

CANADA

AUGUST 2004

	Average % Change on Previous Calendar Year														Annual Total			
	Gross Domestic Product		Personal Expenditure		Machinery & Equipment Investment		Pre - Tax Profits		Industrial Production		Consumer Prices		Industrial Product Prices		Average Hourly Earnings		Housing Starts (thousand units)	
	Produit Intérieur Brut		Dépenses de Consommation des Ménages		Investissement Productif		Bénéfices des Sociétés avant impôts		Production Industrielle		Prix à la Consommation		Prix des Produits Industriels		Rémunération Horaire Moyenne		Construction de Logements mises en chantier, milliers	
Economic Forecasters	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
JP Morgan	3.3	4.2	3.4	3.4	11.4	8.4	13.5	7.0	4.0	6.2	1.9	2.1	2.5	2.5	na	na	230	185
Royal Bank of Canada	3.2	3.6	3.7	3.9	8.4	10.1	12.6	-4.1	na	na	1.7	1.9	na	na	na	na	214	200
EDC Economics	3.1	3.3	3.4	3.1	10.2	7.6	7.5	4.5	na	na	1.9	2.1	na	na	2.7	2.4	220	195
Conf Board of Canada	3.0	3.2	3.5	3.3	8.5	9.7	16.4	7.0	na	na	1.7	2.0	2.3	2.8	na	na	220	186
Desjardins	3.0	3.8	3.5	3.6	7.1	8.6	5.8	4.6	5.0	4.2	2.0	1.8	1.7	1.7	2.2	2.4	222	203
Infometrica	3.0	3.5	3.4	3.1	8.0	15.0	13.5	15.0	3.3	4.5	2.0	2.1	4.1	3.0	2.5	2.9	228	189
National Bank Financial	3.0	3.5	2.8	2.2	9.6	10.6	10.9	7.0	na	na	2.0	2.3	na	na	na	na	230	205
BMO Nesbitt Burns	2.9	3.3	3.4	3.4	8.6	9.4	8.0	4.0	2.8	2.5	2.0	2.1	3.7	3.0	2.5	2.8	225	200
Economap	2.9	3.2	3.2	3.3	9.0	7.5	8.0	5.0	2.5	2.4	2.0	1.9	2.3	2.5	2.0	2.0	220	190
Scotia Economics	2.9	3.2	3.4	3.0	7.3	7.7	12.0	7.0	3.0	3.0	1.9	2.0	na	na	na	na	220	190
Bank of Montreal	2.8	3.5	3.3	3.0	8.7	8.9	8.1	3.9	na	na	1.6	1.2	na	na	na	na	220	188
Centre for Spatial Econ	2.8	3.8	3.7	3.5	7.0	7.5	20.0	7.0	na	na	2.1	2.0	na	na	na	na	226	208
Global Insight	2.8	3.5	3.3	3.0	8.6	10.3	13.0	3.0	2.8	3.0	1.8	1.4	3.4	1.3	2.7	3.1	224	206
Toronto Dominion Bank	2.8	3.5	3.2	3.2	7.3	8.8	11.8	6.4	na	na	1.9	1.9	na	na	na	na	219	185
Caisse de Depot	2.7	2.9	3.3	3.0	6.1	6.5	na	na	na	na	1.8	2.0	na	na	na	na	230	185
CIBC World Markets	2.7	3.1	3.3	2.9	7.6	7.1	12.8	5.1	na	na	2.0	2.0	na	na	na	na	221	195
Merrill Lynch Canada	2.7	3.2	3.4	2.8	na	na	na	na	2.9	3.3	1.8	2.2	na	na	na	na	220	180
University of Toronto	2.6	3.0	3.0	2.7	8.7	7.7	13.1	3.2	na	na	2.0	2.1	na	na	na	na	220	178
Consensus (Mean)	2.9	3.4	3.3	3.1	8.4	8.9	11.7	5.4	3.3	3.6	1.9	2.0	2.9	2.4	2.4	2.6	223	193
Last Month's Mean	2.9	3.4	3.3	3.1	7.8	8.6	12.0	5.1	3.0	3.5	1.8	2.0	2.7	2.5	na	na	221	192
3 Months Ago	2.6	3.4	2.9	3.3	8.2	8.7	6.5	5.6	2.7	3.6	1.5	1.8	0.5	2.0	na	na	207	187
High	3.3	4.2	3.7	3.9	11.4	15.0	20.0	15.0	5.0	6.2	2.1	2.3	4.1	3.0	2.7	3.1	230	208
Low	2.6	2.9	2.8	2.2	6.1	6.5	5.8	-4.1	2.5	2.4	1.6	1.2	1.7	1.3	2.0	2.0	214	178
Standard Deviation	0.2	0.3	0.2	0.4	1.3	2.0	3.6	3.8	0.8	1.3	0.1	0.3	0.9	0.7	0.3	0.4	5	9
Comparison Forecasts																		
IMF (Apr. '04)	2.6	3.1	3.4	3.1							1.4	1.9						
OECD (May '04)	2.8	3.3	2.6	3.1														

**Government and Background Data**

Prime Minister - Mr. Paul Martin (Liberal). **Government** - The Liberals lead a minority government, with 135 out of 308 seats in parliament (155 seats are needed for a clear majority). **Next Election** - By 2009 (general election). **Nominal GDP** - C\$1,155bn (2002). **Population** - 31.3mn (mid-year, 2002). **C\$/US\$ Exchange Rate** - 1.57 (average, 2002).

**Quarterly Consensus Forecasts**

*Historical Data and Forecasts (bold italics) From Survey of June 14, 2004*

	2003		2004			2005				
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product	1.3	1.7	1.6	2.7	3.6	3.5	3.7	3.3	3.2	3.1
Personal Expenditure	3.7	2.8	3.4	3.4	3.1	3.5	3.1	3.1	3.1	3.1
Consumer Prices	2.2	1.7	0.8	2.0	2.0	2.0	2.0	1.7	1.8	1.9

*Percentage Change (year-on-year)*

**Historical Data**

	2000	2001	2002	2003
* % change on previous year				
Gross Domestic Product*	5.2	1.8	3.4	2.0
Personal Expenditure*	4.0	2.7	3.4	3.1
Machinery & Eqpt Investment*	6.3	-2.2	-1.2	4.5
Pre - Tax Profits*	22.8	-6.9	8.6	10.0
Industrial Production*	7.2	-2.3	2.4	0.3
Consumer Prices*	2.7	2.5	2.3	2.8
Industrial Product Prices*	4.3	1.0	0.0	-1.4
Average Hourly Earnings*	2.0	1.7	2.2	1.8
Housing Starts, '000 units	152	163	205	218
Unemployment Rate, %	6.8	7.3	7.7	7.7
Current Account, C\$ bn	29.3	25.0	22.7	23.8
Federal Govt Budget Balance, fiscal years, C\$ bn	20.2	7.0	7.0	3.6 e
3 mth Trsy Bill, % (end yr)	5.5	2.1	2.7	2.6
10 Yr Govt Bond, % (end yr)	5.4	5.4	4.7	4.8

*e = consensus estimate based on latest survey*

AUGUST 2004

CANADA

	Annual Total		Fiscal Years (Apr-Mar)		Rates on Survey Date			
					2.0%		4.8%	
Unemployment Rate (%)	Current Account (C\$ bn)		Federal Govt Budget Balance (C\$ bn)		3 month Treasury Bill Rate (%)		10 Year Government Bond Yield (%)	
Taux de Chômage (%)	Balance Courante (C\$ md)		Balance Budgétaire (C\$ md)		Rendement sur les Bons du Trésor de 3 mois %		Rendement des Obligations d'Etat de 10 ans %	
2004 2005	2004 2005	FY 04-05	FY 05-06	End Nov'04	End Aug'05	End Nov'04	End Aug'05	
7.2 6.8	46.0 49.0	5.0 3.0	2.5 4.0	5.4 6.1				
7.2 7.0	37.8 33.3	na na	2.4 3.8	5.2 5.7				
7.4 7.2	22.5 20.0	3.7 3.9	2.3 3.2	5.2 5.9				
7.2 7.1	38.6 37.3	10.6 12.5	2.0 3.4	5.6 6.1				
7.2 6.8	37.0 39.7	6.2 9.4	2.7 4.1	5.0 5.5				
7.1 6.8	35.0 28.0	3.0 4.0	2.5 3.4	5.1 5.6				
7.2 7.0	26.9 20.0	3.0 5.0	2.3 3.8	5.0 5.6				
7.2 7.0	34.0 24.0	3.0 4.0	2.4 3.6	4.9 5.4				
7.2 7.0	33.0 22.0	5.0 4.0	2.4 3.5	4.9 5.3				
7.2 7.1	37.0 25.0	3.0 3.0	2.5 3.2	5.2 5.5				
7.3 7.2	30.7 20.8	na na	2.5 3.9	5.2 5.8				
7.3 7.0	39.6 46.5	6.0 6.9	2.3 3.0	5.0 5.6				
7.2 7.1	35.5 30.0	3.0 3.0	2.3 3.0	5.2 5.5				
7.3 7.1	39.1 43.9	0.0 0.0	2.6 3.9	5.0 5.4				
7.3 7.2	30.0 22.0	na na	2.3 3.0	5.0 5.5				
7.3 7.1	37.1 32.0	3.0 5.0	2.2 2.4	4.6 4.4				
7.3 7.1	32.4 27.1	na na	2.3 3.6	5.1 5.2				
7.3 7.1	38.7 41.9	na na	2.6 3.3	5.3 5.8				
7.2 7.0	35.1 31.3	4.2 4.9	2.4 3.5	5.1 5.5				
7.3 7.1	34.9 30.8	3.7 4.1						
7.4 7.1	24.7 22.0	4.2 5.4						
7.4 7.2	46.0 49.0	10.6 12.5	2.7 4.1	5.6 6.1				
7.1 6.8	22.5 20.0	0.0 0.0	2.0 2.4	4.6 4.4				
0.1 0.1	5.3 9.7	2.5 3.2	0.2 0.4	0.2 0.4				
7.4 7.1								
7.3 7.1								

**Suggestions of Firmer Growth Fundamentals**

Latest data releases point to further signs that the recovery is gaining strength. Monthly output-based GDP rose by 0.3% m-o-m in May, compared with 0.1% in April, bringing the y-o-y trend up from 3.0% to 3.2%. Strong oil prices helped to buoy industrial production, mining and exploration and pipeline transport in the crude oil and natural gas industries. However, despite this, the lingering effects of public sector strikes earlier in the year prevented a more marked gain in GDP. This could also suggest that underlying momentum in the economy is stronger than the May report indicates. Indeed, the business conditions index soared in July, underscoring expectations of an improving trend in activity. Moreover, oil prices have reached new highs over the past few months, helping to buoy the commodity-based and export-oriented sectors. Factory shipments, for example, jumped by 1.1% m-o-m in May, compared with 0.7% growth in April, supported by surging energy prices. The increase in price pressures has put the spotlight on central bank policy, though. The latest *Monetary Policy Report Update* from the Bank of Canada showed revisions to the bank's GDP forecast for the first and second half of 2004 but, on average, this year's forecast remains unchanged at 2.75% from the bank's April report. However, estimates for 2005 were marked down slightly, from 3.75% to 3.5%. Interest rates were left unchanged in July, but the central bank plans to tighten monetary policy over the next few months in order to keep core inflation at 2% by the end of next year. Indeed, our panel predicts an interest rate increase is forthcoming (see box below).

The gradual improvement in the outlook could also be attributed to robust domestic demand. Personal consumption growth, for example, has been supported by solid labour market indicators, with manufacturing and private sector jobs on the rise in July while the unemployment rate is on a declining bent. Moreover, retail sales data for May were buoyant while trade flows for the same month showed a 7.8% m-o-m surge in imports. Equipment imports were a factor behind the rise, which also bodes well for the outlook for machinery and equipment investment this year. Forecasts for investment this month have been upgraded.

**Direction of Trade – 2003**

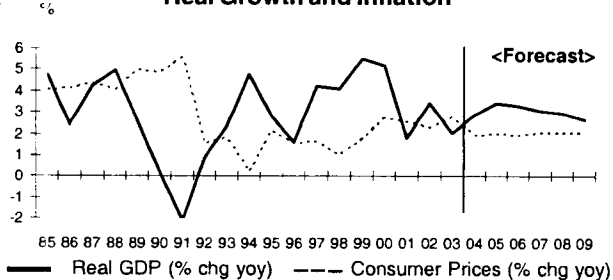
Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
United States	86.4	United States	61.2
Japan	2.1	China	5.3
United Kingdom	1.5	Japan	4.1
Asia (ex. Japan)	3.2	Asia (ex. Japan)	11.2
Latin America	1.4	Latin America	5.6
Middle East	0.4	Africa	1.2

**Likelihood of a Bank of Canada Interest Rate Change**

Our panel's estimated average probability of a change in the overnight lending rate at or before the next key policy meeting following the survey date was:

INCREASE	NO CHANGE	DECREASE	
59.3	+ 39.3	+ 1.4	= 100 %
Most likely rate change mentioned:			+0.25%

**Real Growth and Inflation**



**Short- and Long-Term Interest Rates**

