

PROVINCIAL ECONOMIC Momentum Index

ECONOMIC RESEARCH

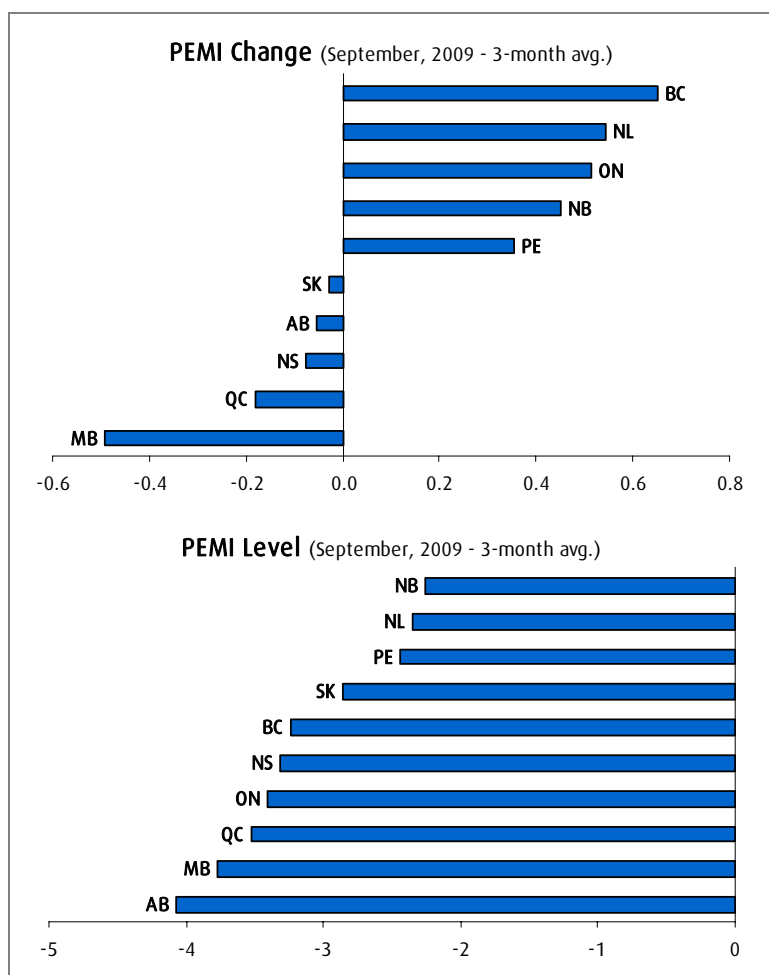
BMO Capital Markets™

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Some Provinces Turning the Corner

All provinces continue to see economic activity well below trend levels. PEMI levels remained at least 2 standard deviations below trend in all provinces in the latest three months, but preliminary September readings indicate that half of the provinces are turning the corner. PEMI levels have improved in five of ten provinces, with British Columbia, Newfoundland & Labrador and Ontario showing the strongest rebounds, while Manitoba, Alberta and Quebec remain near cycle-lows.



Western Canada has been the hardest hit region of the country, with activity in B.C. and Alberta falling more than 4 standard deviations below trend during the recession. While activity in Alberta hit a new cycle low in September, momentum in B.C. has begun to turn up, largely on the back of firmer construction and housing market activity. Year-over-year employment comparisons have also improved in B.C., something not yet seen in Alberta and Saskatchewan.

Central Canada is beginning to see signs of improvement. Ontario's PEMI remains well below zero, but has improved from the depths of spring thanks to rebounding housing market activity and a bounce back in manufacturing and wholesale activity—rekindled auto production has helped. Meantime, Quebec has seen a less forceful manufacturing rebound, while year-over-year employment growth hit a cycle low in September.

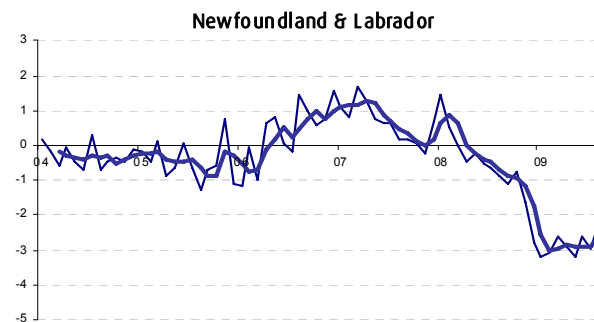
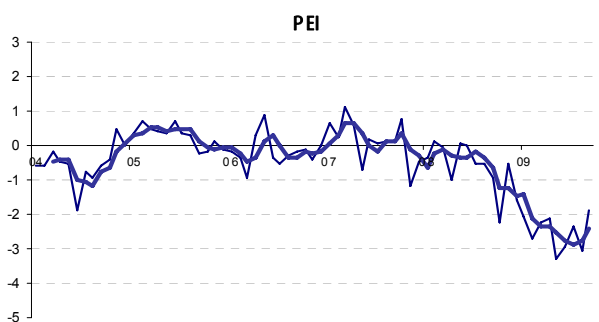
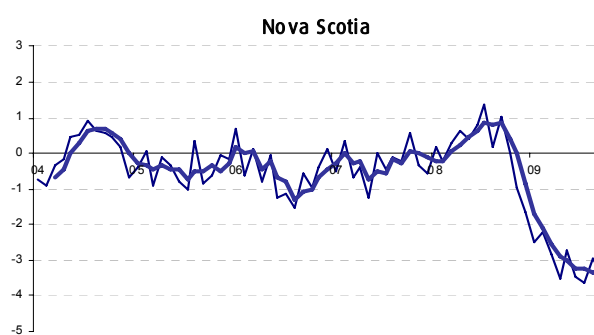
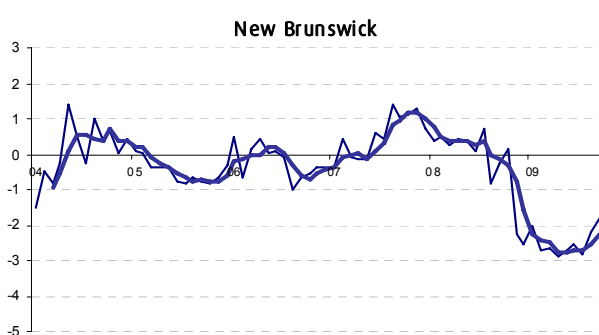
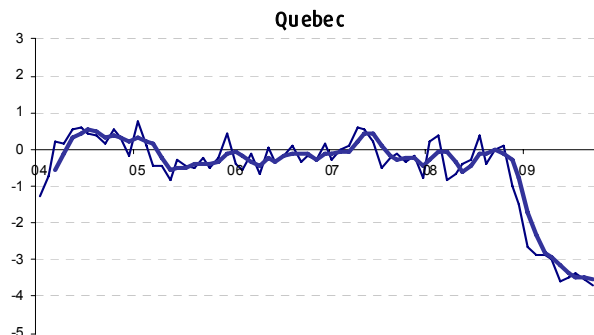
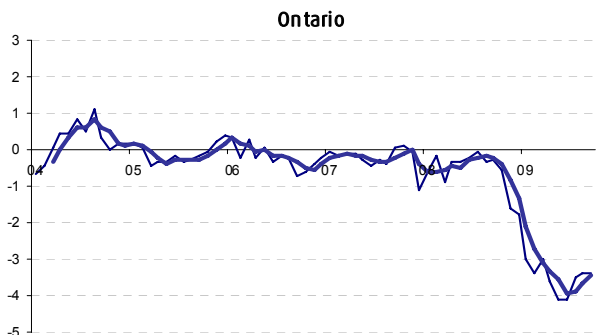
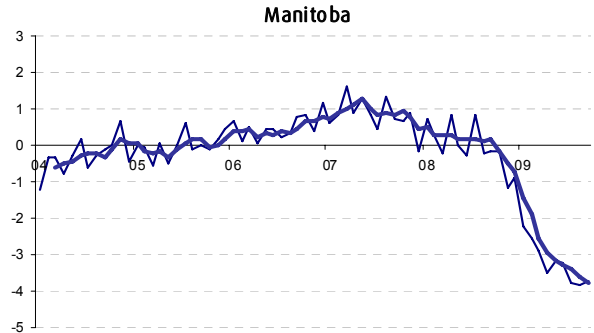
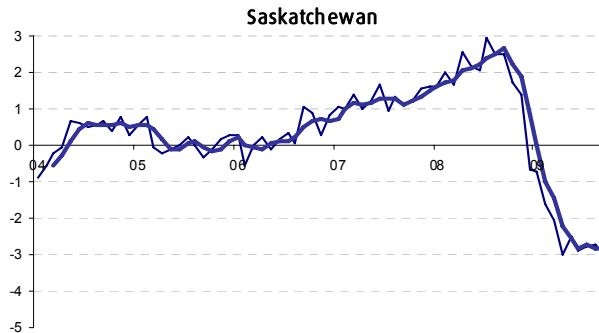
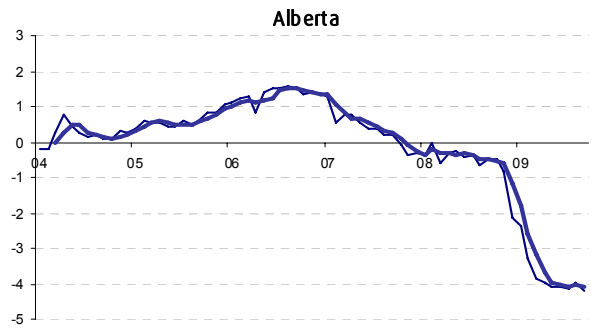
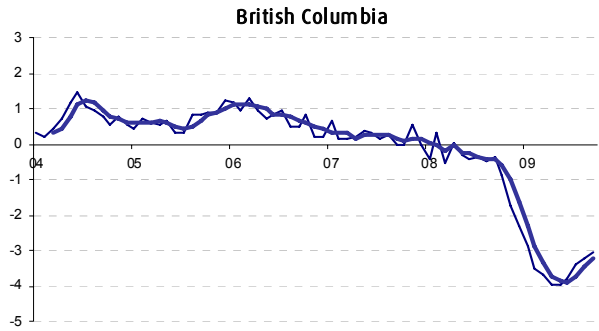
Atlantic Canada has been the least impacted region this recession, and with the exception of Nova Scotia, all provinces saw PEMI levels above -3 during the last three months. Newfoundland & Labrador is seeing the strongest rebound in momentum, largely the result of improved employment trends.

About the Provincial Economic Momentum Index (PEMI)

The PEMI is a weighted average of 35 provincial economic indicators, designed to provide a single measure of overall economic activity and a proxy for GDP growth. One can think of this index as the largest common factor in the growth rates of all 35 indicators. When each of the 35 variables is growing at its average or trend rate, the index will take on a value of exactly zero. A positive index value suggests above-trend growth and a negative reading points to below-trend growth. Technically, the value of the index is interpreted as the number of standard deviations the province's economic activity is above or below trend. The PEMI mostly draws on data from three major categories: 1) business sales (manufacturing, wholesale, retail and international trade); 2) labour markets and 3) housing and construction. The PEMIs are published once complete data are available, typically around 60 days after the end of the reference month. However, because partial data will also be available for the next reference month, a preliminary PEMI is published for this month. As such, PEMIs are subject to revisions as data for the incomplete month are acquired and the underpinning provincial time series are revised.

For more information on the PEMI and its construction, see the publication "Gauging Provincial Economic Growth" available at <http://www.bmonesbittburns.com/economics/focus/20091030/feature.pdf>

PEMI Index Level (Through August with preliminary September data added. Dark line = 3 mnth avg.)



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