



TD Economics

Provincial Economic Update

January 17, 2007

NATIONAL NUMBERS FAIL TO TELL THE STORY

We've just come off a year when the national economic statistics provided an unusually misleading impression of developments across the country. Put another way, Canadian annual average data were virtually meaningless.

This fact was reinforced by last week's release of the third-quarter Economic Accounts by the Ontario government. Canada's economy grew by almost 2% in the third quarter of the year. Yet, the nation's largest economic engine actually contracted in the third quarter by an annualized 0.3%. More strikingly, while Canada recorded a healthy growth rate of 2.7% last year, Ontario was fighting to keep its head above water with a mere 1.6% estimated turnout.

A quick scan of TD Economics' real GDP growth estimates on page 2 quickly highlights the fact that Ontario was not the only province to move out of line with the Canadian average last year. Quebec unlikely fared much better than Ontario. And on the flip side, the western provinces, and notably Alberta, raced ahead at 2-3 times the Canadian pace. In fact, among the remaining provinces, only Manitoba, New Brunswick and Nova Scotia are estimated to have churned out growth in the ballpark of 2.7%.

Alberta distorting the national figures

Still, the big story for 2006 remains how much Alberta influenced the national average figures, which is amazing given that it only accounts for 12% of Canada's economy. Alberta alone contributed to a full 0.7 percentage points to Canadian growth last year. What's more, the Alberta/rest of Canada divide in retail sales, housing, employment, unemployment, and wage statistics has been even more pronounced. Consider the following developments in 2006:

- Wage gains in Alberta were 3 times the average of other provinces.
- Retail sales were growing 3 times faster in Alberta than in the rest of Canada.

HIGHLIGHTS

- **Looking beyond the national averages is key to understanding what's going on in Canada**
 - **In 2006, growth in Ontario, Quebec and parts of the Atlantic ran well below that nationally**
 - **... while Alberta grew at 3 times the national average**
 - **Alberta/rest of Canada gap even more pronounced in the wage, retail and housing data**
 - **Regional gap to narrow in 2007-08**
- Canadian housing starts actually fell by 3.3% if Alberta is excluded from the count. Even more incredibly, that province alone accounted for two-thirds of the gain in national average resale prices.

2007 should see some narrowing in the gap

The tables on page 2 and 3 include revised TD Economics provincial forecasts for 2007 and 2008. The size of the regional growth discrepancy has been very unusual. And thus, we expect some of the gap, notably that between Alberta and the rest of Canada, to narrow in the months ahead. Although ongoing U.S. weakness in the first half of 2007 is expected to delay a recovery in the economies of central and eastern Canada until 2008, Alberta's white-hot growth appears set to simmer down, dampened in part by the outlook for lower energy prices and a return to earth in the province's red-hot housing market.

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| REAL GROSS DOMESTIC PRODUCT (GDP) | | | | | |
|-----------------------------------|------------|------------|------------|------------|------------|
| Annual average per cent change | | | | | |
| | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 3.3 | 2.9 | 2.7 | 2.2 | 3.2 |
| ex Alta | 2.8 | 2.4 | 1.9 | 1.8 | 3.2 |
| N. & L. | -1.4 | 0.4 | 3.3 | 3.6 | 2.0 |
| P.E.I. | 1.8 | 2.0 | 1.8 | 1.5 | 2.5 |
| N.S. | 1.4 | 1.1 | 2.4 | 2.0 | 2.7 |
| N.B. | 2.0 | 0.5 | 2.9 | 1.9 | 2.9 |
| Quebec | 2.3 | 2.2 | 1.9 | 1.8 | 3.2 |
| Ontario | 2.7 | 2.8 | 1.6 | 1.6 | 3.4 |
| Manitoba | 2.3 | 2.7 | 2.7 | 2.5 | 3.0 |
| Sask. | 3.4 | 3.2 | 3.0 | 2.5 | 2.7 |
| Alberta | 4.3 | 4.5 | 6.8 | 3.6 | 2.9 |
| B.C. | 4.0 | 3.5 | 4.0 | 3.0 | 3.3 |

e: Estimate. f: forecast by TD Economics as at January 2007
Source: Statistics Canada, Haver Analytics, TD Economics

| RETAIL TRADE | | | | | |
|--------------------------------|------------|------------|------------|------------|------------|
| Annual average per cent change | | | | | |
| | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 4.7 | 6.3 | 6.5 | 5.0 | 5.5 |
| ex Alta | 3.9 | 5.4 | 5.0 | 4.1 | 5.1 |
| N. & L. | 0.3 | 2.4 | 2.2 | 2.8 | 3.3 |
| P.E.I. | 0.1 | 3.2 | 3.8 | 2.6 | 3.0 |
| N.S. | 2.8 | 3.1 | 6.9 | 4.2 | 3.8 |
| N.B. | 1.7 | 5.6 | 5.4 | 3.3 | 4.1 |
| Quebec | 4.2 | 6.0 | 4.4 | 3.8 | 5.3 |
| Ontario | 3.2 | 4.9 | 4.1 | 3.6 | 5.4 |
| Manitoba | 6.7 | 6.6 | 5.4 | 4.0 | 4.3 |
| Sask. | 4.1 | 7.8 | 5.7 | 4.7 | 4.5 |
| Alberta | 10.3 | 12.4 | 16.5 | 10.4 | 7.6 |
| B.C. | 6.3 | 6.0 | 6.8 | 6.6 | 5.5 |

e: Estimate. f: forecast by TD Economics as at January 2007
Source: Statistics Canada, Haver Analytics, TD Economics

| TOTAL CONSUMER PRICE INDEX | | | | | |
|--------------------------------|------------|------------|------------|------------|------------|
| Annual average per cent change | | | | | |
| | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 1.9 | 2.2 | 2.0 | 1.6 | 2.1 |
| ex Alta | 2.0 | 2.2 | 1.8 | 1.4 | 2.0 |
| N. & L. | 1.8 | 2.6 | 1.9 | 1.2 | 1.8 |
| P.E.I. | 2.1 | 3.2 | 2.2 | 1.4 | 2.0 |
| N.S. | 1.8 | 2.8 | 2.1 | 1.8 | 2.1 |
| N.B. | 1.5 | 2.4 | 1.7 | 1.6 | 1.9 |
| Quebec | 1.9 | 2.3 | 1.7 | 1.3 | 2.0 |
| Ontario | 1.9 | 2.2 | 1.8 | 1.4 | 2.3 |
| Manitoba | 2.0 | 2.7 | 1.9 | 1.8 | 2.2 |
| Sask. | 2.2 | 2.2 | 2.0 | 1.9 | 2.1 |
| Alberta | 1.4 | 2.1 | 3.7 | 2.9 | 2.5 |
| B.C. | 2.0 | 2.0 | 1.7 | 1.9 | 2.0 |

e: Estimate. f: forecast by TD Economics as at January 2007
Source: Statistics Canada, Haver Analytics, TD Economics

| MEDIAN HOURLY WAGE RATE | | | | | |
|--------------------------------|------------|------------|------------|------------|------------|
| Annual average per cent change | | | | | |
| | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 2.3 | 3.3 | 2.6 | 2.8 | 2.9 |
| ex Alta | 2.1 | 2.5 | 1.9 | 2.1 | 2.6 |
| N. & L. | 1.2 | 2.0 | 1.9 | 2.5 | 2.6 |
| P.E.I. | 4.9 | 0.4 | 1.8 | 2.2 | 2.4 |
| N.S. | 2.9 | 1.6 | 3.3 | 3.5 | 3.1 |
| N.B. | 2.8 | 1.7 | 2.9 | 3.0 | 2.7 |
| Quebec | 3.5 | 2.4 | 1.9 | 2.1 | 2.8 |
| Ontario | 2.2 | 3.8 | 1.6 | 1.8 | 2.6 |
| Manitoba | 3.9 | 2.0 | 2.5 | 2.7 | 3.0 |
| Sask. | 3.0 | 2.5 | 5.1 | 4.5 | 3.2 |
| Alberta | 1.7 | 7.1 | 6.7 | 6.2 | 4.8 |
| B.C. | -0.8 | 1.3 | 1.6 | 2.0 | 2.5 |

e: Estimate. f: forecast by TD Economics as at January 2007
Source: Statistics Canada, Haver Analytics, TD Economics

| EMPLOYMENT | | | | | |
|--------------------------------|------------|------------|------------|------------|------------|
| Annual average per cent change | | | | | |
| | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 1.8 | 1.4 | 1.9 | 1.2 | 1.3 |
| ex Alta | 1.5 | 1.3 | 1.4 | 0.9 | 1.1 |
| N. & L. | 1.0 | -0.1 | 0.7 | 0.5 | 0.5 |
| P.E.I. | 1.3 | 2.0 | 0.6 | 0.7 | 0.8 |
| N.S. | 2.6 | 0.2 | -0.3 | 0.8 | 0.9 |
| N.B. | 2.1 | 0.1 | 1.4 | 0.5 | 0.7 |
| Quebec | 1.5 | 1.0 | 1.3 | 0.8 | 1.0 |
| Ontario | 1.7 | 1.3 | 1.5 | 1.0 | 1.4 |
| Manitoba | 1.1 | 0.6 | 1.2 | 0.8 | 0.7 |
| Sask. | 0.8 | 0.8 | 1.7 | 1.2 | 0.7 |
| Alberta | 2.4 | 1.5 | 4.8 | 2.5 | 1.8 |
| B.C. | 2.4 | 3.3 | 3.1 | 1.9 | 1.7 |

e: Estimate. f: forecast by TD Economics as at January 2007
Source: Statistics Canada, Haver Analytics, TD Economics

| UNEMPLOYMENT RATE | | | | | |
|--------------------|------------|------------|------------|------------|------------|
| Per cent | | | | | |
| | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 7.2 | 6.8 | 6.3 | 6.4 | 6.3 |
| ex Alta | 7.7 | 7.2 | 6.7 | 6.8 | 6.7 |
| N. & L. | 15.7 | 15.2 | 14.8 | 14.5 | 14.6 |
| P.E.I. | 11.4 | 10.8 | 11.0 | 11.3 | 11.4 |
| N.S. | 8.8 | 8.4 | 7.9 | 8.0 | 7.8 |
| N.B. | 9.8 | 9.7 | 8.8 | 8.9 | 8.8 |
| Quebec | 8.5 | 8.3 | 8.0 | 8.1 | 7.8 |
| Ontario | 6.8 | 6.6 | 6.3 | 6.7 | 6.3 |
| Manitoba | 5.3 | 4.8 | 4.3 | 4.3 | 4.4 |
| Sask. | 5.4 | 5.1 | 4.7 | 4.2 | 4.2 |
| Alberta | 4.6 | 3.9 | 3.4 | 3.7 | 3.9 |
| B.C. | 7.2 | 5.9 | 4.8 | 5.2 | 5.1 |

e: Estimate. f: forecast by TD Economics as at January 2007
Source: Statistics Canada, Haver Analytics, TD Economics

| HOUSING STARTS | | | | | |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Thousands of units | | | | | |
| | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 233.4 | 225.5 | 228.0 | 205.0 | 195.0 |
| ex Alta | 197.2 | 184.6 | 178.6 | 161.0 | 154.5 |
| N. & L. | 2.9 | 2.5 | 2.3 | 2.0 | 1.8 |
| P.E.I. | 0.9 | 0.9 | 0.8 | 0.7 | 0.6 |
| N.S. | 4.7 | 4.8 | 5.0 | 4.6 | 4.5 |
| N.B. | 3.9 | 4.0 | 4.1 | 3.7 | 3.4 |
| Quebec | 58.4 | 50.9 | 45.8 | 40.0 | 37.5 |
| Ontario | 85.1 | 78.8 | 75.2 | 69.0 | 67.5 |
| Manitoba | 4.4 | 4.7 | 5.0 | 4.5 | 4.3 |
| Sask. | 3.8 | 3.4 | 3.6 | 3.5 | 3.0 |
| Alberta | 36.3 | 40.8 | 49.4 | 44.0 | 40.5 |
| B.C. | 32.9 | 34.7 | 36.9 | 33.0 | 32.0 |

e: Estimate. f: forecast by TD Economics as at January 2007
Source: Canada Mortgage and Housing Corporation, TD Economics

| HOUSING STARTS | | | | | |
|--------------------------------|------------|-------------|------------|--------------|-------------|
| Annual average per cent change | | | | | |
| | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 6.9 | -3.4 | 1.1 | -10.1 | -4.9 |
| ex Alta | 8.2 | -6.4 | -3.3 | -9.9 | -4.0 |
| N. & L. | 2.7 | -13.0 | -9.9 | -11.1 | -12.5 |
| P.E.I. | 0.8 | -6.2 | -13.0 | -6.7 | -14.3 |
| N.S. | 5.1 | 1.2 | 4.7 | -8.0 | -3.3 |
| N.B. | 4.5 | 0.3 | 3.6 | -9.8 | -8.1 |
| Quebec | 50.3 | -12.9 | -10.0 | -12.7 | -6.3 |
| Ontario | 85.2 | -7.4 | -4.6 | -8.2 | -2.2 |
| Manitoba | 7.2 | 6.6 | 5.7 | -10.0 | -4.4 |
| Sask. | 3.3 | -9.1 | 4.7 | -2.8 | -14.3 |
| Alberta | 36.2 | 12.6 | 20.9 | -10.9 | -8.0 |
| B.C. | 26.2 | 5.3 | 6.4 | -10.6 | -3.0 |

e: Estimate. f: forecast by TD Economics as at January 2007
Source: Canada Mortgage and Housing Corporation, TD Economics

| RESALE UNITS | | | | | |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Thousands of units | | | | | |
| | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 460.8 | 483.2 | 480.4 | 461.2 | 445.1 |
| ex Alta | 403.3 | 417.4 | 407.9 | 393.0 | 380.7 |
| N. & L. | 3.3 | 3.2 | 3.4 | 3.2 | 3.1 |
| P.E.I. | 1.5 | 1.4 | 1.5 | 1.4 | 1.4 |
| N.S. | 8.9 | 10.4 | 10.5 | 10.1 | 9.7 |
| N.B. | 6.0 | 6.8 | 7.0 | 6.8 | 6.6 |
| Quebec | 69.3 | 70.6 | 70.5 | 67.3 | 65.3 |
| Ontario | 197.4 | 197.0 | 192.9 | 186.1 | 180.7 |
| Manitoba | 12.1 | 12.8 | 13.0 | 13.1 | 12.8 |
| Sask. | 8.2 | 8.3 | 8.8 | 8.7 | 8.4 |
| Alberta | 57.5 | 65.9 | 72.5 | 68.2 | 64.4 |
| B.C. | 96.4 | 106.3 | 99.8 | 95.8 | 92.3 |

e: Estimate. f: forecast by TD Economics as at January 2007
Source: Canadian Real Estate Association, TD Economics

| RESALE UNITS | | | | | |
|--------------------------------|------------|------------|-------------|-------------|-------------|
| Annual average per cent change | | | | | |
| | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 5.8 | 4.9 | -0.6 | -4.0 | -3.5 |
| ex Alta | 5.0 | 3.5 | -2.3 | -3.6 | -3.2 |
| N. & L. | 0.8 | -1.7 | 7.4 | -8.0 | -2.0 |
| P.E.I. | 6.8 | -3.4 | 3.5 | -4.0 | -3.0 |
| N.S. | -3.6 | 16.9 | 1.1 | -3.5 | -4.5 |
| N.B. | 8.9 | 14.3 | 2.4 | -2.5 | -3.7 |
| Quebec | 2.7 | 2.0 | -0.2 | -4.5 | -3.0 |
| Ontario | 7.0 | -0.2 | -2.1 | -3.5 | -2.9 |
| Manitoba | 5.0 | 5.5 | 1.5 | 1.0 | -2.5 |
| Sask. | 6.2 | 1.7 | 5.9 | -1.3 | -3.0 |
| Alberta | 11.9 | 14.6 | 10.1 | -6.0 | -5.5 |
| B.C. | 3.5 | 10.3 | -6.1 | -4.0 | -3.7 |

e: Estimate. f: forecast by TD Economics as at January 2007
Source: Canadian Real Estate Association, TD Economics

| RESALE HOME PRICES | | | | | | | | | | |
|--------------------------------|------------|------------|------------|-------------|------------|------------|-------------|-------------|------------|------------|
| Annual average per cent change | | | | | | | | | | |
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006e | 2007f | 2008f |
| CANADA | 3.7 | 4.1 | 4.7 | 10.0 | 9.6 | 9.3 | 10.2 | 11.5 | 5.6 | 4.3 |
| ex Alta | 3.6 | 4.1 | 4.7 | 9.9 | 9.8 | 9.7 | 10.1 | 8.2 | 3.7 | 3.7 |
| N. & L. | 3.1 | 5.5 | 4.9 | 8.3 | 6.0 | 9.7 | 7.4 | 0.3 | 2.0 | 1.6 |
| P.E.I. | 3.2 | 0.9 | 5.8 | 8.3 | 7.1 | 8.9 | 5.8 | 8.5 | 4.0 | 2.3 |
| N.S. | 5.8 | 7.0 | 5.1 | 9.7 | 7.6 | 7.1 | 9.3 | 10.0 | 4.0 | 3.5 |
| N.B. | 2.5 | 4.0 | 4.7 | 4.4 | 5.7 | 6.7 | 6.8 | 4.7 | 2.0 | 2.6 |
| Quebec | 3.2 | 4.5 | 4.1 | 13.0 | 16.1 | 12.5 | 7.9 | 6.3 | 2.7 | 3.1 |
| Ontario | 4.2 | 5.6 | 5.2 | 9.1 | 7.5 | 8.1 | 7.3 | 5.9 | 3.0 | 3.6 |
| Manitoba | 0.0 | 1.7 | 6.0 | 3.6 | 10.6 | 11.7 | 12.3 | 7.5 | 4.5 | 3.9 |
| Sask. | 4.4 | 2.9 | 4.5 | 3.0 | 3.7 | 5.6 | 10.8 | 8.1 | 5.0 | 3.5 |
| Alberta | 5.1 | 4.8 | 5.1 | 10.7 | 7.4 | 6.5 | 12.1 | 29.4 | 13.0 | 5.0 |
| B.C. | 1.5 | 2.8 | 0.7 | 7.2 | 8.8 | 11.2 | 14.9 | 17.2 | 8.5 | 6.0 |

e: Estimate. f: forecast by TD Economics as at January 2007; Source: Canadian Real Estate Association, TD Economics

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