TD Bank Financial Group

TD Economics

Provincial Economic Forecast

September 28, 2006

BUMPY RIDE AHEAD FOR MOST PROVINCIAL ECONOMIES IN 2007

Even booming Alberta and B.C. to ratchet down

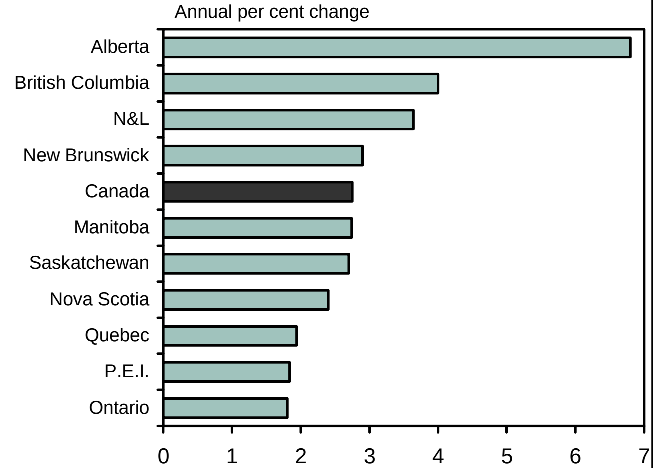
In the September 18, 2006 edition of the *TD Quarterly Economic Forecast (QEF)* we argued that an emerging U.S. slowdown would put a damper on Canadian economic growth in the second half of 2006 and into 2007. By the second half of next year, the pace of expansion is projected to bounce back on both sides of the border, but only after a significant adjustment in U.S. housing takes place and central banks cut interest rates moderately. In this *Provincial Update*, we present how these developments are likely to unfold across the country.

As the headwinds begin to blow from the south, the respectable overall growth trends in Canada are masking an increasingly skewed regional picture. In particular, a growing share of the gains are being chalked up by only two provinces – Alberta and, to a lesser extent, British Columbia – with the former likely to turn in spectacular real GDP growth of almost 7% in 2006. Elsewhere, provincial growth machines have either turned in mediocre performances, or in the case of Ontario, Quebec and Prince Edward Island, have barely managed to post any growth at all in recent quarters. Even Newfoundland & Labrador's solid rebound in real output this year will be narrowly concentrated in crude oil output, as the rest of its economy expands at a sluggish rate.

No province is likely to be immune from the U.S. slowdown. For the manufacturing-based economies of Central Canada and some parts of the Atlantic that have recently struggled under the weight of a high Canadian dollar and elevated energy prices, the dampening influence of weaker demand growth Stateside has effectively

Provincial Forecast Highlights

- **Canada's respectable showing in 2006 propped up by run-away growth in Alberta ...**
- **... while expansions in Ontario, Quebec and PEI have virtually stalled**
- **Little hopes of recovery in Central and Eastern Canada until the latter part of next year**
- **Weaker resource markets poised to dampen growth in the West**
- **In 2008, Central Canadian economies to emerge as Canada's growth leaders**



Source: Statistics Canada / Haver Analytics; Forecast by TD Economics quashed hopes of any meaningful recovery until 2008. At the same time, a softening in conditions in resource markets, including crude oil and forestry, will knock both Alberta and B.C. off their high growth horses over the next few years. In fact, with Central Canada and parts of the Atlantic expected to revive in 2008, the recent gap in growth rates between the East and the West will likely be eliminated.

All eyes on Alberta

In recent months, the focus of attention has shifted from the sizeable divergence in economic performances between Canada's western and eastern regions to the ever-widening gap between Alberta and the rest of Canada. It is not the case that the expansion of Alberta's western counterparts has suddenly stalled – indeed, British Columbia is on track for a solid 4% growth in 2006, while Saskatchewan and Manitoba turn in increases of just under 3%. It is just that the Alberta economy has continued to accelerate in 2006, while economic conditions in Ontario and Quebec have further soured. This year, at an estimated 6.8%, real GDP growth in Alberta will tip the scales at more than double the national average rate and well above the tepid pace of 1.7-1.8% posted by Canada's two largest economies.

Even though Alberta comprises only about one-tenth of Canada's population and economic activity, the growth in that province has been so rapid that it is truly leaving its mark on virtually every area of Canada's overall economic showing. We illustrate this point in the accompanying table of macroeconomic indicators. Figures are for 2005, and where available, year-to-date (YTD) 2006. Even then, YTD results don't capture the full extent to which the province is leaping ahead of its counterparts, so we've also included the most recent year-over-year per-cent changes.

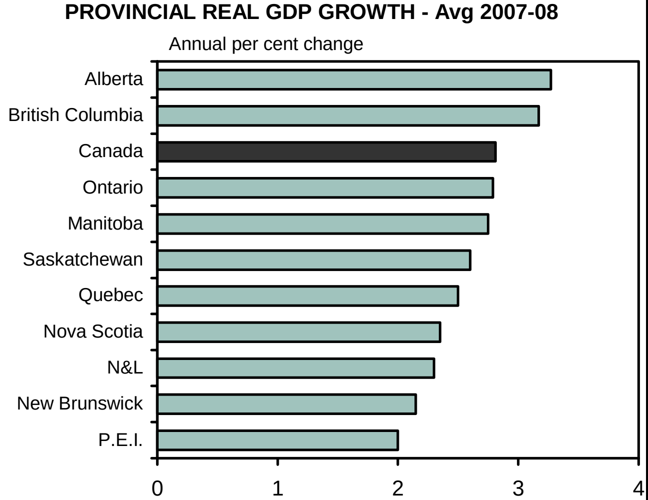
Last year, Alberta's out-performance in terms of real GDP growth added 0.2 percentage points to Canada's overall tally – an impact that is likely to have grown to 0.3 percentage points in 2006. These inflation-adjusted contributions are significant, but don't do justice to the actual display of strength in Alberta vis-à-vis the rest of Canada.

TABLE: ALBERTA VS. THE REST OF CANADA
per cent change unless otherwise indicated

	Period	Canada	Alberta	RoC
Population	2006Q2 YTD	1.0	2.7	0.8
	2006Q2 Y/Y	1.0	2.9	0.8
Interprov mig. (000s)	2005	0.0	42	-42
Labour Force	Aug 06 YTD	1.4	3.8	1.1
	Aug 06 Y/Y	1.4	5.4	1.1
Employment	Aug 06 YTD	2.0	4.1	1.7
	Aug 06 Y/Y	1.8	5.1	1.7
Unemployment Rate	Aug 06 YTD	6.3	3.5	6.7
	Aug 06 Y/Y	6.5	4.2	6.8
Real GDP	2005	2.9	4.5	2.7
per capita (000$)	2005	35.9	43.6	35.0
Nominal GDP	2005	6.1	15.3	4.5
per capita (000$)	2005	42.4	66.3	39.7
Corporate profits	2005	10.6	32.6	3.9
as a share of GDP (%)	2005	14.0	25.0	12.0
Real PDI	2005	1.8	5.8	1.2
Hourly Wage rate	Aug 06 YTD	3.5	7.2	2.5
	Aug 06 Y/Y	3.7	8.3	3.0
Total Inflation	Aug 06 YTD	2.4	3.9	2.3
	Aug 06 Y/Y	2.1	4.7	1.8
Inflation ex. shelter	Aug 06 YTD	2.0	2.3	1.9
	Aug 06 Y/Y	1.5	2.5	1.3
Housing Starts	Aug 06 YTD	5.1	27.3	0.4
	Aug 06 Y/Y	4.4	22.0	0.5
Resale home prices	July 06 YTD	12.0	27.0	10.1
	July 06 Y/Y	10.6	32.5	7.5
Prov. fiscal balance				
$ billions	FY 2005-06	13.6	8.7	4.9
$ billions	FY 2006-07	3.7	4.3	-0.6
Prov. Debt (net assets)				
$ billions	FY 2005-06	236	(38)	274
as a share of GDP (%)	FY 2005-06	17.2	17.5	20.0
$ billions	FY 2006-07	239	(39)	278
as a share of GDP (%)	FY 2006-07	16.4	16.6	19.2

Source: Statistics Canada, TD Economics, provincial government, CREA.

PROVINCIAL REAL GDP GROWTH - Avg 2007-08



Source: Statistics Canada / Haver Analytics; Forecast by TD Economics

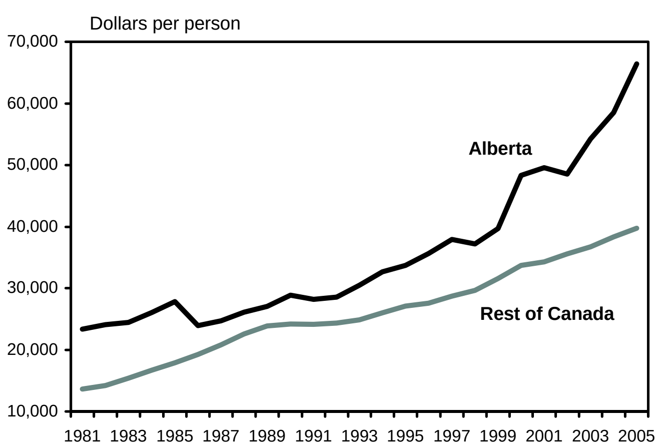
A more insightful measure is nominal GDP, since it captures the more direct effect of the past run-up in energy prices on the incomes of the provinces corporations, households and governments. And, there, Alberta added a whopping 1.6 percentage points to the Canadian total, led by swelling corporate and government coffers. Last year's jump lifted Alberta's GDP per person to $66,275, almost 60% higher than the level recorded in the rest of Canada. On the fiscal side, the province's *net asset position* jumped to a staggering 18% of GDP in 2005 compared with an average *debt-load* of about 20% elsewhere.

Costs rising in Alberta

Consistent with the relative strength in economic growth, there has been an increasing dichotomy in cost pressures between Alberta and the rest of Canada. With a massive 42,000 more Canadians moving to Alberta than moving out last year and with home demand outpacing the province's ability to generate new supply, new and existing home prices have sky-rocketed. Year-over-year wage growth in the province has doubled so far in 2006 compared to its year-earlier level, as the jobless rate plumbs the depths at levels below those consistent with full employment. Lastly, Alberta's nation-leading CPI inflation rate lifted the annual inflation rate for Canada by a not-insignificant 0.3 percentage points in August 2006. Still, it is noteworthy that Alberta's CPI inflation rate, excluding the impact of surging shelter costs, remains well-contained at close to the national average.

In spite of the subdued wage and price environment in other parts of Canada, Alberta's ability to draw workers from outside its borders alone is having a sizeable impact from coast to coast. Most importantly, the movement of workers from areas with fewer job opportunities and/or higher unemployment to Alberta is an important factor driving Canada's overall unemployment rate to 30+ year lows. Among the provinces, Saskatchewan, Newfoundland & Labrador and Manitoba have been losing the largest numbers of workers relative to the size of their labour forces to booming Alberta.

NOMINAL GDP PER CAPITA



Source: Statistics Canada, TD Economics

Macroeconomic Highlights

The main macroeconomic assumptions underlying the provincial economic update are listed below. For more information, please see the *TD Quarterly Economic Forecast*, released on September 18, 2006.

- The U.S. economy is expected to slow from 3.4% in 2006 to 2.4% in 2007. With a recovery starting in the second half of 2007, look for U.S. real GDP to bounce back to 3.6% in 2008.
- U.S. short-term interest rates are expected to remain unchanged until early 2007, after which time the Fed is projected to cut rates by a total of 100 basis points, to 4.25%, by mid-2007.
- Canadian economic growth will slow from 2.8% in 2006 to 2.3% in 2007, before bouncing back to 3.2% in 2006.
- The Bank of Canada will lower the current overnight rate of 4.25% by a cumulative 50 basis points in early 2007.
- The Canadian dollar is expected to depreciate slightly to 87.0 U.S. cents by mid-2007 before bouncing back to 90 U.S. cents in the late stages of 2008.
- World commodity prices are expected to drop by an average of about 10% by mid-2007, led by a drop in prices for crude oil and base-metals. Much of this lost ground will likely be made up in late 2007 and in 2008.

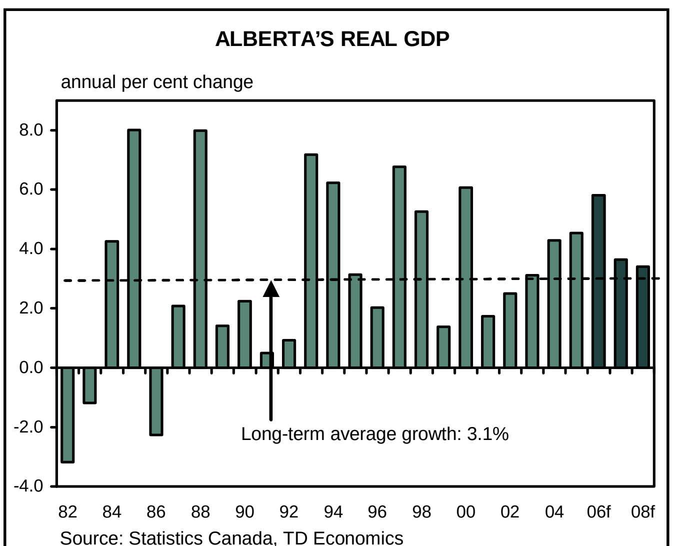
Is Alberta heading for bust?

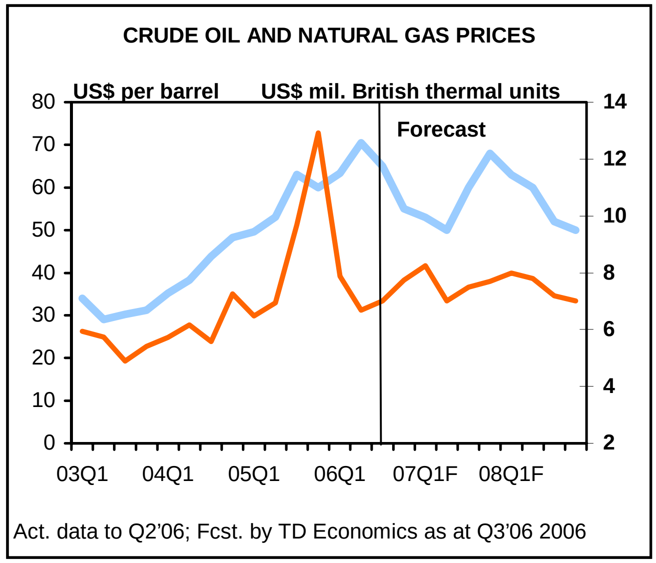
With their economy inextricably linked to the highly-cyclical oil and gas markets, Albertans are no strangers to periods of economic boom followed by bust. In the past, the pattern has been all-too-familiar. Global developments fuel a spike in crude oil prices, which in turn generates massive inflows of capital and labour into the province.

Then when energy prices recede abruptly, as they have been wont to do, enthusiasm cools and economic activity is severely constrained. Interestingly, since 1981, Alberta's economy has posted sustainable growth in the 3-4% range on only two occasions – 1995 and 2003.

There is no doubt that many of the ingredients of an overheated economy appear to be in place in Wild Rose Country. And, the pull-back in both prices of natural gas prices to under US$5 per MMBtu and crude oil to roughly US$60 per barrel in recent weeks, combined with increasing signs of a U.S. slowdown, have been raising concerns that a repeat of an economic bust may be in store. Just as the strength in the Alberta economy has had major ripple effects within the national economy, a swing in the reverse direction would also leave its footprint on the Canadian landscape.

We not only concur that growth in the Alberta economy has passed its peak in the current cycle, but that the risks of a hard landing have been rising (in our view, they are as high as 20-25%). Yet, we stick by our recent view that the economy will still be able to pull-off that elusive "soft landing", with real GDP growth holding at 3% per year on average in 2007 and 2008 and nominal income growth expected to remain in positive territory. Such a sizeable slowdown from the current rate will not be lost on Albertans. At the very least, the mood of euphoria that is pervasive in Alberta will die down significantly. However, the outcome predicted by TD would still be preferable to the painful corrections that followed the boom periods of the late 1970s, the mid-1980s and even the late 1990s.





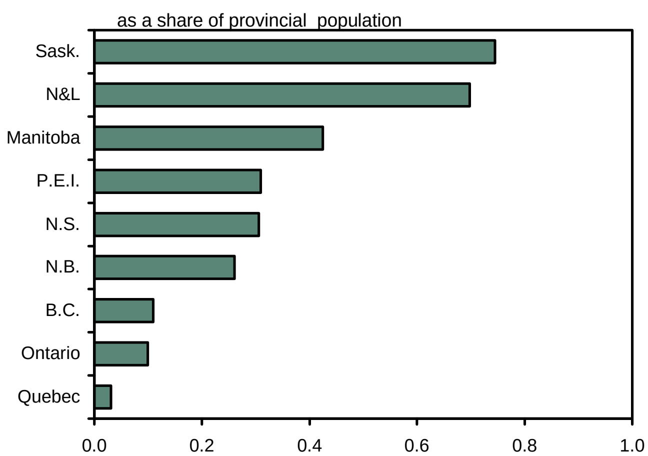
This optimistic view is supported by the following arguments:

- Crude oil prices are likely to fall further in the months to come, towards US$50 per barrel in early 2007, as global oil demand slows. This pull-back in prices, at a time when cost pressures have shown no signs of abating, is almost certain to lead to some capital spending plans in the oil patch being postponed or cancelled. Still, with China and other developing markets continuing to underpin demand for crude, we see relatively little risk of WTI prices falling back to the break-even levels of US$35-40 per barrel that are associated with most major multi-year oil sands projects. Moreover, prices should rebound above US$60 per barrel later next year.
- In contrast to crude oil, we believe that natural gas prices will gain ground, rising to above US$7 per MMBtu over the next three months in light of the massive correction in prices already recorded, the likelihood of somewhat more seasonal U.S. winter temperatures this year compared to last and the rising probability that industrial producers will move to switch fuel sources from oil to natural gas. (For more details please see the *TD Commodity Price Report*). And, with the value of natural gas production now exceeding crude oil in terms of importance to the Alberta economy, improvement on this front will mitigate the risk of a hard landing substantially.
- U.S. demand for energy should not be hit as hard during the slowdown as manufactured goods. In addition,

Alberta's firms are in great shape to face softer economic times, with corporate profits as a share of GDP standing at 25% in 2005, the highest level on record. And, the expected modest depreciation of the Canadian dollar to 87 U.S. cents by mid-2007 should help to cushion the blow on profits denominated in Canadian dollars from falling U.S.-dollar crude prices.

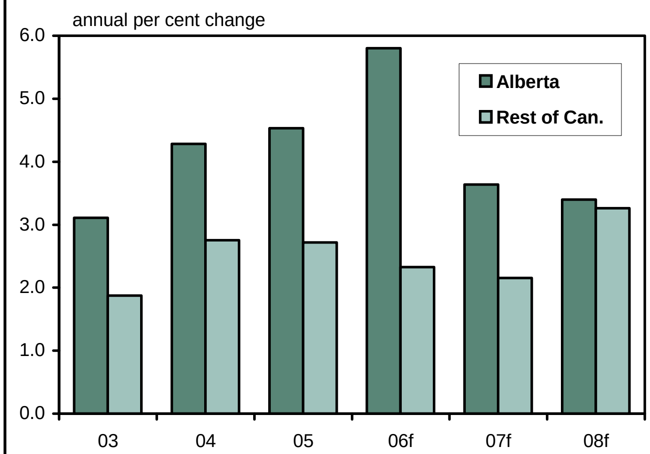
- Unlike past oil-price booms that have triggered inflation and sharp increases in interest rates in Canada and abroad, Canadian monetary policy is expected to remain stable and accommodative in the months ahead.
- Some cooling in the oil patch will no doubt lead to a moderation in the tide of migrants to the province. Still, with softness to remain the watchword in most other parts of Canada, Alberta will continue to attract more than its fair share of mobile skilled workers.
- Housing markets in Alberta have grown too far, too fast and remain vulnerable to an adjustment. Nonetheless, some solace can be taken from the fact that despite the huge escalation in prices over the past few years, housing remains relatively affordable in the province. This development reflects the fact that incomes in Alberta have also been growing rapidly, while interest rates have been anchored at low levels. In addition, with population growth likely to remain strong, underlying demand for housing will continue to be well supported.
- Boasting a favourable net asset position of almost $30 billion, the Alberta government has considerable room to manoeuvre if the economy takes a sudden turn to the worse.

NET INTERPROVINCIAL OUTFLOW TO ALBERTA - 2005



Source: Statistics Canada, TD Economics

REAL GDP GROWTH - ALBERTA AND THE REST OF CANADA



Source: Statistics Canada, TD Economics

- Above all, while the Alberta economy remains closely tied to oil and gas prices, the province has made significant progress diversifying away from upstream energy activities to downstream energy services, supply and other value-added areas in recent years. Moreover, assisted by its low personal and corporate tax rates and a strong overall business climate, the province has laid the seeds for a number of non-energy-related sectors, including in the area of high-tech, to grow alongside the thriving oil and gas sector, which will stand the economy in good stead during cyclical downturns in energy prices.

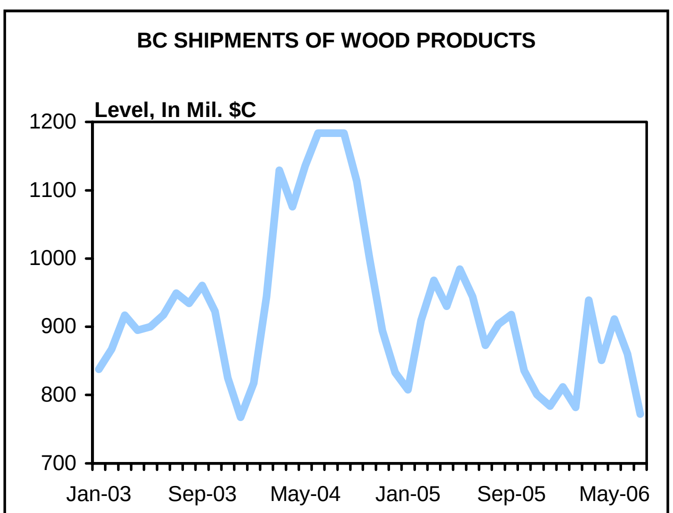
Cost pressures in Alberta to taper off

A risk to our Alberta soft-landing scenario is the possibility that cost pressures continue to escalate. Our base-case scenario calls for real GDP growth to slacken to a rate 0.5-1 percentage points below the province's trend rate of 3.5-4% in 2007-08, which should exert a downward force on broader price pressures. This tapering off on the cost side is likely to first manifest itself through lower machinery and material costs, which should be dampened by the impact of weaker U.S. growth and falling global metals prices (TD Economics expects most base metals to fall by 25-30% over the next 6-9 months). In contrast, notwithstanding a modest up-tick in the jobless rate in Alberta during the forecast period, wage pressures are likely to remain stubbornly high – at least in first half of 2007 – reflecting the ongoing tightness in labour markets and scarcity of skilled labour.

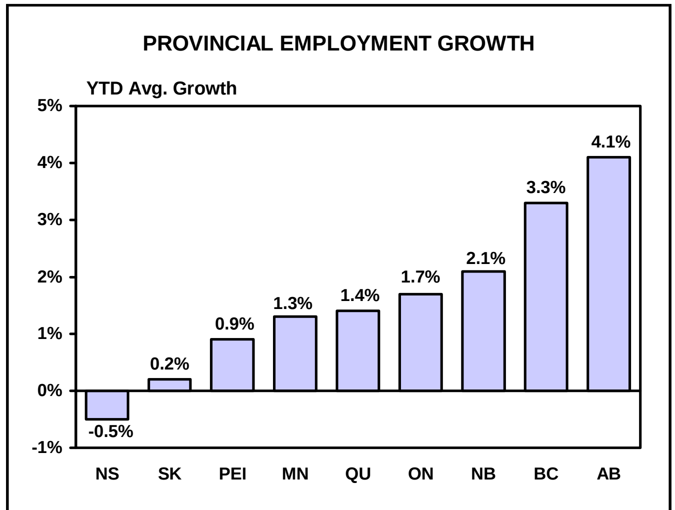
B.C. growth to ease

The British Columbia economy has both benefited and been hurt by the boom in Alberta. On the one hand, strengthening ties between Alberta and B.C. have provided a boost to exports of goods and services in both provinces. Moreover, the competitive threat from Alberta has been a major impetus for B.C. to put its fiscal house in order and improve the business climate (see TD Economic report released March 29, 2006 entitled *British Columbia's Golden Decade*). On the flip side, Alberta's investment and construction boom has drained available resources in the western region and put upward pressure on costs. And, for a province with $100 billion in large-scale non-residential and housing construction projects of its own – some of which are related to preparation for the 2010 Olympics – and explosive growth in housing markets, B.C. is the only other economy other than Alberta facing the risk of an overheated economy.

The moderation in growth in Alberta and declining materials prices should help to ease cost pressures in British Columbia. At the same time, B.C. is facing a slowdown in growth of its own and some cooling in its unsustainably strong housing market. While the recent passage of the Canada-U.S. softwood lumber agreement has removed one key risk from the medium-term outlook for forestry, a weakening housing market in the U.S. has already started to take a toll on the province's lumber industry, as both prices and demand have slumped. And, with U.S. economic growth remaining soft in the quarters ahead, the tourism industry in B.C. is projected to struggle before finding its legs in 2008. Weakness in these areas will be offset by the impact of rising goods and service exports to Asia, increasing non-residential investment, and stimulative government fiscal policy, all of which should remain pillars of strength for the B.C. economy through the end of the decade.



Source: Haver Analytics



Actual data to Aug. 2006; Source: Statistics Canada

U-shaped growth picture for Saskatchewan

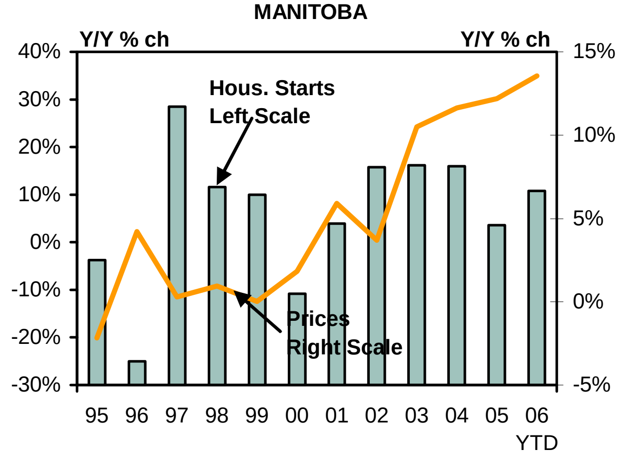
After averaging 3.5% between 2002 and 2005, Saskatchewan's rate of expansion is poised to ratchet down to just under 3% in 2006. Indeed, 2006 was off to a bad start, when Postash Corp. – the world's largest potash producer – halted shipments of potash to China and India earlier this year pending price negotiations. (A deal was subsequently reached this summer, setting the stage for both a price increase and a resumption of shipments.) In the agriculture industry, Saskatchewan farmers are anticipating lower crop production in the current year, partly attributable to the fact that heavy rainfall during the planting period disrupted seeding activities. Further, the hot summer weather has cut into crop yields, sending farm cash receipts down about 6 per cent from last year. In addition, while the unemployment rate continues to hover at a low 5%, virtually no net new jobs have been recorded in the province in 2006. On the flip side, rising residential construction activity and oil & gas extraction are helping to keep the economy chugging along at a moderate rate in 2006.

While some of this year's softness on the job front will likely weigh on consumer spending and housing in the months to come, the slowdown should be relatively short-lived. Most importantly, the outlook for resources remains positive, as potash production bounces back from its recent setback, the rallies in both crude oil and zinc prices resume in the second half of 2007 and 2008 marks the first full year of uranium extraction at the new mine at Cigar Lake. Looking out even further ahead, the province's key task will be to stem the large outflow of young and well-educated residents to Alberta. Enjoying a strong fiscal position, the Saskatchewan government has begun to address this challenge by cutting its capital tax on non-financial institutions and lowering its general corporate income tax (CIT) rate in order to be more competitive with the low-tax jurisdiction of Alberta. After the bold move from 17 to 14 per cent on July 1st of this year, the CIT rate will be cut further to 12 per cent by July 2008.

Manitoba to perform slightly above average in 2007

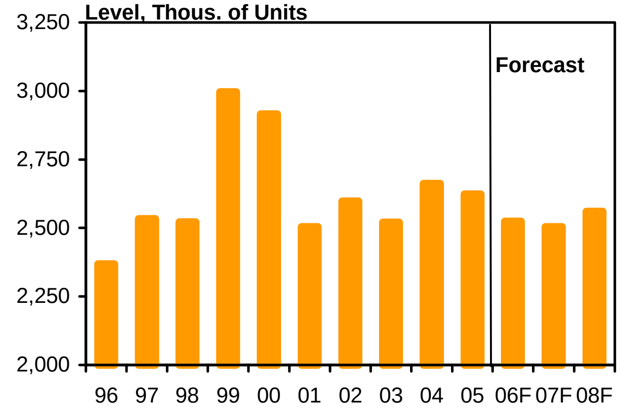
As is often the case, the Manitoba economy continues to grind along at a steady rate this year, spurred by its relative strength in metal mining and utilities industries on the one hand but hurt by its exposure to both a soft manufacturing sector and the large Ontario economy on the other. Housing activity has continued to perform well in 2006, with starts up a substantial 16% on average from a year-earlier. Meanwhile, gains in employment and retail sales have registered close to the middle of the pack among Canada's provinces. Lastly, crop production will again be victim to Mother Nature this year. Dry conditions this summer are pointing to another below-average harvest season, but not as bad as in 2005, when crops were damaged by excessive rainfall. In the livestock industry, farm cash receipts are down 8 per cent on a year-to-date basis due to lower prices for hog exports.

RESALE HOME PRICES & HOUSING STARTS IN MANITOBA



Source: Conference Board of Canada, Haver Analytics

LIGHT VEHICLE PRODUCTION IN ONTARIO



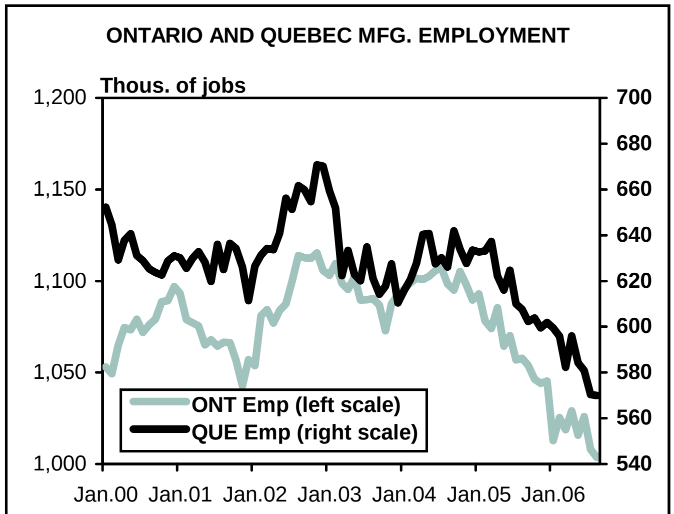
Act. data to 2005; Fcst. by TD Economics as at 2006

In 2007, a stronger non-residential construction sector will help to compensate for some expected slackening on the residential side. Notably, the province is capitalizing on its hydroelectric capacity, with the development of a $1-billion, 200-megawatt Wuskwatim hydroelectric station project. The construction period, which just started at the end of this year, is forecast to be approximately six years. Beginning in the second half of 2007, Manitoba can look forward to both improved agricultural output and a healthy rebound in its manufacturing sector, as the U.S. and Ontario economies revive. These developments should set the stage for growth to reach a healthy 3% - the first time it will have hit this milestone in the current decade.

Ontario will bounce back in 2008

The Ontario economy has recorded only minimal growth over the past 3-4 quarters, as its key manufacturing sector has been sideswiped by a strong Canadian dollar and high energy prices. Indeed, since the start of the year, another 40,000 jobs have been lost in manufacturing, bringing the total drop since 2004 to more than 100,000 jobs. What's more, with the U.S. economy now showing signs of softening, manufacturing output and employment will remain under pressure over the next few quarters. In 2007, TD Economics projects auto production to dip for the second consecutive year, as North American sales continue to pull back and Ford and General Motors forge ahead with their restructurings.

Ontario's job market has held up surprisingly well this year, as hiring in non-manufacturing industries has taken up some of the slack. The employment side may be the next shoe to drop, however, as the impact of weak manufacturing activity likely begins to spill over to other pockets. As a result, consumer spending growth, which has been a source of offsetting strength in view of the weak export performance, is projected to ease into 2007. However, the provincial economy should charter through the next few difficult quarters without a major disaster. For one, unlike Alberta, the Ontario economy has displayed few signs of excess that leave it vulnerable, such as in housing. Moreover, as we argue in our September Quarterly Economic Forecast, there are good reasons to believe that the U.S. slowdown will be relatively shallow and short-lived in scope. Lastly, the Ontario government's fiscal position has brightened considerably, giving the government some added wiggle room. A full-fledged recovery is projected to take shape in Ontario in the latter stages of 2007 and in 2008, assisted in part by an improving North American outlook for auto sales and the start-up of production at the Toyota assembly plant in Woodstock, the Honda engine plants in Alliston, and the assembly of the new GM Camaro in Oshawa.



Source: Statistics Canada/Haver Analytics

"La Belle Province" in the slow lane

Mirroring the picture in Ontario, a number of key industries in Quebec have been encountering roadblocks this year. In particular, a significant decline in the number of foreign visitors in Quebec has hurt the province's tourism industry, and little respite is expected on this front over the near term. Within the goods sector, the strong loonie and elevated energy costs have already led to 6,000 jobs being lost in the province's forestry industry, difficulties in this area are far from over, as mills likely continue to restructure in light of low lumber prices and declining U.S. housing activity. While the outlook is brighter for some other manufacturing industries – including primary metals and aerospace – soft overall growth in Ontario and in the United States will keep a lid on their rate of expansion. Lastly, less-than-stellar job trends appear to be weighing on optimism in consumer-oriented industries, as housing starts have pulled back by 10% this year from last year's rate and retail sales have grown at a lackluster rate.

Source : Statistics Canada

In view of these challenges, we expect economic growth to run at an anemic rate of 1.9% in 2007, not far off this year's estimated rate of 2.0%, and the rate of job creation to slow to a meager 0.6%. In this environment, there is likely to be upward pressure on unemployment, although a concurrent moderation in labour force growth is projected to hold the jobless rate at less than 9%. As export markets improve, the Quebec economy is projected to gear up in 2008.

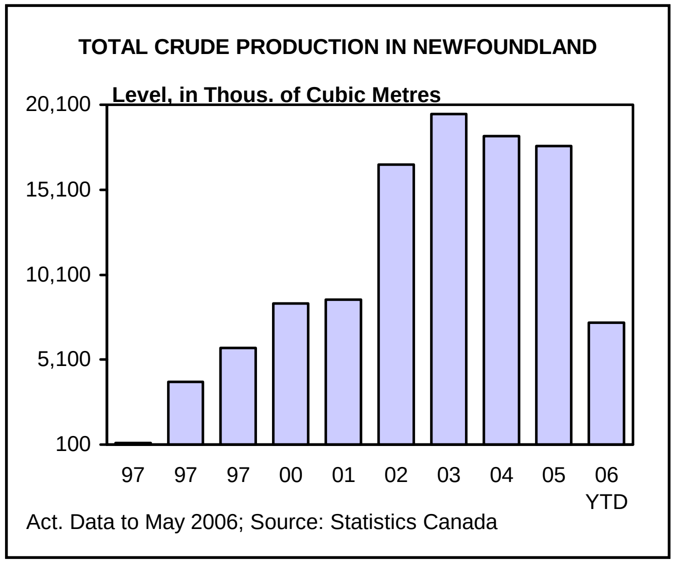
N&L's economy weaker than meets the eyes

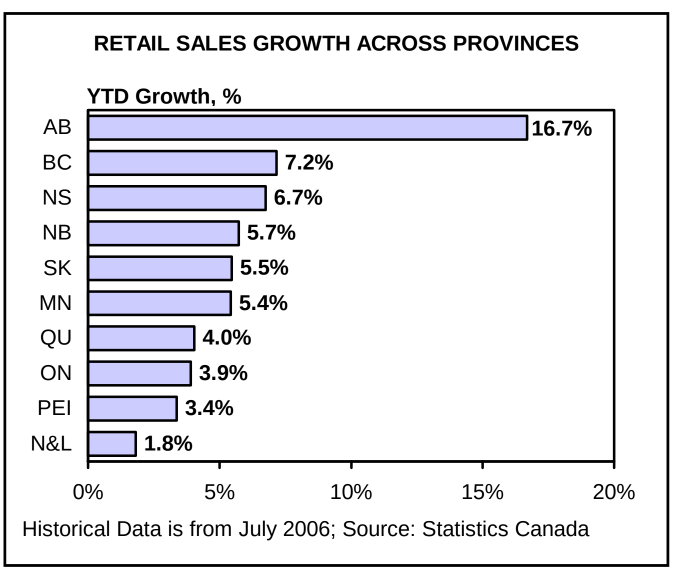
Although Newfoundland & Labrador's economy is on track to record real GDP growth of close to 4% this year after 2005's weak turnout of 0.4%, this statistic alone overstates the underlying momentum in the economy. Notably, much of the output growth reflects rising crude oil production at the White Rose oilfield and nickel extraction at Voisey's Bay. Other indicators released so far this year – including housing starts, retail and wholesale trade activities and manufacturing shipments – point to an economy that is fighting to keep its head above water. Above all, with the hangover effects from the end of labour-intensive construction work on both Voisey's Bay and White Rose still weighing on the job market, Newfoundland & Labrador is expected to be the only province not to record any net new jobs in 2006 after actually seeing total jobs edge down slightly in 2005. On the flip side, the dramatic improvement in the government's fiscal position continues to pay dividends, as renewed investments in health and education are providing some stability to the job market.

Unfortunately, with no major new development projects on the near-term horizon, we expect 2007 to be a virtual carbon copy of 2006, meaning that growth is likely to be largely concentrated in increasing resource output and government activities. Resource activity is forecast to be spurred in part by a rebound in output from the Terra Nova offshore oilfield following this year's production setbacks. A recovery in the broader economy and job markets is unlikely to occur before 2008, however, in tandem with the broader trends sweeping North America. Looking further out, there is some potential for further large-scale projects to be developed in hydroelectricity as well as oil and gas, although the likelihood and timing of these projects remains uncertain.

New Brunswick economy holding up well

After almost stalling in 2005, New Brunswick is turning in the strongest overall economic performance east of Quebec this year, as evidenced by healthy gains in employment, housing starts and retail sales. However, the outlook for 2007 is considerably less rosy. For one, this manufacturing-oriented economy will be harder-hit than its Atlantic counterparts by the U.S. mid-cycle slowdown. Forestry, in particular, will face a difficult ride in the coming months, as weak North American lumber leads to further restructuring in the industry. Weaker manufacturing activity is expected to weigh on job and housing market activity and leave consumers more cautious. One area that will continue to take up some of the slack is non-residential construction, assisted by the public infrastructure projects, refurbishment of the nuclear plant at Point Lepreau and the development of the Irving/Repsol LNG project in St-John. Moreover, in light of New Brunswick's low-cost environment and competitive tax climate, the province continues to attract new investments in the call-centre industry. By 2008, fuelled by a strengthening in manufacturing activity, real GDP growth in New Brunswick appears set to revv up back to around 3%.





Nova Scotia boosted by buoyant housing markets

Nova Scotia is recording a mixed economic performance in 2006. Tourism activity was sideswiped this summer by a combination of a high Canadian dollar and high gasoline prices. This development, combined with almost 5,000 jobs being shed in the province's beleaguered manufacturing sector, will hold back employment growth to a snail's pace in 2006. Yet, consumers have remained in a spending mood, underpinned in part by robust housing markets and the "wealth effect" triggered by rising home prices. Indeed, at 10.5%, only Alberta (20.5%) and B.C. (13.5%) will turn in stronger increases in average resale prices this year. Moreover, Nova Scotia is the only province that we foresee turning in a gain in new housing starts compared to last year.

Although the Nova Scotia economy will likely slow in tandem with its Atlantic counterparts next year, ongoing strength in resale housing markets will provide some further support to consumer spending activity. The energy sector is also a bright spot, as the addition of a compression deck at Sable Island natural gas project provides a boost to natural gas extraction, while a rebound in natural gas prices to above US$7 per MMBtu next year increases the likelihood that a further large-scale development in the region – the Deep Panuke natural gas project – goes ahead. The region's potential as an Atlantic Gateway for European and Asian trade also offers considerable opportunity.

Prince Edward Island hit by perfect storm

The Prince Edward Island economy has been hit by a perfect storm this year, as its manufacturing, tourism and agriculture all face difficult markets. In particular, fewer Americans are visiting the Island, which is dealing a blow to its retail trade and accommodation & food industries. Moreover, growth prospects for PEI's potato industry have also soured, as farmers decided to reduce the number of seeded acres in order to support prices in view of falling demand. Lastly, just as the manufacturing sector adjusts to the high Canadian dollar and energy prices recede, the U.S. economy has begun to slow. Although the weak momentum observed this year will carry over into 2007, the pace of expansion should pick up as next year progresses as the U.S. economy improves. Supporting the expansion are capital spending plans of the provincial government and the development of wind farms on the Island.

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REAL GROSS DOMESTIC PRODUCT (GDP) Annual average per cent change					
	2004	2005	2006f	2007f	2008f
CANADA	2.9	2.9	2.8	2.3	3.2
N. & L.	-1.4	0.4	3.6	2.6	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	1.4	2.9
Quebec	2.3	2.2	1.9	1.8	3.2
Ontario	2.7	2.8	1.8	2.0	3.6
Manitoba	2.3	2.7	2.7	2.5	3.0
Sask.	3.4	3.2	2.7	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

f: forecast by TD Economics as at September 2006
Source: Statistics Canada

TOTAL CONSUMER PRICE INDEX Annual average per cent change					
	2004	2005	2006f	2007f	2008f
CANADA	1.9	2.2	2.4	1.9	2.2
N. & L.	1.8	2.6	2.2	1.7	1.9
P.E.I.	2.1	3.2	3.0	2.0	2.0
N.S.	1.8	2.8	2.3	1.8	2.1
N.B.	1.5	2.4	2.1	1.6	2.1
Quebec	1.9	2.3	2.1	1.7	2.1
Ontario	1.9	2.2	2.1	1.7	2.3
Manitoba	2.0	2.7	2.2	1.9	2.2
Sask.	2.2	2.2	2.3	1.9	2.1
Alberta	1.4	2.1	4.2	3.5	3.0
B.C.	2.0	2.0	2.0	1.8	2.1

f: forecast by TD Economics as at September 2006
Source: Statistics Canada

EMPLOYMENT Annual average per cent change					
	2004	2005	2006f	2007f	2008f
CANADA	1.8	1.4	1.9	1.0	1.2
N. & L.	1.0	-0.1	0.0	0.3	0.5
P.E.I.	1.3	2.0	0.8	0.5	0.6
N.S.	2.6	0.2	0.3	0.5	0.7
N.B.	2.1	0.1	2.0	0.3	0.8
Quebec	1.5	1.0	1.3	0.6	0.8
Ontario	1.7	1.3	1.7	0.8	1.4
Manitoba	1.1	0.6	1.0	0.7	0.8
Sask.	0.8	0.8	0.2	0.8	0.8
Alberta	2.4	1.5	4.0	2.0	1.8
B.C.	2.4	3.3	3.0	1.5	1.7

f: forecast by TD Economics as at September 2006
Source: Statistics Canada

UNEMPLOYMENT RATE Per cent					
	2004	2005	2006f	2007f	2008f
CANADA	7.2	6.8	6.3	6.5	6.4
N. & L.	15.7	15.2	15.6	15.9	16.3
P.E.I.	11.4	10.8	11.1	11.4	11.3
N.S.	8.8	8.4	8.6	9.0	8.9
N.B.	9.8	9.7	9.4	9.9	9.6
Quebec	8.5	8.3	8.4	8.9	8.7
Ontario	6.8	6.6	6.3	6.7	6.3
Manitoba	5.3	4.8	4.5	4.8	5.1
Sask.	5.4	5.1	5.1	5.3	5.4
Alberta	4.6	3.9	3.3	4.0	4.5
B.C.	7.2	5.9	4.6	5.3	5.2

f: forecast by TD Economics as at September 2006
Source: Statistics Canada, TD Economics

HOUSING STARTS Thousands of units					
	2004	2005	2006f	2007f	2008f
CANADA	233.4	225.5	227.0	195.0	170.0
N. & L.	2.9	2.5	2.3	1.9	1.6
P.E.I.	0.9	0.9	0.9	0.7	0.6
N.S.	4.7	4.8	5.5	4.2	4.1
N.B.	3.9	4.0	4.2	3.2	3.0
Quebec	58.4	50.9	44.3	36.0	32.0
Ontario	85.1	78.8	75.0	67.4	64.5
Manitoba	4.4	4.7	5.0	4.5	4.2
Sask.	3.8	3.4	3.3	3.1	2.8
Alberta	36.3	40.8	49.5	42.0	37.0
B.C.	32.9	34.7	37.0	32.0	30.2

f: forecast by TD Economics as at September 2006
Source: Canada Mortgage and Housing Corporation

RESALE HOME PRICES Annual average per cent change					
	2005 (000$)	2005	2006f	2007f	2008f
CANADA	249.3	10.2	9.6	4.8	3.4
N. & L.	141.2	7.4	2.0	2.0	1.6
P.E.I.	117.2	5.8	3.2	2.5	2.2
N.S.	159.6	9.3	10.5	4.0	3.5
N.B.	120.6	6.8	4.3	3.0	2.5
Quebec	184.6	7.9	6.5	2.7	2.0
Ontario	263.0	7.3	5.9	2.9	2.5
Manitoba	133.9	12.3	7.5	5.2	4.0
Sask.	122.8	10.8	8.4	5.5	3.5
Alberta	218.3	12.1	20.5	10.0	5.0
B.C.	332.2	14.9	13.5	7.0	5.0

f: forecast by TD Economics as at September 2006
Source: Canada Mortgage and Housing Corporation