Q: Reference: Page 7, Lines 25 and 26

"Recent forecasts from the six major banks peg 2008 real GDP growth in the range of 2.5% to 2.9%."

Please provide the supporting documents.

A: The requested documents are attached.

Canadian Economic Outlook

BMO Capital Markets Economics

July 20, 2007

	2006				2007				2008				2005	2006	2007	2008
	I	II	III	IV	I	II	III	IV	I	II	III	IV				
PRODUCTION	(quarter/quarter % change : a.r.)															
Real GDP (chain-weighted)	3.4	1.5	1.3	1.5	3.7	2.7	2.5	2.6	2.7	2.8	2.9	3.2	3.1	2.8	2.4	2.8
Final Sales	4.0	-0.4	2.7	4.9	2.9	2.4	1.8	2.2	2.4	2.7	2.8	3.2	2.6	3.1	2.8	2.5
Final Domestic Demand	6.2	3.5	4.0	3.7	3.2	2.7	2.7	3.1	3.2	3.5	3.5	3.5	4.5	4.7	3.2	3.2
Consumer Spending	5.5	3.8	5.1	3.7	3.9	3.2	2.7	2.9	3.0	3.1	3.2	3.2	3.8	4.2	3.6	3.0
durables	12.8	7.9	11.1	4.7	6.6	4.0	2.0	3.0	2.8	3.0	3.5	3.7	5.3	7.1	5.5	3.0
nondurables	1.0	3.7	2.8	-0.7	1.9	2.8	2.6	2.9	2.9	3.0	2.9	2.9	1.9	1.5	1.9	2.9
services	4.7	2.4	4.4	5.8	3.5	3.2	2.9	3.0	3.0	3.2	3.3	3.4	4.3	4.3	3.8	3.1
Government Spending	5.5	3.1	1.4	3.2	2.4	2.5	2.6	3.4	3.3	3.4	3.2	3.3	3.2	3.9	2.6	3.2
Business Investment	8.8	7.5	9.7	6.8	-0.6	5.7	4.7	6.0	5.2	6.0	6.0	5.5	10.8	9.9	4.8	5.6
non-residential construction	14.3	10.5	12.6	11.8	5.3	8.4	4.5	4.0	4.0	5.0	5.0	4.5	10.8	12.9	8.1	4.7
machinery and equipment	4.3	5.0	7.1	2.3	-6.0	3.0	5.0	6.0	6.5	7.0	7.0	6.5	10.8	7.4	1.6	6.2
Residential Construction	9.5	-5.2	-6.2	-0.1	7.5	-6.1	-1.0	-2.0	1.0	2.0	2.0	2.5	3.5	2.1	-0.8	0.1
Exports	-6.9	-1.8	2.6	2.7	2.1	4.0	2.8	2.7	3.2	3.2	3.9	4.8	2.2	0.7	2.5	3.3
Imports	-2.6	9.8	6.2	-0.9	2.6	5.0	5.3	5.2	5.5	5.4	5.8	5.8	7.5	5.0	3.8	5.4
	(billions of chained 2002 dollars : a.r.)															
Inventory Change	10.2	17.7	13.0	0.1	3.6	3.9	6.2	7.4	8.5	9.0	9.5	9.8	13.5	10.2	5.3	9.2
Contribution to GDP Growth	-0.6	2.1	-1.3	-3.5	1.0	0.3	0.7	0.4	0.3	0.1	0.1	0.1	0.5	-0.3	-0.4	0.3
Net Exports	-27.5	-42.2	-47.3	-42.7	-43.6	-45.4	-49.2	-53.0	-56.7	-60.2	-63.6	-65.9	-17.7	-39.9	-47.8	-61.6
Contribution to GDP Growth	-1.8	-3.7	-1.1	1.3	-0.1	-0.3	-0.9	-0.9	-0.8	-0.7	-0.7	-0.3	-1.9	-1.6	-0.4	-0.7
	(billions of dollars : a.r.)															
Nominal GDP	1,431	1,442	1,452	1,459	1,495	1,522	1,538	1,555	1,576	1,597	1,620	1,645	1,375	1,446	1,528	1,609
(% chng : a.r.)	3.6	3.1	2.9	1.9	10.2	7.4	4.4	4.6	5.3	5.6	5.8	6.2	6.5	5.2	5.6	5.4
INFLATION	(quarter/quarter % change : a.r.)															
GDP Price Index	0.0	1.8	1.4	0.4	6.1	4.7	1.8	1.9	2.5	2.7	2.8	2.9	3.4	2.4	3.1	2.5
CPI All Items	2.0	3.1	0.0	0.2	4.5	3.4	2.3	2.6	2.5	2.6	2.4	2.5	2.2	2.0	2.5	2.6
Excl. Food & Energy	1.5	1.9	0.6	2.1	2.4	2.9	2.5	2.3	2.2	2.1	2.1	2.1	1.3	1.5	2.2	2.3
Food Prices	3.7	0.4	3.7	3.0	6.5	1.3	2.1	4.2	4.2	5.2	4.2	4.8	2.5	2.4	3.4	4.0
Energy Prices	2.9	19.2	-11.0	-18.7	19.8	12.3	1.7	2.6	1.7	1.5	1.9	2.3	9.7	5.2	2.9	2.5
Services	1.7	4.7	2.6	3.3	2.0	5.2	3.1	2.6	2.5	2.6	2.5	2.5	2.2	2.6	3.2	2.8
	(year/year % change)															
CPI All Items	2.4	2.6	1.7	1.4	1.8	2.2	2.6	3.2	2.7	2.5	2.5	2.5				
BoC Core	1.7	1.8	2.1	2.2	2.3	2.4	2.3	2.3	2.4	2.4	2.3	2.4	1.6	1.9	2.3	2.4
FINANCIAL	(average for the quarter : %)															
Overnight Rate	3.59	4.17	4.25	4.25	4.25	4.25	4.58	4.75	4.75	4.75	4.75	4.75	2.67	4.06	4.46	4.75
3-Month T-Bill	3.61	4.10	4.16	4.17	4.17	4.23	4.73	4.78	4.79	4.79	4.80	4.81	2.69	4.01	4.48	4.80
90-Day BAs	3.82	4.32	4.32	4.31	4.31	4.44	4.93	4.98	4.99	4.99	5.00	5.01	2.84	4.19	4.67	5.00
10 Year Bond Yield	4.13	4.42	4.25	4.02	4.10	4.36	4.65	4.90	5.12	5.29	5.47	5.64	4.07	4.21	4.50	5.38
Canada/US spread: (bps)																
90 day	-89	-73	-88	-86	-95	-64	-23	-18	-19	-22	-24	-26	-52	-84	-50	-23
10 year	-44	-65	-64	-61	-59	-49	-41	-33	-30	-30	-30	-30	-22	-58	-45	-30
FOREIGN TRADE	(billions of dollars : a.r.)															
Current Account Balance	35.8	17.3	22.7	18.5	26.0	33.8	31.0	29.2	25.9	22.4	20.2	19.4	27.9	23.6	30.0	22.0
Merchandise Balance	62.0	48.6	45.3	49.3	57.9	67.0	64.1	62.1	61.0	60.3	59.2	59.1	63.5	51.3	62.8	59.9
Non-Merchandise Balance	-26.1	-31.3	-22.6	-30.8	-31.9	-33.2	-33.0	-32.9	-35.1	-37.9	-38.9	-39.7	-35.6	-27.7	-32.8	-37.9
	(average for the quarter)															
Exchange Rate (US¢/C$)	86.6	89.1	89.2	87.8	85.3	91.1	95.7	95.7	94.5	93.4	92.3	91.3	82.6	88.2	92.0	92.9
Exchange Rate (C$/US$)	1.154	1.123	1.121	1.139	1.172	1.098	1.044	1.045	1.058	1.071	1.083	1.096	1.211	1.134	1.090	1.077
Exchange Rate (¥/C$)	101.2	102.0	103.7	103.4	101.9	110.1	117.8	114.2	109.9	106.3	102.8	99.3	91.0	102.6	111.0	104.6
Exchange Rate (C$/Euro)	1.39	1.41	1.43	1.47	1.54	1.48	1.44	1.46	1.46	1.45	1.44	1.43	1.51	1.42	1.48	1.45
INCOMES	(billions of dollars : a.r.)															
Corporate Profits Before Tax	194.7	197.4	201.9	201.5	207.7	206.9	211.8	217.3	216.7	214.9	220.6	227.5	189.4	198.9	210.9	220.0
Corporate Profits After Tax	137.8	140.7	151.2	174.4	148.8	147.4	151.7	156.5	155.3	152.8	158.3	164.4	135.8	151.0	151.1	157.7
	(year/year % change)															
Corporate Profits Before Tax	9.0	7.5	4.8	-0.6	6.7	4.8	4.9	7.9	4.3	3.9	4.2	4.7	11.9	5.0	6.1	4.3
Personal Income	7.3	5.7	5.5	5.8	4.9	6.7	6.3	5.7	5.0	4.6	5.0	5.3	5.1	6.1	5.9	5.0
Real Disposable Income	5.4	4.3	4.8	5.3	3.5	5.7	4.8	3.8	3.4	2.8	3.1	3.3	2.6	4.9	4.4	3.2
	(average for the quarter : %)															
Savings Rate	3.3	1.7	1.8	2.2	2.6	3.2	3.1	2.9	3.0	3.1	3.1	3.1	1.6	2.3	2.9	3.1
OTHER INDICATORS	(quarter average or period end : a.r.)															
Unemployment Rate (%)	6.4	6.2	6.4	6.2	6.1	6.1	6.2	6.3	6.3	6.3	6.3	6.3	6.8	6.3	6.2	6.3
Housing Starts (thousands)	244	228	220	222	222	226	208	203	197	190	188	186	224	228	215	190
Motor Vehicle Sales (millions)	1.66	1.63	1.68	1.69	1.67	1.74	1.70	1.70	1.69	1.69	1.68	1.71	1.63	1.67	1.70	1.69
	(quarter/quarter % change : a.r.)															
Employment Growth	1.7	2.9	0.6	2.4	3.9	1.3	0.8	0.7	1.1	1.3	1.2	1.2	1.4	2.0	2.0	1.0
Industrial Production	-2.1	-4.2	-0.7	-4.3	2.6	1.4	0.8	1.3	1.5	1.8	1.7	2.3	1.0	-0.5	-0.1	1.5

Note: Outlined areas represent forecast periods

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Global Economic Research

Forecast Update

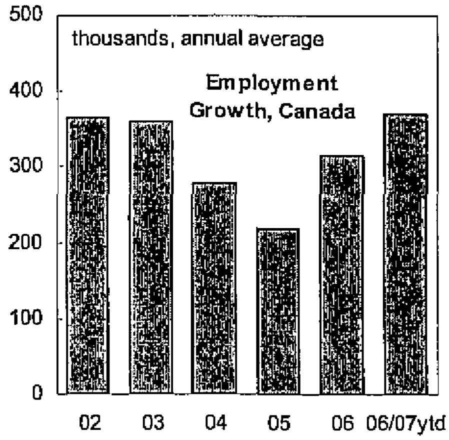
July 12, 2007

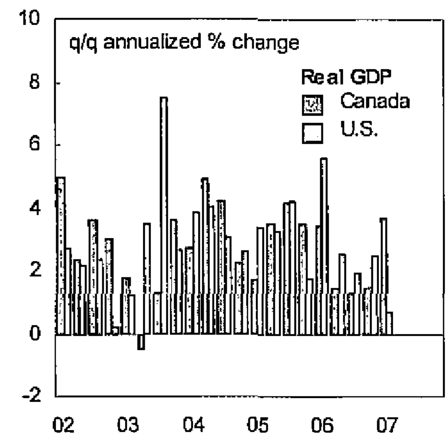
- We expect the ***Bank of Canada*** to lift its overnight rate another 25 bps on September 5th to 4.75%. Total and core inflation have proven to be both higher and more durable than the central bank has expected, in large part due to even tighter capacity constraints in product and labour markets, and a persistently hot housing market.

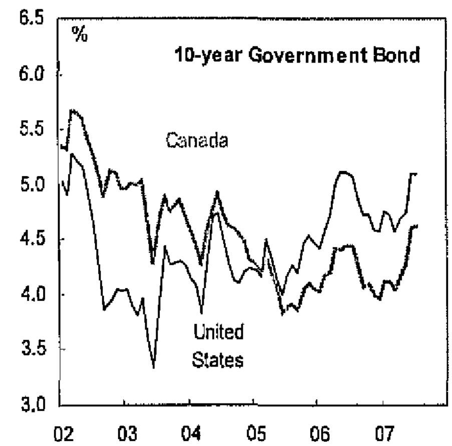
- Although inflation risks remain on the upside for now, the Bank of Canada is unlikely to step harder on the monetary brakes at this time. Both total and core inflation remain within the central bank's 1-3% range, and Canada's overall economic performance continues to be swayed by the significant regional imbalances that have been exacerbated by the Loonie's renewed surge. Higher bond yields and renewed stock market volatility are also working against stronger economic growth and even higher inflation. In addition, we continue to expect the ***Federal Reserve*** to reduce its funds rate 25 bps to 5% on December 11th in response to further weakness in U.S. housing activity and consumer spending.

- The tightening in domestic monetary conditions will also be abetted by the expected appreciation of the ***Canadian dollar*** over the next twelve months into the 95-100 cent(US) range. Firm commodity markets will remain supportive, as will the ongoing depreciation in the U.S. dollar as investors continue to diversify their assets internationally.

- Our annual macroeconomic and consumer price forecasts, for Canada and abroad, remain largely unchanged despite some modest fine-tuning of the components and quarterly patterns. In both Canada and the United States, the primary direction of ***bond yields*** remains higher, reflecting increased inflation risks in the near-term, further U.S. dollar weakness, and the repricing of credit risk in the wake of the U.S. subprime mortgage crisis.







CANADA	1990-2003 (ann.avg.)	2004	2005	2006	2007f	2008f
Real GDP (% change)	2.6	3.3	2.9	2.7	2.4	2.5
Consumer Prices (% change)	2.3	1.8	2.2	2.0	2.4	2.4
Core CPI (% change)	2.0	1.6	1.6	1.9	**2.4** ↑	**2.2** ↑
Pre-Tax Profits (% change)	6.5	18.3	10.6	5.7	5.0	3.5
Employment (% change)	1.4	1.8	1.4	1.9	**2.1** ↑	1.2
thousands of jobs created	191	275	223	315	**350** ↑	**200** ↑
Unemployment Rate (%)	8.9	7.2	6.8	6.3	**6.1** ↓	**6.2** ↓
Current Account Balance (C$ bn.)	-3.8	29.0	27.9	23.6	**25.0** ↑	**14.0** ↑
per cent of GDP	-0.8	2.3	2.0	1.6	**1.6** ↑	**0.9** ↑
Merchandise Trade Balance (C$ bn.)	34.4	65.8	63.5	51.3	**57.0** ↑	**48.0** ↑
Federal Budget Balance (C$ bn.)	-10.9	1.5	13.2	9.2	3.3	3.0
Housing Starts (thousands)	159	233	225	227	***210*** ↑	**195** ↑
Motor Vehicle Sales (thousands)	1,367	1,534	1,583	1,614	1,650	1,610
WTI Oil (US$/bbl)	22.2	41.4	56.6	66.2	**65** ↑	**65** ↑
Nymex Natural Gas (US$/mmbtu)	2.69	6.19	9.00	6.99	7.50	8.25

UNITED STATES	1990-2003	2004	2005	2006	2007f	2008f
Real GDP (% change)	2.8	3.9	3.2	3.3	2.0	2.6
Consumer Prices (% change)	2.9	2.7	3.4	3.2	**2.7** ↑	2.6
Core CPI (% change)	2.9	1.8	2.2	2.5	2.4	2.3
Pre-Tax Profits (% change)	6.2	19.1	12.5	21.4	5.0	5.5
Employment (% change)	1.3	1.1	1.7	1.9	**1.4** ↑	1.2
millions of jobs created	1.57	1.43	2.27	2.48	**1.85** ↑	1.65
Unemployment Rate (%)	5.6	5.5	5.1	4.6	4.5	**4.6** ↑
Current Account Balance (US$ bn.)	-216	-665	-792	-857	**-765** ↓	**-765** ↓
per cent of GDP	-2.6	-5.7	-6.4	-6.5	**-5.5** ↓	**-5.3** ↓
Merchandise Trade Balance (US$ bn.)	-261	-665	-783	-836	**-805** ↓	**-810** ↓
Net Federal Financial Surplus (US$ bn.)	-108	-413	-319	-248	-195	**-215** ↑
Housing Starts (millions)	1.46	1.95	2.07	1.82	**1.45** ↓	**1.50** ↓
Motor Vehicle Sales (millions)	15.2	16.9	16.9	16.5	15.9	16.0

MEXICO	1990-2003	2004	2005	2006	2007f	2008f
Real GDP (% change)	3.0	4.4	2.8	4.8	3.4	3.5
Consumer Prices (% change)	16.4	5.2	3.3	4.1	4.0	4.1
Current Account Balance (US$ bn.)	-14.3	-7.3	-4.9	-1.8	**-9.6** ↑	**-14.2** ↓
per cent of GDP	-3.4	-1.1	-0.6	-0.2	-1.1	-1.6

INTERNATIONAL	1990-2003	2004	2005	2006	2007f	2008f
Real GDP (% change)						
Japan	1.3	2.7	1.9	2.2	2.1	2.0
United Kingdom	2.3	3.3	1.9	2.8	2.8	2.1
Euro Zone	1.8	1.8	1.5	2.8	2.4	2.2
China	9.2	10.1	10.4	11.1	10.5	10.0
India	5.8	7.5	9.0	9.4	8.3	7.7
Brazil	1.8	5.1	2.3	3.4	4.2	4.5
Consumer Prices (% change)						
Japan	0.7	0.2	-0.1	0.3	0.2	0.1
United Kingdom	2.7	1.7	1.9	3.0	2.5	2.0
Euro Zone	2.4	2.1	2.2	1.9	1.9	1.5
China	5.8	2.4	1.6	2.8	3.0	2.8
India	7.8	6.0	4.4	5.7	5.5	5.0
Brazil	664	7.6	5.7	3.1	4.0	4.2

CANADA	07Q1	07Q2f	07Q3f	07Q4f	08Q1f	08Q2f	08Q3f	08Q4f
BoC Overnight Target Rate	4.25	4.25	4.75 ↑	4.75 ↑	4.75 ↑	4.75 ↑	4.75 ↑	4.75 ↑
Prime Rate	6.00	6.00	6.50 ↑	6.50 ↑	6.50 ↑	6.50 ↑	6.50 ↑	6.50 ↑
3-month T-bill	4.17	4.42	4.65	4.70 ↑	4.85 ↑	4.95 ↑	5.05 ↑	5.10 ↑
2-year Canada	3.98	4.58	4.75 ↓	4.80	4.95	5.05	5.10 ↓	5.25
5-year Canada	4.02	4.56	4.75 ↓	4.80	5.00	5.10	5.20 ↓	5.35
10-year Canada	4.11	4.55	4.75 ↓	4.80	5.00	5.15	5.25 ↓	5.40
30-year Canada	4.20	4.49	4.70 ↓	4.85	5.10	5.30	5.40 ↓	5.60
Real GDP (q/q, ann. % change)	3.7	2.8 ↑	2.5	2.4	2.2	2.6	2.7	3.0
Real GDP (y/y, % change)	2.0	2.3	2.6	2.9 ↑	2.5 ↑	2.4	2.5	2.6
Consumer Prices (y/y, % change)	1.8	2.2 ↑	2.5 ↑	3.1 ↓	2.8 ↓	2.3 ↑	2.3	2.2
Core CPI (y/y % change)	2.2	2.5 ↑	2.4	2.4 ↑	2.3 ↑	2.2 ↑	2.1 ↑	2.1 ↑
UNITED STATES								
Fed Funds Target Rate	5.25	5.25	5.25	5.00	5.00	5.00	5.00	5.00
Prime Rate	8.25	8.25	8.25	8.00	8.00	8.00	8.00	8.00
3-month T-bill	4.99	4.87	5.00 ↑	4.80 ↑	4.75 ↑	4.80	4.85	4.90
2-year Treasury	4.57	4.86	5.00 ↓	5.05	5.20	5.30	5.35 ↓	5.45
5-year Treasury	4.54	4.92	5.15 ↓	5.15	5.35	5.50	5.55 ↓	5.70
10-year Treasury	4.65	5.03	5.25 ↓	5.30 ↑	5.45	5.65	5.75 ↓	5.90
30-year Treasury	4.85	5.13	5.35 ↓	5.40	5.65	5.85	5.95 ↓	6.05
Real GDP (q/q, ann. % change)	0.7	2.8	2.4	2.2	2.5	2.7	2.8 ↓	2.8 ↓
Real GDP (y/y, % change)	1.9	2.0	2.1	2.0	2.5	2.5	2.6	2.8
Consumer Prices (y/y, % change)	2.4	2.6 ↑	2.5 ↑	3.2	2.9	2.5 ↑	2.5	2.6
Core CPI (y/y % change)	2.6	2.4	2.2 ↓	2.2 ↓	2.2 ↓	2.2 ↓	2.3	2.4 ↑
Core PCE Deflator (y/y % change)	2.2	2.0 ↓	1.9 ↓	1.9 ↓	1.8 ↓	1.9 ↓	1.9 ↓	2.0 ↓
SPREADS								
Target Rate	-1.00	-1.00	-0.50 ↓	-0.25 ↓	-0.25 ↓	-0.25 ↓	-0.25 ↓	-0.25 ↓
3-month T-bill	-0.82	-0.45	-0.35 ↑	-0.10	0.10	0.15	0.20	0.20
2-year	-0.59	-0.28	-0.25 ↓	-0.25	-0.25	-0.25	-0.25	-0.20
5-year	-0.52	-0.36	-0.40	-0.35	-0.35	-0.40	-0.35	-0.35
10-year	-0.54	-0.48	-0.50	-0.50 ↑	-0.45	-0.50	-0.50	-0.50
30-year	-0.65	-0.64	-0.65	-0.55	-0.55	-0.55	-0.55	-0.45
EXCHANGE RATES								
Canadian Dollar (C$/US$)	1.15	1.07	1.04	1.02 ↓	1.00 ↓	1.00 ↓	1.02 ↓	1.03
Canadian Dollar (US¢/C$)	86.7	93.9	96.0	98.0 ↑	100.0 ↑	100.0 ↑	98.0 ↑	97.0
Yen (¥/US$)	118	123	121 ↑	118 ↑	116 ↑	115 ↑	113 ↑	110 ↑
Euro (US$/€)	1.34	1.35	1.39 ↑	1.40 ↑	1.42 ↑	1.42 ↑	1.41 ↑	1.40
Euro (£/€)	0.68	0.67	0.68	0.69	0.69	0.70	0.70	0.71
Sterling (US$/£)	1.97	2.01	2.03	2.04 ↑	2.05 ↑	2.03 ↑	2.01 ↑	1.97
Australian Dollar (US$/A$)	0.81	0.85	0.87 ↑	0.87 ↑	0.86 ↑	0.86 ↑	0.85 ↑	0.85 ↑
Mexican Peso (Peso/US$)	11.0	10.8	10.9 ↓	11.0 ↓	11.1 ↓	11.2 ↓	11.3 ↓	11.4 ↓
Chinese Yuan (Yuan/US$)	7.7	7.6	7.5	7.4	7.2	7.0	6.9	6.8

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MARKET CALL

- The Fed's stand pat stance seems well entrenched. Despite slower core inflation, an ease seems improbable as long as labour markets stay reasonably tight. But a return to slower growth in the second half makes a rate hike similarly unlikely, particularly with the housing sector under such pressure. That will leave Treasury markets mostly treading water over the forecast horizon, but the US$ still under downward pressure as overseas central banks tighten.

- The Bank of Canada likely believes it has another rate hike to come, but plans for such a move could be deferred, and ultimately set aside, as the C$ remains stronger than the BoC assumption for a 93-95.5 US cent exchange rate, and US growth disappoints. In the near term, however, the bond market could be troubled by a return to higher core inflation readings.

- The Canadian dollar has, if anything, marched at a faster pace than we expected towards our target of parity by year end. Newly announced M&A transactions are likely a factor, but the loonie has also drawn support from generalized US$ weakness and firming oil prices. With oil prices likely to escalate from here (see pages 4-7), the loonie will retain a lot of that strength even if the Bank of Canada doesn't deliver on expectations for rate hikes.

INTEREST & FOREIGN EXCHANGE RATES

		2007			2008		
END OF PERIOD:	**17-Jul**	**Sep**	**Dec**	**Mar**	**Jun**	**Sep**	**Dec**
CDA Call loan (mid-point of range)	4.50	4.50	4.50	4.50	4.50	4.50	4.50
98-Day Treasury Bills	4.50	4.55	4.45	4.40	4.40	4.40	4.45
Chartered Bank Prime	6.25	6.25	6.25	6.25	6.25	6.25	6.25
2-Year Gov't Bond (3.75% 06/09)	4.69	4.80	4.70	4.60	4.55	4.55	4.65
10-Year Gov't Bond (4% 06/16)	4.63	4.80	4.80	4.75	4.65	4.60	4.65
30-Year Gov't Bond (5.75% 06/33)	4.56	4.65	4.65	4.60	4.55	4.50	4.55
U.S. Federal Funds Target	5.25	5.25	5.25	5.25	5.25	5.25	5.25
91-Day Treasury Bills	4.97	4.90	4.80	4.80	4.65	4.60	4.70
2-Year Gov't Note (4.875% 06/09)	4.90	5.05	5.00	5.00	5.00	4.95	5.05
10-Year Gov't Note (4.5% 05/17)	5.07	5.25	5.15	5.15	5.15	5.10	5.20
30-Year Gov't Bond (4.75% 02/37)	5.15	5.30	5.30	5.25	5.25	5.20	5.25
Canada - US T-Bill Spread	-0.46	-0.35	-0.35	-0.40	-0.25	-0.20	-0.25
Canada - US 10-Year Bond Spread	-0.43	-0.45	-0.35	-0.40	-0.50	-0.50	-0.55
Canada Yield Curve (30-Year — 2-Year)	-0.13	-0.15	-0.05	0.00	0.00	-0.05	-0.10
US Yield Curve (30-Year — 2-Year)	0.26	0.25	0.30	0.25	0.25	0.25	0.20
EXCHANGE RATES — (US¢/C$)	95.8	96.2	100.0	100.0	96.2	95.2	94.3
— (C$/US$)	1.043	1.040	1.000	1.000	1.040	1.050	1.060
— (Yen/US$)	122	122	121	118	115	114	113
— (US$/euro)	1.38	1.37	1.40	1.37	1.33	1.33	1.33
— (US$/pound)	2.05	2.02	2.00	1.97	1.92	1.92	1.92
— (US¢/A$)	87.2	85.5	85.0	83.0	82.5	81.0	80.0

ECONOMIC UPDATE

CANADA	07Q1A	07Q2A/F	07Q3F	07Q4F	08Q1F	2006A	2007F	2008F
Real GDP Growth (AR)	3.7	2.4	2.4	2.1	2.6	2.8	2.3	2.6
Real Final Domestic Demand (AR)	3.2	3.2	3.2	3.2	3.3	4.7	3.4	3.2
All Items CPI Inflation (Y/Y)	1.8	2.2	2.7	3.1	2.6	2.0	2.5	2.4
Core CPI Ex Indirect Taxes (Y/Y)	2.3	2.4	2.3	2.3	2.2	1.9	2.3	2.2
Unemployment Rate (%)	6.1	6.1	6.1	6.2	6.2	6.3	6.1	6.2
Merchandise Trade Balance (C$ Bn)	59.7	69.2	67.4	65.6	66.0	51.3	65.5	65.0
U.S.								
Real GDP Growth (AR)	0.7	3.0	1.7	2.0	2.5	3.3	1.9	2.6
Real Final Sales (AR)	1.7	2.0	1.8	2.3	2.3	3.1	2.2	2.5
All Items CPI Inflation (Y/Y)	2.4	2.6	2.4	3.4	3.0	3.2	2.7	2.4
Core CPI Inflation (Y/Y)	2.6	2.2	2.0	1.9	1.9	2.5	2.2	2.0
Unemployment Rate (%)	4.5	4.5	4.6	4.7	4.7	4.6	4.6	4.8

CANADA

First half growth looks solid and core inflation has turned heads, refusing to retreat to the Bank of Canada's prescribed 2% target. An ultra-tight labour market looks to keep upward pressure on wages, so even with the C$ dampening imported goods inflation, it will take longer than we (or the BoC) projected to tame core CPI. Nationally at least, job creation and the trade surplus reveal an economy that has weathered the C$'s sharp appreciation surprisingly well. Factory jobs losses continue to be offset by strong gains in a host of other industries, with housing resilience contrasting with an imploding stateside market. An elevated currency will take some sheen off the growth outlook, but that's being seen as a necessary cooling for today's overheated economy.

UNITED STATES

We've weakened our forecast for Q2 growth over the past month as reports revealed a larger-than-expected deceleration in consumer spending. A 3% growth rate will depend heavily on inventories and net exports, but the slow pace to final sales foretells a weaker second half. Watch for headline CPI to surge late this year, as crude oil and gasoline will then be compared to a prior year price dip that we don't see repeated.

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NATIONAL BANK FINANCIAL

MONTHLY ECONOMIC MONITOR

July-August 2007

Highlights

- *The world economy continued to grow robustly in the first half of 2007. With leading indicators moderating only slightly at a time of diminishing spare capacity, central banks remain in tightening mode. Food price inflation suggests faster appreciation of the undervalued Chinese yuan and Indian rupee.*
- *Indicators available at this writing are consistent with an inventory-led rebound of U.S. GDP growth in Q2. Whether the rebound will carry into the second half of the year is uncertain. The retreat of home prices seems to have made U.S. households more reluctant to draw down the value of their real estate. Consumer spending growth is decelerating.*
- *The Canadian economy has stood up well to U.S. cooling. Favourable terms of trade, fiscal stimulus, strong consumer spending and a pickup in U.S. growth set the stage for another good performance in Q2. We have raised our forecast for Canadian real GDP growth for both 2007 and 2008.*

	Current Forecast			Change from Previous Forecast	
	2006	2007	2008	2007	2008
United States					
GDP	3.3%	2.1%	2.4%	2.0%	2.0%
CPI inflation	3.1%	2.3%	1.8%	unch	unch
Overnight rate*	5.25%	5.00%	4.75%	4.5%	4.00%
Ten-year bond yield*	4.67%	5.05%	5.07%	4.31%	4.40%
Canada					
GDP	2.7%	2.5%	2.8%	2.2%	2.4%
CPI inflation	2.0%	2.3%	1.8%	unch	unch
Overnight rate*	4.25%	4.75%	4.75%	4.25%	4.25%
Ten-year bond yield*	4.05%	4.84%	4.96%	4.32%	4.41%
CAD/USD*	1.164	1.040	0.980	0.94	1.00

* end of period

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Canada: A Q1 growth surprise

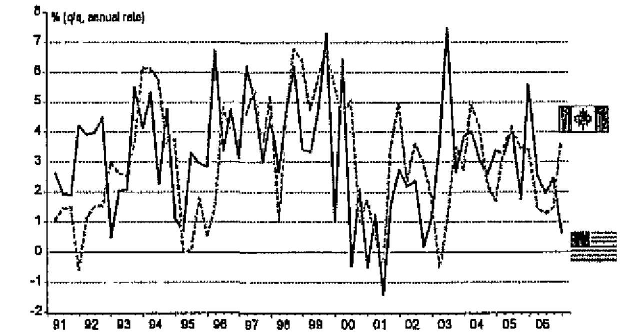
The Canadian economy has stood up well to U.S. cooling. Real GDP growth was six times stronger north of the 49th parallel in Q1. Favourable terms of trade, fiscal stimulus, strong consumer spending and a pickup in U.S. growth set the stage for another good performance in Q2 – and also for Bank of Canada tightening.

Real GDP grew at 3.7% annually in Q1, outperforming the U.S. by the widest margin in 6½ years (chart). For the first time in 1½ years, the Canadian economy also expanded at a rate exceeding its estimated speed limit of about 2.8%. Although inventory buildup accounted for nearly 1 percentage point of the Q1 growth rate, this buildup followed a large drawdown in Q4. At the end of the day, it must be acknowledged that there is now very little spare capacity left in the economy. The Bank of Canada estimates that Canada is in excess demand. The gap is unlikely to close soon: the indicators available so far suggest another quarter of above-trend growth in Q2.

Consumer spending is likely to remain supported by the strength of the labour market. Although job creation is shedding momentum, with only 4,000 jobs added so far in Q2, this pause follows an unsustainable gain of 158,000 in Q1. As our middle chart shows, the labour market is very tight – a record proportion of Canadians are employed. Though we expect manufacturing to become a larger drag on job growth in the coming months as CAD appreciation pushes producers to increase productivity rather than hire or keep workers, the job market as a whole is unlikely to soften enough to threaten consumption.

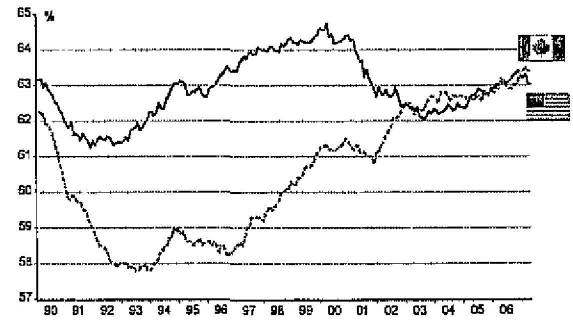
Canadian consumers, unlike their U.S. counterparts, continue to enjoy a very significant wealth effect. Net wealth relative to disposable income shot to a record in Q4 (chart) and there is no reason to think this ratio has declined since then, since existing-home prices have appreciated 8.8% and the stock market has held its own. Also in contrast to the U.S., Canadian household wealth has increased relative to income because of a healthy housing market, leaving Canadian consumers in a better position to fuel the growth of domestic demand.

Canada: Outperforming in Q1
Real GDP growth



NBF Economic Research, Statcan, BEA

Canada: Labour market conditions remain tight
Employment/population ratio: Canada vs. the U.S.



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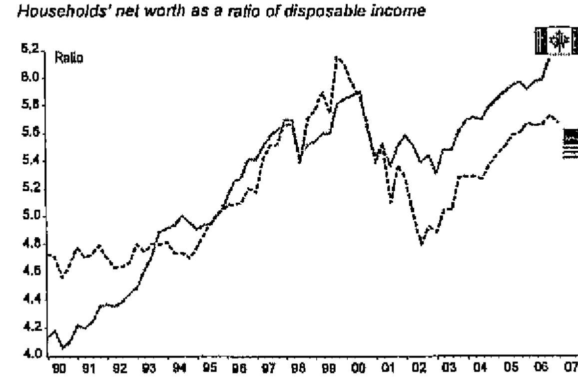
Canada: Unprecedented wealth effect
Households' net worth as a ratio of disposable income



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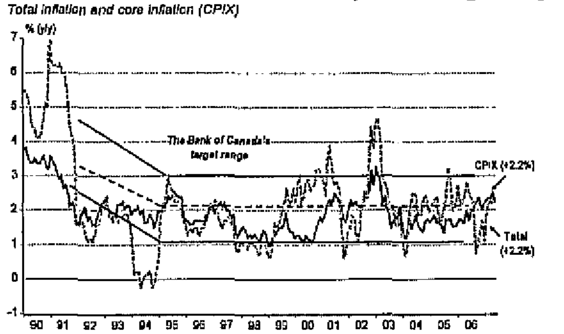
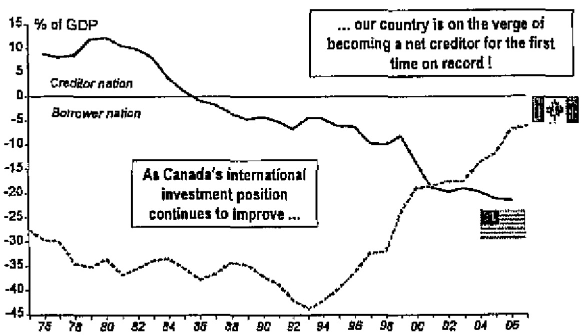
Canada: Inflation to remain in the top-half of target range
Total inflation and core inflation (CPIX)



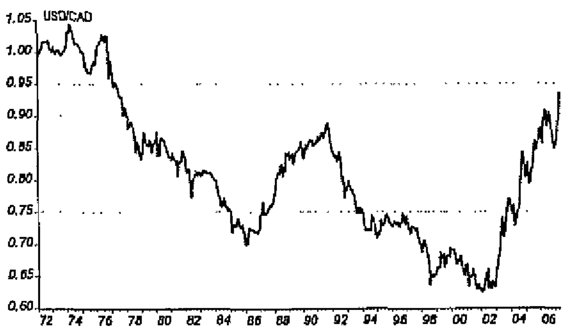
NBF Economic Research, Statscan

Canada: Creditor nation before the end of decade?
Net international investment position (book value): Canada vs. the U.S.



** Latest data point for the U.S. is an NBF estimate*
NBF Economic Research, Statscan, BEA

Canada: Loonie heading for parity
Canada-U.S. exchange rate



NBF Economic Research, Statcan

Thus a strong housing wealth effect combined with a solid dose of fiscal stimulus – an estimated 1% of GDP this year – is likely to keep the economy moving briskly. In these circumstances inflation is likely to remain in the top half of the Bank of Canada's 1%-to-3% target range. Though core CPI inflation eased from 2.5% to 2.2% in May, the reprieve was partly a base effect. Even if core CPI were flat in June, the 12-month change would rise to 2.5% again. However, we expect the appreciating dollar to restrain core CPI inflation later this fall. Though we now expect two quarter-point rate hikes from the Bank of Canada in the coming months to preempt a rise of inflation, hard braking is not in the cards (more details in this our monthly *Fixed Income Monitor*). A stronger Canadian dollar will help the Bank do its job.

On the medium-term prospects for the Canadian dollar we are as upbeat as ever. Canada's net international investment position – its stock of external assets minus its stock of external liabilities – continued to improve in Q1 to a net deficit of only $92.2 billion, the smallest since 1978. Relative to GDP the deficit was the smallest on record, 6.2% (bottom chart). The U.S., in comparison, is running a deficit of more than 20% of GDP. The current trend puts Canada on track to become a creditor nation by the end of the decade, for the first time ever. This development is consistent with our forecast of CAD/USD parity by this winter.

In light of stronger-than-expected growth in Q1 and our upward revision to U.S. growth in 2008, we have raised our forecast for Canadian real GDP growth to 2.5% for 2007 and 2.8% for 2008, from 2.2% and 2.4%.

Stéfane Marion / Éric Dubé

Canada
Economic Forecast

Annualized rate of change*	2004	2005	2006	2007	2008	Q4/Q4 2007	Q4/Q4 2008
Gross domestic product (1997 $)	3.1	3.1	2.8	2.5	2.8	3.0	2.9
Consumption	3.4	3.8	4.2	3.5	2.7	3.0	2.8
Residential construction	7.5	3.5	2.1	1.3	(1.3)	2.7	(2.3)
Business investment	8.4	10.8	9.9	5.6	9.9	6.0	10.4
Government expenditures	2.8	3.2	3.9	2.7	2.7	2.8	2.5
Exports	4.8	2.2	0.7	2.6	2.3	2.8	2.3
Imports	8.3	7.5	5.0	3.7	4.0	4.1	3.9
Change in inventories (millions $)	7,892	13,544	10,238	3,896	4,000	...	...
Domestic demand	4.1	4.5	4.7	3.5	3.5	3.4	3.6
Real disposable income	3.6	2.6	4.9	4.3	3.1	3.8	3.0
Employment	1.8	1.4	2.0	2.1	1.2	1.8	1.3
Unemployment rate	7.2	6.8	6.3	6.1	6.1	6.1	6.1
Inflation	1.8	2.2	2.0	2.3	1.8	2.9	1.7
Before-tax profits	17.1	11.9	5.0	5.1	(4.1)	3.3	(5.3)
Federal balance (Public Acc., bil. $)	$1.5	$13.2	$7.6	$4.0	$4.0	....	....
Current account (bil. $)	$29.1	$27.9	$23.6	$21.0	$17.0	$16.0	$13.0

** or as noted*

Financial Forecast

	Current 06/13/07	2007Q2	2007Q3	2007Q4	2008Q1	2007*	2008*
Overnight rate	4.25	4.25	4.75	4.75	4.75	4.75	4.75
Prime rate	6.00	6.00	6.50	6.50	6.50	6.50	6.50
3 month T-Bills	4.36	4.32	4.62	4.62	4.62	4.62	4.62
Treasury yield curve							
2-Year	4.74	4.72	4.72	4.73	4.73	4.73	4.83
5-Year	4.72	4.71	4.76	4.78	4.78	4.78	4.89
10-Year	4.69	4.68	4.77	4.84	4.84	4.84	4.96
30-Year	4.60	4.60	4.66	4.73	4.73	4.73	4.82
Exchange rates*							
CA/U.S.$	1.07	1.06	1.06	1.04	1.02	1.04	0.98
GDP (Q/Q, annual rate)		3.4	2.4	2.7	2.9		

June 13, 2007
National Bank Financial
** end of period*
*** NBF forecast*

United States
Economic Forecast

(Annual % change)*	2004	Annualized rate of change 2005	2006	2007	2008	Q4/Q4 2007	2008
Gross domestic product (2000 $)	3.9	3.2	3.3	2.1	2.4	2.2	2.4
Consumption	3.9	3.5	3.2	3.1	2.0	2.5	2.0
Residential construction	9.9	8.6	(4.2)	(13.0)	(0.4)	(7.0)	1.5
Business investment	5.9	6.8	7.2	3.2	2.9	3.4	3.3
Government expenditures	1.9	0.9	2.1	2.2	2.7	2.4	2.5
Exports	9.2	6.8	8.9	4.9	4.6	3.8	4.0
Imports	10.8	6.1	5.8	2.5	2.7	3.0	3.4
Change in inventories (bil. $)	53.4	19.7	43.2	16.4	28.8	25.0	40.0
Domestic demand	4.0	3.6	2.9	2.1	2.1	2.1	2.2
Real disposable income	3.6	1.2	2.6	3.1	2.2	2.3	2.4
Household employment	1.0	1.8	1.7	1.3	0.6	1.2	0.8
Unemployment rate	5.5	5.1	4.6	4.6	5.0	4.7	5.1
Inflation	2.7	3.4	3.1	2.3	1.8	2.8	1.8
Before-tax profits	19.1	12.5	21.4	2.1	1.2	(0.6)	4.0
Federal balance (unified budget, bil. $)	($412.0)	($318.7)	($248.2)	($190.0)	($220.0)	...	...
Current account (bil. $)	($640.2)	($754.8)	($811.5)	($780.0)	($750.0)	($750.0)	($700.0)

** or as noted*

Financial Forecast

	Current 06/13/07	2007Q2	2007Q3	2007Q4	2008Q1	2007*	2008*
Fed Fund Target Rate	5.25	5.25	5.25	5.00	4.75	5.00	4.75
3 month Treasury bills	4.65	4.64	4.90	4.65	4.42	4.65	4.42
Treasury yield curve							
2-Year	5.09	5.09	5.05	4.81	4.82	4.81	4.94
5-Year	5.14	5.17	5.11	4.92	4.88	4.92	4.99
10-Year	5.20	5.23	5.18	5.04	4.99	5.04	5.07
30-Year	5.28	5.30	5.27	5.20	5.14	5.20	5.20
Exchange rates*							
U.S.$/Euro	1.33	1.34	1.35	1.37	1.37	1.37	1.40
YEN/U.S.$	123	122	119	118	117	118	105
GDP (Annual rate)		3.1	2.6	2.3	2.1		

June 13, 2007
National Bank Financial
** end of period*
*** NBF forecast*

ECONOMIC FORECAST DETAIL — CANADA

June 2007

Real growth in the economy

Period-over-period annualized percent change unless otherwise indicated

	Actual 2006				Forecast 2007				Forecast 2008				Act. Annual average	Forecast Annual average	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2006	2007	2008
Consumer spending	5.5	3.8	5.1	3.7	3.9	3.2	3.0	3.1	2.7	2.7	2.4	2.5	4.2	3.7	2.8
Durables	12.8	7.9	11.1	4.7	6.6	4.0	3.5	3.5	2.0	1.9	2.1	2.0	7.1	5.8	2.6
Non-durables	1.0	3.7	2.8	-0.7	1.9	2.4	2.0	1.9	2.4	2.7	2.0	2.2	1.5	1.7	2.2
Services	4.7	2.4	4.4	5.8	3.5	3.5	3.4	3.6	3.0	2.8	2.7	2.8	4.3	4.0	3.1
Government spending	4.9	3.2	1.5	3.0	2.7	2.4	2.0	2.8	3.3	3.5	3.0	3.1	3.3	2.5	3.0
Business investment	9.0	2.8	3.8	4.3	2.2	0.3	5.0	4.5	5.6	4.4	5.0	4.5	7.1	3.0	4.6
Residential construction	9.5	-5.2	-6.2	-0.1	7.5	2.7	-2.0	-2.0	1.6	0.9	1.2	0.6	2.1	0.8	0.3
Non-residential structures	14.3	10.5	12.6	11.8	5.3	6.0	6.5	4.7	7.0	5.0	5.6	5.1	12.9	7.9	5.8
Machinery & equipment	4.3	5.0	7.1	2.3	-6.0	2.0	9.0	9.0	7.3	6.2	7.0	6.6	7.4	2.1	7.2
Final domestic demand	6.2	3.5	4.0	3.7	3.2	3.0	3.4	3.5	3.5	3.2	3.0	3.0	4.7	3.4	3.3
Exports	-6.9	-1.8	2.6	2.7	2.1	3.1	2.0	3.6	4.4	4.7	5.3	5.7	0.7	2.3	4.1
Imports	-2.6	9.8	6.2	-0.9	2.6	6.2	6.3	6.1	5.5	5.8	5.8	5.8	5.0	4.2	5.9
Inventories (change in $b)	10.2	17.7	13.0	0.1	3.6	7.5	12.2	15.3	15.3	16.3	16.1	16.1	10.2	9.6	15.9
Real gross domestic product	3.4	1.5	1.3	1.5	3.7	3.0	3.0	3.3	2.8	2.9	2.6	2.8	2.8	2.6	2.9

Other indicators

	Actual 2006				Forecast 2007				Forecast 2008				Act. Annual average	Forecast Annual average	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2006	2007	2008
Business and labour															
Productivity*	1.8	0.9	0.5	0.0	-0.4	0.4	0.7	1.5	2.0	1.9	1.7	1.5	0.8	0.5	1.7
Pre-tax corporate profits (y/y %)	9.0	7.5	4.8	-0.6	6.7	3.2	2.9	3.0	4.4	4.4	3.9	4.0	5.0	3.9	4.2
Unemployment rate (%)	6.4	6.2	6.4	6.1	6.1	6.1	6.2	6.2	6.3	6.3	6.3	6.3	6.3	6.2	6.3
Inflation															
Headline CPI (y/y %)	2.4	2.6	1.7	1.4	1.9	2.3	2.5	2.9	2.4	2.3	2.2	2.0	2.0	2.4	2.2
Core CPI (y/y %)	1.7	1.8	2.1	2.2	2.3	2.5	2.3	2.4	2.2	2.3	2.2	2.1	1.9	2.4	2.2
Personal savings rate	3.3	1.7	1.8	2.2	2.6	2.4	2.9	3.4	3.7	4.1	4.5	4.8	2.3	2.8	4.3
External trade															
Current account balance ($b)	35.9	17.3	22.7	18.5	26.0	17.3	17.1	17.2	17.1	16.9	16.8	16.6	23.6	19.4	16.8
% of GDP	2.5	1.2	1.6	1.3	1.7	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.6	1.3	1.0
Housing starts (millions)	0.24	0.23	0.22	0.22	0.22	0.21	0.20	0.20	0.20	0.19	0.19	0.19	0.23	0.21	0.19
Motor vehicle sales (millions)	1.66	1.63	1.68	1.69	1.67	1.67	1.64	1.65	1.63	1.61	1.61	1.60	1.67	1.65	1.61

*Productivity is calculated as total real GDP divided by employment.

Source: Statistics Canada, RBC Economics Research forecasts

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ECONOMIC & FINANCIAL MARKET UPDATE

July 2007

Back-to-back losses for Canadian and U.S. bond holders

Canadian and U.S. bond markets posted losses for the second consecutive month as investors grappled to get a handle on the true momentum of the two economies. After yields rose to multi-year highs mid-month, sellers of Canadian bonds took a breather and interest rates edged down in the second half of June. U.S. Treasury yields faded back as well after bursting higher in early June but remain at the high end of this year's trading range. Uncertainty about the depth of the U.S. housing market slowdown and the implications for the broader U.S. economy and a run of slightly softer Canadian data saw investors reassess the outlook for central bank policy this year.

Our forecast is little changed. We look for the Bank of Canada to raise the overnight rate to 5% by year-end and to 5.25% in early 2008, more than is currently priced into the market. The Federal Reserve is expected to hold the funds rate at 5.25% this year with the next move likely to be a rate hike in early 2008, which is also a more aggressive forecast than is priced into financial markets. Yields are expected to trend higher in the second half of 2007 with the 10-year Canadian yield forecast to rise to 5.15% and the 10-year U.S. Treasury rate to 5.50%.

Canada's economy still has solid momentum

- Sellers of Canadian bonds take a breather as economic data for April and May present mixed picture.
- Canadian data reports show headline weakness, but underlying details still indicate that the economy has good momentum.
- Real GDP growth was flat in April compared to the rapid gains in February and March, but even with only a modest pick-up in May and June the economy is on track to grow at close to its potential rate in the second quarter.
- Even the core inflation rate faded in May, but the reprieve will likely be short-lived and won't deter the Bank of Canada from raising interest rates.
- Canada's policy rate is below its neutral setting and will need to become slightly restrictive if the 2% inflation target is to be met.
- We expect 75 basis points of rate increases by the Bank of Canada this year and 25 basis points in 2008 — a more aggressive forecast than is priced into the futures market.
- Canadian bond yields will continue to grind higher in 2007 and peak in mid-2008.

U.S. economy showing signs of life

- While the first-quarter growth rate was disappointing, early indications on the second quarter point to a strong rebound with our tracking pointing to a solid 3.5% annual rate increase in second-quarter GDP, a marked improvement from the first-quarter's 0.7% pace.
- Core inflation has moderated, but upside risks exist.
- The Fed is assessing whether the housing market weakness will remain isolated or whether it presents a risk to the overall economy or other credit markets.
- We believe that the problem is restricted to the housing market and that there will be limited flow-through effects.
- The Fed is likely to keep rates steady this year but will increase the funds target rate by 50 basis points in the first half of 2008 as concerns about the housing market ease.

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ECONOMICS | RESEARCH

Inside...

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FINANCIAL MARKETS MONTHLY
July 2007

Back-to-back losses for Canadian and U.S. bond holders

Canadian and U.S. bond markets posted losses for the second consecutive month as investors grappled to get a handle on the true momentum of the two economics. After yields rose to multi-year highs mid-month, sellers of Canadian bonds took a breather and interest rates edged down in the second half of June. U.S. Treasury yields faded back as well after bursting higher in early June but remain at the high end of this year's trading range. Uncertainty about the depth of the U.S. housing market slowdown and the implications for the broader U.S. economy and a run of slightly softer Canadian data saw investors reassess the outlook for central bank policy this year.

Our forecast is little changed. We look for the Bank of Canada to raise the overnight rate to 5% by year-end and 5.25% in early 2008, more than is currently priced into the market. The Federal Reserve is expected to hold the funds rate at 5.25% this year with the next move likely to be a rate hike in early 2008, which is also a more aggressive forecast than is priced into financial markets. Yields are expected to trend higher in the second half of 2007 with the 10-year Canadian yield forecast to rise to 5.15% and the 10-year U.S. Treasury rate to 5.50%.

Global central banks to keep rates moving up

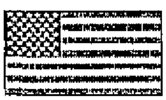
The Bank of England and the European Central Bank (ECB) are expected to continue to push interest rates higher as strong domestic growth keeps risks to the inflation outlook to the upside. RBC Economics now expects the Bank of England to raise the policy rate to 5.75% in July with another 25 basis-point hike likely in November.

The ECB appears to be determined to shift policy out of its current accommodative stance and we expect they will continue with their quarter-point-per-quarter hiking regime until the middle of 2008 when the rate reaches 5.00% from 4.00% currently.

Central bank watch

Short-term bias

↗ Even the mixed tone in economic data will not be enough to deter the Bank of Canada from raising rates this month given the elevated level of core inflation.



↔ The U.S. economy likely rebounded in the second quarter, but housing remains a downside risk although some signs of stability are starting to emerge. Even the moderation in the core inflation rate will not be enough to jar the Fed out of its steady-as-she-goes policy stance.

↔ The Bank of Japan expects the economy to continue to expand and inflation to return to zero in the near-term. Both will have to occur before a rate increase will be announced.

↗ Recent hawish statements from the Bank of England point to rates moving up in July as policymakers work to prevent another uptick in inflation.

↗ Comments from members of the ECB characterize policy as accommodative, providing support to our view that the quarter-per-quarter rate hike campaign will continue until mid-2008.

Highlights

- ▲ Sellers of Canadian bonds take a breather as economic data for April and May present mixed picture.
- ▲ Canadian data reports show headline weakness, but underlying details still indicate that the economy has good momentum.
- ▲ Even the core inflation rate faded in May, but the reprieve will likely be short-lived and won't deter the Bank of Canada from raising interest rates.
- ▲ Canada's policy rate is below its neutral setting and will need to become slightly restrictive if the 2% inflation target is to be met.
- ▲ We expect 75 basis points of rate increases by the Bank of Canada this year and 25 basis points in 2008 — a more aggressive forecast than is priced into the futures market.
- ▲ Canadian bond yields will continue to grind higher in 2007 and peak around 5.40% in mid-2008.

Canada's economy still has solid momentum

Canada's economy enjoyed strong momentum going into the second quarter, but mixed data for April and May resulted in a downward revision to the market's forecast for the degree of monetary policy tightening in the pipeline. The pace of job creation paused in April and May, although the unemployment rate held at its 33-year low and wage growth firmed, signalling that labour market conditions are tight. April's headline numbers in the manufacturing, retail and wholesale reports were disappointing, although manufacturing and retail activity actually firmed in the month after adjusting for price changes; only wholesalers saw a big dip in sales.

Real GDP growth flattened out in April compared to the rapid gains in February and March, but even with only a modest pick-up in May and June the economy is on track to grow at close to its potential rate in the second quarter. After the strong increase in the first quarter and with the economy already operating in a state of excess demand, a trend-like increase in the second quarter spells no relief from the upward pressure being exerted on prices. This means that the Bank will have to raise the overnight rate if the medium-term inflation target is to be met.

Canada's inflation reprieve likely to be short-lived

Canada's core inflation rate edged back down to 2.2% in May after hitting a four-year high of 2.5% in April. The monthly core rate increase of 0.3% was below the rapid 0.5% increase recorded last May, but faster than April's 0.2% rise and almost double the average monthly pace in the core rate in the past two years, indicating that upward price pressures are not abating. Even if the CPIX goes up by the average rate that it increased during the past seven Junes, the year-over-year core inflation rate would be 2.6% — the fastest pace of increase since March 2003 and reaching toward the 3% upper limit of the Bank of Canada's 1% to 3% control target band.

Bank of Canada to push overnight rate above neutral to ensure inflation meets target

With Canada's core inflation rate holding above the mid-point of the 1% to 3% target band, and the economy showing solid growth momentum, the Bank of Canada would like to lift its policy rate above the current 4.25% to a less neutral stance to ensure that inflation heads back down to the 2% target in the medium-term. An estimate of Canada's neutral policy rate can be derived as the sum of the economy's potential output growth rate plus inflation. In its April *Monetary Policy Report*, the Bank of Canada re-estimated the economy's potential growth rate to 2.6% for the period from 2004 to 2006. This was a downgrade from their previous assumption that the economy's speed limit was closer to 3%, reflecting weaker-than-expected productivity growth. Combined with a 2% inflation rate, Canada's neutral policy rate is estimated at 4.5%, meaning that the current overnight rate stands on the easier side of neutral. If productivity growth were to strengthen, an even higher neutral policy rate would be implied.

Canadian bond yields to trend higher this year and first half of 2008

With the Bank set to restart its rate hiking regime this month, we expect that yields on government bonds will resume their upward march. The market is priced for two 25 basis-point increases, but we think that there will be three hikes before the end of 2007. We forecast that two-year yields will end 2007 at 5.10% with 10-year rates at 5.15%. Another increase in the overnight rate in early 2008 to 5.25% will give yields another upward push and we forecast that two-year bond yields will peak at around 5.40% in the middle of next year and that the 10-year rate will rise to 5.45%.

U.S. economy showing signs of life

The U.S. economy is showing signs of a solid rebound after the first-quarter's disappointing performance. The ISM surveys are pointing to strengthening business activity and consumers are still spending, albeit at a somewhat slower pace than in the six months spanning late 2006 to early 2007. Our tracking of the U.S. economy points to a solid 3.5% annual rate increase in second-quarter GDP, a marked improvement from the first-quarter's 0.7% pace. Labour market conditions remain tight and the number of jobs created perked up again in May. Employment growth slowed in 2007 compared to the strong gains reported in 2006, but the softening has not been dramatic enough to moderate wage growth or to put very much upward pressure on the unemployment rate. This means that one of the key supports for consumer spending remains in place.

The U.S. housing market, however, remains soft. The level of existing home sales is low, inventories of unsold units high and home prices continue to decline. The NAHB's index of homebuilder sentiment also weakened further in the second quarter. Still, the May new home sales report showed some tentative signs that the weakness may be easing as the average level of sales so far this quarter is higher than the first-quarter average and inventories are down from the recent peak. The housing starts data also showed signs of bottoming out with starts having firmed in the April and May period compared to the first-quarter average, pointing to a quarterly increase for the first time in the past five quarters.

Housing market uncertainty boosts financial market volatility

The ups and downs in the housing market data injected volatility into financial markets — the VIX index jumped back up to a four-month high in June — on worries about the flow-through to other areas of the economy or spinoffs into credit markets. We still view housing-sector weakness as likely to remain confined to the housing market alone and believe that the downward pressure will ease later this year and into 2008. Against this backdrop, we see little scope for U.S. policymakers to ease up on interest rates and are holding to our forecast that the Fed will raise the funds target to 5.75% early next year.

Core inflation slows, but upside risks remain

Core inflation slowed during the past three months with the core CPI easing to 2.2% in May, well down from the recent peak of 2.9% in September 2006, although holding at the higher end of what is presumed to be the Fed's target range. To be sure, policymakers may take some comfort from the recent moderation in core price inflation. However, indications that input prices remain elevated, with the prices paid indices in the business surveys elevated and wages growing at a healthy clip, will likely keep the Fed focussed on the upside risks to the inflation outlook, especially given the improvement in second-quarter growth prospects.

Fed to shift to slightly restrictive policy in 2008

For now, we expect that the cross currents in the economy will keep the Fed on the sidelines. U.S. interest rates have come off their recent highs as investors repriced their expectations that the Fed will lower the funds rate later this year. The market now gives about a 20% chance of a 25 basis-point rate cut this year. In contrast, we expect that the Fed will keep the funds rate at 5.25% in 2007 as the economy accelerates and inflation risks persist. Two 25 basis-point hikes to 5.75% are likely in the first half of 2008 as the Fed brings monetary policy to the tight side of its neutral range. We have made modest upward revisions to our forecast for U.S. market interest rates, with two-year rates expected to hit 5.40% in the final quarter of 2007 and 10-year rates rising to 5.50%. We look for the peak in yields about the middle of 2008 (two-year and 10-year yields at 5.8%), but then for rates to drift down to 5.55% in the two-year maturity with the 10-year rate at 5.75%.

Highlights

▲ The U.S. economy is showing signs of a solid rebound after the first-quarter's disappointing performance.

▲ Our tracking of the U.S. economy points to a solid 3.5% annual rate increase in second-quarter GDP, a marked improvement from the first-quarter's 0.7% pace.

▲ Core inflation has moderated, but upside risks exist.

▲ The Fed is assessing whether the housing market weakness will remain isolated or whether it presents a risk to the overall economy or other credit markets.

▲ We believe that the problem is restricted to the housing market and that there will be limited flow-through effects.

▲ The Fed is likely to keep rates steady this year but will increase the funds target rate by 50 basis points in the first half of 2008 as concerns about the housing market ease.

Interest rate outlook

%, end of period

		Actual		Forecast					
		07Q1	07Q2	07Q3	07Q4	08Q1	08Q2	08Q3	08Q4
Canada	Overnight	4.25	4.25	4.75	5.00	5.25	5.25	5.25	5.25
	Three-month	4.17	4.43	4.80	5.05	5.20	5.30	5.30	5.30
	Two-year	3.98	4.61	4.90	5.10	5.30	5.40	5.25	5.20
	Five-year	4.02	4.58	5.00	5.15	5.30	5.45	5.40	5.30
	10-year	4.13	4.59	5.00	5.15	5.30	5.45	5.45	5.40
	30-year	4.21	4.51	4.85	5.10	5.25	5.45	5.45	5.45
United States	Fed funds	5.25	5.25	5.25	5.25	5.50	5.75	5.75	5.75
	Three-month	4.92	4.69	5.00	5.25	5.45	5.75	5.70	5.65
	Two-year	4.60	4.93	5.20	5.40	5.65	5.80	5.65	5.55
	Five-year	4.55	4.97	5.35	5.45	5.65	5.80	5.75	5.60
	10-year	4.65	5.06	5.35	5.50	5.65	5.80	5.80	5.75
	30-year	4.83	5.16	5.45	5.60	5.75	5.90	5.85	5.80
Japan	Call	0.50	0.50	0.75	0.75	1.00	1.25	1.25	1.25
	Two-year	0.84	1.05	1.00	1.15	1.25	1.50	1.50	1.40
	10-year	1.66	1.87	2.00	2.25	2.25	2.25	2.35	2.35
United Kingdom	Repo	5.25	5.50	5.75	6.00	6.00	6.00	6.00	6.00
	Two-year	5.43	5.77	6.00	6.10	6.15	6.15	6.00	5.85
	10-year	4.94	5.44	5.45	5.45	5.60	5.60	5.65	5.65
Eurozone	Minimum bid	3.75	4.00	4.25	4.50	4.75	5.00	5.00	5.00
	Two-year	4.00	4.45	4.65	4.75	4.95	5.00	4.90	4.80
	10-year	4.05	4.55	4.65	4.70	4.90	4.95	4.95	4.90
Australia	Cash target rate	6.25	6.25	6.25	6.50	6.75	6.75	6.75	6.75
	Two-year	6.30	6.40	6.50	6.60	6.70	6.60	6.50	6.50
	10-year	5.88	5.95	6.10	6.50	6.85	6.90	6.80	6.70
New Zealand	Cash target rate	7.50	8.00	8.25	8.25	8.25	8.25	8.25	8.25
	Two-year	6.91	7.35	7.45	7.50	7.50	7.40	7.40	7.40
	10-year	5.92	6.40	6.70	6.90	7.05	7.10	7.00	6.80

Inflation watch

	Measure	Current period	Month ago	Year ago	3-month trend	6-month trend
Canada	Bank of Canada core CPI[1]	May	0.3	2.2	2.6	2.2
United States	Core PCE[2]	May	0.1	1.9	2.5	1.9
United Kingdom	All-items CPI	May	0.3	2.5	2.8	2.8
Eurozone	All-items CPI	May	0.2	1.9	1.9	1.9
Japan	All-items (excl. fresh food)	May	0.1	-0.1	-0.2	0.0
Australia	Trimmed mean	2007Q1	0.5	2.9	NA	NA
New Zealand	CPI	2007Q1	0.5	2.5	NA	NA

[1]Seasonally adjusted measurement
[2]Personal consumption expenditures less food and energy price indices

Central bank policy rates

		Current	Last	
United States	Fed funds	5.25%	5.00%	June 29, 2006
Canada	Overnight rate	4.25%	4.00%	May 24, 2006
Japan	Call rate	0.50%	0.25%	Feb 21, 2007
United Kingdom	Repo rate	5.50%	5.25%	May. 10, 2007

		Current	Last	
Eurozone	Min. bid rate	4.00%	3.75%	Jun. 06, 2007
Australia	Cash rate	6.25%	6.00%	Nov. 08, 2006
New Zealand	Cash rate	8.00%	7.75%	Jun. 07, 2007

TD Bank Financial Group

TD Economics

TD Quarterly Economic Forecast

June 20, 2007

WORLD ECONOMY AND FINANCIAL MARKETS WEATHERING A GLOBAL MONETARY POLICY REBALANCING

A global rebalancing in monetary policy is underway. In the industrial world, the European Central Bank, the Bank of England, the Bank of Japan, the Reserve Bank of Australia and several others have all raised rates in recent months and financial markets are speculating about more in the future. The Bank of Canada has also signaled that it is likely to join the fray with increases in its benchmark overnight rate this summer. The U.S. Federal Reserve looks likely to remain on hold for the rest of this year, but this is a tighter stance to policy than financial markets had previously assumed, as rate cuts are no longer anticipated. The story is much the same in the developing world, with the Bank of China and monetary authorities in several other emerging markets also taking action to stem potential inflationary pressures.

The trillion dollar question is how the world economy and global financial markets will adjust to higher borrowing costs. Some may worry about the economic consequences, since the catalyst for many business cycle downturns in the past was rising interest rates. Meanwhile, investors might fret about the fallout of tighter monetary policy on asset prices, since up until just a few weeks ago markets seemed priced for perfection – as evidenced by sustained low bond yields, strong stock market gains, low volatility, and tight risk spreads. Overall, we do not expect the adjustment in monetary policy to end in tears, but it is likely to result in more moderate economic growth, greater financial market volatility and more subdued equity market returns.

CONTENTS

HIGHLIGHTS

- World economy encountering capacity constraints due to strong growth
- Global rebalancing of monetary policy underway, with Bank of Canada to hike 50bps this summer
- U.S. Fed on hold, but this is a tighter stance than markets had previously expected
- Higher interest rates will temper global growth, but impact will be limited and won't fully show until 2009
- Canadian economy to expand by 2.5% in 2007 and 2008, but this is its near-term speed limit
- Bond yields to rise modestly
- Higher interest rates could create headwinds for equities and lead to greater financial market volatility

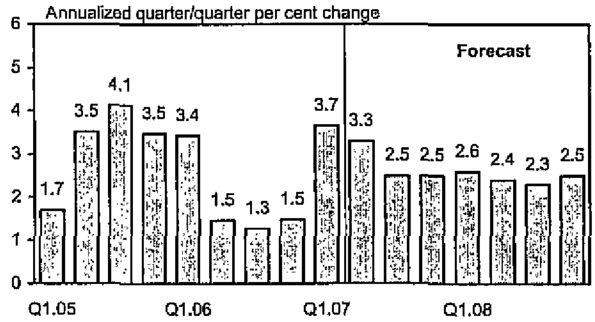
Globalization has allowed world economy to run hot

In order to understand why the global economy should ride out the policy rebalancing remarkably well, one must understand the context of how the world ended up at this point. The global economy has been delivering an outstanding performance this decade. World real GDP is expected to rise at close to 5% this year, the fifth consecutive year of growth well above the long-term trend

CANADA'S ECONOMIC OUTLOOK

Real GDP flew out of the gates in 2007 with 3.7% annualized growth, breaking a three-quarter string of below-potential economic gains that quickly turned the public's opinion about whether Canada was in the midst of an economic slowdown. Meanwhile, employment expanded at its fastest quarterly pace since 1997 and core CPI accelerated to a four-year high of 2.5%, well above the Bank of Canada's target of 2%. All this left the central bank with a greater sense that interest rates would need to rise to keep inflation in check, and financial markets received the message loud and clear. The economy will likely lose some steam this year and next, as the central bank pulls the rate-hike trigger two times to 4.75%. However, this modest increase in interest rates will not be sufficient to severely undermine consumer spending and broader economic growth. Canadian real GDP is expected to expand by 2.5% over the forecast horizon (2007 and 2008), as some of the zip is taken off consumer spending and residential investment. In addition, exporters will continue to face the headwind of modest U.S. demand and a strong currency. With Canadian economic growth remaining sub-par, core CPI is expected to edge back towards the Bank's 2% target in 2008.

CANADIAN REAL GDP



F: Forecast by TD Economics as at June 2007; Source: Statistics Canada/Haver Analytics

CANADA'S ECONOMIC INDICATORS
Annual per cent change unless otherwise indicated

	2005	2006	Forecast 2007	2008
Real GDP	3.1	2.8	2.5	2.5
Consumer Expenditure	3.8	4.2	3.7	2.9
Durable Goods	5.3	7.1	5.8	1.9
Business Investment	10.8	9.9	5.1	7.4
Non-Residential Structures	10.8	12.9	8.6	7.7
Machinery & Equipment	10.8	7.4	2.1	7.2
Residential Construction	3.5	2.1	1.0	0.0
Govt. Exp. on Goods & Svcs.	2.2	3.3	2.8	3.4
Final Domestic Demand	4.6	4.8	3.5	3.4
Exports	2.2	0.7	2.0	2.5
Imports	7.5	5.0	3.3	4.6
Change in Non-Farm Inventories ($97 Bn.)	11.1	9.3	3.9	3.8
Final Sales	2.4	3.0	3.0	2.5
Int'l Curr. Acct. Bal. ($Bn.)	27.9	23.6	28.6	22.8
% of GDP	2.0	1.6	1.9	1.4
Pre-tax Corporate Profits	11.9	5.0	6.3	3.5
GDP Chain-type Deflator	3.4	2.4	2.3	1.9
Employment (%)	1.4	2.0	2.0	1.0
Employment ('000)	220	315	334	168
Unemployment Rate (%)	6.8	6.3	6.2	6.3
Productivity*	2.0	0.7	0.4	1.5
Real Pers. Disp. Income (PDI)**	12.0	4.9	3.7	2.2
Real PDI Per Person**	11.0	3.9	2.7	2.2
Consumer Price Index	2.2	2.0	2.6	2.2
Core CPI	1.6	1.9	2.4	2.0
Housing Starts ('000 units)	224	228	214	193

Real GDP: Real gross domestic product; *Real GDP per employee
**After-tax income adjusted for inflation; Forecast by TD Economics as at June 2007; Source: Statistics Canada, Bank of Canada, *Canada Mortgage and Housing Corporation, Haver Analytics*

Consumer footing to hold firm

A strong job market has kept a fire lit under consumer spending over the past 5 years, and we don't expect a fundamental change over the forecast horizon. Although the labour market softened in the second quarter, this came on the heels of outsized strength in the prior 6 months where the pace of monthly job creation was more than double the historical norm. So, a little pay-back was long overdue. Going forward, slightly higher interest rates will trim some fat off spending, but the increase will not be sufficient to act as a major deterrent to consumers, especially since the unemployment rate is expected to hover near generational lows and income growth to remain firm. And, unlike their neighbors to the south, the balance sheets of most Canadian homeowners will continue to benefit from modestly higher real estate values. All told, consumer confidence should remain intact, creating an ideal backdrop for personal spending growth of about 3% over the next year.

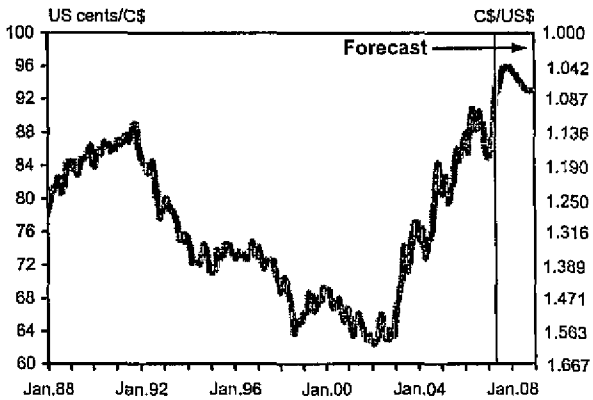
Business investment needs to be reinvigorated

A 6% drop in machinery and equipment (M&E) investment in the first quarter was a bit of a head-scratcher. The outturn goes against common wisdom that a high Canadian dollar should be encouraging greater investment, since M&E imports from the U.S. have been dramatically cheapened by the currency appreciation. Just over half of the decline in M&E in the first quarter was due to industrial machinery, where investment has soured for two consecutive quarters. This follows four years of 7-13% annual growth, so perhaps a temporary break in investment is not that unusual after all. However, if businesses choose not to invest in an ideal environment of cheap imports and high corporate savings, we don't know what conditions would be needed for them to do so. And, this incentive should be even greater now that the Canadian dollar has risen from an average value of 88 cents last year to 93-94 cents in the second quarter. It is likely that the loonie will average in the 93-96 cent range through the remainder of this year and next. As such, we're betting that Canadian firms will increase their investment intentions over the forecast horizon back to a 7-8% annualized quarterly pace.

Trade balance will offer slight drag to GDP growth

The international trade sector should remain a modest drag on overall GDP growth in the coming quarters, with export growth tending to lag that of imports. Exports will bend under the weight of a loss in competitiveness from a high-flying loonie alongside meager demand from the dominant U.S. market. Although the Canadian dollar has gained ground versus its American counterpart, the dynamics have moved in the opposite direction with other major trading partners. For instance, against the Euro and the British pound, the loonie has depreciated about 7.5% and 6%, respectively, since the start of 2006. This has resulted in stronger demand from non-American markets that is helping to keep a floor under export growth. In fact, in recent years, Canadian firms have been sending more and more goods to offshore markets, such that the share of exports to the U.S. has fallen from a peak of 84% in 2002 to 77% in the past quarter. The gap has been filled by demand from the U.K., Europe and Asia, especially for raw materials. However, since non-American markets make up just 23% of *all* export demand, downward influences from the U.S. will remain the dominant factor over the near-term.

CANADIAN DOLLAR



Last actual: May 2007; Forecast by TD Economics as at June 2007
Source: Bank of Canada

CANADA'S ECONOMIC INDICATORS
Fourth-quarter-over-fourth-quarter per cent change

					Forecast	
	Q4-03	Q4-04	Q4-05	Q4-06	Q4-07	Q4-08
Real GDP	1.5	11.7	3.2	1.9	3.0	2.4
Real Final Sales	1.4	10.0	3.9	2.8	2.6	2.6
Employment (%)	1.8	1.6	1.6	1.9	1.7	1.1

Real GDP: Real gross domestic product; Forecast by TD Economics as at June 2007; Source: Statistics Canada, Haver Analytics

On the flip side, the high Canadian dollar relative to the U.S. dollar has cheapened the cost of imported goods. *About 66% of Canada's imports are shipped in from the United States.* This, in combination with continued strength in domestic demand, should underpin quarterly import growth of 4-5% through 2007 and 2008. Tallying it up, the current account surplus is expected to narrow to 1.3% of GDP by the end of 2008, well below the 2.5% ratio recorded in the first quarter of this year. However, on the global stage, Canada's current account surplus will still be the envy of many of its major trading partners, where current account deficits have become the norm.

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FINANCIAL OUTLOOK

The "I" word – inflation – is back, and fixed-income markets have taken a real beating as a result. North American bond yields had already been trekking higher since mid-May, but the top finally blew off the pressure cooker on June 7th, when the 10-year U.S. Treasury yield soared by 15bps and another 15bps the following Tuesday. As a result, the 10-year Treasury yield is now more than 65 basis points higher than it was only a month ago. And, in contrast to recent trends, Canadian bonds outperformed their U.S. counterparts. Moreover, the damage was not limited to bonds – equities sold off, credit spreads widened a notch, and currencies slipped against the Greenback. Indisputably, there has been a noticeable shift in market sentiment. That begs the question – what is behind this shift in perceptions, and where do we go from here?

For monthly updates and a more in-depth discussion of the interest rate and foreign exchange rate forecasts, please see the monthly Global Markets report, available at www.td.com/economics.

Global tightening

The driver behind the recent turmoil is mounting concern that global inflation pressures may be bubbling up, and that the world's central banks will need to tighten monetary policy more than expected. News that the Reserve Bank of New Zealand pushed its policy rate to a sky-high 8.0% in early June was one key catalyst, but not the only one. A string of strong indicators in Australia has been fuelling expectations that the Reserve Bank of Australia will need to push the 6.25% cash rate higher. The ECB also raised rates recently, and tough talk from President Trichet has convinced the markets that more hikes are in the cards. Although the Bank of England kept its rate unchanged at its most recent policy meeting, expectations are that it will need to tighten further. Meanwhile, the Bank of Canada has shifted its policy bias towards tight-

INTEREST RATE OUTLOOK

	Spot Rate	2006				2007				2008			
	6/19/2007	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CANADIAN FIXED INCOME													
Overnight Target Rate (%)	4.25	3.75	4.25	4.25	4.25	4.25	4.25	4.75	4.75	4.75	4.75	4.75	4.75
3-mth T-Bill Rate (%)	4.43	3.91	4.32	4.17	4.12	4.20	4.35	4.65	4.65	4.65	4.70	4.70	4.70
2-yr Govt. Bond Yield (%)	4.68	4.01	4.41	3.91	4.03	3.98	4.75	4.85	4.95	5.05	5.05	5.05	5.05
5-yr Govt. Bond Yield (%)	4.65	4.16	4.47	3.88	3.99	4.02	4.75	4.85	4.95	5.05	5.05	5.05	5.05
10-yr Govt. Bond Yield (%)	4.64	4.26	4.58	4.00	4.09	4.11	4.70	4.80	4.95	5.05	5.10	5.10	5.10
30-yr Govt. Bond Yield (%)	4.54	4.26	4.61	4.09	4.14	4.20	4.60	4.70	4.85	4.95	4.95	4.95	4.95
10-yr-2-yr Govt. Spread (%)	-0.04	0.25	0.17	0.09	0.06	0.13	-0.05	-0.05	0.00	0.00	0.05	0.05	0.05
U.S. FIXED INCOME													
Fed Funds Target Rate (%)	5.25	4.75	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
3-mth T-Bill Rate (%)	4.64	4.60	5.03	4.88	5.02	5.06	4.85	4.95	5.05	5.15	5.20	5.20	5.20
2-yr Govt. Bond Yield (%)	4.98	4.82	5.15	4.68	4.81	4.57	5.00	5.05	5.10	5.15	5.15	5.15	5.15
5-yr Govt. Bond Yield (%)	5.04	4.81	5.09	4.58	4.69	4.53	5.05	5.15	5.20	5.25	5.25	5.30	5.30
10-yr Govt. Bond Yield (%)	5.13	4.85	5.14	4.63	4.70	4.64	5.10	5.20	5.30	5.35	5.40	5.40	5.40
30-yr Govt. Bond Yield (%)	5.24	4.89	5.19	4.76	4.81	4.84	5.20	5.30	5.40	5.45	5.50	5.55	5.55
10-yr-2-yr Govt. Spread (%)	0.15	0.03	-0.01	-0.05	-0.11	0.07	0.10	0.15	0.20	0.20	0.25	0.25	0.25
CANADA-U.S. SPREADS													
3-mth T-Bill Rate (%)	-0.21	-0.69	-0.71	-0.71	-0.90	-0.86	-0.50	-0.30	-0.40	-0.50	-0.50	-0.50	-0.50
2-yr Govt. Bond Yield (%)	-0.30	-0.81	-0.74	-0.77	-0.78	-0.59	-0.25	-0.20	-0.15	-0.10	-0.10	-0.10	-0.10
5-yr Govt. Bond Yield (%)	-0.39	-0.65	-0.62	-0.70	-0.70	-0.51	-0.30	-0.30	-0.25	-0.20	-0.20	-0.25	-0.25
10-yr Govt. Bond Yield (%)	-0.49	-0.59	-0.56	-0.63	-0.61	-0.53	-0.40	-0.40	-0.35	-0.30	-0.30	-0.30	-0.30
30-yr Govt. Bond Yield (%)	-0.70	-0.63	-0.58	-0.67	-0.67	-0.64	-0.60	-0.60	-0.55	-0.50	-0.55	-0.60	-0.60

f: Forecast by TD Economics as at June 2007; All forecasts are for end of period. Source: Bloomberg, TD Economics ening, and a hike at its next policy meeting looks highly likely. Even in the U.S., a string of strong economic reports and ongoing hawkish talk from Fed officials have been fuelling chatter that the Fed may increase rates before the end of the year.

Given that backdrop, it's not surprising that the bond market has sold off. Certainly, the risks are heavily tilted towards further tightening overseas. Most advanced economies are operating at or above their capacity limits, growth prospects remain solid, and perhaps most importantly, policy rates are still accommodative in many countries. On that front, the markets seem to have it right.

Does the U.S. need to tighten?

Where the markets may be off base, however, is in assuming that rates in the U.S. may need to rise this year as well. To be fair, rather than pricing in rate hikes, the market has merely priced out the rate cuts that had previously been assumed. Still, there has been a lot of market chatter about potential rate hikes in 2007, and that has definitely come into play.

We do not see Fed rate hikes as the most likely outcome – in fact, we still see unchanged rates over the next year. To be sure, much of the speculation about the Fed increasing rates is the result of the recent spate of strong economic data. But it's important to put this into context. The U.S. economy is coming off a very poor quarter, having almost completely stalled out in the opening quarter of the year. Against that backdrop, a rebound does not come as a surprise. However, we do not expect that momentum to be sustained. The housing market will remain a drag on the economy and consumers are facing significant headwinds. In addition, core inflation has been coming down, not going up. Core CPI inflation has come down from a peak of 2.7% at the beginning of the year to 2.2% now. The core PCE deflator has come down to 2.0% — the top of what most Fed officials see as their comfort zone.

In sum, Fed officials may still be talking tough. But the Fed funds rate is likely to remain unchanged for the foreseeable future, and that will help anchor longer-term yields.

Canada – Time to hike

In contrast, the case for Bank of Canada rate hikes has continued to build, and we now expect two increases in the overnight rate, with a first move in July, and another in September. With the recent round of market turmoil having sharply widened the negative gap between Canadian and U.S. yields, the ingredients are certainly there for the two to converge to some extent in the months ahead.

The case for the Bank of Canada to hike is compelling. Core inflation is running squarely above the BoC's target at 2.5%, and the near-term trend is even more troubling. Judging by the Bank of Canada's measure of the output gap, the Canadian economy is operating through its capacity limits. Other indicators support that assessment. Moreover, at 3.7%, GDP growth in the opening quarter of the year was more than a full percentage point above the Bank's expectations, as spelled out as recently as the April 26 Monetary Policy Report, and the second quarter is also set to come in above the 2.3% clip the Bank was expecting. Moreover, the trend growth rate of productivity is unimpressive – to say the last – and as a result, the year-over-year increase in unit labour costs is its strongest since 1991.

The only source of uncertainty on that front is the Canadian dollar. The loonie's most recent run has not been entirely driven by strong fundamentals, and that may dampen the Bank's enthusiasm for rate hikes. Our view is that the currency will continue to gain ground, topping out at about 96 U.S. cents by the end of the year. That may not be enough to prevent the Bank from hiking, but it will limit the extent of the moves.

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FOREIGN EXCHANGE OUTLOOK

Currency	Exchange Rate	Spot Price	2006		2007				2008			
		6/19/2007	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Canadian dollar	USD per CAD	0.936	0.895	0.858	0.867	0.930	0.960	0.960	0.950	0.940	0.930	0.930
Canadian dollar	CAD per USD	1.069	1.118	1.166	1.154	1.075	1.042	1.042	1.053	1.064	1.075	1.075
Japanese yen	JPY per USD	123.4	118	119	118	120	118	115	112	109	106	107
Euro	USD per EUR	1.340	1.267	1.320	1.337	1.310	1.280	1.280	1.300	1.310	1.320	1.320
U.K. pound	USD per GBP	1.987	1.873	1.958	1.978	1.912	1.869	1.855	1.884	1.899	1.899	1.899
Swiss franc	CHF per USD	1.240	1.251	1.220	1.214	1.252	1.281	1.273	1.246	1.229	1.212	1.212
Australian dollar	USD per AUD	0.844	0.746	0.789	0.809	0.840	0.820	0.810	0.790	0.770	0.760	0.750
Mexican peso	MXN per USD	10.76	10.98	10.82	11.05	10.80	10.80	10.85	10.90	10.90	10.95	10.95

f: Forecast by TD Economics as at June 2007; All forecasts are for end of period; Source: Federal Reserve of New York, TD Economics

CANADIAN ECONOMIC OUTLOOK

Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated

	2006			2007				2008				Annual Average				4th Qtr/4th Qtr			
	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	05	06	07F	08F	05	06	07F	08F
Real GDP	1.5	1.3	1.5	3.7	3.3	2.5	2.5	2.6	2.4	2.3	2.5	3.1	2.8	2.5	2.5	3.2	1.9	3.0	2.4
Consumer Expenditure	3.8	5.1	3.7	3.9	3.3	3.0	2.9	3.0	2.9	2.3	2.2	3.8	4.2	3.7	2.9	3.8	4.5	3.3	2.6
Durable Goods	7.9	11.1	4.7	6.6	6.0	2.2	1.0	2.0	2.0	1.0	1.5	5.3	7.1	5.8	1.9	4.3	9.1	3.9	1.6
Business Investment	7.5	9.7	6.8	-0.6	4.9	7.7	7.9	7.8	7.3	7.0	7.1	10.8	9.9	5.1	7.4	13.2	8.2	4.6	7.3
Non-Res. Structures	10.5	12.6	11.8	5.3	7.0	8.6	8.0	8.2	7.7	6.2	6.2	10.8	12.9	8.6	7.7	13.9	12.3	7.2	7.1
Machinery & Equipment	5.0	7.1	2.3	-6.0	3.5	7.1	7.8	7.4	7.0	7.5	7.7	10.8	7.4	2.1	7.2	12.6	4.7	3.0	7.4
Residential Construction	-5.2	-6.2	-0.1	7.5	1.5	0.6	-0.5	-0.8	-0.2	1.0	0.5	3.5	2.1	1.0	0.0	2.4	-0.7	2.2	0.1
Government Expenditure on Goods & Services	3.2	1.5	3.0	2.7	2.5	3.5	3.5	4.3	3.2	2.8	2.0	2.2	3.3	2.8	3.4	2.6	3.1	3.1	3.1
Final Domestic Demand	3.6	4.2	3.7	9.0	3.2	3.6	3.5	3.7	3.4	3.0	2.8	4.6	4.8	3.5	3.4	5.0	4.4	3.3	3.2
Exports	-1.8	2.6	2.7	2.1	2.7	1.4	1.9	2.3	2.7	3.5	3.9	2.2	0.7	2.0	2.5	4.5	-0.9	2.0	3.1
Imports	9.8	6.2	-0.9	2.6	3.0	4.7	5.0	4.9	4.5	4.2	4.4	7.5	5.0	3.3	4.6	7.1	3.0	3.8	4.5
Change in Non-Farm Inventories ($97 Bn)	16.9	11.9	-0.7	2.8	3.5	4.2	5.2	5.0	4.1	2.9	3.1	11.1	9.3	3.9	3.8	—	—	—	—
Final Sales	-1.0	2.7	5.3	8.0	3.1	2.3	2.2	2.6	2.7	2.6	2.5	2.4	3.0	3.0	2.5	3.9	2.8	2.6	2.6
International Current Account Balance ($Bn)	17.3	22.7	18.5	26.0	29.8	29.1	29.4	25.1	23.7	21.4	21.0	27.9	23.6	28.6	22.8	—	—	—	—
% of GDP	1.2	1.6	1.3	1.7	2.0	1.9	1.9	1.6	1.5	1.3	1.3	2.0	1.6	1.9	1.4	—	—	—	—
Pre-tax Corp. Profits	5.8	9.3	-0.8	13.0	6.3	3.5	2.4	2.6	5.0	3.6	3.5	11.9	5.0	6.3	3.5	14.8	-0.6	6.2	3.7
% of GDP	13.7	13.9	13.8	13.9	14.0	14.0	13.9	13.8	13.8	13.8	13.8	13.8	13.7	13.9	13.8	—	—	—	—
GDP Deflator (Y/Y)	3.1	2.0	0.9	2.4	2.3	2.2	2.4	1.4	1.7	2.2	2.3	3.4	2.4	2.3	1.9	-3.3	0.9	2.4	2.3
Nominal GDP	3.1	2.9	1.9	10.2	4.6	3.5	3.9	4.4	5.3	5.1	4.4	6.5	5.2	4.9	4.5	7.5	2.9	5.5	4.8
Labour Force	1.9	1.6	1.2	3.7	1.2	1.3	1.2	1.2	1.2	1.2	1.2	0.9	1.4	1.9	1.2	0.9	1.5	1.9	1.2
Employment (%)	2.9	0.6	2.4	3.9	1.0	1.1	0.8	1.0	1.1	1.1	1.2	1.4	2.0	2.0	1.0	1.6	1.9	1.7	1.1
Employment ('000s)	116	23	97	160	40	45	35	40	45	45	50	220	315	334	168	261	306	280	180
Unemployment Rate (%)	6.2	6.4	6.1	6.1	6.2	6.3	6.3	6.2	6.2	6.4	6.4	6.8	6.3	6.2	6.3	—	—	—	—
Personal Disp. Income	-0.7	5.8	5.6	8.5	2.4	3.7	4.3	3.4	4.0	3.4	3.0	4.3	6.4	5.0	3.6	4.6	6.3	4.7	3.4
Pers. Savings Rate (%)	1.7	1.8	2.2	2.6	2.3	2.1	2.0	1.8	1.6	1.6	1.4	1.6	2.3	2.2	1.6	—	—	—	—
Cons. Price Index (Y/Y)	2.6	1.7	1.3	1.8	2.3	2.7	3.5	2.9	2.1	1.9	2.0	2.2	2.0	2.6	2.2	2.3	1.3	3.5	2.0
Core CPI (Y/Y)	1.8	2.1	2.2	2.2	2.5	2.4	2.3	2.2	2.1	2.0	2.0	1.6	1.9	2.4	2.0	1.6	2.2	2.3	2.0
Housing Starts ('000s)	228	220	222	222	219	210	205	200	195	190	185	224	228	214	193	—	—	—	—
Productivity: Real GDP / worker (Y/Y)	0.9	0.4	-0.1	-0.6	0.4	0.6	1.3	1.8	1.5	1.4	1.4	2.0	0.7	0.4	1.5	1.6	-0.1	1.3	1.4

F: Forecast by TD Economics as at June 2007

Source: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Haver Analytics

U.S. ECONOMIC OUTLOOK

Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated

	2006			2007				2008				Annual Average				4th Qtr/4th Qtr			
	Q2	Q3	Q4	Q1	Q2 F	Q3 F	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F	05	06	07 F	08 F	05	06	07 F	08 F
Real GDP	2.6	2.0	2.5	0.6	3.3	2.4	2.2	2.4	2.5	2.7	3.0	2.7	3.3	2.1	2.5	2.4	3.1	2.1	2.7
Consumer Expenditure	2.6	2.8	4.2	4.4	2.1	2.3	2.1	2.2	2.5	2.7	3.0	3.3	3.2	3.2	2.3	2.7	3.6	2.7	2.6
Durable Goods	-0.1	6.4	4.4	8.8	2.8	2.0	1.7	3.1	4.4	4.9	4.6	5.1	5.0	4.7	3.2	2.0	7.4	3.8	4.2
Business Investment	4.4	10.0	-3.1	2.9	8.1	5.6	2.7	3.2	3.7	4.2	4.8	3.1	7.2	4.0	4.0	1.1	6.1	4.8	4.0
Non-Res. Structures	20.3	15.7	0.8	5.1	12.9	3.6	2.2	3.5	4.0	4.2	4.3	1.2	9.0	7.5	4.0	0.7	11.3	5.9	4.0
Machinery & Equipment	-1.4	7.7	-4.8	2.0	6.1	6.5	3.0	3.1	3.6	4.2	5.0	3.9	6.5	2.5	4.0	1.3	4.0	4.4	4.0
Residential Construction	-11.1	-18.7	-19.8	-15.4	-7.5	-6.1	-2.1	0.2	0.8	1.4	2.4	8.2	-4.2	-13.2	-1.2	8.4	-12.8	-7.9	1.2
Govt. Consumption & Gross Investment	0.8	1.7	3.4	1.0	2.4	1.2	0.7	0.6	0.7	0.9	1.2	0.3	2.1	1.8	0.9	0.0	2.7	1.3	0.9
Final Domestic Demand	1.6	2.0	1.9	2.5	2.2	2.0	1.7	1.9	2.2	2.5	2.8	3.0	2.9	2.1	2.1	2.4	2.7	2.1	2.3
Exports	6.2	6.8	10.6	-0.6	6.3	7.7	7.5	7.2	7.7	7.3	7.0	7.0	8.9	5.6	7.4	7.3	9.4	5.2	7.3
Imports	1.4	5.6	-2.6	5.7	4.7	5.1	3.2	3.3	3.9	4.4	5.2	5.6	5.8	3.4	3.9	4.9	3.3	4.7	4.2
Change in Non-Farm Inventories ($96 Bn)	52.2	53.3	20.0	-7.8	25.4	31.1	33.0	33.7	33.0	32.7	33.8	19.6	40.6	20.4	33.3	—	—	—	—
Final Sales	2.1	1.9	3.7	1.6	2.3	2.1	2.1	2.3	2.5	2.7	2.9	3.0	3.1	2.3	2.4	2.5	3.3	2.0	2.6
International Current Account Balance ($Bn)	-871	-918	-783	-836	-896	-913	-913	-915	-916	-917	-919	-792	-857	-889	-917	—	—	—	—
% of GDP	-6.6	-6.9	-5.8	-6.1	-6.5	-6.5	-6.4	-6.4	-6.3	-6.3	-6.2	-6.4	-6.5	-6.4	-6.3	—	—	—	—
Pre-tax Corporate Profits including IVA&CCA	5.9	16.4	-1.2	5.0	3.3	-0.6	4.1	1.4	3.4	4.2	4.2	14.6	21.4	4.1	2.7	14.3	18.3	2.9	3.3
% of GDP	12.1	12.4	12.2	12.3	12.2	12.0	12.0	11.9	11.8	11.8	11.8	10.7	12.2	12.1	11.8	—	—	—	—
GDP Deflator (Y/Y)	3.3	3.0	2.6	2.7	2.7	2.8	3.0	2.7	2.3	2.3	2.2	3.3	2.9	2.8	2.4	3.5	2.6	3.0	2.2
Nominal GDP	5.9	3.9	4.1	4.7	6.9	4.5	4.9	4.9	4.6	4.8	5.0	6.1	6.3	5.0	4.9	6.1	5.7	5.2	4.8
Labour Force	1.8	1.6	1.9	1.3	0.2	1.0	1.0	0.9	0.9	0.8	0.8	1.3	1.4	1.2	0.9	1.4	1.5	0.9	0.9
Employment	1.5	1.6	1.5	1.5	1.2	1.1	0.8	0.5	0.6	0.6	1.0	1.7	1.9	1.4	0.7	1.9	1.7	1.1	0.7
Change in Empl. ('000s)	520	529	509	497	423	372	274	183	195	193	353	2,273	2,478	1,845	1,012	2,456	2,251	1,566	1,994
Unemployment Rate (%)	4.7	4.7	4.5	4.5	4.5	4.6	4.7	4.8	5.0	5.1	5.1	5.1	4.6	4.6	5.0	—	—	—	—
Personal Disp. Income	2.5	5.7	5.4	8.2	4.5	5.5	5.2	6.0	5.0	5.0	5.1	4.3	5.5	5.8	5.3	3.4	5.1	5.9	5.3
Pers. Savings Rate (%)	-1.4	-1.4	-0.9	-0.8	-1.5	-1.2	-1.1	-0.7	-0.6	-0.5	-0.4	-0.4	-1.0	-1.1	-0.5	—	—	—	—
Cons. Price Index (Y/Y)	4.0	3.4	1.9	2.4	2.6	2.5	3.7	3.3	2.3	2.2	2.0	3.4	3.3	2.8	3.0	3.8	1.9	3.7	2.0
Core CPI (Y/Y)	2.5	2.8	2.6	2.6	2.3	2.0	2.2	2.2	2.2	2.2	1.9	2.2	2.5	2.3	2.2	2.2	2.6	2.2	1.9
Housing Starts (mns)	1.86	1.70	1.55	1.46	1.45	1.43	1.43	1.42	1.42	1.42	1.43	2.07	1.81	1.44	1.42	—	—	—	—
Productivity: Real Output per hour (y/y)	1.9	0.9	1.6	0.9	1.1	1.7	1.7	2.1	2.2	2.5	2.6	1.7	1.6	1.4	2.4	1.2	1.6	1.7	2.6

F: Forecast by TD Economics as at June 2007
Source: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, TD Economics

Q: Reference: Page 8, Lines 23-26

"…Newfoundland and Labrador's real GDP growth rate is expected to pull back to somewhere between 0.5% to 1.2% for 2008, according to a number of recent bank provincial forecast reports, and be the slowest among all provinces."

Please provide a table, with supporting documents, showing the expected range of real GDP growth for each province in 2008.

A: Dr. Cannon did not do the research necessary to answer this question. Dr. Cannon relied upon statements contained in the recent provincial forecast publications of several of the major banks to generate and support the referenced statements. Copies of these bank research reports are attached to this response.

PROVINCIAL MONITOR
AN UPDATE ON PROVINCIAL ECONOMIC & FISCAL MATTERS
ECONOMIC RESEARCH
BMO Capital Markets

East-West Disparities Persist

Summer 2007

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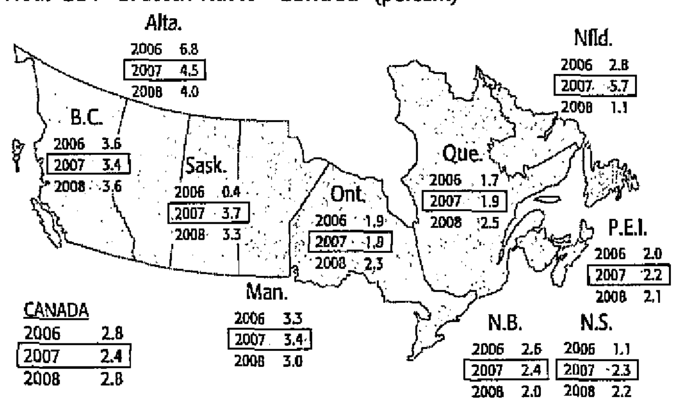
The disparity in Canadian economic growth remains wide, as booming commodity prices continue to support growth across most of the West, while a strong loonie continues to depress manufacturing activity in Central Canada. All provinces will see positive growth this year, with most of the muscle provided by the West. While Alberta will likely concede its post as the provincial leader to Newfoundland & Labrador, growth in the province will remain a heated 4.5%—almost twice the national average. The bull market in oil continues to spur investment in the West, leading to strong job and wage growth, record housing activity and incredibly robust consumer spending.

Central Canada's economic performance remains below the national rate. Higher energy costs and a strong Canadian dollar are a double drag on manufacturing in Ontario—the auto sector in particular—which had its worst performance in five years in 2006, and those headwinds are still blowing in 2007, limiting GDP growth to under 2%. Meantime, the East is mixed, highlighted by a sharp rebound in Newfoundland & Labrador, but still registering average overall growth in 2007.

CHART 1
PROVINCIAL GDP
Real GDP Growth Rates—Canada (percent)



Source: BMO Capital Markets

While the regional disparity is persisting in 2007, there are some signs that economic strength is slowly migrating east. As growth in B.C. and Alberta gradually decelerates, higher output and exploration activity in the agriculture and mining sectors are allowing Saskatchewan and Manitoba to pick up steam. In a sign of this transition, Saskatchewan recorded its first

Population: **32,581,490**	Party in Power: **Conservatives**	Legislative Seats:	Minority Government Since: **January 2006**
Area: **9,984,670 km²**	Prime Minister: **Rt. Hon. Stephen Harper**	**Conservatives** 125	
GDP/Capita: **$44,113**	Finance Minister: **Hon. Jim Flaherty**	**Liberals** 98	
National Capital: **Ottawa**		**Bloc Quebecois** 49	
		New Democrats 29	
		Independent 3	
		Vacant 4	

digit pace—although partly reflecting an easy comparison after the shutdown of a Sobey's warehouse last year. Meantime, manufacturing shipments were up a robust 17% in the first five months of 2007, led by the food industry. As the soft construction sector continues to offset solid consumer activity, growth should bounce around 2% going forward.

The province is projecting a $2.1 million consolidated budget surplus for FY07/08, up from $1.3 million in FY06/07, even after cutting some taxes. This marks the third consecutive surplus on a consolidated basis.

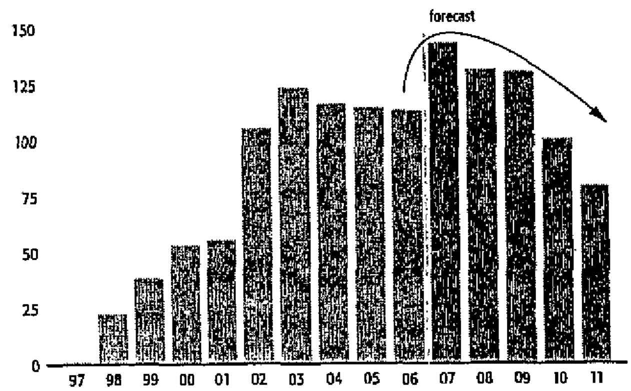
Newfoundland & Labrador

Population: **510,343**	Provincial Capital: **St. John's**	Finance Minister: **Hon. Thomas Marshall**	Next Election: **October 9, 2007**
Percent of Canada: **1.6**	Party in Power: **Progressive Conservatives**	Legislative Seats:	
Rank by Population: **9th**	Premier: **Hon. Danny Williams**	**PC** 34	
Area: **405,720 km²**		**Liberals** 12	
GDP/Capita: **$44,047**		**New Democrats** 1	
		Vacant 1	

If any province is to unseat Alberta as the Canadian growth leader this year, Newfoundland is the top candidate. A rebound in mineral fuel output should offset a weak investment environment, lifting growth to 5.7% in 2007, placing it atop the provincial leader board—temporarily.

Output at the province's three major offshore oil projects is forecast to jump about 30% in 2007 according to the Offshore Petroleum Board, with Terra Nova providing most of the growth. Meantime, nickel production at Voisey's Bay should remain strong as labour tensions ease in 2007. Other indicators have also started out the year on a solid note. Retail sales were up nearly 10% y/y in the first quarter, while growth in manufacturing shipments and exports was well into double digits. However, the offshore oil boost will prove short-lived as extraction at Hibernia, Terra Nova and White Rose has peaked, and will begin to decline steadily barring any future expansion—there is speculation that an expansion of White Rose by Husky Energy will be approved.

CHART 6
NEWFOUNDLAND OIL SURGE TEMPORARY
Oil Production (mln barrels)



Source: CNLOPB

As in the rest of the East, residential construction remains an area of weakness in the province. Investment growth in residential structures has decelerated for four consecutive years, and the pace of housing starts is down slightly from 2006. Negative population growth—the lowest in Canada—is driving this trend. Meantime, capital expenditures are expected to fall nearly 8% in

2007, the only province expected to see a decline. With little in the way of major infrastructure projects in the pipeline, this year's oil-fuelled spike in output should prove temporary, and growth should slow to a below-average pace in subsequent years.

The Province of Newfoundland and Labrador is projecting a $261 million budget surplus for FY07/08, up from $76 million in FY06/07, marking its third consecutive surplus on a consolidated basis. The improvement is pumped by offshore royalties along with mining tax and royalties, which together are projected to surge 138% to $1.3 billion. The budget announced what is billed as the "Largest Tax Reduction in the History of the Province", with all personal tax rates being cut effective July 1, 2007.

Scotiabank Group

Global Economic Research

Provincial Forecast Update

July 19, 2007

	1990-2005	2006	2007f	2008f	1990-2005	2006	2007f	2008f
	Real GDP (annual % change)				Budget Balance, FY March 31 (after special account transfers, $ mn)			
Canada	2.6	2.8	2.4	2.5	-11,256	13,218	9,200	3,300
Newfoundland and Labrador	2.5	2.8	4.6	1.2	-329	199	76	261
Prince Edward Island	2.5	2.0	1.8	2.0	-30	1	1	2
Nova Scotia	1.9	1.1	2.0	2.3	-228	228	99	118
New Brunswick	2.2	2.6	2.3	2.4	-69	244	35	37
Quebec	2.1	1.7	1.8	2.2	-2,206	37	607	653
Ontario	2.6	1.9	1.7	2.1	-4,580	298	310	-400
Manitoba	1.9	3.3	2.8	2.9	na	375	166	176
Saskatchewan	2.4	0.4	3.2	3.0	-81	400	293	75
Alberta	3.6	6.8	4.5	3.8	1,184 *	8,551 *	8,510 *	2,183 *
British Columbia	2.7	3.6	3.2	3.4	-515	3,090	4,056	400

*Net revenue.

	Employment (annual % change)				Unemployment Rate (annual average %)			
Canada	1.4	1.9	2.1	1.2	6.7	6.3	6.1	6.2
Newfoundland and Labrador	0.2	0.7	1.4	0.9	17.6	14.8	13.2	12.8
Prince Edward Island	1.4	0.6	1.7	0.6	14.0	11.0	10.1	9.9
Nova Scotia	0.9	-0.3	1.5	0.7	11.0	7.9	8.0	8.0
New Brunswick	1.0	1.4	1.3	1.0	11.4	8.8	8.0	8.1
Quebec	1.1	1.3	2.0	1.0	10.4	8.0	7.4	7.6
Ontario	1.3	1.5	1.2	0.9	7.9	6.3	6.6	6.6
Manitoba	0.8	1.2	1.4	1.0	6.6	4.3	4.7	4.8
Saskatchewan	0.4	1.7	2.5	1.2	6.3	4.7	3.8	3.6
Alberta	2.2	4.8	4.6	2.4	6.5	3.4	3.4	3.2
British Columbia	2.2	3.1	3.1	1.9	8.4	4.8	4.2	4.2

	Housing Starts (annual, thousands of units)				Motor Vehicle Sales (annual, thousands of units)			
Canada	168	227	210	195	1,391	1,614	1,650	1,610
Atlantic	11	12	10	10	100	110	111	109
Quebec	36	48	46	40	356	396	392	378
Ontario	62	73	64	60	544	601	592	567
Manitoba	3	5	5	5	40	44	46	45
Saskatchewan	2	4	5	5	35	38	43	44
Alberta	25	49	46	43	156	236	268	259
British Columbia	29	36	34	32	160	189	198	198

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Provincial Forecast Update is available on: **www.scotiabank.com** and **Bloomberg at SCOE**

TD Bank Financial Group

TD Economics

Provincial Economic Outlook

May 7, 2007

DIGGING BENEATH THE TOP-LINE GROWTH NUMBERS

Strength in resource output is expected to lift the economies of Newfoundland & Labrador and Saskatchewan to the top of the growth rankings in 2007. Still, apart from this new twist, the key themes that were at play in 2006 are expected to remain in place. First, look for Alberta to continue to account for an outsized share of Canadian GDP growth, which – along with prospects for strong expansions in Saskatchewan and British Columbia – suggests that the west will continue to enjoy the momentum advantage this year. And, secondly, our predictions of contined tepid real GDP growth in most economies east of Saskatchewan is likely to further mask underlying resilience in both domestic spending and job markets.

Provincial Forecast Highlights

- **Newfoundland & Labrador and Saskatchewan to record the fastest real GDP growth in 2007**
- **Alberta set to downshift, but continue to grow at about twice the national pace this year**
- **Most other economies set to post uninspiring growth of 1.5-2.5% in 2007 ...**
- **... but headline numbers will further conceal ongoing resilience in job markets**
- **Regional growth convergence to accelerate in 2008**

Don't be fooled by the headlines

As Statistics Canada's April 25th release of the *2006 Provincial Economic Accounts* confirmed, there may never have been a year when national averages have been less meaningful. This is because only a few provinces actually grew close to the last year's average of 2.7%. At nearly 7%, Alberta's real GDP growth rate was so explosive that it single-handedly lifted the national-average tally by more than half a percentage point. What's more, with Alberta bursting through its capacity limits, CPI inflation (4%), median wage increases (7%) and average resale prices (30%) all ran at roughly triple the national pace in 2006.

Elsewhere, real GDP gains in 2006 varied widely – from a soft 0.4% in Saskatchewan to more hearty expansions of more than 3% in British Columbia and Manitoba. As expected, the combination of high crude oil prices, an elevated Canadian dollar and slackening demand knocked the manufacturing-oriented economies of Ontario and Quebec to the bottom end of the rankings. In general, the energy- and metals- producing markets (i.e., N&L, British Columbia and Manitoba) generated solid real GDP gains. Saskatchewan's anemic performance bucked the trend among the resource-heavy provinces, owing in part to a large pull-back in crop production.

Resilient domestic spending across Canada

Figures on the performance of underlying domestic economic activity in the 2006 results paint a markedly different picture. *Final domestic demand,* which accounts for the bulk of total real GDP, measures the aggregate spending of consumers, governments and businesses. By adding on two remaining elements – net exports and inventory investment – a full accounting of real GDP is established.

The table on the next page provides both 2006 real GDP growth performances and gains in real final domestic demand. What is interesting is that in most provinces – even those recording sluggish real GDP growth – domestic spending activity continued to forge ahead. Case in point is Ontario, where recession concerns were heard the loudest last fall. In fact, each component of real final demand recorded growth of at least 3.5% which is hardly symbolic of an economy fighting brute-force headwinds. In contrast, a deterioration in the province's net trade position alone shaved a whopping 2 percentage points off the accounting of GDP. But even this development deserves closer attention. Total Ontario exports actually advanced slightly in 2006, as a rise in interprovincial shipments offset a decline on the international front. Moreover, the bigger drag was exerted from a near 4% increase in imports, which, in turn, can be partially traced back to the strength in domestic spending. In short, despite the fact that Ontario's all-important export sector faced a rough ride in 2006, weakness there did not spill-over to broader economic conditions. As a result, overall hiring maintained a brisk pace, jobless rates slipped and concerns about labour shortages mounted.

Ontario was certainly not alone in enjoying gains in real domestic spending that far outstripped overall economic growth. For example, a very similar story as the one just told applied to export-oriented Quebec. In fact, the only notable exceptions to the rule were Newfoundland & Labrador and Prince Edward Island, where rising crude oil and agricultural exports provided a major boost to the headline GDP number.

Mitigating factors at play

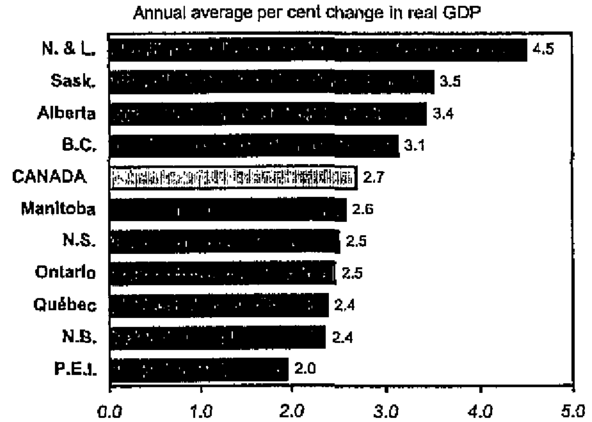
No doubt, many of the factors supporting domestic economies from coast to coast last year reflected a favourable macroeconomic environment at home. Stronger-than-expected job markets are one positive force. There are others:

PROVINCIAL ECONOMIC ACCOUNTS
Per cent change

	Real GDP		Final Domestic Demand	
	2004-05	2006	2004-05	2006
CANADA	3.1	2.7	4.3	4.5
ex-Alta	2.6	2.0	3.5	3.7
N. & L.	0.4	2.8	2.7	1.8
P.E.I.	2.7	2.0	3.0	2.3
N.S.	1.2	1.1	2.4	3.3
N.B.	1.5	2.6	3.2	3.0
Québec	2.5	1.7	3.5	2.9
Ontario	3.0	1.9	3.6	4.0
Manitoba	2.6	3.3	3.5	4.6
Sask.	3.2	0.4	2.5	4.5
Alberta	5.0	6.8	8.3	8.2
B.C.	4.2	3.6	4.8	5.6

Source: Statistics Canada

REAL GDP GROWTH FORECAST* 2007-08



* Forecast by TD Economics as at May 2007

- Relatively low and stable inflation and interest rates;
- Healthy corporate balance sheets and high corporate profits as a share of GDP;
- Expansionary fiscal policies owing to favourable government fiscal positions;
- Continued strength in housing markets;
- Rising Canadian equity prices.

Only mild growth convergence in 2007

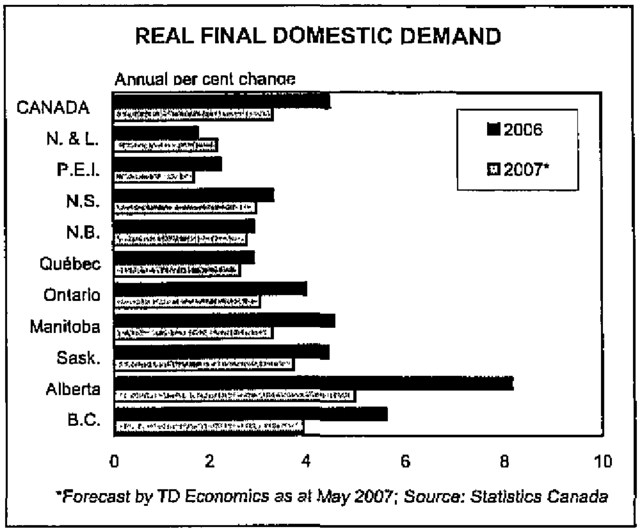
While we see little reason for the broad themes observed last year to reverse course dramatically in 2007, some mild convergence in regional real GDP growth performances is a good bet. In Alberta, the expansion appears to have started to cool from last year's Chinese-style pace, as evidenced by the recent slippage in drilling activity and year-over-year gains in retail and wholesale spending, housing activity and job creation. Still, with crude oil and natural gas prices projected to hold in the healthy ranges of US$60-65 per barrel and US$7-8 per MMBtu, respectively, the province will continue to expand at double the rate of the rest of Canada, marking the fourth straight year in which it has propped up the national average.

While some of the froth is set to come off Alberta's expansion, a few provinces are likely to see their economies revv up this year. In Newfoundland & Labrador, a further projected combined hike of 30% in output at its three offshore oil projects is likely to push that province into first place in terms of real GDP growth, followed by

Saskatchewan, which is poised to enjoy a hefty bounce back in both potash and crop production. These jurisdictions will be outliers, as Ontario, Quebec and most other provinces turn in further lacklustre real GDP growth of 1.5-2.5%. More specifically, with little end in sight to the U.S. housing correction, and with the Canadian dollar continuing to show relentless strength, there appears to be little chance for a meaningful recovery in exports over the near term. The forestry and automotive sectors will continue to face especially challenging markets.

Nevertheless, continuing last year's trend, the trade softness is expected to be counter-balanced by a continued healthy environment for provincial domestic spending:

- Financial market conditions are expected to remain relatively stable and supportive. While the risk to short-term interest rates has tilted slightly to the upside in recent weeks, the probability of anything more than a modest increase of 25-50 basis points appears to be slim. Moreover, Canadian equity prices have continued to rally this spring.
- Job creation and retail sales have begun 2007 where they left off in 2006 – with a bang. Indeed, all provinces except Newfoundland & Labrador turned in gains in employment in the first quarter, while most unemployment rates continued to hover at generational lows. Although we've factored in an return to a more sustainable pace of job creation across the country later this year, all provincial markets are poised to post gains for 2007 as a whole.
- Even though housing starts have fallen off their peak in most provinces, the descent has been moderate and orderly, which is a testament to the well-balanced nature of market conditions. In view of the good start to the year, we've adjusted upwards our forecast of both resale activity and average resale price gains across most markets.
- The 2007 round of government budgets provided the best indication yet that the government sector will continue to be supportive of growth. Assisted by increased federal transfer payments and favourable fiscal positions, program spending growth across the provinces is estimated at 5-10% for fiscal 2006-07, with further gains of 4-6% on tap for fiscal 2007-08. A number of jurisdictions also delivered targeted tax relief, and only New Brunswick announced meaningful tax increases.



With these factors providing a solid underpinning to consumer, business and household spending this year, we project that underlying domestic spending in most provinces will run a healthy clip of at least 2.5-3% again in 2007, significantly outstripping the 1.5-2.5% ratef of real GDP growth (see chart).

2008 will see meaningful convergence

Next year should mark a return to a period when headline numbers are truly representative. The Alberta-ROC gap is expected to have narrowed considerably by then, as the rate of real GDP expansions in most provinces strengthens and Alberta pulls off a sought-after soft landing. So, too, will regional differences in price and cost increases. Furthermore, with the U.S. economy likely to pull out of this year's funk, expect a shift in the balance of growth away from domestic spending toward exports in 2008, thus narrowing the gap between total real GDP growth and that of final domestic demand.

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REAL GROSS DOMESTIC PRODUCT (GDP)
Annual average per cent change

	97-06	2005	2006	2007F	2008F
CANADA	3.5	2.9	2.7	2.4	2.9
ex Alta	3.3	2.7	2.2	2.2	3.0
N. & L.	4.3	0.4	2.8	8.0	1.0
P.E.I.	2.3	2.1	2.0	1.6	2.3
N.S.	2.8	1.6	1.1	2.4	2.6
N.B.	2.7	0.3	2.6	2.0	2.7
Québec	2.9	2.2	1.7	1.8	3.0
Ontario	3.7	2.8	1.9	1.9	3.0
Manitoba	2.6	2.7	3.3	2.5	2.7
Sask.	2.0	3.1	0.4	4.5	2.5
Alberta	4.3	4.6	6.8	4.0	2.9
B.C.	3.1	3.7	3.6	3.0	3.3

F: Forecast by TD Economics as at May 2007
Source: Statistics Canada

RETAIL TRADE
Annual average per cent change

	97-06	2005	2006	2007F	2008F
CANADA	5.5	6.1	6.4	5.2	5.5
ex Alta	5.1	5.2	4.9	4.4	5.2
N. & L.	5.2	2.2	3.0	5.8	3.0
P.E.I.	4.5	3.0	4.1	3.2	3.3
N.S.	4.2	2.9	6.4	3.7	3.8
N.B.	4.6	5.4	5.8	3.4	4.5
Quebec	4.6	5.8	4.8	4.2	5.2
Ontario	5.2	4.7	4.1	4.0	5.3
Manitoba	5.3	6.4	6.0	5.1	4.5
Sask.	5.0	7.5	6.0	6.2	4.5
Alberta	9.1	12.1	16.1	10.1	7.5
B.C.	4.4	5.7	6.4	5.2	6.0

F: Forecast by TD Economics as at May 2007
Source: Statistics Canada

TOTAL CONSUMER PRICE INDEX
Annual average per cent change

	97-06	2005	2006	2007F	2008F
CANADA	2.1	2.2	2.0	1.8	2.2
ex Alta	2.0	2.2	1.8	1.5	2.1
N. & L.	1.9	2.6	1.8	1.2	1.8
P.E.I.	2.2	3.2	2.2	1.4	2.0
N.S.	2.3	2.8	2.1	1.8	2.1
N.B.	2.1	2.4	1.7	1.6	1.9
Québec	2.0	2.3	1.7	1.3	2.0
Ontario	2.1	2.2	1.8	1.4	2.3
Manitoba	2.0	2.7	1.9	1.8	2.2
Sask.	2.2	2.3	2.0	1.9	2.1
Alberta	2.7	2.1	3.9	3.4	2.5
B.C.	1.6	2.0	1.7	1.9	2.0

F: Forecast by TD Economics as at May 2007
Source: Statistics Canada

MEDIAN HOURLY WAGE RATE
Annual average per cent change

	98-06	2005	2006	2007F	2008F
CANADA	2.4	3.3	2.6	2.5	2.6
ex Alta*	2.2	2.9	2.0	2.3	2.5
N. & L.	2.2	2.0	1.9	2.2	2.0
P.E.I.	3.0	0.4	1.8	3.0	2.5
N.S.	2.8	1.6	3.3	3.5	2.8
N.B.	2.2	1.7	2.9	2.9	2.7
Quebec	2.1	2.4	1.9	1.8	2.4
Ontario	2.2	3.8	1.6	1.7	2.3
Manitoba	2.4	2.0	2.5	3.5	2.5
Sask.	3.3	2.5	5.1	4.4	2.8
Alberta	3.9	7.1	6.7	4.9	4.6
B.C.	1.4	1.2	1.6	3.7	3.0

*Estimate. F: Forecast by TD Economics as at May 2007
Source: Statistics Canada

EMPLOYMENT
Annual average per cent change

	97-06	2005	2006	2007F	2008F
CANADA	2.1	1.4	2.0	1.8	1.3
ex Alta	2.0	1.4	1.6	1.5	1.2
N. & L.	1.4	-0.1	0.7	1.6	0.5
P.E.I.	1.5	2.0	0.5	1.2	1.0
N.S.	1.6	0.2	-0.3	1.5	1.2
N.B.	1.5	0.1	1.4	0.9	1.5
Quebec	1.9	1.0	1.3	1.2	1.0
Ontario	2.3	1.3	1.5	1.3	1.2
Manitoba	1.3	0.6	1.2	1.4	1.1
Sask.	0.7	0.8	1.7	3.1	1.0
Alberta	2.9	1.5	4.8	3.9	2.4
B.C.	1.9	3.3	3.1	2.7	2.6

F: Forecast by TD Economics as at May 2007
Source: Statistics Canada

UNEMPLOYMENT RATE
Per cent

	97-06	2005	2006	2007F	2008F
CANADA	7.4	6.8	6.3	6.2	6.2
ex Alta	7.8	7.1	6.7	6.5	6.5
N. & L.	16.5	15.2	14.8	14.2	14.6
P.E.I.	12.4	10.9	11.1	10.7	10.9
N.S.	9.5	8.4	8.0	7.7	7.8
N.B.	10.5	9.7	8.8	8.2	8.0
Quebec	9.1	8.3	8.0	7.8	7.7
Ontario	6.8	6.6	6.3	6.5	6.5
Manitoba	5.2	4.8	4.3	4.3	4.4
Sask.	5.5	5.1	4.7	3.7	4.2
Alberta	4.9	3.9	3.4	3.5	3.9
B.C.	7.5	5.9	4.8	4.3	4.5

F: Forecast by TD Economics as at May 2007
Source: Statistics Canada

HOUSING STARTS Thousands of units	2004	2005	2006	2007F	2008F
CANADA	232.7	224.0	228.4	213.0	199.5
ex Alta	196.5	183.4	179.5	165.8	158.0
N. & L.	2.9	2.6	2.3	2.1	2.0
P.E.I.	0.9	0.9	0.8	0.7	0.6
N.S.	4.8	4.7	5.2	4.5	4.4
N.B.	3.8	3.9	4.1	3.7	3.4
Quebec	58.6	50.9	47.7	43.7	40.6
Ontario	84.5	77.8	74.2	67.3	65.5
Manitoba	4.4	4.7	5.0	5.5	5.0
Sask.	3.7	3.3	3.7	4.1	3.7
Alberta	36.2	40.6	48.9	47.1	41.5
B.C.	32.9	34.5	36.5	34.3	32.8

F: Forecast by TD Economics as at May 2007
Source: Canada Mortgage and Housing Corporation

HOUSING STARTS Per cent change	2004	2005	2006	2007F	2008F
CANADA	6.0	-3.7	2.0	-6.8	-6.3
ex Alta	7.3	-6.7	-2.1	-7.6	-4.7
N. & L.	17.5	-11.7	-11.0	-6.4	-8.1
P.E.I.	8.1	3.7	-9.9	-19.5	-4.3
N.S.	-10.9	-2.1	10.3	-13.2	-3.0
N.B.	-14.0	2.6	4.5	-9.7	-7.5
Quebec	16.2	-13.0	-6.3	-8.4	-7.0
Ontario	-1.6	-7.9	-4.7	-9.2	-2.7
Manitoba	6.0	6.2	6.4	8.9	-8.2
Sask.	12.5	-11.6	11.6	10.7	-10.3
Alberta	-0.6	12.1	20.4	-3.6	-12.0
B.C.	25.3	5.1	5.8	-6.1	-4.4

F: Forecast by TD Economics as at May 2007
Source: Canada Mortgage and Housing Corporation

RESALE UNITS Thousands of units	2004	2005	2006	2007F	2008F
CANADA	460.8	483.8	483.8	474.3	459.4
ex Alta	403.3	417.9	409.4	401.6	392.8
N. & L.	3.3	3.2	3.5	3.7	3.4
P.E.I.	1.5	1.4	1.5	1.4	1.4
N.S.	8.9	10.9	10.6	10.5	10.2
N.B.	6.0	6.8	7.1	7.0	6.9
Quebec	69.3	70.6	72.5	71.1	68.3
Ontario	197.4	197.0	194.8	191.0	191.9
Manitoba	12.1	12.8	13.0	13.0	12.6
Sask.	8.2	8.3	9.1	9.4	8.8
Alberta	57.5	65.9	74.4	72.8	66.6
B.C.	96.4	106.3	96.7	94.4	89.4

F: Forecast by TD Economics as at May 2007
Source: Canadian Real Estate Association

RESALE UNITS Per cent change	2004	2005	2006	2007F	2008F
CANADA	5.9	5.0	0.0	-2.0	-3.2
ex Alta	5.1	3.6	-2.0	-1.9	-2.2
N. & L.	0.8	-1.7	10.2	3.5	-6.3
P.E.I.	6.8	-3.4	3.0	-3.1	-4.5
N.S.	-3.6	23.1	-3.3	-1.0	-2.8
N.B.	8.9	14.3	4.2	-2.0	-1.6
Quebec	3.2	2.0	2.6	-1.9	-3.9
Ontario	7.0	-0.2	-1.1	-1.9	0.4
Manitoba	5.0	5.5	2.0	0.2	-3.4
Sask.	6.2	1.7	10.0	3.0	-6.6
Alberta	11.9	14.6	12.9	-2.1	-8.4
B.C.	3.5	10.3	-9.1	-2.3	-5.3

F: Forecast by TD Economics as at May 2007
Source: Canadian Real Estate Association

AVERAGE RESALE HOME PRICE Thousands $	2004	2005	2006	2007F	2008F
CANADA	226.3	249.2	277.0	295.8	308.5
ex Alta*	231.1	253.8	275.7	289.0	300.1
N. & L.	131.5	141.2	139.5	144.7	149.3
P.E.I.	110.8	117.2	125.4	133.6	137.3
N.S.	146.0	159.2	169.2	176.0	182.2
N.B.	112.9	120.6	126.9	134.2	138.0
Quebec	171.1	184.6	194.0	197.9	204.0
Ontario	245.2	263.0	278.5	287.4	298.3
Manitoba	119.2	133.9	150.2	159.4	165.3
Sask.	110.8	122.8	132.1	144.5	150.4
Alberta	194.8	218.3	285.4	341.0	364.9
B.C.	289.1	332.2	391.0	422.2	447.6

*Estimate. F: Forecast by TD Economics as at May 2007
Source: Canadian Real Estate Association

AVERAGE RESALE HOME PRICE Per cent change	2004	2005	2006	2007F	2008F
CANADA	9.3	10.1	11.1	6.8	4.3
ex Alta*	9.6	9.9	8.6	4.8	3.8
N. & L.	9.7	7.4	-1.2	3.7	3.2
P.E.I.	8.9	5.8	7.0	6.5	2.8
N.S.	7.1	9.0	6.3	4.0	3.5
N.B.	6.7	6.8	5.2	5.8	2.8
Quebec	12.7	7.9	5.1	2.0	3.1
Ontario	8.1	7.3	5.9	3.2	3.8
Manitoba	11.7	12.3	12.2	6.1	3.7
Sask.	5.6	10.8	7.6	9.4	4.1
Alberta	6.5	12.1	30.8	19.5	7.0
B.C.	11.2	14.9	17.7	8.0	6.0

*Estimate. F: Forecast by TD Economics as at May 2007
Source: Canadian Real Estate Association

PROVINCIAL OUTLOOK

June 2007

Forecast detail

Average annual % change unless otherwise indicated

	Real GDP			Nominal GDP			Employment			Labour force			Unemployment rate %			Personal disposable income			Housing starts Thousands			Retail sales			CPI		
	06	07	08	06	07	08	06	07	08	06	07	08	06	07	08	06	07	08	06	07	08	06	07	08	06	07	08
NFLD.	2.8	7.5	0.5	15.9	9.0	3.5	0.7	1.2	0.1	0.2	-0.8	-0.9	14.8	13.1	12.2	24.0	3.3	2.7	2.2	2.0	1.8	2.9	5.5	2.0	1.8	2.0	1.4
P.E.I	2.0	1.9	1.7	3.9	3.1	2.8	0.6	0.8	0.4	0.8	0.7	0.3	11.0	10.9	10.8	3.9	4.6	2.8	0.7	0.6	0.6	4.1	4.5	3.7	2.3	1.5	1.7
N.S.	1.1	2.4	2.3	2.0	3.4	3.5	-0.3	1.1	0.3	-0.8	0.8	0.4	7.9	7.7	7.8	4.1	4.3	3.4	4.9	4.5	4.4	6.3	3.1	3.3	2.0	1.4	1.3
N.B.	2.6	2.5	2.6	4.4	3.5	3.6	1.4	0.8	0.4	0.4	-0.7	0.4	8.8	7.4	7.4	4.2	4.6	3.2	4.1	3.8	3.7	5.5	3.9	4.0	1.7	1.5	1.4
QUE.	1.7	2.1	2.6	3.9	4.8	4.7	1.3	2.0	0.9	1.0	1.3	0.9	8.0	7.4	7.4	4.4	6.7	5.7	47.9	42.1	39.6	4.5	4.7	4.8	1.7	2.3	1.8
ONT.	1.9	1.9	2.7	3.5	5.1	4.6	1.5	1.3	1.0	1.1	1.5	1.1	6.3	6.5	6.6	4.8	5.5	6.5	73.4	63.9	60.0	4.0	3.5	4.9	1.8	2.1	2.1
MAN.	3.3	3.0	3.2	7.4	6.4	5.2	1.2	1.1	0.9	0.7	1.1	1.4	4.3	4.3	4.7	5.4	4.9	4.0	5.0	5.3	4.4	5.8	6.1	6.0	2.0	2.3	2.5
SASK.	0.4	4.0	3.6	5.0	8.5	6.0	1.7	3.0	1.0	1.2	2.8	1.3	4.7	4.5	4.8	3.2	6.0	5.5	3.7	4.6	3.9	5.9	7.4	6.0	2.1	3.5	2.8
ALTA.	6.8	4.6	4.0	7.9	9.5	6.5	4.8	4.2	2.0	4.3	4.6	2.6	3.4	3.8	4.4	12.0	10.0	9.2	49.0	44.8	39.9	16.0	9.3	8.5	3.9	5.2	3.5
B.C.	3.6	3.2	3.3	6.4	7.1	5.8	3.1	3.0	1.9	1.8	2.8	2.3	4.8	4.6	4.9	7.5	7.0	7.2	36.4	35.3	31.1	6.2	6.0	5.8	1.7	2.2	2.3
CANADA	2.8	2.6	2.9	5.2	5.9	5.1	2.0	2.0	1.2	1.4	1.9	1.3	6.3	6.2	6.3	6.4	6.2	6.5	228	208	190	6.2	5.2	5.2	2.0	2.4	2.2

Key provincial comparisons

2006 unless otherwise indicated

	NFLD	P.E.I.	N.S.	N.B.	QUE	ONT	MAN	SASK	ALTA	B.C.
Population (000s)	514	138	936	751	7,616	12,606	1,175	989	3,302	4,275
Gross domestic product ($ billions, 2006)	24.9	4.3	32.0	25.2	284.2	556.3	44.8	45.1	235.6	179.7
Real GDP ($1997 billions, 2006)	15.7	3.5	25.8	21.8	242.0	493.1	37.1	34.3	152.7	150.7
Share of Canada real GDP (%, 2006)	1.2	0.3	2.0	1.7	18.9	38.5	2.9	2.7	11.9	11.8
Real GDP growth (CAR, last five years, %, 2006)	4.7	2.6	1.7	2.5	2.1	2.5	2.3	2.1	4.4	3.7
Real GDP per capita ($, 2006)	30,609	25,347	27,568	28,984	31,779	39,117	31,544	34,679	46,236	35,261
Real GDP growth rate per capita (CAR, last five years '01-'06, %)	5.2	2.4	1.7	2.5	1.4	1.1	1.8	2.4	2.3	2.5
Personal disposable income per capita ($, 2006)	25,042	21,355	22,924	22,394	23,382	26,349	23,582	23,228	32,826	25,403
Employment growth (CAR, last five years '01-'06, %)	1.1	1.5	1.2	1.5	1.8	1.8	1.2	1.3	2.8	2.7
Employment rate (Dec. 2006, %)	*49.7*	*58.6*	*58.2*	*57.1*	*59.8*	*63.6*	*65.5*	*66.6*	*70.6*	*62.7*
Discomfort index (inflation + unemp. Rates, latest)	15.0	13.9	8.1	9.2	8.4	7.2	5.7	5.4	8.0	7.3
Manufacturing industry output (% of real GDP)	7.7	12.0	9.5	15.4	20.5	19.9	12.1	7.3	9.7	11.2
Personal expenditures goods & services (% of real GDP)	59.5	71.8	69.3	64.2	60.3	55.1	61.9	55.5	52.7	64.1
International exports (% of real GDP)	33.1	30.7	27.0	46.2	37.5	49.8	32.4	39.3	35.0	31.4

Source: Statistics Canada, RBC Economics Research

Newfoundland and Labrador

		2001	2002	2003	2004	2005	2006	2007	2008
Gross domestic product	$ millions	14,179	16,457	18,186	19,473	21,486	24,897	27,138	28,088
	% change	1.8	16.1	10.5	7.1	10.3	15.9	9.0	3.5
Real GDP	$1997 millions	12,515	14,471	15,372	15,237	15,298	15,719	16,898	16,982
	% change	1.6	15.6	6.2	-0.9	0.4	2.8	7.5	0.5
Employment	thousands	203.8	207.2	212.3	214.3	214.1	215.7	218.3	218.5
	% change	2.9	1.7	2.5	0.9	-0.1	0.7	1.2	0.1
Labour force	thousands	242.7	248.5	254.1	254.3	252.5	253.1	251.1	248.8
	% change	2.1	2.4	2.3	0.1	-0.7	0.2	-0.8	-0.9
Unemployment rate	%	16.1	16.7	16.5	15.7	15.2	14.8	13.1	12.2
Personal disposable income	$ millions	9,116	9,381	9,788	10,042	10,372	12,860	13,284	13,648
	% change	4.3	2.9	4.3	2.6	3.3	24.0	3.3	2.7
Retail sales	$ millions	5,201	5,407	5,736	5,755	5,890	6,062	6,395	6,523
	% change	9.3	4.0	6.1	0.3	2.3	2.9	5.5	2.0
Housing starts	units	1,788	2,419	2,692	2,870	2,498	2,234	1,966	1,828
	% change	22.5	35.3	11.3	6.6	-13.0	-10.6	-12.0	-7.0
Consumer price index	1992=100	97.7	100.0	102.9	104.8	107.6	109.5	111.7	113.3
	% change	1.1	2.4	2.9	1.8	2.7	1.8	2.0	1.4

Prince Edward Island

		2001	2002	2003	2004	2005	2006	2007	2008
Gross domestic product	$ millions	3,431	3,701	3,806	4,027	4,169	4,332	4,466	4,593
	% change	1.9	7.9	2.8	5.8	3.5	3.9	3.1	2.8
Real GDP	$1997 millions	3,078	3,225	3,264	3,367	3,437	3,505	3,573	3,634
	% change	-1.1	4.8	1.2	3.2	2.1	2.0	1.9	1.7
Employment	thousands	63.6	64.7	66.1	66.9	68.2	68.6	69.1	69.4
	% change	1.4	1.7	2.2	1.2	1.9	0.6	0.8	0.4
Labour force	thousands	72.3	73.5	74.3	75.4	76.5	77.1	77.6	77.9
	% change	1.4	1.7	1.1	1.5	1.5	0.8	0.7	0.3
Unemployment rate	%	11.9	12.0	11.0	11.3	10.8	11.0	10.9	10.8
Personal disposable income	$ millions	2,467	2,606	2,635	2,780	2,842	2,953	3,089	3,177
	% change	1.9	5.6	1.1	5.5	2.2	3.9	4.6	2.8
Retail sales	$ millions	1,325	1,369	1,383	1,385	1,429	1,487	1,554	1,611
	% change	4.0	3.4	1.0	0.1	3.2	4.1	4.5	3.7
Housing starts	units	675	775	814	919	862	738	613	582
	% change	-4.9	14.8	5.0	12.9	-6.2	-14.4	-17.0	-5.0
Consumer price index	1992=100	97.4	100.0	103.5	105.8	109.1	111.6	113.3	115.2
	% change	2.6	2.7	3.5	2.2	3.1	2.3	1.5	1.7

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Economics
Provincial Economies

April 2007

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Gradual rebound to take hold in central Canada

Although the western economies will outperform central and eastern Canada this year on just about every key economic growth indicator, a gradual re-balancing of growth is expected to begin this year with momentum to continue in 2008 as central Canada regains strength and the west cools off.

Key to the rebalancing of growth between the central Canadian provinces and the west is the fate of the manufacturing sector. Manufacturers have and will continue to struggle from the sustained challenges of a strong Canadian dollar, elevated commodity prices, heightened offshore competition and a slowdown in demand south of the border. More recently, a CN Rail strike and a fire at a petroleum refinery plant in Ontario reduced manufacturing shipments in February. The disruption was evident in 14 of the 21 manufacturing sectors.

However, despite volatile data due to special factors affecting the sector, three forward-looking factors provide some evidence that the economy is poised to firm from last year's weakness. First, the recent Bank of Canada's business outlook survey painted a relatively upbeat picture of the outlook; second, new manufacturing orders increased 1.9% and inventories started to wind down in February; and, third, unfilled orders — a predictor of future manufacturing shipments — posted a solid 4.9% increase. Prospects for the manufacturing sector are shaping up to be more positive for the remainder of 2007 and into 2008, providing evidence that a gradual rebound in central Canada will take hold.

British Columbia — Continued strength in non-residential construction — up for a 12th consecutive quarter in the first three months of 2007 — remains a firm support to the provincial economy as residential markets show signs of topping out. Labour markets remain tight with healthy job growth and the unemployment rate below 4% in March, a new record in the province.

Alberta —The province continues to top the growth charts. Mounting cost pressures remain a key risk with inflation

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hitting 4.9% in February. The rising costs of doing business and purchasing real estate will restrain some construction activity in 2007 and beyond.

Saskatchewan — Solid jobs prospects in the province are a firm support to both the consumer sector and housing markets. Retail sales are strong and average weekly earnings are growing at a healthy clip. Housing markets remain highly active across the province and strong growth in residential permits are signalling sustained strength.

Manitoba — The province's manufacturing sector has been fairly resilient during the past year. In 2006, manufacturing shipments increased 5.2% to $14.2 billion,the second highest provincial growth rate behind only Alberta. The favourable trend has so far continued in 2007 despite disruptions caused by the CN strike. February's shipments rose 2.3% to $1.3 billion, with the primary metals and transportation industries bouncing back.

Ontario — The province added 12,000 jobs in March, bringing total job gains in 2007 up to 26,000. Employment in the goods sector continued to contract for a third consecutive month, led by job shedding in the manufacturing sector. However, the service sector supported the province's labour markets and helped keep labour conditions tight.

Quebec — Manufacturing shipments dipped sharply in January on the back of broad-based weakness in the non-durable goods sector. In particular, food, clothing, textiles, paper and printing, petroleum, and chemical manufacturing industries all posted declines. However, a modest rebound came in February, driving overall shipments up about 0.7% for the month.

New Brunswick — Statistics Canada's recent investment intentions survey indicates thatNew Brunswick will lead the country on growth in overall capital investment this year. In 2007, private capital spending is expected to increase 10% and public capital spending to jump 20%.

Nova Scotia — Last year, the province reported an outright decline in jobs. The employment situation so far this year appears to have improved. The service sector continues to do most of the heavy lifting, while the goods sector continues to shed jobs. In particular, downsizing in the forestry sector has hammered jobs in the industry during the last year. Strong gains reported in both the healthcare and accommodation industries continue.

Prince Edward Island — The Island is undergoing a simultaneous cooldown in both its residential and non-residential construction markets. Personal expenditures on goods and services account for 72% of the Island's economy — the highest proportion among all the provinces. Fortunately, average weekly earnings are holding up surprisingly well and will provide a key support to help fuel the critical consumer sector.