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## **Provincial Economic Outlook for 2008-09 by Sébastien Lavoie, economist of Laurentian Bank Securities**

**Montreal, January 10, 2008** - Sébastien Lavoie, economist of Laurentian Bank Securities, has disclosed this morning the Provincial Economic Outlook for 2008-09. The full report is on Laurentian Bank Securities Economic Research web site:

<http://www.lb-securities.ca/EconomicResearch>

### **Softer economic prospects anticipated in most provinces in 2008**

In 2008, the Canadian economy will face many of the same challenges it did in 2007, only compounded by higher crude oil prices, a stronger Canadian dollar, weaker U.S. domestic demand, and considerable financial market volatility. In this context, economic growth will be slower in most provinces this year.

Despite showing some signs of moderation, "the Best is in the West". In British Columbia, the economy will expand at a healthy pace of at least 3% until the 2010 Winter Olympics. Robust investment and consumer spending activity will more than compensate for the strain coming from the deteriorating US housing sector. In Alberta, the province's decision to increase energy royalties by 20% by 2010 will lead to a reduction in capital spending from oil & gas companies. The fact that Alberta's economic growth will come off the broil to hit 3% in 2008 is not a bad thing, providing some time for everyone out there to catch their breath. Saskatchewan and Manitoba should outperform slightly the national average of 2.3%, expanding between 2.5-3.0%. The demographic turnaround and elevated commodity prices will continue to bring good fortunes in Saskatchewan. Manitoba's diversified economy will be able to cope well with the weaker external economic environment.

In Central Canada, it is more of the same. The manufacturing-based economies of the Quebec and Ontario, counting for about 60% of Canada's economy, will continue to advance modestly. The Quebec economy expanded close to 2% every year since 2001 and there is no reason to believe that growth will derail meaningfully from that path in 2008. The manufacturing correction will persist with renewed job losses while respectable income growth and personal income tax cuts will support domestic activity. Similar to Quebec, Ontario has seen better days and no major recovery is in sight. 2007 marked the first year where it is more difficult to find a job in Ontario than in the rest of the country. For 2008, a weak motor vehicle outlook and the continuation of housing market troubles south of the border will keep Ontario's automotive and forestry sectors in the slow lane. Both housing activity and consumer spending are expected to advance at a pace below the national average once again.

In the Atlantic region, we anticipate a mix of economic performances. After a rock-solid expansion in 2007 driven by oil production, economic growth in Newfoundland & Labrador will be quite timid in 2008, amid a declining population base and soft job creation prospects. Similarly, economic activity in Prince-Edward-Island is expected to stay below the 2% mark in 2008. The performance of the service-oriented economy of Nova Scotia will be below the

national average as well, but respectable. The provincial government also made significant progress about equalizations and offshore revenues with Ottawa, which could help Nova Scotians in the long run. New Brunswick will be home of the stronger economic performance in the Atlantic region in 2008, as continued robust non-residential construction activity offsets tax hikes.

### **Softer economic prospects will translate into leaner budgetary balances**

Over the last few years, the robust performance of the Canadian economy allowed provinces to increase revenues, register surpluses, reduce their debt burden and improve their credit ratings. However, the moderation in economic activity will translate into leaner budgetary balances. For the current fiscal year 2007-08 ending this spring, the combined provincial budgetary surplus is on track to be the lowest in four years, in the tune of \$7 billion. Disparities in fiscal fortunes from coast to coast are evident, with provincial governments in Western Canada registering big surpluses while most in Atlantic and Central Canada are consistently challenged to balance the books.

Provincial finance ministers are currently preparing the ground for the 2008 Budget season, knowing that soft economic activity is still ahead. In turn, the next fiscal year 2008-09 will be even more challenging. However, we do not anticipate the provinces to return in deficit territory. With infrastructure and health costs escalating, some provinces could be forced to put the breaks on the spending purse in other areas to keep the books balanced. Some businesses will benefit from already-announced tax relief, such as the new manufacturing aid plans announced by the Quebec and Ontario governments. Individuals should not hope too much for new tax cuts while debt reduction is unlikely to be aggressive. Instead, environmental policies could be on top of the provincial fiscal agenda this year.

### **About Laurentian Bank**

Laurentian Bank of Canada is a banking institution operating across Canada and offering diversified financial services to its clients. Distinguishing itself through excellence in service, as well as through its simplicity and proximity, the Bank serves individual consumers and small and medium-sized businesses. The Bank also offers its products to a wide network of independent financial intermediaries through B2B Trust, as well as full-service brokerage solutions through Laurentian Bank Securities.

Laurentian Bank is well established in the Province of Quebec, operating the third-largest retail branch network. Elsewhere throughout Canada, it operates in specific market segments where it holds an enviable position. Laurentian Bank of Canada has close to \$18 billion in balance sheet assets and more than \$15 billion in assets under administration. Founded in 1846, the Bank employs close to 3,300 people.

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