CIBC

CIBC WORLD MARKETS

Economics
www.cibcwm.com/research

Monthly Indicators

December 3, 2002

Jeffrey Rubin	Avery Shenfeld	Benjamin Tal	Peter Buchanan	Warren Lovely	Leslie Preston
(416) 594-7357	(416) 594-7356	(416) 956-3698	(416) 594-7354	(416) 594-7359	(416) 956-3219

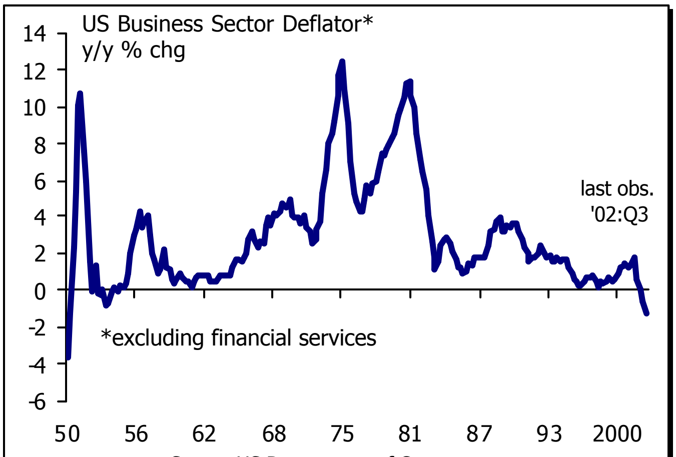
The Big D

Most economists are skeptical of its very existence, although today's investor knows its power all too well. But this time around, deflation is no longer solely in the domain of asset prices. For the first time in nearly fifty years, private sector prices are falling in the US economy. Big D is back, and while the Fed publicly refuses to recognize it, privately, it's sending chills down Board governors' backs.

Of course there is still the faint heartbeat of inflation in more closely watched price barometers. The GDP deflator, the broadest measure of prices in the US economy, is still running above zero, but only barely so, while consumer price inflation is running at 2%. But strip out government and housing, and US business prices are already heading lower (Chart).

Ostensibly, the Fed can respond to deflation by setting the funds rate to zero, following in the ill-fated footsteps of the Bank of Japan. But if private sector prices continue to fall, real rates may still be too high, even if the Fed's nominal interest rate setting is at zero. The problem with deflation is that a central bank can't set negative interest rates, and thus, can't reduce the real cost of borrowing when prices are falling.

Deflation is Back—
In the US Business Sector



Source:US Department of Commerce

The BoJ has been struggling with this liquidity trap for the past seven years. Even a zero rate of interest, which has effectively been in place since late 1995, has failed to spur any borrowing or lending (see pages 6-8). Like today in North America, the initial signs of deflation were dismissed as an aberration. Back in 1995, the BoJ was confident that its extraordinary easings would quickly rekindle demand, much in the same fashion as today's markets seem supremely confident in the resuscitating power of a 1.25% federal funds rate.

But in fact, the BoJ waited far too long to aggressively respond to deflation. First it allowed massive asset deflation in the early 1990s that crippled corporate balance sheets and deep-sixed the banking sector under a mountain of bad debt. Secondly, it didn't bring down interest rates to zero until consumer price inflation had already become negative. It failed to act pre-emptively because it never anticipated deflation would take root. However, once prices started falling, it was already too late to intervene, even with a zero interest rate.

Since then, the GDP deflator in Japan has been negative in six of the last seven years and consumer price inflation has been negative for the last four years. The lesson for the Fed from Japan is to ignore the reassuring consensus of economists, and act pre-emptively. For monetary stimulus to work, interest rates have to get to zero before inflation does.

MARKET CALL

- With few disappointments until the January earnings season, optimism reigns supreme in North American equity markets. However, the equity market will face two formidable challenges early in the new year. One is a likely repeat of the earnings disappointments that rocked valuations in September and October. Two, there will be a sufficient slowdown in the US economy to shake expectations of robust future earnings growth.

- A further 25 bp cut by the Fed is likely at the March FOMC meeting. But with some 300 basis points between overnight rates and 10-year Treasury yields, there is room for much larger declines in long-term interest rates. Even if the Fed has only one more move, there are no credible prospects for the retightening that the yield curve has already priced in.

- The deepening slowdown stateside, particularly in the manufacturing sector, is providing all the braking power that the Bank of Canada was looking for. With Canada's GDP growth clearly decelerating, the Bank of Canada will indefinitely postpone its plans for further rate hikes, providing almost as much rally room for long-dated Canadas as there is for Treasuries.

INTEREST & FOREIGN EXCHANGE RATES

		2002	2003			
END OF PERIOD:		**3-Dec.**	**Mar.**	**June**	**Sep.**	**Dec.**
CDA	Call loan (mid-point of range)	2.75	2.75	2.75	2.75	2.75
	98-Day Treasury Bills	2.70	2.60	2.60	2.70	2.70
	Chartered Bank Prime	4.50	4.50	4.50	4.50	4.50
	2-Year Gov't Bond (4.25% 12/04)	3.43	3.05	3.10	3.15	3.15
	10-Year Gov't Bond (5.25% 06/12)	5.12	4.65	4.40	4.75	4.90
	30-Year Gov't Bond (5.75% 06/29)	5.55	5.10	4.95	5.00	5.10
U.S.	Federal Funds Target	1.25	1.00	1.00	1.00	1.00
	91-Day Treasury Bills	1.21	0.90	0.95	0.95	1.00
	2-Year Gov't Note (2% 11/04)	2.04	1.55	1.60	1.75	1.85
	10-Year Gov't Note (4% 11/12)	4.21	3.55	3.35	3.75	3.90
	30-Year Gov't Bond (5.375% 02/31)	5.04	4.45	4.40	4.60	4.65
Canada - US T-Bill Spread		1.50	1.70	1.65	1.75	1.70
Canada - US 10-Year Bond Spread		0.91	1.10	1.05	1.00	1.00
Canada - US 30-Year Bond Spread		0.51	0.65	0.55	0.40	0.45
Canada Yield Curve (30-Year — 2-Year)		2.12	2.05	1.85	1.85	1.95
US Yield Curve (30-Year — 2-Year)		2.99	2.90	2.80	2.85	2.80
EXCHANGE RATES	— (US¢/C$)	64.2	64.5	66.2	67.6	70.0
	— (C$/US$)	1.557	1.550	1.510	1.480	1.429
	— (Yen/US$)	125	126	128	130	129
	— (US$/euro)	1.00	0.98	0.96	0.95	0.94
	— (US$/pound)	1.57	1.59	1.57	1.56	1.54
	— (US¢/A$)	56.0	56.5	58.0	60.0	61.0
	— (CHF/US$)	1.48	1.49	1.53	1.54	1.55

ECONOMIC AND EARNINGS UPDATE

CANADA	02Q3A	02Q4F	03Q1F	03Q2F	2001A	2002F	2003F
TSX Composite Operating Earnings (Y/Y %)*	5.3	16.0	20.0	15.0	-11.5	-5.3	15.0
Real GDP Growth (AR)	3.1	2.8	2.4	2.8	1.5	3.3	3.0
Real Final Domestic Demand (AR)	2.0	3.2	2.9	2.9	2.5	2.7	3.0
CPI Inflation (Y/Y)	2.3	3.6	3.2	2.6	2.5	2.2	2.4
Unemployment Rate (%)	7.6	7.6	7.5	7.4	7.2	7.7	7.4
Merchandise Trade Balance (C$ Bn)	56.0	54.4	54.0	55.6	64.0	55.0	58.1
U.S.							
S&P 500 Operating Earnings ($/share)	12.3	12.7	12.4	13.9	48.2	48.5	53.9
Real GDP Growth (AR)	4.0	1.5	1.8	2.3	0.3	2.4	2.3
Real Final Sales (AR)	3.5	1.2	1.8	2.2	1.5	1.8	2.0
CPI Inflation (Y/Y)	1.6	2.2	2.2	2.0	2.8	1.6	1.8
Unemployment Rate (%)	5.7	5.8	6.2	6.4	4.8	5.8	6.3

* Excluding Nortel

CANADA

- A pause in consumer spending saw Canadian growth slip below that of the US in Q3, with a 3.1% annualized tally a point shy of the Bank of Canada's earlier projection. Although Canada is expected to overtake the US in coming quarters, we continue to expect real GDP growth rates below 3% through mid-2003. Impressive job growth suggests consumers will regain some footing, but inventories are no longer contributing to growth and business investment spending remains tepid. Moreover, a slump in America's factory sector points to muted export gains in the near term.

- A dramatic falloff in prices last November will produce a scary figure for headline inflation in this month's report, with a roughly 4% year-over-year pace anticipated. Beyond that, CPI reports will be buffeted by Ontario's re-regulation of electricity prices (see page 5). Indeed, a looming rebate for consumers is likely to trim about half a point from December's monthly headline. Farther ahead, we continue to see core inflation abating to 2% (the mid-point of the Bank of Canada's target band) by mid-2003.

UNITED STATES

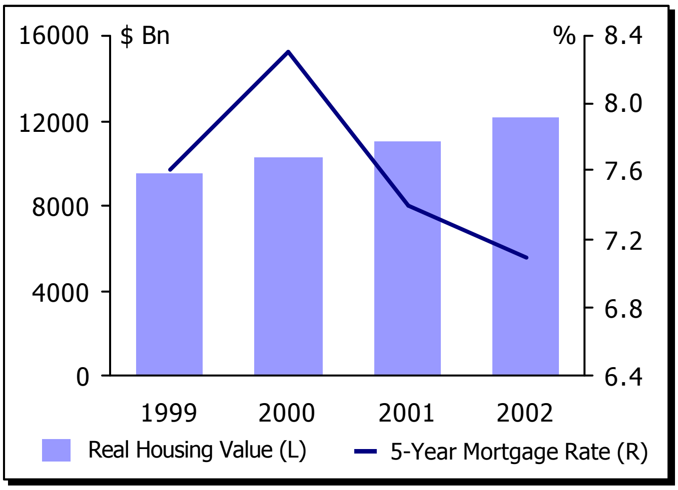
- The upward revision to Q3 growth puts a bit of downward pressure on Q4 due to the greater inventory build. While retailing should make a comeback as recent mortgage refi applications come through, the offset from lower quarterly vehicle sales will still leave consumer spending showing very modest growth in Q4. Add to that an only flat picture for business spending, and our earlier call for a 1.5% Q4 GDP pace remains on track, with similar results in store early next year. The 12-month CPI will remain elevated for a few months due to energy prices, but the annual average for 2003 masks a downtrend to less than 1.5% in Q4 2003.

- S&P 500 earnings are turning the corner thanks to savage cost cutting, which has contributed to the fastest yearly productivity growth in three decades. The drag from vanishing pricing power and weak offshore remittances mean, however, that it will be another year before operating earnings regain late 2000's peak.

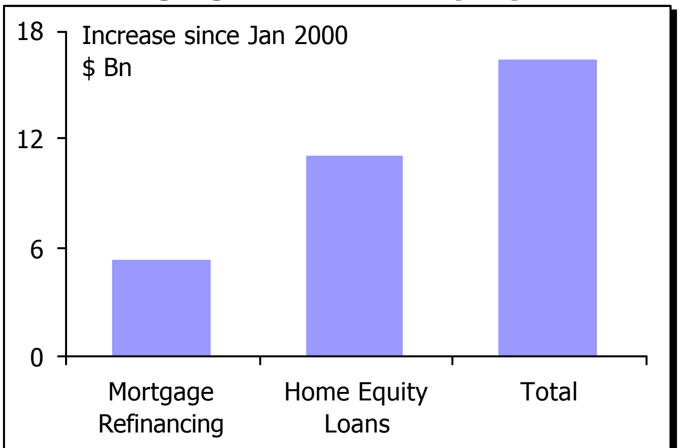
Canada: Banking on the House

Benjamin Tal

Rising Home Equity

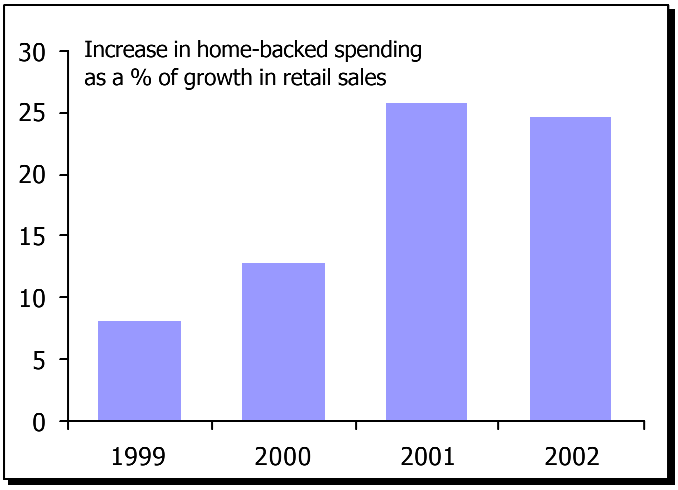


Borrowing Against Home Equity



Source: Equifax, CIBCWM

Extra Cash Supports Spending



The House as a Piggy Bank

In the October issue of *Monthly Indicators* we showed that the substantial increase in real estate values over the past few years has provided consumers with an extra boost as a result of a positive wealth effect. But the impact of increased home valuations is about much more than a psychological lift to consumers. It allows consumers to approach their financial institutions confidently and ask for increased credit, using the gain in the value of their homes as added collateral. And with mortgage rates trending lower, consumers are in a win-win situation.

Increased Home-Backed Financing

Canadian consumers are required to pay a penalty for refinancing their mortgage. But evidently, that has not been a major deterrent. We estimate that during the past three years, increased principal from mortgage refinancing activity has led to $5.3 billion in extra borrowing. Canadians also capitalized on the rising equity of their homes by increasing the utilization of home equity loans. Currently home equity loans are rising by over 20% annually. That's meant an additional $11 billion in home-backed borrowing over the past three years. In sum, we estimate that since early 2000, the combined impact of mortgage refinancing and home equity loans has generated more than $15 billion in added cash for consumers, equivalent to 2.2% of annual disposable income.

Extra Boost to Consumers

If Canadian consumers are anything like their US counterparts, a significant portion of this extra cash was used for increased spending, amounting to a quarter of recent retail sales growth. That's been a much needed supplement, given the disappointing 1.5% growth in real disposable income since the beginning of the year. But mortgage refinancing makes sense only when interest rates are declining. Any lasting increase in interest rates will eliminate this source of cash to consumers. That's something the Canadian economy cannot yet afford, with consumers having to carry the economy until corporate Canada finds its footing.

Unplugging Ontario's Electricity Market

Warren Lovely

Core Inflation Gets Temporary Reprieve...

Ontario has pulled the plug on electricity price deregulation, but the fallout will nonetheless put a charge into near-term economic developments. At its summer peak, surging Ontario electricity costs were adding between 0.3 and 0.4%-points to the 12-month rate of *nationwide* core inflation. Prices had already eased towards the new regulated level as December 1st approached, meaning the adoption of a fixed price won't *itself* lever huge further declines in CPI. But full rebates on past payments over and above 4.3¢/kWh should temporarily chop half a point or more from Canadian monthly core inflation in December, with rebates depressing price levels early in 2003 as well.

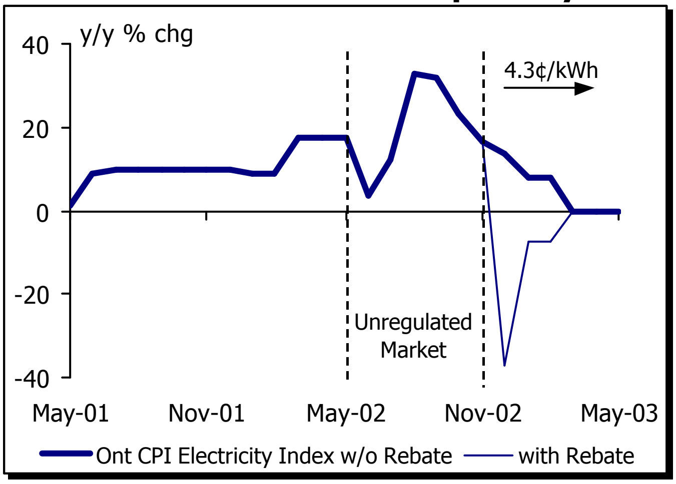
... While Holiday Spending Receives Boost

Ontario aims to deliver an initial $75 refund to consumers by year-end, with further relief expected in the new year. Given a customer base of 4 million, the initial price tag of the *residential* rebate stands at about $300 million. Not all households will see the money, however, as some utilities (including Toronto Hydro) had been charging a steady 4.3¢/kWh instead of the going rate in the open market. Still, the amount landing in the pockets of consumers should represent some 2½% of Ontario's average monthly retail sales. The recent track record suggests consumers won't be shy to spend the money. Alberta's $600 million rebate program in early 2001 spawned a retail sales bonanza, leaving growth twice as fast as in the rest of the country.

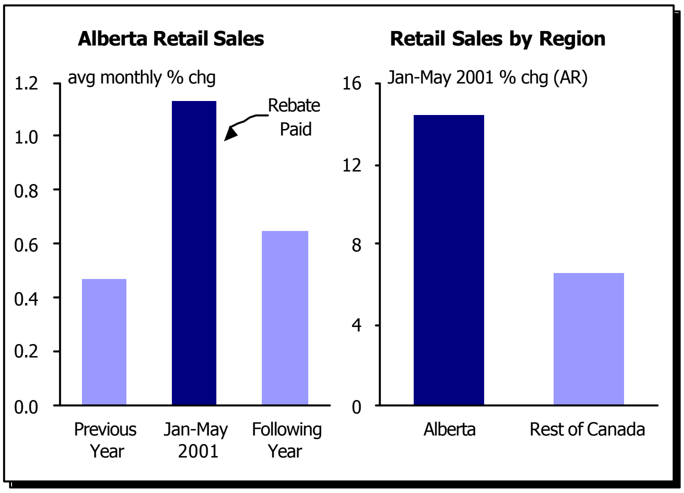
Fiscal Hit Limited

Adding relief for commercial/industrial users could bring the cost of the retroactive rebate to $700 million. At least in terms of the initial rebate, the government has a built-in mechanism that insulates it financially. Under the deregulated system, provincially-owned Ontario Power Generation was already committed to giving rebates to the extent that wholesale prices exceeded 3.8¢/kWh. Through late-November, OPG had set aside more than $700 million, enough to cover the government's new commitment to power users. The same Market Power Mitigation mechanism is expected to finance the lion's share of future liabilities should wholesale costs run above 4.3¢/kWh.

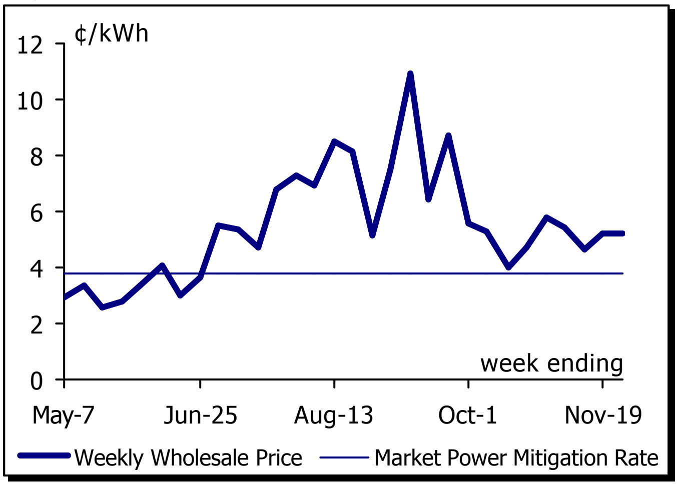
Rebates Cool Inflation Temporarily



Consumers Have Spent Past Rebates



Market Power Mitigation Agreement Protects Province



Is the US Following in Japan's Footsteps?

Jeff Rubin, Avery Shenfeld and Peter Buchanan

While deflation is no stranger to history, it has been a relatively rare and isolated phenomenon in the post-war economy. However, for the better part of the last decade, the world's second largest economy, Japan, has been mired in a deflationary quagmire. And now there is growing concern that deflation may soon be spreading to the US economy as well.

What makes deflation so troublesome is that it is not easy to remedy. When prices trend lower, borrowers are unable to meet fixed debt obligations, consumers opt to defer spending in the hopes of seeing even lower prices, and central banks can't get real interest rates low enough to stimulate demand. Nowhere is that trap more apparent than in the Japanese economy. The dip in Japanese prices in late 1995 was not the statistical anomaly that both the Bank of Japan and the vast majority of economists at the time thought. Instead it was the harbinger of a sustained period of falling prices. Japan's GDP deflator has been negative in six of the last seven years and consumer price inflation has been negative in each of the last four (Chart 1).

While outright deflation did not break out in Japan until 1995, its seeds were sown much earlier. The country experienced massive asset deflation in both equities and real estate. The bursting of the Japanese asset bubble in 1990 followed a period of unprecedented gains, not unlike America's internet stock bubble. But by the end of 1995, the Nikkei had lost half its peak capitalization and land prices had fallen by 40% (Chart 1).

Although the Bank of Japan responded with unprecedented cuts in interest rates, the central bank very quickly fell behind the deflation curve. By waiting to see the whites of deflation's eyes, nominal short-term interest rates did not get to zero before prices began falling, a delay which proved to be enormously costly insofar as real interest rates were concerned. Once prices fell, real interest rates rose (Chart 2), even when the Bank of Japan set nominal interest rates to zero. The delay in cutting interest rates to zero was largely the result of the Bank of Japan's reluctance to recognize the chronic deflationary threat the Japanese economy was facing.

Why did the Bank of Japan take so long to react? In large measure because it never believed that deflation could be effectively transmitted from asset markets to the real economy. Nor for that matter did economists at the time. Consensus forecasts in 1995 called for reflation in Japan's economy in response to what appeared to be an unprecedented amount of monetary easing. Indeed, consensus forecasts of inflation did not catch up to the reality of deflation until prices had fallen for two years (Chart 3).

For that matter, the government bond market was no more prescient than the Bank of Japan or economic forecasters. It took almost three years for the JGB market to recognize that zero interest rates were here to stay. The spread between 10-year JGBs and the Bank of Japan's overnight rate soared to 300 basis points as

Chart 1

Japan's Deflationary Bind

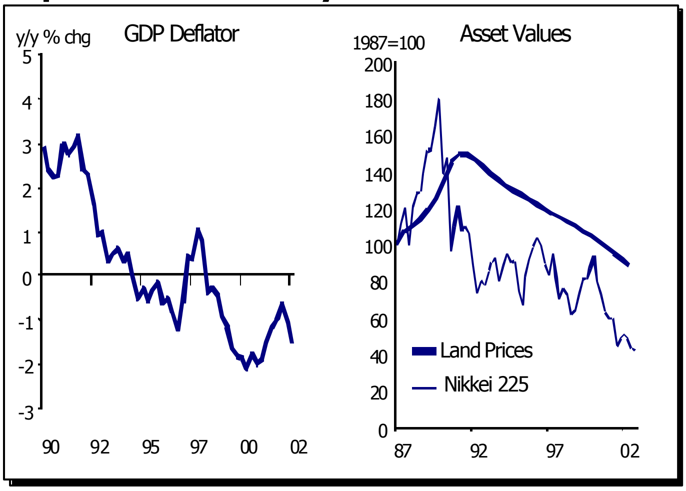


Chart 2

Japanese Real Rates Rising Since 1997

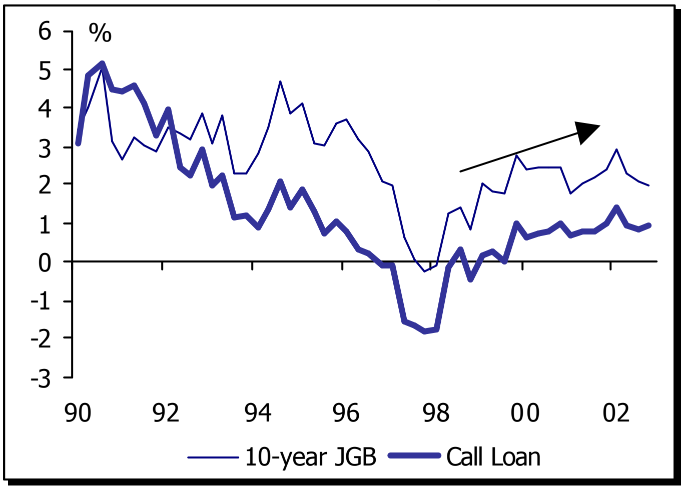
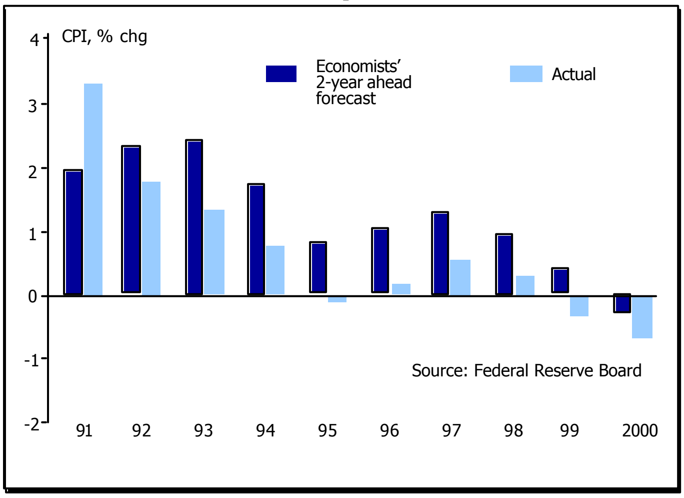


Chart 3

Consensus Missed Japan's Deflation



the yield curve steepened dramatically in response to the 1995 easing. Nevertheless, in the end, the JGB market finally got the message as it recalibrated its longer-term expectations of interest rates (Chart 4). By late 1998, when the curve ultimately flattened, 10-year JGB yields had fallen as much as short rates.

Hidden US Deflation

Japan's tough lessons are of more than passing interest to US investors. How much comfort can be drawn from consensus forecasts showing little risk of deflation, given that the same crowd understated those risks in Japan? Even if the overall US CPI never dips below zero, the outsized economic costs of deflation make that risk a critical issue for monetary policy.

Indeed, the private sector GDP deflator is already in negative territory (see cover chart). In the core CPI, most of the inflation that remains captures housing's one-time response to low interest rates and quasi-regulated and administered prices. Where markets rule, deflation is already well entrenched (Chart 5).

More to Come

Looking ahead, some of the same forces that hit Japan pose risks to US pricing power. The 1990s' investment boom left in its wake a huge overhang of excess capacity. Capacity use rates in US manufacturing are 7%-points below their 2000 average, and 3%-points below where they stood after the 1991 recession.

With all that slack, everyone from automakers to telecom networks are motivated to slash prices to get some revenue flows to cover heavy fixed costs and keep plants in operation. In Japan's case, the excess capacity was kept in operation as the financial system failed to foreclose on shaky banks or their lending clients. But in the US, companies emerging from Chapter 11 have also left the actual facilities in operation. Productivity growth has also meant that existing capacity has ever-greater production capability. And with wages tame, unit labour costs are also showing negative inflation, down 2% over the past year.

Moreover, as in Japan, a strong currency and overseas slack makes import price deflation a powerful force. Indeed, non-petroleum import prices have been falling for most of the period since 1996, coinciding with an uptrend in the trade-weighted value of the dollar

Chart 4

Took Almost 3 Years for JGB Curve to Get It

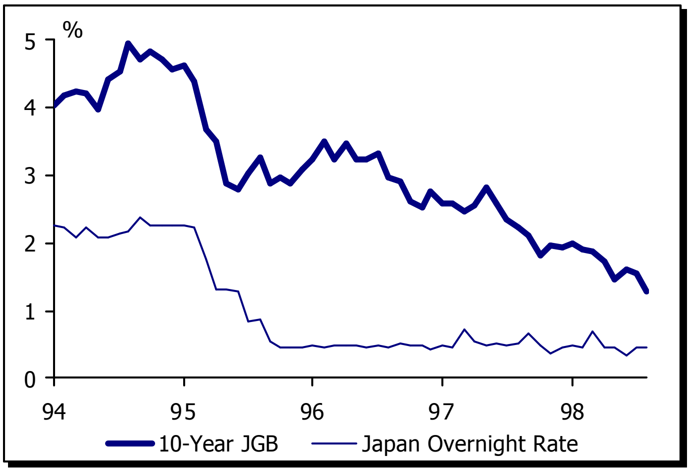


Chart 5

CPI—Inflation Focused in Public/ Regulated Components

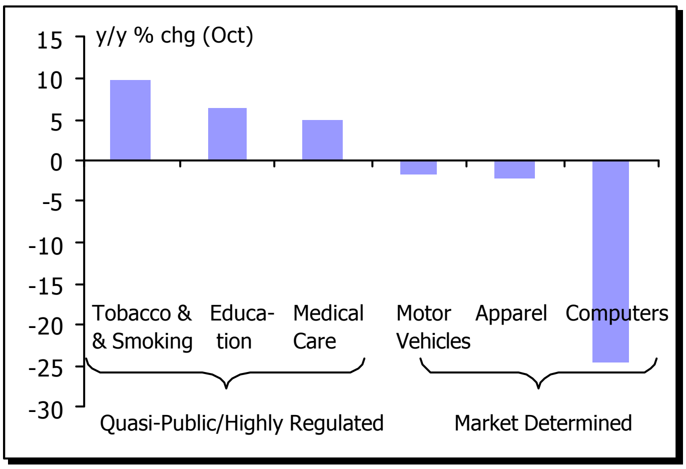
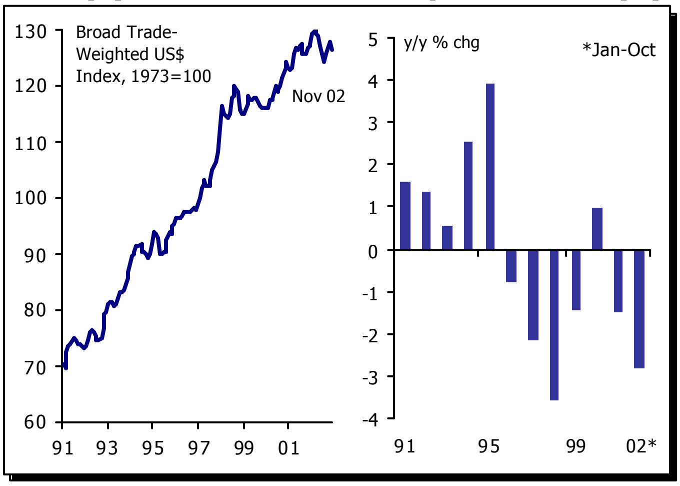


Chart 6

US$ (L); Ex-Petroleum Import Prices (R)



(Chart 6). Fed rate cuts haven't made a dent in the dollar's supremacy. China's emergence as a manufacturing powerhouse continues to have profound impacts on goods prices, with US imports from that low-cost region tripling since 1995.

But even without that overseas supplier threat, US economic slack represents a significant future downward pull on prices. One useful gauge of that threat is the size of the output gap—the degree to which real GDP lies below its estimated non-inflationary potential. The latter is growing rapidly despite the absence of investment spending, with recent productivity growth trends suggesting a 3.5-4.0% non-inflationary growth rate. Contrast that with the 1.5% average GDP growth rate since the end of 2000, and our forecast 2.1% growth over the next four quarters.

Even if the economy was a bit beyond its non-inflationary limits at the end of 2000, the subsequent recession and sub-par recovery has already left a roughly 3.5% output gap. That measure looks consistent with the Fed's published estimates for the early 1990s and the relative position of today's economy. Historical relationships suggest that, if sustained, that degree of slack would push the growth rate in the GDP deflator down by about three-quarters of a percentage point per year, and drag CPI inflation to zero sometime in 2004.

Fed Goes to School on Japan

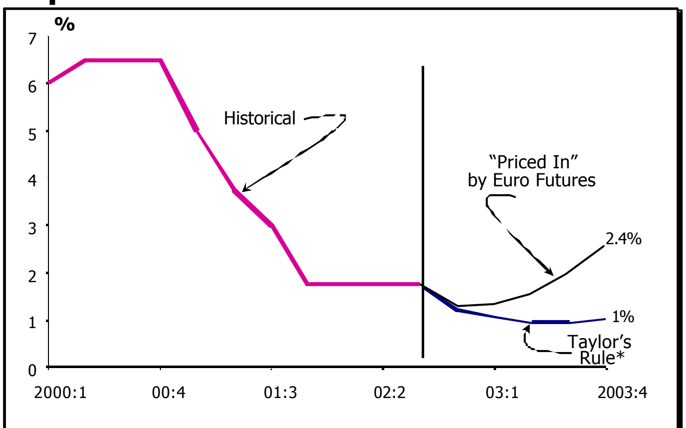
Today's 1.25% overnight rate doesn't look that aggressive, when compared with the recommendations of one common benchmark, the Taylor Rule, an optimal rate based on current inflation, targeted inflation and the output gap. Using our output gap estimate, the 1.6% rate for the Q3 consumption deflator (the Fed's preferred inflation metric), and a 2.5% inflation target, the Taylor Rule would call for a 1% funds rate (Chart 7).

Moreover, a recent Fed staff study emphasized the need to hold rates at atypically low levels in early-stage economic recoveries when low inflation risks tipping into outright deflation[1]. A central bank that has gone to school on Japan's troubles will cut again, and be in no hurry to deliver the tightening cycle that the bond market still prices in for 2003-04.

[1] *See Reifschneider, D. and Williams, John C., Three Lessons for Monetary Policy in a Low Inflation Era, Board of Governors of the Federal Reserve System, 1999.*

Chart 7

Fed Funds: Taylor Rule vs Market Expectations



*Assumptions: 3.5% Output Gap (02:Q3), CIBC GDP Forecast, 2.5% Inflation Target

CANADIAN RELEASE AND EVENT DATES

December 2002

CIBC World Markets

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY

Monday 2

Tuesday 3

Bank of Canada Rate Announcement

Wednesday 4

INTERNATIONAL RESERVES

8:15 AM

	M CHANGE	$BN LEVEL
SEP	-0.481	36.6
OCT	0.641	37.3
NOV		

Thursday 5

BUILDING PERMITS

8:30 AM

	(RES)	(NON-RES)
AUG	4.5	-9.7
SEP	-4.4	-11.3
OCT		

HELP WANTED INDEX

8:30 AM

Friday 6

LABOUR FORCE SURVEY

7:00 AM

	EMPLOY (HOUSE) M	EMPLOY (HOUSE) Y	UNEMP RATE %	AVG HRLY EARN Y
SEP	0.3	2.9	7.7	2.8
OCT	0.2	3.1	7.6	2.7
NOV				

Monday 9

HOUSING STARTS

8:15 AM

000's (AR)

	TOTAL	SINGLES
SEP	199.7	105
OCT	220.1	112
NOV		

IVEY PURCHASING MANAGERS' INDEX

10:00 AM

Tuesday 10

Wednesday 11

CAPACITY UTILIZATION

8:30 AM LEVEL (%)

	TOTAL	MANUF.
02:Q1	81.9	80.9
02:Q2	83.2	82.7
02:Q3		

Thursday 12

CAR & TRUCK SALES

8:30 AM 000's (AR)

	TOTAL	DOMESTIC BUILT CAR SALES
AUG	1,753	681
SEP	1,746	671
OCT		

Friday 13

LEADING INDICATOR

8:30 AM

	LEVEL	M
SEP	179.0	0.2
OCT	179.3	0.2
NOV		

LABOUR PRODUCTIVITY

8:30 AM

Monday 16

Tuesday 17

SURVEY OF MANUFACTURING

8:30 AM SHIPMENTS

	M	Y
AUG	0.6	3.1
SEP	1.2	7.4
OCT		

WAGE SETTLEMENTS

10:00 AM (%)

	PVT.	PUB.	TOT.
AUG	2.3	3.3	2.8
SEP	3.2	3.4	3.3
OCT			

Wednesday 18

MERCHANDISE TRADE

8:30 AM

	$MN M	12 MO. BALANCE
AUG	4,207	53,827
SEP	4,900	54,333
OCT		

Thursday 19

WHOLESALE TRADE

8:30 AM

Friday 20

CONSUMER PRICE INDEX

7:00 AM

	M (NSA)	Y
SEP	0.0	2.3
OCT	0.3	3.2
NOV		

MONEY SUPPLY M-2

	M	Y
SEP	0.3	6.9
OCT	0.3	6.5
NOV		

Monday 23

INT'L TRANSACTIONS IN SECURITIES C$BN

8:30 AM

	NET BONDS	NET MONEY MARKET	NET STOCKS	NET TOTAL
AUG	2.6	-1.3	0.3	1.6
SEP	0.5	-0.8	-1.3	-1.6
OCT				

RETAIL TRADE

8:30 AM (Current$)

	M	Y
AUG	0.4	6.6
SEP	-0.5	7.7
OCT		

Tuesday 24

GDP AT BASIC PRICES

8:30 AM (1997$)

	GDP M	INDUST. PROD. M
AUG	0.2	-0.1
SEP	0.1	0.3
OCT		

Wednesday 25

CHRISTMAS DAY (HOLIDAY) (MARKETS CLOSED)

Thursday 26

BOXING DAY (HOLIDAY) (CDN MARKETS CLOSED)

Friday 27

Monday 30

Tuesday 31

Wednesday 1

NEW YEAR'S DAY (HOLIDAY) (MARKETS CLOSED)

Thursday 2

Friday 3

INDUSTRIAL PRICES

8:30 AM

	M (NSA)	Y
SEP	0.7	0.6
OCT	0.4	2.4
NOV		

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annua rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets. Dates are subject to change. Sources for historical data: Statistics Canada, CMHC, Human Resources Development Canada, and the Bank of Canada.

CANADIAN ECONOMIC INDICATORS

Updated to December 3, 2002	2000 ANNUAL	2001 ANNUAL	2002 APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV
Chain Weighted GDP (1997$ Mn) AR	**1,012,335**	**1,027,523**			**1,058,486**			**1,066,551**		
%ch. at AR	4.5	1.5			4.4			3.1		
Index of Leading Indicators (1992=100)	**163.4**	**166.5**	**175.2**	**176.6**	**177.5**	**178.3**	**178.7**	**179.0**	**179.3**	
%ch. from previous month	8.1	1.9	1.2	0.8	0.5	0.5	0.2	0.2	0.2	
GDP at Basic Prices (Chained 1997$ Mn) AR	**933,713**	**947,039**	**970,743**	**971,822**	**973,591**	**977,962**	**979,586**	**980,716**		
%ch. from previous month			0.7	0.1	0.2	0.4	0.2	0.1		
%ch. from year earlier	4.6	1.4	2.8	2.2	2.6	3.4	3.3	4.1		
Ind. Prod. At Basic Prices (1997$ Mn) AR	**232,965**	**225,036**	**230,443**	**228,852**	**228,644**	**231,960**	**231,629**	**232,398**		
%ch. from previous month	5.1	-3.4	1.4	-0.7	-0.1	1.5	-0.1	0.3		
Capacity Utilization - Total Industry (%)	**85.9**	**82.3**			**83.2**					
Merchandise Trade Balance ($Mn)	**62,155**	**64,015**	**5,509**	**4,537**	**3,445**	**4,895**	**4,207**	**4,900**		
12-month running balance			55,585	54,523	53,119	53,672	53,827	54,333		
Fed. Govt. Financial Reqs.($Bn)*	**16.1**	**19.7**	**-4.7**	**-3.9**	**-3.9**	**0.3**	**-0.1**	**1.6**		
12-month running balance			1.6	-7.1	-5.9	-7.4	-8.3	-9.0		
Unemployment Rate (%)	**6.8**	**7.2**	**7.6**	**7.7**	**7.5**	**7.6**	**7.5**	**7.7**	**7.6**	
Employment - Household Survey ('000)	**14,911**	**15,076**	**15,297**	**15,327**	**15,394**	**15,417**	**15,476**	**15,517**	**15,550**	
%ch. from previous month			0.2	0.2	0.4	0.1	0.4	0.3	0.2	
%ch. from year earlier	2.6	1.1	1.4	1.6	2.1	2.3	2.7	2.9	3.1	
Total Actual Hours Worked ('000)	**511.0**	**510.0**	**517.6**	**514.7**	**518.4**	**516.9**	**513.4**	**516.8**	**508.7**	
Housing Starts ('000) AR	**152.9**	**163.3**	**184.7**	**202.5**	**200.8**	**204.3**	**215.2**	**199.7**	**220.1**	
Building Permits - Residential (%CH.)	**-24.7**	**18.7**	**11.5**	**-11.8**	**-3.3**	**7.5**	**4.5**	**-4.4**		
Building Permits - Non-Residential (%CH.)	**13.0**	**-8.0**	**-1.8**	**6.8**	**20.8**	**0.4**	**-9.7**	**-11.3**		
Retail Trade ($Mn)	**277,033**	**289,130**	**25,461**	**25,200**	**25,661**	**25,609**	**25,712**	**25,572**		
%ch. from previous month			1.0	-1.0	1.8	-0.2	0.4	-0.5		
%ch. from year earlier	6.2	4.4	5.6	4.2	6.3	6.5	6.6	7.7		
Retail Trade (1997$ Mn)	**267,322**	**274,199**	**23,922**	**23,735**	**24,141**	**23,995**	**24,045**	**23,915**		
%ch. from previous month			0.1	-0.8	1.7	-0.6	0.2	-0.5		
%ch. from year earlier	4.5	2.6	5.0	4.5	6.1	5.4	5.4	7.1		
Car & Truck Sales-Total ('000) AR	**1,588**	**1,598**	**1,705**	**1,745**	**1,713**	**1,682**	**1,753**	**1,746**		
Manufacturing Shipments ($Mn)	**536,777**	**510,438**	**43,982**	**43,380**	**43,228**	**43,709**	**43,983**	**44,495**		
%ch. from year earlier	9.1	-4.9	1.3	-1.9	0.8	2.5	3.1	7.4		
Manufacturing New Orders ($Mn)	**539,654**	**506,926**	**43,693**	**43,500**	**43,400**	**43,181**	**44,645**	**44,087**		
%ch. from year earlier	8.4	-6.1	-0.8	-2.3	2.3	0.9	5.9	6.7		
Total Household Credit ($Mn)	**615,874**	**649,774**	**682,067**	**686,984**	**691,435**	**697,086**	**701,258**	**703,504**		
%ch. from year earlier	7.0	5.5	6.3	6.5	6.7	7.0	7.2	7.1		
Total Household Credit as a % of PDI	**96.6**	**97.6**	**98.7**	**99.1**	**99.1**	**99.4**	**99.4**			
Total Business Credit ($Mn)	**791,267**	**832,928**	**855,074**	**855,808**	**856,885**	**857,933**	**861,368**	**863,292**	**865,070**	
%ch. from year earlier	6.9	5.3	4.2	3.7	3.3	3.0	2.7	2.3	2.1	
Total Household & Business Credit ($Bn)	**1,410**	**1,483**	**1,537**	**1,543**	**1,548**	**1,555**	**1,563**	**1,567**		
%ch. from year earlier	7.0	5.1	5.1	4.9	4.8	4.8	4.7	4.4		
Consumer Price Index (NSA ,1992=100)	**113.5**	**116.4**	**118.4**	**118.6**	**119.0**	**119.6**	**120.1**	**120.1**	**120.5**	
%ch. from previous month			0.6	0.2	0.3	0.5	0.4	0.0	0.3	
%ch. from year earlier	2.7	2.5	1.7	1.0	1.3	2.1	2.6	2.3	3.2	
Industrial Product Price Index (NSA, 1997=100)	**106.5**	**107.6**	**107.7**	**107.0**	**106.8**	**107.1**	**107.8**	**108.6**	**109.0**	
%ch. from previous month			0.3	-0.6	-0.2	0.3	0.7	0.7	0.4	
%ch. from year earlier	4.3	1.0	-1.1	-2.2	-1.1	-0.1	0.6	0.6	2.4	
Raw Materials Price Index (NSA, 1997=100)	**114.7**	**113.2**	**112.4**	**113.6**	**110.8**	**112.8**	**114.4**	**116.8**	**116.7**	
%ch. from previous month			1.4	1.1	-2.5	1.8	1.4	2.1	-0.1	
%ch. from year earlier	22.3	-1.3	-5.4	-4.5	-4.7	-1.3	0.3	5.5	11.1	
Avg. Hourly Earn.- Ind. Agg. (NSA, $)	**$16.5**	**$16.8**	**$17.18**	**$17.14**	**$17.11**	**$17.08**	**$17.08**	**$17.05**		
%ch. from year earlier	2.8	1.8	2.9	2.7	2.4	1.8	1.4	0.9		
Priv. Sector Wage Settlements (NSA, %)**	**2.4**	**2.9**	**1.4**	**3.1**	**2.7**	**1.6**	**2.3**	**3.2**		
Real Gross M1 (1992$ Mn)	**93,187**	**102,200**	**108,958**	**109,537**	**111,648**	**112,469**	**112,860**	**113,127**	**112,748**	
%ch. from previous month			-0.9	0.5	1.9	0.7	0.3	0.2	-0.3	
%ch. from year earlier	12.9	9.7	9.6	10.7	12.0	11.5	11.5	8.4	6.3	
M2 ($Mn)	**489,302**	**517,482**	**540,839**	**542,321**	**549,770**	**553,560**	**556,882**	**558,571**	**560,087**	
%ch. from previous month			0.7	0.3	1.4	0.7	0.6	0.3	0.3	
%ch. from year earlier	6.3	5.8	5.6	5.7	6.8	7.2	7.6	6.9	6.5	

* Excluding foreign exchange transactions. A negative (-) indicates a requirement for funds. Source: Fiscal Monitor (Monthly)(FY)

** Avge annual effective increase (including COLA)

All data seasonally adjusted except where noted "NSA"   AR: Annual Rate

U.S. RELEASE AND EVENT DATES
December 2002

CIBC World Markets

MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY

Week of December 2

Monday 2

ISM MANUFACTURING SURVEY (Formerly NAPM)

10:00 AM	COMP. INDEX	PRICES INDEX
SEP	49.5	62.5
OCT	48.5	58.3
NOV	49.2	55.7

DOMESTIC AUTO SALES

Tuesday 3

Wednesday 4

NON-FARM PRODUCTIVITY

8:30 AM	Q/Q (AR)	Y/Y
02:Q2 (R)	1.5	4.8
02:Q3 (P)	4.0	5.3
02:Q3 (R)		

FACTORY ORDERS

10:00 AM	M	Y
AUG	-0.4	1.1
SEP	-2.3	3.9
OCT		

ISM NON-MANUFACTURING SURVEY
10:00 AM

Thursday 5

Friday 6

EMPLOYMENT SITUATION
8:30 AM

	NON-FARM PAYROLL (000s)	CIV UNEMP RATE	AVG HRLY EARN
	M	%	Y
SEP	-13	5.6	3.0
OCT	-5	5.7	3.0
NOV			

CONSUMER CREDIT
3:00 PM

Week of December 9

Monday 9

Tuesday 10

WHOLESALE TRADE
10:00 AM

FOMC Meeting

Wednesday 11

Thursday 12

RETAIL SALES

8:30 AM	M	Y
SEP	-1.3	5.3
OCT	0.0	-0.7
NOV		

CURR. ACCOUNT BALANCE
8:30 AM

FOMC Minutes

MONEY SUPPLY M-2

4:30 PM	M	Y
SEP	0.4	6.2
OCT	0.9	7.3
NOV		

Friday 13

PRODUCER PRICE INDEX

8:30 AM	M (SA)	Y (NSA)
SEP	0.1	-1.9
OCT	1.1	0.6
NOV		

BUSINESS INVENTORIES

8:30 AM	M	I/SALES
AUG	0.1	1.35
SEP	0.5	1.36
OCT		

MICHIGAN SENTIMENT (P)
9:50 AM

Week of December 16

Monday 16

Tuesday 17

CONSUMER PRICE INDEX

8:30 AM	M (SA)	Y (NSA)
SEP	0.2	1.5
OCT	0.3	2.0
NOV		

HOUSING STARTS
8:30 AM

	MILLIONS (AR)	M
SEP	1.810	11.0
OCT	1.603	-11.4
NOV		

CAPACITY UTIL/IND. PROD.

9:15 AM	LEV	M	Y
SEP	75.8	-0.2	1.4
OCT	75.2	-0.8	1.2
NOV			

Wednesday 18

GOODS & SERVICES BALANCE (BOP)

8:30 AM	GDS	SERV	TOT
AUG	-42.3	4.1	-38.3
SEP	-41.8	3.8	-38.0
OCT			

Thursday 19

LEADING INDICATOR
10:00 AM

PHILADELPHIA FED INDEX
10:00 AM

TREASURY BUDGET
2:00 PM

Friday 20

GROSS DOMESTIC PRODUCT

8:30 AM	(AR) REAL GDP	IMPLICIT DEFLATOR
02:Q2(F)	1.3	1.2
02:Q3(P)	4.0	1.0
02:Q3(F)		

Week of December 23

Monday 23

PERS. INCOME & OUTLAYS

8:30 AM	INCOME	CONS	SAVING RATE
SEP	0.4	-0.4	4.4
OCT	0.1	0.4	4.2
NOV			

MICHIGAN SENTIMENT (F)
9:50 AM

Tuesday 24

DURABLE GOODS ORDERS

8:30 AM	M	Y
SEP	-4.6	6.2
OCT	2.8	0.0
NOV		

Wednesday 25

CHRISTMAS DAY (HOLIDAY) (MARKETS CLOSED)

Thursday 26

Friday 27

NEW HOME SALES
10:00 AM

Week of December 30

Monday 30

EXISTING HOME SALES
10:00 AM

Tuesday 31

CHICAGO PMI
10:00 AM

CONSUMER CONFIDENCE
10:00 AM

Wednesday 1

NEW YEAR'S DAY (HOLIDAY) (MARKETS CLOSED)

Thursday 2

ISM MANUFACTURING SURVEY (Formerly NAPM)

10:00 AM	COMP. INDEX	PRICES INDEX
OCT	48.5	58.3
NOV	49.2	55.7
DEC		

Friday 3

DOMESTIC AUTO SALES

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets. Dates are subject to change. Sources for historical data: U.S. Department of Commerce, U.S. Department of Labour, and U.S. Federal Reserve Board.

U.S. ECONOMIC INDICATORS

Updated to December 3, 2002	2000 ANNUAL	2001 ANNUAL	2002 APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV
Chain Weighted GDP (1996$ Bn) AR	**9,191**	**9,215**			**9,392**			**9,484**		
% ch. at AR	3.8	0.3			1.3			4.0		
Index of Industrial Production (1992=100)	**145.7**	**140.4**	**138.8**	**139.4**	**140.3**	**141.0**	**140.7**	**140.4**	**139.3**	
% ch. from previous month			0.1	0.4	0.6	0.5	-0.2	-0.2	-0.8	
% ch. from year earlier	4.5	-3.7	-2.3	-1.6	0.0	0.4	0.5	1.4	1.2	
Capacity Utilization - Total Industry (%)	**81.8**	**76.8**	**75.3**	**75.6**	**76.0**	**76.3**	**76.1**	**75.8**	**75.2**	
Goods & Services Trade Bal. ($Bn) BOP	**-31.6**	**-29.9**	**-36.0**	**-37.7**	**-36.8**	**-35.1**	**-38.3**	**-38.0**		
12 month running balance			-360.2	-367.8	-373.7	-378.0	-386.8	-405.3		
Fed. Govt. Unified Budget Balance* ($Bn)	**21.24**	**7.86**	**67.17**	**-80.63**	**29.07**	**-29.16**	**-54.71**	**42.51**	**-53.99**	
12 month running balance			-102.5	-155.2	-158.0	-190.0	-164.7	-157.7	-204.0	
Unemployment Rate (Civilian) (%)	**4.0**	**4.8**	**6.0**	**5.8**	**5.9**	**5.9**	**5.7**	**5.6**	**5.7**	
Employment - HH Survey (Civilian)(Mns)	**135.2**	**135.0**	**134.0**	**134.4**	**134.1**	**134.0**	**134.5**	**135.2**	**134.9**	
% ch. from previous month			0.1	0.3	-0.3	0.0	0.3	0.5	-0.2	
% ch. from year earlier	1.3	-0.1	-1.1	-0.6	-0.7	-0.8	0.0	0.1	0.2	
Employment-Est.Survey (Non-farm)(Mns)	**131.7**	**131.9**	**130.7**	**130.7**	**130.7**	**130.8**	**130.9**	**130.9**	**130.9**	
% ch. from previous month	2.2	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.0	
Average Weekly Hours (Private Non-farm)	**34.4**	**34.2**	**34.2**	**34.2**	**34.3**	**34.0**	**34.1**	**34.2**	**34.1**	
Housing Starts - Total (Millions) AR	**1.573**	**1.603**	**1.566**	**1.742**	**1.692**	**1.652**	**1.631**	**1.810**	**1.603**	
Housing Permits (Millions) AR	**1.598**	**1.639**	**1.631**	**1.676**	**1.706**	**1.712**	**1.666**	**1.733**	**1.772**	
Personal Income ($Bn) AR	**8,407**	**8,685**	**8,869**	**8,906**	**8,966**	**8,964**	**8,992**	**9,029**	**9,037**	
% ch. from previous month	8.0	3.3	0.4	0.4	0.7	0.0	0.3	0.4	0.1	
Personal Consumption ($Bn) AR	**6,684**	**6,987**	**7,243**	**7,245**	**7,277**	**7,354**	**7,379**	**7,348**	**7,375**	
% ch. from previous month	7.0	4.5	0.5	0.0	0.4	1.1	0.3	-0.4	0.4	
Personal Saving Rate (%)	**2.8**	**2.3**	**3.6**	**4.0**	**4.3**	**3.4**	**3.5**	**4.4**	**4.2**	
Retail Sales ($Bn)	**3,360.8**	**3,489.6**	**299.6**	**296.6**	**300.6**	**304.2**	**305.6**	**301.6**	**301.7**	
% ch. from previous month	6.7	3.8	1.2	-1.0	1.4	1.2	0.5	-1.3	0.0	
Car Sales - (Mn units) AR	**8.9**	**8.4**	**8.5**	**7.8**	**8.0**	**8.8**	**8.7**	**7.9**	**7.3**	
Light Truck Sales - (Mn units) AR	**8.4**	**8.6**	**8.7**	**7.8**	**8.3**	**9.3**	**9.9**	**8.3**	**8.0**	
Net New Consumer Credit ($Bn)	**144.3**	**107.3**	**7.1**	**7.5**	**4.5**	**10.2**	**5.6**	**9.9**		
Cons. Credit as % of Disp. Income	**20.9**	**21.9**	**21.9**	**21.9**	**21.8**	**21.9**	**21.9**	**21.9**		
New Construction Activity (AR)	**821.8**	**842.2**	**856.9**	**847.1**	**833.7**	**837.8**	**829.8**	**832.5**	**834.6**	
% ch. from previous month			0.2	-1.1	-1.6	0.5	-1.0	0.3	0.3	
% ch. from year earlier	7.3	2.5	0.8	0.1	-2.2	-0.7	-1.0	-0.4	-0.2	
Factory Orders ($Bn)	**4,162.7**	**3,861.0**	**318.9**	**320.9**	**312.9**	**326.6**	**325.5**	**318.1**		
% ch. from previous month	5.2	-7.2	0.7	0.6	-2.5	4.4	-0.4	-2.3		
Non-Defence Cap. Goods Orders ($Bn)	**834.5**	**696.8**	**54.2**	**56.2**	**50.8**	**56.9**	**59.2**	**52.9**	**55.1**	
% ch. from previous month	7.9	-16.5	1.1	3.6	-9.6	12.1	4.0	-10.7	4.2	
Change in Business Inventories ($Bn)	**63.7**	**-75.41**	**-2.44**	**2.66**	**2.93**	**4.86**	**0.71**	**5.88**		
CPI - All Urban (1982-84=100)	**172.2**	**177.1**	**179.5**	**179.5**	**179.7**	**179.9**	**180.5**	**180.8**	**181.3**	
% ch. from previous month			0.5	0.0	0.1	0.1	0.3	0.2	0.3	
% ch. from year earlier (NSA)	3.4	2.8	1.6	1.2	1.1	1.5	1.8	1.5	2.0	
PPI - Finished Goods (1982=100)	**138.0**	**140.7**	**139.1**	**138.5**	**138.7**	**138.5**	**138.5**	**138.6**	**140.1**	
% ch. from previous month			-0.1	-0.4	0.1	-0.1	0.0	0.1	1.1	
% ch. from year earlier (NSA)	3.7	2.0	-2.1	-2.9	-2.3	-1.1	-1.6	-1.9	0.6	
Avg. Hourly Earn. - Industrial Agg. ($)	**$13.75**	**$14.31**	**14.7**	**14.7**	**14.8**	**14.8**	**14.8**	**14.9**	**14.9**	
% ch. from previous month			0.2	0.1	0.3	0.2	0.3	0.2	0.2	
% ch. from year earlier	3.9	4.1	3.3	3.2	3.2	3.1	3.1	3.0	3.0	
N.A.P.M. Index	**51.6**	**43.9**	**53.9**	**55.7**	**56.2**	**50.5**	**50.5**	**49.5**	**48.5**	**49.2**
N.A.P.M. Price Index	**64.8**	**43.0**	**60.3**	**63.0**	**65.5**	**68.3**	**61.5**	**62.5**	**58.3**	**55.7**
N.A.P.M. Employment Index	**50.3**	**38.3**	**46.7**	**47.3**	**49.7**	**45.0**	**45.8**	**44.9**	**45.0**	**43.8**
M1 ($Bn)	**1104.0**	**1,137.0**	**1176.3**	**1182.8**	**1189.9**	**1197.8**	**1184.3**	**1192.7**	**1201.2**	
% ch. from previous month			-0.9	0.6	0.6	0.7	-1.1	0.7	0.7	
% ch. from year earlier	0.2	3.8	6.0	5.9	5.7	5.2	3.2	-0.6	3.5	
M2 ($Bn)	**4799.4**	**5,218.6**	**5476.6**	**5542.4**	**5578.2**	**5639.2**	**5684.5**	**5709.5**	**5758.6**	
% ch. from previous month			-0.3	1.2	0.6	1.1	0.8	0.4	0.9	
% ch. from year earlier	6.1	8.7	7.1	7.8	7.5	7.9	8.0	6.2	7.3	

* The Annual Budget Balance is for the fiscal year ended September 30.

All data seasonally adjusted except where noted "NSA" AR: Annual Rate