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# TD Economics

## Provincial Forecast Update

April 16, 2008

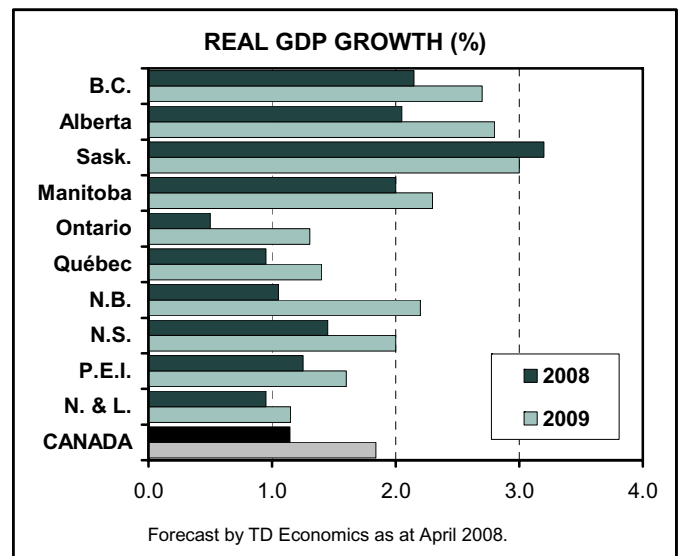
### U.S. SLOWDOWN TO EXACERBATE REGIONAL DIVERGENCE

This note updates our provincial economic forecast that corresponds to our latest national *Quarterly Economic Forecast* from March. With export-oriented and manufacturing sectors continuing to face particular pressure, real GDP growth for this year is expected to be nearly flat at 0.5% in Ontario and only slightly better at around 1% in Québec and the Atlantic region. Meanwhile, provinces west of Ontario are in part still riding the wave of solid growth experienced in 2007 and should be able to reap the benefits of having lower exposure to weaker U.S. final goods demand. Growth in these latter provinces should be in the 2-3% range this year. We expect Saskatchewan, which is firing on all cylinders, to lead the nation's growth podium at around 3% this year and next, with B.C. and Alberta not far behind in 2009.

The impressive resilience of most housing markets combined with elevated commodity prices as the year begins both come as good news, in particular for resource-driven markets. But even these outperforming economies are unlikely to sidestep the general trend towards slower growth in the current phase of the economic cycle. In particular, a tapering off in crude oil output is projected to rein in growth in Newfoundland & Labrador to about 1% on the heels of last year's monstrous 8% crude oil-fired explosion in activity, while Alberta's economy (+2.1%) is projected to cool further in the face of rebalancing housing markets along with cost pressures and declining drilling activity.

#### Same culprit to weigh on growth in 2009

Canada's external environment is still the dark cloud hovering above its economic prospects for 2008-09. Flirting with recession towards the middle of this year, the Canadian economy, in particular Ontario's, is expected to experience growth well below potential until late 2009. Still tied-in to the U.S. economic cycle, with a lag, worldwide growth will also ratchet down to about 3.5% this year after a solid five year run averaging close to a stunning 5%.



This moderation in global growth should lead to weaker overall resource demand and put some downward pressure on commodity prices as 2008 unfolds, notably in the crude oil and base metal markets. The extent to which energy prices in particular remain close to current levels only adds further to downside risks for growth in the U.S. and net energy importing nations.

For 2009, prospects in most parts of the country will gradually brighten in tandem with the export picture. However, as over-stretched consumers and cautious businesses in the U.S. are not expected to go on a spending spree any time soon, this pickup could prove to be slow and arduous, particularly for central Canadian economies more leveraged to this demand. The downside risks to worldwide credit conditions and U.S. business and consumer spending have increased both in terms of potential depth and duration of the current U.S. recession.

#### Domestic prospects brighter

With provincial export sectors facing headwinds to varying degrees over the near term, the burden will mostly

be on the service and domestic goods sides of the economy to continue to pull their weight. Heading into 2008, a number of factors provided provincial economies with positive momentum. Healthy government fiscal positions, tax relief, solid gains in business investment, buoyant real estate markets and tight labour markets all contributed to ongoing expansion in provincial economies. Furthermore, the current round of interest rate relief from the Bank of Canada is not over with. We expect the overnight rate to reach a low 2% by July, which should help cushion the economy against a more severe downturn in the U.S. and provide a fair dose of economic stimulus heading into 2009.

While resale home activity could take a breather, as described in “*Canada’s Red Hot Real Estate Markets to Cool*” (available on our website), housing starts are set to increase in most Atlantic Provinces, Ontario, Saskatchewan and B.C. The bulk of the slowdown in residential construction will be concentrated in Alberta. Major culprits for the slackening will be the past erosion in housing affordability and a lack of pent-up demand. In terms of price growth, Saskatchewan (+19%), British Columbia and Newfoundland & Labrador (+7%) are expected to record gains topping the national average of about 5% in the 2008-09 period while other provinces’ performances should be closer to par with national figures.

Furthermore, the outlook for non-residential investment across the country is good. Relatively low vacancy rates in the major urban centres suggest little downside risk to office construction spending this year and next. Lastly, a number of resource sector developments are expected to support growth in western and Atlantic Canada, along with infrastructure maintenance and expansion across the nation.

### **Employment to slow**

After recording a blockbuster employment performance in 2007, it should come as no surprise we think it unlikely to see a repeat in 2008-09. While labour shortages remain in many regions and industries, the extent to which job creation was strongly tilted to the public sector casts doubts over continued job creation in that sector given the current context of fiscal prudence. Hiring in service-producing industries as a whole should continue to more than enough to offset any losses in manufacturing, just not to the same extent seen in 2007. All of which points to muted, but still positive, employment prospects for 2008-09. Unemploy-

ment rates should inch up, but remain at historically low levels, as a result of the labour force outpacing job creation, with the most significant increase in the jobless rate occurring in Ontario.

Understandably, firms whose activities are dependent on consumer discretionary spending are also typically more cautious in their hiring in this phase of the economic cycle. While sub-par compared to average growth over the last ten years, consumer spending growth should remain respectable in most parts of the country, especially in the low-unemployment western provinces. We present retail spending forecasts, along with that for other economic indicators, by province in the summary tables at the end of this document. Note that while the volume of retail spending is expected to hold up well from coast to coast this year, the value of sales will come under some pressure from a more difficult pricing environment, especially in the wake of the Canadian’s dollar move to parity in late 2007. The inflation outlook remains muted nationwide with all provinces expected to experience all-items (total CPI) inflation below or close to 2%, with the exception of Alberta - whose inflation is cooling from the 5% rate of 2007 - and Saskatchewan, whose accelerating inflation is mostly shelter cost related.

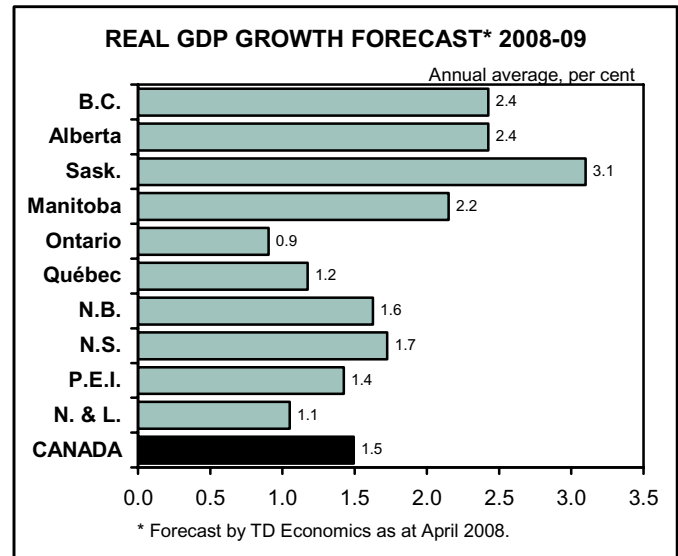
### **The bottom line**

With the U.S. economy at best moving sideways until mid-2009 and the typical lagged impact on Canadian economic growth, we do not expect real GDP advances from coast to coast to revert back to potential before late 2009. By then, a lower interest environment should provide a solid dose of stimulus to domestic demand and the U.S. economy will be on track to recovery. The main downside risk remains that lower interest rates from the Federal Reserve do not filter through to easier U.S. consumer and corporate borrowing conditions as it would normally, i.e. absent any financial market stress. In such a scenario, U.S. growth would stagnate for a longer period of time and anchor Canadian growth at lower levels for a while longer. Fortunately, while we are not of the opinion that Canada has decoupled from the U.S. economy, it is nonetheless better positioned now than it was a decade ago to navigate these troubled waters ahead.

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REAL GROSS DOMESTIC PRODUCT (GDP)						
Annual average per cent change						
	97-06	2005	2006	2007E	2008F	2009F
<b>CANADA</b>	<b>3.5</b>	<b>3.1</b>	<b>2.8</b>	<b>2.7</b>	<b>1.1</b>	<b>1.8</b>
N. & L.	4.4	0.4	3.3	8.0	1.0	1.2
P.E.I.	2.4	2.1	2.6	1.9	1.3	1.6
N.S.	2.9	1.6	0.9	2.0	1.5	2.0
N.B.	2.6	0.3	3.0	2.3	1.1	2.2
Québec	2.9	2.2	1.7	2.0	1.0	1.4
Ontario	3.7	2.8	2.1	1.9	0.5	1.3
Manitoba	2.7	2.7	3.2	3.0	2.0	2.3
Sask.	2.0	3.1	-0.4	3.9	3.2	3.0
Alberta	4.2	4.6	6.6	4.4	2.1	2.8
B.C.	3.0	4.5	3.4	3.2	2.2	2.7

E: Estimate; F: Forecast by TD Economics as at April 2008.  
Source: Statistics Canada



EMPLOYMENT						
Annual average per cent change						
	98-07	2005	2006	2007	2008F	2009F
<b>CANADA</b>	<b>2.1</b>	<b>1.4</b>	<b>1.9</b>	<b>2.3</b>	<b>1.5</b>	<b>0.6</b>
N. & L.	1.5	-0.1	0.7	0.7	1.0	0.8
P.E.I.	1.7	2.0	0.5	1.2	0.9	0.4
N.S.	1.6	0.2	-0.3	1.3	1.3	0.6
N.B.	1.6	0.1	1.4	2.1	1.0	1.3
Québec	2.0	1.0	1.3	2.3	1.2	0.3
Ontario	2.2	1.3	1.5	1.5	1.0	0.4
Manitoba	1.3	0.6	1.2	1.6	1.9	0.7
Sask.	0.7	0.8	1.7	2.1	1.9	1.4
Alberta	3.0	1.5	4.8	4.7	2.7	1.5
B.C.	2.0	3.3	3.0	3.2	2.1	1.2

F: Forecast by TD Economics as at April 2008  
Source: Statistics Canada.

UNEMPLOYMENT RATE						
Annual average, per cent						
	98-07	2005	2006	2007	2008F	2009F
<b>CANADA</b>	<b>7.1</b>	<b>6.8</b>	<b>6.3</b>	<b>6.0</b>	<b>6.0</b>	<b>6.3</b>
N. & L.	16.0	15.2	14.8	13.6	11.9	11.4
P.E.I.	11.9	10.9	11.1	10.3	9.8	9.7
N.S.	9.1	8.5	7.9	8.1	7.1	7.1
N.B.	10.0	9.7	8.7	7.6	8.0	7.8
Québec	8.7	8.3	8.0	7.2	7.2	7.6
Ontario	6.6	6.6	6.3	6.4	6.6	7.0
Manitoba	5.0	4.8	4.3	4.4	3.7	4.1
Sask.	5.3	5.1	4.6	4.2	3.6	3.9
Alberta	4.7	3.9	3.4	3.5	3.3	3.6
B.C.	7.1	5.9	4.8	4.2	4.2	4.9

F: Forecast by TD Economics as at April 2008  
Source: Statistics Canada.

TOTAL CONSUMER PRICE INDEX						
Annual average per cent change						
	98-07	2005	2006	2007	2008F	2009F
<b>CANADA</b>	<b>2.1</b>	<b>2.2</b>	<b>2.0</b>	<b>2.1</b>	<b>1.5</b>	<b>1.9</b>
N. & L.	1.9	2.6	1.8	1.4	1.4	1.8
P.E.I.	2.3	3.2	2.2	1.8	1.6	2.1
N.S.	2.3	2.8	2.1	1.9	2.1	2.2
N.B.	2.1	2.4	1.7	1.9	1.3	1.7
Québec	2.0	2.3	1.7	1.6	1.3	1.7
Ontario	2.1	2.2	1.8	1.8	1.4	1.9
Manitoba	2.0	2.7	1.9	2.1	1.6	2.0
Sask.	2.3	2.2	2.0	2.9	3.2	3.0
Alberta	3.0	2.1	3.9	4.9	2.8	2.5
B.C.	1.7	2.0	1.7	1.7	1.2	1.7

F: Forecast by TD Economics as at April 2008.  
Source: Statistics Canada.

RETAIL TRADE						
Annual average per cent change						
	98-07	2005	2006	2007	2008F	2009F
<b>CANADA</b>	<b>5.3</b>	<b>5.6</b>	<b>6.4</b>	<b>5.8</b>	<b>4.0</b>	<b>4.8</b>
N. & L.	5.3	1.2	3.7	9.5	3.6	2.9
P.E.I.	4.5	2.8	4.0	8.2	3.4	4.5
N.S.	4.1	2.2	6.3	4.0	3.9	4.4
N.B.	4.8	4.6	6.1	6.2	4.1	4.5
Quebec	4.9	5.1	5.1	4.3	3.0	3.6
Ontario	4.9	4.8	4.1	4.0	2.0	3.4
Manitoba	5.2	5.9	4.5	9.5	5.0	6.1
Sask.	5.3	5.2	6.5	12.9	8.4	6.0
Alberta	8.5	11.8	15.6	9.0	7.6	7.2
B.C.	4.5	4.4	6.8	7.2	6.3	6.8

F: Forecast by TD Economics as at April 2008  
Source: Statistics Canada

HOUSING STARTS					
Thousands of units					
	2005	2006	2007	2008F	2009F
<b>CANADA</b>	<b>224.0</b>	<b>229.1</b>	<b>227.6</b>	<b>221.0</b>	<b>210.7</b>
N. & L.	2.6	2.3	2.6	2.8	2.7
P.E.I.	0.9	0.8	0.7	0.7	0.7
N.S.	4.7	5.2	4.7	5.0	4.4
N.B.	3.9	4.0	4.1	3.9	3.7
Quebec	50.9	48.0	48.5	47.0	46.1
Ontario	77.8	74.4	68.0	70.0	67.6
Manitoba	4.7	5.0	5.8	5.3	5.2
Sask.	3.3	3.7	5.9	6.0	5.5
Alberta	40.6	49.1	48.1	40.4	37.3
B.C.	34.5	36.6	39.2	40.0	37.6

F: Forecast by TD Economics as at April 2008  
Source: Canada Mortgage and Housing Corporation

HOUSING STARTS					
Per cent change					
	2005	2006	2007	2008F	2009F
<b>CANADA</b>	<b>-3.7</b>	<b>2.3</b>	<b>-0.7</b>	<b>-2.9</b>	<b>-4.7</b>
N. & L.	-11.7	-10.7	14.9	4.4	-2.9
P.E.I.	3.7	-15.3	-13.8	0.7	-4.4
N.S.	-2.1	11.4	-9.6	5.8	-12.0
N.B.	2.6	3.6	2.3	-5.5	-5.1
Quebec	-13.0	-5.8	1.1	-3.2	-1.9
Ontario	-7.9	-4.4	-8.5	2.9	-3.5
Manitoba	6.2	6.7	15.1	-9.2	-1.0
Sask.	-11.6	12.8	58.3	1.6	-8.3
Alberta	12.1	20.9	-2.1	-16.0	-7.7
B.C.	5.1	6.0	7.0	2.2	-6.0

F: Forecast by TD Economics as at April 2008  
Source: Canada Mortgage and Housing Corporation

RESALE UNITS					
Thousands of units					
	2005	2006	2007	2008F	2009F
<b>CANADA</b>	<b>483.9</b>	<b>484.0</b>	<b>520.8</b>	<b>491.1</b>	<b>478.9</b>
N. & L.	3.2	3.5	4.5	5.0	5.1
P.E.I.	1.4	1.5	1.8	1.7	1.7
N.S.	10.9	10.6	11.9	11.3	11.2
N.B.	6.8	7.1	8.2	7.7	7.4
Quebec	70.6	72.5	80.3	77.2	76.0
Ontario	197.0	194.8	213.4	204.7	199.8
Manitoba	12.8	13.0	13.9	14.1	14.3
Sask.	8.3	9.1	12.1	13.8	13.4
Alberta	65.9	74.4	71.4	58.4	55.7
B.C.	106.3	96.7	102.9	97.2	94.3

F: Forecast by TD Economics as at April 2008  
Source: Canadian Real Estate Association

RESALE UNITS					
Per cent change					
	2005	2006	2007	2008F	2009F
<b>CANADA</b>	<b>5.0</b>	<b>0.0</b>	<b>7.6</b>	<b>-5.7</b>	<b>-2.5</b>
N. & L.	-1.7	10.2	26.4	11.3	2.2
P.E.I.	-3.4	3.0	18.6	-5.6	0.3
N.S.	23.1	-3.3	12.1	-4.3	-1.6
N.B.	14.3	4.2	14.5	-6.2	-3.9
Quebec	2.0	2.6	10.8	-3.9	-1.5
Ontario	-0.2	-1.1	9.5	-4.1	-2.4
Manitoba	5.5	2.0	7.0	1.5	1.4
Sask.	1.7	10.0	31.9	14.4	-3.1
Alberta	14.6	12.9	-3.9	-18.2	-4.6
B.C.	10.3	-9.1	6.4	-5.5	-3.0

F: Forecast by TD Economics as at April 2008  
Source: Canadian Real Estate Association

AVERAGE RESALE HOME PRICE					
Thousand \$					
	2005	2006	2007	2008F	2009F
<b>CANADA</b>	<b>249.2</b>	<b>276.9</b>	<b>307.3</b>	<b>325.7</b>	<b>339.1</b>
N. & L.	141.2	139.5	149.3	161.2	169.9
P.E.I.	117.2	125.4	133.5	142.0	147.1
N.S.	159.2	168.6	181.0	190.4	195.2
N.B.	120.6	126.9	136.6	145.2	150.0
Quebec	184.6	194.0	208.2	218.9	225.4
Ontario	262.9	278.4	299.5	312.7	325.5
Manitoba	133.9	150.2	169.2	175.3	182.1
Sask.	122.8	132.1	174.4	226.9	243.2
Alberta	218.3	285.4	356.2	374.0	387.1
B.C.	332.2	391.0	439.1	479.1	505.9

F: Forecast by TD Economics as at April 2008  
Source: Canadian Real Estate Association

AVERAGE RESALE HOME PRICE					
Per cent change					
	2005	2006	2007	2008F	2009F
<b>CANADA</b>	<b>10.1</b>	<b>11.1</b>	<b>11.0</b>	<b>6.0</b>	<b>4.1</b>
N. & L.	7.4	-1.2	7.0	8.0	5.4
P.E.I.	5.8	7.0	6.4	6.4	3.6
N.S.	9.0	5.9	7.3	5.2	2.5
N.B.	6.8	5.2	7.7	6.3	3.3
Quebec	7.9	5.1	7.3	5.1	3.0
Ontario	7.2	5.9	7.6	4.4	4.1
Manitoba	12.3	12.2	12.6	3.6	3.9
Sask.	10.8	7.6	32.0	30.1	7.2
Alberta	12.1	30.8	24.8	5.0	3.5
B.C.	14.9	17.7	12.3	9.1	5.6

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Source: Canadian Real Estate Association

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