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The Provincial Monitor

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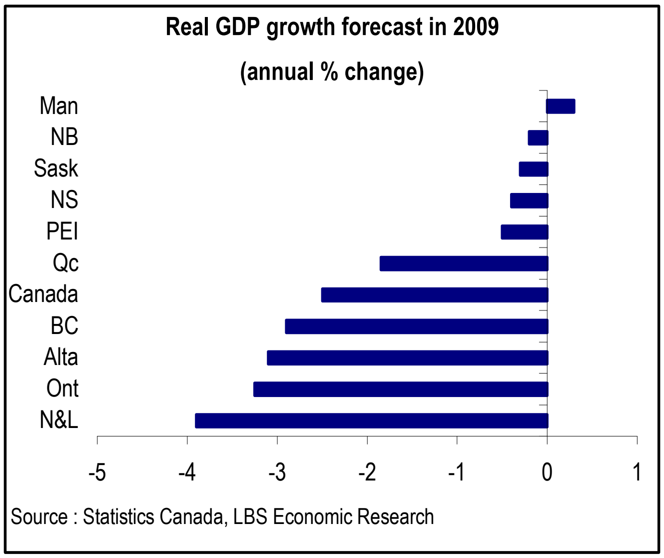
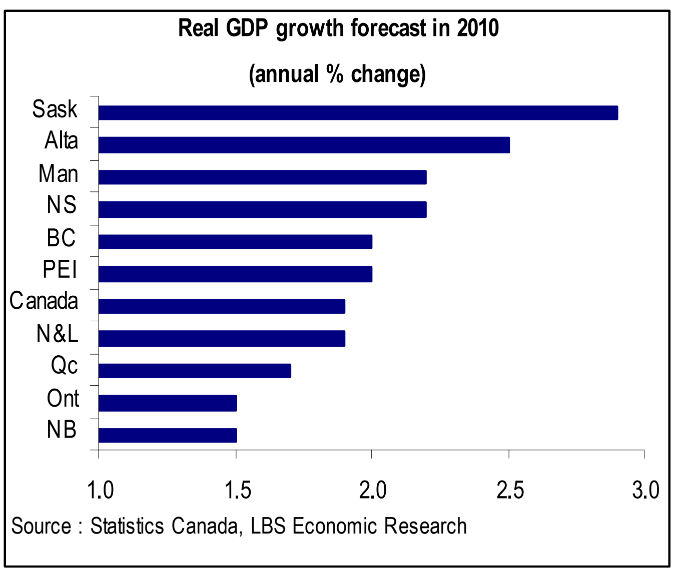
LAURENTIAN BANK SECURITIES

In the last issue of *LBS Economic Research's Provincial Monitor*, we noted that the Canadian economy resembled a hockey team whose key players were somewhat lethargic. Ontario, British Columbia and Alberta, all had mediocre economic performances during the preceding nine months. Quebec took a little bit more time before slowing down. Since our last report, some of Canada's main players seem to have regained their footing. Provincial governments have kicked recovery plans into gear, while most regions experienced renewed strength in the resale housing market and a pick-up in consumer spending.





In this edition of the *Provincial Monitor*, we assess recent trends for each region, and supply a detailed portrait of the coming recovery. Although the recession is over south of the border, the US economy is unlikely to regain the composure it once had. That said, a slow and irregular US recovery will help spark a modest bounce back for many of the Canadian provinces during 2010.

Notably, the central Canadian manufacturing-export sector is unlikely to return to "normal" anytime soon, due to the rebalancing currently underway in global demand. Quebec and Ontario businesses will be unable to count on the combination of a weak Canadian currency and excessive US consumerism to stir demand for their products.

Similar to the recession, next year's recovery is expected to be modest in Quebec. On the positive side, business investment projects should be more numerous next year while construction of hydroelectric and public infrastructure projects will continue to go ahead. Quebec should outperform slightly Ontario during 2010, due to its stronger job and housing markets feeding domestic demand. The slight rebound in automobile production at the end of the summer – a trend that should continue into fall – means that Ontario will enter the recovery cycle earlier than most provinces. Nevertheless, the loss of quality jobs during the past year will continue to weigh heavily on the financial health of Ontarians. As a result, the overall economic expansion there is expected to be lukewarm in 2010.

In Western Canada, competition in the natural gas market is presently quite fierce. With its traditional sectors such as construction, forestry and fisheries all marking time, British Columbia is counting on development of its enormous natural gas potential to help out over the medium term, this, despite the fact that prices for the commodity are quite low right now. We believe that Alberta will experience a stronger economic recovery than British Columbia during 2010. Unlike Alberta's bust of the 1980s, unemployment there currently remains relatively low. Alberta households maintain good savings cushions and the price of oil – though it still trades far below $100 per barrel – continues to be relatively strong.

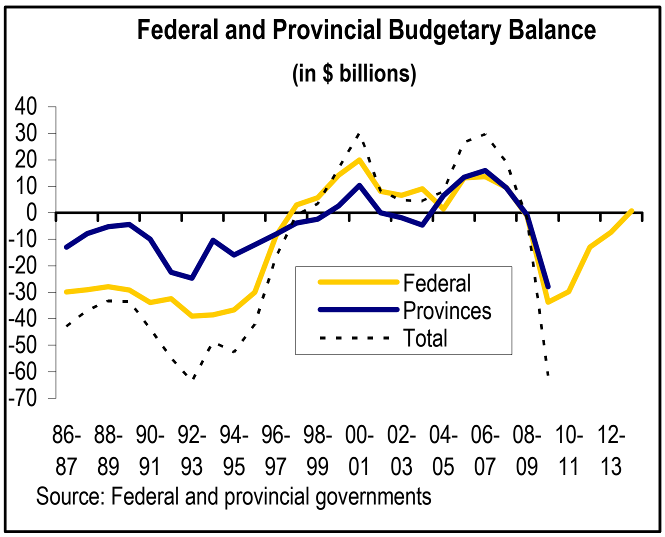
Saskatchewan and Manitoba stand out with an ease that must surely make other provinces envious. Manitoba is once again profiting from strong industrial diversification. This tempers somewhat the fallout from the province's softer domestic demand. We estimate Manitoba is the only province to do not register a pullback in economic activity this year. As for Saskatchewan, it is benefiting from robust population and employment growth. These positive trends, coupled with an eventual bounce back in demand for potash and uranium, should pull Saskatchewan out of recession during 2010 and help it record one of the strongest expansions among provinces.

The global recession has rendered several large investment projects in the Atlantic region less attractive. Fortunately, provincial governments there have launched their own public infrastructure projects. The fact that several large non-residential construction projects have been completed means that 2010 is expected to be a tough year even though the province put in place an infrastructure program and a broad-based tax relief plan. Economic growth should be more robust in Nova Scotia, which is counting on a better mix of private and public sector investment projects to sustain its economy. In Prince Edward Island, expansion of wind farms continues. This should enable the province to compensate for harder times in its tourism sector, which will continue to be hit hard by a loonie, (expected to trade close to 90 US cents on average next year). The development of new petroleum oilfields renders longer term prospects for Newfoundland and Labrador quite encouraging.

As for provincial public finances, deficits in FY 2009-10 will be larger than initially forecast in virtually every province. Still, the overall picture of provincial governments' finances is not deteriorating as much as Ottawa: the combined provincial deficit (about $33 billion as of today, 1.5% of GDP) is expected to be slightly lower than the federal deficit ($50 billion, 2.2% of GDP). Provincial revenues from taxation and from natural resources will be particularly lower-than-projected.

For several provinces, the economic recovery will not be enough to alone pull their budgets back into balance over the medium term. As such, choices on the fiscal front will need to be made: either spending will need to be constrained seriously, or taxes will have to go up. Provincial borrowing is expected to be substantial next year as the debt of most provinces continues to ramp up. It took eight years (until 1999-2000) following the recession of the early 1990s for combined provincial deficits to be eliminated. This time around, we believe that it take about four years for provinces to get back to a budgetary balance overall.

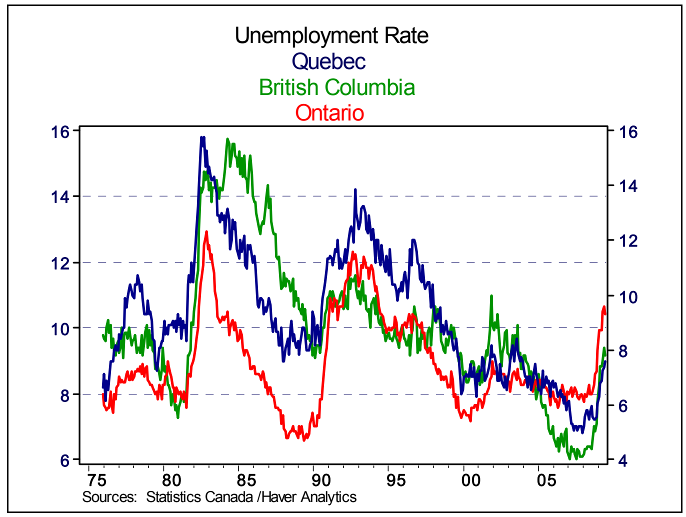
The following sections review in details the outlook for each region. Complete forecasts are available in tables at the end of the report.



Modest Recovery For Quebec And Ontario

Since 2006, Quebec's economy has been more vigorous than that of its central Canadian neighbor. Weak demand for automotive products has accentuated the performance spread during the world recession. Ontario's greater exposure to external trade has meant that negative snowball effects from the drop in global demand has been greater there than in Quebec (exports amount to 42% of Ontario's GDP compared to 33% in Quebec). As a result, Ontario businesses have been forced to cut their payrolls more rigorously than Quebec companies. Several statistics speak for themselves:

- Employment fell by 0.9% (-35,000 positions) relative to last year in la belle province, versus a drop of 2.5% in Ontario (-168,000 positions). Furthermore, in the crucial full-time jobs category, Ontario lost three times as many jobs as Quebec did during the past 12 months.
- As a result, Ontario's unemployment rate has been higher than Quebec's since the start of the year. This is the first time this has happened since the 1970s. Cities in southern Ontario have been particularly hard hit, with rates of unemployment in excess of 10%. The "Golden Horseshoe" region simply does not have the luster that it once did. Conversely, Quebec City's unemployment rate (5%) is among the lowest in the country.
- A record 665,000 Ontarians were unemployed in July. However 379,000 Quebecers were out of work, 25% less than in previous recessions (about 500,000 Quebecers were unemployed in 1982 and 1991 even though the economy was much smaller back then).
- The employment rate in Ontario (60.9%) is close to its 1982 historic low (59%). Quebec's employment rate (59%) remains high relative to its previous recession levels (between 51% and 54%).

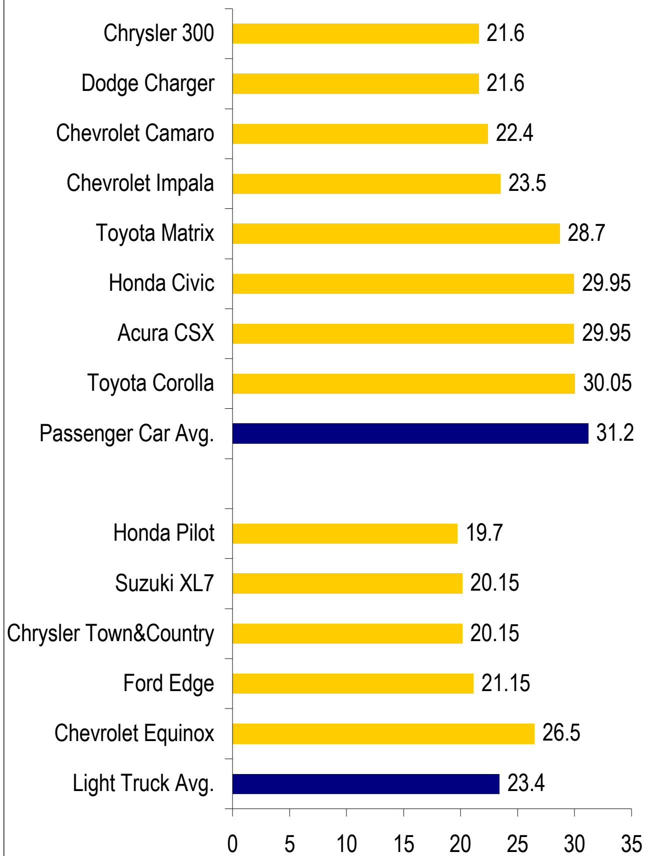


We estimate that about 1.5 million light vehicles will be assembled this year in Ontario - 500,000 less than during 2008 and 1 million less than during 2007. The cash for clunkers program in the US had mild positive effects on Ontario, which typically produces vehicles and light trucks that consume more gas on average. Among the 10 most popular automobiles in the cash for clunkers program, two are produced in Ontario (the Toyota Corolla in Cambridge and the Honda Civic in Alliston).

Despite GM's recent decision to add a shift to its Ingersoll plant and Chrysler's plans to assemble 30,000 light trucks annually in Windsor for the European market, these measures will not be enough to bring Canada's automotive production back up to the 2.5 million vehicle annual rate of the good old days. The challenge facing auto manufacturers will be to adapt their production to shifting American tastes, which are gradually becoming increasingly environmentally friendly. The recent decision by Toyota to boost the production of the Corolla in Cambridge is a good step in that direction.

The modest pick-up in automotive production should enable Ontario to move earlier out of recession than most provinces - including Quebec. Unlike the automotive industry, there is literally no sign of a bounce back in the aerospace sector. The fall in exports of aircraft, motors and components began later than the drop in automotive exports, and has been less severe. However, aerospace new orders plunged in the second quarter, suggesting production and shipments will continue to weak in upcoming months. The good news is that Quebec profits from better industrial diversification. For example exports of pharmaceutical products increased substantially this year.

2008 Model Avg. Fuel Efficiency in the US and Vehicles Assembled in Ontario
(miles per gallon)



Source: U.S. Department of Transportation, Automakers data

Yet despite the fact that Ontario will begin its recovery before other provinces, its bounce-back will be more modest on balance. The hangover from recent full-time job losses, coupled with falling housing prices (which are not affecting Quebec) will continue to weigh heavily on the financial health of Ontario households. Already, Ontarians set aside a larger proportion of their income than do Quebecers (4.4% savings rate in 09Q1, compared to 3.0% in Quebec). Households in Ontario are also cutting their spending more than Quebecers (retail sales in Quebec fell by 2.8% ytd Jan.-June, compared to 4.7% in Ontario). The same thing can be said about residential housing construction, which fell twice as fast in Canada's largest province (-41%) since the start of the year than it did in Quebec (-20%). Housing starts should hit 39,000 in Quebec during 2009 and is expected to retreat to 35,000 units in 2010. In Ontario, starts are expected to stay below 50,000 units annually in the medium-term.

Next year, Ontario households are likely to continue to be more prudent in their spending than Quebec households will. Furthermore, as we mentioned earlier, many Ontario businesses will no longer be able to count on a weak currency or excessive U.S. consumerism to boost demand for their products. The rebound in exports is thus likely to be quite timid. Furthermore, significant increases in unused production capacity are expected to continue to discourage businesses from making major investments next year. That said, a good push from the McGuinty government's two-year $32.5 billion (5% of nominal GDP) infrastructure program should help spark real GDP growth to 1.5% in 2010.

The recession was modest in Quebec, and recovery will quite likely be modest too. Real GDP should advance at a pace of 1.7% during 2010. The fact that the province's job market suffered less than Ontario's, means that Quebec households will be less reluctant to spend. There will also likely be more business investment projects next year, notably in the mining sector. Furthermore, construction of four hydro-electric projects continues (three for electricity generation, one for transmission in Ontario). And finally la belle province continues to count on an excellent provincial government infrastructure program ($42 billion between 2006 and 2013 or 14% of nominal GDP).

Quebec Economy	2007	2008	2009	2010	2011
Real GDP growth	**2.6**	**1.0**	**-1.9**	**1.7**	**2.4**
Consumer spending	4.3	3.1	-0.5	1.5	2.2
Business Investment	7.6	4.7	-11.7	3.0	4.1
Residential Construction	5.7	-0.7	-2.8	-2.1	0.0
Government spending	4.4	4.5	2.5	4.2	2.5
Exports	0.6	-2.5	-12.8	3.8	6.3
Imports	4.6	1.4	-11.0	5.0	5.9
Change inventories ($ millions)	2117	658	-1050	0	700
Employment growth	2.3	0.8	-1.1	-0.3	1.0
Unemployment rate	7.2	7.3	8.7	9.2	8.9
Housing starts (units)	48533	47825	39000	35000	34000
Retail sales growth	4.6	4.8	-2.7	2.4	3.5
CPI Inflation	1.6	2.1	0.2	1.8	2.0

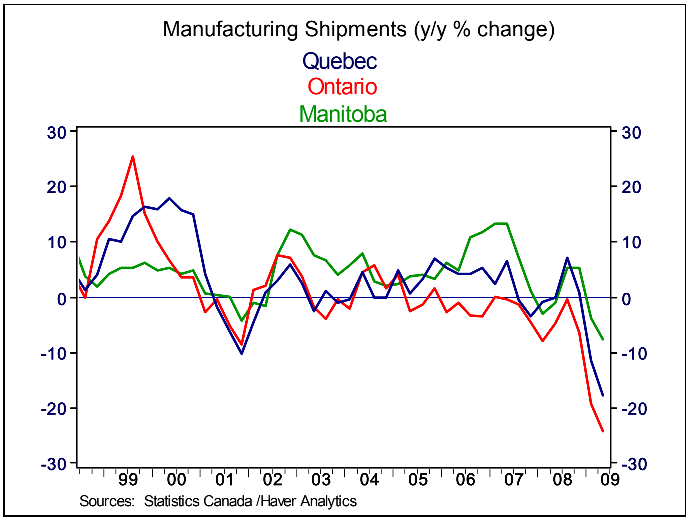
Source: Statistics Canada, CMHC, LBS Economic Research

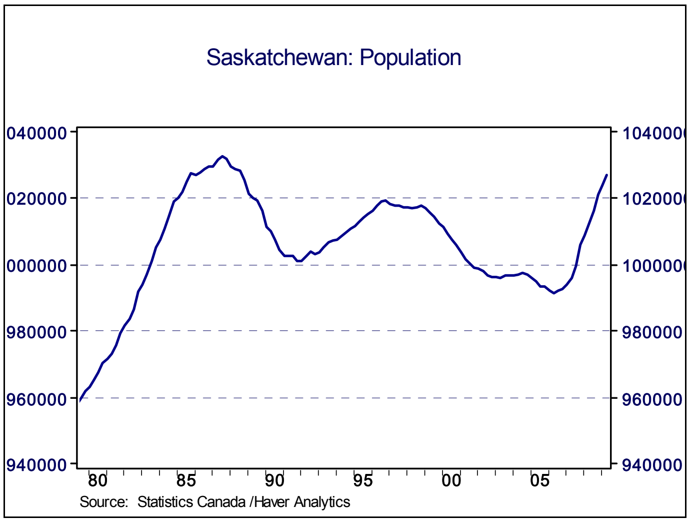
Quebec's budget deficit will certainly be higher than the $3.9 billion projected in its 2009 budget, though it will be lower than Ontario's as a percentage of GDP (3.2%). Ontario revised its projected deficit for FY 2009-10 from $14 billion to $18 billion due to the assistance for the automotive sector. According the Quebec's 2009 budget forecasts, the Charest government intends to bring its spending into balance by FY 2013-14. However further measures on the fiscal front will be needed. In Ontario, a return to zero deficits is expected two years later – in FY 2015-16. In all though, since Ontario's debt burden (debt to GDP ratio is 30.4%) is much lighter than Quebec's (45%), the McGuinty government does have more maneuver room in its efforts to return to balanced budgets.

The Prairies Stand Out

Saskatchewan and Manitoba are breezing through the economic and financial crisis with an ease that must make other regions envious. Strong sector diversification is helping Manitoba just barely avoid a GDP pullback this year. For example, automotive product shipments are up, due to the production of hydrogen fuel powered buses, which will be sent to cities across North America. Overall, the pullback in Manitoba's shipments and exports has been fairly modest compared to that in other provinces.

As for Saskatchewan, the recession there this year has been merely technical in nature. The province has been profiting from the strongest population growth in the country. Just over one million people live in Saskatchewan, the first time this has occurred since the end of the 1980s.





The pullback in retail sales in Saskatchewan and Manitoba has been moderate too. A big reason for this has been a resilient job market. For example in Saskatchewan, employment continues to grow at a robust rate of close to 2% annually. In Manitoba, the job picture has remained stable due to gains in full-time jobs. In both Saskatchewan and Manitoba, the unemployment rate (close to 5%) has been rising just half the speed it has elsewhere in the country.

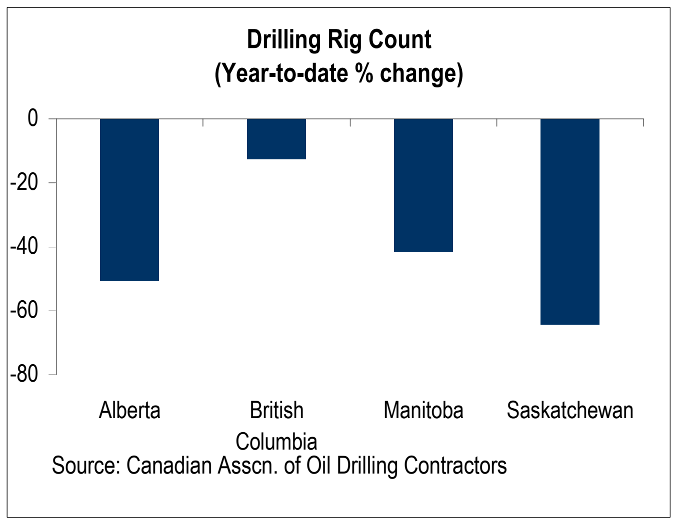
That said, Mother Nature appears to have been less cooperative for the agricultural sector during 2009, compared to the previous season (an excellent one) particularly with regard to wheat, barley, canola and corn crops. The weather was too dry in Saskatchewan and too humid in Manitoba. The harvest this season could be the worst in five years in the Prairies.

Since Manitoba's economy did not really contract this year, a big rebound is not in the cards during 2010. Notably, the recent step back in capital spending measures of cash-strapped US states is a risk that could put a dent in Manitoba's manufacturing output. Still, the road should be much smoother and stable for Manitoba than most provinces. Saskatchewan's more cyclical economy should see one of the strongest performances next year, thanks to continued positive net migration flows and to an eventual rebounding uranium and potash demand in China and the US. Over the medium term, south-eastern Saskatchewan's Bakken rock formation, which holds a potential 25 to 100 billion barrels of light oil, could turn the province into one of Canada's top performers for years to come.

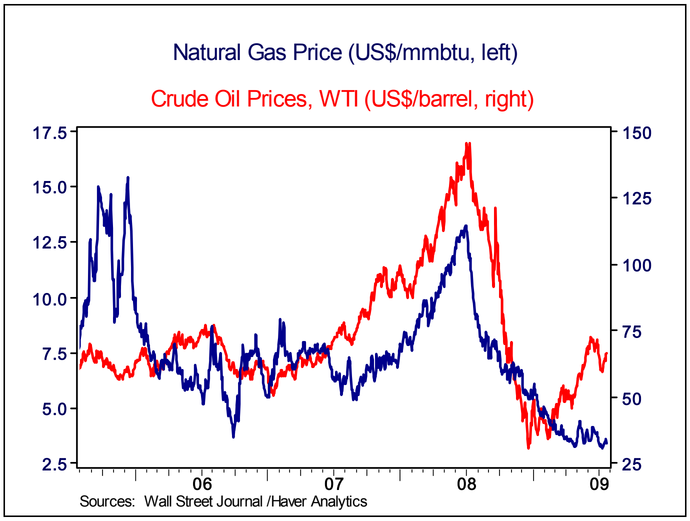
Strong regional economies also means solid financial health for Manitoba and Saskatchewan - both of which should balanced budgets this year. In mid-August, Saskatchewan published its fiscal update for the current fiscal year. The province's finance minister Rod Gantefoer, revised revenue estimates down by half a billion dollars due to lower than expected potash prices and shipments. To compensate for the shortfall, the minister is expected to dip further into reserves and to further restrain spending to maintain a $425-million surplus in FY 2009-10. It is the same story in Manitoba. The provincial government plans to balance the books this year and next with the withdrawal from the rainy-day fund.

Challenges Of The Natural Gas Market For Western Canada

Since the start of the year, weak natural gas prices have slowed drilling activities considerably in Saskatchewan, Alberta and British Columbia. Since then, both Alberta and British Columbia have tried to boost exploration, drilling and investment, by improving their incentives. But western provinces have more to worry about than just each other. Big natural gas players in the US like Texas (Barnett) and Pennsylvania (Marcellus) which are far closer to large pools of consumers, are also rivals. In Alberta, credits and royalty caps were recently extended up until March 2011. For example new oil and gas wells will have their royalty payments capped at 5% during their first year of production, a big decline from the 25% rate previously in effect.



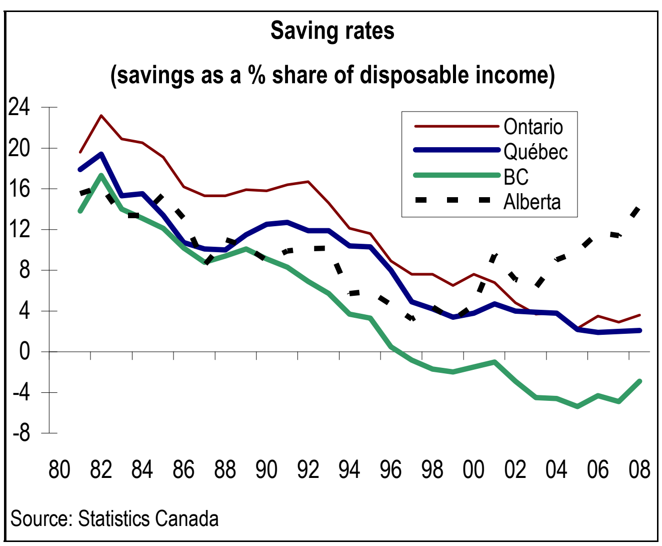
In British Columbia, traditional powerhouse sectors such as forestry and fisheries are losing steam. As a result, the province is increasingly looking at new sources of growth. One highly promising avenue is the enormous shale gas potential located in the province's north (Horn River and Montney). These huge reserves could eventually double the province's natural gas output. The Campbell government has made considerable recent efforts to promote development. For example royalty rates for wells drilled between September 2009 and June 2010 were cut to just 2%. In the royalty cap battles, British Columbia's 2% rate currently looks better than Alberta's 5% cap. But Alberta could easily lower its cap again. In short, this is a file that we will follow closely.



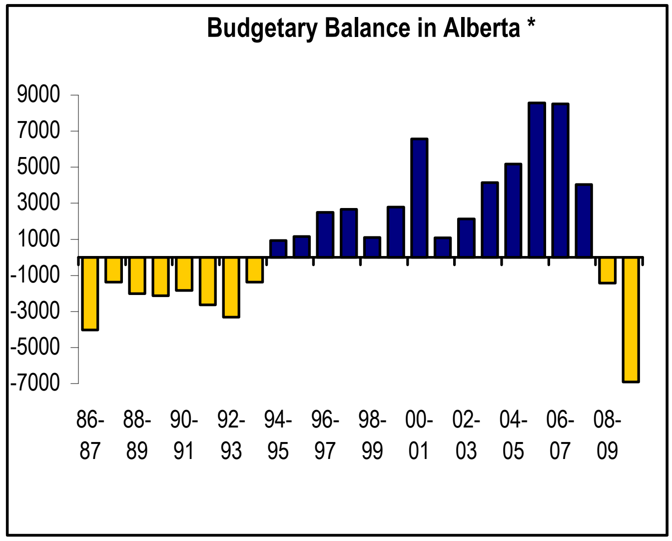
Yet these incentives cannot hide the fact that since the start of the year, natural gas prices have remained excessively low, in stark contrast with other commodity prices, notably oil, which have been firming. On top of major supply discoveries, weak industrial demand, a mild summer and high inventories in the US are putting a dent in the price of natural gas. Like tar sands oil, shale gas extraction is far harder (and far more expensive) than extraction from conventional sources. That said, there is good news in another segment of BC's natural gas sector. The construction of the Kitimat liquefied natural gas terminal (an estimated $4 billion project) should begin shortly. This terminal is expected to be completed by 2013.

Alberta Will Bounce Back This Time

We believe that Alberta's economy will bounce back slightly stronger than British Columbia's during 2010. In addition to natural gas, Alberta also benefits from conventional oil and tar sands reserves. We do not expect Alberta to live through another bust similar to that which hit it during the 1980s. Few jobs were lost there this year. And households in the Wild Rose County generally have impressive cushions (savings rates averaged 14% during 2008). The price of oil – though it still trades below $100 per barrel – continues to be relatively high in order to avoid a capital spending outflow. In fact, the rise in the province's unemployment rate from 3.5% towards 7.2% we saw in the last year is not such a bad thing for employers, since this will temper excessive wage pressures. In all, Alberta's economic expansion is expected to be sounder next year (2.5%) than it was between 2002 and 2007 (annual growth of between 4% - 5%).

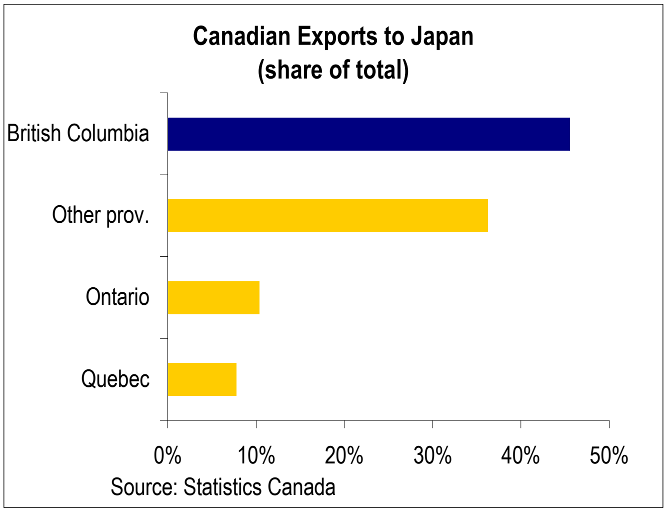


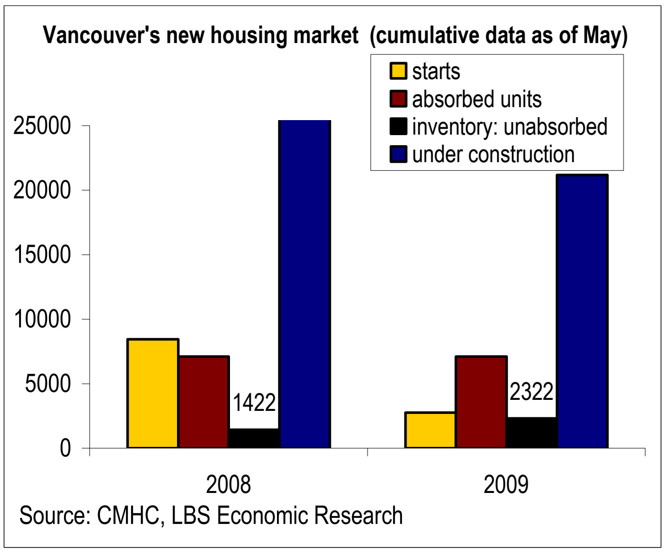
On the fiscal front, increased royalties stemming from higher oil prices will not be enough to compensate for lost revenue coming from lower natural gas prices and a stronger loonie (a ten cent drop in the price of natural gas reduces revenues by $126 million, a one-cent appreciation in the loonie translates into a $221-million loss in revenue). The deficit was revised up to $6.9 billion, $2.2 billion more than the $4.7-billion figure projected in the budget. Alberta's finance minister Iris Evans will dip into reserve funds to eliminate Alberta's "technical" deficit in FY 2009-2010. Premier Ed Stelmach's declared recently that there will be no tax increases during his term, meaning the governments could be forced to axe spending to balance the books in 2010-11 and 2011-12.



British Columbia: With Traditional Sectors Hit Hard, The Recovery Is Expected To Be Modest.

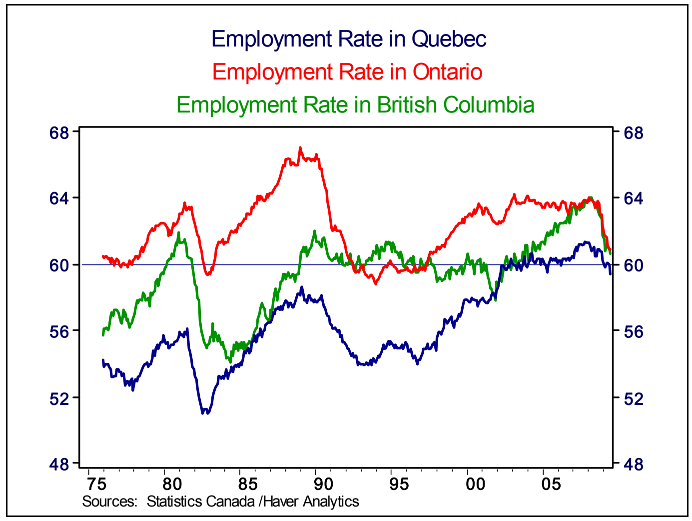
British Columbia was one of the provinces hardest hit by the global recession. The pullback in economic activity there, which began last year (-0.3%), will intensify this year (-2.9%). It all started when the US housing market fallout sparked a plunge in lumber exports. Despite concrete signs of stabilization this summer, U.S. housing starts are likely to remain low in the medium-term (less than one million mark annualized). That means lumber exports to the U.S. are unlikely to return to 2005-06 levels. Weak Japanese demand – even though the recession there appears to be technically over too – hasn't helped either. Japan is a far more important trading partner for British Columbia than for other provinces (15% of B.C.'s exports go to Japan. 45% of all Canadian exports to Japan originate in B.C.). The implosion in global trade is also hurting the transport industry, which accounts for slightly more than 6% of British Columbia's GDP. For example, the volume of container traffic going through the province's ports has plunged.





The domestic demand picture isn't all that great either. Not in 30 years, have British Columbians so drastically cut spending (retail sales fell 8.9% ytd Jan.-Jun. 2009). This dramatic pullback stems directly from the strong deterioration in the housing and job markets. British Colombian businesses have particularly cut staff working full-time. The province's unemployment rate is climbing as fast as Ontario's and is now the highest in Western Canada. Fortunately BC's employment rate (employment as a percentage of the overall population) remains relatively high (60.6%) and above its 1982 floor of 55%, quite a contrast with Ontario. The debacles in the BC's housing market moderated lately with the recent resurgence in resale transactions. Downward pressures on prices should however continue as the number of homes under construction in Vancouver appears to be abnormally high relative to demand. The number of housing starts in British Columbia should thus remain weak during the coming years (about 15,000 units annually). Lastly, it goes without saying that the mysterious disappearance of millions of salmon in the Fraser River and the raging forest fires could not have come at a worse time.

With its traditionally sectors stuck in neutral gear, one understands better why the Campbell government is counting on gas natural sector development to help assure the province's medium-term fiscal and economic health. Still, overall, we think the bad news has lately been outweighing the good ones. The effects of the real estate correction and the deteriorating job market will continue to weight on household confidence next year, even if the 2010 Olympics will provide fuel to the economy for a few weeks. Considering the estimated depth of the recession this year (-2.9%), we forecast a relatively timid rebound in economic activity during 2010 (2.0%). The province no longer appears to benefit from the small advantages that place it among the country's top performers in the previous five years.



On the fiscal front, the Campbell government will harmonize the province's sales tax with the federal GST by July 1 2010 at a combined rate of 12%, as opposed to Ontario's 13%. The idea is to improve the competitiveness of the province's businesses which will save about $2 billion per year. However consumers will be paying the bill. The federal government will transfer $1.6 billion to the province to ease the transition towards its HST. The basic personal income tax credit will increase to $11,000 from $9,373 in January 2010 to help consumers make the transition.

The sharp decline in natural gas prices royalties and taxation revenues led the province to revise its deficit from $495 million to $2.8 billion in FY 2009-10. As a share of GDP, BC's revised deficit (1.5%) is still lower than in Alberta (2.7%) and Ontario (3.2%), meaning BC's finances are not deteriorating as fast as elsewhere. The September Budget Update 2009 also includes major upward revisions to deficits in FY 2010-11 and 2011-12 as well. Overall, the deficits over three years have been revised down by a large $4.7 billion to $5.5 billion. Finance Minister Colin Hansen shows strong discipline by cutting discretionary spending ($3.4 billion in savings other three years) and imposing a wage free to public sector employees – as long as the province is in deficit – while protecting vital services such as health and education. The key debt/GDP ratio will also remain in better shape than in Ontario and Quebec despite the projected increase from 13.1% in FY 2008-09 to 18.1% in FY 2011-12. Overall, BC's government is highly transparent and once again one step ahead of other jurisdictions that will have to make bold decisions (cut spending or hike taxes) in order to get out of red ink.

Investment Projects: The Key In Atlantic Canada

The global recession has reduced the attractiveness of some large investment projects in Atlantic Canada. Some have been cancelled, others delayed. Fortunately, the provincial governments are compensating by initiating public infrastructure projects.

Despite difficulties in recent years in the province's forestry sector, large non-residential construction projects have sustained economic growth in New Brunswick. However all good things come to an end: the construction phases on several key initiatives are all ending practically at the same time.

- The $750 million Canaport LNG terminal located in Saint John is now in service. The terminal receives imported liquefied natural gas (LNG) delivered by boat, which is then re-gasified and re-exported to the Northeastern United States.
- The Saint John to St. Stephen gas pipeline development project will be completed this year.
- Despite a delay of several months, renovation of the Pointe Lepreau nuclear power station should be completed by early 2010.

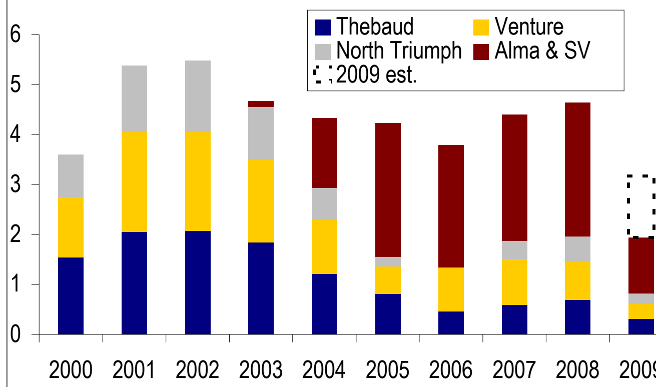
That said, there are few other projects of that caliber on the horizon. The majority of investment projects on the table for the coming years are valued at less than $100 million each, leading us to forecast sub-par real GDP growth in 2010 (1.5%). The government, businesses and households had counted on the construction of a second refinery in Saint John. However lower prices and weaker demand for refined products forced industry to put the $8 billion Eider Rock project on hold.

Although private sector investment will be less vigorous, the same cannot be said for the provincial government. In December 2008, Finance Minister Victor Boudreau announced a $1.2 billion (4% of nominal GDP) infrastructure plan. Households and businesses will also benefit from a tax cut plan that will come into effect between 2009 and 2012. The tax structure will be simplified to a two bracket system for households. Businesses will see their general tax rates cut from 13% in 2008 to 8% by 2012. Over the longer term, the Graham government's "self sufficiency" objective by the year 2026 will be hard to achieve, as long as the Eider Rock project remains on hold. Lastly, Moody's just downgraded New Brunswick debt rating from Aa1 to Aa2 (stable). Moody's cited the weak revenue growth tied to the economic downturn and tax cuts is expected to pressure fiscal outcomes.

Nova Scotia can count more on larger investment projects to support its economy. Nova Scotia's GDP should expand by a slightly more robust 2.2% during 2010. For example the Deep Panuke gas field project in south east Halifax is proceeding well. Natural gas extraction (between 200-300 million cubic feet per day) starting in 2010 will fatten both GDP and royalty revenues. The timing is good, because reserves at the province's other major gas field (l'Île de Sable) are slowly being exhausted. The fact that the Nova Scotia's job market has remained fairly stable hasn't hurt either. Job creation in the services sector has more than compensated for losses in the construction and manufacturing sectors. Households have cut spending as a precaution, but only slightly. One month after winning election, Darrell Dexter's New Democrat government announced a home renovation tax credit, similar to those which have proved popular in other provinces. The province's new Finance Minister Graham Steele will table a budget this fall.

Natural Gas Production in Nova Scotia

millions of cubic meters

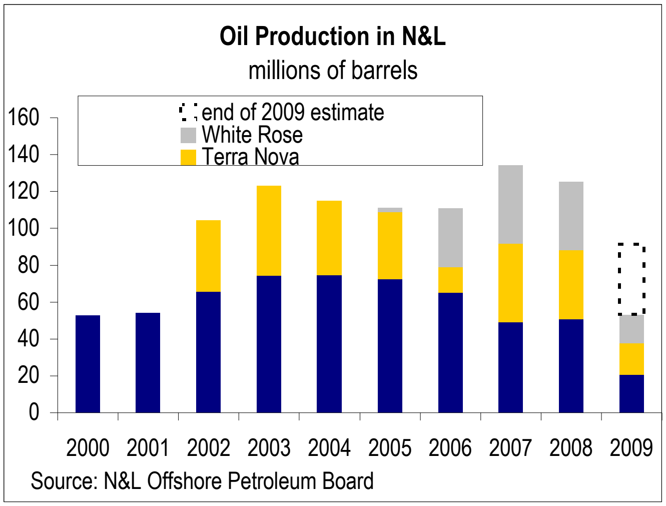


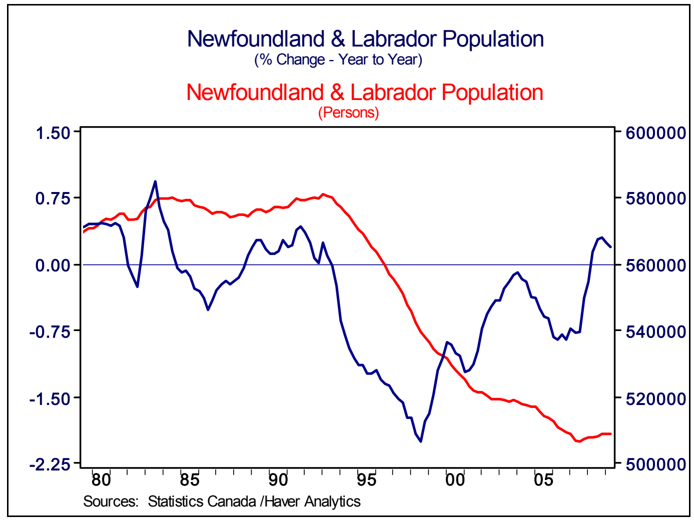
Source: Nova Scotia Offshore Petroleum Board

In Prince Edward Island, wind is beginning to bear fruit. Six wind farms produce up to one fifth of the electricity consumed in the province, Continuous expansion of the province's wind power industry, thanks to investments from the private sector and by federal and provincial governments, continues to produce good spin-offs for the country's smallest province. The Binns' government's objective is to produce 30% of the province's electricity demand by 2016 using wind power. A softening job market on the island has led to slumping retail sales and residential housing construction this year. Yet despite the strong Canadian dollar and the ongoing recession, tourism industry statistics for the summer season were not as weak some had feared. That said, the 2009 Canada Summer Games, which are held in Charlottetown, could not have come at a better time. For their part, agricultural product exports, notably of food products such as potatoes are on the upswing. However lobster prices, which have fallen by close to 30%, are creating real headaches for suppliers in PEI and throughout the rest of Atlantic Canada. That said, agricultural and fisheries products exports are the only category that is increasing. Machinery, equipment, transportation materials and industrial goods exports have all been hit harder by the recession.

On the fiscal front, PEI's finance minister Wes Sheridan, tabled a budget last April that projected an $85 million deficit for the 2009-2010 year, close to double last year's total ($41 million). Close to half of the deficit during FY 2009-10 is related to the $40 million used to bail out public service pension plans, which have been hit by last year's slump in equities markets.

Newfoundland and Labrador's exports have also been hard hit by the global downturn. In fact, since the start of 2009, manufactured products shipments in Canada's easternmost province have fallen more (-44%) than those of any other Canadian province. The government is forecasting that oil production will plunge by about 20% this year, to less than 100 million barrels. Volumes and prices in the mining sector have also pulled back. Weakness in the mining and oil sectors, which account for close to 40% of the province's GDP will have a major effect on economic output, which is expected to fall by 3.9% this year.





However the strong pullback in Newfoundland and Labrador's real GDP during 2009 does not really give a true picture of the situation. Over the medium and longer term, prospects are actually quite encouraging. First off, the province's population, sparked by immigration, started to rise again last year something we have not seen since the 1990s. Furthermore, despite the short-term decline in production this year, capital investment in the nickel and petroleum sectors will remain robust. For example the Hibernia project's construction phase will begin in 2012 and peak in 2015. This will provide a good boost for both the job market and the services sector.

Rapprochement between the provincial government and the businesses in charge of the petroleum projects also augurs well for the province's economic future. This summer, the Williams government signed an agreement in principal to pay $30 million for a 7.8% stake Hibernia South project (an extension of the Hibernia oil field). This participation is larger than in other projects. In 2008, the Williams administration paid $110 million for a 4.9% participation in the Hebron project. The government also has a 5% participation in the White Rose oil field.

The Hibernia South's construction phase should start next year. Extraction is expected to begin in 2012. As a result of the agreement, the government expects to receive $10 billion in revenues annually as well as super royalties when oil prices are high. The government will also need to pay a part of the project's investment costs. Newfoundland and Labrador will also be counting on revenues from the Hebron project, where extraction is expected to begin between 2016 and 2018. The agreement should be finalized at the beginning of 2010.

Sébastien Lavoie, Economist

Population growth in Canada and the provinces											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Canada	1.1	1.1	0.9	1.0	1.0	1.0	1.1	1.2	1.0	0.9	0.9
N&L	-0.5	-0.5	-0.2	-0.2	-0.6	-0.8	-0.8	0.3	0.4	0.4	0.4
PEI	0.2	0.2	0.3	0.4	0.2	-0.1	0.1	1.2	0.3	0.3	0.3
NS	0.2	0.2	0.2	0.2	-0.2	-0.1	-0.2	0.2	-0.1	-0.1	-0.1
NB	0.1	0.1	0.1	0.1	-0.1	-0.3	0.0	0.3	-0.1	-0.1	-0.1
Quebec	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.8	0.7	0.6	0.6
Ontario	1.7	1.7	1.3	1.3	1.2	1.1	1.0	1.1	0.8	0.7	0.7
Manitoba	0.4	0.4	0.5	0.7	0.3	0.4	0.8	1.2	0.4	0.4	0.4
Sask.	-0.4	-0.4	-0.1	0.0	-0.5	-0.3	0.8	1.6	2.0	1.5	1.5
Alberta	1.9	1.9	1.4	1.5	2.3	2.7	2.6	2.1	1.5	1.4	1.4
BC	0.9	0.9	1.0	1.2	1.3	1.4	1.6	1.7	1.4	1.3	1.3

Source: Statistics Canada, LBS Economic Research

Real GDP growth in Canada and the provinces											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Canada	1.8	2.9	1.9	3.1	3.1	2.8	2.7	0.5	-2.5	1.9	2.5
N&L	1.6	15.6	5.8	-1.7	0.2	3.3	9.1	-0.1	-3.9	1.9	2.7
PEI	-1.1	4.8	2.1	3.0	1.3	2.6	2.0	0.9	-0.5	2.0	2.4
NS	3.2	4.0	1.4	1.4	1.8	0.9	1.6	2.0	-0.4	2.2	2.4
NB	1.7	4.5	2.8	1.4	0.5	3.0	1.6	0.0	-0.2	1.5	2.0
Quebec	1.5	2.4	1.2	2.6	2.0	1.7	2.4	1.0	-1.9	1.7	2.4
Ontario	1.8	3.1	1.4	2.5	2.9	2.1	2.1	-0.4	-3.3	1.5	2.6
Manitoba	0.8	1.6	1.4	2.6	2.7	3.2	3.3	2.4	0.3	2.2	2.6
Sask.	-1.0	-0.4	4.6	3.8	3.5	-0.4	2.8	4.4	-0.3	2.9	3.0
Alberta	1.7	2.2	3.2	5.2	5.3	6.6	3.3	-0.2	-3.1	2.5	2.7
BC	0.6	3.6	2.3	3.7	4.5	3.3	3.1	-0.3	-2.9	2.0	2.4

Source: Statistics Canada, LBS Economic Research

Unemployment rate in Canada and the provinces											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Canada	7.2	7.6	7.6	7.2	6.8	6.3	6.0	6.1	8.4	9.2	8.8
N&L	16.1	16.6	16.5	15.7	15.2	14.8	13.6	13.2	15.4	15.2	13.5
PEI	12.0	11.9	10.9	11.2	10.9	11.1	10.3	10.7	12.6	12.4	12.0
NS	9.8	9.6	9.1	8.8	8.5	7.9	8.0	7.7	9.4	9.5	9.3
NB	11.1	10.2	10.3	9.8	9.7	8.7	7.6	8.6	9.3	9.8	9.7
Quebec	8.8	8.6	9.1	8.6	8.3	8.0	7.2	7.3	8.7	9.2	8.9
Ontario	6.3	7.1	6.9	6.8	6.6	6.3	6.4	6.5	9.2	10.3	9.7
Manitoba	5.1	5.1	5.0	5.3	4.8	4.3	4.4	4.1	5.3	6.5	6.3
Sask.	5.8	5.7	5.6	5.3	5.1	4.7	4.2	4.1	5.2	6.6	6.1
Alberta	4.7	5.3	5.1	4.6	3.9	3.4	3.5	3.5	6.2	7.6	7.3
BC	7.8	8.5	8.1	7.2	5.9	4.8	4.2	4.5	7.6	8.1	7.8

Source: Statistics Canada, LBS Economic Research

Employment growth in Canada and the provinces											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Canada	1.2	2.4	2.4	1.8	1.4	1.9	2.3	1.5	-1.7	-0.2	1.0
N&L	2.9	1.8	2.2	1.0	-0.1	0.7	0.7	1.4	-3.3	0.0	1.5
PEI	1.4	1.8	2.0	1.3	2.0	0.5	1.2	1.2	-2.7	-0.1	1.0
NS	0.9	1.8	2.0	2.6	0.2	-0.3	1.3	1.2	-0.1	-0.1	1.2
NB	-0.3	3.9	0.0	2.1	0.1	1.4	2.1	0.9	-0.2	-0.5	0.8
Quebec	1.1	3.8	1.6	1.5	1.0	1.3	2.3	0.8	-1.1	-0.3	1.0
Ontario	1.9	1.8	3.0	1.7	1.3	1.5	1.5	1.4	-2.5	-0.4	0.8
Manitoba	0.3	2.3	0.6	1.1	0.6	1.2	1.6	1.7	0.0	0.1	1.5
Sask.	-2.8	1.7	1.7	0.8	0.8	1.7	2.1	2.2	2.2	1.3	1.2
Alberta	2.9	2.5	2.7	2.4	1.5	4.8	4.7	2.7	-0.7	0.3	1.1
BC	-0.5	2.3	2.5	2.4	3.3	3.0	3.2	2.1	-2.7	0.2	1.0

Source: Statistics Canada, LBS Economic Research

Retail sales growth in Canada and the provinces											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Canada	4.4	6.3	3.6	4.7	5.6	6.4	5.8	3.2	-4.9	2.2	3.7
N&L	9.3	4.0	6.1	0.3	1.2	3.4	8.9	7.7	0.4	2.8	5.2
PEI	4.0	3.4	1.0	0.1	2.8	6.2	7.7	4.8	-0.9	2.0	3.5
NS	3.6	6.1	1.8	2.8	2.2	6.0	4.2	4.5	-2.2	2.2	3.8
NB	3.0	3.9	0.5	1.7	4.6	5.9	5.7	4.8	-0.9	1.6	3.6
Quebec	4.2	6.1	4.5	4.2	5.1	5.1	4.6	4.8	-2.7	2.4	3.5
Ontario	2.5	5.9	3.4	3.2	4.8	4.1	3.9	3.4	-4.6	1.9	3.0
Manitoba	5.8	7.0	3.6	6.7	5.9	3.9	8.8	7.1	-3.1	2.6	4.6
Sask.	4.4	7.6	5.0	4.1	5.2	6.5	13.0	10.3	-2.5	2.9	4.2
Alberta	8.9	9.0	4.4	10.3	11.8	15.4	9.3	-0.2	-9.5	2.6	4.0
BC	5.9	6.3	2.7	6.3	4.4	7.2	6.7	0.3	-8.6	2.7	4.0

Source: Statistics Canada, LBS Economic Research

Housing starts in Canada and the provinces (000s of units)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Canada	163.1	205.3	219.5	232.7	224.0	229.1	227.6	213.8	128.0	130.0	130.0
N&L	1.6	2.5	2.5	2.9	2.6	2.3	2.6	3.1	3.0	3.2	3.5
PEI	0.7	0.7	0.8	0.9	0.9	0.8	0.7	0.7	0.6	0.5	0.5
NS	4.1	4.9	5.4	4.8	4.7	5.2	4.7	4.6	3.0	3.5	3.5
NB	3.6	3.7	4.4	3.8	3.9	4.0	4.1	4.3	3.3	3.0	3.0
Quebec	27.8	42.6	50.4	58.6	50.9	48.0	48.5	47.8	39.0	35.0	34.0
Ontario	73.9	83.9	85.9	84.5	77.8	74.4	68.0	75.5	46.5	46.0	46.9
Manitoba	3.0	3.6	4.2	4.4	4.7	5.0	5.8	5.9	3.9	4.4	4.6
Sask.	2.4	2.9	3.3	3.7	3.3	3.7	5.9	7.1	3.0	4.2	4.5
Alberta	29.0	38.9	36.4	36.2	40.6	49.1	48.1	30.0	13.2	15.5	14.0
BC	17.2	21.7	26.2	32.9	34.5	36.6	39.2	34.8	12.5	14.7	15.5

Source: Statistics Canada, LBS Economic Research