



Central Canada Under Pressure

Winter 2008

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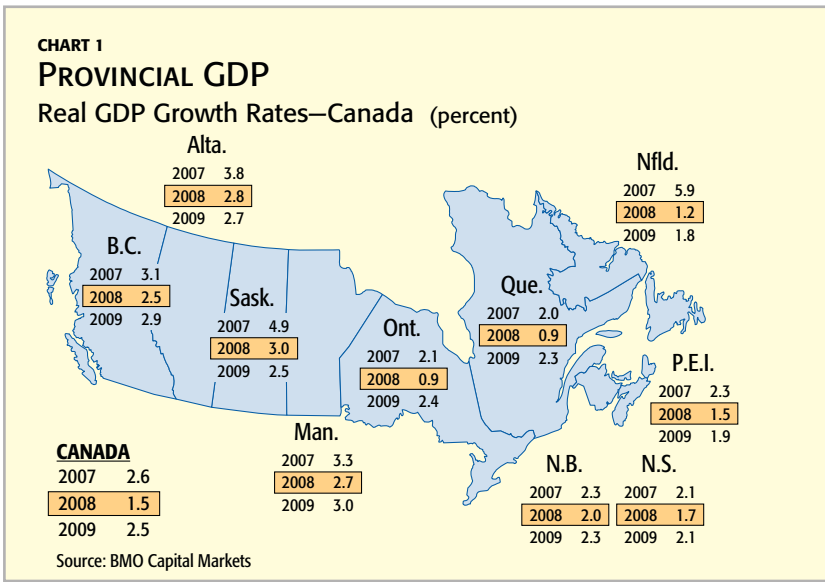
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 The regional disparity in Canadian economic growth will persist this year, as still-strong commodity prices support growth across most of the West, while a deteriorating manufacturing sector continues to plague Central Canada. Most provinces will see slower growth this year, but Ontario and Quebec will face the brunt of the weakness as higher energy costs, a strong Canadian

dollar and a likely U.S. recession drag GDP growth in these provinces below 1%.

The West should continue to ride high alongside strong commodity prices, with all provinces west of Ontario likely posting GDP growth of at least 3% in 2007, and much of the strength carrying over into this year. While Alberta likely conceded its post as the growth leader last year, GDP growth probably remained a heated 3.8%—almost twice the national average. But, with higher royalties in the energy sector and a cooling housing market, the fireworks of the past few years are fading. Picking up the slack is Saskatchewan, where growth likely hit 4.9% in 2007 amid surging potash and uranium sectors and a white-hot housing market. This year, the province stands to benefit from more exploration activity and a surge in interprovincial in-migration to the highest level on record dating back to 1961.

Meantime, a mix of offshore drilling activity and non-residential construction projects are keeping growth in Atlantic Canada sturdy amid a more challenging environment. Newfoundland and Labrador likely unseated Alberta as the country's growth leader in 2007 as output at the province's three major offshore oil projects rebounded, while 2008 should see ongoing capital



Population: 32,934,166	Party in Power: Conservatives	Legislative Seats: 125	Minority Government Since: January 2006
Area: 9,984,670 km²	Prime Minister: Rt. Hon. Stephen Harper	Liberals 94	
GDP/Capita: \$46,462	Finance Minister: Hon. Jim Flaherty	Bloc Quebecois 49	
National Capital: Ottawa		New Democrats 30	
		Independent 5	
		Vacant 5	



investment, particularly in New Brunswick. However, with the U.S. teetering on recession and the loonie near parity, the region will continue to face stiff headwinds throughout the year.

On the fiscal front, all provinces are projecting zero balances or surpluses for FY07/08, except PEI. Ontario's balanced budget includes a \$750 million reserve fund, which if not used, would effectively become a surplus. During the fall fiscal update season, the Western provinces boosted their surplus estimates sharply as commodity and tax revenues are coming in higher than expected. B.C., Alberta and Saskatchewan all received hefty hikes, with Alberta's latest \$1.5 bln revision the largest. All told, the combined 10-province surplus is now pegged at \$7.7 bln for FY07/08, down from \$16.1 bln in the prior year.

Even with balanced budgets, the provinces are still active borrowers. The \$7.7 billion combined surplus will still generate some \$47 billion in gross borrowing (about 60% in refinancing and 40% in net new borrowing). The net new borrowing appears large stacked up against budget surpluses, but reflects borrowing on behalf of provincial government entities and enterprises (that do not consolidate) along with the financing of public pension shortfalls and multi-year capital investment programs.



Population: **4,373,827**
 Percent of Canada: **13.3**
 Rank by Population: **3rd**
 Area: **944,735 km²**
 GDP/Capita: **\$42,549**

Provincial Capital: **Victoria**
 Party in Power: **Liberals**
 Premier: **Hon. Gordon Campbell**

Finance Minister: **Hon. Carole Taylor**
 Legislative Seats: **Liberals 46**
New Democrats 33

Next Election: **May 2009**

B.C. looks to have posted growth of more than 3% for the fourth consecutive year in 2007, as strong consumer and construction activity offset a forestry industry that is in disarray. The headwinds facing the sector will persist into 2008, dragging growth down to 2.5%, but still leaving B.C. among the strongest provinces in the country.

Forestry is getting battered by the surging loonie and U.S. housing recession. About 60% of B.C.'s exports go to the U.S, of which about a quarter are lumber, shingles, plywood and other wood products. The recent layoffs in the sector—Canfor's announcement to cut 300 jobs was the latest—are no surprise in this environment. Adding to the misery are billions of mountain pine beetles eating their way through B.C. forests, and are now expected to kill 80% of the province's pine, according to the Business Council of B.C.

However, strong construction activity ahead of the 2010 Olympics will continue to offset this weakness, and residential construction has shown no sign of slowing with housing starts up 5.8% in 2007. As such, the province's labour market remains tight with the unemployment rate near a record low, which should help keep B.C. consumers in a spending mood through 2008. Net inter-provincial in-migration was the highest in a decade during the four quarters ended 2007Q3.

While questions surrounding the Galore Creek project cast some uncertainty on the mining sector,



oil & gas appears to be benefiting from the royalty hike in Alberta. The B.C. government pocketed a record \$1 bln in sales of oil & gas rights last year, while those in Alberta were down about 50%. This spillover should act as another offset to the struggling forestry sector throughout 2008.

On the fiscal front, B.C. is now projecting a \$2.1 bln surplus for FY07/08—the fourth consecutive—up from original budget estimates of \$400 mln. Revenue estimates were bumped up \$1.8 bln to \$39.2 bln as a bigger tax base and higher federal transfers offset softer exports and natural gas prices, and are now projected to be 1.7% above the prior year. Meantime, expenses remain in check at \$36.5 bln, up only \$300 mln from budget. B.C. plans to boost total outlays by 6.9% this fiscal year, up from 4.8% growth last year. These estimates, however, face risks posed by the strong C\$ and slowing U.S. demand for lumber. As such, a \$500 mln forecast allowance is built into the FY07/08 projections.

Surplus estimates have also been bumped up for FY08/09 and FY09/10, to \$750 and \$825 million respectively, including \$1 bln forecast allowances in each year to account for economic risks. B.C.'s gross borrowing requirements in FY07/08 are \$3.8 bln, of which 96% was completed by late January.



Population: **3,460,125**
 Percent of Canada: **10.5**
 Rank by Population: **4th**
 Area: **661,848 km²**
 GDP/Capita: **\$76,108**
 Provincial Capital: **Edmonton**

Party in Power: **Progressive Conservatives**
 Premier-Designate: **Hon. Ed Stelmach**
 Finance Minister: **Hon. Lyle Oberg**

Legislative Seats:

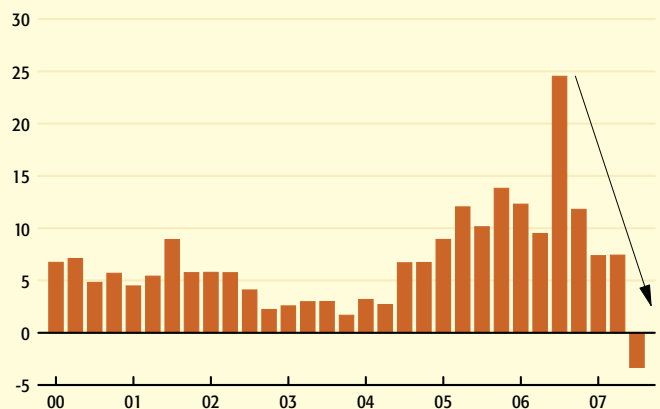
PC	60
Liberals	16
New Democrats	4
Alliance	1
Independent	1
Vacant	1

Next Election: **March 3, 2008**

Alberta's economy remains among the strongest in the country, likely posting 3.8% growth in 2007. Consumer activity in the province is robust, job growth is firm, and near-\$100 oil is a boon for provincial coffers. However, growth should decelerate further this year, but remain well above the national average at 2.8%.

There are a number of factors contributing to slower growth in the province this year, even with oil prices starting out near \$100. The once white-hot housing market is cooling fast, with price growth for existing homes in Calgary falling into single digit territory for the first time in more than two years, and province-wide existing home sales down 24% y/y in December—the worst showing since the mid-90s. The cooling housing market has coincided with a sudden sea change in the migration picture. While

CHART 2
PACKING THEIR BAGS
 Net Interprovincial Migration – Alberta (000s persons)





workers flocked to Alberta in 2006 and early 2007, higher living costs, rising uncertainty and increased opportunities in neighbouring Saskatchewan have stalled the inflow of provincial migrants, with the province actually losing 3,300 people in 2007Q3—the first quarterly outflow in more than a decade, and the biggest since the 1980s bust. If this trend continues through 2008, even more downward pressure will be applied to the Alberta housing market, further slowing growth in the province. Meantime, drilling activity is in outright recession, with active rig counts down some 30% y/y through 2007Q3. Add to that the Government’s royalty hike and rising costs in the sector, and you get a good helping of uncertainty in the province.

But with oil near \$100, a bust scenario is still a long-shot. Indeed, the pipeline of capital investment in the sector, despite announced and threatened cuts, has been estimated to be a hefty \$237 bln. The demand for workers also remains firm, and the province should again outpace the nation in employment growth and retail sales this year. Indeed, the province still boasts the fastest rate of employment growth and the lowest unemployment rate in the country.

Alberta continues to ratchet up its surplus estimates for FY07/08. Revenue is now estimated to be \$37.5 bln, up 6.3% from the budget estimate. Higher-than-expected oil prices and stronger tax revenue—both personal and corporate—are contributing to the upward revisions. Meantime, expenses are little-changed from previous estimates, lifting the projected surplus to \$4 bln, now almost twice the original budget estimate. Recall that the government is now allocating unplanned surpluses one-third to investment and two-thirds to capital requirements.

The province now plans to borrow \$250 mln in FY07/08 (\$145 mln completed by early December), which it will subsequently lend to other provincial corporations to meet their funding requirements. Meantime, Alberta Capital Finance Authority plans to borrow \$1.2 bln (\$706 mln completed), while ATB Financial plans to raise \$500 mln (\$200 mln completed).

	Population: 995,640	Provincial Capital: Regina	Finance Minister: Hon. Rod Gantefoer	Election to Be Held by: November 2012
	Percent of Canada: 3.0	Party in Power: Saskatchewan Party	Legislative Seats: Saskatchewan Party 38	
	Rank by Population: 6th	Premier: Hon. Brad Wall	New Democrats 20	
	Area: 651,036 km²			
	GDP/Capita: \$47,239			

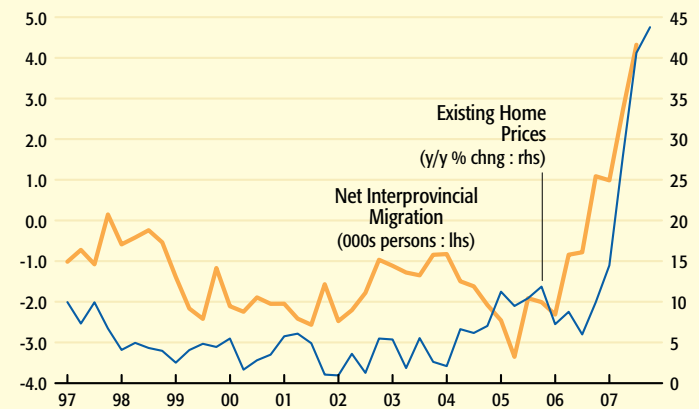
Saskatchewan closed out 2007 firmly in boom mode. Surging potash production and an accelerating housing market likely lifted growth in the province to roughly 5%, almost twice the national rate, with another above-average performance of 3% expected this year.

Residential investment continues to surge in the country’s hottest housing market. Housing starts rose 61% in 2007, while existing home prices are up more than 40% y/y in Regina and Saskatoon. This is partly the result of a suddenly favourable migration picture. After losing people to other provinces for two decades, the province netted more than 9,100 interprovincial in-migrants in the four quarters ended 2007Q3, the largest tally on record back to 1961. The combination of high living costs in Alberta and surging potash, agriculture and uranium sectors have boosted



the relative attractiveness of Saskatchewan as a place to work and live. As such, consumer spending is on a tear, with retail sales up 12% y/y through November, the strongest in the country. While 40%-plus house price appreciation is not sustainable, a controlled cooling, much like we've seen in Alberta, is likely over the next year as more supply comes to the market.

CHART 3
HOUSING MARKET BUMPER CROP
Saskatchewan



The agriculture and potash sectors have shown no signs of slowing, and a \$900 mln capacity investment by Potash Corp is a testament to the strength.

Furthermore, royalty hikes in the Alberta oil & gas sector are having a positive spillover effect in Saskatchewan, where lower royalties are attracting exploration activity—Crown petroleum and natural gas right sales were a record \$250 mln in 2007, up 42% from the prior year. While economic growth will likely cool this year, record commodity prices and \$100 oil will keep the party in the prairies going strong.

On the fiscal front, the Province is projecting its 14th consecutive balanced budget for FY07/08. The \$264 million surplus in the General Revenue Fund was revised up from the budget estimate of \$75 mln, reflecting higher federal transfers, oil and tax revenues. Revenues are now forecast to rise 5.3% versus the prior year, boosted by strong commodity prices and federal transfers. Modest growth in operating expense reflects increased spending in health, education, transportation and infrastructure. Looking forward, however, Saskatchewan expects to return to a deficit position before any transfers from the Fiscal Stabilization Fund, as oil windfall and transfer revenues decline. A projected \$740 mln deficit in 2008-09 is expected to grow to \$1.2 bln by 2010-11.

Total borrowing requirements are expected to be \$721 mln in 2007-08, \$565.7 mln lower than budget estimates. This reflects lowered requirements for both government and Crown corporations. Through late January, they have funded 57%.



Manitoba

Population: **1,185,216**
Percent of Canada: **3.6**
Rank by Population: **5th**
Area: **647,797 km²**
GDP/Capita: **\$39,032**

Provincial Capital: **Winnipeg**
Party in Power: **New Democrats**
Premier: **Hon. Gary Doer**

Finance Minister: **Hon. Greg Selinger**
Legislative Seats:
New Democrats 36
PC 19
Liberals 2

Next Election: **May 2011**

Manitoba likely posted another year of solid 3.3% GDP growth in 2007. Strength in both residential and non-residential construction, along with a sturdy manufacturing sector, buoyed the province's economy. Combined with solid mining activity, only a modest slowdown to 2.7% is likely in 2008.



Construction activity was the main pillar of strength in 2007 and, on both the residential and non-residential sides, looks to continue this year. With Alberta now cooling and Saskatchewan grabbing all the attention, Manitoba’s housing market has quietly climbed up the leaderboard to become one of the strongest in the country. Average existing home prices were up 12% y/y in 2007 alongside strong sales growth. This and a rebound in population growth to its fastest annual rate since the mid-80s will support residential construction this year. Meantime, major infrastructure projects at the Red River Floodway, Winnipeg Airport and highways are expected to continue into 2009, keeping a key economic support in place this year.

While the Canadian manufacturing sector continues to sour amid a strong dollar, high energy prices and sputtering U.S. growth, Manitoba’s slice of the pie is surprisingly sweet. Led by components related to the new Boeing 787, and a global upgrade cycle, aerospace and transportation manufacturing lifted shipments 8% last year—trailing only Newfoundland & Labrador—momentum that should carry over through most of this year. Finally, with commodity exploration also strong, the demand for labour in the province continues to outstrip supply, and some surveys suggest that 80% of businesses expect difficulty finding workers in the coming year.

The Manitoba government is projecting a \$298 mln summary budget surplus for FY07/08, up from an estimated \$166 mln in FY06/07. Revenue is projected to grow 9.3% in FY07/08, with increases in federal transfers accounting for most of the growth. Income taxes are expected to be essentially flat, as tax reduction measures announced in prior budgets take effect. Expenditure is also expected to grow 8.2%, with the largest dollar gains going to (1) health, (2) community, economic and resource development, and (3) education.

Borrowing requirements are still projected to be a hefty \$2.9 billion in 2007-08, with about \$1.0 billion of this amount reflecting refinancing. The province has funded 92% by late January. S&P upgraded the province to AA from AA- (positive) on December 5th.



Ontario

Population: **12,790,237**
 Percent of Canada: **38.8**
 Rank by Population: **1st**
 Area: **1,076,395 km²**
 GDP/Capita: **\$45,411**

Provincial Capital:
Toronto
 Party in Power:
Liberals
 Premier:
Hon. Dalton McGuinty

Finance Minister:
Hon. Dwight Duncan
 Legislative Seats:
Liberals 71
PC 26
New Democrats 10

Next Election:
October 2011

The Ontario economy is struggling against the backdrop of a strong Canadian dollar, high energy costs, and a likely U.S. recession. GDP growth likely remained at 2.1% in 2007, but as the U.S. economy sputters this year, growth should fall to 0.9%, and a technical recession in the Province can not be ruled out.

Weakness in manufacturing, particularly in the auto sector, continues to drag down growth in the province, with shipments down 1% in 2007. While the surging Canadian dollar has reduced the competitiveness of Ontario’s exports, a flagging U.S. economy is also crimping



demand—Ontario’s economic growth has been the most correlated of all provinces to the U.S. since the early-80s, with the rest of central Canada close behind. While the new Toyota plant in Woodstock will commence production this year—and employ about 2,000 people—the underlying fundamentals remain poor in the sector. Longer term, Ontario’s attractiveness for new investment in the industry looks

to be diminishing with the Canadian dollar at par and the UAW concessions in the U.S., specifically on the health care side, reducing Ontario’s labour cost advantage.

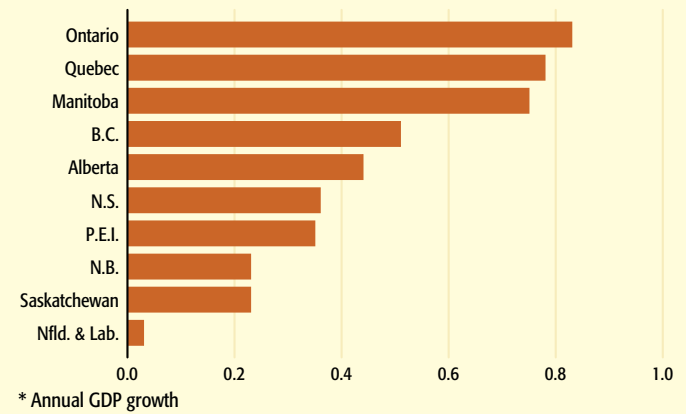
Meantime, while commercial office properties are still sprouting—Toronto Life Square and Ritz Carlton for example—residential construction activity is cooling, with housing starts down about 7% in 2007. However, the Ontario housing market continues to perform well, as existing home price growth accelerated to 17% y/y in December, the strongest since 1989. While sales were strong in 2007, new listings were flat, adding upward pressure to prices. But since a hike in the Toronto land transfer tax probably had some buyers jumping the gun late last year, some cooling early in 2008 is expected.

With this weakness, the Ontario job market is losing lustre relative to the rest of Canada. The jobless rate, at 6.3%, crossed above the national average for the first time on record last year, and should slacken further in 2008. Beneath the surface lies a great disparity between the crippled manufacturing and sturdy services sectors. While the former shed 55,000 jobs in 2007, the latter added 146,000, helping to buffer the Ontario consumer in a challenging environment. Indeed, a rising employment share in the services sector has helped to lower the province’s correlation with U.S. growth in recent years.

The province has maintained its balanced budget estimate in FY07/08. Revenues are now pegged at \$94.1 bln, up 4.1% from the prior year, resulting from higher corporate and personal income taxes and federal transfers, while program spending is expected to jump 6.3%. This leaves the budget balanced after a \$750 mln reserve that will be applied to the bottom line if not needed—effectively a \$750 mln surplus. As in the original budget, the surplus position, before reserves, is maintained over the next three years.

Borrowing requirements in FY07/08 are unchanged at \$17.7 bln, of which 88% has been completed by late January. The province transferred \$0.7 bln in third-party ABCP to a long-term investment portfolio, with a potential writedown not expected to exceed \$100 mln.

CHART 4
U.S. DOWNTURN HITS HOME
Correlation with U.S. Economy – 1982-2006*





Quebec

Population: **7,695,104**
 Percent of Canada: **23.4**
 Rank by Population: **2nd**
 Area: **1,543,056 km²**
 GDP/Capita: **\$38,090**

Provincial Capital: **Quebec City**
 Party in Power: **Liberals**

Premier: **Hon. Jean Charest**
 Finance Minister: **Hon. Monique Jerome-Forget**

Legislative Seats:
Liberals 48
Action Democratique 41
Parti Quebecois 34
Vacant 2
 Minority Government Since: **March 2007**

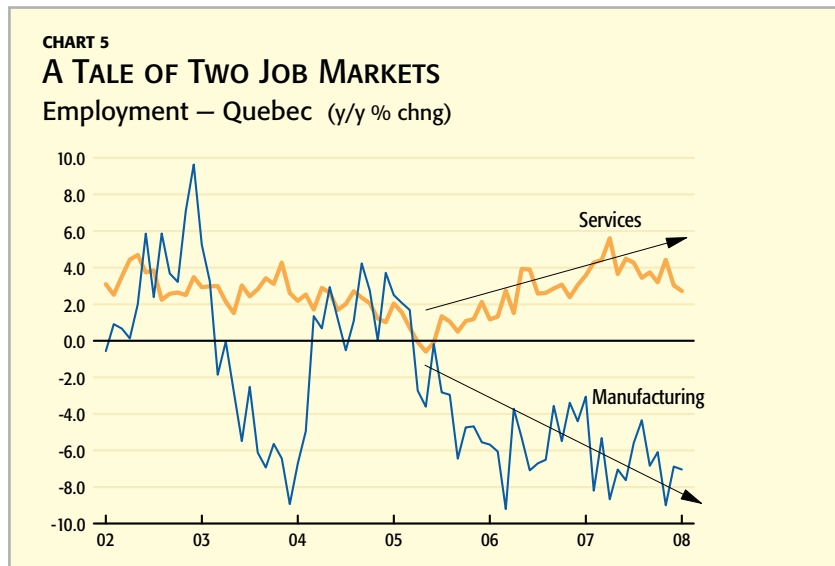
The Quebec economy faces two opposing forces, as domestic activity was surprisingly strong in 2007, while the surging loonie and U.S. housing recession are chipping away at momentum. As a result, GDP likely grew 2% last year, with downside risk lurking in 2008—we see growth slowing to 0.9% as the U.S. downturn deepens.

Consumer activity in the province is robust, with retail sales up a healthy 4.5% y/y through November. Retroactive payments for the pay equity settlement are putting nearly \$2 bln in the pockets of Quebec consumers. At the same time, the labour market has shown surprising strength with the unemployment rate hitting a record low in January, and an impressive 93,000 new jobs created last year. However, more than half of those jobs were created in the public sector, as the private sector struggled with the loss of 43,000 manufacturing jobs. Layoff announcements continue to plague the sector marred by the strong Canadian dollar and U.S. slowdown, including recent murmurs from GE Hydro and Solectron. As public sector hiring slows, overall job growth is likely to be flat this year.

Investment activity is also supporting the Quebec economy in a challenging environment. While housing starts should trail off this year after a sturdy 2007, government-funded non-residential projects will pick up the slack. In the pipeline in the coming years are the McGill Health Centre, Ste-Justine Hospital, and various highway upgrades.

On the fiscal front, the province has maintained its forecast for a balanced budget in FY07/08, after posting a final surplus of \$109 mln in FY06/07. Revenues are now expected to be \$61.7 bln this fiscal year, up 2.1% from the prior year, while spending rises 3.9% to \$61.1 bln. The latest estimates include a \$663 mln charge relating to new accounting policies that bring the education and health sectors onto the books. For FY08/09, the province continues to project a balanced budget, with revenues rising 0.6% and program spending up 3.5%. The impact of the accounting change will fall to \$150 mln.

Borrowing requirements for the Consolidated Revenue and Fi-





ancing Fund were adjusted upward by \$2.1 bln to \$7.2 bln, reflecting additional repayment of borrowings and exchange rate movements. By early December, 98% has been completed. Financement-Québec's borrowing program amounts to \$2 bln, with 85% completed.



New Brunswick

Population: **749,525**
 Percent of Canada: **2.3**
 Rank by Population: **8th**
 Area: **72,908 km²**
 GDP/Capita: **\$35,198**

Provincial Capital: **Fredericton**
 Party in Power: **Liberals**
 Premier: **Hon. Shawn Graham**

Finance Minister: **Hon. Victor Boudreau**
 Legislative Seats:
Liberals 32
PC 23

Next Election: **September 2010**

New Brunswick continues to balance the benefits of a strong mining sector with the negative impacts of a surging C\$ and slowing U.S. economy. Real GDP likely grew 2.3% in 2007, and should dip modestly to 2% this year as capital investment buffers the challenges facing the province.

The province faces the harsh reality of being the country's most export-dependent province, so the surging loonie and slowing U.S. demand are weighing heavily, with the forestry industry hit particularly hard. However, major projects such as the \$1.4 billion Point Lepreau nuclear plant upgrade continue to fuel non-residential construction activity. Longer term, a recent announcement that Potash Corp. is planning a \$1.6 bln mine development by 2011 is also encouraging news.

This, in turn, has helped tighten labour markets—the unemployment rate hit its lowest level on record in 2007—and boost consumer activity. And despite the headwinds, the nagging migration problem has suddenly brightened as the province saw net inflows in the second and third quarters of 2007. In fact, the two-quarter total net inflow was the highest since 1984.

The province of New Brunswick is now forecasting a surplus of \$78.9 mln for FY07/08, more than twice the original budget estimate. The province also announced a \$486 mln capital budget plan for FY08/09, the largest on record (excluding one-time payments in FY07/08). The majority (\$325.8 mln) is allocated to roads and highways, while health care and education are also large beneficiaries.

New Brunswick plans to borrow \$2.0 bln in FY07/08, with 65% completed by late January.



Nova Scotia

Population: **934,344**
 Percent of Canada: **2.8**
 Rank by Population: **7th**
 Area: **55,284 km²**
 GDP/Capita: **\$35,953**

Provincial Capital: **Halifax**
 Party in Power: **Progressive Conservatives**
 Premier: **Hon. Rodney MacDonald**

Finance Minister: **Hon. Michael Baker**
 Legislative Seats:
PC 22
New Democrats 20
Liberals 9
Independent 1

Minority Government Since: **June 2006**

As in much of Atlantic Canada, Nova Scotia's economy, while facing stiff manufacturing headwinds, is being supported by robust construction spending. As a result, growth likely picked up to 2.1% in 2007, but should dip to 1.7% this year.

Non-residential construction continues to march ahead, and should continue with EnCana's



\$700 mln Deep Panuke offshore natural gas project, though most of the impact will be felt next year. The residential side, however, is less robust as housing starts dipped 8% last year. Meantime, manufacturing will get a boost from a contract to maintain Canadian military helicopters. With all of these factors offsetting each other, another year of modest growth is expected in Nova Scotia.

On the fiscal front, the province is projecting its eighth consecutive surplus in FY07/08, but slightly less than expected in the original budget. Expectations are now for a \$115 mln surplus, reflecting modest declines in both revenue and expenses from budget. Of the forecasted \$115 mln surplus, \$113.8 mln is earmarked for debt reduction. The Province's borrowing requirements for FY07/08 are moderate at \$131 mln, none of which has been completed by late January. S&P upgraded the province to a positive outlook in early October.



**Prince Edward
Island**

Population: **138,563**
Percent of Canada: **0.4**
Rank by Population: **10th**
Area: **5,660 km²**
GDP/Capita: **\$32,879**

Provincial Capital:
Charlottetown
Party in Power:
Liberals
Premier:
Hon. Robert Ghiz

Finance Minister:
Hon. Wes Sheridan
Legislative Seats:
Liberals **23**
Conservatives **4**

Next Election:
May 2011

PEI's economy likely posted modest 2.3% GDP growth in 2007. As consumer activity gives back some of its strength this year and the U.S. economy faces recession, growth in the province should slow to 1.5%.

Housing starts are tracking below year-ago levels, but consumer activity is robust, helped by personal income tax cuts. Wholesale trade is up at a double-digit pace from the year-ago period, which was hurt by the shutdown of a Sobeys' warehouse, while retail sales were up over 8% through the first 11 months of 2007—well above the national average.

This year, the strong loonie should put a damper on tourism activity, as Canadians increasingly head south and the C\$ purchasing power of U.S. travelers has fallen sharply. Meantime, last year's pop in consumer activity should ease as the impact of income tax cuts wears off, and manufacturing activity will remain sluggish as the U.S. economy continues to struggle.

The province is now projecting a \$42.3 million consolidated budget deficit for FY07/08, down from budget estimates of a \$2.1 mln surplus. Revenue is now forecast to grow 5.4% to \$1.25 billion, led by transfers from the federal government, while total expenditure is now projected to grow 0.9% to \$1.3 billion, with health and education the top priorities.

Reflecting an increase in capital investment and borrowing on behalf of Crown corporations, total borrowing requirements are forecast to be \$171 mln in FY07/08, of which 41% has been funded by late January.



Newfoundland & Labrador

Population: **507,298**
 Percent of Canada: **1.5**
 Rank by Population: **9th**
 Area: **405,720 km²**
 GDP/Capita: **\$47,870**

Provincial Capital: **St. John's**
 Party in Power: **Progressive Conservatives**
 Premier: **Hon. Danny Williams**

Finance Minister: **Hon. Thomas Marshall**
 Legislative Seats: **PC 43**
Liberals 3
New Democrats 1

Next Election: **October 2011**

Newfoundland & Labrador likely led the country in economic growth in 2007, with output rising 5.9% amid a rebound in offshore drilling and mining activity. This year, that boost will wear off, with growth moderating to a below-average 1.2%.

Output at the province's three major offshore oil projects rebounded sharply in 2007, with Terra Nova providing most of the punch, while output at the Voisey's Bay nickel mine has returned to normal after strikes plagued much of last year. Meantime, the province has announced a royalty deal on the Hebron oilfield project that's expected to generate revenues of \$16 bln over the 25-year project life, and employ about 1,000 people when construction begins in 2010.

As a result, the Newfoundland consumer went on a spending spree last year, with retail sales up 9.5% y/y through November, one of the strongest performances in the country. But the burst should prove temporary as production at Hibernia, Terra Nova and White Rose has peaked, and is expected to begin trending down in 2008.

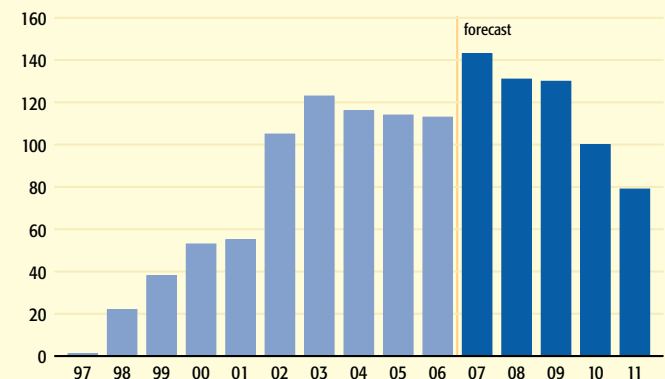
In an interesting twist, after shedding people for nearly two decades, net in-migration was more than 1,000 people in the third quarter last year, the first net inflow since 1990, and the largest since 1971. While it's too early to tell if this is a permanent shift, the surge in commodity output has indeed helped to alleviate, if only temporarily, some of the province's long running migration problems.

Newfoundland & Labrador lifted its surplus estimate to \$882 mln in FY07/08, as strong output from the offshore oil sector is boosting revenues. Revenue is now expected to be \$6.1 bln in fiscal 07/08, a hefty 9% upward revision from the original budget, resulting from higher offshore oil output and strong mineral prices. Meantime, program spending is now pegged at \$4.7 bln, down a touch from budget estimates.

The province plans to borrow \$1.3 billion in FY07/08, of which 49% has been funded by late January.

CHART 6
PEAK OIL

Offshore Oil Production* – Nfld. & Lab. (mlns barrels)



Source: CNLOPB * Terra Nova, Hibernia, White Rose

PROVINCIAL ECONOMIC SUMMARY

	BC	Alberta	Sask.	Man.	Ontario	Quebec	NB	NS	PEI	NL	Canada
Real GDP Growth (chain-weighted : y/y % chng)											
2007 f	3.1	3.8	4.9	3.3	2.1	2.0	2.3	2.1	2.3	5.9	2.6
2008 f	2.5	2.8	3.0	2.7	0.9	0.9	2.0	1.7	1.5	1.2	1.5
2009 f	2.9	2.7	2.5	3.0	2.4	2.3	2.3	2.1	1.9	1.8	2.5
Employment Growth (y/y % chng)											
2007	3.2	4.7	2.1	1.6	1.6	2.2	2.1	1.3	1.3	0.7	2.3
2008 f	2.2	2.6	1.6	1.6	0.7	0.6	0.8	0.8	0.3	0.5	1.1
2009 f	2.1	2.1	1.2	1.4	0.7	0.5	0.7	0.7	0.5	0.8	1.0
Unemployment Rate (%)											
2007	4.2	3.5	4.2	4.4	6.4	7.2	7.5	8.0	10.3	13.6	6.0
2008 f	4.4	3.5	4.2	4.1	6.8	7.4	7.8	8.3	10.4	13.1	6.2
2009 f	4.1	3.3	4.1	3.7	6.9	7.5	8.1	8.3	10.7	13.1	6.2
Housing Starts (000s)											
2007	38.6	48.3	6.0	5.7	68.1	49.4	4.1	4.8	0.7	2.5	228.1
2008 f	32.5	43.3	5.0	5.0	61.5	45.6	3.1	3.2	0.6	1.8	201.5
2009 f	30.2	39.3	4.5	4.5	59.1	44.3	3.0	3.0	0.6	1.7	190.0
Consumer Prices (y/y % chng)											
2007	1.7	4.9	2.9	2.1	1.8	1.6	1.9	1.9	1.8	1.4	2.1
2008 f	1.9	3.4	2.8	2.0	1.6	1.5	1.7	1.8	1.6	1.5	1.9
2009 f	2.1	2.5	2.1	1.9	1.7	1.7	2.0	2.1	2.1	2.0	1.9

PROVINCIAL ECONOMIC INDICATORS

(3-mnth m.a. : y/y % chng)

Retail Sales

Sep 07	6.3	7.2	11.9	8.1	2.9	2.5	7.3	4.2	10.5	9.5	4.6
Oct 07	6.5	6.5	12.9	9.0	3.8	3.3	8.2	5.0	10.6	9.6	5.1
Nov 07	7.5	6.9	13.9	9.0	4.6	4.0	8.1	5.7	9.1	8.5	5.8

Manufacturing Shipments

Oct 07	-4.8	-0.1	4.7	4.3	-2.0	-0.4	18.4	7.3	-15.1	-0.9	-0.7
Nov 07	-5.9	1.4	6.3	2.1	-0.9	-1.5	20.1	9.3	-12.9	-0.2	-0.3
Dec 07	-6.3	1.0	8.6	0.6	-2.9	-2.4	24.4	7.3	-7.9	4.5	-1.5

Exports

Oct 07	-9.1	5.3	12.6	10.4	-3.2	-5.0	11.8	13.8	-6.2	14.5	0.3
Nov 07	-10.0	1.9	16.9	0.3	-4.4	-6.9	17.0	-3.3	-5.5	30.4	-0.4
Dec 07	-13.5	0.7	15.9	-3.4	-9.6	-7.2	15.0	-7.1	-16.7	21.3	-3.6

Employment Growth

Nov 07	3.1	3.7	1.1	2.3	2.3	2.5	3.7	1.4	1.0	-0.7	2.5
Dec 07	3.2	3.6	0.8	2.4	2.0	2.5	3.6	1.5	1.0	-0.4	2.4
Jan 08	3.2	3.6	0.8	2.3	1.6	2.5	3.4	1.2	-0.2	1.0	2.3

PROVINCIAL FISCAL SUMMARY

FY07/08 (as of February 15, 2008)

	Budget Balance (\$ blns)	% of GDP	Gross Financing Requirements** (\$ blns)	S&P	Moody's	DBRS
British Columbia	2,125	1.1	3.8	AAA	Aaa	AA (high)
Alberta	3,988	1.5	2.2	AAA	Aaa	AAA
Saskatchewan	264	0.6	0.7	AA	Aa1	AA (low)
Manitoba	298	0.6	2.9	AA	Aa1	A (high)
Ontario	0	0.0	17.7	AA	Aa1	AA
Quebec	0	0.0	15.2	A+*	Aa2	A (high)
New Brunswick	79	0.3	2.0	AA-	Aa1	A (high)
Nova Scotia	139	0.4	0.1	A+*	Aa2	A
PEI	(42)	(0.9)	0.2	A*	Aa2	A (low)
Nfld & Labrador	882	3.6	11.3	A	Aa2	A (low)
Total Provincial	7,733	0.5	47.2			

Source: Provinces and BMO Capital Markets () = deficit

* positive outlook ** includes provincial crown corporations

HISTORY OF CANADIAN FISCAL BALANCES

(\$ mlns)

	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08f
BC	(753)	(167)	(1,003)	148	1,503	(1,184)	(2,737)	(1,191)	2,696	3,090	4,056	2,125
Alberta	2,489	2,659	1,094	2,791	6,571	1,081	2,133	4,136	5,175	8,551	8,510	3,988
Saskatchewan	407	35	28	83	58	1	1	1	383	400	293	264
Manitoba	91	76	31	11	40	63	4	(577)	562	394	430	298
Ontario	(6,905)	(3,966)	(2,002)	668	1,902	375	117	(5,483)	(1,555)	298	2,269	0
Quebec	(3,212)	(2,157)	126	7	427	22	(728)	(358)	(664)	37	109	0
NB	66	(1)	(204)	(30)	43	79	1	(173)	242	235	237	79
NS	(116)	(442)	(261)	(797)	147	113	28	38	170	228	74	139
PEI	(4)	(7)	6	(5)	(12)	(17)	(55)	(125)	(34)	1	1	(42)
NL	(107)	133	(187)	(269)	(350)	(468)	(644)	(914)	(489)	77	76	882
Provinces	(8,044)	(3,837)	(2,371)	2,607	10,330	65	(1,881)	(4,646)	6,486	13,311	16,054	7,733
Federal	(8,719)	2,959	5,779	14,258	19,891	8,048	6,621	9,145	1,463	13,218	13,800	11,600
Total	(16,763)	(878)	3,408	16,865	30,221	8,113	4,740	4,500	7,949	26,529	29,854	19,333

HISTORY OF CANADIAN FISCAL BALANCES

(% of GDP)

	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08f
BC	(0.7)	(0.1)	(0.9)	0.1	1.1	(0.9)	(2.0)	(0.8)	1.7	1.8	2.3	1.1
Alberta	2.5	2.5	1.0	2.4	4.5	0.7	1.4	2.4	2.7	3.9	3.5	1.5
Saskatchewan	1.4	0.1	0.1	0.3	0.2	0.0	0.0	0.0	1.0	0.9	0.7	0.6
Manitoba	0.3	0.3	0.1	0.0	0.1	0.2	0.0	(1.5)	1.4	0.9	1.0	0.6
Ontario	(2.0)	(1.1)	(0.5)	0.2	0.4	0.1	0.0	(1.1)	(0.3)	0.1	0.4	0.0
Quebec	(1.8)	(1.1)	0.1	0.0	0.2	0.0	(0.3)	(0.1)	(0.3)	0.0	0.0	0.0
NB	0.4	(0.0)	(1.2)	(0.2)	0.2	0.4	0.0	(0.8)	1.0	1.0	0.9	0.3
NS	(0.6)	(2.2)	(1.2)	(3.5)	0.6	0.4	0.1	0.1	0.6	0.7	0.2	0.4
PEI	(0.1)	(0.3)	0.2	(0.2)	(0.3)	(0.5)	(1.5)	(3.3)	(0.8)	0.0	0.0	(0.9)
NL	(1.0)	1.3	(1.7)	(2.2)	(2.5)	(3.3)	(3.9)	(5.0)	(2.5)	0.4	0.3	3.6
Provinces	(1.0)	(0.4)	(0.3)	0.3	1.0	0.0	(0.2)	(0.4)	0.5	1.0	1.1	0.5
Federal	(1.0)	0.3	0.6	1.5	1.8	0.7	0.6	0.8	0.1	1.0	1.0	0.8
Total	(2.0)	(0.1)	0.4	1.7	2.8	0.7	0.4	0.4	0.6	1.9	2.1	1.3

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