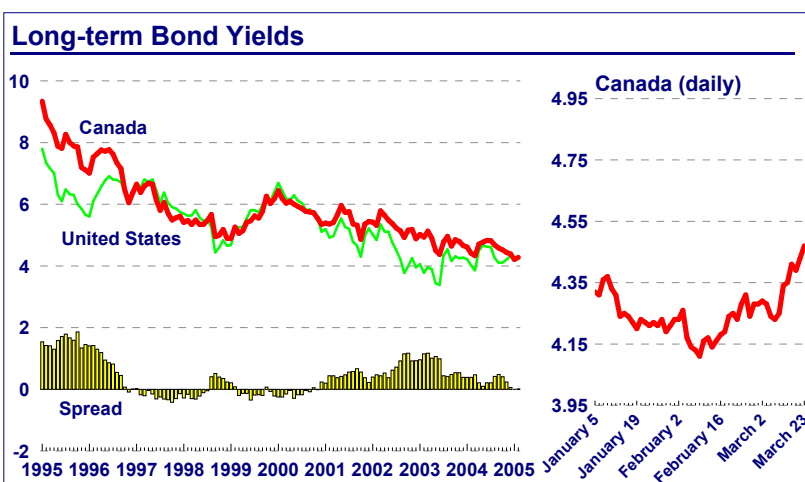
- Evidence of inflationary pressure, due in part to rising oil prices in recent weeks, contributed to higher long-term rates since Federal Reserve Board Chairman Alan Greenspan termed the low level of long-term bond yields a "conundrum" in mid-February. In the U.S., 10-year yields were 4.53% on March 21, up over 55 bps from February 9. Likewise, yields in Canada rose 27 bps from a recent low in February to 4.38% on March 21, and the spread on long-term yields was about -15 bps, down from 2 bps in mid-February.
- Mortgage rates remained stable in March. One-year mortgage rates were 4.80% on March 16, and five-year mortgage rates held at 6.05%.



### Key Market Rates

(end of period)	90-day Corporate Paper	spread against U.S.	Long Bond Yield	spread against U.S.
2003	2.66	1.62	4.66	0.39
2004	2.57	N/A	4.39	0.06
September	2.50	0.65	4.58	0.48
October	2.60	0.59	4.52	0.41
November	2.74	0.49	4.44	0.24
December	2.57	N/A	4.39	0.06
January	2.56	-0.04	4.21	0.00
February	2.57	N/A	4.28	0.01
March 23 *	2.68	-0.31	4.47	-0.14

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
2003	2.75	4.50	4.75	6.45
2004	2.50	4.25	4.80	6.05
September	2.25	4.00	4.80	6.30
October	2.50	4.25	4.90	6.40
November	2.50	4.25	5.00	6.30
December	2.50	4.25	4.80	6.05
January	2.50	4.25	4.80	6.05
February	2.50	4.25	4.80	6.05
March 23 *	2.50	4.25	4.80	6.05

\* Bank of Canada's Weekly Financial Statistics

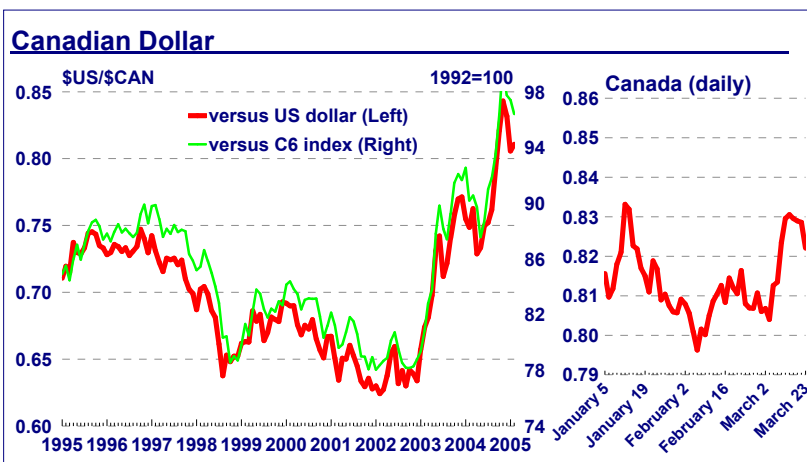


### The Canadian dollar rose in March

- The Canadian dollar rose 3.8% from its recent low on February 7 (US¢79.6) to close at US¢82.6 on March 21, despite a negative and widening spread between Canadian and U.S. interest rates. The rise was due mostly to weakness in the U.S. dollar. As well, higher oil prices in recent weeks have provided some support to the loonie.
- The Canadian dollar appreciated vis-à-vis the euro and the Japanese yen in recent weeks. The loonie gained 2.7% against the euro from March 1 to March 21, and 3.3% against the yen from March 1 to 21.

### North American stock indices retreated somewhat among rising long-term interest rates

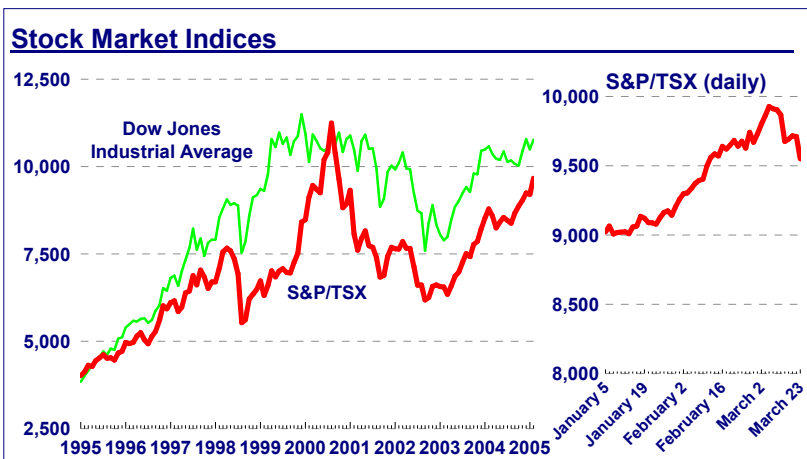
- The S&P/TSX index closed at 9,694 on March 21, down 2.3% from March 4 (9,927), but about the same compared to mid-February. Most sub-indices rose in February with energy, metals & mining, materials, and financials posting significant monthly gains.
- The Dow Jones closed at 10,565 on March 21, down from 10,941 on March 4, and its lowest level since February 1. Higher long-term bond yields contributed to a moderation in the upward momentum in equity markets.



### The Canadian Dollar

(close)	\$US vs. \$CAN	index vs. C-6 (92=100)	\$CAN vs. EURO	yen vs. \$CAN
2003	0.7713	91.65	1.628	82.86
2004	0.8319	97.74	1.629	85.27
September	0.7926	93.52	1.569	87.21
October	0.8210	96.36	1.559	86.88
November	0.8432	99.92	1.577	86.76
December	0.8319	97.74	1.629	85.27
January	0.8057	97.41	1.618	83.49
February	0.8107	96.40	1.633	84.75
March 23	0.8220	98.53*	1.579	87.21

\* Bank of Canada's Weekly Financial Statistics



### Key Stock Market Indexes

	February Close	% change from	
		last month	last year
<b>S&amp;P/TSX</b>	<b>9,668</b>	<b>5.0</b>	<b>10.0</b>
Energy	236	12.3	40.9
Metals & Mining	320	22.2	38.8
Utilities	164	-2.4	7.6
Materials	175	9.4	12.5
Industrial	79	2.2	1.2
Financial	157	4.1	11.6
Gold	208	5.6	-1.3
Telecommunication	76	1.9	11.9
Information Technology	28	-6.2	-20.4
Consumer Discretionary	95	1.8	5.8
Consumer Staples	204	2.1	15.7
<b>S&amp;P 500</b>	<b>1,203.6</b>	<b>1.9</b>	<b>5.1</b>
<b>Dow Jones</b>	<b>10,766</b>	<b>2.6</b>	<b>1.7</b>



## U.S. Economic Trends

### Fourth quarter economic growth and labour productivity were revised up

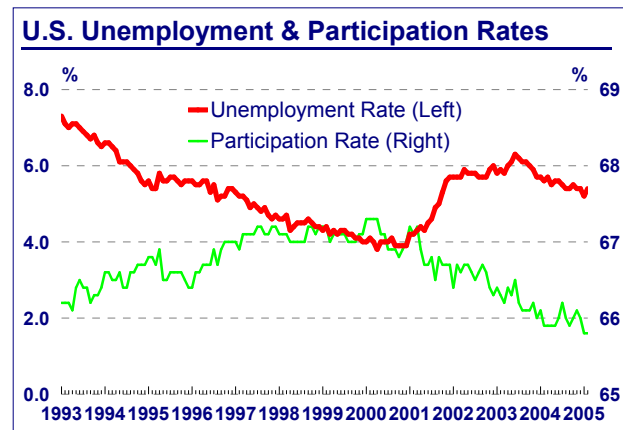
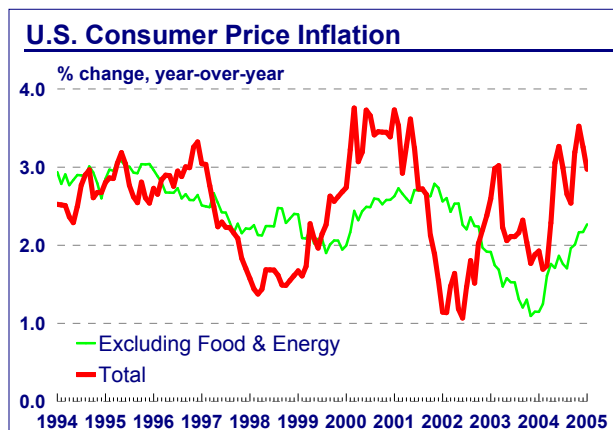
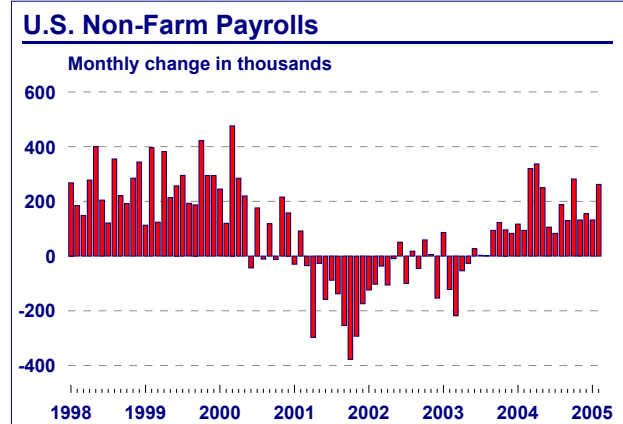
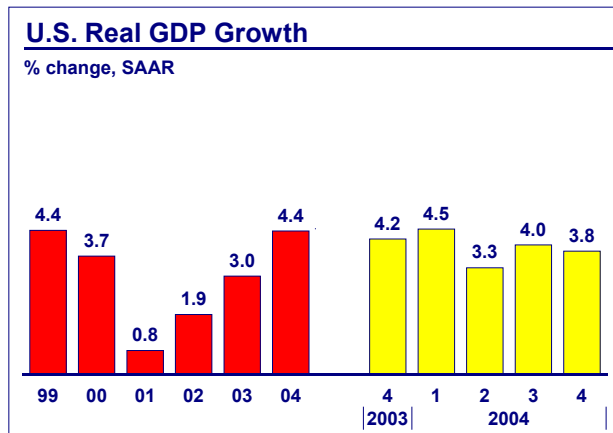
- According to preliminary estimates, real gross domestic product (GDP) increased at an annual rate of 3.8% in the fourth quarter, 0.7 percentage point higher than the advance estimate. Exports, inventory and business fixed investment were revised upward. Moreover, labour productivity in the business sector increased 3.7% in the fourth quarter, 1.2 percentage points higher than advance estimates. Meanwhile, productivity in the non-farm business sector rose 2.5%, compared to an advance estimate of 0.8%. In 2004, business and non-farm business labour productivity both rose 4.0%.

### Employment increased strongly in February...

- Non-farm employment increased by 262,000 in February, following average employment gains of 140,000 in the previous three months. Gains were led by professional and business services and the government sector. The unemployment rate rose to 5.4% in February from 5.2% in January as more people entered the labour force.

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

- Shipments of manufactured durable and non-durable goods rose 1.1% and 1.8%, respectively, in January. Both shipments of manufactured durable and non-durable goods reached their highest level since the series began in 1992.
- The Institute of Supply Management (ISM) manufacturing index edged down to 55.3 in February from 56.4 in the previous month while the non-manufacturing index rose to 59.8. According to the ISM, these developments are consistent with real GDP growth of 4-5% in the first quarter.



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

# SPECIAL REPORT

## Investment in Machinery & Equipment

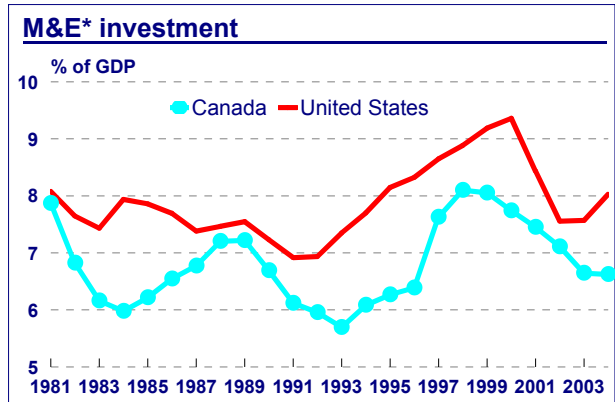
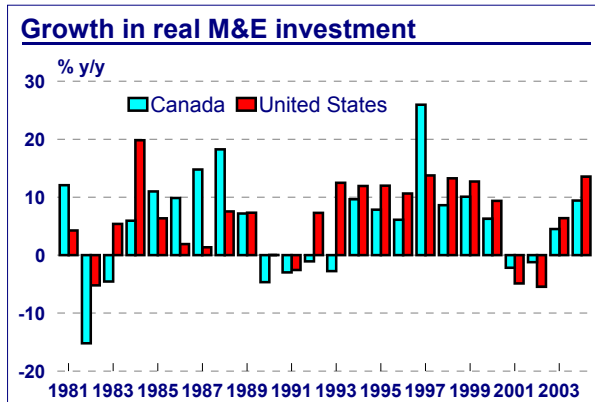
### Investment in machinery & equipment grew strongly in 2004 amid rising profits

- Real investment in M&E rose by 9.4% in 2004, reflecting rising profits, declining M&E prices and high industrial capacity utilization rates. Investment in M&E grew even faster in the U.S. (13.5%). The ratio of M&E investment to GDP rose to 8.0% in the U.S. while it stayed at 6.6% in Canada. Over the 1981-2004 period, the ratio has been consistently higher in the U.S. than in Canada, averaging 7.9% and 6.8% respectively. On the other hand, the ratio of investment in non-residential structures to GDP has generally been higher in Canada. In 2004, the ratio was 4.2% in Canada compared to 2.4% in the U.S., slightly below the average over the 1981-2004 period. These trends reflect by and large structural differences in the two countries as well as factors influencing the cost of capital such as taxes, regulation in products and labour markets and real interest rates.
- Recent studies have focused on both the reasons behind the investment gap and the consequences for Canada. A research paper released by the Department of Finance\* in 1997 suggested that Canadian under-investment in M&E relative to the U.S. could be partly explained by a higher cost of capital due to higher real interest rates and a disadvantaging tax structure. In a paper by Someshwar Rao et al. \*\* it was estimated that the capital intensity gap accounted for at least 12% of the Canada-U.S. business sector productivity gap in 2000. Moreover, in a recent study by the Institute for Competitiveness and Prosperity\*\*\*, it was estimated that the investment gap was responsible for part of the gap between real per capita income in the U.S. and Canada, which has widened from \$1,800 in 1981 to \$7,200 in 2003.

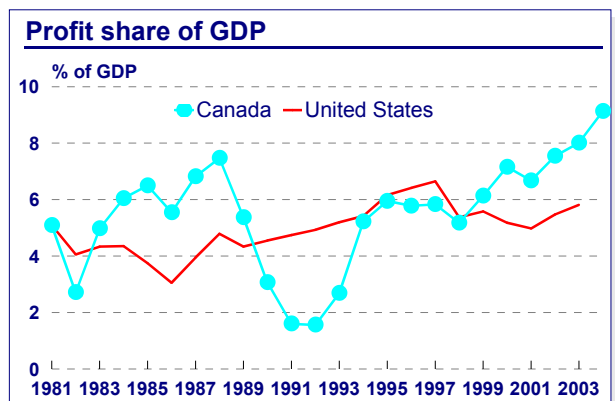
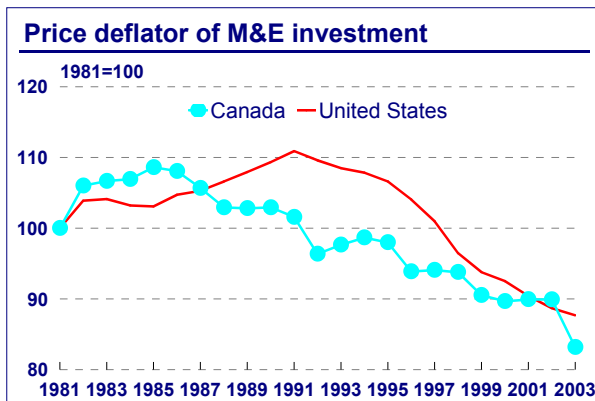
\* Department of Finance, *Taxes, the Cost of Capital, and Investment: A Comparison of Canada and the United States*, 1997

\*\* International Productivity Monitor, Someshwar Rao, Jianmin Tang and Weimin Wang, Fall 2003

\*\*\* Institute for Competitiveness and Prosperity: *Realizing Canada's Prosperity Potential*, January 2005



National accounts basis, GDP at market prices.



## SPECIAL REPORT

### Investment in Machinery & Equipment

#### *...and prospects are for continued strong growth in investment*

- According to the March Consensus Forecast, in Canada, real investment in M&E is expected to increase 10.5% in 2005 and 8.6% in 2006. In the United States, business investment is expected to rise 10.1% in 2005 and 7.5% in 2006. The continued strong investment growth reflects, in part, higher corporate profits and high capacity utilization rates. In 2004, in Canada, after-tax corporate profits as a share of GDP reached a record high of 9.1%.
- Based on Statistics Canada's *Private and Public Investment in Canada* survey of 2005, total investment (including housing) is expected to increase 6.0% to 258.6 billion in 2005, following an increase of 8.5% in 2004. Excluding housing, which is expected to remain flat in 2005, investment is expected to rise 8.4% (to \$188.3 billion) in 2005, following a 6.4% increase in 2004. This reflects growth in both non-residential construction (10.2% to \$88.5 billion) and M&E (6.9% to \$99.8 billion).
- Not all industries are increasing their M&E investments at a similar pace. M&E investment growth ranges from 17.3% for manufacturing to a decline of 9.4% for educational services industries. Among industries expecting to lower their M&E investment, M&E represents a small part of educational services capital investment and the 7.7% decline in M&E investment in professional scientific and technical services comes on the heel of a 14.2% increase in 2004.
- Non-conventional oil extraction explains, in part, increased investment in the mining and oil and gas extraction sector, as sustained high prices have allowed many projects to proceed. Moreover, increased energy prices are reflected in manufacturing M&E investment: in the past 10 years, refineries' M&E investment accounted for 5.3% of manufacturing M&E investment while in the 2003-05 period, they accounted for 10.7%.
- On a provincial basis, the largest increases are expected in Ontario (+8.8% or \$3.3 billion), followed by British Columbia (7.5% or \$700 million). Alberta and Quebec are both expected to increase M&E investment by about \$600 million and rank third and fourth.
- Sustained high levels of M&E investment in Canada are expected in the next couple of years, in line with high profits, declining prices for M&E, and the competitive pressures to raise productivity performance.

#### **Recent M&E capital expenditures, selected industries**

	Level (billions of current \$)			Growth (%)	
	2003	2004*	2005**	2003-04	2004-05
Total.....	88.1	93.4	99.8	6.0	6.9
Agriculture, forestry, fishing and hunting.....	3.1	3.1	3.2	-1.3	3.6
Mining and oil and gas extraction.....	5.8	6.2	6.8	6.2	10.7
Utilities.....	3.8	4.2	4.7	12.2	12.1
Construction.....	3.3	3.5	3.6	6.9	3.2
Manufacturing.....	16.6	16.9	19.9	1.7	17.3
Wholesale trade.....	3.0	3.3	3.4	9.4	3.6
Retail trade.....	3.8	4.0	4.0	5.5	0.6
Transportation and warehousing.....	6.6	6.9	7.4	3.9	7.1
Information and cultural industries.....	5.8	6.7	6.8	15.7	1.7
Finance and insurance.....	12.4	13.6	14.8	9.8	9.1
Real estate and rental and leasing.....	7.9	8.2	8.5	4.0	4.0
Professional, scientific and technical services.....	2.9	3.3	3.1	14.2	-7.7
Educational services.....	1.9	1.8	1.6	-4.8	-9.4
Health care and social assistance.....	2.2	2.6	2.7	18.0	1.1
Public administration.....	4.9	4.8	5.0	-2.8	4.5

\* Preliminary

\*\*Intentions

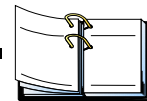
Note: percentages are calculated using unrounded numbers.

Sources: Statistics Canada, Department of Finance (Canada), Bureau of Economic Analysis (United States).

## COMING UP

### Key Future Data Releases and Planned Events

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#### CANADA

Consumer Price Index - February	March 23
Real GDP by Industry - January	March 31
Labour Force Survey - March	April 8
Key Policy Interest Rate Announcement	April 12
Canadian International Merchandise Trade - February	April 12
Monthly Survey of Manufacturing - February	April 15
Financial Statistics for Enterprises - 1st Quarter 2005	May 26
Balance of International Payments - 1st Quarter 2005	May 30
National Economic and Financial Accounts - 1st Quarter 2005	May 31

#### UNITED STATES

Consumer Price Index - February	March 23
GDP - 4th Quarter 2004 (final)	March 30
The Employment Situation - March	April 1
International Trade in Goods and Services - February	April 12
Consumer Price Index - March	April 20
Federal Open Market Committee Meeting	May 3

Note: The March 2005 MEI uses data available as of March 21, 2005