



TD Economics

Provincial Economic Outlook

October 16, 2008

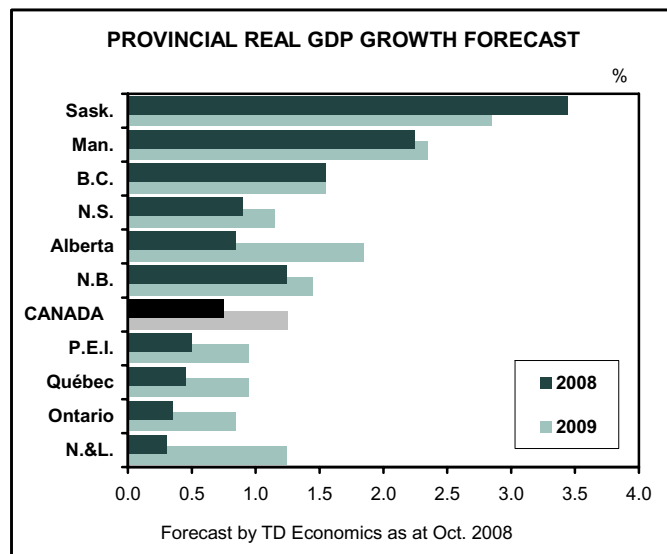
CROWDING UP IN THE SLOW LANE

This report updates our provincial economic forecast corresponding to our latest national *Quarterly Economic Forecast* from September. With U.S. and global financial markets convulsing and commodity prices swinging wildly, it would be an understatement to say that major developments have taken place. It is the impact of these developments on our 2009 regional outlook that serves as focus for this piece. To set the stage, let us say right upfront that the ongoing global storm will leave no region unaffected.

In the eye of the storm

The global macroeconomic and financial backdrop matters more than ever to regional prospects that would have otherwise gone their merry way without so much attention to global factors. The theme we've highlighted over the last few quarters is the ongoing adjustment of the Canadian economy to some major, inter-related, shocks. Namely,

- U.S. housing and consumer-led recession
- Volatility in commodity prices

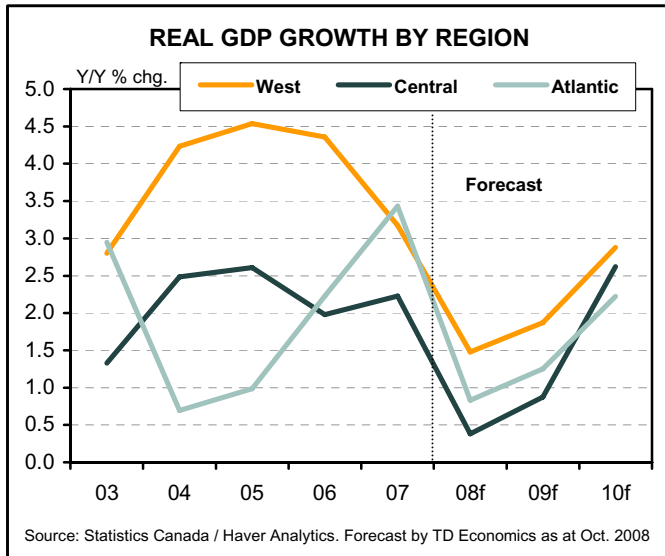


HIGHLIGHTS

- **Global shocks to leave no region unscathed**
- **U.S. economy to get worse before improving in 2010**
- **Export sector to remain weakest link ...**
- **... but spillover into domestic weakness to become apparent**
- **With housing and commodities taking a bow...**
- **... Alberta and B.C. risk joining Central and Atlantic regions in a virtual stand-still**

- Global financial turmoil and the credit crunch

The net result of these is to broaden the weakness, extend it out further in time, and raise the level of uncertainty surrounding our point estimates. Our national growth forecast for 2009 has been pared down from 1.8% to 1.2%. The repercussions of all three of these ongoing developments have already started to be felt across the country, and not just in the manufacturing heartland. Significantly weaker commodities, housing, and labour markets are becoming visible nearly everywhere. Going forward, it is our view that the real U.S. economy (output, consumption, employment) will get worse before it gets better. With global real GDP growth pegged at 2.9% for 2009, it looks more likely than not that the world economy will likely go through a mild recession, so the slowdown is clearly not confined to the U.S. Moreover, tighter credit conditions will dull consumer spending and business investment. While global credit conditions will eventually improve and a cyclical rebound in the U.S. economy should unfold in 2010, the recovery process is expected to be slow and gradual rather than fast and sharp. This implies a landscape for 2009 that should still largely be dominated by a retrench-



ment in U.S. consumer spending under the weight of declining home prices, equity losses, high inflation, and deteriorating labour market conditions.

The weakest link

The direct and already evident impact to the Canadian economy of this retrenchment is through weaker exports to Canada’s largest foreign market. As a result, overall Canadian output has hit the skids since late 2007, averaging only 0.1% (Q/Q annualized) real GDP growth between Q4 of 2007 and Q2 of 2008. Over the same period, export volumes contracted by an average of 5.8% (Q/Q annualized). Net exports shaved off 1.7 percentage points to top line real GDP growth in 2007. This year, expect an even heavier drag from the external sector, which we estimate will be a whopping -2.5 percentage points.

Therefore, exports continue to be the front line where the Canadian economy is under assault. In this context, it comes as no surprise that export-oriented and manufacturing-heavy provinces are experiencing, and will continue to experience, the weakest growth – if they manage to grow at all that is. Indeed, provinces east of Manitoba are expected to record meagre, sub-1% real GDP growth this year and only slightly better in 2009. Within that group, Ontario, and to a lesser extent Québec, flirted with a technical recession – defined as two consecutive declines in quarterly real GDP – in the first half of this year. The Atlantic provinces do not seem to be faring that much better on the whole, although their manufacturing sales, many of which are more geared into local resource projects, should hold up better than those of central Canada. And, after coming off their recent peaks, lower oil prices and a weaker

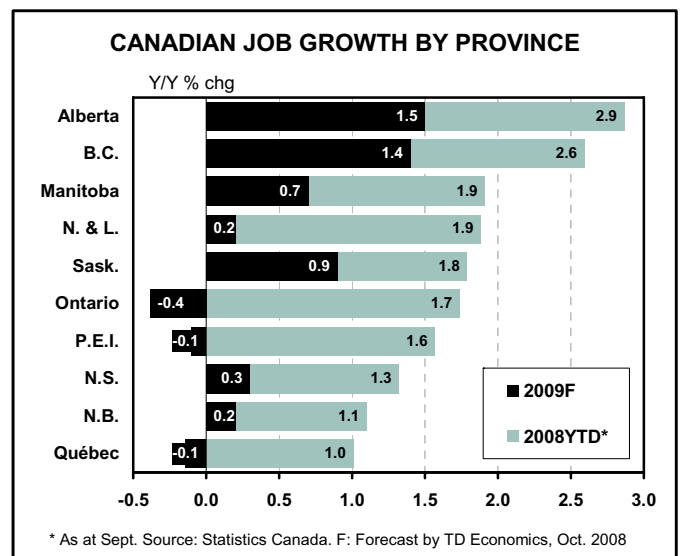
Canadian dollar – down to \$US 0.84 at the time of writing – could provide a bit of relief to all Canadian exporters, even if this will not be nearly enough to offset much weaker demand for those exposed to the U.S. market.

No escape

With U.S. consumers only beginning to retrench in their spending and clean up their household balance sheets, it would be too optimistic to expect a sharp recovery in the next few quarters

However, we want to highlight that the weaker export story is not, to simplify, just an Eastern economy story. Faced with elevated costs, lower energy and base metals prices on top of weaker demand for both, provinces west of Ontario, which have been the locomotives of the Canadian economy over the past few years, will be unwillingly reigned in to join the infamous club of feeble growth. Convergence to the lowest growth common denominator is not what anyone has in mind when they think about bridging the growth gap, but it appears as though this is how it will unfortunately happen in the near-term. Growth rankings arguably matter much less when nearly everyone is stuck in the slow lane, as is the case this year. In 2009, no province is expected to record better than 2.8% (Saskatchewan) real GDP growth. Most provinces west of Ontario will struggle to achieve 2.0% growth, while those located east of Manitoba will struggle to achieve even 1.0% growth.

Sure, West is still best in 2008-09. But that will not be saying very much. Certainly, the Saskatchewan and Manitoba economies, with their well diversified mix of growth sources and growing domestic demand, look best poised to

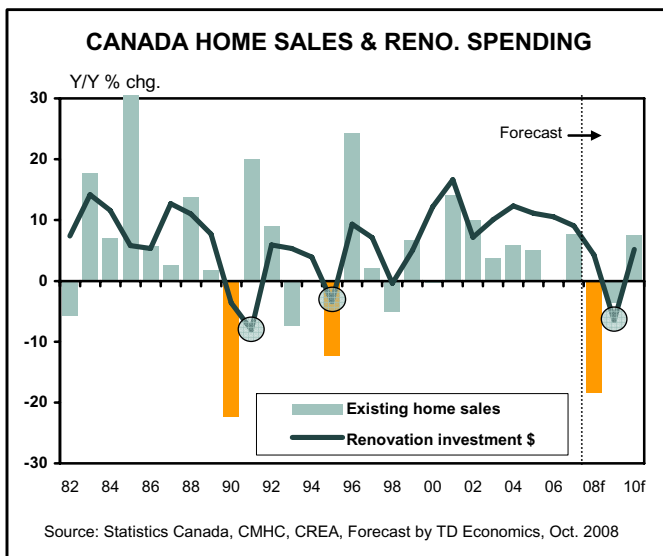
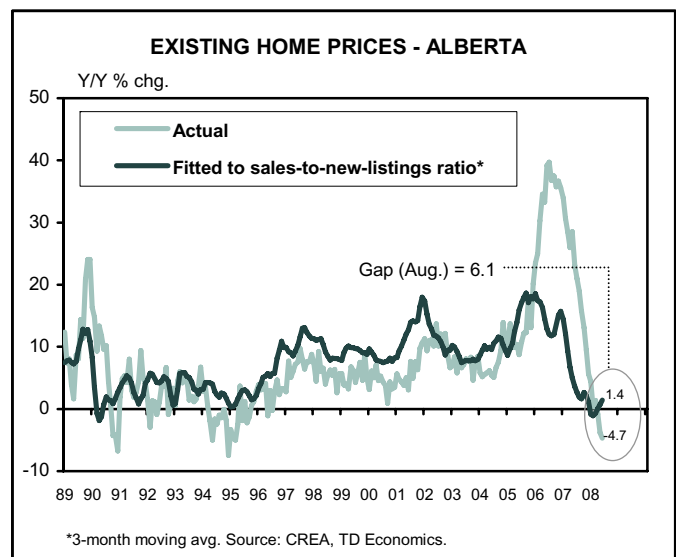
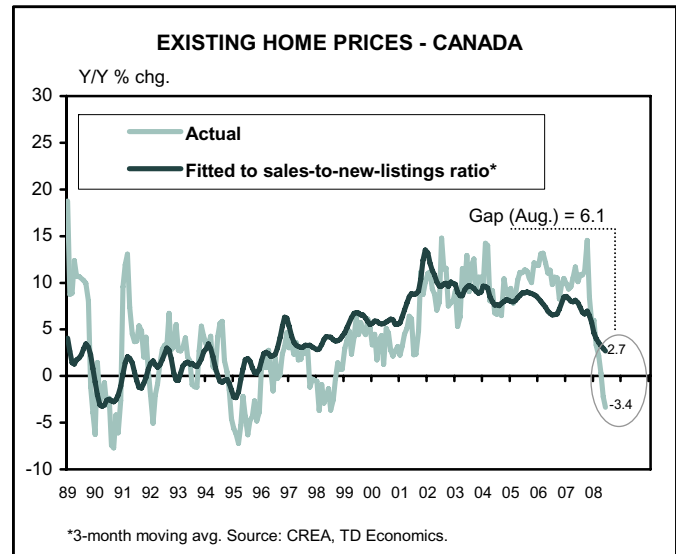


Housing takes a bow

One sector which buoyed overall growth and employment in recent years has been housing. This sector of economic activity is now moving by the wayside after starting in a leading role, which will expose weaknesses in regional economies that were being masked. The first signs of a slowdown in housing markets came in the market for existing homes, where sales have come off nationally by 14% (year-to-date through August) from the record year that was 2007. We expect construction and renovation spending to follow suit (see accompanying chart). Whereas residential construction was a contributor to growth across the country in 2007, we expect a decline in housing starts and renovation spending to weigh on overall economic growth this year and next before rebounding in 2010.

Lagging behind the trend of significantly weaker sales of existing homes, a significant adjustment in housing starts, down to a more sustainable level around 185,000 units, should take place in 2009. So far, at the national scale, Alberta's readjustment to a significantly lower level of starts has been masked by strength in Ontario. Both Alberta and B.C. are expected to continue this process of readjusting to a lower sustainable level of housing starts. Meanwhile, after bucking the trend this year with a significant increase in housing starts, Ontario and Saskatchewan should, like every other province, expect fewer housing starts in 2009. Along with overall economic activity, we expect a national uptick in starts of about 4% in 2010, to be reflected broadly across the country.

With respect to existing (resale) home prices, this is one area where West will not be best in 2009. On a na-



tional scale, we expect home prices to decline by 6% by 2009 from their 2007 peak. This will mask a regional divide in performances, however. Much of this will be owed to the much lower volume of sales in Alberta and B.C. as many of the most expensive homes in the country fall out of the national average price calculation. For 2009, residential markets in the Atlantic should top the home appreciation scale with home price growth in the 3.5%-5.5% range. The softness in resale markets will not be confined to western provinces, however. We expect Ontario and Québec home prices to record modest corrections of nearly 4% and 1.5% respectively, on an annual basis.

Out West, past price surges and eroding affordability

Housing takes a bow (cont'd)

have tilted the major metro markets of Calgary and Edmonton closer to buyer territory and those of Greater Vancouver and Victoria into buyer territory. Cyclical peaks in sales and prices are behind us in these markets. A surge in listings and lower sales has meant more balanced markets, and suggests a medium-term correction in prices. From their annual peak in 2007, Alberta home prices are expected to decline by about 8% by 2009. Similarly, from an estimated annual peak in 2008, British Columbia home prices are expected to retreat by roughly 9% by 2010. On a monthly seasonally-adjusted basis, these imply peak-to-trough corrections in the order of 15-20% for these markets. To put this into perspective, keep in mind that Alberta home prices have more than doubled over the last five years, while B.C. home prices increased nearly 85% during the same period. Home appreciation was only about half that much in Central and Atlantic Canada.

It must be recognized that, as much as some of these

markets overshot on the upside in recent years, the flipside is that they are now likely to undershoot fundamentals – as measured by the sales-to-new listings ratio. As the accompanying charts show, there is evidence that prices are indeed undershooting fundamentals in Alberta (by about 6.1 percentage points), something which is also being reflected at the national level. Elsewhere, by that metric, prices are also currently undershooting in Ontario (by a little over 2.5 percentage points) but overshooting in Quebec (by 1.1 percentage points), while being nearly bang-on in B.C. None of this should be taken to imply that price performance will come to match these supply-demand fundamentals in the near-term. Home appreciation or depreciation can be somewhat disconnected from the underlying supply-demand balance for a number of years, and we incorporate this stylized fact into our outlook. But there is no escaping a reversion back to these fundamentals over the longer-term, which point to better performance than current price corrections suggest.

weather this period and come out on top. But make no mistake; no region is immune to the aforementioned global shocks. Growth will be lacklustre and significantly sub-par nearly everywhere, even in mighty Alberta and B.C.

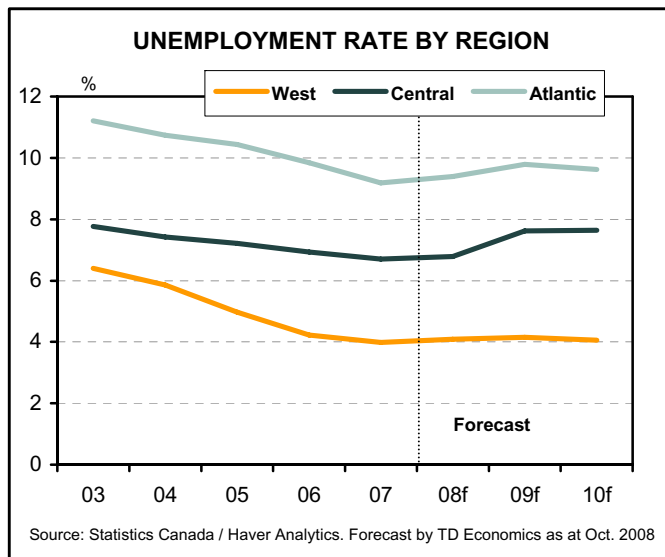
Hence the slowdown is not limited either to the export sector or the manufacturing heartland. Even the booming energy and natural resource sectors are faced with a tougher environment in terms of costs and financing of projects, not to mention weaker output prices. Furthermore, across the country, the knock-on effects from the global slowdown are also beginning to be felt in housing markets, services activity, and overall employment. We devote a separate text box to the regional home market outlook. Consumer and business confidence remain frail. This erosion in confidence, in part a self-fulfilling prophecy, also plays into the slowdown. The pace of expansion in consumer demand is moderating along with employment and wage growth.

British Columbia – Waiting for the new decade

While certainly not the sole factor in explaining why Western provinces are losing speed, weaker export revenues will play a definite role. Trade has been the weak link in B.C. for a while now, so this is nothing new for that province. Indeed, B.C.'s export sector, in particular lumber & forestry products, is still reeling from the U.S. residential construction downturn. The drag from the forestry

products sector was already enough in 2007 for B.C. to be the sole province whose overall corporate profits recorded a drop. The contraction in forestry and manufacturing will continue for the balance of this year and into 2009. A bottom in U.S. housing starts should start to form in 2009, but the large inventory overhang of unsold homes suggests a slow and modest recovery.

While other sectors of that economy were booming, the external sector weakness was not as visible as that of central Canada. Retail sales and consumer spending are slowing along with wage growth. As strong and as steady as it has been over the last four years, we nonetheless expect employment growth to slow in 2009. It should become apparent now that some pillars, in particular housing, are weakening. The growth contribution emanating from infrastructure and non-residential projects should provide some offset. Meanwhile, tourism from the U.S. will continue to be hurt by a high Canadian dollar and weak discretionary spending on the part of U.S. consumers. On that front, the Winter Olympic & Paralympic Games, to take place in February and March 2010, can't come soon enough. The bounce-back in 2010 will be important, with everything from tourism to food & accommodation services to retail trade receiving a boost. British Columbia should then find its place at the top of the provincial growth podium.



Alberta – In the slow(er) lane

When looking at Alberta's real GDP growth by expenditure component, potential sources of growth for the balance of this year are not as readily apparent as one would think for a province whose growth rate has been 4% on average over the last ten years. Part of this is simply that previous growth rates were not sustainable, and the province is going through a natural adjustment process after hitting supply-side bottleneck constraints such as availability of labour. The by-product of super-sized growth was high inflation, meaning an increased cost of living and of doing business, most noticeable for individuals in surging shelter costs and similarly for labour and materials costs for businesses. All of which induces a forced slowdown in activity.

Year-to-date retail sales growth is below 2% and will struggle to post any growth at all for 2008 as a whole, even on a nominal basis. Retail sales volumes are in decline year-over-year, lead by declining vehicle sales and other big-ticket items. Consumer spending growth looks set to record only about half of that experienced last year (6.4%). Residential investment could contract by as much as 25% this year, which by itself would shave a full 1.25 percentage points off top line real GDP growth. In the resource sector, natural gas drilling activity is still depressed and overall oil & gas extraction is likely to contract by about 5% even though recent trends suggest a bounce back could be in the offing for late this year or 2009. As always, declining energy prices present the most significant downside risk to Alberta's economy. There are offsets, however. For one,

some sectors like wholesale trade, manufacturing sales, and exports will do better this year than in 2007. Second, government expenditures should hold up and provide a further boost to the economy. Even if overall business investment weakens, imports are expected to slow so that the impact of these two combined could very well be marginal. All said, the momentum heading into 2009 is weak. However, the drag from residential construction has in large part already occurred, and its impact should wane through next year. One clear positive for this economy is that this path to a more sustainable rate of growth will help tame the inflationary and supply-side cost pressures that were a constant source of concern over the last couple of years. The province should still muster better economic growth in 2009-10, but the days of 4%+ growth are unlikely to be revisited over this forecast horizon.

Saskatchewan – Exceptional, but not immune

Saskatchewan looks set to be the sole province whose economic growth rate in 2008 will exceed that of last year, which is no small feat in the current context. The province tops our real GDP growth podium in both 2008 and 2009. Its manufacturing sales in the first half of this year went through the roof. They will no doubt slow as commodity prices have retreated since then, but the beneficial impact cannot be discounted. There is also little doubt that the province would have fared even better in the near-term had global developments not taken a turn for the worse. With a lag when compared to the rest of country, Saskatchewan is expected to experience a mild slowdown in 2009. This Prairie province is blessed with a well diversified mix of natural resources, the demand for which should continue to be strong over the long haul. Income has been buoyed from the export of commodities whose prices are still historically elevated. Indeed, the commodity price surge helped tremendously. Potash mining bounced on strength in demand from China, and corporate profits got a boost from high world prices in grains, potash, and uranium. This has translated into a growing manufacturing base and domestic demand. The improved terms-of-trade and purchasing power has rippled through the economy and is visible in the growth of the province's population, employment, labour income, and retail & wholesale trade.

However, the commodity price retreat since July is a clear reminder, even to this booming economy, that any decoupling from a U.S. slowdown remains a fantasy. This should dampen enthusiasm in the province and keep ex-

pectations in check. In a script all too familiar to Albertans, high inflation and cost pressures will eventually constrain growth. The province has certainly benefited from an inflow of people but inter-provincial migration will level off. Housing still has a spring in its step and average home prices are still almost 30% lower than the Canadian average, but eroding affordability will come back to bite future demand. In other words, while the current momentum remains strong, too high a pace of growth would simply not be sustainable.

Manitoba – Some shelter from the storm

Yet not entirely out of harm's way, who would have thought one would be safest from headwinds emanating out the U.S. in the Canadian Prairies? With the external side of its economy holding up well, the focus has been on the domestic economy in this province of late. For 2008 as a whole, employment should outpace the labour force, meaning an already low unemployment rate could set a historical low by settling near 4.2%. It will no doubt nudge up in 2009-10, but should still remain well shy of 5% throughout the forecast horizon. Sources of growth should remain plentiful for this province, from commodities to manufacturing and retail & wholesale trade. Manufacturing sales of chemicals, machinery, fabricated metals, and other durables have been doing exceptionally well. In agriculture, growth in crop receipts (particularly for wheat and oilseeds), has more than offset declines in livestock receipts (most notably those for hogs). Private investment and, to an even greater extent, public investment in infrastructure provides another source of growth.

Like most everywhere else in the country, housing starts are expected to decline this year and next, mostly in the multiples segment, but are coming off a 20 year high in 2007 near 5,800 units. This drag from residential construction will no doubt subtract from growth but should remain contained. Overall, our real GDP growth forecast calling for a little above 2% from 2008 to 2010 is not stellar by any means, but will be multiples ahead that of most provinces.

Manitoba looks best placed, along with its neighbour province of Saskatchewan, to weather the global slowdown and outperform the nation as whole. This is good news for a province whose growth rate had a seven year stint, from 1999 to 2005, of underperformance vis-à-vis the country as a whole. Manitoba is set to extend its real GDP growth outperformance, which started in 2006, to a third and fourth consecutive years in 2008-09. Achieving the same feat for

a fifth consecutive year will prove more difficult in 2010, as central Canada benefits relatively more from a cyclical bounce-back in the U.S., but it is most certainly within the realm of feasible.

Ontario – No knockout punch, but heavy body blows

Ontario's forestry sector is reeling, just like those of B.C., Québec, and the Atlantic region. Its manufacturing sector is also under duress. In particular, U.S. auto sales will be the weakest they've been in some 15 years, at a time when there were about 15% fewer American consumers than there are today. Which means Ontario's auto assembly & parts plants, most notably those tied to U.S. automakers, is staring down a dark tunnel indeed. Far from a return to potential growth, the Ontario economy will at best be essentially moving sideways over the next 9-12 months. For the balance of this year, food manufacturing and residential construction should provide some much needed support out of the goods-producing side of economic output, but not nearly enough to offset lower output for most every other good. Hence, with very little help expected to come from the goods-producing side of the economy, Ontario's service sector will have to carry the load both in terms of employment and output. It will be a difficult task. The extent it can do so should determine how pronounced the overall slowdown will be. To that effect, there are some offsets in the service sector to the continued weakness in manufacturing and that which we expect in residential construction for 2009. Retail sales will slow but not too markedly. Scientific and technical services, along with education, health care, and public administration should hold up. Finance, insurance, and real estate services will certainly face a challenging year but should continue to fare significantly better than their U.S. and European counterparts.

All said, it is clear that the Ontario economy is not out of woods yet. It is only when a sustained recovery for the U.S. economy is within sight, later in 2009 at best, that Ontario can fully benefit from a cyclical upturn in export-oriented and manufacturing-based activity. For the first time in a long while, this uptick should then bridge the growth gap between East and West that has been with us since 2003. Most importantly, it should turn the tables and bridge the gap in the desired direction, which is faster growth in previously low-growth economies. Ontario's economic growth rate could come in higher than that of Alberta in 2010, potentially achieving something we have not seen

since 2002. Many of its long term structural challenges will remain intact, however, and it is on these challenges – as outlined in a recent TD Economics report – that we must keep our eye on if the province is to return to its status as a locomotive of growth.

Québec – “Pas pire”, considering...

A common answer to the typical small talk question of “How are you?” for a francophone in Québec is “Pas pire”. In essence, it is the negation of a possibly worse state rather than an affirmation of a good state such as “I’m well”. The answer always depends on who you ask, but overall, the same could be said of the current state of the Québec economy: not good, but things could be worse. Unfortunately, it looks like more of the same is on the menu for 2009. In similar fashion to Ontario’s anxiety surrounding the outcome of second quarter real GDP growth estimates, the estimates revealed that the Québec economy grew at 0.9% (annualized) rate in the second quarter. And, just like Ontario (which grew at 1.4% during the same quarter), even if observers were able to breathe a sigh of relief that growth was not in the red, we want to caution the same observers not to read too much good news into that quarterly report. First off, sub-1% growth is nothing to write home about. Secondly, it was mostly reflective of a bounce-back in inventory accumulation after a significant drawdown in the first quarter. It is true that in this Q1-Q2 drama that played out, Québec may have averted a technical recession, just like Ontario. But we fear this is but an “entracte”, or intermission. One would have to be overly optimistic to believe the next few acts (quarters of economic activity) will be filled with good news.

Although less heavily exposed to the U.S. downturn than Ontario because of a slightly more favourable manufacturing industry mix, the Québec export-oriented sector’s main customer, the U.S., will not play favourites. Weaker demand Stateside for intermediate and consumer goods will hurt across the board. Even while the aerospace firms’ order books look full, let’s keep in mind that fuel prices are still elevated and that the slowdown is not confined to the U.S. Québec’s mining sector and utilities provide some help on the goods-producing side of the economy, but the primary sector and residential construction cannot be counted on for such support in 2009. Meanwhile, the best that machinery and equipment manufacturing output could do is help keep the overall manufacturing sector from dipping too far into contraction mode. With blockbuster job

creation in 2007 a tough act to follow and output stagnating in the first half of this year, employment has been taking it on the chin so far this year, recording the weakest provincial year-over-year growth (see accompanying chart). Thankfully, this should also mean it is looking at fewer losses in 2009 than its neighbour Ontario and will likely experience an employment rebound quicker out of the gate later that year.

Even when one looks to sports and entertainment for good news or diversion away from economic and stock market woes, one is left with a bitter taste. Sure, the Montreal Canadiens hockey club could be set for another good season after winning their competitive division last year, but setting the bar at “bring back the Cup” has been known to backfire by creating too much media and fan pressure in this hockey Mecca. On a more serious note, the city has reportedly been dropped from the Formula One race calendar for next season, which would be yet another blow to tourism for the region. Stepping back and looking at the big pictures, let us hope that this protracted period of slow economic growth serves as an opportunity to tackle many of the structural challenges – as outlined in a 2007 TD Economics report – the province is faced with.

New Brunswick – Holding above water

New Brunswick’s major economic indicators have held up well so far in 2008. Although not immune to a significant economic slowdown, the province should be able to avoid a severe downturn as ongoing capital investment projects provide some lift to the overall economy.

Population growth had been steadily rising since late 2006, but has likely peaked as labour needs for some major projects were met. Incomes, wages and spending growth, in part boosted by revenues from refined petroleum products, have been keeping the province humming along. However, most of this is likely in the rear-view mirror and not likely to be sustained at the same pace going forward. Certainly, resource development remains a key to the provincial near-term and medium-term economic outlook. This includes projects like the Point Lepreau nuclear power generating station refurbishment, the Canaport LNG terminal facility and pipeline, and potash mining development near Sussex. With the offshore work nearly complete and most of the onshore work well under way, the Saint John Canaport LNG terminal was nearly 85% complete as of July, with peak activity and employment levels seen in Q3 of this year, so this project is currently in

the home stretch stage. The Point Lepreau facility refurbishment is expected to be complete about a year later, towards the end of 2009. Meanwhile, the local manufacturing sector, like many of its counterparts elsewhere in the country, is faced with punishing conditions which look unlikely to improve significantly before 2010. By which time other major projects could come on tap, like another nuclear facility and/or a new Irving petroleum refinery, both of which would provide a boost, just as the overall North American economy picks up in 2010. While things look promising as of writing, much of the economic growth outlook hinges upon the ‘if’ and the ‘when’ of these potential major projects. Employment growth prospects look otherwise subdued throughout the forecast horizon. As a consequence, the unemployment rate should head north of 9% closer to 10%, which is still relatively low by historical standards and certainly not out of line with the overall weakening of labour market conditions in Eastern Canada.

Nova Scotia – On trading terms

After experiencing sub-par growth for much of the last five years, Nova Scotia has also shared, like many resource-rich regions of the country, in the benefits of a surge in commodity prices, in particular natural gas. This is often referred to as a positive “terms of trade” effect, which is meant to reflect the relative increase in the price of exported goods against that of imported goods, thereby increasing local purchasing power. The income and spending boost that resulted cannot be counted on going forward, however, as energy prices have retreated significantly since July and continue to be volatile beyond historical norms of already high volatility. While not expected to boost natural gas output before 2011, major investment at the Deep Panuke offshore field is providing a lift in the meantime. Expansion at Deep Panuke should more than offset declining output out of the Sable gas project at the turn of the new decade. A crucial project is the Keltic Petrochemical / Maple LNG Guysborough project, which should provide a further boost from 2009 to 2011. This comes at a much needed time, when the manufacturing sector is reeling like most everywhere in the country. Offsetting the broadly-based weakness within that space is the aerospace and defence contracting industry which is still expanding. Meanwhile, service-producing industries like wholesale and retail trade are holding up decently while financial services output and employment is facing a tougher environment than in the recent past. Looking at current

momentum and putting all the pieces together yields a modest overall economic growth forecast for the province for the balance of this year and 2009. Upwards pressure on the unemployment rate, which has steadily been declining since 2002, will be present but should be muted by weak labour force growth. There remains the risk that the latter could outpace our forecast and consequently push the unemployment rate higher, but it should still remain contained and shy of a historically low 9%.

Prince Edward Island – Rough waters

Nowhere is the boost from major project investment in infrastructure, like that of the West Cape Wind farm project and others, currently more welcome than in the Island economy. With elevated gasoline prices, a Canadian dollar not low enough to present a bargain to foreigners, and U.S. consumer pinching pennies, the all-important tourism and export sectors will be facing a difficult year in 2009. With primary sectors like agriculture and fishery expected to provide little, if any, support to growth, the goods-producing side of the economy can only be expected to grow marginally at best, with non-residential construction and food processing helping to inch economic activity forward. Growth in I.T., business services, and bioscience, while helping to diversify the economy, have not reached, as of yet, the scale needed to offset significant weakness elsewhere in the economy. Service sector activity has been resilient, particularly wholesale and retail trade. Labour markets have been surprisingly strong. Recent data do suggest a peak in wage growth peaks is behind us however. Employment growth could edge up further yet for the remainder of this year, but unless such positive surprises continue unabated, the province could well be in store for a mild contraction in employment next year. This will exert upward pressure on the unemployment rate which we expect to climb towards 12% while remaining just shy of that figure.

Newfoundland & Labrador – Taking a breather

After super-sized growth of 9.3% last year led by offshore oil output and exports, the Newfoundland & Labrador economy will struggle to expand, on an annual basis, in 2008. While high oil prices have helped to boost incomes (wage growth is running at 8.7% year-to-date), oil extraction is depressed due the maturation of the oil fields. This will continue into 2009 and 2010. Expansions at the Hibernia and White Rose fields could help level off output, but a sustained rebound in oil production is not in the cards be-

fore 2014, which is when the Hebron project could come online.

In the interim, wage growth is expected to come back down to earth. The outlook for other sectors of activity has also weakened since our last forecast. Mineral exploration is faced with weaker commodity prices. Global credit market woes, in particular in Iceland's traditional lenders to the seafood industry, along with a weak restaurant spending outlook in the U.S., put the fishery industry at further risk.

In the meantime, however, most indicators are holding up fairly well. After a two and half year stint of population declines, growth has been ramping up since April. Population growth should level off sometime in 2009, but is likely to pick up again in the early part of the next decade. Job growth has been surprisingly outsized so far this year at nearly 2%. With the labour force growing in stride, but most recently contracting, the unemployment rate has hovered in the 12.5-13.5% range, which is still near generational lows. Retail sales growth remains solid at 8.2% year-to-

date, although some of this is reflective of inflation – as volumes are up by a lesser 5.6%. This is likely to slow in 2009 as vehicle sales come under pressure. Wholesale trade could very well contract in 2009, even in nominal terms. St John's local housing market has caught on fire since early this year. Statistics Canada's new house price index records 17.3% growth year-to-date. However, this will not be sustained. The rate of home appreciation looks to have peaked this summer. New and existing home prices should still appreciate markedly in 2009-10, but at more sustainable 4-5% rate. Housing starts have grown the most outside of Saskatchewan on a year-to-date percent basis. While residential construction could certainly better our forecast for 2009, which calls for a retreat down to 2,600 housing starts led by a decline in multiple-family units, we highlight the risk that the high level of starts seen in 2007 (3,000 units) likely marks a medium-term peak. All told, like most of the country, it seems the province will have to wait for the new decade before a decent recovery can be sustained

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REAL GROSS DOMESTIC PRODUCT (GDP)						
Annual average per cent change						
	98-07	2006	2007	2008F	2009F	2010F
CANADA	3.3	2.8	2.7	0.8	1.3	2.7
N. & L.	5.0	3.3	9.1	0.3	1.2	2.5
P.E.I.	2.6	2.6	2.0	0.5	0.9	1.8
N.S.	2.7	0.9	1.6	0.9	1.1	2.2
N.B.	2.8	3.0	1.6	1.2	1.4	2.1
Québec	2.7	1.7	2.4	0.5	0.9	2.4
Ontario	3.4	2.1	2.1	0.3	0.8	2.7
Manitoba	2.6	3.2	3.3	2.2	2.3	2.4
Sask.	2.0	-0.4	2.8	3.4	2.8	2.7
Alberta	4.0	6.6	3.3	0.8	1.8	2.5
B.C.	3.0	3.3	3.1	1.5	1.5	3.6

F: Forecast by TD Economics as at Oct. 2008
Source: Statistics Canada / Haver Analytics

EMPLOYMENT						
Annual average per cent change						
	98-07	2006	2007	2008F	2009F	2010F
CANADA	2.1	1.9	2.3	1.5	0.3	1.0
N. & L.	1.5	0.7	0.7	1.7	0.2	1.4
P.E.I.	1.7	0.5	1.2	1.3	-0.1	0.8
N.S.	1.6	-0.3	1.3	1.0	0.3	0.9
N.B.	1.6	1.4	2.1	0.9	0.2	1.2
Québec	2.0	1.3	2.3	0.7	-0.1	0.6
Ontario	2.2	1.5	1.5	1.4	-0.4	0.8
Manitoba	1.3	1.2	1.6	1.5	0.7	0.7
Sask.	0.7	1.7	2.1	1.5	0.9	1.2
Alberta	3.0	4.8	4.7	2.6	1.5	1.8
B.C.	2.0	3.0	3.2	2.4	1.4	1.9

F: Forecast by TD Economics as at Oct. 2008
Source: Statistics Canada / Haver Analytics

LABOUR FORCE						
Annual average per cent change						
	98-07	2006	2007	2008F	2009F	2010F
CANADA	1.8	1.4	2.0	1.6	0.9	1.0
N. & L.	0.9	0.2	-0.7	1.4	0.7	1.1
P.E.I.	1.1	0.7	0.3	1.5	0.8	0.9
N.S.	1.1	-0.8	1.4	0.7	0.4	0.6
N.B.	1.0	0.3	0.8	2.0	1.0	1.0
Québec	1.5	1.0	1.4	1.0	0.4	0.5
Ontario	2.0	1.2	1.7	1.4	0.7	0.9
Manitoba	1.0	0.7	1.7	1.2	0.8	0.8
Sask.	0.6	1.2	1.6	1.7	1.0	1.2
Alberta	2.8	4.3	4.8	2.8	1.4	1.7
B.C.	1.5	1.9	2.6	2.5	1.6	1.7

F: Forecast by TD Economics as at Oct. 2008
Source: Statistics Canada / Haver Analytics

UNEMPLOYMENT RATE						
Annual average, per cent						
	98-07	2006	2007	2008F	2009F	2010F
CANADA	7.1	6.3	6.0	6.1	6.7	6.6
N. & L.	16.0	14.8	13.6	13.3	13.7	13.5
P.E.I.	11.9	11.1	10.3	10.5	11.3	11.4
N.S.	9.1	7.9	8.1	7.8	7.9	7.6
N.B.	10.0	8.7	7.6	8.6	9.3	9.2
Québec	8.7	8.0	7.2	7.5	8.0	7.9
Ontario	6.6	6.3	6.4	6.4	7.4	7.5
Manitoba	5.0	4.3	4.4	4.2	4.3	4.4
Sask.	5.3	4.6	4.2	4.4	4.5	4.6
Alberta	4.7	3.4	3.5	3.7	3.6	3.5
B.C.	7.1	4.8	4.2	4.3	4.5	4.3

F: Forecast by TD Economics as at Oct. 2008
Source: Statistics Canada / Haver Analytics

TOTAL CONSUMER PRICE INDEX (CPI)						
Annual average per cent change						
	98-07	2006	2007	2008F	2009F	2010F
CANADA	2.1	2.0	2.1	2.8	2.2	2.0
N. & L.	1.9	1.8	1.4	3.2	2.1	1.9
P.E.I.	2.3	2.2	1.8	4.0	2.8	2.1
N.S.	2.3	2.1	1.9	3.8	2.8	2.3
N.B.	2.1	1.7	1.9	2.4	2.3	2.1
Québec	2.0	1.7	1.6	2.7	2.1	1.8
Ontario	2.1	1.8	1.8	2.6	2.0	1.9
Manitoba	2.0	1.9	2.1	2.4	2.8	2.2
Sask.	2.3	2.0	2.9	3.7	3.0	2.6
Alberta	3.0	3.9	4.9	4.0	2.8	2.5
B.C.	1.7	1.7	1.7	2.5	2.0	2.4

F: Forecast by TD Economics as at Oct. 2008.
Source: Statistics Canada / Haver Analytics

RETAIL TRADE						
Annual average per cent change						
	98-07	2006	2007	2008F	2009F	2010F
CANADA	5.1	6.4	5.8	4.0	3.8	5.1
N. & L.	4.1	3.7	9.5	7.4	4.5	6.2
P.E.I.	4.8	4.0	8.2	5.1	3.6	5.8
N.S.	4.2	6.3	4.0	4.8	4.0	5.4
N.B.	4.4	6.1	6.2	4.8	4.5	5.0
Quebec	4.5	5.1	4.3	4.3	3.8	5.0
Ontario	4.8	4.1	4.0	4.9	3.9	5.4
Manitoba	5.3	4.5	9.5	8.0	5.6	4.5
Sask.	5.7	6.5	12.9	12.5	6.5	5.3
Alberta	7.8	15.6	9.0	0.3	3.4	4.4
B.C.	5.3	6.8	7.2	2.1	2.5	5.1

F: Forecast by TD Economics as at Oct. 2008
Source: Statistics Canada / Haver Analytics

HOUSING STARTS					
Thousands of units					
	2006	2007	2008F	2009F	2010F
CANADA	229.1	227.6	214.8	185.0	192.5
N. & L.	2.3	2.6	3.0	2.6	2.7
P.E.I.	0.8	0.7	0.7	0.7	0.7
N.S.	5.2	4.7	4.6	4.1	4.3
N.B.	4.0	4.1	4.3	3.7	3.8
Quebec	48.0	48.5	46.0	41.7	44.0
Ontario	74.4	68.0	76.4	63.8	65.6
Manitoba	5.0	5.8	5.5	5.0	5.0
Sask.	3.7	5.9	6.9	6.3	6.0
Alberta	49.1	48.1	32.0	28.5	30.0
B.C.	36.6	39.2	35.4	28.7	30.5

F: Forecast by TD Economics as at Oct. 2008

Source: Canada Mortgage and Housing Corporation

HOUSING STARTS					
Per cent change					
	2006	2007	2008F	2009F	2010F
CANADA	2.3	-0.7	-5.6	-13.9	4.1
N. & L.	-10.7	14.9	13.9	-13.3	1.9
P.E.I.	-15.3	-13.8	3.7	-7.1	6.2
N.S.	11.4	-9.6	-2.6	-12.0	6.2
N.B.	3.6	2.3	4.2	-14.0	2.7
Quebec	-5.8	1.1	-5.2	-9.3	5.5
Ontario	-4.4	-8.5	12.3	-16.5	2.8
Manitoba	6.7	15.1	-4.9	-9.1	0.0
Sask.	12.8	58.3	16.8	-8.7	-4.8
Alberta	20.9	-2.1	-33.4	-10.9	5.3
B.C.	6.0	7.0	-9.6	-18.9	6.3

F: Forecast by TD Economics as at Oct. 2008

Source: Canada Mortgage and Housing Corporation

EXISTING HOME SALES					
Thousands of units					
	2006	2007	2008F	2009F	2010F
CANADA	484.0	520.8	425.3	400.6	426.4
N. & L.	3.5	4.5	4.8	4.7	5.0
P.E.I.	1.5	1.8	1.3	1.3	1.3
N.S.	10.6	11.9	11.0	10.8	11.3
N.B.	7.1	8.2	7.7	7.5	7.8
Quebec	72.5	80.3	77.5	72.1	76.1
Ontario	194.8	213.4	182.8	172.2	184.2
Manitoba	13.0	13.9	13.7	12.5	13.1
Sask.	9.1	12.1	10.0	9.2	9.9
Alberta	74.4	71.4	49.6	46.9	50.9
B.C.	96.7	102.9	66.8	63.4	66.9

F: Forecast by TD Economics as at Oct. 2008

Source: Canadian Real Estate Association

EXISTING HOME SALES					
Per cent change					
	2006	2007	2008F	2009F	2010F
CANADA	0.0	7.6	-18.4	-5.8	6.5
N. & L.	10.2	26.4	6.6	-2.2	7.1
P.E.I.	3.0	18.6	-27.4	4.6	-2.6
N.S.	-3.3	12.1	-7.0	-2.0	5.0
N.B.	4.2	14.5	-6.0	-2.8	4.3
Quebec	2.6	10.8	-3.5	-7.0	5.5
Ontario	-1.1	9.5	-14.3	-5.8	7.0
Manitoba	2.0	7.0	-1.5	-8.6	4.8
Sask.	10.0	31.9	-16.7	-8.4	7.1
Alberta	12.9	-3.9	-30.5	-5.5	8.4
B.C.	-9.1	6.4	-35.1	-5.1	5.5

F: Forecast by TD Economics as at Oct. 2008

Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE					
Thousand \$					
	2006	2007	2008F	2009F	2010F
CANADA	276.9	307.3	300.8	288.8	292.0
N. & L.	139.5	149.3	169.4	178.6	185.2
P.E.I.	125.4	133.5	138.5	142.1	146.4
N.S.	168.6	181.0	186.9	193.3	199.6
N.B.	126.9	136.6	143.9	144.6	149.5
Québec	194.0	208.2	217.0	213.7	217.9
Ontario	278.4	299.5	297.7	286.6	293.9
Manitoba	150.2	169.2	190.4	199.1	205.5
Sask.	132.1	174.4	228.3	216.4	212.9
Alberta	285.4	356.2	347.5	326.7	329.7
B.C.	391.0	439.1	452.3	421.5	411.2

F: Forecast by TD Economics as at Oct. 2008

Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE					
Per cent change					
	2006	2007	2008F	2009F	2010F
CANADA	11.1	11.0	-2.1	-4.0	1.1
N. & L.	-1.2	7.0	13.5	5.4	3.7
P.E.I.	7.0	6.4	3.7	2.7	3.0
N.S.	5.9	7.3	3.2	3.5	3.2
N.B.	5.2	7.7	5.3	0.5	3.4
Québec	5.1	7.3	4.2	-1.5	1.9
Ontario	5.9	7.6	-0.6	-3.8	2.5
Manitoba	12.2	12.6	12.5	4.6	3.2
Sask.	7.6	32.0	30.9	-5.2	-1.7
Alberta	30.8	24.8	-2.5	-6.0	0.9
B.C.	17.7	12.3	3.0	-6.8	-2.5

F: Forecast by TD Economics as at Oct. 2008

Source: Canadian Real Estate Association

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