



From Recession to Recovery

December 2009

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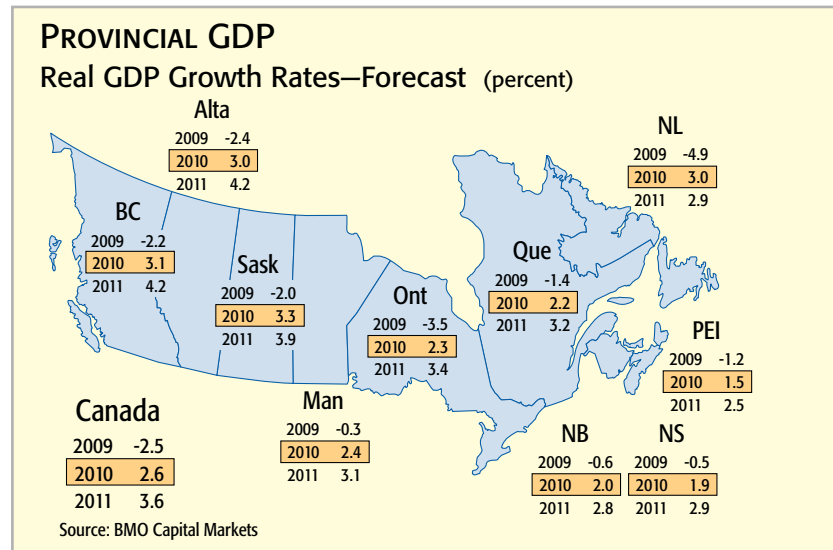
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 The recession took a toll on economic activity in all regions of the country in 2009, with no province expected to post real GDP growth. However, with financial markets and the global economy on the mend, sights are now set on a return to positive growth in 2010. Upward trending commodity prices should favour stronger rebounds in Western

Canada, while the associated strength in the Canadian dollar will weigh on exports and manufacturing activity in Central and Atlantic Canada.

Western Canada was particularly hard-hit during the downturn, with commodity-sector investment and output plunging, and construction activity stalling. The combination of falling oil and natural gas prices cut investment activity in the sector by about half in 2009, while land sales and drilling activity in the region are both down sharply year-over-year. On the bright side, the slowdown in the sector has helped rein in costs that were previously running out of control. For example, breakeven oil prices in the oilsands sector have come down from high levels at tail end of the boom period. A recovery in global commodity demand and rebounding prices should help fuel a turnaround in investment activity and output later in 2010. Meantime, British Columbia is set to host the 2010 Olympic Games and, while construction activity is complete, the influx of tourists and temporary workers should give domestic demand a boost.

The recovery is well underway in Central Canada, as auto production has begun to rebound from virtually stalled activity early in 2009. Ontario is on pace for a 3.5% contraction in real GDP in 2009, the steepest decline in Canada and the worst in the province since 1991.



Population: 33,740,000	Party in Power: Conservatives	Legislative Seats: Conservatives 145	Minority Government Since: October 2008
Area: 9,984,670 km²	Prime Minister: Rt. Hon. Stephen Harper	Liberals 77	
GDP/Capita: \$45,243	Finance Minister: Hon. Jim Flaherty	Bloc Quebecois 48	
National Capital: Ottawa		New Democrats 37	
		Independent 1	



Meantime, Quebec has seen a milder downturn thanks to its lack of exposure to the auto sector—but aerospace shipments have recently begun to slide. As Central Canada moves through recovery, the strong Canadian dollar will likely keep manufacturing and export activity under pressure. This will offset some of the impressive strength in Ontario housing demand, an eventual upturn in residential construction, and sturdy stimulus spending. All told, the region’s recovery will likely be a shade lighter than the Canadian average.

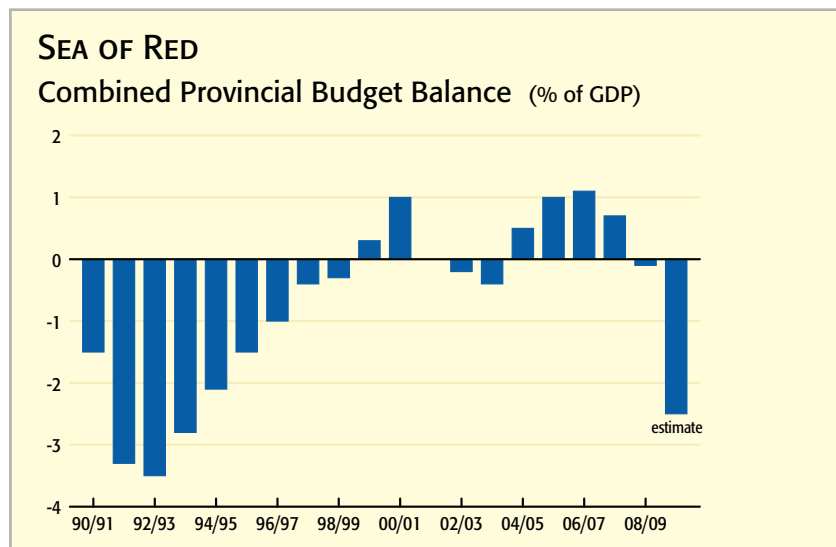
Atlantic Canada’s outlook remains stable. The region never suffered the extreme ill effects of the recession that were experienced in the rest of Canada, largely buffered by ongoing capital investment projects in both the public and private sectors. While fiscal stimulus remains strong, some private-sector projects are beginning to wind down. This, combined with ongoing manufacturing weakness, will lead to a below-average recovery in the region.

Provinces Fall Deep into the Red

The recession had a major impact on the fiscal landscape, with most Provinces slipping deep into deficit. The combined provincial budget deficit is currently forecast to be \$38.2 bln in FY2009/10, up from just \$2.2 bln in the prior year. At about 2.5% of GDP, this marks the largest shortfall since FY1993/94. Only two provinces—Saskatchewan and Manitoba—are on track to stay out of the red this fiscal year, but both are relying partly on the use of reserve funds.

While declining revenues are a major factor behind the deteriorating fiscal position, provincial governments are also committed to maintaining a strong rate of spending growth. Overall revenues are projected to fall 3.5%, with the steepest declines seen in the commodity provinces on the back of lower prices and production volumes. Meantime, total spending is slated to rise a very solid 7.7%, led by double-digit growth in Ontario and Newfoundland & Labrador. The prairie provinces—Alberta, Saskatchewan and Manitoba—are keeping spending flat overall this fiscal year following a few years of aggressive growth during the commodity boom.

Infrastructure investment has been the dominant theme this fiscal year, as the Provinces are running with the torch lit by the federal government to help counter the recession. Total provincial infrastructure spending is about \$40 bln in FY2009/10, or nearly 3% of GDP, up about 25% from the prior year. Ontario is investing the most as part of its two-year, \$27.5 bln program, while Newfoundland & Labrador is the most aggressive relative to GDP. Alberta is the only province that will see infrastruc-





ture spending fall, but it continues to invest heavily, a legacy of the commodity boom. These strong and widespread levels of infrastructure investment will help to reinforce the economic recovery.

Deficits and robust infrastructure investment have ramped up provincial borrowing requirements in FY2009/10. Total borrowing is projected to be \$76.9 bln, with about \$45 bln in new borrowing and \$32 bln in refinancing. Through mid-December, about 84% had been completed.



British Columbia

Population: 4,455,200	Provincial Capital: Victoria	Finance Minister: Hon. Colin Hansen	Next Election: May 2013
Percent of Canada: 13.3	Party in Power: Liberals	Legislative Seats: Liberals 49	
Rank by Population: 3rd	Premier: Hon. Gordon Campbell	New Democrats 35	
Area: 944,735 km²		Independent 1	
GDP/Capita: \$43,750			

Olympics and housing to drive rebound in 2010

Harmonized Sales Tax takes effect in July-2010

The British Columbia economy was hit hard by the recession, with both exports and domestic activity falling sharply. Real GDP will likely contract 2.2% this year, but signs have already begun to emerge that a solid recovery is on tap for 2010—real GDP should rebound 3.1%.

The B.C. forestry sector continues to fight a losing battle with the strong loonie and U.S. housing recession. However, U.S. home sales have begun to bounce back, and housing starts have stabilized. A modest rebound in U.S. construction activity should help stabilize forestry exports in 2010, but the strong loonie will continue to be a drag. The mining and energy sectors have also struggled, particularly with low natural gas prices. The Province has moved to lower royalties in an attempt to stimulate drilling and exploration activity, and a continued rebound in commodity prices through 2010 should help lift the sector.

Finally, domestic demand will likely firm in 2010. The February Olympics will provide a boost to employment (down 1.8% y/y in November) and retail sales. At the same time, the housing market's furious rebound will continue to spur a bounce-back in residential construction activity. Existing home sales in the province have surged

more than 160% from their recession lows, and housing starts have also since started to rebound. While building activity will remain well below peak levels, this improving trend will help growth in 2010.

The Province of British Columbia is forecasting a record \$2.8 bln deficit for FY2009/10. At 1.5% of GDP, that still remains below those seen in the early-1990s and in FY2002/03. Looking for-

BRITISH COLUMBIA: V-SHAPED HOUSING RECOVERY

Existing Home Sales (000s : s.a.)





ward, the Province is banking on an economic recovery and spending control, with the deficit expected to moderate gradually in the coming years, shrinking to \$945 mln by FY2011/12 and returning to balance by FY2013/14. The record deficit is the result of weaker corporate and personal income tax revenues, low natural gas prices, and increased spending.

The Province will harmonize the PST with the Federal GST (for a combined 12% HST) in July-2010. Among the measures to offset the increased consumer burden are point-of-sale rebates on select items, a rebate on new home purchases up to \$400,000, a flat \$20,000 rebate on new homes above \$400,000, and a quarterly rebate for low-income consumers. The Province is also increasing the basic personal income tax amount to \$11,000 in January-2010 from \$9,373. These measures are expected to fully offset any gains from the HST, making it revenue neutral, and the Province will receive \$1.6 bln from the Federal Government to help implement the new tax structure.

The Province's borrowing requirements are pegged at \$6.3 bln in FY2009/10, with 67% completed by mid-December.

 Alberta	Population: 3,687,660	Party in Power: Progressive Conservatives	Legislative Seats: PC 70	Majority Government Since: March 2008
	Percent of Canada: 10.7	Premier: Hon. Ed Stelmach	Liberals 9	
	Rank by Population: 4th	Finance Minister: Hon. Iris Evans	New Democrats 2	
	Area: 661,848 km²			
	GDP/Capita: \$77,000			
	Provincial Capital: Edmonton			

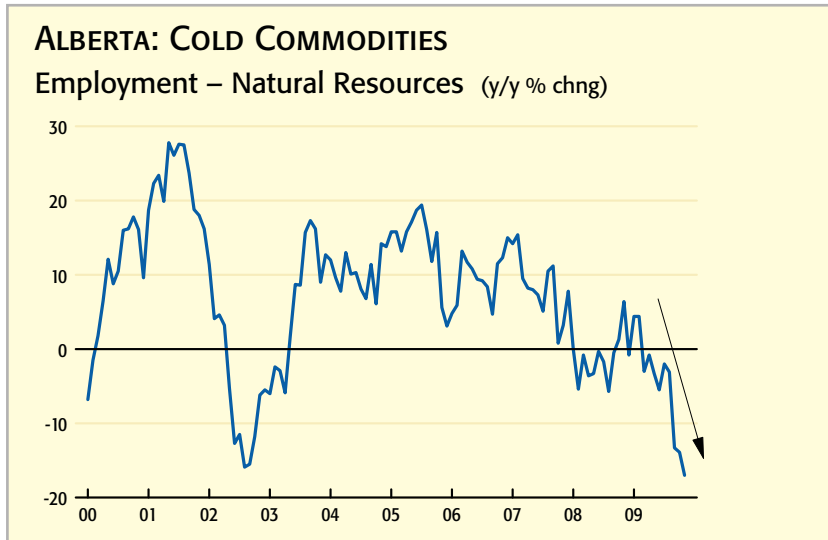
Energy sector derails growth, but rebound eyed

Low natural gas prices deflate Provincial revenues

The Alberta economy has suffered a difficult year amid a sharp reduction in commodity-sector activity. Real GDP will likely contract 2.4% in 2009 before rebounding a solid 3.0% in 2010.

The energy sector is ground zero for Alberta's recent economic woes. The combination of falling oil and natural gas prices and a more taxing royalty regime have cut investment activity in the sector by about half in 2009, while land sales and drilling activity are both down sharply year-over-year. According to the Alberta Department of Energy, total land sales for petroleum, natural gas and oil sands totalled just \$280 mln through October, down 75% from the same period last year.

However, activity should begin to pick up again in 2010 as prices have rebounded and the Province has implemented a transition period for royalties on new natural gas and conventional oil wells (not oil sands or current wells) through 2013.





Meantime, employment remains depressed in the province, down more than 3% from peak levels in October, while the unemployment rate sits near the highest level since the mid-1990s. As such, retail sales have stumbled more than 10% in the last year, by far the worst performance in Canada. That said, activity should pick up in 2010, and the province has already seen a sharp bounce-back in home sales, a return to record home prices and pickup in residential construction activity. A rebound in migration flows as the energy sector rebounds should help.

The Province of Alberta is projecting a record \$4.3 bln deficit in FY2009/10, largely the result of a decline in resource revenues. Natural gas prices have plunged since the April budget, forcing the province to trim their assumption from \$5.50 C\$/GJ to \$3.25—this has cut resource receipts by \$1.7 bln. Oil prices are now expected to average \$67.50 this fiscal year. Total revenue is now expected to be \$32.6 bln, down 8.9% from the prior fiscal year, while total spending will rise slightly to \$37.0 bln.

The \$4.3 bln deficit is improved from an in-year projection of as much as \$6.9 bln, and will be financed by a withdrawal from the Sustainability Fund. The Province also has \$4 bln in “fiscal correction” to make up over two years (ie: money that still needs to be found) by FY2011/12.

Alberta plans to borrow \$6.7 bln in FY2009/10, including Alberta Capital Finance Authority and ATB Financial. About 53% has been completed through mid-December.

<p>Saskatchewan</p>	Population: 1,030,130	Provincial Capital: Regina	Finance Minister: Hon. Rod Gantefoer	Next Election: 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: \$61,870			

Potash sector trips up Canada's hottest province

Commodity revenues take a hit

Saskatchewan’s economy has performed relatively well during the downturn, but a sharp drop in potash output will lead to a 2% decline in real GDP in 2009. Next year, growth should rebound 3.3%, the strongest in Canada, as the potash sector firms and strong fundamentals continue to drive growth in the province.

The agriculture boom wilted in 2009 as potash sales to China, the European Union and the U.S. dwindled. As a result, real Canadian potash production was down 66% y/y through August and, according to the Province, is at the lowest level since 1972 in Saskatchewan. This is estimated to shave 2 ppts from real GDP growth this year. While expectations are for a rebound in production in 2010, the sector remains the biggest risk to the near-term outlook.

On the bright side, much of the rest of Saskatchewan’s economy remains healthy. While some projects have been deferred because of weaker revenues, infrastructure investment activity remains strong. As such, employment levels are hardly down from their pre-recession peak and the unemployment rate, at 5.2% in November, remains well below the national rate.

The province also continues to see positive interprovincial migration flows—more than 4,000 people in the latest four quarters. This trend is likely to continue as recovery in the commod-



ity sector takes hold, particularly given Saskatchewan's more favourable royalty regime (versus Alberta), lower overall cost of doing business and promising resources in the southern part of the province.

The Province of Saskatchewan is projecting a \$425 mln surplus in the General Revenue Fund in FY2009/10. While this is unchanged from the original budget estimate (due to trans-

fers from the Growth and Financial Security Fund), the Province's underlying finances have deteriorated significantly.

Revenue is now expected to be \$9.9 bln in FY2009/10, down \$788 mln (7.3%) from the original budget plan. The reduction is primarily the result of declining potash revenues, which are now pegged at just \$109 mln—that's down from the \$1.9 bln budget forecast. Prices have fallen, but lower production has also taken a major toll, down 62% y/y through July. Potash revenues, originally projected at 18% of the total, were clearly the biggest risk in the Province's FY2009/10 budget, and the decline in output has indeed had a major negative impact. Meantime, total spending is now pegged at \$10.0 bln, and the Province now faces a \$140 mln deficit before GFSF transfers.

Total borrowing requirements are expected to be \$1.1 bln in FY2009/10, with 22% completed by mid-December.

SASKATCHEWAN: POTASH BOOM GOES BUST

GDP – Canada – Potash (y/y % chng)



Manitoba

Population: **1,221,970**
 Percent of Canada: **3.6**
 Rank by Population: **5th**
 Area: **647,797 km²**
 GDP/Capita: **\$41,800**

Provincial Capital: **Winnipeg**
 Party in Power: **New Democrats**
 Premier: **Hon. Greg Selinger**

Finance Minister: **Hon. Rosann Wowchuk**
 Legislative Seats:
New Democrats 35
PC 19
Liberals 2

Next Election: **May 2011**

Capital spending offsets manufacturing headwinds

Cautious budget calls for \$48 mln summary surplus

The Manitoba economy has leaned on its diversity to weather the recession relatively well. Real GDP will likely contract a modest 0.3% this year, before returning to 2.4% growth in 2010.

Construction activity remains a pillar of strength, and should continue to support the economy through 2010 even through growth rates have come down from extremely high levels seen in 2007 and 2008. Private-sector investment activity is expected to contract modestly this year, but the public sector will pick up much of the slack thanks to its \$1.6 bln infrastructure program. Residential construction has also held up better than in most provinces, as



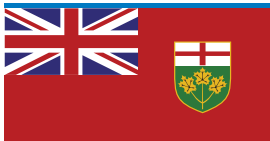
Manitoba did not see the extreme volatility in home sales and prices that were witnessed out West and in Ontario.

The manufacturing sector continues to grapple unsuccessfully with sputtering U.S. demand, with shipments down 9.8% y/y through September. Still, this decline is much more modest than those seen in Ontario and Quebec, largely because of the sector's diversity and lack of exposure to autos. Going forward, Manitoba will continue its steady-as-she-goes performance, not suffering as much during recession, but not participating as fully in recovery.

Manitoba's FY2009/10 budget took a balanced approach against a weakening economic backdrop, offering modest spending growth and continued gradual tax relief. The Province is projecting a \$48 mln summary surplus for FY2009/10, down from \$470 mln in FY2008/09. Though the Province will tap its reserve fund for \$110 mln, Manitoba will be one of the select few to balance the books this fiscal year.

Total revenues are projected to fall 1.5% to \$12.7 bln in FY2009/10, with a 5% decline in income tax receipts doing most of the damage. This reflects a slowing economy and the impact of the ongoing gradual reduction in corporate and personal taxes. Meantime, total spending is projected to rise 1.9% to \$12.7 bln in FY2009/10, led by a 4.2% jump in education. This year's budget also built on the Province's infrastructure spending program, with capital investment increasing to \$1.6 bln. This reflects a \$625 mln boost, with a continued focus on transportation, social housing, and health care infrastructure.

Total borrowing requirements are expected to be \$3.3 bln in FY2009/10, with about three-quarters complete by mid-December.



Ontario

Population: **13,069,180**
 Percent of Canada: **38.8**
 Rank by Population: **1st**
 Area: **1,076,395 km²**
 GDP/Capita: **\$43,560**

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

Finance Minister: **Hon. Dwight Duncan**
 Legislative Seats:
Liberals 72
PC 25
New Democrats 10

Next Election: **October 2011**

Domestic demand drives recovery in Ontario

Record budget deficit; HST coming in July-2010

The Ontario economy is pulling out of recession as the auto sector rebounds and domestic demand gains strength. Real GDP will likely contract 3.5% in 2009 before rebounding 2.3% in 2010—below the national rate.

The auto sector did the most damage to the Ontario economy in 2009, with production falling as much as 60% below year-ago levels early this year when output virtually came to a standstill. Since then, the U.S. cash-for-clunkers program and a rebound in domestic sales have improved the outlook in the sector. Still, the recovery in the broad manufacturing and export sectors will remain tepid as the loonie gravitates toward parity and the recovery in U.S. consumer spending is likely to be feeble.

However, domestic demand in Ontario has firmed and will drive growth in 2010. Retail sales have bounced more than 7% from their recession low, while the housing market has caught



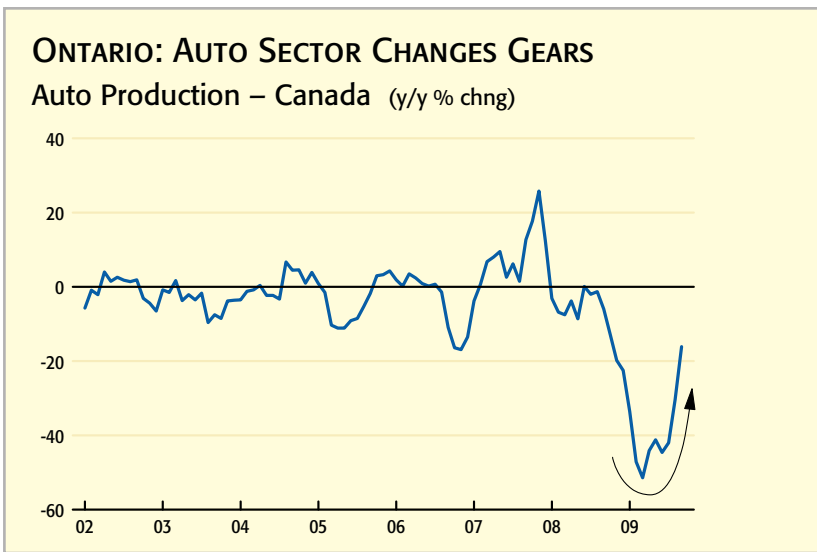
fire amid record low mortgage rates—sales were up more than 40% y/y in October, while average prices have rebounded to a record level.

The Province of Ontario is projecting a record \$24.7 bln deficit in FY2009/10 as program spending continues to rise in the face of declining revenues. At about 4.3% of GDP, the deficit is by far the biggest in Canada, and is about in-line with the high watermark set

in the early-90s. Total revenue is projected to be \$90.2 bln in FY2009/10, as tax receipts remain depressed in the wake of the recession. The Province will harmonize the PST with the Federal GST in July, 2010, and provide about \$10 bln of temporary and permanent relief measures through FY2012/13—one-time rebate payments to certain families and exemptions on certain goods, for example. Meantime, total spending is now pegged at \$113.7 bln, a meaty 17.5% above last fiscal year (or 13.2% if you exclude the \$4 bln in auto sector aid).

The Province is still forecasting a return to balance by FY2015/16, but many are asking: Is that possible? The answer appears to be a highly conditional yes—it will take real spending restraint. Indeed, the Province’s path back to balance, as outlined in this year’s budget, involves revenue growth of about 5-6% annualized (that’s average) but spending growth of just 1.4% annualized. This marks a stark change from the previous five years which have seen total spending grow at about 7% annually. As a point of reference, the early-90s deficits were also wiped out by a similar slowdown in spending growth, and the willingness of the current government to undertake late-90s-style restraint is the overriding question.

Borrowing requirements in FY2009/10 are pegged at \$42.6 bln, of which 82% has been completed by mid-December.



Quebec

Population: **7,828,880**
 Percent of Canada: **23.3**
 Rank by Population: **2nd**
 Area: **1,543,056 km²**
 GDP/Capita: **\$38,100**

Provincial Capital:
Quebec City
 Party in Power:
Liberals

Premier:
Hon. Jean Charest
 Finance Minister:
Hon. Raymond Bachand

Legislative Seats:
Liberals 66
Parti Quebecois 51
Action Democratique 4
Independent 4
 Majority Government Since:
December 2008

The Quebec economy succumbed to global recessionary forces after holding up relatively well early in the downturn—real GDP will likely contract a better-than-average 1.4% this year. However, sights are now set on recovery, and the province is positioned to see a respectable (but below average) 2.2% rebound in 2010.



Manufacturing headwinds to restrain growth

Long-term challenge to re-balance the budget

Manufacturing activity in the province held up well through most of 2008 thanks to strength in aerospace, but by the turn of the year, activity deteriorated sharply as global demand tailed off. Shipments have yet to improve markedly in recent months, and Bombardier recently announced another 715 layoffs in the province. With little help from the loonie or U.S. demand, the manufacturing sector

will continue to carve out a very sluggish recovery. However, nonresidential construction should provide support, as the Province has embarked on a five-year, \$41.8 bln infrastructure spending program (about 3% of GDP in FY2009/10) that will continue to drive growth.

Another legacy of this recession has been relatively less deterioration in Quebec's labour market versus most of the country. The unemployment rate, while reaching as high as 9.1%, slipped below the national rate for the first time since at least 1976—the result of less labour force growth.

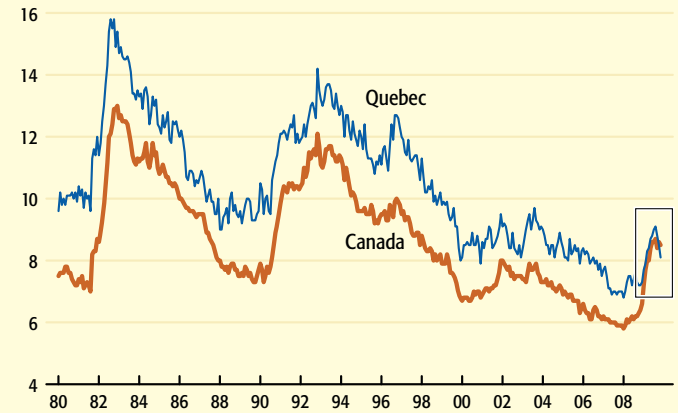
The Province of Quebec is forecasting a FY2009/10 deficit of \$4.7 bln, up from the budget estimate of \$3.9 bln—this includes a slightly bigger draw from the reserve fund, but also a \$300 mln contingency for further revenue declines. The bigger deficit reflects a downgraded revenue outlook, now forecast to be \$62.0 bln, or \$187 mln (0.3%) below the budget estimate. Meantime, spending has been revised slightly higher at \$66.3 bln. At 1.6% of GDP, Quebec's FY2009/10 deficit remains relatively small when stacked up against Ontario (4.3%) and all provinces combined (2.5%)—but the problems lie in future years.

The FY2010/11 deficit has also been revised up to \$4.7 bln versus the \$3.8 bln budget projection—this includes \$1.1 bln in saving from the "Plan to Restore Balance", of which \$450 mln has yet to be identified. The Province continues to forecast a return to balance by FY2013/14—it will focus on cost cuts, implement a 1 ppt increase in the QST (effective January, 2011) and increase other user fees. Still, this return to balance hinges on \$5.1 bln in yet-to-be-identified cost savings or revenue gains by FY2013/14, up from the \$3.8 bln outlined in March.

Borrowing requirements are now pegged at \$10.5 bln (including \$2.75 bln each for the financing fund and Financement-Quebec), fully completed.

QUEBEC: LABOUR MARKET MILESTONE

Unemployment Rate (percent : s.a.)





New Brunswick

Population: **749,470**
 Percent of Canada: **2.2**
 Rank by Population: **8th**
 Area: **72,908 km²**
 GDP/Capita: **\$36,120**

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

Finance Minister: **Hon. Greg Byrne**
 Legislative Seats:
Liberals 40
PC 26

Next Election: **September 2010**

Fiscal stimulus to offset softer private sector activity

Tax-system overhaul continues as planned

The New Brunswick economy experienced a more modest downturn than was seen in Central and Western Canada, largely helped by firm investment activity. Real GDP likely declined 0.6% in 2009, and should return to below-average 2.0% growth in 2010.

One factor keeping growth in check will be the strong loonie, as it continues to weigh on exports and manufacturing activity. Manufacturing sales were down more than 25% y/y through September, while exports were down 26% y/y.

Meantime, major capital projects like the Point Lepreau nuclear plant upgrade and Canaport LNG terminal are winding down, eliminating two major economic supports. Still, development of a \$1.7 billion potash mine facility will help, as will the strong infrastructure spending just announced in the provincial budget.

The Province of New Brunswick is projecting a \$749 mln budget deficit in FY2010/11 (2.8% of GDP) as it increases spending and capital investment, and continues to implement its tax-reduction program. The Province now plans to return to balance (actually a small surplus) by FY2014/15, a year later than last projected.

Total revenues will rise 1.8% to \$7.2 bln in FY2010/11, with higher corporate and sales tax revenues offsetting lower personal income tax receipts. An overhaul of the Province's tax system continues to proceed as planned, and all personal tax rates will fall again in 2010 before ultimately bottoming out in 2012. By then, two tax brackets will have rates of 9% and 12%, down from a range of tax rates between 10.1% and 18% in 2008. In total, the tax cuts will cost \$258 mln in FY2010/11, rising to \$380 mln by FY2012/13. Corporate income taxes will also continue to be trimmed, but the revenue impact will be relatively small. The general corporate rate will fall 1 ppt per year until it bottoms at 8% in 2012 (that would be the lowest in Canada at current rates).

New Brunswick plans to borrow \$2.2 bln in FY2008/09, with 90% completed by mid-December.



Nova Scotia

Population: **938,180**
 Percent of Canada: **2.8**
 Rank by Population: **7th**
 Area: **55,284 km²**
 GDP/Capita: **\$36,100**

Provincial Capital: **Halifax**
 Party in Power: **New Democrats**
 Premier: **Hon. Darrell Dexter**

Finance Minister: **Hon. Graham Steele**
 Legislative Seats:
New Democrats 32
Liberals 11
PC 9

Majority Government Since: **June 2009**

Economic activity in Nova Scotia remains weak in the wake of the global downturn. Depressed export demand and the decline in commodity prices have hit particularly hard. Real GDP is set to contract 0.5% this year before returning to 1.9% growth in 2010.

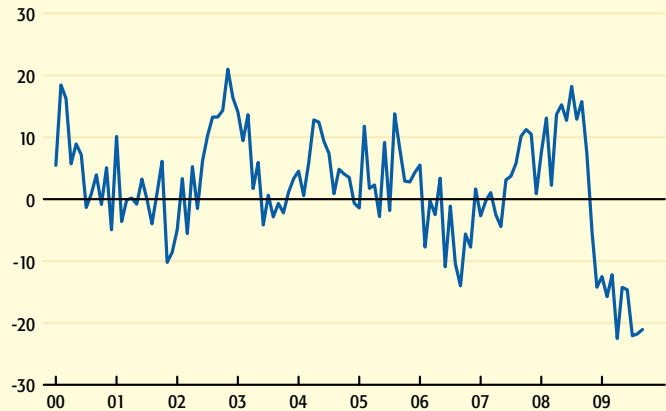


**Manufacturing
and trade cause
sluggish recovery**
**First deficit in a
decade**

The manufacturing environment remains cloudy, as in most of the country, and will continue to struggle under the weight of the strong loonie and the sluggish U.S. consumer recovery. Manufacturing shipments and exports were both still down more than 20% y/y in recent months. Meantime, a sluggish labour market and lower commodity incomes have weighed on retail sales, even though declines were much more modest than those seen across Canada.

NOVA SCOTIA: HEADWINDS BLOWING

Manufacturing Sales (y/y % chng)



Non-residential construction continues to support the economy. While construction of EnCana's Deep Panuke offshore natural gas project will start to wind down (and no output is expected before 2011), government infrastructure spending is robust.

The Province of Nova Scotia is projecting a \$592 mln budget deficit in FY2009/10, its first foray into the red in 10 years. The Province's finances have deteriorated throughout 2009 as a \$4 mln surplus was projected as late as May. A return to balance is expected in FY2010/11 (after spending cuts) and through FY2012/13.

Revenue is expected to fall 1% to \$8.1 bln in FY2009/10, as income tax receipts and petroleum royalties are down sharply. Petroleum royalties are projected to dive 67%, draining more than \$301 mln from the Province's coffers, but Federal transfers will act as an offset. Total spending is now expected to rise a hefty 6.7% to \$9.1 bln in FY2009/10. Health and community services will see solid growth, but education spending will fall modestly versus last year.

The Province is carrying out a healthy \$796 mln in infrastructure investment this fiscal year, or more than 2% of GDP (the Federal government is kicking in \$122 mln of that amount).

Borrowing requirements are expected to be \$2 bln in FY2009/10, with 88% completed by mid-December.



Prince Edward Island

Population: **140,990**
 Percent of Canada: **0.4**
 Rank by Population: **10th**
 Area: **5,660 km²**
 GDP/Capita: **\$32,920**

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

Finance Minister: **Hon. Wes Sheridan**
 Legislative Seats:
Liberals **24**
Conservatives **3**

Next Election: **October 2011**

U.S. recession dampens outlook

As with most of Atlantic Canada, the recovery in PEI will be on the soft side. Real GDP will likely decline 1.2% this year, followed by 1.5% growth in 2010.

Back-to-back deficits projected

Housing starts have turned up after declining early in the year, while retail sales have seen much tamer than average declines in 2009. Crop receipts have also improved.

Meantime, a 5-year, \$500 mln capital investment plan should keep non-residential construction activity firm in the coming years. This will prove to be an important source of support as a strengthening loonie should continue to weigh on tourism and exports.

The Province of Prince Edward Island is projecting a third consecutive budget deficit in FY2009/10. The deficit is now expected to come in at \$85.4 million, unchanged from the original budget estimates and a relatively-modest 1.9% of GDP.

Total revenue is projected to grow 3.7% to \$1.4 billion in FY2009/10, led by strong growth in both own-source and federal transfer revenues, while total expenditure is projected to grow 7.3% to \$1.4 billion, led by program spending.

Borrowing requirements are expected to be \$230 mln in FY2009/10, fully completed by mid-December.



Newfoundland & Labrador

Population: **508,930**
 Percent of Canada: **1.5**
 Rank by Population: **9th**
 Area: **405,720 km²**
 GDP/Capita: **\$59,830**

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

Finance Minister: **Hon. Tom Marshall**
 Legislative Seats:
PC **43**
Liberals **4**
New Democrats **1**

Next Election: **October 2011**

Offshore oil output in decline, mining to rebound

Newfoundland & Labrador's recent economic strength deteriorated alongside the decline in oil prices and subsequent falloff in output. Real GDP will likely contract 4.9% in 2009 before rebounding 3.0% in 2010.

Aggressive infrastructure spending program

Offshore oil output is now in secular decline, expected to fall in 2009, while a strike at the Voisey's Bay nickel mine will also hurt output. In 2010, offshore output will continue to trail off, but the mining sector should bounce back, providing some support. Also offering support will be an aggressive government infrastructure spending program. At more than 3% of GDP, the Province's stimulus program is among the strongest in Canada in FY2009/10.

Other underlying economic trends remain mixed in the province. Retail sales, for example,



were actually up slightly year-over-year through September, the only province able to stake that claim. However, the labour market has deteriorated, with the unemployment rate staying over 15% for the past seven months and employment down 5% from peak levels.

One reason for the higher unemployment rate has been a pickup in labour force growth.

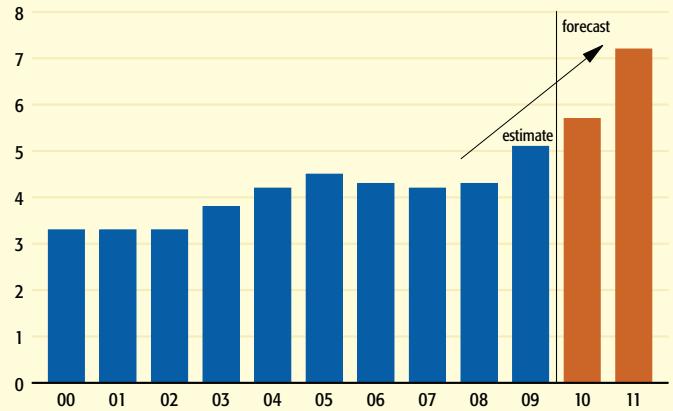
The province has seen net in-migration of more than 2,300 people in the latest four quarters (through 2009Q2), the biggest annual gain on record. A slowdown in Alberta has no doubt reversed the migration flows seen during that province's boom, and as Western Canada begins to recover, Newfoundland & Labrador should again start to see out-migration.

The Province of Newfoundland and Labrador is forecasting a \$443 mln deficit for FY2009/10, a steep shift from a fourth consecutive surplus of \$2.4 bln in FY2008/09. Importantly, the deficit is improved from a budget estimate of \$750 mln thanks to rebounding oil prices. The deficit is projected to drop to only \$141 mln in FY2010/11 before returning to surplus by FY2011/12.

Revenue is expected to decrease 11.3% to \$6.2 bln in FY2009/10, reflecting a decline in oil royalties (the combination of lower prices and lower production), though not as much as initially expected. The province is now assuming oil prices of \$71.80, up from the budget forecast of just \$50. Program spending is projected to grow 14.4% to \$5.9 bln.

The Province expects no net new borrowing in FY2009/10.

NEWFOUNDLAND AND LABRADOR: STIMULATING Capital Investment (\$ blns)



PROVINCIAL ECONOMIC SUMMARY

	BC	Alberta	Sask.	Man.	Ontario	Quebec	NB	NS	PEI	NL	Canada
Real GDP Growth (chain-weighted : y/y % chng)											
2009 f	-2.2	-2.4	-2.0	-0.3	-3.5	-1.4	-0.6	-0.5	-1.2	-4.9	-2.5
2010 f	3.1	3.0	3.3	2.4	2.3	2.2	2.0	1.9	1.5	3.0	2.6
2011 f	4.2	4.2	3.9	3.1	3.4	3.2	2.8	2.9	2.5	2.9	3.6
Employment Growth (y/y % chng)											
2009 f	-2.4	-1.1	1.6	0.2	-2.4	-1.0	0.0	-0.1	-1.7	-2.6	-1.6
2010 f	1.4	1.2	1.5	1.1	0.8	0.6	0.8	0.8	1.0	0.2	0.9
2011 f	2.0	1.9	2.2	1.1	1.6	1.0	1.0	0.9	1.0	1.1	1.5
Unemployment Rate (%)											
2009 f	7.5	6.5	4.8	5.1	9.1	8.5	8.9	9.2	12.3	15.5	8.3
2010 f	7.6	6.7	4.8	5.2	9.4	8.7	9.1	9.3	12.8	16.0	8.5
2011 f	7.1	6.3	4.3	4.8	8.7	8.4	8.9	9.0	12.2	15.7	8.0
Housing Starts (000s)											
2009 f	15.3	18.4	3.5	4.1	49.5	41.6	3.5	3.4	0.7	3.1	143.2
2010 f	22.0	23.8	5.0	4.1	62.0	42.5	3.6	3.5	0.6	3.0	170.0
2011 f	24.5	25.0	4.0	4.6	66.0	44.5	3.8	3.8	0.6	3.2	180.0
Consumer Prices (y/y % chng)											
2009 f	0.0	-0.2	1.1	0.7	0.3	0.3	-0.2	-0.5	-0.4	0.2	0.2
2010 f	1.9	1.8	1.6	1.2	1.6	1.4	0.7	0.8	1.0	1.3	1.5
2011 f	2.0	2.2	2.3	1.9	1.8	1.7	1.7	1.8	1.5	1.9	1.8

PROVINCIAL ECONOMIC INDICATORS

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

Retail Sales

Jul 09	-7.8	-9.6	-3.7	-1.4	-4.4	-2.1	-2.6	-0.7	-2.4	3.5	-4.6
Aug 09	-7.0	-9.4	-3.1	-0.5	-4.1	-1.2	-2.3	-0.3	-2.7	2.1	-4.2
Sep 09	-5.9	-9.7	-3.2	-0.3	-3.5	-1.2	-1.5	-1.1	-1.0	1.6	-3.8

Manufacturing Shipments

Jul 09	-20.6	-29.1	-14.1	-10.9	-25.3	-18.0	-32.1	-16.3	-7.2	-42.3	-23.3
Aug 09	-18.5	-28.6	-18.7	-14.1	-21.9	-15.9	-25.1	-18.8	-13.3	-32.8	-20.9
Sep 09	-18.9	-29.4	-17.5	-16.8	-17.5	-17.1	-21.3	-20.8	-7.5	-26.2	-19.2

Exports

Aug 09	-31.7	-41.1	-33.2	-20.9	-29.5	-24.9	-24.7	-32.2	-4.5	-50.0	-31.3
Sep 09	-30.2	-42.3	-35.3	-23.4	-25.6	-25.4	-25.1	-33.3	-6.6	-47.2	-30.1
Oct 09	-32.5	-40.8	-34.8	-26.2	-23.5	-27.0	-26.7	-33.4	-5.2	-43.4	-28.7

Employment Growth

Sep 09	-2.7	-1.5	1.1	0.3	-2.7	-1.1	-0.1	-0.5	-1.5	-1.5	-1.8
Oct 09	-2.4	-2.2	0.1	0.3	-2.9	-1.3	-0.1	-0.5	-0.8	-1.5	-2.0
Nov 09	-2.0	-2.6	-0.2	0.0	-2.7	-1.4	0.2	-0.5	0.8	-1.4	-2.0

PROVINCIAL FISCAL SUMMARY

FY09/10 (as of December 9, 2009)

	Budget Balance (\$ mlns)	% of GDP	Gross Financing Requirements** (\$ blns)	S&P	Moody's	DBRS
British Columbia	(2,775)	(1.4)	6.3	AAA	Aaa	AA (high)
Alberta	(4,324)	(1.5)	6.7	AAA	Aaa	AAA
Saskatchewan	425	0.7	1.1	AA+	Aa1	AA
Manitoba	48	0.1	3.3	AA	Aa1	A (high)
Ontario	(24,716)	(4.3)	42.6	AA-	Aa1	AA (low)
Quebec	(4,695)	(1.6)	12.6	A+	Aa2	A (high)
New Brunswick	(754)	(2.8)	2.2	AA-	Aa2	A (high)
Nova Scotia*	(592)	(1.7)	2.0	A+*	Aa2	A*
PEI	(85)	(1.8)	0.2	A*	Aa2	A (low)
Nfld & Labrador	(750)	(2.5)	0.0	A*	Aa2	A
Total Provincial	(38,218)	(2.5)	77.0			

*positive outlook **negative outlook

Source: Provinces and BMO Capital Markets () = deficit

* Budget defeated ** includes provincial crown corporations

HISTORY OF CANADIAN FISCAL BALANCES

(\$ mlns)

	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10f
BC	(1,003)	148	1,503	(1,184)	(2,737)	(1,191)	2,696	3,090	4,079	2,886	78	(2,775)
Alberta	1,094	2,791	6,571	1,081	2,133	4,136	5,175	8,551	8,510	4,581	(852)	(4,324)
Saskatchewan	28	83	58	1	1	1	383	400	293	641	2,390	425
Manitoba	31	11	40	63	4	(577)	562	394	430	329	316	48
Ontario	(2,002)	668	1,902	375	117	(5,483)	(1,555)	298	2,269	600	(6,409)	(24,716)
Quebec	126	7	427	22	(728)	(358)	(664)	37	109	0	0	(4,695)
NB	(204)	(30)	43	79	1	(173)	242	235	237	18	(192)	(754)
NS	(261)	(797)	147	113	28	38	170	239	182	390	20	(592)
PEI	28	13	(35)	(37)	(55)	(125)	(34)	1	24	(11)	(33)	(85)
NL	(187)	(269)	(350)	(468)	(644)	(914)	(489)	77	154	1,377	2,434	(750)
Provinces	(2,349)	2,625	10,306	45	(1,881)	(4,646)	6,486	13,322	16,287	10,811	(2,248)	(38,218)
Federal	5,779	14,258	19,891	8,048	6,621	9,145	1,463	13,218	13,752	9,600	(5,800)	(55,900)
Total	3,430	16,883	30,197	8,093	4,740	4,500	7,949	26,540	30,039	20,411	(8,048)	(94,118)

HISTORY OF CANADIAN FISCAL BALANCES

(% of GDP)

	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09e	09/10f
BC	(0.9)	0.1	1.1	(0.9)	(2.0)	(0.8)	1.7	1.8	2.2	1.5	0.0	(1.4)
Alberta	1.0	2.4	4.5	0.7	1.4	2.4	2.7	3.9	3.6	1.8	(0.3)	(1.5)
Saskatchewan	0.1	0.3	0.2	0.0	0.0	0.0	0.9	0.9	0.6	1.2	3.7	0.7
Manitoba	0.1	0.0	0.1	0.2	0.0	(1.5)	1.4	0.9	1.0	0.7	0.6	0.1
Ontario	(0.5)	0.2	0.4	0.1	0.0	(1.1)	(0.3)	0.1	0.4	0.1	(1.1)	(4.3)
Quebec	0.1	0.0	0.2	0.0	(0.3)	(0.1)	(0.3)	0.0	0.0	0.0	0.0	(1.6)
NB	(1.2)	(0.2)	0.2	0.4	0.0	(0.8)	1.0	0.9	0.9	0.1	(0.7)	(2.8)
NS	(1.2)	(3.5)	0.6	0.4	0.1	0.1	0.6	0.8	0.6	1.2	0.1	(1.7)
PEI	0.9	0.4	(1.0)	(1.1)	(1.5)	(3.3)	(0.9)	0.0	0.6	(0.2)	(0.7)	(1.8)
NL	(1.7)	(2.2)	(2.5)	(3.3)	(3.9)	(5.0)	(2.5)	0.3	0.6	4.7	7.7	(2.5)
Provinces	(0.3)	0.3	1.0	0.0	(0.2)	(0.4)	0.5	1.0	1.1	0.7	(0.1)	(2.5)
Federal	0.6	1.5	1.8	0.7	0.6	0.8	0.1	1.0	0.9	0.6	(0.4)	(3.7)
Total	0.4	1.7	2.8	0.7	0.4	0.4	0.6	1.9	2.1	1.3	(0.5)	(6.2)

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