



Global Outlook

A Long & Winding Road To Recovery

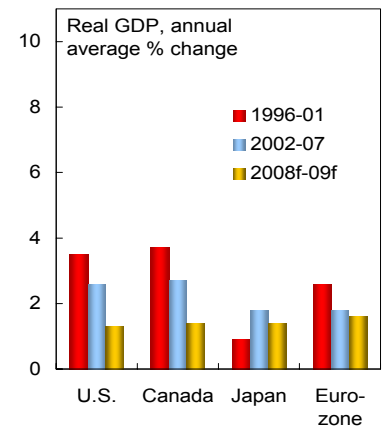
Warren Jestin

Big doses of monetary and fiscal stimulus, widespread official actions to contain mortgage defaults and unprecedented injections of term liquidity by the Federal Reserve have had some success in mitigating the heavy negative fallout from the sub-prime crisis. Despite a severe retrenchment in housing activity and motor vehicle sales, the U.S. economy managed to stay on a modest — albeit wobbly — growth path during the first half of 2008. Job losses also have lacked the ferocity evident in previous setbacks. Between January and June, U.S. payrolls dropped by 73,000 per month compared with a monthly average of about 160,000 in the early stages of the previous three recessions.

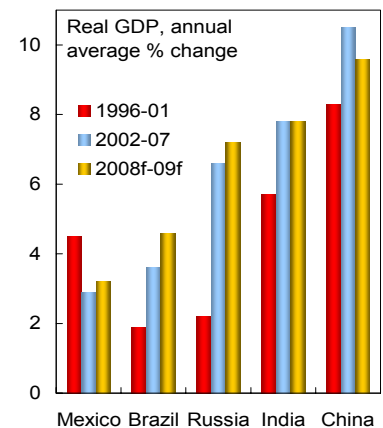
Without another injection of fiscal and/or monetary stimulus, however, recent economic resilience will likely give way to a broad-based weakening in U.S. conditions by year-end. The temporary palliative to consumer spending provided by Washington's flood of tax rebate cheques will be followed by a relapse in sales once this fiscal stimulus recedes. The expiration of business tax incentives for machinery and equipment investment at the end of 2008, while smaller in scope than household tax rebates, works in the same direction. Chairman Bernanke's mid-year testimony to Congress highlighted the Fed's sensitivity to current economic and financial risks and policymakers have already begun to consider yet another fiscal stimulus package in addition to proposed measures to help address mortgage foreclosures.

Adding yet another layer to this year's unprecedented fiscal boost may forestall or even avert an outright double dip, but at the cost of catapulting the federal deficit in FY2009 towards a new record above US\$500 billion (equivalent to 3½% of GDP). Further monetary easing — by lowering financial sector borrowing costs and by adding liquidity to encourage lenders to make private credit cheaper and more available — also may help to prevent outright recession. However, such additional fiscal and monetary measures will not resolve the structural imbalances underlying tight credit conditions, depressed housing activity, domestic profit

Developed Nations Lag



Emerging Nations Lead



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Economic Performance (annual % change unless otherwise indicated)

	2000-06	2007	2008f	2009f	2000-06	2007	2008f	2009f
		<u>Canada</u>				<u>United States</u>		
Real GDP	3.0	2.7	1.1	1.6	2.6	2.2	1.5	1.0
Consumer Prices	2.3	2.1	2.8	2.5	2.8	2.9	4.3	2.8
Pre-tax Profits	8.6	3.3	1.5	3.0	9.0	2.7	-4.0	3.0
Federal Budget Balance (\$bn)	10.3	10.0	4.0	4.0	-164	-162	-440	-485
Current Account Balance (\$bn)	23.6	13.6	23.0	12.0	-570	-739	-765	-715
Merchandise Trade Balance (\$bn)	61.3	48.0	55.0	47.0	-602	-815	-905	-870
Motor Vehicle Sales (000s)*	1,593	1,654	1,690	1,650	16.9	16.1	14.7	14.3
Motor Vehicle Production (000s)*	2,664	2,580	2,350	2,400	12.0	10.7	9.9	9.7
Housing Starts (000s)*	204	228	214	190	1.8	1.35	0.95	0.92
Employment	1.9	2.3	1.6	1.0	0.8	1.1	0.0	0.2
Jobs Created (000s)*	296	380	275	165	1.03	1.53	0.05	0.22
Unemployment Rate (%)	7.1	6.0	6.1	6.4	4.8	4.6	5.5	6.3
		<u>Mexico</u>				<u>Euro zone</u>		
Real GDP	2.9	3.3	2.8	3.4	2.0	2.6	1.8	1.4
Consumer Prices	5.1	4.0	4.6	4.4	2.2	2.1	3.5	2.3
		<u>Latin America (Excl. Mexico)</u>				<u>Asia</u>		
Real GDP	3.1	6.4	4.8	4.8	4.4	6.2	5.1	4.9
Consumer Prices	9.4	7.0	9.4	8.4	1.1	3.3	3.8	2.5

*In the United States, millions.

Commodity Prices (US\$ annual average)

	2000-06	2007	2008f	2009f
Pulp (tonne)	611	823	880	928
Newsprint (tonne)	555	585	685	750
Lumber (mfbm)	302	245	215	245
Copper (lb)	1.3	3.23	3.50	2.90
Zinc (lb)	0.60	1.47	0.90	0.70
Nickel (lb)	5.43	16.88	11.00	9.00
WTI Oil (bbl)	39.63	72.32	125	135-140
Nymex Natural Gas (US\$/mmbtu)	5.62	7.12	11.00	11.50
Wheat (tonne)	179	301	485	390

Financial Markets (end of period, % unless otherwise indicated)

	2008Q1	08Q2	08Q3f	08Q4f	2009Q1f	09Q2f	09Q3f	09Q4f
CANADA								
3-month T-bill	1.88	2.54	2.50	2.40	2.35	2.55	2.85	3.25
5-year Canada	2.91	3.60	3.35	3.30	3.25	3.40	3.50	3.55
10-year Canada	3.44	3.73	3.70	3.60	3.50	3.55	3.70	3.90
UNITED STATES								
3-month T-bill (Yield)	1.36	1.73	1.55	1.40	1.20	1.30	1.45	2.05
5-year Treasury	2.44	3.33	3.30	3.00	2.80	2.90	3.05	3.40
10-year Treasury	3.41	3.97	4.00	3.80	3.75	3.85	4.05	4.30
CANADIAN-US SPREADS								
3-month T-bill	0.52	0.81	0.95	1.00	1.15	1.25	1.40	1.20
5-year	0.47	0.27	0.05	0.30	0.45	0.50	0.45	0.15
10-year	0.03	-0.24	-0.30	-0.20	-0.25	-0.30	-0.35	-0.40
Canadian Dollar (USD/CAD)	1.03	1.02	0.99	0.98	0.97	0.95	0.94	0.94
Canadian Dollar (CAD/USD)	0.98	0.98	1.01	1.02	1.03	1.05	1.06	1.06
Yen (USD/JPY)	100	106	106	105	100	100	104	105
Euro (EUR/USD)	1.58	1.58	1.59	1.61	1.59	1.57	1.55	1.53
Sterling (GBP/USD)	1.98	1.99	1.99	1.99	1.96	1.94	1.94	1.91
Mexican Peso (USD/MXN)	10.7	10.3	10.4	10.5	10.6	10.7	10.8	10.8



pressures, weak equity markets, high energy costs and reduced growth momentum abroad. These home-grown and global challenges point to lingering lethargy in U.S. domestic demand. Bottom line — we expect U.S. growth in 2009 to be even weaker than this year's paltry 1½% advance.

The U.S. housing and auto sectors are in for a lengthy convalescence because the powerful 'borrow-to-buy' driver of household spending has been disengaged. Residential construction, which added about half a percentage point annually to U.S. growth from 2002 through 2005, has subtracted close to a percentage point from GDP gains since 2006 as home sales and housing starts fell by more than 30% and 50%, respectively, from their 2005/06 peaks. Declining housing prices have circumscribed access to home equity loans, and valuations will stay under pressure until record unsold inventories, currently equivalent to more than 10 months' sales, are slowly absorbed. Discretionary consumer spending also is being squeezed by rocketing gasoline and food prices. Excluding these items, retail sales volumes have been running below year-earlier levels since the beginning of the year.

Double-digit export gains and robust business investment have helped to cushion the impact of weakening consumer spending on U.S. growth, but these factors are likely to become less supportive. While the depreciation of the U.S. dollar has boosted competitiveness, foreign sales will be tempered as growth in Europe and Japan recedes further in 2009 from this year's already lacklustre pace. The squeeze on corporate earnings from rising input costs and slumping U.S. sales also will work to dampen domestic investment at a time when buoyant offshore earnings provide a strong incentive to divert strategic capital spending to rapidly growing nations in Asia, Latin America and Eastern Europe.

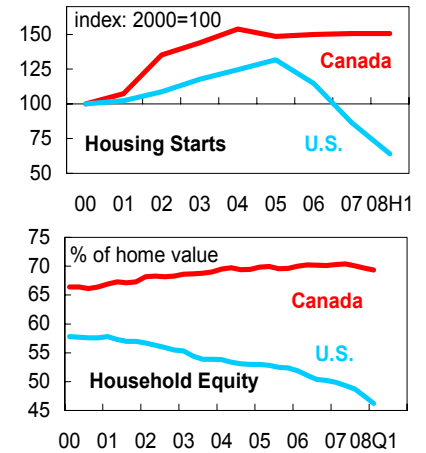
While the pathways to prolonged economic lethargy vary across countries, growth is unlikely to reach 1½% in Japan through 2008-09 and is expected to fall to this level in the U.K. and Europe over the next year. The sudden shift from credit expansion to credit crunch, widespread layoffs in financial services and the unwinding of excesses in real estate activity are rooted in structural imbalances that will take years — not months — to resolve. As in the United States, weak employment and output growth will aggravate European and Japanese fiscal deficits.

Weakening domestic demand in the major developed nations will temper the pace of expansion in China, India, Russia, Brazil and other emerging powerhouses. However, some offset will be provided as hard-pressed North American and European households and cost-pressured businesses search out and substitute lower-priced imports. A number of emerging nations will continue to experience very robust domestic demand, led by rapid gains in household spending and infrastructural investment. Many commodity exporters also are expected to enjoy solid markets for their energy, industrial and agricultural products.

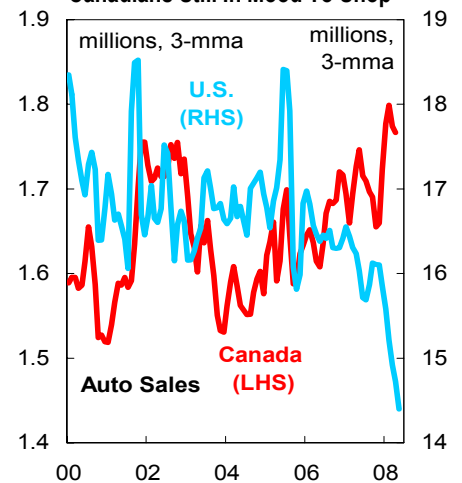
As a result, the great divide in performance between the traditional and emerging nations may actually widen as global growth recedes. China has expanded at more than four times the average G7 pace over the past half decade, but even if growth there drops by 2 percentage points towards 9% next year, the growth multiple will jump to 6:1. Growth rates in India and Russia are expected to be at least four times the average for G7 nations and a similar, though a somewhat more subdued, degree of outperformance is expected for many nations in Latin America and Eastern Europe.

There is a significant risk that prolonged weak and unbalanced global growth will heighten friction over trade and foreign direct investment — the principal sources of global locomotion over the past two decades. Mounting job losses in the United States and Europe will amplify political pressure to shelter hard-hit domestic industries from low-cost offshore competition. Foreign direct investment, particularly by sovereign wealth funds, also will become more politically sensitive. While the intended targets of official action may reside in emerging markets, an unintended consequence could be a lengthening and deepening of the current economic malaise in the major industrial nations.

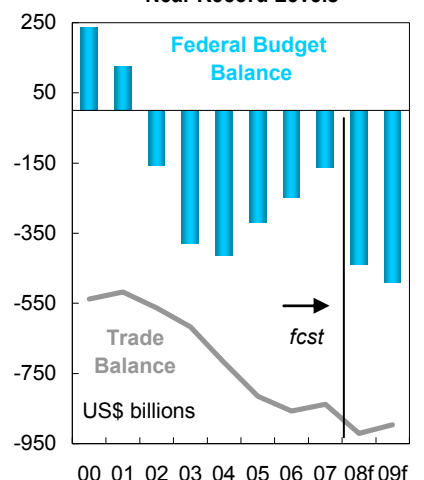
U.S. Housing Crunch Not Replicated In Canada



Canadians Still In Mood To Shop



U.S. Twin Deficits Near Record Levels





Commodity, Household & Fiscal Trends Support Canadian Outlook

Canadian growth is being dragged down by weakening U.S. demand, the loonie's return to parity and exceptionally high oil and natural gas prices. While these factors have clouded prospects for many manufacturing and globally focused industries such as tourism, the auto sector has been at the epicentre of the adjustment. At the turn of the decade, Canada reported a record \$21 billion trade surplus in motor vehicles and parts. This year, the industry will likely experience a trade deficit approaching \$10 billion.

The difficult ongoing adjustments in Canadian manufacturing must be kept in perspective. Since the start of the decade, domestic manufacturing employment has fallen by 11%, only half the 22% decline in the United States. In the euro zone, manufacturing employment has dropped by close to 25% since since 1990. Even China is reported to have experienced a contraction in manufacturing jobs in recent years, both because of improved productivity and a shift in labour-intensive production to lower-cost jurisdictions.

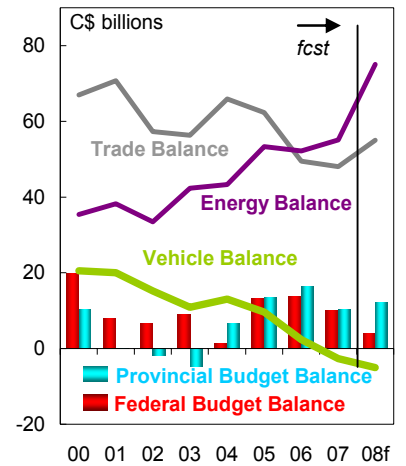
The loss in Canadian manufacturing exports has been cushioned by a big run-up in commodity receipts, which now represent more than half of the value of merchandise exports. Over the past year, Canada's trade surplus in commodities totalled \$117 billion, roughly 1½ times the combined deficits in other trade categories. The dramatic rise in commodity sales also has coincided with a diminution in Canada's reliance on U.S. markets, which this year will absorb roughly 77% of Canadian exports compared with a peak of 84% just over half a decade ago.

Robust commodity revenues also have underpinned Canadian budget surpluses and supported substantial fiscal stimulus. The longer-term, broad-based commitment of Canadian governments to balanced budgets is now proving to be an important national strategic advantage. With combined federal and provincial budget surpluses likely topping \$20 billion in FY2008, Canadian governments have boosted spending and cut taxes. Government investment in Canada's transportation, education and health care infrastructure has been an important engine of job creation — roughly half of employment growth over the past year has been in the public sector. In contrast, Washington has been forced to borrow its fiscal stimulus and will have difficulty reversing the resulting substantial deterioration in its fiscal fortunes if economic growth remains in the doldrums for a protracted period. U.S. federal fiscal support also will be tempered as hard-pressed state and local governments retrench to meet balanced operating budget requirements.

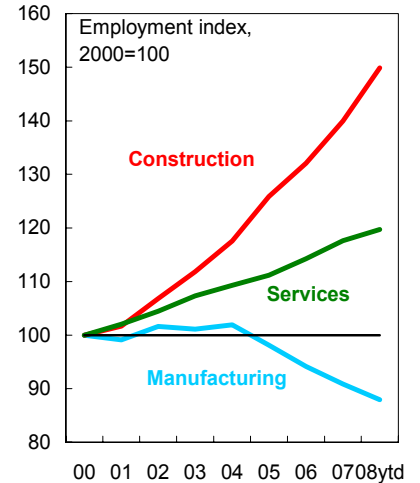
Unlike U.S. households that increasingly relied on home equity withdrawals to underwrite spending, Canadians have tended to build equity in their homes over the past decade. The leveraging up of higher-risk households that eventually precipitated the sub-prime mortgage crisis and credit crunch was not replicated on this side of the border. While Canadian residential construction is down about 10% from the peak reached two years ago and both sales and prices are likely to soften over the next year, residential activity will continue to be much less of a drag on overall growth.

Canada's fortuitous position as a major commodity producer, its strategic advantage in government finance and its legacy of household caution with respect to leverage have helped to shelter domestic activity from the gathering U.S. economic storm. Canadian output growth will probably not exceed the U.S. outcome in 2008, because inventory swings and weather-related disruptions triggered a mild contraction on this side of the border at the beginning of the year and massive fiscal stimulus is temporarily levitating U.S. demand. Difficult adjustments in the auto sector also are bound to impose a significant challenge in both countries. However, when it comes to measures of business and consumer confidence or the underlying resilience in domestic demand, Canada appears to have a longer-term performance edge, albeit with a marked skew towards its resource-producing regions.

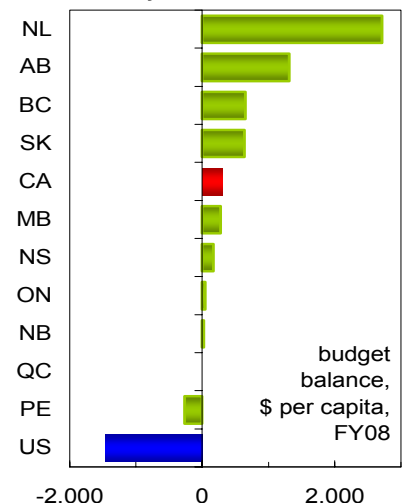
Canadian Twin Surpluses Underpin Domestic Spending



Canadian Job Growth Driven By Construction & Services



Canada's Fiscal Prudence Pays Growth Dividends





Inflation, Monetary Policy & The Outlook For Financial Markets

The juxtaposition of weakening demand in the United States, Europe and Japan with multi-year highs in their headline consumer inflation rates highlights the big influence emerging market demand for commodities is having on global economic trends. While the inflationary impetus from commodities should diminish in the months ahead, prices for many energy, industrial and agricultural products will be supported by robust demand from powerhouses like China, India, Russia and Brazil. Current capacity constraints leave energy prices particularly vulnerable to global supply disruptions. Inflation in food prices also is being stoked by a mixture of very tight crop inventories, growing demand for higher protein sources from emerging markets and the ramping up of biofuel production.

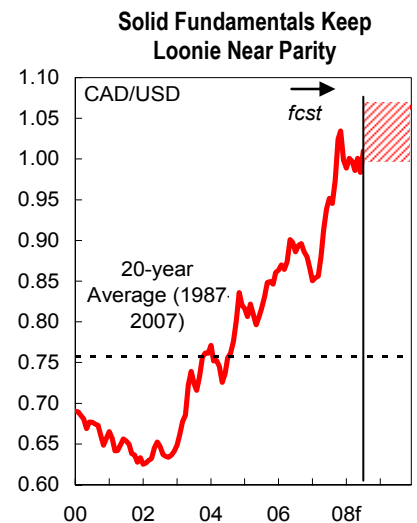
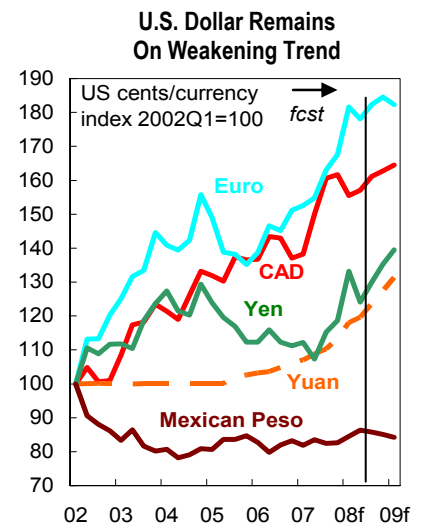
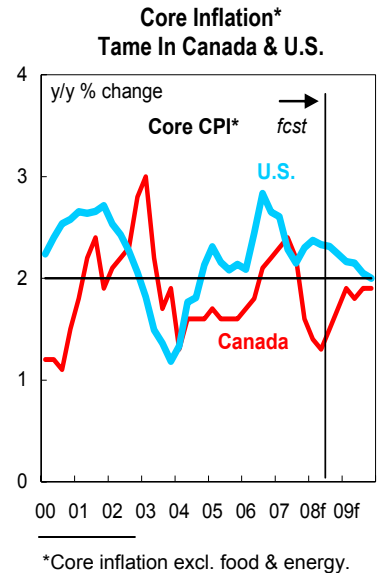
G7 central banks have increasingly voiced concerns about escalating prices and deteriorating inflation expectations, but only the ECB — with a 4%-plus headline inflation rate in the euro zone — has actually moved rates higher. Deteriorating economic conditions in the U.K., together with a greater official focus on lower core rates of inflation in the United States (around 2¼%) and Canada (below 2%), have kept policymakers in these countries on the sidelines. The Bank of Japan wouldn't be expected to be overly worked up about 1% inflation after nearly 10 years of flat-to-declining prices.

Looking ahead, sputtering European growth is expected to preempt further ECB rate increases and will likely encourage the Bank of England to cut rates by year-end. In the United States, risks to growth and financial market stability are expected to trump inflation concerns, with the Fed once again adopting a bias towards lower rates over the winter. With lower inflation on this side of the border, the housing market entering a slump and export volumes weakening, the Bank of Canada will likely follow suit.

The reluctance of global investors to continue funding record U.S. trade deficits, thereby adding to already overweight U.S. dollar investment positions, points to recurring bouts of U.S. dollar weakness and rising bond yields in the year ahead. Soaring energy prices have pushed the cost of imported petroleum and natural gas towards US\$500 billion, keeping the U.S. balance of payments shortfall stuck around US\$700 billion despite double-digit export growth, weakening demand for non-energy imports and a drop in oil import volumes. The trade shortfall with China also is unlikely to move much below \$225 billion as financially hard-pressed households become increasingly cost-conscious with their purchases.

The greenback may also be nearing a tipping point with respect to a broader basket of currencies as fund managers move to take advantage of the opportunities associated with robust growth, huge infrastructural investments and rapidly growing consumer markets in Asia and Latin America. Positive interest rate differentials may also induce capital inflows because many central banks in these regions have implemented multiple rate increases to deal with escalating inflation.

The Canadian dollar has been relatively stable in recent months, hovering near parity against the U.S. dollar despite soaring commodity prices and a high level of anxiety about U.S. economic and financial prospects. While the loonie's glide path may be buffeted by slowing domestic and global growth in the months ahead, Canada's enviable position as a resource-rich country in a resource-short world — and the associated revenues that support our twin trade and fiscal surpluses — are positive for the currency and point to further appreciation. Against a background of U.S. dollar volatility and weakness, the Canadian dollar is expected to have an appreciating bias and to average above parity in 2009.





NORTH AMERICA

Canada — A Broadening Economic Slowdown

Adrienne Warren

The Canadian economy is rapidly losing momentum. Output growth at mid-year is tracking around a 1% yearly rate, down from a 3% pace last fall. Domestic spending remains fairly robust, supported by tight labour markets and competitive retail pricing. Resource- and construction-related activity are both still in high gear, underpinned by soaring commodity prices and large public infrastructure commitments. At the same time, however, Canada's export performance continues to deteriorate alongside the steepening downturn in U.S. demand and lingering competitive issues associated with the strong Canadian dollar and lower-cost overseas production. Real GDP growth will likely average only 1½% this year and next, just half the average yearly advance registered since the start of the decade.

Consumer fundamentals are still generally favourable. The national unemployment rate remains close to a generational low at just over 6%, and average hourly earnings are rising at their fastest pace in more than a decade. Select industries, primarily in Western Canada, continue to report labour shortages. Motor vehicle sales are holding up reasonably well in the face of record gasoline prices, fuelled by enhanced incentives and price reductions. Household mortgage and consumer credit demand continue to expand at double-digit annual rates.

Even so, we expect consumers will temper their enthusiasm for big-ticket purchases in the year ahead as rising energy and food costs squeeze household purchasing power. Private sector hiring has slowed in recent months, with a notable shift toward part-time employment. Meanwhile, softening residential real estate markets and weaker equity returns are beginning to slow the spectacular personal wealth gains of recent years. Recent surveys show a marked deterioration in both consumer sentiment and major household buying plans as uncertainty over income and job prospects builds.

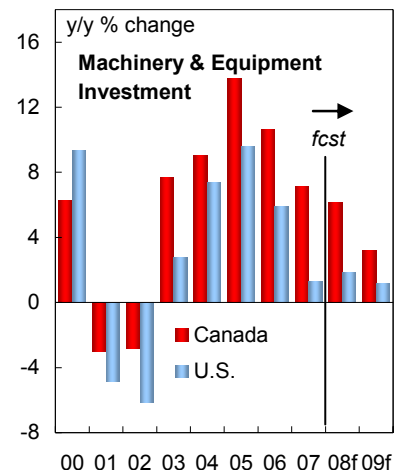
Growing excess capacity and slower corporate earnings growth should keep business capital expenditures on a relatively modest upward trajectory, even with the falling cost of imported machinery & equipment, recent federal and provincial tax incentives and the need to boost production efficiencies. Canadian labour productivity growth has averaged just under 1% annually in the past five years, less than one-half the comparable U.S. advance. Non-residential construction should remain an outperformer, bolstered by multi-year government infrastructure spending, major resource-related investments, and buoyant commercial markets.

Residential investment, on the other hand, will likely pose a modest drag on growth in 2008-09 for the first time in a decade. While renovation activity remains brisk, home sales have slowed steadily this year, reflecting reduced affordability, tighter credit conditions and depleted pent-up demand. An expanding inventory of unsold new homes, high construction costs, softening construction permits and better-balanced resale market conditions all point to a gradual moderation in new homebuilding.

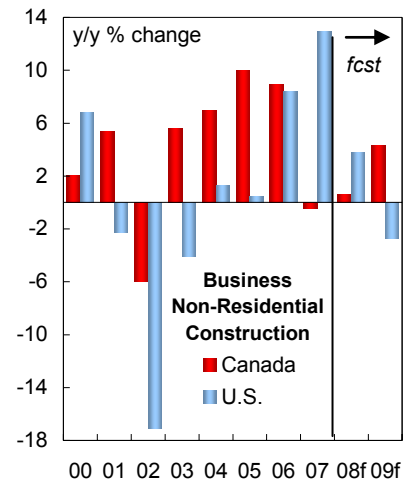
Maintaining at least a reasonably solid pace of domestic demand is essential to offset the growing drag from external trade. In volume terms, manufacturing shipments are off about 8% from their mid-2007 peak, as slumping U.S. demand for consumer goods and building materials and the persistently strong Canadian dollar trim export sales. Roughly half of Canadian manufacturing production is exported, largely to the United States. The contraction in sales has been broadly based, extending to both durable and non-durable producers, and is being reinforced by efforts to contain inventory levels.

While reduced export volumes are weighing heavily on Canada's economic performance, elevated energy and other commodity prices are maintaining a hefty merchandise trade surplus. This should be sufficient to keep Canada's overall current account in the black through the forecast horizon, even with an expected further widening in both the trade deficit in non-energy goods as well as in services.

Businesses Scale Back Capital Spending Plans



Construction Boom Eases





United States — Slower For Longer

Gorica Djerić

The United States is undergoing a period of economic dislocation. While the spreading downturn may not qualify as a ‘classic recession’, the data increasingly point to a ‘lower-for-longer’ economic slowdown. Average economic growth for 2008 is forecast at an anemic 1.5%, the weakest since 2001. The economy is projected to expand by a sub-par 1.0% in 2009, almost two percentage points below the ten-year average, weighed down by the lagged fallout from escalating energy prices and declining home values.

The current economic slowdown is largely attributed to a retrenchment in consumer spending, a segment that accounts for 70% of the U.S. economy. Following years of profligacy, American shoppers are being hit with a combination of a housing market correction, a credit squeeze, deteriorating employment conditions and spiraling food and energy prices. With consumer confidence testing generational lows, household outlays are sagging, particularly on discretionary items. Personal consumption is forecast to contribute on average only 0.7% to GDP growth in 2008 and 2009, compared with an average of 2.2% from 2000 to 2007.

Given the continuing discrepancy between supply and demand, the slumping U.S. housing market remains in search of a floor. After a decade of astronomical growth, home prices have fallen 15% from their 2006 peak, with mortgage foreclosures and delinquencies breaching record highs. The overextended U.S. consumer, who relied heavily on home-equity loans to finance major purchases, is now increasingly facing the prospect of negative home equity. Meanwhile, the sub-prime-induced credit crunch has led to substantially tighter lending conditions, adding to households’ financial strain. Cracks are also emerging in commercial real estate, as skittish consumers and stricter underwriting standards pressure profit margins and temper business outlays.

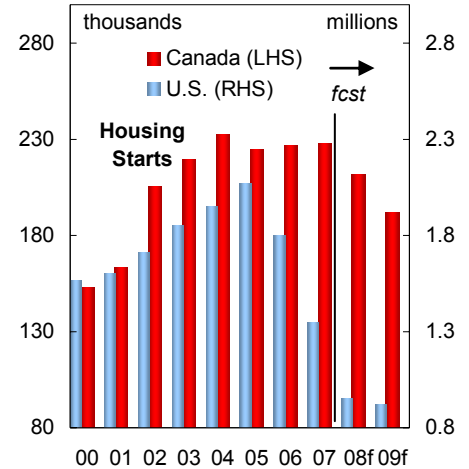
As the nation’s housing and credit markets swoon, the sluggish economy is squeezing the employment market, and along with decelerating wage increases is further hampering private consumption. The United States is undergoing broad private-sector employment losses, with leading indicators suggesting more turbulence ahead. Even the generally resilient service sector — which accounts for about 80% of U.S. economic activity — is losing steam. While the one-time ‘stimulus’ rebate cheques are expected to boost household spending through the summer, the impact is being blunted by rising food and gasoline bills.

Inflationary pressures are expected to moderate, but will likely remain sticky by historical standards. The relentless surge in the cost of food and energy — U.S. expenditures on oil, as a share of GDP, now mirror levels witnessed in the mid-1970s and 1980s — is undermining purchasing power. However, competitive retail pricing is making it more challenging for businesses to transfer rising input costs to customers, instead squeezing profit margins. Growing excess capacity, a weakening employment market and falling housing prices should help to avoid the wage-price spiral of the 1970s and keep underlying inflation expectations relatively contained.

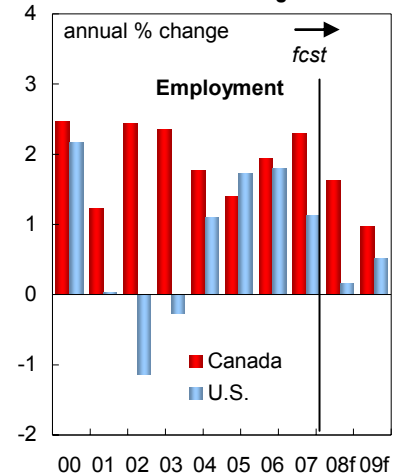
International trade is supporting the U.S. economy, and should help to sidestep an even deeper downturn. Exports, aircraft and heavy machinery sales in particular, are benefitting from a more competitive U.S. dollar and stronger economic conditions abroad. Looking ahead, U.S. export growth may ease as the global economy downshifts, caught between the second-round effects of the U.S. slowdown and intensifying inflationary pressures, but is likely to remain relatively firm.

The compounding effect of the housing and credit market corrections, deteriorating employment conditions and rising headline inflationary pressures on the U.S. economy is substantial, foreshadowing a protracted period of economic weakness. While the recovery may be muted, the Fed’s initiatives, the fiscal stimulus package and capital injections to the financial system are setting the stage for a gradual pick-up in 2009.

Housing Slowdown Much Deeper In The U.S.



Modest Service Sector Gains Offset Manufacturing Losses





Mexico — Structural Reforms Underpin A Favourable Growth Outlook

Francisco Gutiérrez

Mexico is well positioned to withstand the challenges posed by the U.S. economic slowdown. Most sectors of the economy are maintaining a healthy pace of growth, although persistent softness in export demand will weigh on overall prospects in 2008-09. Counter-cyclical fiscal policies are now in place, while higher inflation has forced the central bank to return to a tightening monetary policy mode. Trade balance and fiscal account viability will be cushioned by high oil prices. The political landscape will be shaped by congressional discussions on an executive proposal to overhaul the legal framework under which Pemex, the Mexican state-owned oil company, operates. Intense negotiations on the energy reform bill will result in a power struggle that is already being tainted by the approach of interim elections in mid-2009.

The Mexican economy will sustain a rate of GDP expansion averaging slightly above 3% during 2008-09. Output decelerated last year to 3.3%, as the economy adjusted to a slower U.S. performance. Despite worsening global prospects, manufacturing activity is still expanding, although mining output has slowed and oil production has declined. Double-digit credit growth and continued job creation will keep consumption growing at a 4.5% yearly rate. Even in the midst of an increase in corporate taxes, investment expenditures are being buoyed by growing corporate credit and favourable fiscal incentives aimed at managing the adverse effects of the global slowdown. Favourable public sector finances — on the back of persistently high crude oil prices — are projected to allow for a 27% yearly boost in public infrastructure investment.

Foreign trade will be supported by large oil-related revenues. Even though export volumes have recently declined, oil exports grew 34% on average during the second half of 2007, with even stronger gains registered in early 2008. Non-oil exports rose only 8.6% last year, though here, too, a moderate acceleration has been evident in recent months. Mexican products, particularly automobiles, have been gaining market share in the United States, buoyed by exchange rate competitiveness, while sales to alternative destinations in Latin America, Asia and Europe have been expanding at a 30% average annual rate over the past year. As domestic demand continues to grow — resulting in rising imports and a near-doubling of the trade deficit — the non-oil trade shortfall will keep widening. Nevertheless, buoyed by strong oil-related foreign exchange earnings and solid capital inflows, the peso will remain stable vis-à-vis the U.S. dollar in real effective terms.

INTERNATIONAL

Latin America — Uneven Resilience Across The Region

Pablo Bréard

Latin America is approaching the end of the current decade on a sounder institutional footing. The key developing countries in the Western Hemisphere, Brazil and Mexico, emerged as regional stabilizing forces during this period of global financial turbulence, thanks to the strength of their financial systems and business-friendly government policies. Mexico is gradually strengthening its democratic foundations, as proven by the fiscal and social-security reforms approved by an evenly-divided three-party Congress. The administration's energy-reform initiative is the first step towards a critical transformation of Mexico's energy sector. Brazil has become a major regional power and a key U.S. ally in the region.

International Outlook

Real GDP (annual % change)

	2007	2008f	2009f
Canada	2.7	1.1	1.6
United States	2.2	1.5	1.0
Mexico	3.3	2.8	3.4
Brazil	5.4	4.5	4.7
Argentina	8.7	6.0	4.0
Chile	5.1	4.2	4.5
U.K.	3.1	1.6	1.3
Germany	2.6	2.3	1.6
France	2.1	1.5	1.4
Italy	1.4	0.5	0.7
Japan	2.0	1.4	1.4
China	11.9	10.0	9.3
India	9.0	8.0	7.5
Korea	4.9	3.8	4.0

CPI (annual % change, end of period)

	2007	2008f	2009f
Canada	2.4	3.6	1.9
United States	4.1	4.0	2.3
Mexico	3.8	4.8	4.2
Brazil	4.3	5.0	4.5
Argentina	10.0	25.0	20.0
Chile	7.8	6.5	4.0
U.K.	2.1	4.0	2.3
Germany	3.1	3.3	2.0
France	2.8	3.2	2.1
Italy	2.8	3.8	2.3
Japan	0.7	1.4	0.7
China	6.5	6.0	3.5
India	7.0	9.0	6.3
Korea	3.6	5.0	4.0

Current Account (% of GDP)

	2007	2008f	2009f
Canada	0.9	1.4	0.7
United States	-5.3	-5.3	-4.8
Mexico	-0.9	-1.4	-2.4
Brazil	0.3	-0.9	-1.4
Argentina	2.8	0.9	-0.5
Chile	4.3	-0.5	-1.0
U.K.	-4.2	-4.5	-4.7
Germany	6.5	5.4	4.8
France	-1.2	-1.5	-1.9
Italy	-2.4	-2.9	-2.9
Japan	5.0	4.8	5.2
China	11.4	9.4	8.2
India	-1.4	-2.7	-2.3
Korea	0.6	-1.6	-1.1

Overall, the region continues to weather the aftershocks of the U.S.-led sub-prime crisis and ensuing credit distress relatively well. The combination of an adequately regulated financial sector and an underdeveloped domestic capital market prevented the proliferation of obscure structured-finance investment vehicles in mortgage finance markets. In fact, the strong pace of credit expansion remains intact despite the severe housing market contraction in the United States and associated systemic shocks in selected U.S.-based financial institutions. Looking ahead, the development of local-currency securities and lending markets will proceed apace throughout the region. Of utmost relevance in this respect is the potential offered by Brazil, given the positive outcome evident in Mexican domestic fixed-income markets.

The U.S. economic slowdown is a fact already incorporated in business plans. However, not every country in Latin America will be affected in the same way. Geographical proximity and trade interconnectedness will be key factors determining the eventual impact of a more severe U.S. contraction. Mexico and the largest — some of which fully dollarized — countries in Central America will, in relative terms, be more negatively affected, whereas economies in the southern cone seem better positioned to sustain momentum in trade and investment flows. Industrial output growth in Brazil, Peru, and even Argentina, still remains high, yet current readings indicate a decline in growth rates.

Slower global growth and more intense commodity-linked inflationary pressures continue to pose challenges to regional policymakers. Supply-side shocks fuelled escalating price pressures in energy and foodstuff components (global leaders refer to this issue as a global food security crisis), undermining the growth outlook. Rising inflationary expectations have become the norm in the region. Argentina and Venezuela are at the high end of the spectrum with inflation rates above 20%. Chile has failed to contain inflation, and currency gains have prompted the authorities to intervene in currency markets and tighten monetary conditions. Of utmost relevance to the region, inflation in Brazil and Mexico remains manageable, though rising. Both central banks have reverted to a monetary tightening bias.

The pursuit of (traditional) energy security will continue to shape intra-hemispheric economic relations and political alliances. President Hugo Chavez will continue to use (so far ineffectively) Venezuela's vast oil reserves as an alliance-building vehicle with minor countries. The near-clash between Ecuador and Colombia — as well as the troop deployment by Venezuela — provided a vivid reminder of the fragile nature of democratic institutions in these countries. Public sector governance also remains a serious issue of concern in Argentina (as reflected in the long-standing conflict between the Federal government and regional farmers) in the presence of excessive concentration of power in the hands of a few individuals without congressional or judicial scrutiny.

Europe — Economic Growth Eases

Erik Nilsson

Price pressures are intensifying across Europe. In the euro zone, consumer price inflation has touched 4%, its highest level since the formation of the European Monetary Union, triggering a fresh round of monetary policy tightening. Pressures are still largely centred on food and energy. Indeed, the core inflation rate (which excludes food, energy, alcohol and tobacco) has been holding relatively steady for the past year, averaging less than 2%. Until recently, wage gains have been subdued. However, the 'spring offensive' in Germany yielded annual settlements of 4%-plus, raising the risk of spillover effects into neighbouring nations. Consumer inflation has also spiked higher in the U.K., necessitating another letter from the Bank of England Governor to the Chancellor of the Exchequer outlining the reasons for the overshoot of the government's inflation target and the remedial measures to be taken by the central bank.

International Outlook

Fiscal Balance (% of GDP)

	2007	2008f	2009f
Canada	0.7	0.2	0.2
United States	-1.2	-3.1	-3.3
Mexico	-1.0	-2.0	-2.0
Brazil	-2.3	-2.0	-2.5
Argentina	1.5	1.0	0.0
Chile	5.0	4.0	3.0
U.K.	-2.9	-3.3	-3.5
Germany	0.0	0.2	0.2
France	-2.7	-2.9	-3.0
Italy	-1.9	-2.5	-2.8
Japan	-2.4	-1.8	-2.5
China	0.7	0.2	-0.5
India	-6.5	-8.0	-7.3
Korea	3.0	2.0	2.0

Foreign Reserves (US\$ bns)

	2007	2008f	2009f
Mexico	78	90	94
Brazil	180	240	300
Argentina	46	52	55
Chile	16	24	28
U.K.	42	48	45
Germany	44	45	48
France	46	50	50
Italy	28	30	30
Japan	953	1040	1150
China	1530	2000	2500
India	290	315	325
Korea	262	265	270



A broadly based economic deceleration is also under way in Western Europe, where growth will average about 1½% in 2008-09. Although labour market conditions in both the euro zone and the United Kingdom have remained favourable, the pick-up in consumer price inflation is undercutting disposable incomes and contributing to an erosion in confidence. As a result, consumer spending in the euro zone will remain subdued. A softening is also evident in the U.K. alongside the cooling in the housing market.

The spillover effects of the U.S. sub-prime crisis have been relatively well-contained, despite the failure of several financial institutions in the U.K. and Germany and a sharp increase in write-downs among commercial banks. Although the banking system is wrestling with higher wholesale funding costs, the data do not yet suggest any significant impairment of credit flows to the non-financial sector, with the important exception of the housing market, where tighter lending standards are beginning to weigh on mortgage availability and house prices.

Russia's robust growth prospects are underpinned by its status as the world's pre-eminent energy exporter, though the rapid pace of expansion has led to double-digit inflation. A large current account deficit and a deterioration in price stability are weighing on Turkey's near-term economic outlook. In a period of increased global credit risk differentiation, investors have downgraded their outlook for net energy importing countries with sizeable current account deficits. Monetary policy tightening and a slowing in foreign demand point to a deceleration in Poland, the largest of the central European economies. Nevertheless, growth is on track to register gains of about 5% over the next two years. The outlook for a business-friendly approach to economic reform has improved since the new administration took office at the end of 2007.

Asia/Pacific — Inflation On The Rise

Erik Nilsson

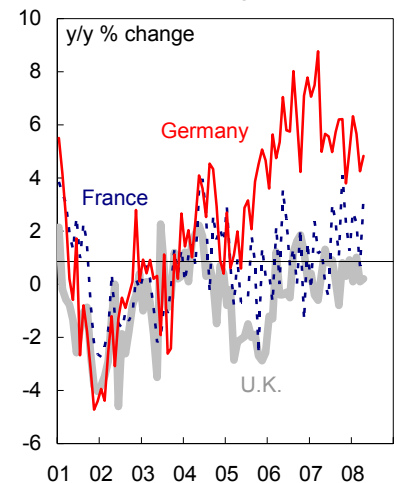
Food- and energy-driven inflation continues to intensify across most of Asia, though some easing has recently occurred in China. Monetary authorities have been slow to respond to these pressures by raising interest rates, but are now beginning to shift to less accommodative monetary policies, with recent tightening implemented in such countries as India, Indonesia, Thailand and Vietnam. Thus far, uncertainties regarding global economic growth, ongoing fragility in capital markets and concerns regarding the extent of currency appreciation in the aftermath of any increase in domestic interest rates have constrained their willingness to tighten. In general, there has been a strong preference to rely on administrative initiatives to counteract current inflationary pressures. In addition to costly fuel subsidies, these have included reductions in import tariffs, moral suasion, a broadening of direct price controls, restrictions on exports of basic foodstuffs and highly-publicized investigations of alleged hoarding. However, the authorities are now becoming more hawkish and are increasingly turning to traditional monetary policy instruments to accompany their inflation-containment measures.

The Japanese economy will register gains of 1½% or less through 2009. Its growth potential is capped by a slowly declining population and by a massive public debt overhang. The large-scale exodus of experienced employees has not yet triggered an increase in real wages, as they are being replaced by lower-cost entry-level workers, with an attendant adverse impact on incomes and spending. In Australia, growth prospects are being dampened by the Reserve Bank's restrictive monetary policy stance. Some cooling in the housing market and in overall consumer spending is gradually taking shape, though the shift from domestically-driven growth to an export-led expansion is proving to be slow despite the stimulus offered by the run-up in commodity prices.

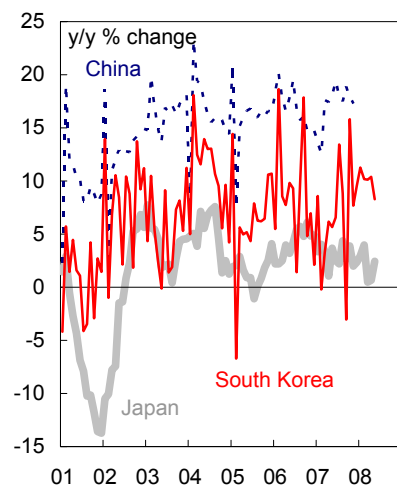
Economic deceleration is evident across much of developing Asia, although the region continues to demonstrate impressive resilience in the face of rising energy

Industrial Production

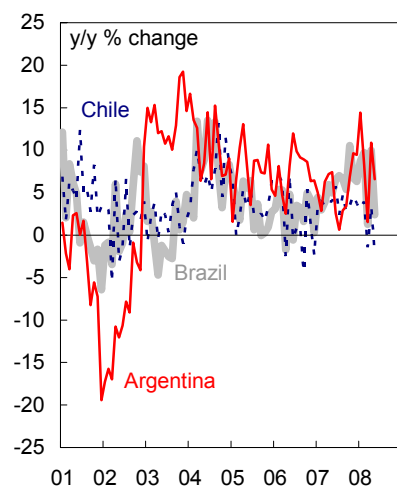
Europe



Asia



Latin America



and food costs and slowing growth among industrialized countries. Even with the easing, however, we still expect China to expand by 10% this year and India by 8%, with some additional slowing evident in 2009. Asian export earnings remain robust, but domestic spending is tending to lag. Consumer outlays are being constrained by the run-up in the cost of basic necessities, and global market turmoil — along with some tightening in credit conditions — is weighing on business investment. Rapidly rising food costs and the heavy fiscal burden of energy price subsidies have become major policy challenges throughout the region.

Asian currency trading patterns are beginning to diverge alongside policy differences regarding the conflicting ambitions of sustaining export growth and anchoring inflationary expectations. After a temporary hiatus, the Chinese yuan has resumed its strengthening trend vis-à-vis the U.S. dollar — a trend that we expect to continue — and the Singapore dollar is also undergoing an officially-inspired appreciation. In contrast, the new Korean administration has been willing to countenance a period of won weakness to buoy exports, and diminished portfolio capital inflows are weighing on the Indian rupee. In the longer-term, the Hong Kong Monetary Authority's current policy of maintaining the currency's peg against the U.S. dollar may come under increasing pressure as the Hong Kong dollar continues to depreciate against the renminbi.

INDUSTRY & COMMODITY

Oil Prices Will Remain Lofty

Patricia Mohr

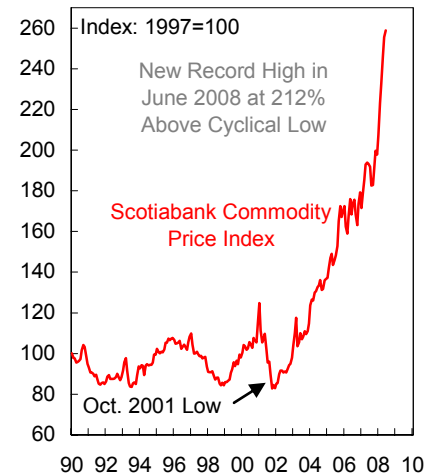
Scotiabank's Commodity Price Index soared to new record highs in the first half of 2008, despite the slowdown in the United States. Global supply/demand conditions remain tight for many commodities, with new project development in oil & gas and parts of the mining sector still not catching up to the growth of 'emerging market' demand — especially in China, India, Southeast Asia, Brazil and Russia. The All Items Index has climbed 212% above the cyclical low in October 2001 and is approaching the huge cyclical upswing during the 1970s in the aftermath of the Arab oil embargo. Measured over the same time period, the current advance has been stronger.

The Oil & Gas and Metal & Mineral sub-Indices have jumped by more than 40% since late 2007, and the Agricultural Index has strengthened, though wheat prices have recently lost ground in anticipation of new crop supplies. The Forest Products Index has also increased alongside stronger U.S. newsprint & fine paper prices and a seasonal rally in lumber and OSB prices.

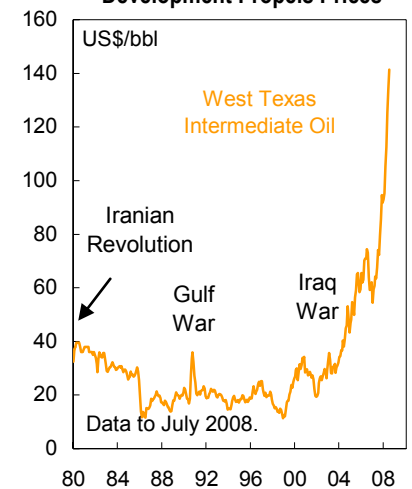
WTI oil prices surpassed US\$147 per barrel in early July, a new record high and more than double the US\$71 of a year earlier. While intermittent 'geopolitical supply risks' and hedge fund interest in commodities as an 'investment class' continue to boost prices, the slow pace of new oil field development — particularly in non-OPEC regions — is the key driver behind record oil prices. Russian oil production dropped year-over-year in the first five months of 2008, after contributing 80% of non-OPEC gains to feed growing demand in China and India earlier in the decade. High taxes, uncertainty over foreign oil company access to reserves (above a certain level) and depletion in Western Siberia are constraining Russian output. This year is shaping up in similar fashion to 2006 and 2007, when incremental non-OPEC supplies (500,000 b/d) met less than half of global demand growth (1.1 mb/d).

While OPEC (particularly Saudi Arabia and Angola) is making substantial progress in boosting field capability, the cartel has generally been slow (until recently) to make it available, in view of the declining purchasing value of the U.S. dollar. At its June 22 summit, Saudi Arabia signaled its willingness to boost oil output to 9.7 mb/d in July, a significant 200,000 b/d on top of a 300,000 b/d increase

A Supercycle In Commodities



Slow Oil Field Development Propels Prices



in mid-May — to prevent high prices from derailing global growth. However, Saudi Arabia will not discount prices to place the oil, and the market largely ignored the development, given further supply disruptions in Nigeria and growing tensions over Iranian uranium enrichment. Oil prices will remain at exceptionally lofty levels over the balance of the decade, given prospects for only slow development of non-OPEC supplies.

Nymex natural gas prices (a key determinant of Canadian export prices) have also doubled over the past year — boosted by record oil prices. LNG imports into the United States have receded, with high LNG prices keeping supplies in Japan and Western Europe, at least temporarily. A return to lucrative prices, combined with some improvement in Alberta's royalty system for 'deep' natural gas and for 'multilateral' drilling (used in coal bed methane), should lift Alberta's drilling activity in late 2008-09, after a sharp decline since the fall of 2006. Interest in the oil & gas shale plays of northeastern B.C. and Saskatchewan will remain intense.

Potash and sulphur prices at the Port of Vancouver have also leapt to record highs and will strengthen further amid tighter global supplies of grains & oilseeds, stepped-up international plantings of corn, palm oil and sugar cane for biofuel production (ethanol and biodiesel) and the rejuvenation in world farm income.

Western Canadian coking coal producers are also enjoying a tripling in the price of premium-grade hard coking coal to Japan and other Asian markets this fiscal year. Prices have been pushed up by a global supply deficit, mine floods in Australia in early 2008 and the ongoing strength in steel-intensive infrastructure development in emerging markets. However, prices may ease back in 2009-10, as significant new mine, port and rail capability comes on stream in Australia.

Mill curtailments have contributed to a recent rally in lumber and OSB prices back to average mill cash costs in most producing regions of North America. However, a sustained pick-up in building material prices is not expected until late 2009-10, given a prolonged period of soft U.S. housing activity. In contrast, packaging & paperboard prices remain quite profitable and mill rationalization, combined with lower European exports to the United States, have tightened North American supplies of newsprint and fine paper, allowing sizeable price hikes, despite weak consumption. High Russian export taxes on pulpwood logs are also curtailing Nordic pulp production.

Services Downshift

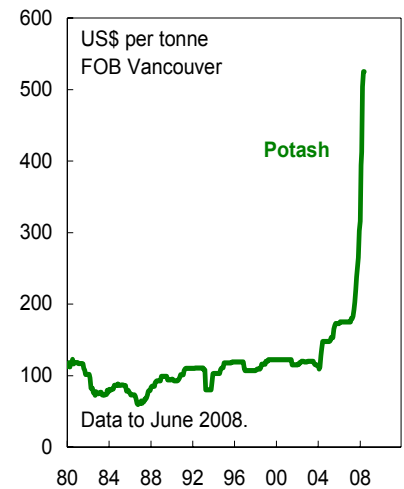
Carlos Gomes

The Canadian economy stalled in early 2008, alongside a worsening outlook for the export-intensive manufacturing sector of central Canada and some moderation in services. The slowdown in services has been concentrated in financial services — a leading growth sector through mid-2007 — transportation and tourism. Financial services have been dampened by the global credit crunch, and the financial market turmoil since last August, while transportation — especially trucking and air traffic — will continue to be held back by oil prices approaching US\$150 per barrel.

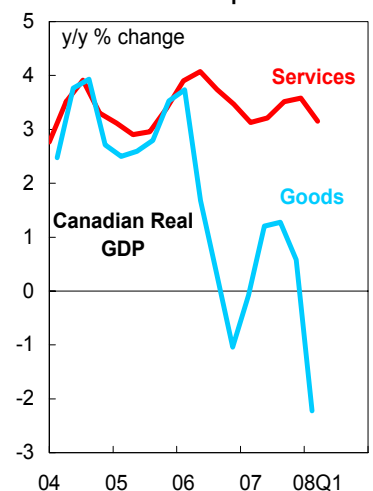
Recent double-digit declines in many equity markets have encouraged Canadians to redeem their equity funds this year, pushing down managed mutual fund assets below a year earlier for the first time since 2003. Some investors slowly started to return to the equity markets last spring, after the U.S. Federal Reserve helped to facilitate the acquisition of Bear Stearns. However, given the current uncertain and volatile economic and financial market environment, most investors are likely to remain cautious, keeping mutual fund asset growth below the double-digit pace recorded between late 2003 and mid-2007.

Health care has been one of the most resilient sectors. Across all levels of Canadian government, health outlays in FY2008 are forecast to climb almost 8%,

Agriculture Boom Good News For Fertilizer Producers



The Highs & Lows Of Canadian Output Growth



matching the FY2007 increase, and private-sector health expenditures should continue to expand. A key factor maintaining health as a growth leader is the aging baby boom population, with the number of senior citizens in Canada and the United States expected to surpass 45 million by the end of the decade and to exceed 80 million by 2030. With retirements intensifying skill shortages, post-secondary education and retraining should also prove resilient. Propelling Canada's public-sector education spending last year was an estimated 8.3% jump in expenditures on post-secondary education.

Construction activity is shifting from residential to infrastructure development — including pipelines, transportation, energy, education and health care facilities. Much of the investment will be undertaken by the three levels of government in an attempt to reduce Canada's infrastructure deficit — estimated at more than \$100 billion.

The auto industry — which represents nearly 40% of Ontario's exports — continues to slash output due to softening U.S. demand and ongoing industry restructuring. We expect North American vehicle assemblies to slump below an annualized 14.0 million units during the summer — the lowest level since the early 1990s — leading to a double-digit decline in Canadian vehicle production in 2008. Despite the ramping up of several new models in late 2008, the improvement in Canadian vehicle output next year will be dampened by the closure of a truck plant and the decline in U.S. demand to 14.3 million units — the lowest level since the early 1990s and down from an average of 16.7 million over the past decade.

Automakers are shifting assembly capacity from mature markets such as North America, to higher-growth and lower-cost regions. Close to 90% of all new capacity put in place over the past five years has been outside of the mature auto markets of North America, Japan and Western Europe. Mexico is a key beneficiary of the shift to emerging markets, with vehicle output expected to exceed 2.5 million early next decade — challenging Canada's position as the second-largest vehicle-producing nation in North America. This development is troubling for the Canadian auto parts sector, because the industry remains almost exclusively focused on the domestic and U.S. markets.

While production is under pressure, vehicle sales in Canada are expected to average 1.67 million units through 2009, up from an annual average of 1.60 million over the past five years. The increase reflects improved affordability, as automakers have lowered new vehicle prices to bring them more in line with prices in the United States. Sales gains are strongest in Saskatchewan, with farm income and other personal income bolstered by stronger grain prices.

The aerospace sector is an exception to the weakness plaguing most manufacturing industries. Output is posting double-digit gains, benefitting from a record global order backlog for fuel-efficient planes at a time when high oil prices are prompting airlines to replace gas-guzzling older planes, amid a slowdown in air traffic. Canadian companies are leaders in the business and regional jet market and in providing simulation and integrated training solutions for the aviation industry.

Canadian Output (annual % change in real GDP)

2006 Share		2000-06	2007	2008f	2009f
100.0	Total: All Sectors	2.9	2.5	1.1	1.6
68.3	Services	3.4	3.4	2.6	1.7
12.4	Real Estate	3.3	3.5	2.4	-1.2
6.2	Financial Services	3.5	5.5	3.3	2.4
4.7	Transportation & Storage	2.5	1.6	0.6	1.0
7.2	Professional Services	4.6	3.6	2.4	2.4
16.6	Gov't, Health & Education	2.1	2.3	2.6	2.5
4.1	Communications	4.1	2.2	2.0	1.9
11.5	Trade (Retail & Wholesale)	4.8	5.0	3.4	2.4
5.5	Other Services	3.3	3.1	3.4	2.4
31.7	Goods Production	2.1	0.5	-2.1	1.6
12.7	Primary	1.7	-0.6	-2.9	2.7
1.9	Agriculture & fishing	0.6	-0.6	1.3	2.8
2.0	Forestry & lumber	2.1	-7.7	-10.8	0.0
1.4	Pulp, paper & printing	-0.4	-3.5	-5.8	1.1
3.6	Oil, gas & coal	1.3	3.2	-1.7	4.5
0.5	Drilling	8.6	-16.2	0.5	6.0
1.1	Other mining	2.3	8.5	-2.3	3.7
2.2	Steel & metal fabricating	2.8	0.5	-1.3	1.5
10.2	Manufacturing	0.8	-0.4	-3.9	1.3
2.0	Food & beverages	1.3	1.0	-0.4	0.4
2.2	Motor vehicle & parts	-0.5	-3.0	-14.3	1.0
0.8	Aerospace-transp. equip.	1.1	8.1	10.4	4.0
1.2	Machinery	3.3	2.5	-0.7	2.1
0.8	Telecom/computer equip.	-4.0	2.8	-1.3	3.2
2.5	Chemicals & refineries	3.3	-3.8	-4.5	0.8
6.2	Construction	6.1	3.4	1.0	0.3
2.6	Utilities	0.6	3.5	1.0	1.0



THE PROVINCES

A Continuing Regional Divide

Adrienne Warren

Soaring commodity prices will maintain a persistent performance advantage in the resource-rich regions this year and next, even as economic conditions nationwide soften.

A vibrant mining sector alongside a pick-up in natural gas exploration should underpin GDP growth in **British Columbia** of 2.6% in 2008-09. Construction activity is also expected to remain brisk in the lead-up to the 2010 Winter Olympic Games in Vancouver. The province's beleaguered forestry sector, accounting for almost 40% of its exports, will remain a significant drag on growth amid the continuing retrenchment in U.S. homebuilding and weak lumber prices.

Alberta is expected to remain near the top of provincial growth charts this year and next, posting an average GDP gain of 2.7%. Oil & gas drilling activity softened further in the first half of 2008, but is expected to pick up moderately again by 2009. Meanwhile, strong employment and wage growth alongside fiscal stimulus are supporting domestic demand.

Saskatchewan's dominant global position in potash and uranium production will help the province sustain a nation-leading advance averaging 2.9% in 2008-09. Stronger wheat and canola prices are also propelling its vast agricultural sector, while population inflows and employment gains are providing a major boost to retail sales and housing demand. **Manitoba's** diverse economy should support average output growth of 2.5% this year and next. Robust construction activity, including work on the Wuskwatim hydroelectric dam, is reinforcing rising crop receipts and strength in select manufacturing industries such as aerospace parts and transit buses.

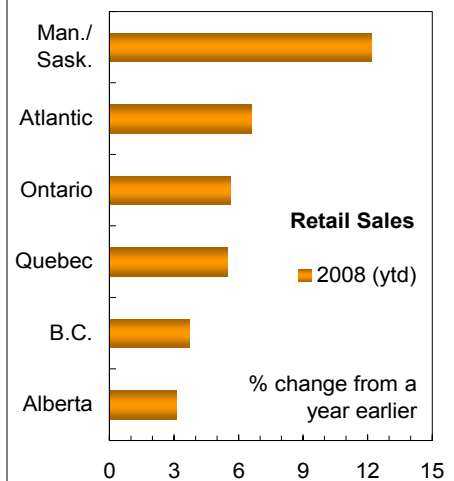
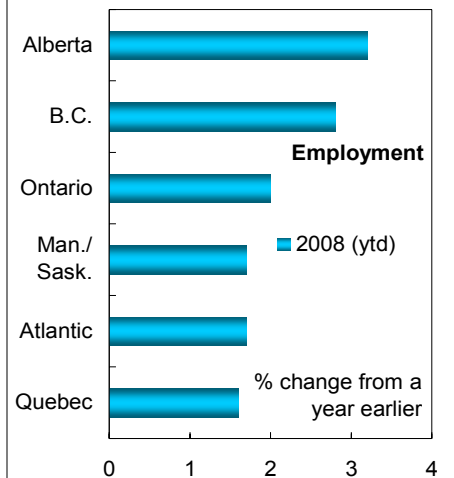
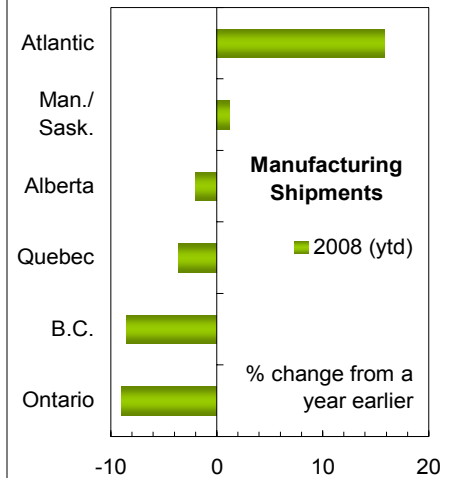
Ontario's economy will remain challenged by ongoing manufacturing restructuring, particularly in its large motor vehicle & parts industry, limiting GDP growth to an average of only 0.7% this year and next. Still, buoyant non-residential construction, including major commercial, institutional and transit projects are providing important support, as is strength in mining and in a broad range of service-oriented industries.

Weakness in the goods-producing sector, including forestry, will also keep **Quebec's** expansion below the national trend, at around 0.9% in 2008-09. However, a large order backlog in the aerospace industry will provide some assist to the province's large manufacturing sector, while major hydroelectric power expansions and public infrastructure investments are ongoing.

New Brunswick's growing position as an energy refining and distribution hub should support average output growth of 1.8% over the two-year forecast horizon. Construction activity is being bolstered by major energy and mining projects, providing some offset to continuing soft markets for forest products. In **Nova Scotia**, offshore natural gas production is expected to underpin average growth of 1.7% through 2009. Aerospace manufacturing and shipbuilding are helping to offset weakness in the forestry industry and more challenging tourism conditions.

Weak agri-food prices, namely for lobster and potatoes, and rising operating costs are expected to limit **Prince Edward Island's** expansion to an average of 1.1% in 2008-09. The construction sector is benefitting from sizeable infrastructure outlays, but tourism receipts are constrained by the strong Canadian dollar, a slowing U.S. economy and record gasoline prices. Following a surge in resource-related production in 2007, growth in **Newfoundland & Labrador** is expected to ease to an average of 1.0% over the next two years, ahead of the next wave of major projects. Strong commodity prices are supporting mine expansions and offshore oil exploration, while robust employment gains are underpinning retail and housing activity.

Provincial Performance





Regional Performance

	2000-06	2007	2008f	2009f	2000-06	2007	2008f	2009f
	<u>Real GDP</u> (annual % change)				<u>Budget Balance, FY March 31</u> (after special account transfers, \$ mn)			
Canada	3.0	2.7	1.1	1.6	10,378	13,752	10,000	4,000
Newfoundland and Labrador	4.2	9.1	0.3	2.0	-419	154	1,377	544
Prince Edward Island	2.1	2.0	1.0	1.2	-35	24	-37	-35
Nova Scotia	2.2	1.6	1.3	2.0	-9	182	158	190
New Brunswick	2.3	1.6	1.5	2.1	57	237	18	19
Quebec	2.2	2.4	0.7	1.2	-180	109	0	0
Ontario	2.8	2.1	0.4	1.0	-525	2,269	600	0
Manitoba	2.4	3.3	2.5	2.5	n.a.	530	329	96
Saskatchewan	1.8	2.8	3.0	2.8	132	293	641	250
Alberta	4.3	3.3	2.5	2.9	4,348	8,510	4,581	1,568
British Columbia	3.2	3.1	2.4	2.7	287	4,079	2,886	50

	<u>Employment</u> (annual % change)				<u>Unemployment Rate</u> (annual average, %)			
Canada	1.9	2.3	1.6	1.0	7.1	6.0	6.1	6.4
Newfoundland and Labrador	1.0	0.6	2.4	1.1	16.0	13.6	12.9	12.4
Prince Edward Island	1.9	1.0	1.8	0.6	11.4	10.3	10.4	10.4
Nova Scotia	1.3	1.3	0.8	0.7	8.9	8.0	7.9	8.0
New Brunswick	1.3	2.1	1.0	1.0	10.0	7.5	8.4	8.4
Quebec	1.8	2.3	1.0	0.8	8.5	7.2	7.2	7.6
Ontario	2.0	1.6	1.5	0.6	6.5	6.4	6.6	7.1
Manitoba	1.2	1.6	1.8	1.1	4.9	4.4	4.2	4.4
Saskatchewan	0.6	2.1	1.4	1.3	5.3	4.2	4.2	4.0
Alberta	2.8	4.7	2.8	1.6	4.6	3.5	3.5	3.8
British Columbia	2.1	3.2	2.4	1.7	7.0	4.2	4.4	4.2

	<u>Housing Starts</u> (annual, thousands of units)				<u>Motor Vehicle Sales</u> (annual, thousands of units)			
Canada	203	228	214	190	1,593	1,654	1,690	1,650
Atlantic	12	12	12	11	110	118	125	122
Quebec	43	49	46	41	402	408	428	413
Ontario	79	68	72	62	623	593	590	566
Manitoba	4	6	5	5	44	45	47	47
Saskatchewan	3	6	6	6	38	44	48	49
Alberta	37	48	37	33	197	249	256	257
British Columbia	26	39	36	32	179	197	196	196

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