



Press release

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PROVINCIAL ECONOMIC OUTLOOK BY SÉBASTIEN LAVOIE, ECONOMIST OF LAURENTIAN BANK SECURITIES

Montreal, September 2, 2009 - Sébastien Lavoie, economist of Laurentian Bank Securities, has disclosed this morning the new edition of the Provincial Economic Outlook.

Earlier this year, the Canadian economy resembled a hockey team whose key players were in a lethargy. Fortunately, some of Canada's main players seem to have regained their footing this summer. Provincial governments have kicked stimulus plans into gear, while most regions experienced renewed strength in the resale housing market and a pick-up in consumer spending.

Although the recession is over south of the border, the slow, protracted and irregular US recovery expected will translate into a modest recovery for many of the provinces during 2010. Notably, the central Canadian manufacturing-export sector is however unlikely to return "to normal" anytime soon, due to the rebalancing currently underway in global demand. Quebec and Ontario exporters will be unable to count on the combination of a weak Canadian dollar and excessive US consumerism like in the old days to stir demand for their products. Similar to the recession, the recovery in Quebec – expected to begin in late 2009 – should be quite modest. On the positive side, business and public investment projects should support growth. Quebec should outperform slightly its neighbour Ontario during 2010 due to its resilient job and housing markets. The slight rebound in automobile production at the end of the summer means that Ontario enters the recovery cycle earlier than most provinces, including Quebec. Nevertheless, the loss of quality jobs during the past year will continue to weigh heavily on the financial health of Ontarians. As a result, the overall economic expansion there is expected to be lukewarm in 2010.

In Western Canada, competition in the natural gas market is quite fierce. With its traditional sectors such as construction, forestry and fisheries all marking time, British Columbia is counting on development of its enormous natural gas potential to help out over the medium term, this, despite the fact that price for the commodity is quite low. Alberta is poised to experience a stronger recovery than British Columbia due notably to healthier households' balance sheets and relatively elevated oil price.

Saskatchewan and Manitoba stand out with an ease that must surely make other provinces envious. Manitoba is profiting from strong industrial diversification, tempering somewhat softer domestic demand. As for Saskatchewan, it is benefiting from robust population and employment growth. These positive trends, coupled with an eventual bounce back in demand from emerging markets for potash and uranium, should pull Saskatchewan out of recession during 2010 and help it record one of the strongest expansions among provinces.

The global recession has rendered several large investment projects in the Atlantic region less attractive. Fortunately, provincial governments there have launched their own public infrastructure projects. The fact that several large non-residential construction projects in New Brunswick have been completed means that 2010 is expected to be a tough year even though the provincial government introduced a infrastructure program and a broad-based tax relief plan. Growth should be more robust in Nova Scotia, which is counting on several private and public sector investment projects to sustain its economy. In Prince Edward Island, expansion of wind farms continues, compensating for harder times in its tourism sector, which will bear the brunt of a high loonie. Finally, the development of new oilfields renders longer term prospects for Newfoundland and Labrador quite encouraging despite the recent decline in mining and petroleum exports.

As for provincial public finances, deficits during the fiscal year 2009-10 will be larger than initially forecast in virtually every province. Revenues from taxation and natural resources royalties will be particularly lower-than-projected. For several provinces, the economic recovery will not be enough to alone pull their budgets back into balance over the medium term. Therefore, choices on the fiscal front will need to be made: either spending will need to be constrained seriously, or taxes will have to go up. Provincial



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borrowing is expected to be greater in upcoming years as the debt of most provinces continues to steep up. The full report is on Laurentian Bank Securities Economic Research web site:

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

About Laurentian Bank

Laurentian Bank of Canada is a banking institution operating across Canada and offering its clients diversified financial services. Distinguishing itself through excellence in service, as well as through its accessibility, 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 more than \$18 billion in balance sheet assets and more than \$15 billion in assets under administration. Founded in 1846, the Bank employs close to 3,400 people.

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