



TD Economics

Provincial Economic Forecast

March 17, 2009

SYNCHRONICITY, THE 2009-10 CANADIAN TOUR

Our recent Quarterly Economic Forecast (March 12) argued that this is the most synchronous global downturn in the post-war period. It could also very well be the most synchronous downturn within Canada since the war. Indeed, all regions of the country have faltered in lockstep since the fourth quarter of 2008. This is the one reunion tour from the recession marching band we all would rather not attend. Plunging global demand for manufacturing exports, falling commodity prices and volumes, and financial market gyrations are affecting all regions. This is translating into broadly-based and significant drops in output and investment, as well as rising unemployment from coast to coast. In turn, fragile consumer confidence and job losses have led to contractions in consumer spending and suggest more hardship is yet to come. Government spending (all levels combined) is providing somewhat of a cushion, but cannot, by itself, take up this huge slack in private sector economic activity.

The accompanying charts reflect just how quick of a turnaround we have seen in regional monthly indicators like manufacturing shipments, retail sales, and employment. Furthermore, these regional aggregates clearly show when economic activity peaked, and how quickly it has slipped since then. This speaks volumes to the fact that global financial market and macroeconomic conditions are overwhelming the domestic drivers of local economies. The lack of significant differentiation between regions contrasts with the experience of recessions past, as the accompanying text box (page 4) shows.

A year to forget

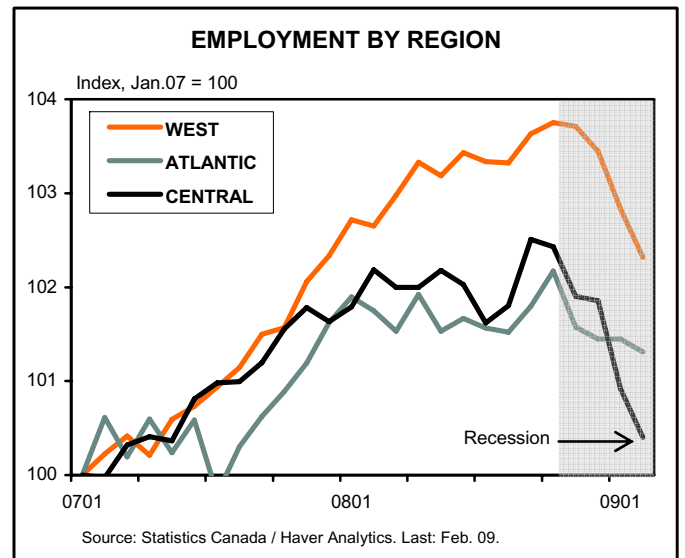
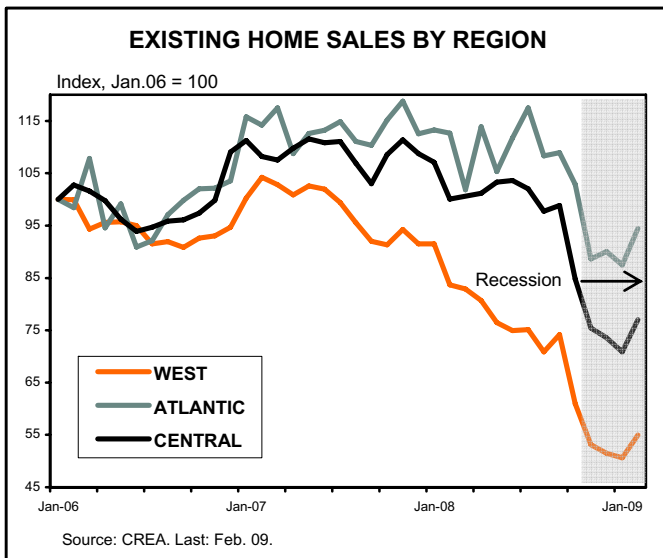
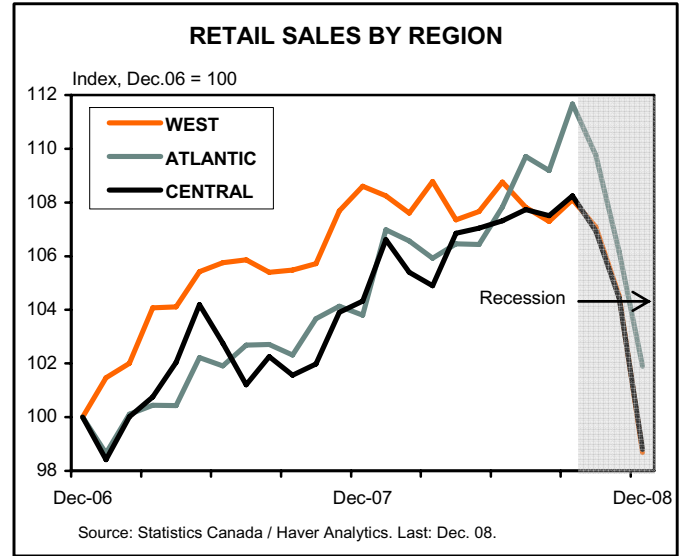
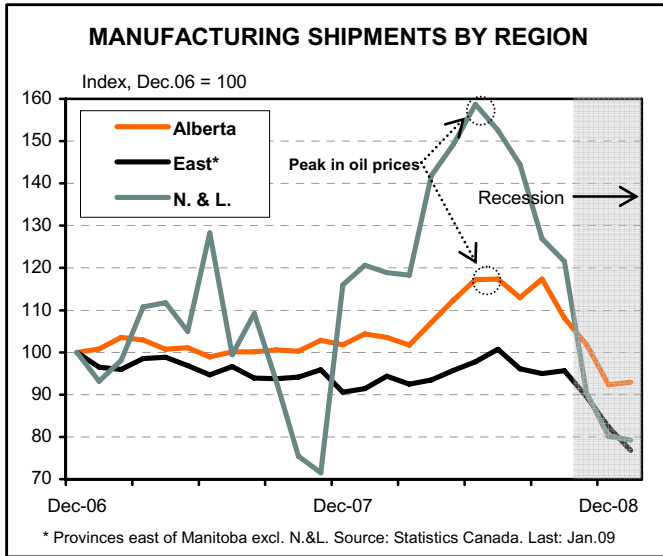
This year, most provinces can expect real GDP contractions close to that of the national economy, around 2.4%, with a couple of Prairie provinces (Manitoba and Saskatch-

HIGHLIGHTS

- **Highly synchronous global recession rippling through all regions of Canada**
- **Global financial market and macroeconomic conditions overwhelm domestic drivers of local economies ...**
- **... leaving little differentiation in regional fortunes this year**
- **Unemployment rates to surge by 3-4 percentage points by 2010 to reach 1990s levels for many provinces**
- **Commodity-based provinces' nominal incomes (GDP) get walloped the most**
- **Home construction and prices continue to unwind across the nation**
- **Retail spending to contract on slumping prices and volumes**

ewan) holding up slightly better. Nominal incomes (GDP) are being walloped, but here experiences will be more varied, with regions relying more heavily on commodities suffering through the swift return of the commodity price pendulum. Accordingly, the Prairies and Newfoundland & Labrador will experience larger than 5% pullbacks in nominal GDP, lead by Alberta's 10% decline. Other province's nominal GDP slippage should be less severe than that of the country as a whole (-4.5%), while in many cases still expected to record their worst historical performance.

The retail sales landscape is expected to align with these reversals in nominal incomes. As retail prices slump with firms lacking pricing power and volumes slipping, Canadian retail sales will record their first ever (data only goes



back to 1992) drop (-3.0%) on an annual average basis, led by 4-5% pullbacks in B.C. and Alberta. The experience of declining retail spending will be shared across all provinces.

Existing (resale) home sales and prices are projected to slip significantly this year vis-a-vis last year. We expect only 320,000 existing homes to be sold in 2009, or 26% fewer than a year prior. The pullback had already started in earnest in the second half of last year in B.C. and Alberta. This trend quickly generalized across the country within a matter of a few months, however. All provinces will see a significant double-digit percentage drop in home sales, not too far off from the national figures. As a result of much softer demand for homes, home values also started

declining in the second half of 2008. We expect home prices to unwind by a further 13.5% this year on an annual average basis after a modest decline of 0.7% last year. More telling is the peak-to-trough measure, by which we expect national home prices to correct by 20-25%. Given the past froth experienced in some Western markets and the severity of the economic downturn in Ontario, these locales will lead the correction. Homebuilding has also been in full blown retreat since late last year. We currently expect an average of only 125,000 housing starts this year (41% fewer than in 2008) with a very modest uptick to 130,000 units next year.

All other indicators aside, it is the employment land-

FINANCIAL AND MACROECONOMIC ASSUMPTIONS

- **World** real GDP will shrink significantly (-1.6%) this year and grow only modestly (+2.2%) next year. The **G7** economies' pullback this year will be twice as much (-3.8%), followed by less than a third as much growth (0.7%). **U.S.** real GDP will contract by 3.1% in 2009, followed by a muted recovery which will limit growth to 1.4% percent in 2010.
- Forecast contingent of our "**Five pillars to recovery**":
 - The U.S. real estate market must stabilize in the next 3-6 months
 - Credit conditions must continue to improve
 - Systemic risk in the global financial system (e.g. Eastern Europe) must diminish
 - Restructuring of the auto sector must continue to make progress
 - Fiscal stimulus packages must be implemented swiftly and the economic boost needs to be in the ballpark of our current expectations
- From its current level \$US 0.78, the **Canadian dollar** will appreciate towards \$US 0.87 by year end and \$US 0.89 cents towards the end of next year.
- Most **commodity prices** will not gain any significant traction upwards before 2010. In particular, we expect **crude oil prices** to remain relatively low, reaching \$US 50 (per barrel) by year-end 2010. We expect annual average crude oil prices of \$US 38 this year and \$46 next year. An updated detailed oil price outlook will be available on our website in upcoming weeks.
- The Federal Reserve and Bank of Canada will keep their **policy interest rates** near zero for all of 2009 and much of 2010. We expect both central banks to begin raising interest rates in the third quarter of next year, with the Fed Funds Rate reaching 1.00% and the Canadian overnight rate reaching 1.25% by year-end 2010.
- Detailed description of conditions and more complete forecasts available in March 12 QEF.

scope which will be the most reflective of severe hardship across the nation, with employment drops of around 2% for most provinces. The employment data for the first two months of the year were simply terrible, and unfortunately

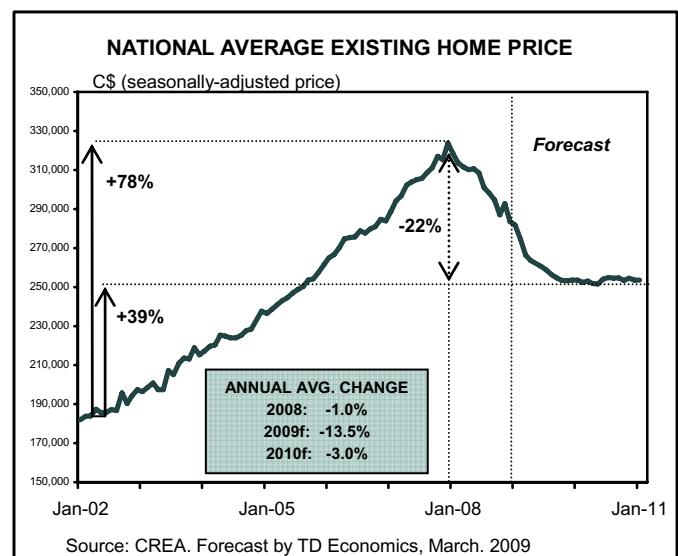
confirm our outlook on this front. In particular, none of Canada's four largest provinces are being spared. Both in the absolute number of jobs lost and in percentage terms, Ontario will record the largest drops.

Another equalizing factor across the country comes from the fact that provincial governments, even with limited scope for significant stimulus, will lean against the recession by running deficits commensurate with lower tax revenues, which are in turn largely reflective of the downturn in their respective economies.

Extended tour

The synchronicity theme carries over into 2010. The recovery in the U.S. and world economy will be muted by a number of important lingering financial issues, not the least of which will be the continued de-leveraging of U.S. households. As a result, the Canadian economic recovery is also expected to take place at a snail's pace, with only 1.3% real GDP growth. Certainly, most provinces will experience an improvement as some of the headwinds (e.g. commodity slump) ease. Furthermore, fiscal stimulus should lift growth across the country in a fairly even fashion.

But rebounds will be modest across the board, and in most provinces, not sufficient enough to offset the declines recorded in 2009. We expect real GDP growth of roughly 1.0% for most provinces. In what is expected to still be a benign inflation environment, nominal GDP will not grow much more than that either. Behaving in typical fashion and lagging behind output and productivity as firms initially hesitate to hire, employment should also be slow out of the



RECESSIONS PAST AND PRESENT

Production, spending, and employment are the nuts and bolts of economic indicators. Statistics Canada's Provincial Economic Accounts on income and/or spending (GDP) only go back to 1981, however. To go back a bit further in time and compare the current recession with the last two, we rely on the longer-dated and higher frequency Labour Force Survey (LFS), with the understanding that employment is a lagging indicator of economic activity. Looking at absolute employment figures can be misleading when comparing between periods where the size of the underlying population and labour force differ substantially. As such, percentage changes provide a more accurate picture as to the relative severity of different recessions. The accompanying table helps track the current recession to date to those of the early 1980s and early 1990s. Amongst others, the following observations are of note:

- The early 1980s recession was, by far, most painfully felt in B.C. and Québec, where employment

plunged by 7-8%. The pain was widespread, however, as national employment fell 5.4% and nearly all provinces recorded significant drops in employment.

- The early 1990s recession was concentrated in Ontario and, to a lesser extent, Québec. In percentage terms, Ontario lost twice as many jobs (-6.6%) as Canada (-3.3%). This could only have been the case if other regions performed markedly better. Indeed, B.C. recorded an astonishing 6% increase in employment at the time and was largely unscathed by that recession.
- Given current trends and our employment forecast, the bottom line is that the current recession is not picking favourites. Unlike the experience of the last recession (early 1990s) when significant parts of the country went about their merry business, we do not believe any region will shrug this one off.

TD ECONOMICS - NATIONAL & PROVINCIAL LABOUR MARKET RECESSION TRACKER

period	EMPLOYMENT			EMPLOYMENT		
	Change			Change (%)		
	Feb-09			Current recession Q4.2008-() **	Previous two recessions	
	M/M	M/M 3-m	From peak *		1990-92 ^	1981-82 ^
CANADA	-82,600	-77,333	-295,300	-1.7	-3.3	-5.4
British Columbia	-4,900	-14,900	-46,300	-2.0	6.0	-8.3
Alberta	-23,700	-9,833	-33,100	-1.6	0.2	-4.2
Saskatchewan	600	733	2,800	0.5	-2.1	0.3
Manitoba	700	-433	1,000	0.2	-3.3	-3.6
Ontario	-35,300	-34,667	-160,100	-2.4	-6.6	-4.6
Québec	-18,400	-17,200	-50,100	-1.3	-4.1	-7.4
New Brunswick	-2,900	-500	-3,900	-1.1	0.5	-5.7
Nova Scotia	2,300	933	-1,100	-0.2	-2.6	-3.1
Prince Edward Island	300	-300	-1,100	-1.6	-0.4	-0.4
Newfoundland & Labrador	-1,200	-1,100	-3,300	-1.5	-6.2	-3.8

* Cumulative net monthly change in overall employment since most recent national peak (Oct. 2008).
 ** Per cent change in overall employment since most recent national peak (Oct. 2008).
 ^ Peak to trough per cent change in last two recessions (Q3:81-Q4:82 and Q1:90-Q4:92).
 Source: Statistics Canada, Labour Force Survey. Haver Analytics.

gate. On a quarterly basis, we expect aggregate net quarterly job creation, albeit modest, to start taking hold in the second quarter of 2010.

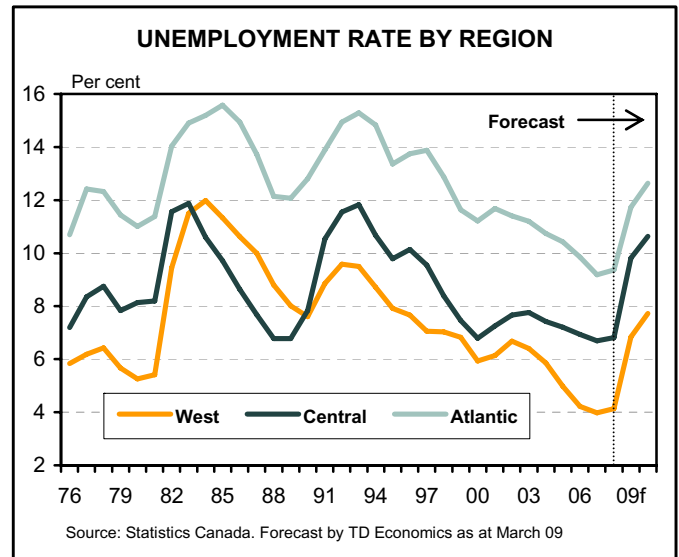
Retail volumes are expected to grow, along with a modest uptick in prices, by 3.5% in value next year, with provincial retail spending growing within a fairly narrow 3.0%-4.5% range.

Meanwhile, low mortgage rates, a slightly improved economic landscape alongside significantly better affordability will sow the seeds of a modest recovery in homes sales next year, enough to stabilize home prices by mid-2010. Given the weak handoff from this year, home prices will still be down a further 3% on average in 2010, with markets in Quebec, the Prairies, and B.C. lagging the expected

stabilization elsewhere in the country.

After overbuilding in recent years in an environment of unsustainable home appreciations, homebuilders will continue to pull in the reins, having to wait for stabilization in sales and prices before significantly ramping up activity beyond 2010. An in-depth report on Canadian and regional homebuilding trends, along with a detailed outlook, will be made available on our website in the coming weeks.

With employment being a lagging indicator, the unemployment rate surges to be recorded across all provinces this year will extend into next year, by which time unemployment rates will typically be 3-4 percentage points higher than their respective 2008 average levels. The national unemployment rate will hit 10.0% by the first quarter of 2010, with that of Québec reaching 10.5% and that of Ontario reaching 11.0%. Alberta is expected to lose its crown as the province with the lowest unemployment rate, ceding this title to Saskatchewan. Nonetheless, every province west of Ontario will have nearly double their 2008 unemployment rate by the first half of next year.



While B.C. should see a modest and short-lived boost in activity surrounding the Winter Olympics, a solid and sustainable recovery for any part of country is not, in our view, the most likely scenario before 2011.

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REAL GROSS DOMESTIC PRODUCT (GDP)						
Annual average per cent change						
	82/91	2006	2007	2008E	2009F	2010F
CANADA	-2.5	3.1	2.7	0.5	-2.4	1.3
N. & L.	0.7	3.0	9.1	0.6	-2.5	1.2
P.E.I.	0.3	2.4	2.4	0.2	-2.2	1.0
N.S.	1.4	0.9	1.7	1.0	-2.0	1.1
N.B.	0.9	2.4	1.7	0.8	-1.8	0.9
Québec	-3.2	1.7	2.6	0.7	-2.3	0.9
Ontario	-3.3	2.6	2.3	-0.2	-2.7	1.2
Manitoba	-3.0	4.0	3.3	1.5	-1.2	1.3
Sask.	-0.4	-0.3	2.5	3.1	0.4	1.8
Alberta	-1.3	6.1	3.1	1.3	-2.6	1.3
B.C.	-3.0	4.4	3.0	0.8	-1.7	2.4

E: Estimate. F: Forecast by TD Economics as at March 2009
Source: Statistics Canada / Haver Analytics

NOMINAL GROSS DOMESTIC PRODUCT (GDP)						
Annual average per cent change						
	82/91	2006	2007	2008E	2009F	2010F
CANADA	3.1	5.7	5.9	4.4	-4.5	1.7
N. & L.	6.4	18.5	13.6	7.5	-6.2	1.8
P.E.I.	6.0	4.1	5.3	3.8	-4.0	1.0
N.S.	9.6	1.5	4.0	2.5	-1.5	1.2
N.B.	6.3	4.4	4.3	3.2	-2.4	1.2
Québec	3.5	3.9	5.4	2.6	-2.6	1.1
Ontario	3.0	4.3	4.5	1.9	-3.3	1.4
Manitoba	1.2	8.2	8.1	9.5	-5.6	2.0
Sask.	1.2	5.5	11.0	14.0	-5.7	2.6
Alberta	2.9	8.7	8.1	9.3	-10.0	2.3
B.C.	1.7	7.9	5.4	4.4	-3.7	2.6

E: Estimate. F: Forecast by TD Economics as at March 2009
Source: Statistics Canada / Haver Analytics

EMPLOYMENT						
Annual average per cent change						
	82/91	2006	2007	2008	2009F	2010F
CANADA	-2.4	1.9	2.3	1.5	-2.1	-0.6
N. & L.	-1.9	0.7	0.7	1.4	-2.0	-0.5
P.E.I.	-2.0	0.5	1.2	1.2	-2.3	-0.3
N.S.	-1.7	-0.3	1.3	1.2	-2.1	-0.7
N.B.	-2.6	1.4	2.1	0.9	-2.3	-0.4
Québec	-3.6	1.3	2.3	0.8	-2.0	-0.9
Ontario	-2.8	1.5	1.5	1.4	-2.6	-0.6
Manitoba	-1.6	1.2	1.6	1.7	-1.3	-0.8
Sask.	-0.2	1.7	2.1	2.2	-0.5	-0.6
Alberta	-0.5	4.8	4.7	2.7	-2.0	-0.5
B.C.	-1.9	3.1	3.2	2.1	-1.5	-0.4

F: Forecast by TD Economics as at March 2009
Source: Statistics Canada / Haver Analytics

UNEMPLOYMENT RATE						
Annual average, per cent						
	82/91	2006	2007	2008	2009F	2010F
CANADA	10.7	6.3	6.0	6.1	9.0	9.9
N. & L.	17.1	14.8	13.6	13.3	14.6	15.5
P.E.I.	14.6	11.1	10.3	10.7	12.1	13.0
N.S.	12.5	7.9	8.1	7.7	10.3	11.4
N.B.	13.4	8.7	7.6	8.6	11.6	12.3
Québec	13.1	8.0	7.2	7.3	9.4	10.3
Ontario	9.7	6.3	6.4	6.5	10.0	10.8
Manitoba	8.6	4.3	4.4	4.1	6.4	7.7
Sask.	6.8	4.6	4.2	4.1	6.3	7.6
Alberta	8.0	3.4	3.5	3.6	6.9	7.6
B.C.	11.1	4.8	4.2	4.6	7.0	7.8

F: Forecast by TD Economics as at March 2009
Source: Statistics Canada / Haver Analytics

TOTAL CONSUMER PRICE INDEX (CPI)					
Annual average per cent change					
	92-08	2007	2008	2009F	2010F
CANADA	1.9	2.1	2.4	-0.8	0.8
N. & L.	1.8	1.4	2.9	-0.2	1.2
P.E.I.	2.0	1.8	3.4	-0.5	1.1
N.S.	2.0	1.9	3.0	-0.5	0.7
N.B.	1.8	1.9	1.7	-1.1	1.3
Québec	1.7	1.6	2.1	-0.8	0.4
Ontario	1.9	1.8	2.3	-0.8	0.5
Manitoba	2.1	2.1	2.2	-0.6	0.9
Sask.	2.2	2.9	3.2	0.1	1.0
Alberta	2.5	4.9	3.2	-1.1	1.1
B.C.	1.8	1.7	2.1	-0.9	2.0

F: Forecast by TD Economics as at March 2009.
Source: Statistics Canada / Haver Analytics

RETAIL TRADE					
Annual average per cent change					
	1992	2007	2008	2009F	2010F
CANADA	2.5	5.8	3.2	-3.0	3.5
N. & L.	-0.9	9.0	7.7	-2.0	2.8
P.E.I.	6.2	7.7	4.8	-2.7	3.1
N.S.	5.4	4.2	4.5	-2.5	3.7
N.B.	4.0	5.7	4.9	-1.8	3.9
Quebec	0.3	4.6	4.9	-2.1	3.0
Ontario	2.7	3.9	3.3	-2.6	3.5
Manitoba	2.0	8.8	7.1	-2.1	4.0
Sask.	1.2	13.0	10.4	-2.5	4.2
Alberta	3.1	9.3	-0.2	-4.1	3.3
B.C.	4.7	6.7	0.2	-5.2	4.5

F: Forecast by TD Economics as at March 2009
Source: Statistics Canada / Haver Analytics

HOUSING STARTS					
Thousands of units					
	2006	2007	2008	2009F	2010F
CANADA	229.1	227.9	211.4	125.0	130.0
N. & L.	2.3	2.6	3.2	3.0	2.7
P.E.I.	0.8	0.7	0.7	0.6	0.5
N.S.	5.2	4.8	4.3	2.9	3.0
N.B.	4.0	4.1	4.2	3.4	3.0
Québec	48.0	48.7	47.9	35.0	32.0
Ontario	74.4	68.0	75.6	43.3	45.7
Manitoba	5.0	5.8	5.6	3.8	4.6
Sask.	3.7	5.9	6.8	3.0	3.5
Alberta	49.1	48.1	29.0	14.0	16.3
B.C.	36.6	39.3	34.3	16.0	18.7

F: Forecast by TD Economics as at March 2009
Source: Canada Mortgage and Housing Corporation

HOUSING STARTS					
Per cent change					
	2006	2007	2008	2009F	2010F
CANADA	2.3	-0.5	-7.2	-40.9	4.0
N. & L.	-10.7	12.7	25.2	-7.2	-10.0
P.E.I.	-15.3	-8.5	-3.5	-17.6	-5.3
N.S.	11.4	-7.8	-11.4	-32.0	3.4
N.B.	3.6	1.0	2.5	-18.6	-11.8
Québec	-5.8	1.4	-1.5	-27.0	-8.6
Ontario	-4.4	-8.6	11.2	-42.7	5.4
Manitoba	6.7	14.8	-3.8	-31.5	21.1
Sask.	12.8	58.9	14.5	-55.8	16.7
Alberta	20.9	-2.1	-39.7	-51.7	16.4
B.C.	6.0	7.4	-12.8	-53.3	16.9

F: Forecast by TD Economics as at March 2009
Source: Canada Mortgage and Housing Corporation

EXISTING HOME SALES					
Thousands of units					
	2006	2007	2008	2009F	2010F
CANADA	485.3	523.3	434.0	320.0	350.0
N. & L.	3.5	4.5	4.7	3.6	3.8
P.E.I.	1.5	1.8	1.4	1.2	1.3
N.S.	10.7	11.9	10.9	8.0	8.6
N.B.	7.1	8.2	7.6	6.0	6.3
Québec	74.3	83.5	79.4	65.0	63.5
Ontario	194.9	213.4	181.0	128.0	148.0
Manitoba	13.0	13.9	13.5	10.5	10.7
Sask.	9.1	12.1	10.2	8.5	8.4
Alberta	74.4	71.4	56.4	39.5	43.0
B.C.	96.7	102.8	68.9	49.8	56.5

F: Forecast by TD Economics as at March 2009
Source: Canadian Real Estate Association

EXISTING HOME SALES					
Per cent change					
	2006	2007	2008	2009F	2010F
CANADA	-0.1	7.8	-17.1	-26.3	9.4
N. & L.	10.2	26.4	5.0	-23.3	5.6
P.E.I.	3.0	18.6	-20.1	-18.6	8.7
N.S.	-2.3	10.8	-8.3	-26.4	7.5
N.B.	4.2	14.5	-7.4	-20.6	4.2
Québec	2.0	12.3	-4.9	-18.1	-2.3
Ontario	-1.1	9.5	-15.2	-29.3	15.6
Manitoba	2.0	7.0	-2.9	-22.4	1.9
Sask.	10.0	31.9	-15.4	-16.7	-1.2
Alberta	12.9	-3.9	-21.0	-30.0	8.9
B.C.	-9.1	6.3	-33.0	-27.8	13.6

F: Forecast by TD Economics as at March 2009
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE					
Thousand \$					
	2006	2007	2008	2009F	2010F
CANADA	276.0	305.8	303.6	262.6	254.8
N. & L.	139.5	149.3	178.5	185.8	183.8
P.E.I.	125.4	133.5	139.9	144.1	145.0
N.S.	168.6	181.0	189.9	187.9	190.5
N.B.	126.9	136.6	145.8	142.5	144.6
Québec	190.3	202.9	210.8	197.2	186.8
Ontario	278.4	299.5	302.4	264.0	258.8
Manitoba	150.2	169.2	190.3	181.8	170.8
Sask.	132.1	174.4	224.6	216.2	196.4
Alberta	285.4	356.2	352.9	297.3	275.7
B.C.	391.0	439.1	454.6	377.2	358.0

F: Forecast by TD Economics as at March 2009
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE					
Per cent change					
	2006	2007	2008	2009F	2010F
CANADA	11.2	10.8	-0.7	-13.5	-3.0
N. & L.	-1.2	7.0	19.6	4.1	-1.1
P.E.I.	7.0	6.4	4.9	3.0	0.6
N.S.	5.9	7.3	4.9	-1.1	1.4
N.B.	5.2	7.7	6.7	-2.2	1.5
Québec	5.5	6.6	3.9	-6.4	-5.3
Ontario	5.9	7.6	0.9	-12.7	-2.0
Manitoba	12.2	12.6	12.5	-4.4	-6.1
Sask.	7.6	32.0	28.8	-3.7	-9.2
Alberta	30.8	24.8	-0.9	-15.8	-7.3
B.C.	17.7	12.3	3.5	-17.0	-5.1

F: Forecast by TD Economics as at March 2009
Source: Canadian Real Estate Association

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