Year-over-year consumer price inflation dropped to 1.2% in January 2004, down from a recent high of 4.6% in February 2003. At 1.5% in January, core CPI inflation, which excludes the eight most volatile items, was below the 2% target, which is the mid-point of the official 1% to 3% band.

Corporate profits increase

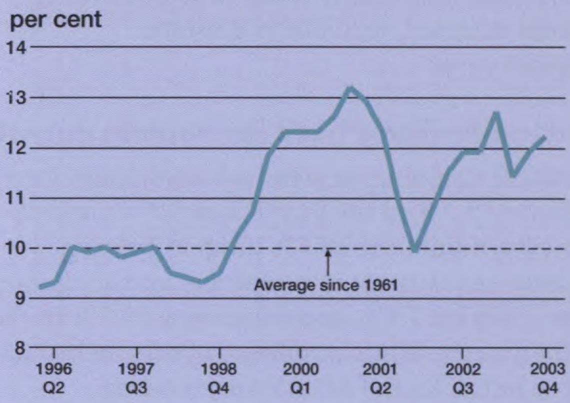
Corporate profits rose 14.7% in the fourth quarter, following a 21.4% jump in the third. Profits of depository financial institutions and transportation and mining industries rose significantly. Mining profits climbed, driven by increased demand from the U.S. and Asian markets and tight supplies. In the manufacturing sector, profits recovered marginally in the fourth quarter after a turbulent year, but remained well below the year-earlier level. Manufacturers of automotive products saw profits decrease with sales. Exporters saw their Canadian dollar revenue negatively affected by the currency appreciation while importers gained a cost advantage. At 12.2% of GDP, overall profits remained above their 10.0% historical average (Chart 3).

Solid employment growth

Employment grew 3.6% in the fourth quarter, more than four times the pace in the previous quarter. The nearly 15,000 net new jobs added in January 2004 brought the increase in employment since December 2002 to 293,000. The participation rate sat at 67.6% in January, slightly below its record high of 67.7% set in the previous month. The unemployment rate remained at December's level of 7.4%, the same rate as in March 2003, but down from 8.0% in August.

Hourly labour productivity edged only 0.3% higher in the fourth quarter as hours worked jumped with employment and closely matched output growth. Labour costs per unit of output dipped 0.3% to stand 0.5% higher than a year earlier.

Chart 3
Profits before taxes as a share of nominal GDP



Bank of Canada lowers its policy rate

On March 2, the Bank of Canada lowered its key policy rate—the Target for the Overnight Rate—to 2.25 per cent, stating that with CPI inflation significantly below 2% this decision would "provide some additional monetary stimulus... to support aggregate demand and to return inflation to the target by the end of 2005."

Since the end of November, Canadian short-term interest rates have decreased while U.S. rates have remained steady, narrowing the gap between the two. The same is true of long-term rates, but to a lesser degree.

In recent weeks, the Canadian dollar has given back a portion of its appreciation in 2003 and very early 2004 against the U.S. dollar. It closed at 74.48 cents U.S. on March 2, off the 78.67 cents U.S. level of January 9, which represented its highest closing value in over 10 years.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Distribution Centre at (613) 995-2855. For other inquiries about this publication, contact Mostafa Askari at (613) 992-3055. Also available on the Internet at www.fin.gc.ca
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