



# Provincial Trends

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## Economic Downturn Spreads from Coast to Coast

The Canadian economy has been caught in the middle of the global economic and financial market storm. The earlier sharp slump in manufacturing activity is now being reinforced by a loss of momentum across goods- and service-producing industries, with consumers, builders and resource producers all in retrenchment mode. Nationally, real GDP is expected to contract by about 2½% this year, marking the largest annual production decline since 1982.

Central Canada, with its large manufacturing sector, is expected to witness the sharpest contraction in activity. Ontario's auto industry, which alone accounts for 25% of the province's manufacturing output, has implemented deep production cuts to redress slumping global demand and bloated inventories. Meanwhile, Quebec's aerospace industry, a pillar of strength in 2008, is facing order deferrals and cancellations as the demand for business jets dries up and passenger and cargo traffic stalls.

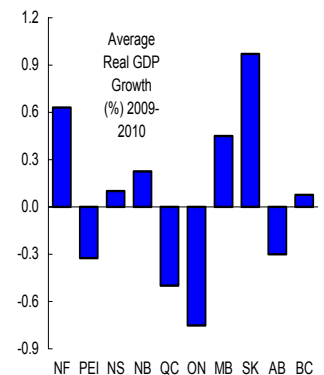
More recently, the previously booming resource-driven economies in Western Canada have succumbed to the global economic downturn. The sharp falloff in global commodity demand and prices are leading to substantial declines in retail and housing activity, in addition to deep cutbacks in capital spending plans. Drilling activity has slumped by a sizeable 25% in the early months of 2009 from year-earlier levels, while mining and metal fabricating companies are idling mines and plants.

With no industry effectively insulated, even the relatively diversified economies of Eastern Canada are expected to show modest output contractions this year. The retrenchment underway in the manufacturing, primary and construction sectors has begun to put the squeeze on a range of professional and business service industries that had been a consistent source of employment and output growth in recent years. Weak domestic and international tourism spending will also weigh on the region's prospects.

At the same time, massive doses of monetary and fiscal stimuli are being implemented across the country to help cushion the downturn in private sector demand, and eventually underpin a recovery. Much of the ramped-up government outlays are earmarked for infrastructure. Institutional projects, including expanded health care and higher education facilities, are also high on most provinces' 'shovel-ready' priority list.

Looking forward, government infrastructure-related expenditures, and their spin-off into non-residential activities, are expected to be the primary source of economic growth well into 2010. There are considerable headwinds confronting households and businesses — rising joblessness, declining wealth and profitability, and industrial overcapacity, for example — that will restrain the pace of the economy's renewed forward momentum.

Provincial Output Performance



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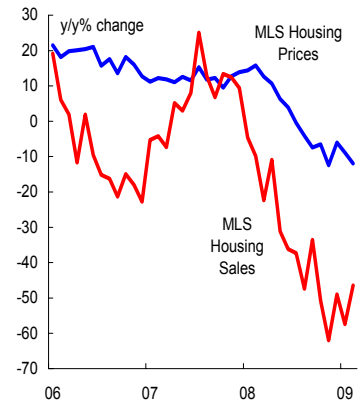
### British Columbia — Infrastructure build moderates construction slowdown

B.C.'s economy is expected to contract close to 2% this year, as slowing construction and services activity reinforce continuing retrenchment in forest products and a less buoyant resource sector. Housing starts have been trending lower since mid-2008, and will fall further this year amid weaker demand and prices. The construction slowdown is extending to non-residential building, with permits down across all major segments (i.e. commercial, industrial and institutional). Still, some support will come from completing infrastructure work for the upcoming 2010 Winter Olympic Games and several billions worth of public infrastructure projects being accelerated forward.

The forest products industry is being hammered by the sharp U.S. housing correction, while the mountain pine beetle infestation remains a long-term concern. Exports of forest products fell 18% last year and will contract again in 2009. However, some relief will come from newly proposed tax breaks and lower stumpage fees. The province's emerging energy industry remains a bright spot, highlighted by record gas-rights auctions in 2008. Nevertheless, the steep pull-back in global commodity prices and demand since the fall will moderate natural gas drilling this year, as well as mineral fuel and metal mining, including copper and to a greater extent coal.

Provincial retail sales stalled in 2008, as falling home values and slowing employment growth dampened consumer confidence and big-ticket purchases. Facing mounting job losses and further downward pressure on home prices, we anticipate another disappointing performance in 2009. Meanwhile, the global economic slowdown is challenging other major service industries in the province, including tourism, and financial and business services.

#### Housing Markets Soften — B.C.



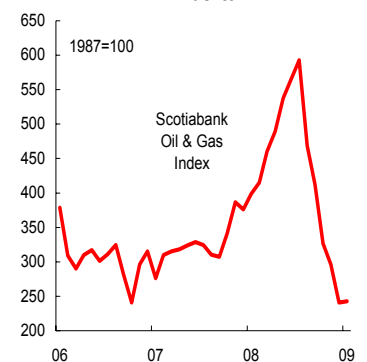
### Alberta — De-energized growth prospects

Alberta's economy is expected to contract 2.3% this year, as the plunge in commodity prices and sharp falloff in global demand weigh on both goods- and service-producing sectors. Investment in non-conventional oil production has virtually disappeared and weak energy prices will reduce conventional oil and gas production as well as drilling. The Petroleum Services Association of Canada has projected a double-digit drilling decline for 2009. The province's petrochemical industry, the largest in the country, has also been shaken by a falloff in global demand, leading to layoff announcements and mergers and acquisitions.

The precipitous decline in oil prices from their mid-2008 peak, coupled with still-high costs and tighter credit availability, have led to the postponement or cancellation of over \$40 billion worth of capital projects, including new oil sands upgraders. These deferrals will reinforce the slowdown already underway in residential and commercial construction. At the same time, there is a large volume of government infrastructural and institutional works still in the pipeline, including new health care and educational facilities, to meet expanding population demand.

The loss of momentum in the energy patch has spilled over to services. Retail sales ground to a halt in 2008, though on a per capita basis remain by far the highest in the country. Confidence and spending have been hard hit by a broad-based slowing in job growth and the loss of household wealth associated with declining home prices. We anticipate another year of weak retail sales growth in 2009 amid rising unemployment, weakening home prices and lower migration inflows.

#### Energy Prices Retreat — Alberta





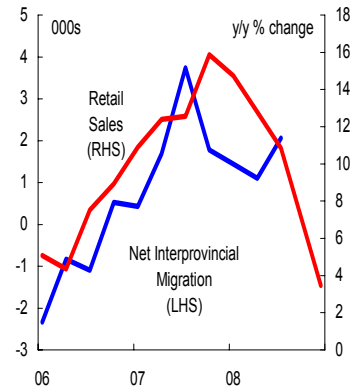
### Saskatchewan — Natural resource boom cools

Saskatchewan will likely post no growth this year, a comparatively good performance for last year's provincial growth leader. The province will be helped through the global economic storm by development prospects of its potash and energy industries as well as continuing, albeit more modest, gains in service-sector activity.

Exploration expenditures in the province skyrocketed 850% in the past five years as Saskatchewan expanded its role in the natural gas market, and demand and prices for potash soared. Energy exports jumped almost 75% last year, and energy production now accounts for 6% of GDP. Potash sales totaled a record \$3.3 billion, while uranium production shot up to \$1.3 billion. Still, the province's vast resource sector is not immune to the global downturn. Potash Corp announced a double-digit decline in production for this year in an effort to maintain healthy prices, and layoff announcements in the industry are mounting. Stronger agricultural production and lower expenses are expected to help offset price declines for the major grain and oilseed crops. Capital investment for 2009 looks to be the second highest on record, stemming mostly from private investment in the energy and resource sectors, an indication of increased long-term interest in the province.

While growth in the province has been led by the primary sector, it will be maintained by the service sector. Wage gains averaged almost 7% in 2008, well above the national trend. This, combined with strong population inflows and a red-hot housing market, have supported a province-leading pace of retail activity. While we expect some cooling in 2009, the province's retail sales will likely remain at the top of the regional growth ladder.

#### Growing Consumer Base — Saskatchewan



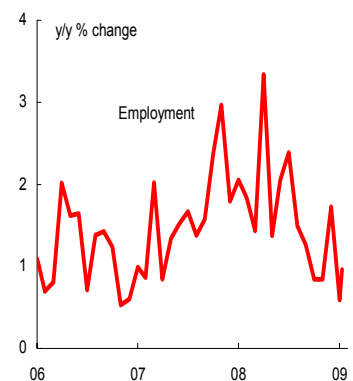
### Manitoba — Diversified economy provides support

Manitoba is expected to experience one of the smallest economic contractions among the provinces this year, at 0.7%. The provincial economy is insulated to some degree against sector-specific shocks by being well diversified, with a good balance of commodities, agriculture, manufacturing and services.

Agricultural products account for roughly 30% of provincial exports. Prices have softened, but production should remain relatively high as global demand for food products is typically more resilient to economic downturns than raw materials or manufactured goods. The manufacturing industry itself is fairly diverse, with food processing being the largest industry followed by aerospace and transportation equipment. Strong demand from the Middle East has resulted in a backlog of orders for aerospace manufacturers, though several cancellations have already led to layoffs. The province's bus manufacturers, who supply one-third of the North American market, have a healthy amount of projects and orders. However, the once-booming mining industry will slow as prices for nickel and copper have fallen over 50% in the past year.

While housing construction will cool this year, building permit data suggest some momentum remains in non-residential construction. Significant spending will also take place on highways, power generation and transmission, as well as on the Winnipeg airport and warehousing facilities, supporting the broad construction sector. Retail sales in the province jumped 7% in 2008. We expect consumer spending to soften in 2009, but still best the national average due to the province's relatively brighter economic and employment prospects.

#### Steady Employment Growth — Manitoba





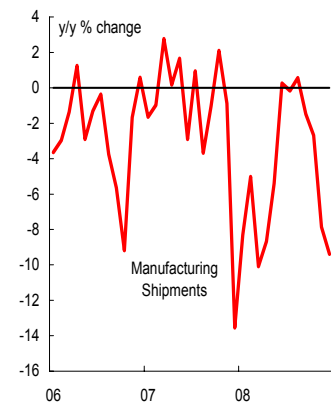
### Ontario — Deepening manufacturing malaise

Ontario's economy is expected to contract for a second straight year in 2009, posting a decline of almost 3%. The weaker Canadian dollar and ongoing infrastructure spending are providing some relief, but not enough to offset further big cutbacks in manufacturing, mining and steel production, as well as a rapid cooling in service sector activity.

Ontario's auto industry had been poised for a modest rebound in 2009, with large modernization investments by GM and Toyota set to start early in the year. However, production has been slashed at most plants and massive layoffs have been announced alongside plunging U.S. motor vehicle sales, which account for roughly 85% of Canadian production. Major steelmakers are similarly suffering, with one major plant shutdown and others operating at 50% capacity. Total manufacturing employment declined almost 10% in 2008, and is expected to experience a double-digit drop in 2009. Meanwhile, resource-based centres such as Sudbury have been hit by softening global markets for nickel and other base metals.

Service sector activity cooled considerably through the first three quarters of 2008, posting annualized growth of just 1½%. A further broad-based slowing is expected this year, extending to finance, insurance & real estate, business services, transportation & storage, and accommodation services. Following a modest 3% gain in 2008, retail sales are likely to decline this year as rising job losses lift the provincial unemployment rate above 9% for the first time in over a decade. A rising inventory of unsold new homes and looming excess office capacity will dampen residential and non-residential construction, though major infrastructure projects, primarily transportation and energy related, will provide much-needed support.

Factory Slump Deepens  
— Ontario



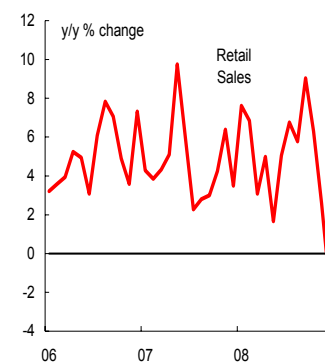
### Quebec — Public projects drive non-residential investment

Real output is projected to decline about 2½% this year, as the province's large forest products, manufacturing and growing mining industries all face considerable challenges. However, the drop-off is slightly less than in Ontario, reflecting strong public sector investment and a more diversified, albeit smaller, manufacturing base. Public projects will account for the majority of non-residential investment in 2009. The province has allotted \$41 billion to projects over the next four years, ranging from Hydro plants to highways and public transit in the first step of a long-term plan. While housing starts are expected to drop about 12% this year, overall construction activity will remain reasonably firm until most projects wind down in 2012.

The manufacturing sector will show mixed results. Transportation and aerospace manufacturers are facing order cancellations, but the industry has a good balance between commercial and government/military clients, and the latter should help maintain some momentum. At the same time, the forest products and fabricated metals industries are being hard hit by faltering U.S. demand, with older and less efficient plants already starting to close down. The mining and smelting industry also faces tough market conditions as prices for zinc and copper are down over 50% from early 2008 levels.

Service sector activity is expected to make much less of a contribution to growth than in recent years. Boosted by tax cuts, retail sales were reasonably solid in 2008 despite a marked slowing in employment growth. We expect a much weaker performance this year as layoffs mount and wage gains moderate. The province's bio-tech and fledgling video game industries should continue to experience positive growth, albeit considerably more restrained than in recent years.

Retail Sales Slow  
— Quebec





### New Brunswick — Trade-intensive economy hit by U.S. slump

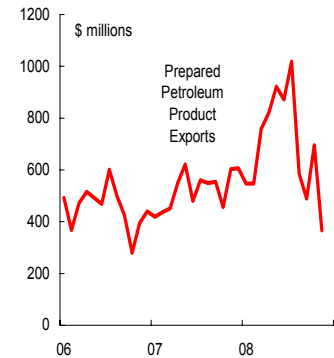
New Brunswick is expected to outperform the national average in 2009, but will still post negative growth of 1.0%. A number of large capital projects will help buoy the economy and counterbalance declines in exports and manufacturing production.

Exports are equivalent to 75% of the province's GDP, making New Brunswick the most trade-intensive province in Canada. With 90% of these exports shipped to the United States, the deepening economic downturn south of the border will impose a major drag on its economy. Forest products and energy, primarily gasoline and natural gas, account for roughly 80% of the province's international shipments. With both sectors facing unfavourable demand and pricing conditions, we expect total export receipts, which jumped 14% in 2008, to decline this year.

Weakness in the export and manufacturing sectors will be partially offset by a number of large capital projects set to start up in 2009. Multi-billion dollar investments, such as Potash Corp's expansion of its mine in Sussex and renovations on the Pointe-LePREAU Nuclear plant, will provide a much-needed boost to the economy. At the same time, uncertainty surrounds the proposed \$8 billion Irving gasoline refinery in Saint John. The project is being re-evaluated amid the drop in petroleum prices.

Retail sales saw solid growth of 5% in 2008, but will likely dip this year as the province's jobless rate tests the 10% threshold for the first time since 1994. The weakening economic climate in the United States will mean a difficult year for the province's information technology industry, mainly consisting of call centres.

**Petroleum Exports Cool  
— New Brunswick**



### Nova Scotia — Support from construction and services

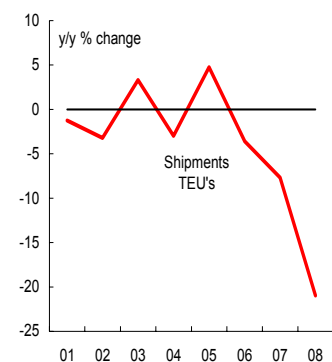
Nova Scotia's economy is expected to contract 1.2% this year as natural gas prices remain low, shipping volumes decrease and manufacturing slows. Still, for the second year in a row, the province will outperform the national average, propped up by construction and some resilience in services.

Exports, which represent 50% of the province's GDP, rose 7% in 2008, mainly on the back of higher energy shipments. Energy exports were a key driver for the province's economy in the past few years, but are down nearly 50% since their peak last July, and near-term market conditions remain poor. The industry should rebound in late 2010 when the Deep Panuke natural gas field comes online and prices improve somewhat. A disappointing year for lobster prices contributed to a sharp 11% decrease in seafood exports in 2008, while manufacturing and forest products are challenged by slumping U.S. and international demand.

The construction industry has been an engine of growth over the past decade, accounting for over 25% of job creation in the province. Activity looks to cool in 2009, but should remain reasonably healthy. While housing starts are expected to be lower, ongoing construction on the Deep Panuke natural gas field as well as infrastructure projects, such as a \$350 million cargo terminal in Melford and several major highway projects, will offer important support.

Retail sales in the province were solid last year, with growth of 5%, but as in other parts of the country, will weaken this year. The province's other major service industries, including call centres, financial services and insurance, are directly exposed to U.S. and international markets. Tourism is expected to show further losses as well, after a 7% drop in visitors last year.

**Shipping Volumes Down  
— Nova Scotia**





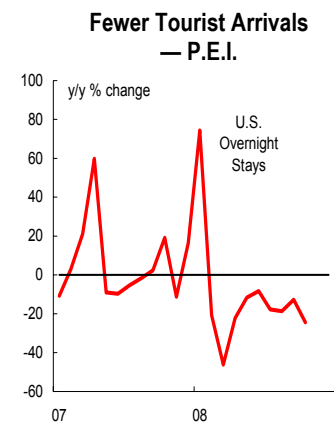


### Prince Edward Island — More wind power, but fewer tourists

Prince Edward Island is expected to experience a drop in growth of 1.4% in 2009 after a fairly lacklustre performance in 2008. The global economic downturn is weighing on the province's large tourism industry, as well as its growing aerospace sector.

Tourist visits from the United States were down over 16% in 2008, discouraged in part by earlier strength in the Canadian dollar and high travel costs. While the currency has since fallen back sharply against the U.S. dollar, the deepening recession in the United States suggests little prospect for a turnaround in 2009. International tourist visits were up nearly 16% in 2008, but much weaker demand should be expected here too this year given the global economic slump. Weakness in tourism spending, combined with softening domestic employment and spending, will pressure retail sales.

The province's agricultural sector has been relatively stable. Exports of agri-food products dipped 1% in 2008, due mainly to a decrease in potato production. The sector is expected to experience modest growth this year as transport costs decrease, despite continuing weak seafood prices. Aerospace production has become an increasingly important sector in the province's economy, now accounting for 20% of total exports. After a strong year in 2008, which included the opening and expansions of several plants, prospects in 2009 seem tepid as global demand for small aircraft withers. The province's power generation plans remain a bright spot in the outlook. The \$220 million West Cape wind farm expansion as well as some smaller projects are still scheduled to start construction in 2009 in the midst of high demand for clean power from the United States.

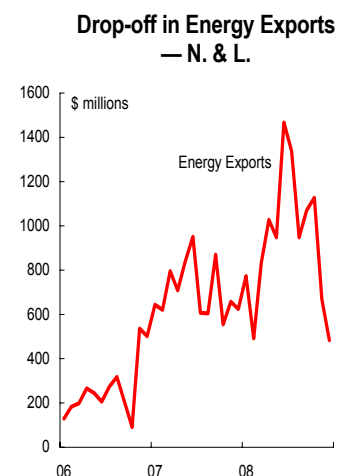


### Newfoundland & Labrador — Oil and mining challenged by soft market conditions

After torrid growth in 2007 and early 2008, the province is expected to contract 0.5% this year. The energy and mining industries, which have been key catalysts for the economy, will be challenged by weak market conditions that are unlikely to improve substantially before year-end.

The oil industry has become one of the most crucial components of the province's economy, accounting for over a third of GDP. Shipment volumes fell 9% last year as prices and global demand crashed down. The industry's short-term prospects have weakened further in early 2009, with several exploration projects cancelled or deferred, a trend which will continue through the year as oil prices are expected to remain low. However, long-term prospects remain positive. In addition, a proposed \$2 billion refinery has been put on hold until pricing prospects improve. The province's large mining industry has also run into significant difficulties due to softening markets for iron, ore and nickel. A number of projects have been put on hold or are under review, including large-scale expansion plans by the Iron Ore Company of Canada. Start up at Vale Inco's multi-billion dollar hydrometallurgical nickel refinery will also be delayed (partly for technical reasons).

Retail sales in the province were among the strongest in the country last year, rising close to 8%, as was housing-related activity. Domestic spending has been underpinned by strong employment and income gains, as well as Newfoundlanders working lucrative jobs in the Alberta energy patch, and sending their earnings home. These favourable influences are bound to dissipate this year, though we still expect retail and housing activity in the province to outperform the national average.





## Forecast Table

	<u>2000-2007</u>	<u>2008e</u>	<u>2009f</u>	<u>2010f</u>	<u>2000-2007</u>	<u>2008e</u>	<u>2009f</u>	<u>2010f</u>	<u>2007</u>	
	<u>Real GDP</u> (annual % change)				<u>Budget Balance, FY Ending March 31</u> (\$ mn)				<u>Nominal GDP</u> \$ bn % share	
<b>Canada</b>	<b>3.0</b>	<b>0.5</b>	<b>-2.4</b>	<b>1.6</b>	<b>10,799</b>	<b>9,597</b>	<b>-4,500</b>	<b>-36,000</b>	<b>1,535.6</b>	<b>100.0</b>
Nfld	5.0	1.2	-0.5	1.8	-347	1,437	1,266	n.a.	29.5	1.9
PEI	2.1	0.6	-1.4	0.8	-28	-4	-49	n.a.	4.5	0.3
Nova Scotia	2.1	1.2	-1.2	1.4	15	419	213	n.a.	33.0	2.1
New Brunswick	2.4	1.0	-1.0	1.5	77	87	-285	n.a.	26.9	1.8
Quebec	2.2	0.5	-2.5	1.5	-144	0	0	n.a.	296.7	19.3
Ontario	2.8	-0.2	-2.9	1.4	-176	600	-500	n.a.	585.0	38.1
Manitoba	2.5	1.8	-0.7	1.6	n.a.	576	350	n.a.	48.5	3.2
Saskatchewan	2.0	3.0	0.0	1.9	153	641	2,318	n.a.	51.6	3.4
Alberta	4.0	1.2	-2.3	1.7	4,869	4,581	0	n.a.	258.9	16.9
British Columbia	3.3	1.2	-1.9	2.1	769	2,886	50	-495	192.5	12.5
	<u>Employment</u> (annual % change)				<u>Unemployment Rate</u> (annual average, %)				<u>Population</u> mn % share	
<b>Canada</b>	<b>2.0</b>	<b>1.6</b>	<b>-1.9</b>	<b>0.4</b>	<b>6.9</b>	<b>6.1</b>	<b>8.6</b>	<b>9.0</b>	<b>32.93</b>	<b>100.0</b>
Nfld	1.0	1.5	-0.2	0.6	15.6	13.2	14.4	14.8	0.51	1.5
PEI	1.8	1.3	-0.6	0.1	11.3	10.8	12.0	12.3	0.14	0.4
Nova Scotia	1.3	1.3	-0.7	0.4	8.9	7.7	9.1	9.4	0.94	2.8
New Brunswick	1.4	0.9	-0.8	0.5	9.7	8.6	10.0	10.4	0.75	2.3
Quebec	1.8	0.8	-2.1	0.3	8.4	7.2	9.6	10.1	7.69	23.3
Ontario	2.0	1.4	-2.6	0.2	6.5	6.5	9.3	9.8	12.79	38.9
Manitoba	1.2	1.7	-0.4	0.5	4.9	4.2	5.5	6.0	1.19	3.6
Saskatchewan	0.8	2.2	-0.5	0.8	5.2	4.1	5.4	5.6	1.00	3.0
Alberta	3.0	2.8	-1.9	0.6	4.4	3.6	6.1	6.5	3.51	10.7
British Columbia	2.3	2.1	-1.4	1.0	6.7	4.6	6.9	7.2	4.31	13.1
	<u>Housing Starts</u> (annual, 000s of units)				<u>Motor Vehicle Sales</u> (annual, 000s of units)				<u>Merchandise Exports*</u> \$ bn % share	
<b>Canada</b>	<b>207</b>	<b>211</b>	<b>155</b>	<b>160</b>	<b>1,600</b>	<b>1,642</b>	<b>1,380</b>	<b>1,500</b>	<b>777.6</b>	<b>100.0</b>
Atlantic	12	12	10	10	111	127	111	119	46.4	6.0
Nfld	2	3	3	2	n.a.	n.a.	n.a.	n.a.	13.0	1.7
PEI	1	1	1	1	n.a.	n.a.	n.a.	n.a.	2.4	0.3
Nova Scotia	5	5	4	4	n.a.	n.a.	n.a.	n.a.	13.5	1.7
New Brunswick	4	4	4	3	n.a.	n.a.	n.a.	n.a.	17.5	2.3
Quebec	44	48	42	41	402	430	357	390	146.3	18.8
Ontario	77	75	54	56	619	580	475	510	348.5	44.8
Manitoba	4	6	5	5	44	46	41	45	26.4	3.4
Saskatchewan	4	7	5	5	39	48	46	52	27.4	3.5
Alberta	38	29	19	22	204	232	195	212	110.0	14.1
British Columbia	28	34.3	20.0	21.0	181	179	155	172	72.6	9.3

\* includes interprovincial and international exports