

1 **Q. Explain in detail how Newfoundland Power prepares its forecast for the winter peak**
2 **on its system each year.**

3
4 **A. 1. General**

5
6 ***Forecast Methodology***

7 Each year, Newfoundland Power prepares a detailed Customer, Energy and Demand
8 Forecast (the "Forecast"). The Forecast is a cornerstone of the Company's annual
9 planning processes. These include the development of estimates of capital
10 expenditures required to serve the Company's customers, and estimates of annual
11 Company revenues and supply costs.

12
13 Each year, the Company provides Newfoundland and Labrador Hydro ("Hydro")
14 with its Forecast of energy requirements and peak demand for the succeeding five
15 years.¹

16
17 At each of the Company's General Rate Applications, the Forecast and the underlying
18 methodology and assumptions are reviewed by the Board and Intervenors. A copy of
19 the Customer, Energy and Demand Forecast of August 2012, which was filed with
20 Newfoundland Power's 2013/2014 General Rate Application, is provided as
21 Attachment A.

22
23 ***Weather Normalization***

24 Newfoundland Power prepares the Forecast assuming *normal* weather conditions.²
25 This is to account for the fact that Newfoundland Power's customers' electrical usage
26 can vary significantly on account of weather conditions. Electrical space heating is
27 the primary cause of this.³

28
29 The use of normalized historical data to forecast electricity requirements aims to
30 eliminate the impact of weather variability on the future estimates contained in the
31 Forecast. This, however, does not in any way reduce the variability of actual
32 electricity requirements on account of weather that might be different than
33 anticipated.⁴

¹ The peak demand data contained in this response reflects average demand over 15 minute periods.

² The *normal* weather conditions assumed in preparing the Forecast are based upon 30-year averages. This data is provided by Environment Canada. The weather normalization methodology used has been approved by the Public Utilities Board. The use of such methodologies is common in public utility forecasting practice.

³ Approximately 65% of Newfoundland Power's customers use electricity as their primary source of heating. Manitoba, Quebec and New Brunswick also have significant use of electricity for heating.

⁴ For this reason, electrical system capacity must be sufficient to meet *actual* electricity requirements regardless of weather, not *normalized* electricity requirements.

2. Forecasting Peak***How Peak is Forecast***

Newfoundland Power's forecast of the winter peak on its system each year is determined using a load factor based methodology.⁵ This methodology was considered by the Board at Hydro's 2003 General Rate Application.⁶

This methodology calculates a forecast annual peak demand by applying a 15-year average load factor to the Company's forecast annual energy requirements.⁷ The average load factor used is adjusted to account for the impact of customer and Company curtailment at peak for each year.⁸ Weather normalized values are used by Newfoundland Power to forecast its winter peak.⁹

Seasonal Nature of Peak

While Newfoundland Power's system peak can be reliably forecast to occur in the months December through March, the particular month of peak in any year is quite unpredictable. Over the 35-year period ending with the winter of 2012/2013, approximately 37% of Newfoundland Power's system peaks occurred in January; 31% in December; 26% in February and 6% in March.

Ratemaking practice on the Island Interconnected System reflects this expectation that system peak will occur within the four winter months, but not in any particular one of those months. Newfoundland Power's customer rates that explicitly reflect demand costs through demand charges have higher demand costs for the winter months of December through March.¹⁰ In addition, the rate Newfoundland Power pays to Hydro for electricity supply includes a demand charge based upon the highest demand which occurs in the months December through March.¹¹

⁵ *Load factor* is the ratio of the average demand on the electrical system to the peak demand on the system. Newfoundland Power's typical load factor is approximately 50%. Conceptually, this implies that the peak demand Newfoundland Power will expect in a year will be approximately twice the average demand for the year.

⁶ Hydro's evidence that this was an appropriate method to predict peak demand was not disputed in that proceeding (see Transcript of Proceedings, Haynes, November 12th, 2003, pp. 190-191).

⁷ Because of the electrical loads on the Interconnected Island System, the annual peak demand is a winter peak demand. The winter peak demand occurs between December 1st and March 31st.

⁸ The adjustment for curtailments at peak is necessary to account for the relatively wide variation of curtailments over the historic 15-year period. Over the 15 years ended in 2013, curtailment on peak varied from 0 MW to 11.9 MW.

⁹ This is consistent with Newfoundland Power's overall forecast methodology. At Hydro's 2003 General Rate Application, the evidence indicated that the use of weather normalized values reduced peak demand forecast variability by approximately ½ from more than ±10% to ±5% (see responses to Requests for Information NP-156 NLH and PUB-151 NLH).

¹⁰ These include Newfoundland Power's rates for general service customers.

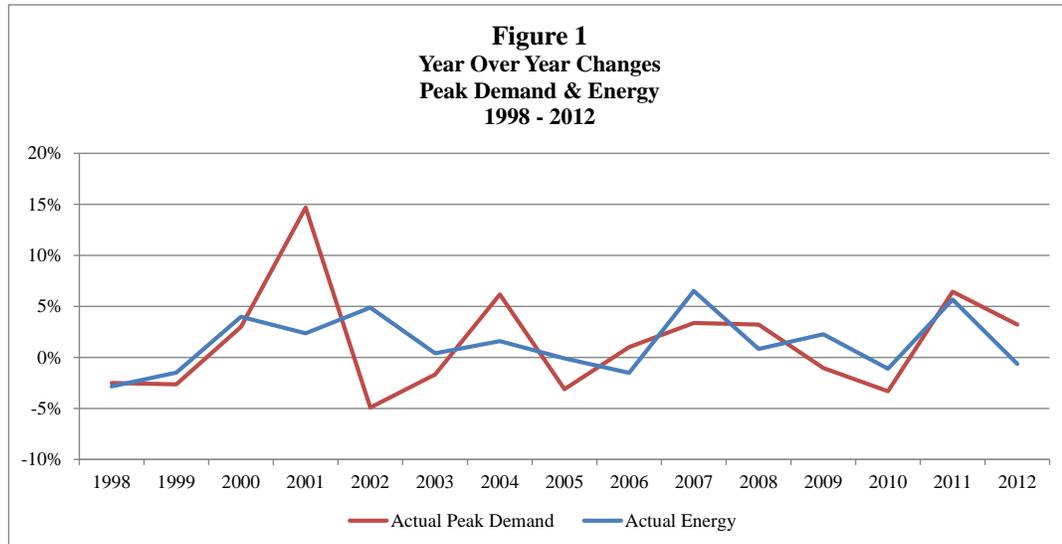
¹¹ This is Hydro's Utility rate.

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Variability of Peak

Peak demands tend to be quite variable when compared to other commonly used electrical system measures.¹²

Figure 1 shows the year over year changes in actual annual peak demand and energy sales on Newfoundland Power’s electrical system for the 15 years ending in 2012.



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Figure 1 shows that year over year variability in actual annual peak demand is approximately twice that of actual annual energy sales.¹³

This increased variability creates increased uncertainty for forecasts of winter peaks, whether those forecasts are normalized or not.¹⁴

3. 2013/2014 Winter Peak

The 2013/2014 winter peak forecast on Newfoundland Power’s electrical system is 1,348 MW on a normalized basis.

A copy of the Forecast for 2013 to 2018 is provided as Attachment B.

¹² Other measures of electrical system usage include energy (i.e., kWh) or the number of customers served by the system.

¹³ The range of year over year peak demand variability is +14.7% to -4.9%; the range of energy sales variability is +6.5% to -2.9%.

¹⁴ For the 15 years ending in 2013, actual demand on Newfoundland Power’s electricity system varied by -9.1% to +7.9% from forecast on an actual basis and -4.5% to +5.3% on a weather normalized basis. These data are substantially similar to those that were before the Board at Hydro’s 2003 General Rate Application. See footnote 9.

Requests for Information

1 In December 2013, the peak on Newfoundland Power’s electrical system was 1,336
2 MW (actual) or 1,351 (weather normalized).¹⁵ These values are within $\pm 1\%$ of
3 Newfoundland Power’s 1,348 MW winter peak forecast.

4
5 Newfoundland Power’s peak to date during January, excluding the period from
6 January 3-8, 2014, was approximately 1,378 MW (actual).¹⁶ This value is within \pm
7 2.5% of Newfoundland Power’s winter peak forecast.

¹⁵ The 1,336 MW value is reflected in Hydro’s invoice for power and energy purchases for December 2013. The normalization adjustment of +15 MW is a preliminary estimate.

¹⁶ The 1,378 MW value is a preliminary estimate. The load during the period from 4:13pm on January 2nd, 2014 to January 8th, 2014 is not indicative of normal system operating conditions.

**Customer and Energy Demand Forecast
August 2012**

Customer, Energy and Demand Forecast

August 2012

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1.0 INTRODUCTION

The Customer, Energy and Demand forecast (the “forecast”), which is prepared annually, forms the foundation of Newfoundland Power’s planning process. The forecast is a key input in developing estimates of capital expenditures required to ensure the electrical system can meet the increasing demands associated with both customer and energy sales growth. The forecast also directly addresses the estimation of future revenue from electrical sales and the Company’s single largest expenditure, purchased power.

2.0 FORECAST METHODOLOGY

Introduction

Newfoundland Power provides electrical service to three distinct categories of customers including domestic, general service and street and area lighting. In 2011, domestic accounted for 61% of total energy sales while general service and street and area lighting represented 38% and 1%, respectively.

Domestic

The domestic category includes Rate # 1.1 Domestic Service and Rate # 1.1S Domestic Seasonal – Optional. The domestic category primarily refers to residential dwellings such as single detached homes, single attached homes, apartments and mobile homes. This category also includes non-residential services such as cottages, personal use garages and other metered services that qualify for the domestic rate category. Residential customers use electricity primarily for space and water heating, and the operation of miscellaneous appliances and lighting. In this category, a customer/average use methodology is employed where customer growth is primarily based on the housing starts while average use is forecast using an end-use/econometric model that includes the market share for electric space heating, personal disposable income and the marginal price of electricity in the current and previous year.

General Service

The general service category primarily refers to commercial, institutional and industrial customers. Unlike the domestic category which represents a relatively homogenous group of customers, the general service category represents a relatively diverse group whose activities include, trade, finance, real estate, public administration, health, education, commercial services, transportation, manufacturing, mining, fishing, forestry and construction. These customers provide goods and services to the local market as well as for export. In 2011, approximately 85% of energy sales in this category were to customers in the service producing sector of the economy while only 15% were in the goods producing sector.

From a forecasting perspective, the general service category is divided into small general service which includes Rate # 2.1 General Service 0 - 10 kW and Rate # 2.2 General Service 10 – 100 kW (110 kVA) and large general service which includes Rate # 2.3 General Service 110 kVA (100 kW) – 1000 kVA and Rate # 2.4 General Service 1000 kVA and Over. In the small general service category a customer/average use methodology is employed where the number of customers is primarily based on the number of domestic customers, while average use is forecast using an econometric model that includes the Gross Domestic Product (“GDP”) for the service

sector per small general service customer and the average price of electricity in the current year.

Given the relatively small number of customers in the large general service category, an informed opinion methodology is employed and energy sales are forecast on an individual customer basis.

Street and Area Lighting

Street and area lighting energy sales are primarily related to the number of fixtures required to meet the lighting needs of both municipalities and unincorporated communities. At the end of 2011, approximately 59,000 fixtures were installed with high pressure sodium fixtures accounting for 97% of these fixtures and mercury vapour accounting for the remainder. Given the nature of this category, an end use forecasting methodology is employed. The street and area lighting sales forecast is determined by multiplying the forecast quantity of fixtures by the amount of electricity consumed for each fixture type and wattage.

Produced and Purchased

Total energy sales are calculated by adding domestic, general service, and street and area lighting sales. Company use, system losses and wheeled energy are then added to total energy sales to obtain total produced, purchased and wheeled. Company use includes all electricity consumed in facilities owned by Newfoundland Power and used in the delivery of service to customers. System losses refer to energy that is lost during the transmission and distribution of energy between the source of supply and delivery to customers. Wheeled information is provided by Newfoundland and Labrador Hydro.¹

Purchased energy is calculated by subtracting normal hydro production (“Normal Production”) from the forecast of total produced and purchased. Each year Normal Production is adjusted to reflect plant availability and any modifications to plants that may impact production.

Peak Demand

Newfoundland Power’s native peak is determined using a load factor based methodology. The load factor used in the calculation is the average of 15 years of normalized annual load factors. Native peak is calculated by applying the average load factor to total produced and purchased power. This peak is adjusted to reflect the impact of load curtailment by Newfoundland Power customers and at company owned facilities. Purchased power demand is calculated by subtracting the generation credit from native peak.

3.0 KEY FORECAST ASSUMPTIONS

The forecasting process relies on a wide range of information related to the economy, energy prices, conservation and demand management activities, and other resource based developments within Newfoundland Power’s service territory.

3.1 Economic Outlook

While the Company monitors forecasts from various banks and financial institutions, the

¹ Wheeled energy represents energy that is supplied to Newfoundland and Labrador Hydro customers through Newfoundland Power’s distribution system.

Conference Board of Canada is the Company's primary provider of economic information. The economic assumptions used in preparing the customer, energy and demand forecasts are based on the Conference Board of Canada, *Provincial Outlook Winter 2012, Economic Forecast*, dated February 2, 2012. A table summarizing the key economic indicators contained in this forecast for 2012, 2013 and 2014 is shown in Appendix A. A copy of the Conference Board of Canada's economic forecast is enclosed as Attachment A.

Over the past 15 years the economy of Newfoundland and Labrador has been driven by large resource based projects. The development and production from offshore oil projects such as Hibernia, Terra Nova, and White Rose has fuelled much of the province's economic growth. The economy has also benefited from the production of nickel at Voisey's Bay and the construction of Vale's hydromet facility at Long Harbour. In 2011, the mining sector accounted for 27% of total GDP compared to only 7% in 1996. The development of these resource based projects has positively impacted other key economic indicators such as personal income, unemployment rates and service sector growth. On the downside, problems in the newsprint industry forced the closure of the mill in Stephenville in 2005 and Grand Falls – Windsor in 2009 negatively impacting the manufacturing sector.

Economic performance will continue to be driven by large resource based projects. Production from the major offshore oilfields reached peak in 2007 and will see steep production declines until the Hebron platform comes online in late 2017. Construction of the gravity based structure for the Hebron oilfield will start in late 2012 and will push the fabrication sites at Bull Arm and Marystown to near full capacity. Construction will be completed on Vale's hydromet facility in Long Harbour in 2013 and the manufacturing industry will receive a boost when the facility starts processing nickel from Voisey's Bay. The metal mining sector will benefit from developments related to several iron ore projects in Labrador. Finally, the construction industry will benefit from the development of the Muskrat Falls hydroelectric project and associated transmission links. These projects will keep employment growth strong in the near term.

In the near term, growth related to construction and manufacturing activity will offset the steep production declines from the major offshore oilfields with GDP forecast to increase by 0.7% in 2012, 2.1% in 2013 and 1.7% in 2014.

With reduced quota and lower landings, the outlook for the fishing industry is weak. The seafood processing industry continues to struggle as a result of lower landings, over capacity and the changing economics of the seafood industry. In 2011, Ocean Choice International closed its plant in Marystown and High Liner Foods announced the closure of its seafood processing facility at Burin at the end of 2012. Further plant closures are anticipated.

Given Newfoundland Power's customer base, energy sales growth is primarily influenced by the domestic economy. More specifically, growth in the service sector, changes in employment levels, personal income, energy prices and population demographics in the Company's service territory are more determinative of sales growth than resource industry production levels.

Economic growth will not be uniform across Newfoundland Power's service territory. In the Northeast Avalon, growth will continue to be strong principally due to activities related to the

offshore oil industry. In contrast, much of rural Newfoundland and Labrador is expected to continue the trend of economic stagnation.

3.2 Energy Prices Outlook

Changes in energy prices have a direct impact on energy sales growth through the inclusion of price elasticity effects in the various models. Overall, analysis of customer response to changes in the price of electricity is relatively inelastic. That is to say a 1% change in the price of electricity will result in a change in energy sales of less than 1%. The current model indicated that a 1% increase in the price of electricity will result in a 0.23% decrease in energy sales. The model also indicates the response will vary depending on the time frame and rate category. In addition, changes in oil prices can impact the market share of electricity in the competitive space heating market.

Electricity price forecasts are developed based on information available internally and provided by Newfoundland and Labrador Hydro. This includes price changes related to the annual review of the rate stabilization account as well as the impact of the introduction of the 8% Residential Rebate in 2011. As proposed in Newfoundland Power's application, a 6.0% increase in customer rates effective March 1, 2013 has been included in the energy sales forecast under proposed rates.

Furnace oil prices are forecast to decline in the later part of 2012 and 2013 from the high prices experienced in 2011 and in early 2012. As world oil prices start to rebound, furnace oil prices are forecast to increase in 2014. This projection is consistent with the fuel forecast used in the calculation of the rate stabilization account.

3.3 Conservation and Demand Management Impacts

The energy sales forecast includes the impact of conservation and demand management. The adjustments to the forecast are consistent with the *Five-Year Energy Conservation Plan: 2012 - 2016*. In the domestic category the forecast includes the impact of the Insulation Program, Thermostat Program, Energy Star Windows Program and Heat Recovery Ventilation Program while the general service category has been adjusted for the Lighting Rebate Program, the Business Efficiency Program and other energy efficiency initiatives.

3.4 Other Inputs

Information from a number of other sources is also used in preparing the forecast. Each year Newfoundland Power surveys approximately 150 large general service customers representing approximately 600 accounts requesting information with respect to future load requirements. This information along with information gathered from Newfoundland Power's regional operations, the St. John's Board of Trade, various other trade organizations, and the provincial and federal governments is also incorporated into the large general service forecast. In addition, information from Canada Mortgage and Housing with respect to housing starts is combined with information received from the Conference Board of Canada in preparing the domestic customer forecast.

4.0 CUSTOMER AND ENERGY FORECAST

Introduction

The customer and energy forecasts for the 2012 - 2014 period under both existing and proposed rates is provided in Appendix B. Under both scenarios the total number of customers is forecast to increase by 1.4% in 2012, and 1.3% in 2013 and 2014. Energy sales under existing rates are forecast to increase by 2.3% in 2012, 1.7% in 2013 and 2.0% in 2014. Energy sales under proposed rates are forecast to increase by 2.3% in 2012, 1.2% in 2013 and 2014.

Domestic

Domestic customer growth is largely a result of housing starts. The Conference Board of Canada forecasts housing starts of 3,162 units in 2012, 2,801 in 2013 and 2,710 in 2014 while Canada Mortgage and Housing is projecting 3,200 units in 2012, 3,000 units in 2013 and 2,800 in 2014. Using an average of these forecasts the number of domestic customers is forecast to grow by 1.5% in 2012, 1.4% in 2013 and 1.3% in 2014.

Domestic electricity consumption is a function of the major end uses in the home, such as space heating, water heating, lighting, and major appliances. In addition, changes in energy prices and income have an impact on electricity consumption. Using proposed rates the average use of energy is forecast to increase by 0.4% in 2012, remain unchanged in 2013 and decrease by 0.6% in 2014.

The combined impact of increased numbers of customers and changes in average use will result in growth in domestic energy sales under proposed rates of 1.9% in 2012, 1.4% in 2013 and 0.7% in 2014.

General Service

In the small general service rate classes 2.1 and 2.2, customer and energy sales growth are dependent on growth in the service-producing sector of the GDP and changes in the price of electricity. In the large general service rate classes 2.3 and 2.4, energy sales are also influenced by changes in the service-producing sector of the GDP. However, in the large general service category, energy sales are mainly determined by changes in the load of larger customers in the goods-producing sector. Information obtained from specific customers is incorporated into forecasts for rate classes 2.3 and 2.4.

Overall, the number of general service customers is forecast to grow by 1.2% in 2012, 0.8% in 2013 and 0.7% in 2014. The higher than normal increase in 2012 is primarily related to a number of Bed and Breakfasts, Inns, Chalets, Care Facilities and Lodges that were transferred from the domestic rate category to general service. Under proposed rates the volume of General Service energy sales is forecast to grow by 3.0% in 2012, 1.2% in 2013 and 2.1% in 2014.

Street and Area Lighting

In the street and area lighting class, the number of customers is forecast to grow by 1.1% in 2012 and 1.0% in 2013 and 2014. The volume of energy sales is forecast to decline by 1.6% in 2012, 13.9% in 2013 and increase by 0.6% in 2014. The decrease in street and area lighting energy sales in 2012 is the net result of the connection of new fixtures and the elimination of all mercury vapour

fixtures with energy efficient high pressure sodium fixtures. The decline in 2013 is primarily due to the implementation of reduced annual kilowatt hour usage by fixture effective January 1, 2013. The energy usage per fixture is being updated to reflect the most recent information provided by suppliers.

Produced and Purchased

Produced and purchased is the sum of total energy sales, company use and system losses. The forecast of company use is based on historical energy usage and information gathered from each of Newfoundland Power's operating areas with respect to the operation of these facilities. System losses are based on historical information and are forecast to be approximately 5.35% of total produced and purchased in 2012. In 2013 and 2014 forecast system losses of 5.44% reflect revised assumptions related to Street and Area Lighting energy consumption.²

5.0 PURCHASED ENERGY AND DEMAND FORECAST

Purchased energy is calculated by subtracting Newfoundland Power's Normal Production from produced and purchased. Newfoundland Power's Normal Production is based on the 2010 Hydro Normal Production Review completed in February 2011. This study recommended a Normal Production of 430.5 GWh.

Each year, Normal Production is adjusted to reflect plant availability and any modifications to plants that may impact production. In 2012, the Normal Production was increased by 2.1 GWh to reflect increased production resulting from the modifications to the spillways at the Rattling Brook Hydro Plant and the Sandy Brook Hydro Plant. Therefore, Normal Production was increased to 432.6 GWh.

For 2012, a review of the project to correct deficiencies in the rewinding of the Horse Chops Hydro Plant that occurred in 2011 indicated that plant availability would be affected and spillage would occur. As a result, the Normal Production was adjusted downward by 0.9 GWh to 431.7 GWh in 2012 to reflect the lost production. In addition, the Company produced 0.3 GWh at various thermal plants increasing total production for 2012 to 432.0 GWh.

Normal Production is projected to decrease by 3.6 GWh to 429.0 GWh in 2013 and increase by 1.4 GWh to 430.4 GWh in 2014. These changes to Normal Production reflect plant availability and modifications to plants that will impact production.

Newfoundland Power's forecast of native peak demand is determined by applying the average weather adjusted load factor to the forecast of produced and purchased energy. The peak demand is then adjusted to reflect the impact of load curtailment by Newfoundland Power customers and company owned facilities. Newfoundland Power's purchased demand is then derived by subtracting the generation credit approved by the Public Utilities Board.

² Based upon updated information provided by suppliers of the street and area lighting fixtures, it was determined that fixture energy consumption (which is not metered) was lower than previously assumed. Because this reduced energy consumption does not affect power purchases (which are metered), the change in assumed fixture energy consumption is reflected in increased losses.

4. Customer, Energy and Demand Forecast

A copy of the Purchased Energy and Demand Forecast is contained in Appendix C.

6.0 FORECAST ACCURACY

The energy sales forecasts and actual weather adjusted energy sales for the past 10 years are shown in Appendix D. During this period, differences from forecast have ranged from a high of 2.8% to a low of 0.1%. In 6 of the past 10 years, differences from forecast were 1% or less.

Newfoundland Power Inc.

Key Economic Indicators¹
2010 - 2014F

(millions of dollars)

Indicator	2010	2011	Change From 2010	Forecast						
				2012	Change From 2011	2013	Change From 2012	2014	Change From 2013	
1										
2	<u>Gross Domestic Product (\$ 2002)</u>									
3										
4	Goods Producing Industries	7,332	7,621	3.9%	7,554	-0.9%	7,753	2.6%	7,867	1.5%
5										
6	Service Producing Industries	10,486	10,736	2.4%	10,920	1.7%	11,100	1.6%	11,294	1.7%
7										
8	Total of All Industries	17,376	17,915	3.1%	18,033	0.7%	18,412	2.1%	18,719	1.7%
9										
10										
11	Consumer Price Index (2002=100)	117.4	121.4	3.4%	123.4	1.7%	126.1	2.2%	128.9	2.2%
12										
13										
14	Personal Disposable Income (\$ 2002)	11,934	12,084	1.3%	12,397	2.6%	12,549	1.2%	12,722	1.4%
15										
16										
17	Unemployment Rate (%)	14.3%	12.6%		12.3%		11.5%		10.6%	
18										
19										
20	Housing Starts - Units	3,606	3,488	-3.3%	3,162	-9.3%	2,801	-11.4%	2,710	-3.3%
21										
22										
23	Canadian GDP Deflator (2002=100)	123.7	127.2	2.9%	129.9	2.1%	132.7	2.2%	135.4	2.1%
24										
25										
26	<u>Canada Mortgage and Housing Corporation²</u>									
27										
28	Housing Starts - Units	3,606	3,488	-3.3%	3,200	-8.3%	3,000	-6.3%	2,800	-6.7%
29										
30										
31										
32										
33										
34										
35										

36 ¹ Conference Board of Canada, Provincial Outlook Winter 2012, Economic Forecast, Dated: February 2, 2012.

37 ² Canada Mortgage and Housing Corporation, Housing Market Outlook, First Quarter, 2012.

Newfoundland Power Inc.
Customer and Energy Forecast
2011 - 2014F

		Actual		Forecast		Existing				Proposed			
			2011	2012	Percentage Change	2013	Percentage Change	2014	Percentage Change	2013	Percentage Change	2014	Percentage Change
1	Customers												
2													
3	Domestic												
4	Regular	1.1	212,843	215,807	1.4%	218,643	1.3%	221,377	1.3%	218,643	1.3%	221,377	1.3%
5	Seasonal	1.1	1,672	1,900	13.6%	2,100	10.5%	2,300	9.5%	2,100	10.5%	2,300	9.5%
6													
7	Total Domestic		<u>214,515</u>	<u>217,707</u>	1.5%	<u>220,743</u>	1.4%	<u>223,677</u>	1.3%	<u>220,743</u>	1.4%	<u>223,677</u>	1.3%
8													
9	General Service												
10	0-10 kW	2.1	12,152	12,352	1.6%	12,400	0.4%	12,444	0.4%	12,400	0.4%	12,444	0.4%
11	10-100 kW (110 kVA)	2.2	9,030	9,071	0.5%	9,186	1.3%	9,300	1.2%	9,186	1.3%	9,300	1.2%
12	110 kVA (100 kW) - 1000 kVA	2.3	1,126	1,150	2.1%	1,164	1.2%	1,179	1.3%	1,164	1.2%	1,179	1.3%
13	1000 kVA and Over	2.4	64	66	3.1%	67	1.5%	65	-3.0%	67	1.5%	65	-3.0%
14													
15	Total General Service		<u>22,372</u>	<u>22,639</u>	1.2%	<u>22,817</u>	0.8%	<u>22,988</u>	0.7%	<u>22,817</u>	0.8%	<u>22,988</u>	0.7%
16													
17	Street and Area Lighting	4.1	10,276	10,391	1.1%	10,499	1.0%	10,602	1.0%	10,499	1.0%	10,602	1.0%
18													
19	Total Customers		<u>247,163</u>	<u>250,737</u>	1.4%	<u>254,059</u>	1.3%	<u>257,267</u>	1.3%	<u>254,059</u>	1.3%	<u>257,267</u>	1.3%
20													
21	Energy Sales (GWh)												
22													
23	Domestic												
24	Regular	1.1	3,398.7	3,455.4	1.7%	3,525.0	2.0%	3,593.7	1.9%	3,500.8	1.3%	3,524.0	0.7%
25	Seasonal	1.1	8.3	16.6	100.0%	19.5	17.5%	21.7	11.3%	19.5	17.5%	21.7	11.3%
26													
27	Total Domestic		<u>3,407.0</u>	<u>3,472.0</u>	1.9%	<u>3,544.5</u>	2.1%	<u>3,615.4</u>	2.0%	<u>3,520.3</u>	1.4%	<u>3,545.7</u>	0.7%
28													
29	General Service												
30	0-10 kW	2.1	93.7	96.2	2.7%	97.6	1.5%	98.2	0.6%	97.8	1.7%	98.6	0.8%
31	10-100 kW (110 kVA)	2.2	665.5	677.7	1.8%	685.8	1.2%	694.7	1.3%	685.2	1.1%	693.6	1.2%
32	110 kVA (100 kW) - 1000 kVA	2.3	927.7	935.2	0.8%	941.1	0.6%	955.8	1.6%	941.1	0.6%	955.8	1.6%
33	1000 kVA and Over	2.4	422.4	463.6	9.8%	475.6	2.6%	497.9	4.7%	475.6	2.6%	497.9	4.7%
34													
35	Total General Service		<u>2,109.3</u>	<u>2,172.7</u>	3.0%	<u>2,200.1</u>	1.3%	<u>2,246.6</u>	2.1%	<u>2,199.7</u>	1.2%	<u>2,245.9</u>	2.1%
36													
37	Street and Area Lighting	4.1	36.5	35.9	-1.6%	30.9	-13.9%	31.1	0.6%	30.9	-13.9%	31.1	0.6%
38													
39	Total Energy Sales		<u>5,552.8</u>	<u>5,680.6</u>	2.3%	<u>5,775.5</u>	1.7%	<u>5,893.1</u>	2.0%	<u>5,750.9</u>	1.2%	<u>5,822.7</u>	1.2%
40													
41	Company Use		11.6	11.6	0.0%	11.6	0.0%	11.6	0.0%	11.6	0.0%	11.6	0.0%
42													
43	Losses		313.4	321.8	2.7%	332.9	3.4%	339.7	2.0%	331.5	3.0%	335.7	1.3%
44													
45	Produced & Purchased		<u>5,877.8</u>	<u>6,014.0</u>	2.3%	<u>6,120.0</u>	1.8%	<u>6,244.4</u>	2.0%	<u>6,094.0</u>	1.3%	<u>6,170.0</u>	1.2%
46													
47	Wheeled		81.9	91.0	11.1%	93.4	2.6%	91.5	-2.0%	93.4	2.6%	91.5	-2.0%
48													
49	Total System Energy		<u>5,959.7</u>	<u>6,105.0</u>	2.4%	<u>6,213.4</u>	1.8%	<u>6,335.9</u>	2.0%	<u>6,187.4</u>	1.3%	<u>6,261.5</u>	1.2%

Newfoundland Power Inc.

Purchased Energy and Demand Forecast
2012 - 2014F

Year	Produced Purchased & Wheeled	Total Wheeled Energy	Total Curtailed Demand	Total Produced & Purchased (NP Native Peak)			NP Produced		Total Purchased	
	GWH	GWH	(1) MW	GWH	(2) MW	(3) Load Factor	(4) GWH	(5) Credit MW	GWH	(6) MW
Existing										
2012	6,105.0	91.0	11.9	6,014.0	1,330.82	50.99%	432.0	117.93	5,582.0	1,212.89
2013	6,213.4	93.4	11.9	6,120.0	1,358.23	50.99%	429.0	117.93	5,691.0	1,240.30
2014	6,335.9	91.5	11.9	6,244.4	1,386.08	50.99%	430.4	117.93	5,814.0	1,268.15
Proposed										
2012	6,105.0	91.0	11.9	6,014.0	1,330.82	50.99%	432.0	117.93	5,582.0	1,212.89
2013	6,187.4	93.4	11.9	6,094.0	1,352.41	50.99%	429.0	117.93	5,665.0	1,234.48
2014	6,261.5	91.5	11.9	6,170.0	1,369.43	50.99%	430.4	117.93	5,739.6	1,251.50

Notes:

1. Based on historical performance of participants plus curtailment of company owned facilities.
2. Native peak is the maximum demand forecast to be served by Newfoundland Power. The 2012 native peak reflects the forecast for the winter period of December 2011 to March 2012.
3. Load Factor is based on an average of 15 year historical (normalized) load factors.
4. Normal production for the forecast period is 432.6 GWh adjusted for plant availability and efficiency improvements.
Produced for 2012 also includes 0.3 GWh for production at Newfoundland Power's thermal plants.
5. Assumes a generation credit of 117.93 MW.
6. The purchased demand for 2012 reflects the purchased demand from Newfoundland and Labrador Hydro for the winter period of December 2012 to March 2013 and represents Newfoundland Power's forecast billing demand for 2013.

Newfoundland Power Inc.

**Comparison of Forecast Energy Sales
To Weather Adjusted Actual Sales¹**

		Forecast Sales²	Weather Adjusted Actual Sales	Difference	
		(GWh)	(GWh)	(GWh)	(%)
1					
2	2003	4,852.2	4,882.0	29.8	0.6
3					
4	2004	4,927.0	4,978.6	51.6	1.0
5					
6	2005	5,010.1	5,004.0	-6.1	-0.1
7					
8	2006	5,136.9	4,995.1	-141.8	-2.8
9					
10	2007	5,023.1	5,092.8	69.7	1.4
11					
12	2008	5,215.1	5,208.2	-6.9	-0.1
13					
14	2009	5,244.5	5,299.0	54.5	1.0
15					
16	2010	5,349.9	5,419.0	69.1	1.3
17					
18	2011	5,480.0	5,552.8	72.8	1.3
19					
20	2012	5,658.1	5,680.6	22.5	0.4
21					

22 **Notes:**

23 ¹ Amounts for 2003 - 2005 are reported on a billed basis while amounts for 2006 - 2012 are reported on a calendar basis.

24

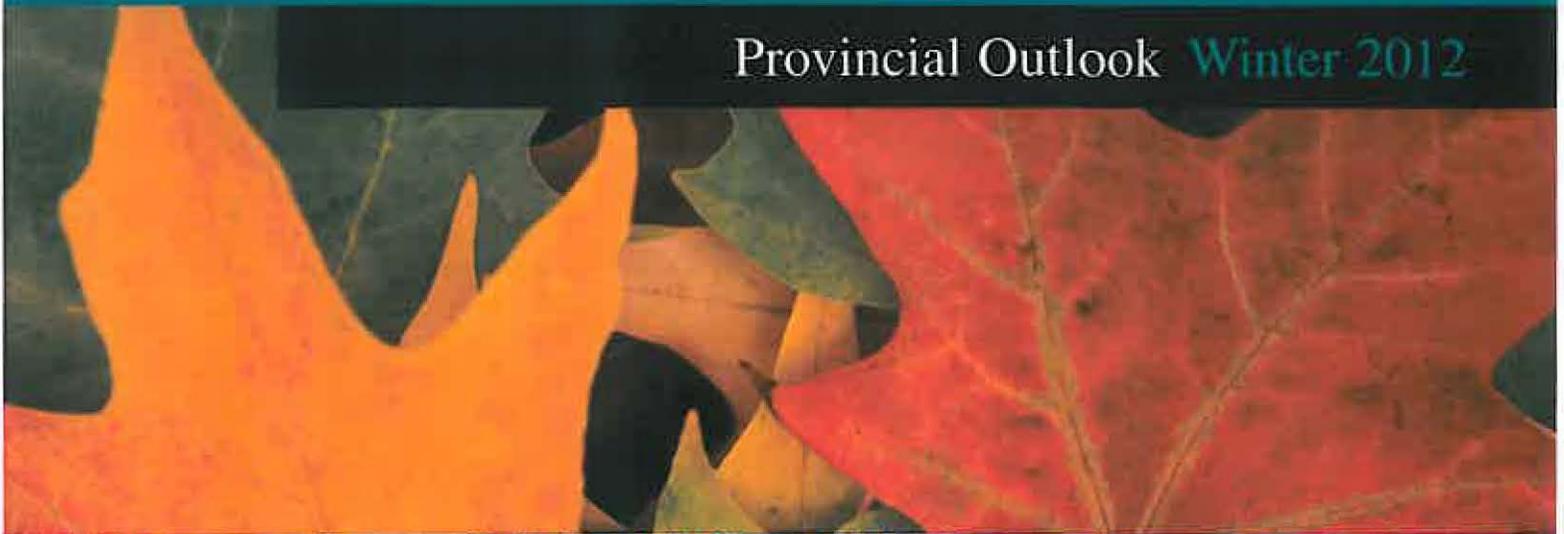
25 ² The forecast sales figures are from the annual forecasts prepared in the previous year and were part of the Capital Budget
 26 presentations made to the Board in those years. The 2003, 2004, 2008 and 2010 forecasts were the basis for the revenue
 27 requirement determinations presented as part of the Company's General Rate Applications in 2003, 2007 and 2009,
 28 respectively.

**Conference Board of Canada
Provincial Outlook Winter 2012
Economic Forecast
Dated: February 2, 2012**

The Conference Board of Canada
Insights You Can Count On



Provincial Outlook *Winter 2012*



Economic Forecast

ECONOMIC PERFORMANCE AND TRENDS



Provincial Outlook Winter 2012: Economic Forecast
by *The Conference Board of Canada*

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Preface

The *Provincial Outlook Winter 2012* was prepared by Marie-Christine Bernard, Associate Director, under the general direction of Paul Darby, Deputy Chief Economist.

The report examines the economic outlook for the provinces, including gross domestic product (GDP), output by industry and labour market conditions. At the end of the report, there is a forecast for Canadian economic indicators and a comparison of GDP by province and industry.

The Provincial Outlook is updated quarterly using the Conference Board's large econometric model of the provincial economies.

The publication can be accessed on-line at www.e-library.ca and for clients subscribing to e-Data at www.conferenceboard.ca/edata.htm. For more information, please contact our information specialist at 613-526-3280 or 1-866-711-2262 or e-mail contactcboc@conferenceboard.ca.

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Economic Slowdown Barely Noticeable Out West

Highlights

- ◆ The U.S. economy continues to expand and create jobs, but the ongoing European sovereign debt problems threaten to disrupt global economic activity and hurt Canada's trade flows.
- ◆ Strong commodity prices are boosting the economies of Western Canada. Real GDP growth in the region will far outpace the national average over the next two years.
- ◆ Labour shortages are resurfacing out West and could be a drag on near-term growth there.
- ◆ Fiscal policy will remain relatively loose in Alberta and Saskatchewan but will tighten in other provinces, limiting their economic growth over the near-term.
- ◆ Atlantic Canada is facing modest near-term economic growth.

sovereign debt could lead to another major financial crisis and credit crunch. This economic outlook is based on the "at best" assumption for Europe. In December, 26 of the 27 European Union countries agreed, in principle, to join forces to backstop heavily indebted member countries. Britain—opposed to the strict restrictions that the agreement imposes on member countries' fiscal independence—opted out of the plan. However, the 17 euro-zone countries, along with other EU nations, have banked another €200 billion with the International Monetary Fund to provide last-resort lending to member countries having trouble financing their debt. This effort by European leaders has helped stabilize equity markets for now—but the roller-coaster ride that has prevailed since mid-2011 is sure to continue in 2012. The situation will keep investor and household confidence on the edge and prevent the United States from achieving a more robust economic performance. Indeed, while numerous indicators are supportive of healthy U.S. economic growth in 2012, nervousness about the contagion effects of a Europe-led financial meltdown will keep private investment and job creation advancing at only a timid pace.

NATIONAL OVERVIEW

The volatile global economic environment continues to generate much uncertainty when it comes to Canada's near-term forecast, with the major impediment to a better recovery here being the sovereign debt problems in Europe. At best, EU nations will undergo severe fiscal austerity in 2012 and provide little support to global growth. At worst, defaults on

Canada's economy recovered quickly from supply shocks that occurred last spring, posting annualized growth of 3.5 per cent in the third quarter. However, the numbers are expected to show that the momentum dissipated in the fourth quarter, in line with flat employment growth and a downturn in consumer confidence. Moreover, throughout 2011, very low lending rates enticed households to increase their spending faster than their income. The situation has resulted in record levels of household debt,

rising debt-carrying charges, and further erosion in aggregate household savings rates. While the situation is not yet desperate, going forward, household spending will have to align more closely with relatively modest income gains. Domestic demand will also be stifled in 2012 by government restraint. Governments at all levels are pulling back on spending in an effort to deal with their stretched finances. In particular, a decline in public infrastructure investment, which was boosted over the last two years by the federal Economic Action Plan, is expected to take roughly \$4.6 billion out of real GDP in 2012.

Strong resource prices, a relatively stable domestic economy, low financing rates, and an elevated Canadian dollar are some of the factors that should help convince business leaders to keep boosting capital investment in 2012 in spite of the volatile external environment. Still, real growth in private non-residential investment will subside to about half the double-digit pace that occurred in 2010 and 2011. Overall, the challenges facing households, governments, and businesses suggest a weaker performance by Canada's domestic economy this year. Unfortunately, the lacklustre external environment will not offer much help either. Overall, real GDP growth is expected to fall to 2.1 per cent in 2012. A stronger U.S. performance should help bolster growth by 2.9 per cent in 2013.

PROVINCIAL OVERVIEW

Results of the 2011 Census underline the pull that Western Canadian provinces have had in recent years. Stronger economic fundamentals and a fast-expanding mining sector have made Western Canada a destination of choice for interprovincial migrants and for new Canadians. The flood of migration to the Prairie provinces and British Columbia has tipped the population balance, and the West now has a bigger share of the Canadian population than does Quebec and the Atlantic provinces combined. Despite global economic uncertainty and the lasting fiscal problems in Europe, the economic outlook for Western Canada remains very positive, with just a minor easing in real GDP growth expected in 2012. In fact, real GDP growth in Western Canada is forecast to be a full percentage

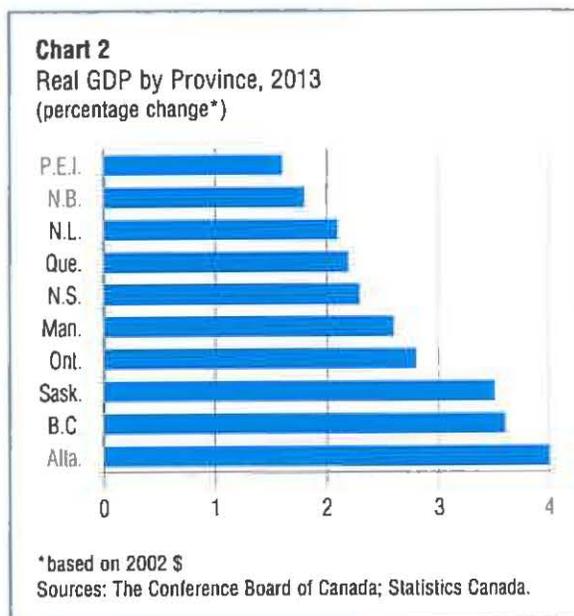
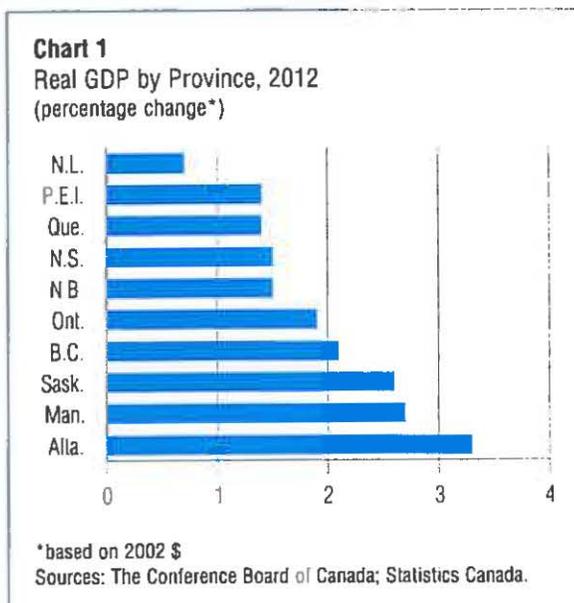
point stronger than in the rest of the country this year and next. Commodity prices remain at profitable levels and continue to encourage the development of the mining sector and to attract thousands of out-of-province workers and their families.

Ontario and Quebec, on the other hand, are forecast to experience soft economic growth in 2012—less than 2 per cent is anticipated. (See charts 1 and 2.) Capacity utilization rates in the Ontario manufacturing industry, particularly in those sectors with ties to the auto and auto parts industries, have been rising and will continue to trend up over the near term. But that will not be enough to fuel a better economic performance this year in the fiscally challenged province. And in Quebec, dismal job creation in the second half of 2011, combined with a heavier tax burden for households, will weigh on economic growth this year.

While the provincial economies are expected to improve in 2013, the planned cuts to public infrastructure spending will limit the contribution of the public sector to bottom-line growth over the near term. And this is true not only for the provinces that ran up significant budget deficits in recent years, it is true for all provinces. The federal economic recovery program known as Canada's Economic Action Plan bumped up spending in every province from 2009 to 2011, and that spending will drop off sharply this year.

Atlantic Canada is facing modest near-term economic prospects. Cuts to public infrastructure spending will hamper economic output in Prince Edward Island over the near term. An improvement in manufacturing and in the primary sector will not be sufficient to lift economic prospects. The Island's real GDP is forecast to advance by 1.4 per cent in 2012 and 1.6 per cent in 2013.

Nova Scotia's near-term growth will be slowed by weakness in construction, difficulties in the manufacturing sector, and recovering labour markets. Consumers remain cautious, and demand for retail goods will improve only slowly. Housing starts are forecast to contract over the near term. The \$25-billion federal shipbuilding contract and Shell Canada's deepwater exploration program will



bring benefits to the province. But most of the gains will come beyond the near term, as these projects are still mostly in the early stages of development. Nova Scotia's real GDP is forecast to rise by 1.5 per cent in 2012 and by a stronger 2.3 per cent in 2013, thanks to rising natural gas production.

The New Brunswick economy is forecast to advance moderately over the near term. A modest improvement in retail and wholesale trade is expected, but limited

gains in construction, manufacturing, and the service sector in general will hold overall real GDP growth to 1.5 per cent in 2012 and 1.8 per cent in 2013.

Despite elevated crude oil prices, maintenance-related shutdowns and natural production declines at the main offshore petroleum sites will limit the energy sector's contribution to Newfoundland and Labrador's economic performance over the near term. Overall, real GDP growth will fall to just 0.7 per cent in 2012 before improving to 2.1 per cent in 2013. Excluding oil and natural gas production, the provincial economy is projected to expand by over 3 per cent over the next two years. With its economy fuelled by large construction projects and rapid expansion in the iron ore mining sector, Newfoundland and Labrador is no longer suffering from a dwindling population. And the robust domestic economy will lead to more workers migrating home to "the Rock."

While Northern Quebec is enjoying an unprecedented mining boom, the southern portion of the province will see more muted real GDP growth. The outlook for the manufacturing sector is still weak, as a number of plants have announced shutdowns over the next two years. In addition, the loss of 61,000 jobs in the broader economy during the last three months of 2011 will weigh on consumer demand in the immediate future. As well, a heavier fiscal burden is eroding households' spending power. For a second consecutive year, real disposable income will decline in Quebec in 2012. Over the near term, the number of bright spots in the economy will be limited. The housing sector is losing momentum and realigning closer to fundamentals. Several mining projects will continue to support non-residential investment, but growth in machinery and equipment outlays will ease this year. All in all, real GDP growth in Quebec will slow to just 1.4 per cent in 2012, before a stronger domestic economy lifts growth to 2.2 per cent in 2013.

Whether Ontario manages to eliminate its deficit by 2017–18 as planned in its 2011 budget, or whether that target is pushed back, the province has a long road ahead of it as it attempts to achieve fiscal sustainability. The effects of the deficit-slaying battles will be noticeable over the near term as the federal and provincial governments cut infrastructure spending and rationalize program spending. Net real government spending by all

levels of government will fall by 1 per cent this year and remain at the same level in 2013. Ontario's domestic economy will feel the pinch. Real after-tax incomes will rise only moderately this year as job creation loses momentum and wage hikes remain subdued. Real consumption expenditures will advance by only 1.9 per cent in 2012, the same as in 2011. An improvement is expected in manufacturing as Japanese car producers operate at more normal capacity. On the heels of a weak performance in 2011, real GDP in Ontario will rise a modest 1.9 per cent in 2012 and by a stronger 2.8 per cent in 2013.

A significant rebound in the agriculture sector will provide a boost to the Manitoba economy this year. Despite the devastating floods in the spring of 2011, the provincial economy has remained generally healthy. An improvement in manufacturing and strong consumer demand for retail goods and new homes is anticipated. Solid population gains are a boon for the province. Overall, real GDP in Manitoba is forecast to bounce back, advancing by 2.7 per cent in 2012, and 2.6 per cent in 2013.

Saskatchewan's economy will not be running on cruise control. The boost provided by booming potash production will be interrupted as the uncertain global economic outlook temporarily weakens demand for fertilizer. After an expected 5.2 per cent gain last year, real GDP in Saskatchewan is forecast to grow at half that pace—2.6 per cent—in 2012. Still, the province is running a balanced budget, and that means public sector spending cuts will not be weighing down on bottom-line growth as much as in other provinces. A rebound in potash mining and a healthy domestic economy will lead to a gain of 3.5 per cent in real GDP next year.

While natural gas prices have not made any gains, the strength in crude oil prices has been enough to power the Alberta economy ahead. There have been no signs that the economy will falter or that global economic jitters will impede the development of the energy sector. Job creation has been red-hot, and so has consumer demand. With labour demand rising in Alberta at the same time that other regions of Canada struggle to create jobs,

interprovincial migration will remain strong. The outlook is very positive, and the province will not need to impose harsh fiscal austerity measures. Overall, Alberta's real economic growth will remain vibrant, averaging 3.3 per cent this year and 4 per cent next year.

Weakness in consumer spending and in labour markets acted as a drag on British Columbia's economy last year. The economic forecast remains moderate for this year as growth in the service sector eases further. For 2012, real GDP is forecast to advance by 2.1 per cent. The province's industrial base has been expanding at a good pace, with forestry benefiting from surging demand from China for lumber products and mining getting a boost from new mine developments and rising shale gas production. The B.C. economy will feel the pressure from public fiscal restraint measures, leaving infrastructure spending at much lower levels and construction output with zero growth this year. The outlook is brighter for 2013, as real GDP is forecast to rise by a strong 3.6 per cent, in line with solid prospects in mining, manufacturing, construction, and the service sector in general.

EXTERNAL ENVIRONMENT AND RISKS

The ongoing sovereign debt troubles in Europe are weighing heavily on the global economic outlook. Volatile equity markets have hurt investor confidence, causing a pullback in orders and industrial production. Fiscal tightening has most forecasters calling for a mild recession in Europe, with growth for 2012 as a whole expected to register just 0.2 per cent. Growth in developing countries is also expected to moderate this year. But as long as another major financial crisis is averted, the slowdown should be moderate. Many developing regions have seen their domestic economies strengthen rapidly over the past decade, helping to reduce their dependence on the West. Moreover, healthy financial reserves held by many developing countries, especially China, suggest that these countries will be able to stimulate domestic demand in the face of softer export markets. Resource-dependent economies—including a number of Latin

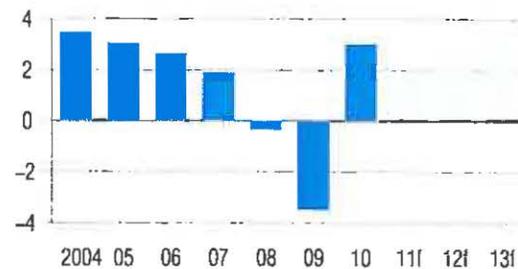
American economies—are also benefiting from the strength in energy and mineral prices. Overall, resilience among most of the world's developing economies suggests that the Asia-Pacific region and Latin America will see growth moderate only slightly in 2012.

A better performance at the global level in 2012 depends crucially on policy decisions made by governments in Europe and the United States. Leaders in the eurozone are trying to prevent the common currency from collapsing, while Congress and the Obama administration are grappling with the need to inject an appropriate amount of fiscal stimulus into the economy. The current outlook assumes that leaders in Europe do find a way to keep the euro alive, even if Greece is forced to leave the currency union. We also expect that U.S. policy-makers will take the right steps to ensure that fiscal policy supports economic growth over the near term. Obviously, there are sizable downside risks to the current outlook given the poor track record of politicians in Europe and the United States when it comes to dealing with their debt challenges.

One positive piece of news is that a new deal was worked out in U.S. congress to extend unemployment insurance benefits and payroll tax reductions until the end of 2012. In this new deal, the maximum number of weeks unemployed Americans would be able to receive benefits is 73, which is less than the existing maximum of 99 weeks in states with a jobless rate of more than 9 per cent. The deal would also prevent a cut in federal reimbursement for doctors who treat medicare patients.

Despite numerous negative shocks, the United States managed to avoid a recession in 2011—a development that points to the overall flexibility of its economy. While the sovereign debt situation in Europe could still derail the recovery, we expect the U.S. economy to post stronger growth of 2.7 per cent in 2012 (up from 1.8 per cent in 2011) and help contribute to keeping the global economy afloat. The tepid recovery will pick up somewhat in 2013, with real GDP growth expected to reach 3.2 per cent. Positive news supporting growth includes stronger consumer confidence and spending, better job gains, and the fact that credit markets are finally expanding. (See Chart 3.)

Chart 3
U.S. Economy Getting Back on Track
(U.S. real GDP, percentage change*)



*based on 2005 \$

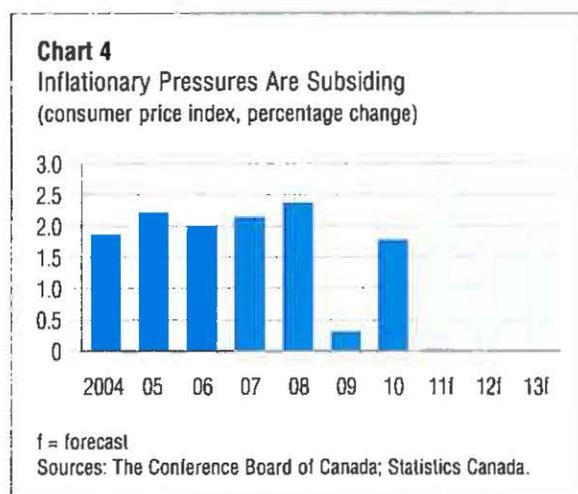
f = forecast

Sources: The Conference Board of Canada; U.S. Bureau of Economic Analysis (BEA).

MONETARY POLICY

U.S. monetary authorities continue to be cautious about the economy, and in January they announced that interest rates will be kept at rock-bottom levels through most of 2014. The U.S. Federal Reserve started implementing "Operation Twist" last fall, swapping \$400 billion in short-term debt for long-term securities in an effort to flatten the yield curve and further reduce borrowing costs. And last November, six of the world's leading central banks, including the Fed and the Bank of Canada, announced a coordinated effort to loosen interbank lending by cutting the interest rate on "dollar swaps." The intent is to allow cash-strapped European banks to borrow short-term funds at very low rates. Moreover, the Fed recently announced that it will, for the first time, make public its interest rate forecast. This transparency is intended to help convince borrowers that the low interest rate environment is here to stay. At the start of this year, the Fed reiterated its intent to keep rates low—a move that should help stimulate private sector borrowing, investment, and spending. With the U.S. economy still so far from full employment, there is little risk of inflationary pressures building over the next 18 months. Moreover, food and gasoline prices have eased in recent months, a factor that should bring U.S. headline inflation into the low 2 per cent range in 2012, down from over 3 per cent last year.

Inflation in Canada is also expected to moderate this year. (See Chart 4.) A surge in retail food and gasoline prices bolstered overall inflation to above 3 per cent for most of 2011, but these temporary increases are now working their way out of the numbers. Gasoline prices, in particular, have since subsided. Moreover, employment gains have been virtually non-existent over the past six months, a situation that will keep consumer spending and wage inflation soft. These factors will bring overall inflation down to just 1.9 per cent this year, with a similar modest showing forecast for 2013. With headline inflation forecast to remain comfortably within the Bank of Canada's target range, there will be little pressure for the Bank to lift rates in the current risk-laden economic environment. Bank officials have frequently and openly discussed the very real negative spillover effects of a European debt crisis, which have prompted them to keep the overnight lending rate at its current 1 per cent and the bank rate at 1.25 per cent. However, as the U.S. economy builds momentum, the Bank of Canada is expected to slowly start to unwind its monetary stimulus ahead of the Fed. Increases in the bank rate are expected to begin in the final months of 2012 and continue steadily in 2013. By the end of 2013, short-term rates could be above 2 per cent—more than double the current level.



Since last September, nervousness about the European debt crisis has had the effect of slightly deflating oil prices and the Canadian dollar vis-à-vis its U.S. counterpart. Relative stability is expected over the coming months. But with rates rising faster here than in the United States, the

upward trend in the Canadian dollar is expected to resume later this year. Overall, the loonie is forecast to average US\$0.99 in 2012 and US\$1.02 in 2013.

FISCAL POLICY

Recent estimates from federal, provincial, and territorial finance ministries point to a surprise about the current state of public finances—the weaker-than-forecast economic growth that we experienced in 2011 suggests that governments as a whole might not have made any headway at all over the past year toward erasing their red ink. The federal and provincial governments published a combined deficit of \$55.1 billion in fiscal year 2010–11 (on a public accounts basis), and that was much improved from the previous year's \$81.8-billion deficit. However, the estimates now tabulated for 2011–12 suggest a slight deterioration, with the combined deficit expected to come in at \$55.7 billion.

Looking ahead, with few exceptions, federal, provincial, and municipal governments are expected to pull back hard on spending, helping to lower deficits through the medium term. The federal government froze departmental budgets in 2011 and is now looking to cut budgets for some departments by as much as 10 per cent over the next few years. In addition, the end of the economic stimulus program means that infrastructure investment will slow sharply in 2012, while revenue growth should accelerate as temporary tax credit measures expire. However, the federal government is relying on a consensus private sector economic forecast in which the outlook for nominal GDP growth (the broadest measure of the tax base) is revised down substantially from estimates used for formulating the assumptions for Budget 2011. Moreover, because of the unusually high downside risks associated with the current forecast, the federal government has opted to increase its adjustment for risk by lowering GDP forecasts by \$30 billion in 2012 and \$20 billion in 2013. Given the prudent assumptions, the federal government has delayed its balanced budget outlook by a year, to fiscal 2015–16. However, should economic growth come in closer to the Conference Board's current projections, the books could still be balanced earlier than expected.

Unfortunately, a successful return to surpluses looks to be much further away for many provinces, which will struggle to rein in health care spending. A collective provincial-territorial deficit of \$24.8 billion is expected in 2011–12. That's slightly higher than the 2010–11 deficit. The deterioration is partly attributable to a \$1.6-billion repayment that British Columbia will have to make to the federal government.¹ Looking further out, most provinces are facing a momentous challenge. They must balance their books before rising debt levels limit their ability to fund social programs. And they must do so in an

environment of slowing revenue growth and increasing demand from an aging population on their largest spending category—public health care.

With all levels of government turning their attention to mending their (often) difficult fiscal situations, the public sector's contribution to economic growth is forecast to be negative over the next two years—the first time that has happened since the mid-1990s. Even though program spending will rise modestly this year, a decline in infrastructure investment will strongly offset those gains. Overall, total spending by all levels of government is forecast to contract 0.6 per cent (in real terms) in 2012, taking roughly \$2 billion out of the economy. The government's contribution to growth will remain slightly negative in 2013.

1 The federal government had given B.C. the money to help cover the transition costs involved in harmonizing the province's sales tax with the federal goods and service tax. But in August 2011, British Columbians voted in a referendum to ditch the harmonized sales tax and return to separate provincial and federal sales taxes. As a result, B.C. must now repay the transition funding to Ottawa.

Un ralentissement économique à peine perceptible dans l'Ouest

Faits saillants

- ◆ La vive incertitude entourant l'économie mondiale comporte un risque négatif marqué pour les prévisions, mais nous estimons que les instances européennes sauront mettre en place les politiques permettant d'éviter une nouvelle crise financière.
- ◆ À court terme, les autorités fédérales et provinciales s'appliquant à rétablir l'équilibre budgétaire en réduisant les travaux d'infrastructures et en limitant leurs dépenses, ces mesures d'austérité toucheront toutes les provinces.
- ◆ C'est dans l'Ouest que les choses augurent le mieux : les perspectives économiques seront meilleures dans les provinces de cette région.
- ◆ Le centre du pays et la région atlantique progresseront plus lentement; le rythme réduit de l'économie américaine et la faible confiance des consommateurs feront entrave à la croissance.

VUE D'ENSEMBLE NATIONALE

La conjoncture mondiale changeante, et au premier chef les problèmes de dette souveraine de l'Europe, suscite encore d'importantes incertitudes quant à la reprise au Canada et aux prévisions à court terme pour le pays. Dans le meilleur des cas, vivant une période d'austérité prononcée, les pays membres

de l'UE ne contribueront pas beaucoup à la croissance mondiale en 2012. Dans le pire des cas, l'incapacité de certains pays d'honorer leur dette pourrait engendrer une autre grande crise financière et un effondrement du crédit. Nos perspectives se fondent sur l'hypothèse la plus optimiste pour l'Europe. En décembre, 26 des 27 pays de l'UE ont convenu, en principe, d'agir collectivement afin de secourir ceux d'entre eux qui accusent les plus fortes dettes. La Grande-Bretagne n'adhère pas à ce plan car elle s'oppose aux strictes restrictions que celui-ci implique à l'égard de l'indépendance financière des États membres. Néanmoins, les 17 pays de la zone euro, avec la participation d'autres États de l'UE, ont encore mobilisé 200 milliards d'euros avec le Fonds monétaire international (FMI), une réserve de dernier ressort pour les pays membres ayant de la difficulté à financer leur dette. Cet effort des dirigeants européens a contribué à stabiliser les marchés boursiers, pour l'instant, mais les fluctuations marquées observées depuis le milieu de 2011 se poursuivront certainement en 2012. Cela jouera encore sur la confiance des investisseurs et des consommateurs et empêchera les États-Unis d'afficher une performance économique supérieure. En fait, même si divers indicateurs laissent entrevoir une bonne croissance économique des États-Unis en 2012, la crainte de contagion advenant une déroute financière déclenchée en Europe limitera considérablement la progression des investissements privés et de l'embauche.

L'économie canadienne s'est vite remise des perturbations des chaînes d'approvisionnement subies le printemps dernier; à preuve, elle a inscrit une croissance annualisée de

3,5 p. 100 au troisième trimestre. Sauf que l'élan ne s'est pas maintenu au quatrième trimestre, avec la croissance nulle de l'emploi et la baisse de confiance des consommateurs. En outre, tout au long de 2011, les très bas taux de crédit ont amené les consommateurs à accroître leurs dépenses plus rapidement que n'augmentaient leurs revenus. Résultat, l'endettement des ménages est plus élevé que jamais, donc leur coûte de plus en plus cher à financer, et le taux global d'épargne des ménages s'est encore détérioré. La situation n'est pas encore désespérante, mais les dépenses des ménages devront désormais refléter la progression, plus faible, des revenus. En 2012, la demande intérieure se ressentira des mesures d'austérité des pouvoirs publics. En effet, les gouvernements à tous les paliers réduisent leurs dépenses, en raison de l'état de leurs ressources budgétaires. D'une façon toute particulière, la diminution des investissements à l'égard d'infrastructures publiques, un poste gonflé depuis deux ans en raison du Plan d'action économique fédéral, devrait amputer le PIB réel de 2012 de quelque 4,6 milliards de dollars.

Le prix élevé des produits de base, la stabilité relative de l'économie domestique, les bas taux de financement et la vigueur du dollar canadien sont autant de facteurs propres à convaincre les dirigeants d'entreprises à continuer d'intensifier leurs dépenses en immobilisations en 2012 même si le contexte mondial suscite des hésitations. La croissance réelle des investissements privés (autres que ceux du secteur résidentiel) sera coupée de moitié par rapport aux gains supérieurs à 10 p. 100 enregistrés en 2010 et 2011. Globalement, le défi auquel font face les ménages, les gouvernements et les entreprises laisse présager une moins bonne performance de l'économie domestique canadienne, cette année. Évidemment, la conjoncture mondiale ne sera pas d'un grand secours. Ainsi, le PIB réel au Canada devrait croître de 2,1 en 2012. Ensuite, en 2013, l'amélioration des résultats aux États-Unis devrait contribuer à faire avancer le PIB canadien de 2,9 p. 100.

VUE D'ENSEMBLE PROVINCIALE

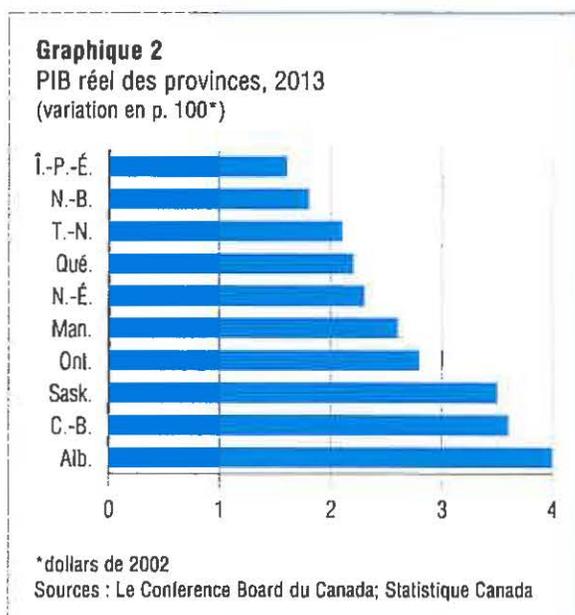
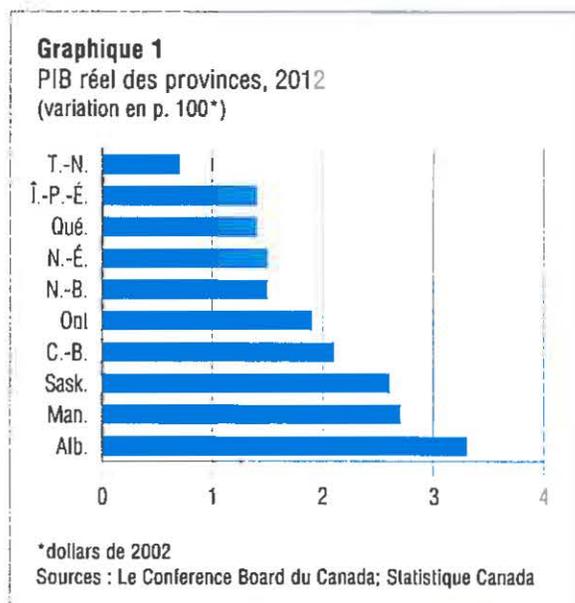
Les résultats du Recensement de 2011 révèlent l'attrait qu'ont exercé les provinces de l'Ouest canadien ces dernières années. Des facteurs économiques fondamentaux plus favorables et l'essor marqué du secteur minier ont

fait de l'Ouest canadien une destination prisée par les gens provenant d'autres provinces du pays, ou de l'étranger. L'afflux migratoire vers les provinces des Prairies et la Colombie-Britannique a fait pencher la balance démographique, si bien que l'Ouest compte maintenant plus d'habitants que le Québec et les provinces atlantiques réunies. Puis, malgré les incertitudes économiques mondiales et les problèmes budgétaires persistants en Europe, les perspectives économiques de l'Ouest canadien demeurent très positives; ainsi, la croissance du PIB réel devrait à peine y ralentir en 2012. En effet, le PIB réel des provinces de l'Ouest canadien devrait y progresser de plus d'un point de pourcentage de plus que le reste du pays cette année et encore l'an prochain. Les prix des produits de base demeurent sources de profits et suscitent toujours l'expansion du secteur minier, tout en attirant des milliers de travailleurs de l'extérieur avec leurs familles.

L'Ontario et le Québec afficheront une faible croissance économique en 2012 : une croissance inférieure à 2 p. 100 y est prévue (voir les graphiques 1 et 2). Chez les manufacturiers ontariens, les taux d'utilisation des capacités sont en hausse et croîtront encore à court terme, surtout dans les secteurs liés à la fabrication de véhicules et aux pièces automobiles. Sauf que cela ne suffira pas, cette année à améliorer la performance économique de la province, dont la situation fiscale pose problème. Quant au Québec, la très faible création d'emplois au second semestre de 2011 et le fardeau fiscal grandissant des ménages feront obstacle à la croissance économique cette année.

Oui, l'économie des provinces devrait s'améliorer en 2013 mais les réductions prévues au poste des dépenses en infrastructures restreindront l'apport du secteur public à la croissance nette à court terme. C'est le cas des provinces qui ont accumulé d'importants déficits budgétaires ces dernières années, mais aussi pour toutes les autres provinces. Le programme de relance économique, le Plan d'action économique du Canada, a fait s'accroître les dépenses publiques dans chacune des provinces entre 2009 et 2011 mais celles-ci chuteront considérablement cette année.

Le Canada atlantique montre des perspectives économiques modestes à court terme. La diminution des dépenses publiques portera un dur coup à la croissance économique à l'Île-du-Prince-Édouard à court terme, où la progres-



sion du secteur primaire ne suffira pas à faire évoluer les perspectives économiques. De ce fait, le PIB réel de l'Île devrait gagner 1,4 p. 100 en 2012 et 1,6 p. 100 en 2013.

La croissance économique de la Nouvelle-Écosse sera ralentie, à court terme, par le manque de vigueur dans la construction, les difficultés du secteur manufacturier et les lacunes d'un marché du travail encore en voie de rétablissement. Les consommateurs demeurent prudents

et la demande ne se rétablira que lentement dans le commerce de détail. Les mises en chantier devraient diminuer à court terme. Le contrat fédéral de construction navale, un apport de 25 milliards de dollars, ainsi que le programme d'exploration en haute mer de Shell Canada, profiteront bien à la province mais les gains ne s'observeront pas à court terme puisque ces projets en sont encore surtout aux premiers stades de mise en œuvre. Le PIB réel de la Nouvelle-Écosse devrait croître de 1,5 p. 100 en 2012, puis davantage en 2013, soit de 2,3 p. 100, à la faveur d'une production accrue de gaz naturel.

L'économie du Nouveau-Brunswick devrait progresser lentement à court terme. Une modeste amélioration du commerce de détail et de gros est prévue mais la faiblesse des gains aux chapitres de la construction, de la production manufacturière et dans le secteur des services limiteront à 1,5 p. 100 la croissance globale du PIB en 2012 et à 1,8 p. 100 en 2013.

En dépit des prix élevés du pétrole brut, des fermetures commandées par l'entretien et des baisses de production aux principaux sites pétroliers en haute mer limiteront l'apport du secteur de l'énergie aux résultats économiques de Terre-Neuve-et-Labrador à court terme. Globalement, le PIB réel ne progressera que de 0,7 p. 100 en 2012, puis gagnera 2,1 p. 100 en 2013. Exception faite de la production de pétrole et de gaz naturel, l'économie provinciale devrait croître de plus de 3 p. 100 dans les deux prochaines années. En raison de vastes projets de construction et de l'essor rapide de l'extraction du minerai de fer, Terre-Neuve-et-Labrador ne porte plus le poids d'une démographie chancelante et la vigueur de l'économie domestique fera venir encore des travailleurs dans cette nouvelle terre de prospérité.

Pendant que le Nord québécois connaît un boom minier significatif, le Sud contribuera beaucoup moins à la croissance du PIB réel. Les perspectives demeurent faibles pour les manufacturiers car bon nombre d'établissements ont annoncé des fermetures au cours des deux prochaines années. En outre, la perte de plus de 61 000 postes dans divers secteurs d'activité durant les 3 derniers mois de 2011 se répercutera sur la demande de consommation dans l'avenir immédiat. Sans oublier le fardeau fiscal accru qui réduit la capacité de dépenser des ménages.

Pour une deuxième année de suite, le revenu réel disponible reculera au Québec. A court terme, l'économie de la province offrira peu d'occasions de se réjouir. Le secteur de l'habitation perd son élan, la construction de nouvelles maisons étant plus près des besoins réels du point de vue démographique. Plusieurs projets miniers continueront de soutenir l'investissement non résidentiel, mais la croissance des dépenses en machinerie et en équipement s'atténuera cette année. Ainsi, le PIB réel du Québec affichera une croissance moindre en 2012, soit 1,4 p. 100, puis gagnera 2,2 p. 100 en 2013, à la faveur d'une économie domestique plus forte.

Que l'Ontario parvienne à effacer son déficit d'ici 2017-2018 comme prévu dans son budget de 2011, ou que la date cible soit décalée, la province a encore beaucoup de chemin à parcourir pour atteindre la viabilité budgétaire. Les effets de la lutte contre le déficit seront bien visibles à court terme car le gouvernement fédéral et le gouvernement de la province réduiront leurs dépenses en infrastructures et rationaliseront leurs dépenses de programmes. Les dépenses totales nettes des pouvoirs publics de tous ordres diminueront de 1 p. 100 cette année et demeureront semblables en 2013. L'économie domestique ontarienne s'en ressentira. Les revenus réels après impôt augmenteront légèrement cette année puisque la création d'emploi ralentira et les hausses de salaires resteront limitées. Les dépenses réelles des consommateurs ne croîtront que de 1,9 p. 100 en 2012, comme en 2011. Parce que les constructeurs automobiles japonais produisent à un rythme plus normal, une certaine amélioration est prévue dans le secteur manufacturier. Après des résultats modérés en 2011, le PIB réel de l'Ontario ne gagnera que 1,9 p. 100 en 2012, puis davantage en 2013, soit de 2,8 p. 100.

Un regain marqué du secteur agricole profitera beaucoup à l'économie du Manitoba cette année. Malgré les inondations dévastatrices du printemps de 2011, l'économie de la province est demeurée solide dans l'ensemble. Un accroissement de l'activité manufacturière et une vive demande de consommation relativement aux produits de détail et aux logements neufs sont prévus. La croissance démographique soutenue que connaît le Manitoba a des effets bénéfiques. Donc, le PIB réel du Manitoba devrait évoluer de belle façon, progressant de 2,7 p. 100 en 2012, puis de 2,6 p. 100 en 2013.

L'économie de la Saskatchewan n'affichera pas le même rythme de croissance : le boom engendré par l'essor de la production de potasse sera interrompu puisque les doutes qui pèsent sur les perspectives mondiales font diminuer la demande de potasse. Ainsi, après la croissance de l'an dernier, estimée à 5,2 p. 100, le PIB réel de la Saskatchewan devrait gagner la moitié de cela cette année, soit 2,6 p. 100. Toutefois, comme la province jouit d'un équilibre budgétaire, la réduction des dépenses du secteur public n'affectera pas la croissance nette autant là que dans d'autres provinces. Un regain de l'extraction de la potasse et la solidité de l'économie domestique permettront un gain de 3,5 p. 100 du PIB réel l'an prochain.

Bien que les prix du gaz naturel n'aient pas augmenté, le niveau soutenu des prix du pétrole brut a suffi pour faire avancer l'économie de l'Alberta. Rien ne laisse croire que l'économie s'essoufflera ou que les hésitations concernant l'économie mondiale freineront l'essor du secteur énergétique. La création d'emploi et la demande des consommateurs montrent des chiffres spectaculaires. Le besoin de main d'œuvre en Alberta se faisant plus grand alors que d'autres régions du pays peinent à créer de l'emploi, la migration interprovinciale demeurera forte. Les perspectives sont très favorables et la province n'aura pas à imposer des mesures fiscales d'austérité sévères. Bref, la croissance économique de l'Alberta demeurera forte, s'inscrivant globalement à 3,3 p. 100 cette année et 4 p. 100 l'an prochain.

La faiblesse des dépenses de consommation et des marchés du travail ont nui à l'économie de la Colombie-Britannique l'année dernière. Les perspectives demeurent modérées pour cette année car la croissance se fera encore plus mince dans le secteur des services. En 2012, le PIB réel devrait croître de 2,1 p. 100. Les assises industrielles de la province se développent de belle façon, le secteur forestier profitant d'une poussée de la demande de produits du bois en Chine, et le secteur minier tirant avantage de nouveaux développements miniers et de l'accroissement de la production de gaz de schiste. L'économie de la Colombie-Britannique se ressentira des mesures de restriction budgétaire des pouvoirs publics car les dépenses en infrastructures diminueront beaucoup et la production du secteur de la construction restera inchangée cette année. Les choses augurent mieux pour 2013.

le PIB réel augmentant alors de 3,6 p. 100, une bonne performance attribuable aux promesses du secteur minier, de la construction et du secteur des services en général.

FACTEURS ET RISQUES EXTERNES

Les soucis de dette souveraine qui perdurent en Europe influent beaucoup sur les perspectives économiques mondiales. L'inconsistance des marchés boursiers mine la confiance des investisseurs, provoquant de ce fait une diminution des commandes et de la production industrielle. Les mesures d'austérité budgétaire portent la plupart des prévisionnistes à prévoir une récession modeste en Europe; on s'attend à une croissance d'à peine 0,2 p. 100 en 2012. La croissance devrait aussi diminuer cette année dans les pays en développement, mais il devrait s'agir d'un ralentissement modéré, si l'on évite une nouvelle grande crise financière. Bon nombre de régions en développement ont vu leur économie domestique se renforcer rapidement depuis dix ans, un essor qui a réduit leur dépendance à l'égard de l'Occident. De plus, les réserves importantes que détiennent plusieurs pays en développement, en particulier la Chine, permettent de penser que ces pays sauront stimuler la demande intérieure pour compenser une baisse des marchés d'exportation. Les économies dépendantes du secteur des ressources, dont plusieurs États d'Amérique latine, tirent aussi profit de la force des prix de l'énergie et des minéraux. Dans l'ensemble, étant donné la résilience de la plupart des économies en développement, la région Asie-Pacifique et l'Amérique latine n'accuseront qu'un faible recul de leur croissance en 2012.

L'amélioration des résultats en 2012 à l'échelle mondiale dépendra en grande partie des décisions que prendront les gouvernements européens et l'État américain. Les dirigeants de la zone euro veulent empêcher la devise commune de s'effondrer tandis que le Congrès américain et l'équipe Obama se voient obligés d'injecter dans l'économie des stimulants budgétaires de montants appropriés. Les prévisions décrites ici reposent sur l'hypothèse que les autorités européennes sauront assurer la survie de l'euro, même si la Grèce se voit obligée de renoncer à l'union monétaire. Nous nous attendons aussi que les décideurs américains prendront les mesures voulues pour que la politique budgétaire soutienne

la croissance économique à court terme. Les perspectives comportent manifestement des risques négatifs importants, vu les antécédents peu reluisants de la classe politique européenne et les difficultés auxquelles se butent les Américains quand ils font face à des défis d'ordre budgétaire.

Nouvelle encourageante, le Congrès américain a convenu de continuer d'offrir des prestations d'assurance emploi pour une période prolongée et d'accorder des diminutions d'impôts sur le revenu de travail jusqu'à la fin de 2012. Les Américains sans emploi auraient désormais droit à des prestations pendant 73 semaines, au maximum, ce qui est moins que les 99 semaines constituant présentement la norme dans les États où le chômage dépasse 9 p. 100. L'entente éviterait par ailleurs la réduction des remises fédérales consenties aux médecins soignant des patients couverts par le régime public d'assurance maladie.

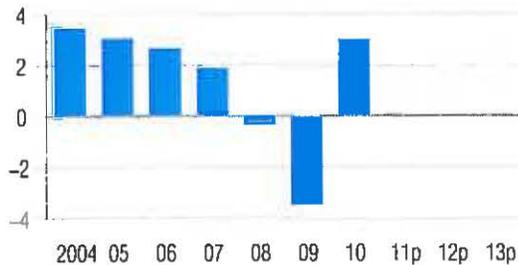
Le fait que les États-Unis soient parvenus à éviter une grande récession en 2011 en dépit de nombreux facteurs négatifs montre la souplesse de l'économie américaine dans son ensemble. Certes, les problèmes de dette souveraine en Europe pourraient encore gêner la reprise, mais nous prévoyons que l'économie des États-Unis fera mieux en 2012, c'est-à-dire qu'elle affichera une progression de 2,7 p. 100 (comparativement à 1,8 p. 100 en 2011), contribuant ainsi à l'évolution positive de l'économie mondiale. Puis en 2013, lentement encore, la croissance du PIB réel s'améliorera de nouveau, étant cette fois de 3,2 p. 100. Les anticipations de croissance s'expliquent entre autres par un gain de confiance des consommateurs et la hausse des dépenses de ces derniers, l'évolution plus solide de l'embauche et le fait que les marchés du crédit progressent enfin (voir le graphique 3).

POLITIQUE MONÉTAIRE

Les autorités monétaires des États-Unis demeurent prudentes à propos de l'économie; à preuve, leur annonce faite en janvier que les taux d'intérêt seront maintenus à leur plus bas presque jusqu'à la fin de 2014. L'automne dernier, la Réserve fédérale américaine a amorcé l'*Operation Twist*, soit l'échange de 400 milliards de dollars de

Graphique 3

L'économie américaine retrouve son aplomb
(PIB réel des É.-U., variation en p. 100*)



*dollars de 2005

p = prévision

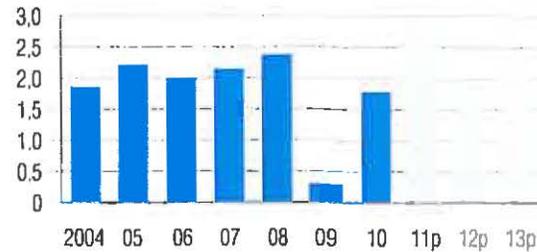
Sources : Le Conference Board du Canada; U.S. Bureau of Economic Analysis (BEA)

créances à court terme contre des titres de long terme afin d'aplanir la courbe de rendement et de réduire à nouveau les frais d'emprunt. Aussi, en novembre dernier, six banques centrales nationales, dont la Fed et la Banque du Canada, ont annoncé un effort conjoint pour faciliter les prêts interbancaires en réduisant le taux d'intérêt sur les swaps de dollars, une mesure devant permettre aux pays européens en manque d'argent d'emprunter des fonds à court terme à des taux très bas. Depuis, la Fed a aussi annoncé qu'elle rendrait pour la première fois publiques ses prévisions de taux d'intérêt: cette transparence vise à convaincre les emprunteurs que le régime de bas taux d'intérêt prévaudra assez longtemps. En début d'année, la Fed a répété vouloir maintenir les taux bas, une position qui devrait aider à stimuler l'emprunt, l'investissement et les dépenses dans le secteur privé. Puisque l'économie américaine est encore très loin du plein emploi, il y a peu de risques que des pressions inflationnistes ne s'accumulent dans les 18 prochains mois. En outre, les prix des aliments et de l'essence s'étant relâchés ces derniers mois, l'inflation d'ensemble devrait retomber à un peu plus de 2 p. 100 en 2012, alors qu'elle dépassait 3 p. 100 en 2011.

Au Canada aussi l'inflation devrait diminuer cette année (voir le graphique 4). Une poussée des prix des aliments au détail et de l'essence a fait grimper l'inflation globale à plus de 3 p. 100 durant presque toute l'année 2011.

Graphique 4

Les pressions inflationnistes diminuent
(indice des prix à la consommation, variation en p. 100)



p = prévision

Sources : Le Conference Board du Canada; Statistique Canada

mais l'effet de ces mouvements s'estompe. L'essence, surtout, coûte maintenant moins cher. De plus, la situation de l'emploi ne s'étant pratiquement pas améliorée dans les six derniers mois, les dépenses de consommation et les salaires progresseront peu. Tout cela ramènera à 1,9 p. 100 l'inflation globale cette année, qui devrait être semblable en 2013. Si l'inflation d'ensemble se trouve bien à l'intérieur de la fourchette-cible de la Banque du Canada, celle-ci ne sentira pas vraiment le besoin, dans une conjoncture déjà riche en risques, de hausser les taux. Les autorités de la Banque ont souvent évoqué de façon publique les incidences négatives réelles d'une contagion par la crise de la dette européenne, des risques qui les incitent à maintenir à 1 p. 100 le taux du financement à un jour et à 1,25 p. 100 le taux bancaire. Cependant, lorsque l'économie américaine prendra son élan, la Banque du Canada commencera selon nous à réduire peu à peu son effort de stimulation, avant que la Fed ne le fasse. Le taux bancaire devrait connaître une première hausse dans les derniers mois de 2012, puis augmenter régulièrement en 2013. Fin 2013, les taux de court terme devraient dépasser 2 p. 100, ce qui est plus que le double des taux actuels.

Depuis septembre dernier, la nervosité provoquée par la crise européenne de la dette a fait quelque peu reculer le prix du pétrole et le huard par rapport au dollar américain. Une stabilité relative est prévisible dans les prochains mois, mais les taux d'intérêt augmentant plus

rapidement ici qu'aux États-Unis, la montée du dollar canadien devrait recommencer plus tard cette année. Le huard devrait ainsi s'inscrire à 0,99 \$US en moyenne en 2012, puis à 1,02 \$US en 2013.

POLITIQUE BUDGÉTAIRE

Au niveau fédéral et provincial, ainsi que dans les territoires, les récentes estimations des ministères responsables des finances contiennent une surprise quant à la position financière : la croissance économique plus faible que prévu en 2011 fait en sorte que les pouvoirs publics, collectivement, n'ont pas vraiment réduit leur déficit l'an dernier. Le gouvernement fédéral et les provinces ont affiché un déficit combiné de 55,1 milliards de dollars pour l'exercice 2010-2011 (selon les comptes publics), ce qui représentait un net progrès par rapport au déficit de 81,8 milliards l'année précédente mais les prévisions budgétaires présentées pour 2011-2012 laissent entrevoir une légère détérioration, le déficit combiné pouvant atteindre 55,7 milliards de dollars.

À quoi faut-il s'attendre ? À moyen terme, sauf de rares exceptions, le gouvernement fédéral, les provinces et les autorités municipales, réduiront considérablement leurs dépenses pour alléger leur déficit. Après avoir gelé les budgets des ministères en 2011, le gouvernement fédéral cherche maintenant à réduire les budgets de certains d'entre eux, parfois de 10 p. 100, dans les prochaines années. En outre, la fin du programme de stimulation économique signifie que les investissements dans les infrastructures chuteront abruptement en 2012, tandis que l'accroissement des recettes devrait s'accélérer par suite de l'expiration des mesures temporaires de crédits d'impôt. Précisons que le gouvernement fédéral s'appuie sur des anticipations établies par un consensus d'économistes relativement au secteur public selon lesquelles la croissance du PIB nominal (la mesure la plus large de l'assiette fiscale) est plus faible en comparaison des estimations ayant servi à produire les hypothèses du Budget de 2011. De plus, étant donné les risques négatifs particulièrement élevés inhérents aux prévisions actuelles, le gouvernement fédéral a choisi d'accroître son ajustement à l'égard du risque en abaissant les prévisions du PIB de 30 milliards de dollars pour 2012, puis de 20 mil-

liards de dollars pour 2013. En raison du caractère prudent de ces hypothèses, le fédéral compte atteindre l'équilibre budgétaire un an plus tard, soit dans l'exercice 2015-2016. Bien sûr, si la croissance économique est plus proche des prévisions actuelles du Conference Board, l'équilibre pourrait survenir plus tôt qu'annoncé.

Le retour à l'équilibre paraît malheureusement beaucoup plus lointain pour de nombreuses provinces, où il demeure problématique de freiner les dépenses relatives à la santé. Ensemble, les provinces et territoires devraient accuser un déficit de 24,8 milliards de dollars en 2011-2012, soit juste un peu plus qu'en 2010-2011. La détérioration s'explique en partie par le remboursement de 1,6 milliards de dollars que la Colombie-Britannique devra faire au gouvernement fédéral.¹ Dans un avenir plus éloigné, la plupart des provinces font face à un défi gigantesque : elles doivent rétablir l'équilibre budgétaire avant que leurs dettes ne les empêchent de financer les programmes sociaux. Et cela, elles devront y parvenir alors que la croissance des revenus se fera plus lente et que leur population vieillissante exercera de plus en plus de pression sur le principal poste de dépenses, les soins de santé publics.

Puisque tous les paliers de gouvernement s'appliqueront de façon prioritaire à corriger leur situation budgétaire, difficile chez plusieurs, l'apport du secteur public à la croissance économique devrait être négatif pendant deux ans. Cela n'est pas arrivé depuis le milieu des années 1990. Les dépenses de programmes augmenteront un peu cette année, mais le recul des investissements à l'égard des infrastructures sera et de loin plus prononcé que les gains attendus. Globalement, les dépenses totales de tous les paliers de gouvernement devraient baisser de 0,6 p. 100 (en termes réels) en 2012, ce qui privera pour ainsi dire l'économie de 2 milliards de dollars. L'apport des pouvoirs publics à la croissance sera de nouveau un peu négatif en 2013.

1 Le gouvernement fédéral avait donné à la province les sommes devant aider à couvrir les frais de transition liés à l'harmonisation de la taxe de vente provinciale avec la taxe fédérale sur les produits et services, mais en août les résidents de la province ont renoncé par référendum à la taxe de vente harmonisée, choisissant ainsi de rétablir les taxes de vente distinctes, l'une fédérale, l'autre provinciale; par conséquent, la Colombie-Britannique doit maintenant rembourser les fonds de transition à Ottawa.

Transition Year

Highlights

- ◆ Offshore oil production is declining, but metal mining is taking up much of the slack.
- ◆ The fishing industry will continue to see weak growth.
- ◆ It will be another year of solid growth for the province's construction industry.

Economic Indicators (percentage change)

	2011f	2012f	2013f
Real GDP	3.1	0.7	2.1
Consumer Price Index	3.4	1.7	2.2
Personal disposable income	4.7	4.3	3.5
Employment	2.9	1.6	1.2
Unemployment rate (level)	12.6	12.3	11.5
Retail sales	5.0	4.4	3.8
Wages and salaries per employee	4.9	4.5	2.8
Population	-0.1	0.1	0.1

f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Government and Background Information

Premier	Kathy Dunderdale
Next election	2015
Population (2011Q4)	511,272
Government balance (2011-12)	\$756 million

Sources: The Conference Board of Canada; Newfoundland and Labrador Finance.

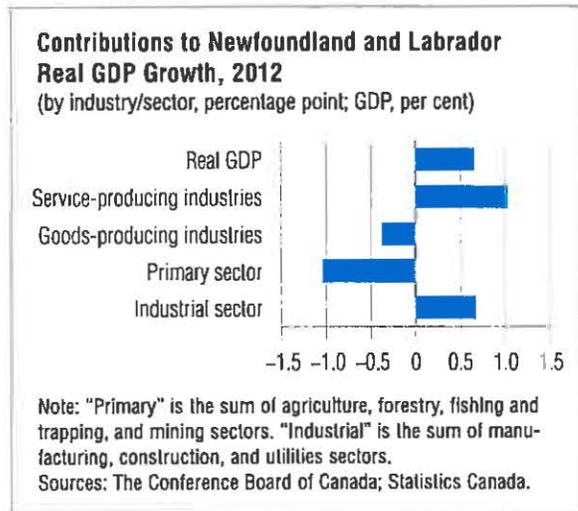
This year will be a transition year for Newfoundland and Labrador's economy. The oil and gas industry has reached peak production, and will now see steep production declines until the Hebron platform opens late in 2017 or in 2018. On the other hand, iron ore mining in Labrador will continue to grow the metal mining industry this year as Labrador Iron Mines (LIM) is in its first full year of operations, and Iron Ore Company of Canada (IOC) raises output after missing production targets last year. The construction sector, which has grown at double-digit rates in each of the last two years, will continue to see gains as the mining industries develop in Labrador, and Vale's hydromet facility at Voisey's Bay nears completion. In addition, major maintenance projects will take place in the oil and gas industry this year, and construction will begin on the Hebron platform and modules, which will push the Marystown and Bull Arm fabrication sites to near full capacity. Strength in the construction industry in particular will keep employment growth strong in the near term, and an aging population will magnify the need for labour, as the province must compete with the oil-rich Western provinces for its workers.

PRODUCTION DECLINE IN OFFSHORE OIL

The offshore oil production that has been fuelling much of the province's economic growth over the past decade has reached its peak. The Hibernia, Terra Nova, and White Rose offshore oil projects are still producing about 8 million barrels per month, but production levels

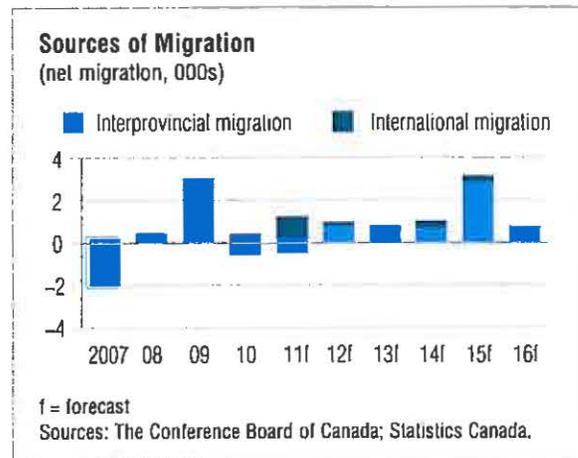
will decline over the rest of the forecast—including a 10.5 per cent decline in 2012. From 2013 to 2016, production will fall at an average annual compound rate of 5.6 per cent. Suncor Energy, the operator of the Terra Nova Floating Petroleum Storage and Offloading Vessel (FPSO),

will shut down production at the field for 21 weeks for scheduled maintenance starting this summer. This will cause a significant interruption in industrial output—Terra Nova produced 15.7 million of the 97.2 million barrels pumped by the province’s industry in 2011. Oil production will also be hurt this year by the recent shut-down for maintenance and repairs of the West White Rose oil rig, which was damaged by a supply ship last fall. With naturally declining production levels at Terra Nova, Hibernia, and White Rose, oil production in the industry is expected to be 29 per cent lower in 2016 than it was in 2011, and 46 per cent lower than at the industry’s peak in 2007.

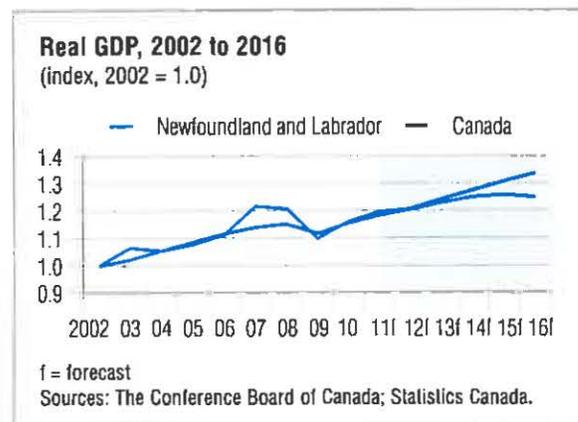


METAL MINING PICKING UP THE PACE

Newfoundland and Labrador’s metal mining sector is set to step up production and thereby offset some of the loss in economic growth due to the decline in oil production. The first phase of Iron Ore Company’s expansion in Labrador City was completed at the end of 2011. The second phase, which was suspended in 2008 due to the global financial crisis, resumed in early 2011 and is expected to be completed by the end of 2012. A third phase is planned, which will bring production to 26 million tonnes of concentrate per year.



Labrador Iron Mines is driving much of the growth in metal mining. The company’s James mine near Schefferville—part of the first phase of LIM’s Stage 1 expansion—began production last June and shipped out its first load of minerals (to China) last fall. In total, there are 20 iron ore deposits in various stages of production, development, or planning. The company is currently finalizing a plan to install a new processing line at its Silver Yard plant. The line is scheduled to be completed by the end of 2012 and will increase productive capacity by an additional 1 million tonnes per year. This year, LIM renewed a contract to use IOC’s transportation and marketing assets to ship and sell its iron. Also beginning production next year will be New Millennium Iron Corporation’s direct shipping ore project, for which began drilling last summer.



PRICES UP, LANDINGS DOWN

In 2011, fish harvesters and processors benefited from high prices for shrimp and snow crab, two of the industry's most important species. However, landings were still down by more than 10 per cent for all the major species of shellfish and groundfish, including shrimp, snow crab, surf clam, lobster, cod, and yellowtail flounder. The province's small but growing aquaculture industry continued to make gains in 2011, with salmon farming leading the way. Despite strong seafood prices this past year, the medium-term outlook for harvesters is weak. The fishing industry is expected to grow at an average annual compound rate of just 1 per cent from 2012 to 2016.

MANUFACTURING: SHIFTING FROM SEAFOOD TO MINERAL PROCESSING

The province's manufacturing industry received a big boost in the fourth quarter of 2011 as output from petroleum refining and iron ore processing increased substantially. The seafood processing industry, however, continued to struggle. With the industry hit by reduced quotas and lower landings, Ocean Choice International shut down its Marystown plant at the end of last year. Processing plant closures are likely to continue, as the industry is suffering from overcapacity. Overall, aside from the weak growth prospects in seafood processing, manufacturing in the province should do well in the near term. Increased output from the processed iron ore production in Labrador and the development of large-scale projects (which provide a lift to primary and fabricated metal product manufacturing) will allow the overall manufacturing sector to grow by 5.2 per cent in 2012. Next year, manufacturing output will grow by 12 per cent, as the hydromet facility at Voisey's Bay is scheduled to become operational. When it reaches full production, it will be able to produce 50,000 tonnes per year of finished nickel.

MINING AND OIL PROJECTS BOOST CONSTRUCTION

Construction has been one of Newfoundland and Labrador's fastest-growing industries over the past two

Coming to a Decision on Muskrat Falls



Nalcor Energy's Lower Churchill hydroelectric dam, which is still in the planning stages but could begin development soon, is currently the subject of lively debate in Newfoundland and Labrador. A big reason is the project's price tag—a hefty \$6.2 billion, divided among a hydroelectric power generating facility at Muskrat Falls (\$2.9 billion), a transmission link from Labrador to Newfoundland (\$2.1 billion), and a transmission link from Newfoundland to Nova Scotia (\$1.2 billion). Emera, a Nova Scotia-based private utility, would build the Newfoundland–Nova Scotia transmission link and provide \$600 million toward the construction of the Labrador–Newfoundland transmission link.

The provincial government commissioned Manitoba Hydro International (MHI) to provide a review of the project and a cost comparison with an alternative energy plan—the Isolated Island Option, of which the Holyrood thermal generating station plays a major role. MHI's role was to conduct a technical review of available studies and related information from Nalcor to determine if the degree of skill, care, and diligence required to meet utility best practices and procedures was met for the work done to date, and to carry out a financial review of the cumulative present worth analysis used to select the lowest-cost alternative.¹ MHI used data and assumptions provided by Nalcor. The report concluded that the Lower Churchill Falls project was a lower-cost option—by \$2.2 billion—when compared with the Isolated Island Option, based on a time horizon of 2067. The report warns that assumptions around load forecast, capital costs, and fuel prices were sensitive to change and could greatly affect the results of the forecast.

The province is keeping in mind the fact that the Upper Churchill contract between Quebec and Newfoundland is set to expire in 2041. At that point, the province will control all of the Upper Churchill's 5,200 megawatts of capacity and be able to use it for domestic needs or to export to other provinces (assuming that transmission links are in place), including Quebec should it choose to negotiate a new contract with Hydro Quebec.

1 Manitoba Hydro International, *Public Utilities Board Muskrat Falls Review (January 2012)*, www.pub.nf.ca/applications/MuskratFalls2011/MHIreport.htm.

years. After growing by more than 20 per cent in both 2010 and 2011, we expect an additional 5.6 per cent growth in 2012. Development of the hydromet facility at Voisey's Bay will reach full swing in 2012, in preparation for its opening in 2013. Vale is continuing to add workers at its construction site, where employment should peak at 2,000 workers this year. Tata Steel Minerals Canada, a joint venture between Tata Steel and New Millennium Iron, is in the middle stages of construction on its DSO mine near Schefferville, which will open at the end of 2012.

Major construction spending will also be taking place in the oil and gas industry this year. The Terra Nova FPSO will undergo 21 weeks of maintenance work, beginning this summer. In addition, two development wells will be drilled at Terra Nova while the FPSO is onshore. Meanwhile, development of the Hebron platform is ramping up. The Bull Arm fabrication site, where the Hibernia platform was built from 1991–97, will see construction of Hebron’s gravity-based structure (GBS) begin this year. Two modules are to be completed. Initially, both modules were to be completed at the Kiewit shipyard in Marystown. However, the company does not believe that there is sufficient capacity for both modules to be completed in Marystown, and is looking to move one of the contracts elsewhere.

After peaking in 2010 at over 3,600 units, housing starts are expected to fall over the next three years, as the market cools off to a level more consistent with long-term population and income growth. By 2014, housing starts will have fallen to about 2,700, and they will grow at a slow pace afterward.

INCOME AND EMPLOYMENT CONTINUE TO GAIN

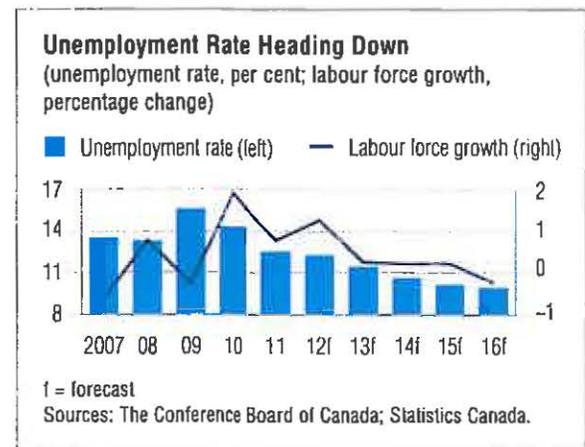
As growth in the construction and mining industries cools off after 2012, the steady gains in disposable income that Newfoundlanders have enjoyed will slow as well. Following increases of 4.7 per cent in 2011 and 4.3 per cent in 2012, disposable income will grow by 3.6 per cent or less each year until 2016. Changes in disposable income are driven by employment and wages. Because

the construction phase of large mining projects requires a larger workforce than the production phase, growth in total employment is expected to slow over the 2013–16 period as well. After growing by almost 10,000 jobs in 2011 and 2012, thanks in large part to 6,000 new jobs in the construction industry, the province will gain only 7,000 jobs over the 2013–16 period. The construction industry is expected to shed about 1,000 jobs over that timeframe. After growing by 5.4 per cent in 2011 (the fastest rate of any province), the forecast calls for wage growth of only 2.7 per cent by 2013 and only slightly higher growth over the rest of the forecast. The unemployment rate is expected to fall steadily during the forecast. An aging population will hold back growth in the labour force, allowing the unemployment rate to fall, even later in the forecast when employment growth is expected to slow. By 2016, we expect the unemployment rate to have fallen to 10 per cent.

Forecast Risks

- ◆ **Short term** Opposition to the Muskrat Falls project could delay its development, pushing down growth in the construction industry.
- ◆ **Medium term** Canada Fluorspar is moving forward with the development of its fluorspar deposit in St. Lawrence. A positive pre-feasibility study could lead to the opening of a new mine in the province.

Source: The Conference Board of Canada.



Key Economic Indicators: Newfoundland and Labrador

(forecast completed; February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	29,717	29,887	30,065	30,405	30,490	30,761	31,004	31,263	31,663	31,947	32,362	32,666	30,018	30,880	32,160
	1.0	0.6	0.6	1.1	0.3	0.9	0.8	0.8	1.3	0.9	1.3	0.9	6.5	2.9	4.1
GDP at basic prices (current \$)	27,780	27,944	28,107	28,421	28,469	28,703	28,908	29,130	29,494	29,759	30,139	30,409	28,063	28,802	29,950
	1.0	0.6	0.6	1.1	0.2	0.8	0.7	0.8	1.2	0.9	1.3	0.9	6.6	2.6	4.0
GDP at basic prices (constant 2002 \$)	17,835	17,875	17,937	18,011	17,968	18,020	18,055	18,089	18,277	18,338	18,476	18,555	17,915	18,033	18,412
	0.1	0.2	0.3	0.4	-0.2	0.3	0.2	0.2	1.0	0.3	0.8	0.4	3.1	0.7	2.1
Consumer Price Index (2002 = 1.0)	1.199	1.213	1.220	1.223	1.225	1.231	1.237	1.242	1.250	1.257	1.264	1.272	1.214	1.234	1.261
	1.5	1.2	0.5	0.3	0.2	0.5	0.5	0.4	0.6	0.6	0.6	0.6	3.4	1.7	2.2
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1.558	1.563	1.567	1.578	1.584	1.593	1.601	1.610	1.614	1.623	1.631	1.639	1.566	1.597	1.627
	1.0	0.4	0.2	0.7	0.4	0.5	0.5	0.6	0.2	0.6	0.5	0.5	3.4	2.0	1.8
Average weekly wages (\$, industrial composite)	763.2	775.7	792.5	813.7	814.7	816.5	822.6	828.4	834.0	839.9	846.0	852.2	786.3	820.5	843.0
	2.1	1.6	2.2	2.7	0.1	0.2	0.7	0.7	0.7	0.7	0.7	0.7	5.4	4.4	2.7
Personal Income (current \$)	17,938	18,240	18,324	18,741	18,968	19,137	19,312	19,485	19,668	19,858	20,052	20,246	18,311	19,225	19,956
	1.1	1.7	0.5	2.3	1.2	0.9	0.9	0.9	0.9	1.0	1.0	1.0	5.4	5.0	3.8
Personal disposable income (current \$)	14,427	14,636	14,644	14,954	15,110	15,223	15,356	15,488	15,609	15,745	15,894	16,042	14,665	15,294	15,822
	1.0	1.4	0.1	2.1	1.0	0.8	0.9	0.9	0.8	0.9	0.9	0.9	4.7	4.3	3.5
Personal savings rate	4.0	4.8	4.5	6.1	5.6	5.3	5.1	4.9	4.7	4.6	4.6	4.6	4.9	5.2	4.6
Population of labour force age (000s)	429	429	429	429	428	428	428	429	429	429	429	429	429	428	429
	0.1	0.0	-0.1	0.0	-0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.2	-0.1	0.1
Labour force (000s)	261	258	256	259	261	261	262	262	262	262	262	262	258	261	262
	1.3	-1.0	-0.7	1.1	0.8	0.2	0.1	0.1	0.0	0.1	0.0	0.0	0.8	1.3	0.3
Employment (000s)	228	227	223	225	228	229	230	230	231	232	232	233	226	229	232
	2.8	-0.3	-2.2	1.2	1.3	0.5	0.3	0.2	0.2	0.3	0.3	0.3	2.9	1.6	1.2
Unemployment rate	12.5	11.8	13.1	13.0	12.6	12.3	12.2	12.0	11.8	11.6	11.4	11.1	12.6	12.3	11.5
Retail sales (current \$)	7,769	7,769	7,842	7,895	8,041	8,127	8,209	8,284	8,357	8,436	8,518	8,599	7,818.7	8,165	8,478
	3.1	0.0	0.9	0.7	1.9	1.1	1.0	0.9	0.9	0.9	1.0	1.0	5.0	4.4	3.8
Housing starts (units)	3,651	3,619	3,480	3,201	3,416	3,176	3,056	3,000	2,898	2,817	2,746	2,744	3,488.0	3,162	2,801
	17.8	-0.9	-3.8	-8.0	6.7	-7.0	-3.8	-1.8	-3.4	-2.8	-2.5	-0.1	-3.3	-9.3	-11.4

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

End of Fiscal Stimulus Weakens GDP Growth

Highlights

- ◆ The public sector will contribute little to bottom-line growth over the near term.
- ◆ Strong agricultural commodity prices will help spur production in the agricultural sector.
- ◆ Manufacturing of durable products will bounce back, helped by improving business confidence in the United States.

Economic Indicators (percentage change)

	2011f	2012f	2013f
Real GDP	1.5	1.4	1.6
Consumer Price Index	2.9	1.4	2.1
Personal disposable income	2.5	2.8	2.8
Employment	1.7	1.5	0.7
Unemployment rate (level)	11.4	10.6	10.2
Retail sales	6.2	5.1	2.8
Wages and salaries per employee	2.2	2.1	2.2
Population	1.6	0.8	0.6

f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Government and Background Information

Premier	Robert Ghiz
Next election	2015
Population (2011Q4)	146,152
Government balance (2011-12)	-\$73.4 million

Sources: The Conference Board of Canada; Statistics Canada; P.E.I. Finance.

Cuts to public infrastructure spending will limit economic growth in Prince Edward Island over the near term. An improvement in manufacturing and in the primary sector will not be sufficient to lift economic activity over the next two years. The Island's real gross domestic product is forecast to advance by just 1.4 per cent in 2012 and 1.6 per cent in 2013.

Following a disappointing performance in 2011, the Island's fishing and agriculture industries are expected to improve this year. Weakness in potato production in Maine, New Brunswick, and Ontario may signal stronger market demand for P.E.I.'s potatoes. In addition, the soybean sector continues to grow, and favourable prices will encourage further acreage expansion in 2012. Manufacturing will post healthy growth this year, helped by increased agricultural output (which will boost food processing) as well as by a recovery in international demand for aerospace products.

Following three years of stimulus spending, the province is turning its focus to eliminating its deficit by 2014. And until that goal is achieved, fiscal tightening will result in much more conservative levels of capital infrastructure spending. Private investment will not fill in the gap left by the public sector. The exceptionally high levels of international migration that supported the Island's housing market in recent years will level off over the next couple of years, resulting in fewer housing starts. Furthermore, private non-residential investment is forecast to post no growth in 2012, as there are few large

private projects planned at this time. Reduced public and private capital investment will result in a 4 per cent decline in construction output in 2012, followed by another 9 per cent decline in 2013.

The provincial economy is forecast to add 1,050 jobs in 2012, helping to bring the unemployment rate down to 10.6 per cent. Consumer demand will remain healthy over the forecast, with retail sales gaining 5.1 per cent in 2012 and 2.8 per cent in 2013.

AGRICULTURE AND MANUFACTURING TO PERFORM BETTER

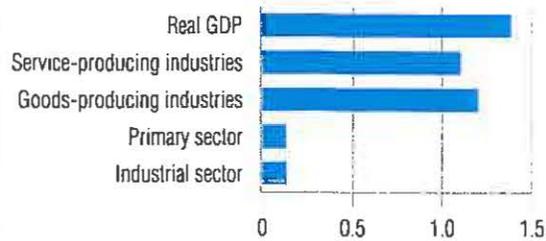
P.E.I.'s goods-producing industries are expected to perform better this year, expanding by 1.2 per cent led by gains in the primary sector and in manufacturing. After a weak performance in 2011 due to lower potato yields, the agriculture sector is expected to grow by a healthy 2.3 per cent this year thanks to several developments that favour P.E.I.'s potato industry. Yields have been average to poor elsewhere in North America, with weak production in Maine, New Brunswick, and Ontario. At the same time, demand in the U.S. has been strong. Despite a smaller harvest last year, P.E.I.'s potato farm cash receipts rose 26 per cent, and market pressures will likely push prices higher still, helping to spur production in the near term. In addition, soybean production, which grew five-fold over the last five years, will see further acreage expansion in 2012 due to strong demand and favourable prices.

Lobster fishing—the backbone of the fishing industry in P.E.I.—was hurt last spring by poor weather. Lobster landings were down 13 per cent in 2011, resulting in a 6 per cent decline in overall fishing and trapping output. The sector is expected to grow by only 0.6 per cent in 2012. Lobster prices remain relatively depressed, and the Prince Edward Island Fishermen's Association says rising operating costs continue to erode profits.

P.E.I.'s nominal manufacturing shipments were down 0.8 per cent last year, resulting in a flat performance in real terms. While shipments of non-durables (such as food) gained 5.7 per cent, shipments of durable items plunged 15.6 per cent. Manufacturing on the Island will

advance by 2.3 per cent in 2012 as the U.S. economy picks up. (See chart "Manufacturing Lifts Growth in the Goods Sector.") U.S. labour markets have shown marked improvement, finally hitting the "magic number" of 200,000 new jobs per month—the pace at which the

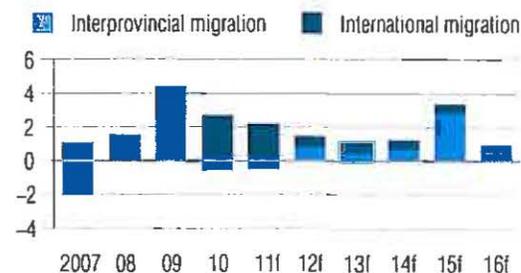
Contributions to Prince Edward Island Real GDP Growth, 2012
(by industry/sector, percentage point; GDP, per cent)



Note: "Primary" is the sum of agriculture, forestry, fishing and trapping, and mining sectors. "Industrial" is the sum of manufacturing, construction, and utilities sectors.

Sources: The Conference Board of Canada; Statistics Canada.

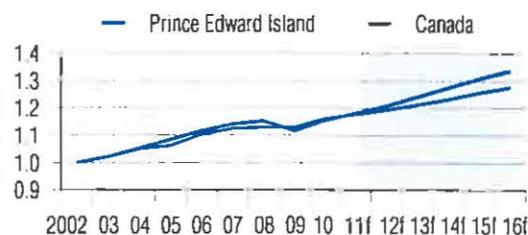
Sources of Migration
(net migration, 000s)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Real GDP, 2002 to 2016
(index, 2002 = 1.0)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.



What's Behind the Swift Increase in the Population?

Population dynamics have been changing on the Island. P.E.I.'s head count soared in 2010 and 2011—a first in four decades. The latest census shows the Island's population rising 3.2 per cent between 2006 and 2011, maintaining P.E.I.'s position as the fastest-growing province in the Atlantic region over the last half century. In fact, boosted mainly by a higher fertility rate and unprecedented international migration in recent years, the Island's population growth outpaced that of the region as a whole by 0.5 percentage points over the last decade. An impressive 10,700 immigrants have settled in P.E.I. since 2006, compared with roughly 1,300 between 2000 and 2005. Net international immigration peaked in 2010 when 2,695 people settled in the province. The Provincial Nominee Program has been successful in attracting more newcomers, predominantly from China in recent years. At the same time, relatively fewer people have been leaving the island for overseas. While net international migration will come down from the elevated levels of 2010 and 2011, it will nonetheless remain well above where it was prior to 2006, helping to keep the Island's population growth strong over the long term.

Prince Edward Island has been a net loser on the interprovincial migration front over the past decade, but its fortunes are expected to improve over the long term. The laid-back Island lifestyle and picturesque setting will increasingly attract retirees from other Canadian regions. An increased focus on sophisticated tourism and fine dining will further enhance the Island's cachet as a choice retirement destination for Canada's baby boomers and will thus help sustain the Island's population growth over the long term.

As a magnet for retirees, Prince Edward Island will get an economic boost from commercial activities that cater to seniors. However, the arrival of these older Canadians will put a strain on government finances as health care costs rise to meet the needs of an aging population. Today, Prince Edward Island ranks youngest in the Atlantic region in terms of the average age of its population. Health care spending as a percentage of total program spending is the lowest among the four Atlantic provinces. However, that enviable position will be challenged over the long term as more retirees relocate to the Island.

stubbornly high unemployment rate will finally start to fall. The steady employment gains will help boost U.S. consumer confidence and demand. Business confidence will rise in tandem with consumer demand, spurring private investment. As a result, P.E.I.'s exports of durable goods, such as aerospace products and machinery and equipment, are expected to make a comeback, and further improvements are expected in food manufacturing. Increased agricultural output will boost food processing, and the improvement in U.S. labour market will bolster demand there for premium foods, such as lobster. In addition, the Island's seafood-processing industry will see new investment. Two mussel processing plants—P.E.I. Mussel King and Confederation Cove Mussel—will share a publicly funded investment of almost \$1 million. The

new funding will go toward the development of more innovative mussel processing and grading equipment, which will result in higher efficiency and production going forward.

High expectations last year for the tourism industry did not pan out. A slower-than-expected economic recovery in the U.S., the devastating earthquake and tsunami in Japan, and poor weather over the summer season weighed on consumer confidence and willingness to travel. The number of overnight visits to P.E.I. was down 2.7 per cent in the first nine months of 2011. Continued strength in the Canadian dollar and high gasoline prices will deter some American travellers in the near term, and fiscal debt problems in several European countries will continue to weigh on consumer confidence. On the positive side, consumer confidence south of the border is expected to strengthen and visits from Japan should return to more normal levels. Therefore, total overnight visits are expected to increase by 1.1 per cent this year.¹

FISCAL RESTRAINT AND WEAKER POPULATION GROWTH HINDER INVESTMENT

P.E.I.'s government plans to return to fiscal balance by 2013–14. Canada's smallest province has the second-highest gross-debt-to-GDP ratio among the 10 provinces, and it must stabilize its debt level or run the risk of losing its single-A credit rating. In the short term, P.E.I.'s debt-to-GDP ratio will likely deteriorate further. The deficit for 2011–12 is expected to reach \$73.4 million—\$31 million higher than the original estimate. Attaining fiscal health will require the province to keep a tight grip on its program and capital spending. Looming cuts from the federal government will post an additional challenge. In his January "state of the province" address, Premier Robert Ghiz said that in the upcoming fiscal year the province will need to reduce its spending by 3 per cent in response to the federal cuts.² As part of the fiscal tightening, most provincial programs will be put under

1 Greg Hermus and Fares Bounajm, *Travel Markets Outlook: National Focus—Autumn 2011* (Ottawa: The Conference Board of Canada, 2012).

2 "P.E.I. to Cut Budget by 3 Per Cent," *CBC News*, January 31, 2012. www.cbc.ca/news/canada/prince-edward-island/story/2012/01/31/pei-state-province-ghiz-584.html (accessed on February 27, 2012).

review, and only the health department will see its spending rise this year. Consequently, non-commercial services will post only modest growth of 0.9 per cent this year, and public administration and defence will increase by just 0.4 per cent.

Public capital spending will also gradually return to its pre-stimulus level. The capital budget for 2012–13 has been set at \$101.2 million, representing a \$36.5-million reduction from last year’s level. Based on the five-year capital spending plan, capital spending is projected to start rising again only in 2016–17. Government infrastructure spending will reflect the changes in the provincial capital budget, declining until 2014 and then rising modestly for the rest of the forecast period. (See chart “Government Infrastructure Spending Easing.”) Private sector investment will not pick up all of the slack left by the shrinking contribution of the public sector. As a result, total investment spending will fall 2.2 per cent this year and 4.3 per cent in 2013. The Provincial Nominee Program boosted the Island’s population and housing market, but changes to the program will bring international migration down from the exceptionally high levels seen in the last few years. Under the new rules, the province can approve only up to 400 applicants per year. Lower levels of international migration will cool demand for housing and lead to a 1.7 per cent decline in residential investment in 2012. Furthermore, private non-residential investment will remain flat this year, since there are not many large private projects planned at this time. The construction industry will feel the pinch of reduced public and private capital investment, as output is expected to fall 4 per cent in 2012, followed by another 9 per cent decline in 2013.

RETAIL SALES TO REMAIN STRONG

Relative to the other Atlantic provinces, P.E.I. has a healthy job market. In total, 1,050 new jobs are expected to be created this year, helping to bring the unemployment rate down to 10.6 per cent. Job gains will be concentrated in the service sector, particularly in the commercial services, transportation, and warehousing industry, as well as in finance, insurance and real estate. Households on the Island will also see inflationary pressures subside. The consumer price index is expected to gain 1.4 per cent in 2012, well below the national rate of 1.9 per cent. Gains in personal income and increased tourism activity will keep consumer demand healthy over the near term. Retail sales will continue to advance at a good pace, gaining 5.1 per cent in 2012 and 2.8 per cent in 2013.

Forecast Risks

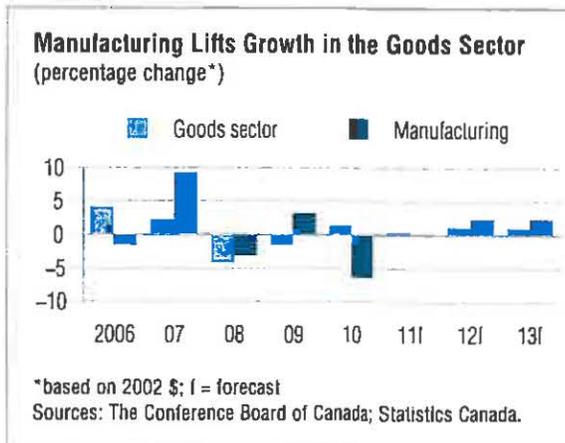
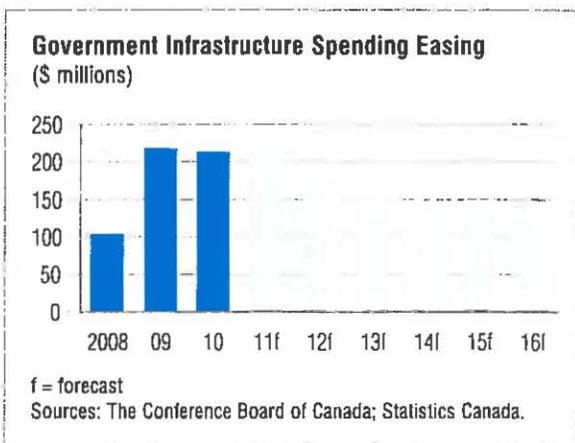


- ◆ A disorderly fiscal debt default in Greece could destabilize global financial systems and slow the economic recovery in the U.S., hurting P.E.I.’s manufacturing sector.



- ◆ Expansion into fast-growing markets, such as India and China, could strengthen P.E.I.’s food exports.

Source: The Conference Board of Canada.



Key Economic Indicators: Prince Edward Island

(forecast completed: February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	5,141	5,173	5,206	5,231	5,288	5,337	5,390	5,440	5,480	5,523	5,570	5,617	5,188	5,364	5,548
	1.1	0.6	0.6	0.5	1.1	0.9	1.0	0.9	0.7	0.8	0.8	0.8	3.5	3.4	3.4
GDP at basic prices (current \$)	4,718	4,749	4,779	4,798	4,846	4,887	4,932	4,974	5,006	5,045	5,085	5,124	4,761	4,910	5,065
	1.1	0.7	0.6	0.4	1.0	0.8	0.9	0.9	0.6	0.8	0.8	0.8	3.5	3.1	3.2
GDP at basic prices (constant 2002 \$)	3,916	3,930	3,943	3,940	3,961	3,977	3,996	4,013	4,028	4,043	4,057	4,073	3,932	3,987	4,050
	-0.1	0.3	0.3	-0.1	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.4	1.5	1.4	1.6
Consumer Price Index (2002 = 1.0)	1,211	1,235	1,236	1,238	1,240	1,245	1,249	1,254	1,262	1,269	1,277	1,284	1,230	1,247	1,273
	0.7	2.0	0.1	0.1	0.2	0.4	0.4	0.4	0.6	0.6	0.6	0.6	2.9	1.4	2.1
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1,205	1,208	1,212	1,218	1,224	1,229	1,234	1,240	1,243	1,248	1,253	1,258	1,211	1,232	1,250
	1.2	0.3	0.3	0.5	0.5	0.4	0.4	0.4	0.2	0.4	0.4	0.4	1.9	1.7	1.5
Average weekly wages (\$, industrial composite)	619.2	629.2	641.1	656.8	645.3	647.4	651.2	655.1	658.7	662.3	665.9	669.7	636.6	649.8	664.2
	-1.0	1.6	1.9	2.5	-1.7	0.3	0.6	0.6	0.6	0.5	0.6	0.6	3.8	2.1	2.2
Personal Income (current \$)	4,419	4,480	4,507	4,592	4,604	4,635	4,672	4,709	4,741	4,782	4,821	4,859	4,499	4,655	4,801
	-0.8	1.4	0.6	1.9	0.3	0.7	0.8	0.8	0.7	0.9	0.8	0.8	3.2	3.5	3.1
Personal disposable income (current \$)	3,571	3,612	3,622	3,687	3,689	3,710	3,738	3,767	3,787	3,816	3,846	3,876	3,623	3,726	3,831
	-0.9	1.2	0.3	1.8	0.1	0.6	0.8	0.8	0.5	0.8	0.8	0.8	2.5	2.8	2.8
Personal savings rate	-7.8	-8.6	-9.6	-8.8	-9.4	-9.7	-10.0	-10.2	-10.4	-10.5	-10.6	-10.6	-8.7	-9.8	-10.5
Population of labour force age (000s)	118	119	120	120	120	120	120	120	121	121	121	121	119	120	121
	0.6	0.5	0.4	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	1.8	0.8	0.8
Labour force (000s)	80	81	82	82	82	82	82	82	82	82	82	82	81	82	82
	-0.1	1.4	0.8	0.2	-0.3	-0.1	0.1	0.0	0.0	0.2	0.1	0.1	1.8	0.5	0.3
Employment (000s)	71	72	72	73	73	73	73	73	73	73	74	74	72	73	73
	1.0	1.1	1.1	0.4	0.1	0.1	0.2	0.2	0.1	0.3	0.2	0.1	1.7	1.5	0.7
Unemployment rate	11.4	11.7	11.4	11.2	10.9	10.6	10.6	10.4	10.3	10.2	10.2	10.2	11.4	10.6	10.2
Retail sales (current \$)	1,817	1,859	1,900	1,939	1,952	1,967	1,983	1,997	2,007	2,022	2,037	2,051	1,879	1,975	2,030
	2.4	2.4	2.2	2.1	0.6	0.8	0.8	0.7	0.5	0.8	0.7	0.7	6.2	5.1	2.8
Housing starts (units)	784	773	1,160	1,044	858	814	785	773	736	731	727	711	940	808	726
	-13.8	-1.4	50.1	-9.9	-17.8	-5.1	-3.6	-1.5	-4.8	-0.7	-0.5	-2.3	24.3	-14.1	-10.0

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

New Natural Gas Production Provides Boost to GDP

Highlights

- ◆ Natural gas production from the new Deep Panuke offshore field will help boost real GDP growth.
- ◆ Construction output will fall this year as work on the new offshore natural gas platform draws to a close.
- ◆ A recovering labour market and lower inflationary pressures will help spur consumer demand in the near term.

Economic Indicators (percentage change)

	2011f	2012f	2013f
Real GDP	1.7	1.5	2.3
Consumer Price Index	3.8	1.5	2.2
Personal disposable income	2.3	2.2	3.5
Employment	0.0	1.2	1.6
Unemployment rate (level)	8.9	8.1	7.8
Retail sales	3.1	3.2	3.9
Wages and salaries per employee	3.0	2.1	2.4
Population	0.1	0.2	0.2

f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Government and Background Information

Premier	Darrell Dexter
Next election	2014
Population (2011Q4)	946,378
Government balance (2011-12)	-\$365.2 million

Sources: The Conference Board of Canada; Nova Scotia Department of Finance.

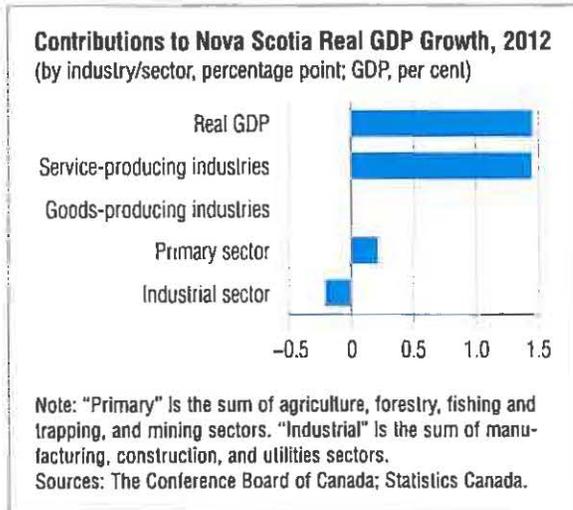
While soaring inflation and lacklustre labour demand constrained the pace of economic growth last year, Nova Scotia's economy will have to wait for better times. Limited private and public investment, government austerity measures, and weakness in the forestry sector are forecast to limit real GDP growth to a modest 1.5 per cent in 2012.

The completion of construction work on Encana's Deep Panuke offshore natural gas field, the projected drop in the construction of new homes, and a decline in public infrastructure spending are expected to negatively impact the construction industry over the next two years. However, new natural gas production, which is expected to begin this summer at Deep Panuke, will help offset the weak investment spending. Shell Canada's return to the province for deepwater exploratory oil drilling is welcome news, as well. This new initiative will be the first major exploration project in the province in nearly a decade.

The multi-decade, \$25-billion contract to build combat ships for the Canadian navy will bring benefits to the province and, more specifically, to the manufacturing sector, as work starts up over the next two years and continues to build over the medium term. Ongoing maintenance and repair of the frigates will also boost shipbuilding activity in the province. The start-up of operations once again at the former NewPage Port Hawkesbury paper mill plant, expected in 2013, will help to lift overall manufacturing output by 3.6 per cent in 2013, following more modest growth of 1.9 per cent this year.

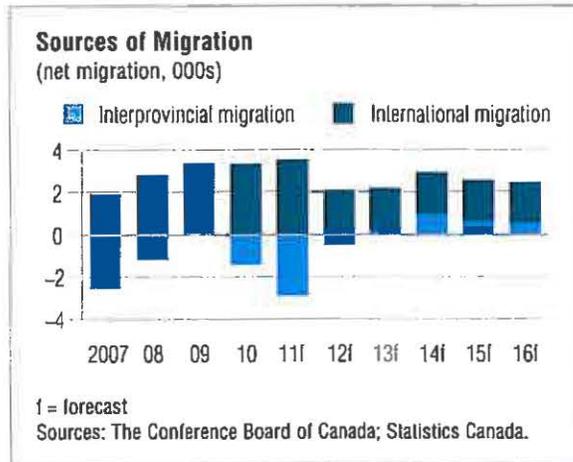
The job market is projected to improve over the near term, helping to reduce the unemployment rate to 7.8 per cent by 2013. As the job market recovers and inflationary pressures subside, real consumer demand is expected to improve. However, the overall outlook for the services-

producing industries is modest in the short term, as the provincial government cuts back on spending in a bid to eliminate its deficit. Overall, real GDP is forecast to gain 2.3 per cent in 2013.

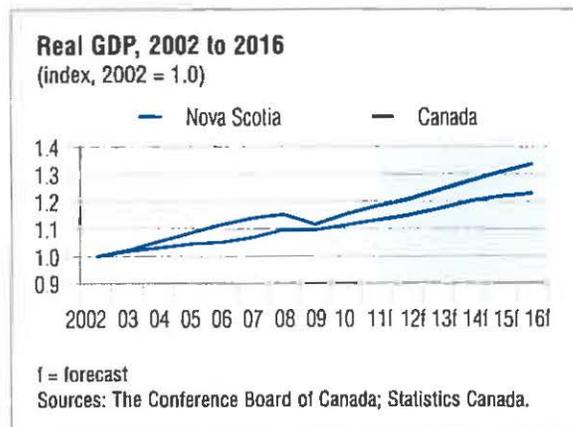


PRIMARY RESOURCE SECTOR OUTLOOK

The mining industry will get a boost this year as natural gas begins to flow from the Deep Panuke offshore field. Over the past three years, natural gas production at the Sable natural gas field declined by an average of 15.2 per cent per year. But with the new capacity coming online at Deep Panuke, overall mining output is expected to increase by an annual average of 13.6 per cent over the next two years, up from a 4.3 per cent decline estimated for last year. (See chart "Encana's Deep Panuke Will Boost Mining Output.") In addition to increased natural gas production, exploration drilling activity is forecast to pick up over the medium term as Shell Canada returns to the province. Shell Canada is planning to spend \$970 million over six years to explore the Scotian Shelf.



Outside the energy sector, development work will begin on Atlantic Gold's Touquoy property in the Musquodoboit Valley this year. The mine, which will process 1.5 million tonnes of ore per year, is expected to create 100 jobs for local residents, who were devastated by the shutdown of the MacTara lumber mill and Enligna Canada's wood pellet plant that were the source of the community's prosperity.



Forestry output will continue to advance, albeit at a slow pace of 2.4 per cent a year over the next two years, as projections show U.S. housing starts falling significantly below demographic requirements over the near term.

The agriculture industry's prospects over the near term are bright, thanks to the expanding aquaculture industry and more stability in the livestock subsectors. Cooke Aquaculture is expanding its farmed-salmon operations in the St. Mary's Bay area with a new 84-hectare farm. The efforts will bear fruit in 2013, allowing the overall agriculture industry to expand by 1.8 per cent, up from just 0.1 per cent this year. Only a moderate gain of 1.5 per cent is expected in the fishing, hunting, and trapping

industry over the next two years as lobster fishermen continue to struggle with low prices and high energy costs.

MODEST GROWTH FOR MANUFACTURING

The manufacturing industry is estimated to have expanded by 3.4 per cent last year, helped by the food processing, tire, and rubber industries. However, financial problems in the pulp and paper industry hit the sector last year. In particular, NewPage's paper plant in Port Hawkesbury shut down, affecting 600 employees and 400 loggers. The plant has been auctioned off and the new owner is currently negotiating with the provincial government, the province's electricity provider, and the mill workers union. It is expected that the new owner will bring the plant into production next year. Bower's Mersey plant in Brooklyn has laid off half its employees, as it faces the same financial challenges. Overall, manufacturing is forecast to gain just 1.9 per cent this year.

While the forest product subsector poses a challenge for the manufacturing industry, other segments are expected to keep the industry afloat. For instance, tire exports from the province are expected to remain strong in the near term as auto sales in the U.S. continue to make gains.

Work is continuing at the Halifax Shipyard on the \$194-million contract to build nine new patrol vessels for the Canadian Coast Guard and on the \$549-million contract to repair and maintain seven of Canada's navy frigates. These projects will help support growth in real manufacturing output in 2012 and in 2013. Even better news for the industry—the shipyard was recently awarded a contract worth \$25 billion to build 21 combat vessels for the Royal Canadian Navy. Work on the ships will start to get under way next year before ramping up in the following years. All in all, manufacturing is forecast to advance 3.6 per cent in 2013.

CONSTRUCTION OUTLOOK

After expanding at an average annual pace of 6.1 per cent over the past three years, the construction industry will see a decline this year, now that construction work on the \$960-million Deep Panuke offshore natural gas

Scotian Shelf Activity Bounces Back To Life



A breath of fresh air blew through Nova Scotia's offshore petroleum and gas industry early this year with Shell Canada's announcement that it plans to spend \$970 million on exploration activities in the region over the next six years. There was high interest in the Scotian Shelf from 1998 to 2001, but that interest began to fizzle out as many exploratory wells came up dry and reserve estimates of the Sable Island natural gas field were reduced significantly. Issuance of exploration licenses bottomed out in 2003, and many companies—including Shell Canada—allowed their licences to expire. The record number of companies giving up their exploration licences during this period when crude prices were soaring sent shivers through the province and prompted the government to take action.

With money accumulating in the forfeiture account from the expired licenses, the government commissioned a \$15 million study to map the complex geology and slope of the Scotian Shelf. The goal was to show the area's potential and to attract explorers back to the province. The *Fair Play Analysis* study details the region's ocean floor plate tectonics, biostratigraphy, geochemistry, seismic reprocessing, salt structural interpretation, and reservoir quality. It also shed new light on the size of the potential hydrocarbons under the province's ocean floor—an estimated 121 trillion cubic feet of natural gas reserves and 8 billion barrels of oil, far greater than previously anticipated. The report, made available to mining firms, is serving its purpose. More firms have returned to Nova Scotia's offshore auction block in a bid to acquire licences to explore the Scotian Shelf. With key petroleum players coming back to the region, crude prices averaging over US\$100 per barrel, and natural gas prices expected to slowly recover, Nova Scotia's offshore petroleum industry will be more vibrant in the coming years.

project wrapped up in late 2011. In addition, the expected drop in federal infrastructure spending will whittle away at any construction gains the industry hoped to get from the provincial government's plans to increase its capital spending by 6.5 per cent in fiscal 2012–13. Construction output is forecast to decline by 6.5 per cent in 2012.

The construction industry is forecast to bounce back in 2013, thanks to a 13 per cent increase in business investment, primarily a result of the \$970-million offshore drilling exploration plan proposed by Shell Canada. In addition, expansion work at the Halifax Shipyard to accommodate the construction of the combat ships will also add to business investment. As well, there are other medium-sized construction projects under way that are spread out over several years but still provide a significant boost to the construction outlook.

The good news on the business investment front will, however, be offset somewhat by the expected decline in residential investment over the near term. Housing starts have been elevated and are set to ease to levels more in line with the demographic makeup of the province. The drop in housing starts will slow growth in residential investment to an average of 0.7 per cent over the next two years. That compares with average growth of 7.8 per cent over the last decade. The declines in government and residential investment are expected to dampen the strong performance in business investment and thus hold growth in real construction output to just 2.3 per cent next year.

DOMESTIC DEMAND OUTLOOK

The job market, which has been on a roller-coaster ride over the past two years, appears to have stabilized and is poised to add 12,800 positions to payrolls over the next two years. This will help lower the unemployment rate from 8.4 per cent at the beginning of this year to an average of 7.8 per cent in 2013. (See chart “Unemployment Rate Heading Lower.”)

With the job market improving and inflationary pressures subsiding, consumer demand is expected to improve this year. Wholesale and retail trade, which are estimated to have contracted by 2.7 per cent last year, are forecast to expand by an average of 2 per cent over the next two years. In addition, the versatile finance, insurance, and real estate industry will continue to forge ahead, as existing businesses expand their operations. TD Insurance is expanding its Halifax operations with an additional 140 jobs. And

Citco Fund Services, a global hedge fund administrator, has leased two additional floors at its offices in downtown Halifax to expand its operations, which could result in 200 new positions. These expansions will help lift growth in the finance, insurance, and real estate industry by 2.4 per cent annually over the next two years.

While private domestic spending is expected to improve over the short term, public expenditures are projected to advance slowly as the federal and provincial governments implement fiscal restraint measures aimed at reining in their deficits and controlling their debt. Real output in the public sector—including public administration, defence, education, health care, and social services—will increase by just 0.9 per cent per year over 2012–13.

Forecast Risks



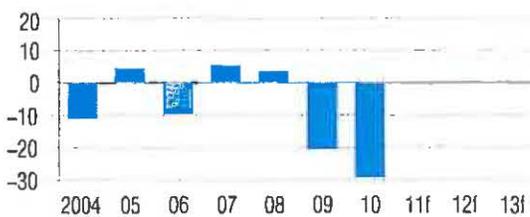
- ◆ The manufacturing outlook could improve this year if the new owner of the former NewPage plant is able to resume production earlier than forecast.



- ◆ If a government review approves hydraulic fracturing, it could pave the way for onshore shale natural gas production in the province.

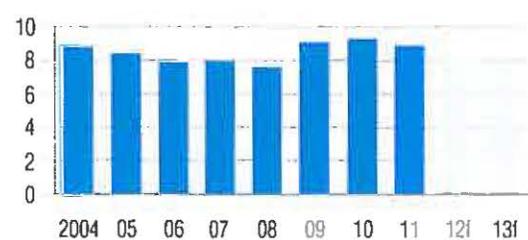
Source: The Conference Board of Canada.

New Gas Production Energizes GDP Growth
(mining output, percentage change*)



*based on 2002 \$
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Unemployment Rate Heading Lower
(per cent)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Key Economic Indicators: Nova Scotia

(forecast completed: February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	37,545	37,809	38,016	38,261	38,732	39,135	39,564	40,033	40,579	41,018	41,474	41,919	37,907	39,366	41,247
	1.0	0.7	0.5	0.6	1.2	1.0	1.1	1.2	1.4	1.1	1.1	1.1	4.3	3.8	4.8
GDP at basic prices (current \$)	34,230	34,483	34,666	34,866	35,273	35,612	35,977	36,382	36,865	37,273	37,669	38,056	34,561	35,811	37,466
	1.0	0.7	0.5	0.6	1.2	1.0	1.0	1.1	1.3	1.1	1.1	1.0	4.3	3.6	4.6
GDP at basic prices (constant 2002 \$)	27,672	27,748	27,777	27,773	27,962	28,075	28,202	28,346	28,571	28,715	28,857	29,001	27,742	28,146	28,786
	0.8	0.3	0.1	0.0	0.7	0.4	0.5	0.5	0.8	0.5	0.5	0.5	1.7	1.5	2.3
Consumer Price Index (2002 = 1.0)	1.212	1.229	1.233	1.235	1.238	1.243	1.249	1.255	1.262	1.270	1.277	1.285	1.227	1.246	1.274
	1.5	1.4	0.3	0.2	0.2	0.5	0.5	0.4	0.6	0.6	0.6	0.6	3.8	1.5	2.2
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1.237	1.243	1.248	1.255	1.261	1.268	1.276	1.284	1.290	1.298	1.305	1.312	1.246	1.272	1.301
	0.2	0.5	0.4	0.6	0.5	0.6	0.6	0.6	0.5	0.6	0.6	0.5	2.5	2.1	2.3
Average weekly wages (\$, industrial composite)	693.5	686.9	691.3	693.1	700.1	704.2	708.7	713.1	717.6	722.0	726.5	731.1	691.2	706.5	724.3
	-0.9	-1.0	0.6	0.3	1.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	2.2	2.5
Personal Income (current \$)	32,474	32,820	32,914	33,197	33,403	33,641	33,930	34,215	34,587	34,928	35,267	35,597	32,851	33,797	35,095
	-0.6	1.1	0.3	0.9	0.6	0.7	0.9	0.8	1.1	1.0	1.0	0.9	2.5	2.9	3.8
Personal disposable income (current \$)	26,192	26,412	26,386	26,588	26,697	26,850	27,067	27,283	27,536	27,779	28,038	28,289	26,394	26,974	27,911
	-0.1	0.8	-0.1	0.8	0.4	0.6	0.8	0.8	0.9	0.9	0.9	0.9	2.3	2.2	3.5
Personal savings rate	-1.5	-2.6	-3.3	-1.8	-2.3	-2.6	-2.9	-3.1	-3.3	-3.4	-3.4	-3.4	-2.3	-2.7	-3.4
Population of labour force age (000s)	779	779	779	779	780	780	781	781	782	783	783	784	779	781	783
	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.2	0.3
Labour force (000s)	500	494	498	495	496	498	499	500	502	504	505	507	497	498	505
	0.5	-1.2	0.8	-0.6	0.2	0.3	0.3	0.2	0.4	0.3	0.3	0.3	-0.4	0.4	1.2
Employment (000s)	453	450	453	454	456	457	459	460	462	464	466	468	453	458	465
	1.0	-0.7	0.8	0.1	0.4	0.4	0.3	0.3	0.5	0.4	0.4	0.4	0.0	1.2	1.6
Unemployment rate	9.3	9.0	8.9	8.3	8.2	8.1	8.1	8.0	7.9	7.8	7.7	7.7	8.9	8.1	7.8
Retail sales (current \$)	12,726	13,075	13,236	13,138	13,287	13,402	13,528	13,644	13,788	13,922	14,057	14,187	13,044	13,465	13,988
	-0.3	2.7	1.2	-0.7	1.1	0.9	0.9	0.9	1.1	1.0	1.0	0.9	3.1	3.2	3.9
Housing starts (units)	4,109	4,215	5,422	4,830	4,045	3,748	3,596	3,568	3,390	3,383	3,261	3,167	4,644	3,739	3,300
	7.7	2.6	28.6	-10.9	-16.3	-7.3	-4.1	-0.8	-5.0	-0.2	-3.6	-2.9	7.8	-19.5	-11.7

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; GMHC Housing Time Series Database.

Mining Sector to Prop Up Economy

Highlights

- Base metal mining and potash extraction will help lift real GDP in 2013.
- The construction sector faces weak prospects over the near term.
- The job market recovery will continue over 2012–13, helping to spur consumer demand.

Economic Indicators

(percentage change)

	2011f	2012f	2013f
Real GDP	0.9	1.5	1.8
Consumer Price Index	3.5	1.6	2.1
Personal disposable income	2.5	2.7	3.2
Employment	-1.2	0.9	1.3
Unemployment rate (level)	9.5	9.3	8.7
Retail sales	5.0	4.3	3.7
Wages and salaries per employee	5.3	2.3	2.3
Population	0.3	0.2	0.3

f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Government and Background Information

Premier	David Alward
Next election	2014
Population (2011Q4)	755,810
Government balance (2011–12)	-\$471.1 million

Sources: The Conference Board of Canada; New Brunswick Finance.

New Brunswick's economy struggled last year, as high inflation and record job losses hampered consumer demand and weakened the domestic economy. In addition, fiscal austerity and limited private investment combined to limit real gross domestic product growth to a meagre 0.9 per cent. However, some of the headwinds have moderated. The job market is recovering and inflationary pressures have subsided, setting the stage for an improving economic performance this year. Real GDP is forecast to advance by 1.5 per cent.

The forestry, mining, and manufacturing sectors are expected to progress at a healthy pace over the forecast period. Expansion work under way at PotashCorp's Sussex mine and processing plant is expected to be completed by the end of this year, with potash production beginning next year. The additional potash mining capacity will help lift overall mining GDP growth to 39.4 per cent in 2013 in spite of the closure of the Brunswick Mine.

After heavy losses in the first half of last year, the job market began to turn around toward the end of the year. More hiring is expected in the coming months as industrial production and service sector performance both improve, helping to reduce the unemployment rate to 8.7 per cent by the end of 2013. However, the large number of people still unemployed will restrain consumer spending this year.

Limited private and public investment will cause real construction output to falter over the near term. In addition, with the provincial government firmly focused on

eliminating the deficit within the next four years, the government's contribution to bottom-line growth will be limited over the next two years. As a result, real GDP is forecast to advance at a moderate pace of 1.8 per cent next year.

RESOURCE SECTOR OUTLOOK

Strong demand from emerging economies will keep commodity prices at profitable levels over the near term and help stimulate the province's resource sector. The \$1.7-billion expansion at the PotashCorp mine and processing plant near Sussex, which is currently under way, will increase annual potash production capacity by 2 million tonnes when operations begin in 2013.

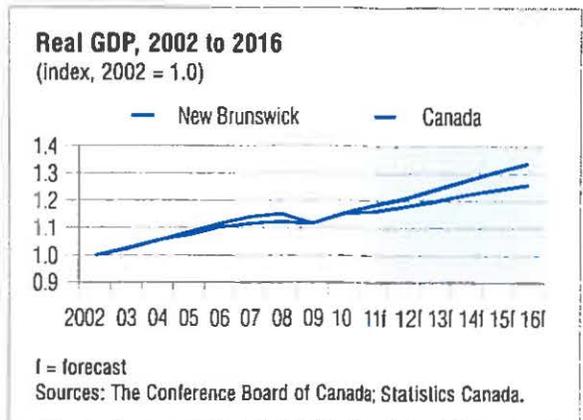
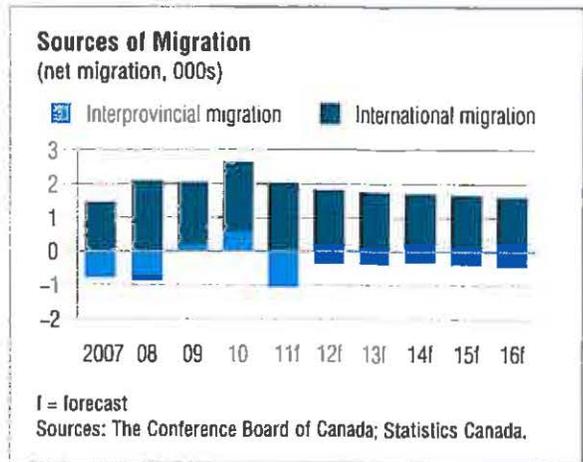
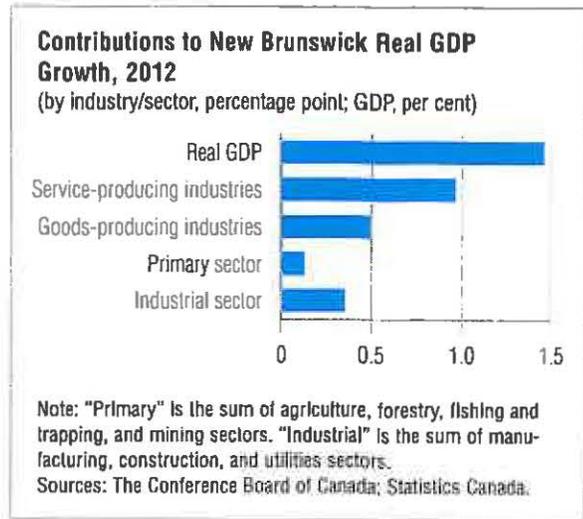
The province's base-metal mining industry has struggled over the last decade as ore (zinc, lead, copper, and silver) depletion at the Brunswick Mine accelerated. Today, the mine's resources are almost depleted, and the site is expected to shut down next year. However, some of the mine's workers may be able to find jobs at two new mines expected to open in the next two years.

Numerous exploration and prospecting projects currently under way in the province could lead to further mine developments. Overall, the mining industry is expected to expand by 6.4 per cent this year and 39.4 per cent in 2013 as production begins at PotashCorp's expanded potash facility near Sussex. (See chart "Mining a Bright Spot in the Economy.")

Strong agricultural prices will fuel growth in the agriculture sector. In addition, Ocean Spray is expected to crank up cranberry production at its massive Rogersville farm. Real GDP in the agriculture sector will rise by an annual average of 2.1 per cent over 2012–13. The forestry sector will perform better over the next two years as lumber prices improve and new home construction starts to pick up south of the border. Real output in the forestry sector is expected to expand by an average of 4.9 per cent over the next two years.

MANUFACTURING TO ADVANCE AT MODERATE PACE THIS YEAR

After rebounding from the 2008–09 recession, real manufacturing shipments for food and durable goods fell last



Recent Population Gains Likely to Be Temporary

New Brunswick's demographic recovery, which began in 2008, continues. According to the 2011 Census, the province's population increased by 2.9 per cent from its 2006 level, making it the second-fastest growing province in the Atlantic region. It was also the fastest growth the province has recorded since the 1976 census.

After reaching a high of 752,358 in 1997, New Brunswick's population began to decline, falling by an average of 0.1 per cent per year to reach 745,419 in 2007. However, things began to change when the provincial government renewed its Provincial Immigration Nominee Program in 2005 and began to accept more international immigrants into the province. Net international immigration, which averaged 658 a year over 2001–06, more than tripled to an average of about 2,000 over 2008–11, and that helped reverse the decline in New Brunswick's population. In fact, the stronger international immigration was responsible for about 84 per cent of the population growth during that period. Still, while the nominee program is helping to attract more immigrants, they still accounted for only 0.2 per cent of the total population over that period on average, and this level is expected to remain constant over the long term.

While international migration at current levels would have only a minimal impact on total population over the long term, the aging of the population and the exodus of young New Brunswickers to other parts of Canada are expected to have profound negative consequence. New Brunswick's population is the second oldest in the Atlantic region, and it is expected to remain so in the long term. With a fertility rate of 1.6 (well below the 2.1 needed simply to maintain the population at current rates through natural means) and with the continuing exodus of young New Brunswickers to other part of Canada, the long-term prognosis is that New Brunswick's population will begin to decline again starting in 2023. To avoid a population decline, the province would have to boost net international migration significantly—to an average of 10,600 a year if the natural rate of population increase and net inter-provincial migration continue on their projected paths.

year. Though exports of refined petroleum products soared more than 29 per cent, its lower value-added content yielded only a modest gain of 1.5 per cent for the overall manufacturing industry in 2011.

Growth in the manufacturing industry will continue to be modest in 2012. Moderate gains from food processing will help real manufacturing output expand by 1.3 per cent this year and will continue to play a key role in the industry's advancement next year. As well, growth is expected to pick up, albeit modestly, in the U.S.—the province's main trading partner. Overall, manufacturing output is forecast to expand 2.8 per cent next year. In line with the soft recovery south of the border, expansion in the

province's forestry product subsectors will be slow. New home construction in the United States is projected to rise at a much slower pace than would normally be expected given the demographic requirements. In addition, advances in technology are slowing down demand for pulp and paper. As a result, output from New Brunswick's pulp and paper mills will expand at only a moderate pace.

The province's manufacturing workers lived through tough times over the last seven years as employers trimmed labour costs to stay competitive. While the industry has started to recoup some of the 10,800 jobs it lost between 2004 and 2010, it is safe to predict that more than half of those jobs are not coming back—at least not in the next five years. The industry has gone through a period of restructuring, retooling, and efficiency improvements that allow it to produce more with fewer workers. However, the elevated Canadian dollar and high energy prices still pose significant threats to manufacturers' bottom-line results.

CONSTRUCTION OUTLOOK

The construction industry will continue to suffer over the medium term. Housing starts tumbled 15.8 per cent last year and more contractions are expected over the next few years. The contractions follow a decade of strong growth in housing demand, which builders rushed to meet. However, construction eventually began to outstrip demand and will have to once again align with the demographic fundamentals. Thus housing starts are projected to decline by an average of 9.6 per cent over the next two years, falling to around 2,800 units in 2013, down from 3,452 units in 2011. As a result of the weakness in new home construction, residential investment will advance by just 0.7 per cent a year over the next two years.

As well, with work on PotashCorp's \$1.7-billion expansion of its Sussex facility drawing to a close, business investment has dried up. And with no major investment on the horizon, business investment is forecast to drop by an average of 8.7 per cent a year over the next two years. Public infrastructure spending will remain flat over that period. Work on the twinning of Route 1 to create a four-lane highway will continue, but the end of the federal Economic Action Plan will help to keep a lid on government infrastructure spending. Real construction

output is forecast to decline by an average of 5.4 per cent over the next two years as a result of weakness in residential and business investment.

DOMESTIC DEMAND OUTLOOK

New Brunswick consumers were dealt a double whammy last year, as a weak job market and rising energy and food prices chipped away at their purchasing power. On the heels of the disappearance of 3,400 jobs in 2010, another 4,200 disappeared in 2011—one of the bleakest years for the job market in over two decades. Encouragingly, the economy appears to have finally stopped hemorrhaging jobs toward the end of last year. Seven hundred new positions were added at the beginning of this year, and the positive hiring trend will continue in the coming months as economic conditions here and in the U.S. improve. This will help nudge the unemployment rate down from 9.5 per cent this past January to an average of 8.7 per cent in 2013. (See chart “Unemployment Rate to Decline.”)

Even though the job market is expected to improve, the high number of people still unemployed will keep household spending in check this year. However, as the job market continues to improve next year, consumer spending will advance at a good pace, helping to lift growth in real wholesale and retail output from a mere 0.5 per cent this year to 2.5 per cent next year. Restaurants and the entertainment and recreation sector, as well as personal and miscellaneous services, are all expected to advance

at a modest pace this year but to pick up speed next year. However, professional and technical services are expected to do well over each of the next two years as UPS expand its operations in Moncton, Fredericton, and Saint John. Overall, the commercial services industry will expand by 2 per cent this year and by a further 2.3 per cent next year.

The provincial government is keeping a tight rein on its finances as it attempts to wrestle down the deficit, which has deteriorated since the government released its 2011–12 budget back in March 2011. The government has implemented a slew of cost-cutting initiatives and efficiency measures to help control spending. Given the fiscal straits the province finds itself in, real output in the public sector is expected to advance only modestly, averaging growth of 0.9 per cent per year over the next two years.

Forecast Risks



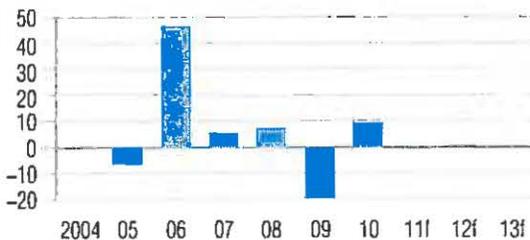
- ◆ If the labour market recovery is interrupted, consumer demand could remain depressed.



- ◆ Confirmation of recoverable onshore shale natural gas reserves could bring huge benefits to the province.

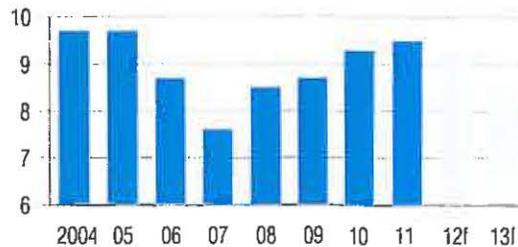
Source: The Conference Board of Canada.

Mining a Bright Spot in the Economy
(mining output, percentage change*)



*based on 2002 \$; f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Unemployment Rate to Decline
(per cent)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Key Economic Indicators: New Brunswick

(forecast completed: February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	30,404	30,586	30,745	30,838	31,252	31,584	31,908	32,222	32,520	32,830	33,174	33,530	30,643	31,741	33,013
	3.1	0.6	0.5	0.3	1.3	1.1	1.0	1.0	0.9	1.0	1.0	1.1	4.1	3.6	4.0
GDP at basic prices (current \$)	28,016	28,189	28,331	28,391	28,759	29,045	29,323	29,591	29,844	30,131	30,432	30,746	28,232	29,179	30,288
	3.3	0.6	0.5	0.2	1.3	1.0	1.0	0.9	0.9	1.0	1.0	1.0	4.0	3.4	3.8
GDP at basic prices (constant 2002 \$)	22,183	22,197	22,208	22,126	22,347	22,460	22,562	22,645	22,741	22,836	22,946	23,070	22,179	22,503	22,898
	1.0	0.1	0.0	-0.4	1.0	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.9	1.5	1.8
Consumer Price Index (2002 = 1.0)	1,183	1,201	1,206	1,208	1,211	1,216	1,221	1,226	1,234	1,241	1,248	1,255	1,200	1,218	1,244
	1.5	1.6	0.4	0.2	0.2	0.4	0.4	0.4	0.6	0.6	0.6	0.6	3.5	1.6	2.1
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1,263	1,270	1,276	1,283	1,287	1,293	1,300	1,307	1,312	1,319	1,326	1,333	1,273	1,297	1,323
	2.3	0.6	0.5	0.6	0.3	0.5	0.5	0.5	0.4	0.5	0.5	0.5	3.1	1.9	2.0
Average weekly wages (\$, industrial composite)	694.9	683.9	681.5	688.8	695.4	699.3	703.6	707.8	711.9	716.0	720.3	724.5	687.3	701.5	718.2
	-0.2	-1.6	-0.4	1.1	1.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6	1.1	2.1	2.4
Personal Income (current \$)	25,583	25,861	26,012	26,384	26,412	26,591	26,831	27,062	27,313	27,530	27,786	28,023	25,960	26,724	27,663
	-0.4	1.1	0.6	1.4	0.1	0.7	0.9	0.9	0.9	0.8	0.9	0.9	3.1	2.9	3.5
Personal disposable income (current \$)	20,672	20,854	20,899	21,177	21,233	21,348	21,532	21,709	21,876	22,029	22,226	22,408	20,901	21,455	22,135
	-0.5	0.9	0.2	1.3	0.3	0.5	0.9	0.8	0.8	0.7	0.9	0.8	2.5	2.7	3.2
Personal savings rate	3.0	2.7	2.8	3.5	3.0	2.6	2.4	2.2	2.0	1.9	1.9	1.9	3.0	2.5	1.9
Population of labour force age (000s)	619	619	620	620	620	621	622	622	623	623	624	624	619	621	623
	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.3	0.3
Labour force (000s)	391	389	387	390	390	391	392	393	393	394	394	395	389	392	394
	-0.4	-0.4	-0.6	0.8	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	-0.9	0.7	0.6
Employment (000s)	353	351	350	353	353	355	356	357	358	359	361	362	352	355	360
	0.0	-0.6	-0.2	0.7	0.2	0.3	0.4	0.3	0.3	0.2	0.4	0.3	-1.2	0.9	1.3
Unemployment rate	9.5	9.7	9.4	9.5	9.5	9.4	9.2	9.1	8.9	8.8	8.6	8.4	9.5	9.3	8.7
Retail sales (current \$)	10,968	11,079	11,121	11,324	11,438	11,539	11,660	11,768	11,873	11,966	12,080	12,183	11,123	11,601	12,025
	2.7	1.0	0.4	1.8	1.0	0.9	1.0	0.9	0.9	0.8	1.0	0.9	5.0	4.3	3.7
Housing starts (units)	1,649	3,449	4,568	4,141	3,256	3,108	2,999	2,986	2,856	2,827	2,796	2,794	3,452	3,087	2,818
	-61.7	109.1	32.5	-9.4	-21.4	-4.5	-3.5	-0.4	-4.4	-1.0	-1.1	-0.1	-15.8	-10.6	-8.7

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Two-Speed Economy Ahead

Highlights

- ◆ Investment growth will be weak as residential construction and public infrastructure spending decline.
- ◆ Low consumer confidence and no gain in real disposable income will temper growth in consumer spending in 2012.
- ◆ Exports will finally recover from their 2009 losses, thanks to the aerospace and the mining industries.

Economic Indicators (percentage change)

	2011f	2012f	2013f
Real GDP	1.7	1.4	2.2
Consumer Price Index	3.0	2.2	2.2
Personal disposable income	1.8	1.9	3.4
Employment	1.0	0.4	1.3
Unemployment rate (level)	7.7	8.2	8.1
Retail sales	1.8	4.4	4.0
Wages and salaries per employee	2.6	2.6	2.6
Population	0.9	0.9	0.9

f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Government and Background Information

Premier	Jean Charest
Next election	2013
Population (2011Q4)	8,002,098
Government balance (2012-13)	-\$1.5 billion

Sources: The Conference Board of Canada; Quebec Ministry of Finance.

After increasing by a mere 1.7 per cent in 2011, the Quebec economy is expected to grow at an even slower pace in 2012, as output increases by just 1.4 per cent. Many factors will keep economic growth weak over the near term. Residential construction, which had been an important engine of growth over the past few years, is set to contract by 2 per cent in real terms this year, with housing starts forecast to decline by more than 15 per cent. In addition, public investment in infrastructure will fall in the near term. Nevertheless, a small increase in real consumer spending, supported by low interest rates, will offset these declines. However, this will come at the expense of savings.

By contrast, business non-residential investment will post increases over the next two years, thanks largely to the current boom in the resource sector. More specifically, mining production is expected to record double-digit growth in both 2012 and 2013. The main beneficiary of this expansion will be Northern Quebec, particularly towns such as Fermont. This town has seen unprecedented growth in recent years thanks to an increase in the price of iron ore from US\$30 per metric tonne six years ago to more than US\$150 in 2011. The rapid expansion of the mining industry will continue in the near future, as several mining projects are currently in development and the government's Northern development program, Plan Nord, attracts further projects.

The strong growth in the mining industry will be a key driver of the long-awaited export recovery. After remaining basically flat in 2011, real exports are forecast to increase

by 4.2 per cent this year and 5 per cent in 2013. The aerospace industry will be the other important contributor to this growth, thanks largely to the delivery of the first Bombardier CSeries planes expected for the end of this year. The outlook for the aerospace industry is positive, as

Bombardier now has 138 firm orders for CSeries planes from various clients, such as Lufthansa and Korean Air.

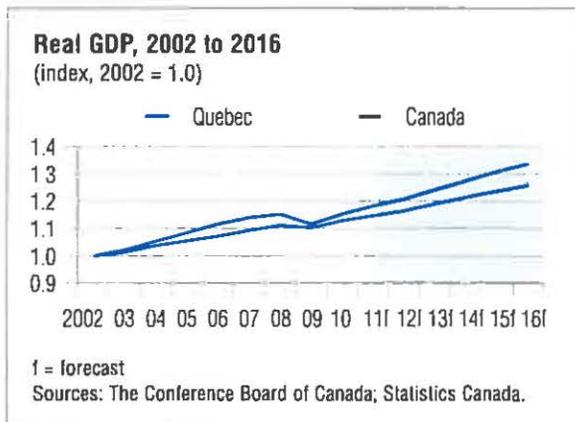
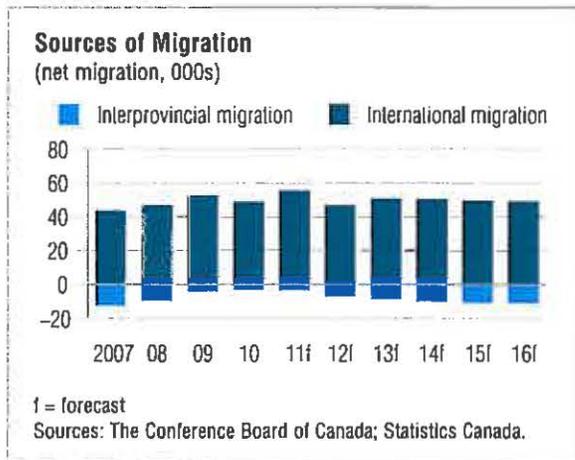
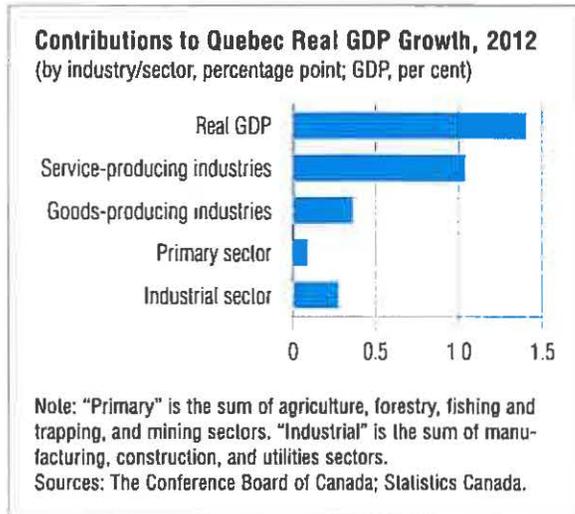
WEAK INVESTMENT OUTLOOK

Total public and private sector investment will not contribute to GDP growth over the next two years, as overall investment is expected to remain flat in real terms. Real public investment is forecast to fall by more than 6 per cent in both 2012 and 2013, due to a decline in infrastructure spending at both the federal and the provincial level. After reaching a peak in 2011, infrastructure spending will edge lower over the near term now that the extra help from Canada's Economic Action Plan has mostly come to an end.

Despite this decline, real government investment will still be almost twice the average level of the past three decades. Over that period, infrastructure investment was not sufficient to prevent the deterioration of roads and key structures, such as the Turcot Interchange and the Champlain Bridge. The two structures, which are both located in Montréal, are now almost 50 years old and will have to be rebuilt over the next decade. The reconstruction process, however, is not expected to begin in the near term as the two projects are still not finalized. Until the new structures are completed, major investments will still be necessary to keep the existing structures safe for drivers. For instance, more than \$200 million will be spent over the next 10 years to ensure that the Champlain Bridge is safe and can remain open to traffic until the new bridge is in place.

Private sector investments (in real terms) will be considerably affected by the fall in residential construction expected in 2012 and 2013. Housing starts have exceeded the number of new households formed for several years now. As this is not sustainable in the long run, housing starts will return to more appropriate levels over the next few years.

In fact, housing starts have already started to decline, with a 6 per cent year-over-year drop in 2011. This decrease was explained by a sharp fall in single-detached starts. By contrast, the further 25 per cent cut expected in housing starts over the next two years will be the result of a



decline in multiple-unit starts. This is not surprising given that multiple-unit starts reached a 20-year peak in 2011, with 32,000 units, compared with an annual average of 20,000 units over the previous three decades.

The decline in real residential investment will be more than offset by an increase in non-residential construction and investments in machinery and equipment. Non-residential investment (in real terms) is expected to post robust growth in each of the next two years, with major investments in mining and the aluminum industry. Examples of projects in the mining sector include a \$2.1-billion investment by ArcelorMittal to double production at the Mont-Wright mine and perform additional construction work at the Port Cartier plant. In the aluminum industry, \$2 billion will be invested in a third expansion phase at the Aluminerie Alouette smelter in Sept-Îles over a 15-year period. Alcoa is also investing a similar amount over the next five years to modernize its smelters in Baie-Comeau, Deschambault, and Bécancour. A significant portion of the investment in projects like these goes to updating machinery and equipment. With the Canadian dollar remaining strong, investment in machinery and equipment will continue to post strong growth in real terms over the near term—6.5 per cent in 2012 and 4.3 per cent in 2013.

CONSUMERS WILL KEEP ON . . . BORROWING

Despite interest rates remaining at historically low levels for at least another six months, growth in consumer spending is forecast to remain weak this year, with an expected increase of only 1.5 per cent. Several factors will dampen spending in the coming months—particularly the weakness in consumer confidence. Consumer confidence has been falling steadily since reaching a post-recession peak last March. In January 2012, the consumer confidence index for Quebec fell below 60. This was a level last seen almost three years ago in the midst of the recession, and it is far below the national level.

As with other Canadians, Quebecers have been particularly worried in the past few months about the fall in global stock markets and the threat posed to the world economy by the European debt crisis. And their confidence was further weakened as Quebec suffered significant job losses in the final quarter of 2011. As we move forward,

The Quebec Mining Boom: A Mix of Opportunities and Challenges



The Quebec mining sector has enjoyed a major boom over the past few years, resulting in considerable economic growth in regions such as Abitibi-Témiscamingue, Côte-Nord, and the Nord-du-Québec. At 9.6 per cent in 2009, the combined unemployment rate for those three regions was well above the Quebec average of 8.5 per cent. Two years later, unemployment in these regions had fallen two percentage points, to 7.6 per cent—slightly below the Quebec average. Moreover, in 2011, Abitibi-Témiscamingue and Côte-Nord saw a net increase in population coming from other Quebec regions for the first time in several years.

Strong economic growth, however, is also accompanied by several challenges. Towns such as Sept-Îles in Côte-Nord and Rouyn-Noranda in Abitibi-Témiscamingue are currently facing a severe shortage of rental housing. Vacancy rates in both towns have fallen to historical lows in recent years, with rates for 2011 standing at 0.7 per cent in Sept-Îles and 0.1 per cent in Rouyn-Noranda. As a result, it has become increasingly difficult for low-income households to find affordable apartments.

In order to attract workers, mining companies are offering more “fly in, fly out” working conditions. Employees are sent to the mine location, work for a few consecutive weeks, and are then sent back home, with flights paid by the company. While this is a good strategy to attract mine workers, it poses problems for towns such as Fermont, which have to deal with a major increase in temporary residents. An increase in residents means more road and sewage infrastructure are needed to accommodate them. And although these workers are employed in the mines and live in the towns when they are on the job, temporary residents do not pay municipal taxes.

Moreover, while big mining companies are able to recruit employees thanks to attractive salaries (often above \$100,000 per year), small businesses—which can’t offer these salaries—are having a hard time finding employees. For example, after failing to find enough local workers to staff its operations, a McDonald’s restaurant in Sept-Îles recently found itself forced to look elsewhere. It ended up hiring Filipino employees who had been working in other parts of Quebec, luring them to Sept-Îles with higher salaries and a few months’ rent.

Several mining projects now at the feasibility stage could go ahead over the next few years. Therefore, the opportunities and challenges triggered by the mining boom in Quebec will continue to rise.

unemployment in the province is expected to stay above 8 per cent in the near term, the global economy will continue to face several challenges, and consumer confidence is likely to remain wobbly.

However, the picture brightens for 2013. Consumer spending is expected to rise by 2.5 per cent as the Canadian

economic recovery gains momentum and personal disposable income posts strong growth. Nonetheless, growth in consumer spending will come at the expense of personal savings. Like other Canadians, Quebecers have been piling up significant amounts of debt over the past few years. One indicator confirming this trend is the substantial increase in the consumer insolvency rate.¹ After remaining relatively stable for a decade, the insolvency rate nearly doubled between 2005 and 2010, climbing from 3.4 to 6.1.² Over the next few years, Quebecers will continue to pile up more debt as interest rates stay relatively low, giving no incentive to people to save more. As a result, the personal savings rate is forecast to turn negative in 2013, something we have never seen since data first became available more than 30 years ago. (See chart “Personal Savings Rate Will Turn Negative.”)

EXPORTS SET TO RECOVER

During the 2009 recession, exports fell 12 per cent. Disappointingly, they failed to recover over the following two years. However, the long-awaited recovery now seems to be upon us, with an expected increase in real exports of 4.2 per cent this year and 5 per cent in 2013. Leading the way will be a strong rebound in the aerospace industry’s overseas shipments, as Bombardier will be

delivering its first CSeries planes at the end of this year. With 138 firm orders confirmed to this date, the multinational company will keep the Quebec aerospace industry busy in the near future.

Also contributing to export growth in the near term will be the buoyant mining industry. Through the first 11 months of 2011, iron ore mining exports were up 37 per cent (in nominal terms) from the same period in 2010. Moreover, shipments to China during that period were three times their 2010 level and represented more than 40 per cent of total iron ore exports sent abroad (compared with 21 per cent in 2010). Iron ore exports should continue to post healthy growth in the near term, although at a slower pace now that China’s economy is cooling down slightly. Nonetheless, demand for steel from emerging markets will remain high as these rapidly developing economies build the railroads, tunnels, and highways needed for their fast-growing cities.

- 1 The consumer insolvency rate is defined as the number of consumers unable to pay their debts as they become due per 1,000 residents aged 18 years or older.
- 2 Office of the Superintendent of Bankruptcy Canada, *Insolvency Statistics in Canada*. https://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/h_br01011.html (accessed February 22, 2012).

Forecast Risks

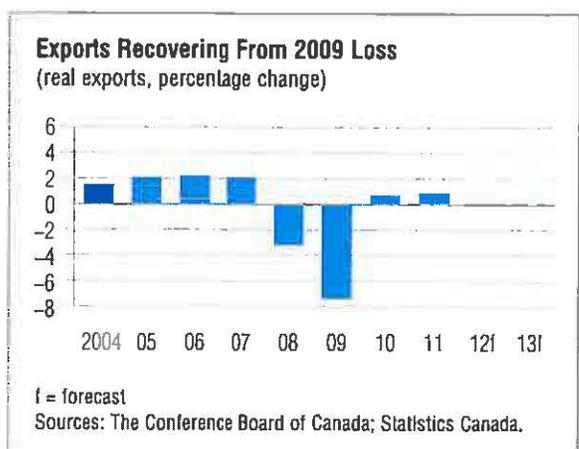
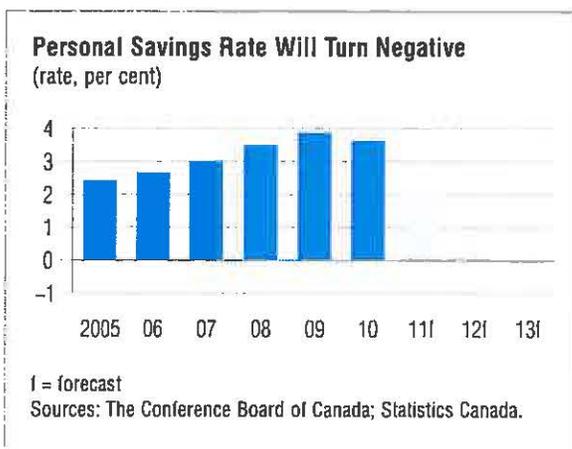
Short term

- ◆ A slowdown in the world economy triggered by the European debt crisis could result in more job losses in Quebec—weakening the already-fragile economic conditions.

Medium term

- ◆ Investments and exports could rise significantly if some of the large mining projects now at the feasibility stage go ahead in the coming years.

Source: The Conference Board of Canada.



Key Economic Indicators: Quebec
(forecast completed: February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	330,785	332,785	335,457	336,475	340,247	343,740	347,094	350,895	354,735	358,448	362,243	365,966	333,875	345,494	360,348
	1.6	0.6	0.8	0.3	1.1	1.0	1.0	1.1	1.1	1.0	1.1	1.0	4.5	3.5	4.3
GDP at basic prices (current \$)	311,091	313,024	315,548	316,302	319,691	322,805	325,781	329,200	332,667	336,196	339,633	343,012	313,991	324,369	337,877
	1.6	0.6	0.8	0.2	1.1	1.0	0.9	1.0	1.1	1.1	1.0	1.0	4.5	3.3	4.2
GDP at basic prices (constant 2002 \$)	256,451	256,727	257,697	256,869	258,715	259,971	261,079	262,428	264,102	265,492	266,851	268,209	256,936	260,548	266,163
	0.5	0.1	0.4	-0.3	0.7	0.5	0.4	0.5	0.6	0.5	0.5	0.5	1.7	1.4	2.2
Consumer Price Index (2002 = 1.0)	1,171	1,185	1,185	1,190	1,199	1,206	1,212	1,218	1,225	1,233	1,239	1,246	1,183	1,209	1,236
	1.4	1.2	0.0	0.4	0.8	0.5	0.5	0.5	0.6	0.6	0.5	0.6	3.0	2.2	2.2
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1,213	1,219	1,224	1,231	1,236	1,242	1,248	1,254	1,260	1,266	1,273	1,279	1,222	1,245	1,269
	1.2	0.5	0.4	0.6	0.4	0.5	0.5	0.5	0.4	0.5	0.5	0.5	2.8	1.9	2.0
Average weekly wages (\$ industrial composite)	739.9	736.6	737.2	744.3	748.5	753.2	758.2	763.1	768.0	773.2	778.5	784.0	739.5	755.7	775.9
	0.8	-0.4	0.1	1.0	0.6	0.6	0.7	0.6	0.6	0.7	0.7	0.7	1.9	2.2	2.7
Personal income (current \$)	278,630	279,327	280,879	282,278	284,569	286,817	289,356	292,118	294,992	297,860	300,729	303,692	280,278	288,215	299,318
	0.8	0.3	0.6	0.5	0.8	0.8	0.9	1.0	1.0	1.0	1.0	1.0	2.9	2.8	3.9
Personal disposable income (current \$)	214,107	213,957	214,257	215,023	216,048	217,407	219,205	221,181	222,937	224,868	226,922	229,049	214,336	218,460	225,944
	0.8	-0.1	0.1	0.4	0.5	0.6	0.8	0.9	0.8	0.9	0.9	0.9	1.8	1.9	3.4
Personal savings rate	2.9	2.4	2.0	1.6	0.9	0.6	0.4	0.1	0.0	-0.2	-0.2	-0.2	2.2	0.5	-0.2
Population of labour force age (000s)	6,551	6,568	6,585	6,600	6,612	6,627	6,642	6,657	6,671	6,684	6,698	6,711	6,576	6,634	6,691
	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.1	0.9	0.9
Labour force (000s)	4,290	4,296	4,287	4,277	4,298	4,318	4,332	4,348	4,359	4,374	4,385	4,394	4,288	4,324	4,378
	0.4	0.1	-0.2	-0.3	0.5	0.5	0.3	0.4	0.3	0.3	0.3	0.2	0.8	0.8	1.2
Employment (000s)	3,957	3,967	3,972	3,930	3,950	3,965	3,977	3,992	4,004	4,018	4,030	4,045	3,957	3,971	4,024
	0.4	0.3	0.1	-1.1	0.5	0.4	0.3	0.4	0.3	0.3	0.3	0.4	1.0	0.4	1.3
Unemployment rate	7.8	7.6	7.4	8.1	8.1	8.2	8.2	8.2	8.2	8.1	8.1	7.9	7.7	8.2	8.1
Retail sales (current \$)	100,705	100,404	101,521	103,242	104,347	105,380	106,446	107,547	108,567	109,654	110,750	111,873	101,468	105,930	110,211
	-0.9	-0.3	1.1	1.7	1.1	1.0	1.0	1.0	0.9	1.0	1.0	1.0	1.8	4.4	4.0
Housing starts (units)	46,970	48,751	50,127	47,700	45,060	41,501	39,136	37,864	36,989	36,915	36,873	36,960	48,387	40,890	36,934
	-2.1	3.8	2.8	-4.8	-5.5	-7.9	-5.7	-3.3	-2.3	-0.2	-0.1	0.2	-5.8	-15.5	-9.7

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Une économie à deux vitesses

Faits saillants

- ♦ La baisse de la construction résidentielle et des dépenses publiques en infrastructures limitera la croissance des investissements.
- ♦ Le manque de confiance des consommateurs et la stagnation du revenu disponible réel généreront la croissance des dépenses de consommation en 2012.

Indicateurs économiques

(variation en pourcentage)

	2011p	2012p	2013p
PIB réel au prix de base	1,7	1,4	2,2
IPC	3,0	2,2	2,2
Revenu personnel disponible	1,8	1,9	3,4
Emploi	1,0	0,4	1,3
Taux de chômage	7,7	8,2	8,1
Ventes au détail	1,8	4,4	4,0
Salaires, par employé	2,6	2,6	2,6
Population	0,9	0,9	0,9

p = prévision

Sources : Le Conference Board du Canada; Statistique Canada.

Renseignements généraux

Premier ministre	Jean Charest
Prochaines élections	2013
Population (2011t4)	8 002 098
Solde du secteur public (2012-13)	-\$1,5 milliards \$

Sources : Ministère des Finances du Québec; Statistique Canada.

Si l'économie du Québec n'a progressé que de 1,7 p. 100 en 2011, elle devrait croître encore moins en 2012 : la production ne devrait grimper que de 1,4 p. 100. Divers facteurs généreront la croissance économique à court terme. La construction résidentielle, fer de lance des dernières années, devrait se contracter de 2 p. 100 en termes réels cette année, les mises en chantier reculant de plus de 15 p. 100. En outre, les investissements publics à l'égard des infrastructures chuteront à court terme. Une mince augmentation des dépenses réelles de consommation, conjuguée aux faibles taux d'intérêt, compensera pour ces baisses, mais tout cela se fera au détriment de l'épargne.

PAS DE CROISSANCE DES INVESTISSEMENTS TOTAUX EN VUE

Ensemble les investissements publics et privés ne contribueront pas à la croissance du PIB au cours des deux prochaines années puisque la somme combinée des investissements devrait rester inchangée en termes réels. L'investissement public réel devrait chuter de plus de 6 p. 100 en 2012 de même qu'en 2013, vu la baisse des dépenses en infrastructures au niveau fédéral comme au niveau provincial. À court terme après le sommet atteint en 2011, les dépenses liées aux infrastructures iront en diminuant étant donné l'expiration progressive du soutien spécial que procurait le Plan d'action économique du Canada.

En dépit de cette baisse, les investissements publics réels représenteront encore presque le double du niveau moyen des trois dernières décennies. Durant cette période, les investissements relatifs aux infrastructures n'auront pas suffi à prévenir la détérioration des routes et de structures de première importance dont l'échangeur Turcot et le Pont Champlain. Ces deux structures de la région de Montréal ont près de 50 ans et devront être reconstruits d'ici 10 ans. Cependant le processus de reconstruction ne pourra s'amorcer à court terme puisque les deux projets sont encore en préparation. Or, d'ici leur remplacement, il faudra tout de même investir des sommes considérables pour assurer la sécurité des automobilistes utilisant les structures en place. Par exemple, au cours des 10 prochaines années, il faudra dépenser plus de 200 millions de dollars pour que le Pont Champlain soit sécuritaire et demeure ouvert à la circulation jusqu'à l'ouverture du nouveau pont.

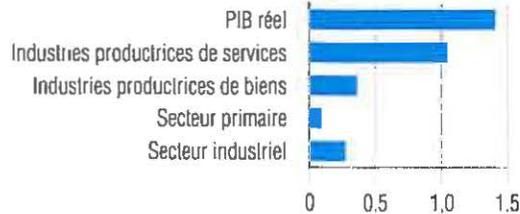
Les investissements du secteur privé (en termes réels) se ressentiront nettement de la diminution de la construction résidentielle prévue en 2012 et 2013. Depuis plusieurs années déjà, les mises en chantier dépassent le nombre de nouveaux ménages formés, ce qui ne peut durer encore longtemps. Le nombre de logements construits devra donc être ajusté dans les années qui viennent.

Les mises en chantier se font déjà moins nombreuses. En 2011, elles ont reculé de 6 p. 100 sur un an et la baisse provenait surtout des maisons individuelles. Par contre, le recul de 25 p. 100 prévu au cours des deux prochaines années proviendra de la diminution des mises en chantiers de logements en unités multiples. Cela n'a rien de surprenant car il s'est construit en 2011 plus d'unités de logements en unités multiples que jamais en 20 ans, soit 32 000, comparativement à 20 000 en moyenne au cours des trois décennies précédentes.

L'augmentation marquée du nombre de condominiums construits en région montréalaise explique ce boom en bonne partie. Un record de près de 13 000 condominiums mis en chantier à Montréal a été atteint en 2011, après deux années de croissance supérieure à 10 p. 100. Toutefois, le courant semble maintenant s'inverser. En janvier 2012, seulement 556 nouveaux condominiums ont été mis en chantier, ce qui est 25 p. 100 de moins qu'en janvier l'an dernier et la moitié de la moyenne mensuelle enregistrée en 2011.

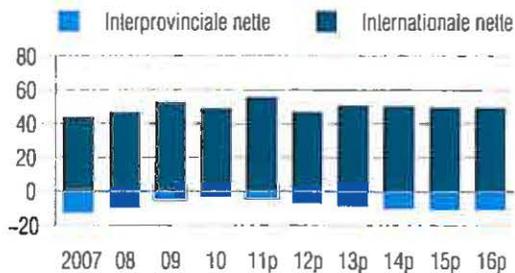
Le recul de la construction résidentielle sera toutefois amplement comblé par une augmentation de la construction non résidentielle et des investissements en machines et en équipement. Ainsi, les investissements non liés au résidentiel (en termes réels) devraient afficher une

Contribution à la croissance du PIB réel du Québec (pour 2012, industrie ou secteur, apport en points de pourcentage; PIB, en p. 100)



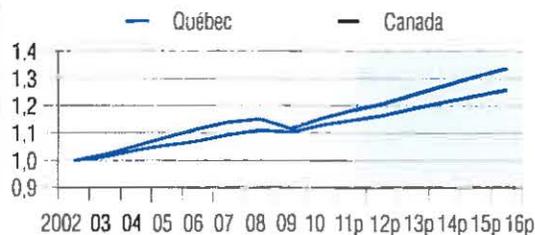
Nota : « Primaire » désigne l'ensemble des secteurs de l'agriculture, de la foresterie, de la pêche et du piégeage, et le secteur minier. « Industriel » désigne l'ensemble des secteurs de la fabrication, de la construction et des services d'utilité publics.
Sources : Le Conference Board du Canada; Statistique Canada.

Sources de migration (migration nette, en milliers)



p = prévision
Sources : Le Conference Board du Canada; Statistique Canada.

PIB réel de 2002 à 2016 (indice, 2002 = 1,0)



p = prévision
Sources : Le Conference Board du Canada; Statistique Canada.



Le boom minier québécois : Une combinaison d'opportunités et de défis

Le boom minier que connaît le Québec depuis quelques années suscite une vive croissance économique dans diverses régions dont l'Abitibi-Témiscamingue, la Côte-Nord et le Nord-du-Québec. À 9,6 p. 100 en 2009, le taux de chômage combiné de ces trois régions dépassait nettement la moyenne provinciale de 8,5 p. 100. Deux ans plus tard, dans ces mêmes régions, le chômage a reculé de 2 points de pourcentage. Il est aujourd'hui à 7,6 p. 100, ce qui est inférieur à la moyenne du Québec. De plus, pour la première fois en plusieurs années, l'Abitibi-Témiscamingue et la Côte-Nord ont vu une augmentation nette du nombre de résidents provenant d'autres régions de la province.

Toutefois, une forte croissance économique comporte également des défis. Ainsi, des villes comme Sept-Îles, sur la Côte-Nord, et Rouyn-Noranda, en Abitibi-Témiscamingue, connaissent un grave manque de logements locatifs. À ces deux endroits, les taux d'inoccupation n'ont jamais été aussi bas qu'en 2011 : 0,7 p. 100 à Sept-Îles et 0,1 p. 100 à Rouyn-Noranda. Les ménages à revenus modestes ont donc de plus en plus de difficultés à trouver un logement abordable.

Pour attirer des travailleurs, les sociétés minières proposent davantage la formule « *fly in, fly out* », où les employés sont transportés vers le site minier, y travaillent quelques semaines, puis sont ramenés chez eux, toujours en avion et aux frais de l'entreprise. Si cette formule réussit à convaincre les mineurs, elle pose des problèmes aux villes comme Fermont, qui doivent gérer des hausses importantes du nombre de résidents temporaires. L'augmentation du nombre de résidents exige davantage de voies de circulation et d'infrastructures de traitement des eaux usées. Par contre, ces résidents temporaires ne paient aucune taxe municipale dans les villes où ils séjournent durant leurs semaines de travail dans les mines.

De plus, si les grandes minières peuvent recruter du personnel en offrant des salaires élevés (souvent plus de 100 000 \$ par année), les petites entreprises, incapables de payer autant, ont quant à elles bien du mal à trouver des employés. Par exemple, récemment, faute de pouvoir embaucher suffisamment de travailleurs locaux pour fonctionner, un restaurant McDonald de Sept-Îles a dû se tourner vers d'autres sources : il en est venu à engager des personnes des Philippines établies ailleurs au Québec en leur offrant un meilleur salaire et le loyer gratuit pendant quelques mois pour les attirer dans la ville.

Plusieurs projets miniers en sont au stade de l'étude de faisabilité et les opérations pourraient s'amorcer dans les prochaines années. C'est donc dire que les possibilités et les défis inhérents au boom minier québécois continueront de grandir.

forte croissance cette année et l'an prochain, en raison d'investissements majeurs dans le domaine minier et dans l'industrie de l'aluminium. Parmi les projets miniers, mentionnons l'investissement de 2,1 milliards de dollars d'ArcelorMittal afin de doubler la production à la mine de Mont-Wright et réaliser de nouveaux travaux de construction à l'usine de Port Cartier. Du côté de l'aluminium aluminium, une troisième phase d'expansion à la fonderie de l'Aluminerie Alouette de Sept-Îles amènera des investissements de 2 milliards de dollars sur 15 ans.

Par ailleurs, Alcoa investit 2 milliards de dollars sur 5 ans pour moderniser ses fonderies de Baie-Comeau, Deschambault et Bécancour. Une bonne partie des montants investis dans ces projets servent à mettre à niveau la machinerie et l'équipement. Puisque le dollar canadien demeure fort, les investissements en machines et en équipement continueront de croître de belle façon en termes réels à court terme : 6,5 p. 100 en 2012 et 4,3 p. 100 en 2013.

LES CONSOMMATEURS CONTINUERONT . . . D'EMPRUNTER

Même si les taux d'intérêt demeureront à leur plus bas encore six mois, la croissance des dépenses de consommation devrait être faible cette année, soit de 1,5 p. 100 à peine. Plusieurs facteurs freineront les dépenses dans les mois qui viennent, surtout la confiance des consommateurs. En effet, l'indice de confiance des consommateurs du Québec est en chute depuis mars dernier, date où il avait atteint un sommet depuis la récession. En janvier 2012, l'indice de confiance des consommateurs du Québec est tombé sous 60, un seuil jamais vu depuis près de trois ans, en pleine récession, et bien en dessous de la moyenne nationale.

Ces derniers mois, les Québécois, comme les autres Canadiens, ont été inquiétés par le recul des marchés boursiers mondiaux et la menace que la crise européenne de la dette représente pour l'économie mondiale. Leur confiance a également été minée par les importantes pertes d'emplois du dernier trimestre de 2011. Or, puisque le chômage devrait demeurer au-dessus de 8 p. 100 au Québec à court terme et que l'économie mondiale fera encore face à de nombreux défis, la confiance des consommateurs restera probablement chancelante.

Cependant, les choses augurent mieux pour 2013. Les dépenses de consommation devraient grimper de 2,5 p. 100 alors que l'économie canadienne sera en reprise plus forte et les revenus personnels disponibles augmenteront plus rapidement. Reste que l'augmentation des dépenses de consommation se fera au détriment de l'épargne des particuliers. Tous les Canadiens, y compris les Québécois, se sont endettés considérablement ces dernières années. Divers indicateurs en témoignent dont le taux d'insolvabilité

des consommateurs¹. Relativement stable pendant plus d'une dizaine d'années, ce taux a presque doublé entre 2005 et 2010, passant de 3,4 à 6,1². Les Québécois continueront d'accumuler les dettes durant les prochaines années puisque les taux d'intérêt resteront assez bas, ce qui n'encouragera pas les gens à économiser. Résultat, le taux d'épargne des particuliers devrait être négatif à compter de 2013, du jamais vu depuis la diffusion des premières données à ce sujet il y a plus de 30 ans (voir le graphique « Un taux d'épargne des particuliers négatif »).

EXPORTATIONS : LES PERTES DE 2009 DEVRAIENT S'EFFACER

Lors de la récession de 2009, les exportations ont chuté de 12 p. 100. Cependant, elles n'ont pu se rétablir au cours des deux années suivantes. Toutefois, la reprise tant attendue semble venue puisqu'on prévoit une augmentation des exportations réelles de 4,2 p. 100 cette année, puis de 5 p. 100 en 2013. Ce gain sera possible notamment grâce à la reprise marquée des livraisons à l'étranger de l'industrie aérospatiale. Bombardier livrera ses premiers appareils de la CSeries d'ici la fin de l'année et, avec 138 commandes fermes confirmées à ce

jour, la multinationale assurera le dynamisme de l'industrie aérospatiale québécoise à court terme.

L'industrie minière sera une autre source importante de croissance des exportations à moyen terme. Au cours des onze premiers mois de 2011, les exportations de minerai de fer ont bondi de 37 p. 100 (en termes nominaux) par rapport à la même période en 2010. Les exportations vers la Chine, durant ces 11 mois, ont été le triple de celles de 2010 et représentaient plus de 40 p. 100 des livraisons totales de fer à l'étranger (contre 21 p. 100 en 2010). Les exportations de minerai de fer devraient continuer de bien progresser à court terme, quoique moins rapidement puisque l'économie chinoise ralentit quelque peu. Néanmoins, la demande en acier de la part de marchés émergents demeurera forte puisqu'ils auront besoin de ce matériau pour la construction des chemins de fer, tunnels et autoroutes essentiels au développement rapide de leurs grandes villes.

- 1 Le taux d'insolvabilité des consommateurs représente le nombre de consommateurs incapables de régler leurs dettes à l'échéance – par millier de consommateurs de 18 ans ou plus.
- 2 Bureau du Surintendant des faillites Canada, Statistiques sur l'insolvabilité au Canada <https://www.ic.gc.ca/eic/site/bsf-osb.nsf> (cons. 22 février 2012)

Scénarios conjoncturels



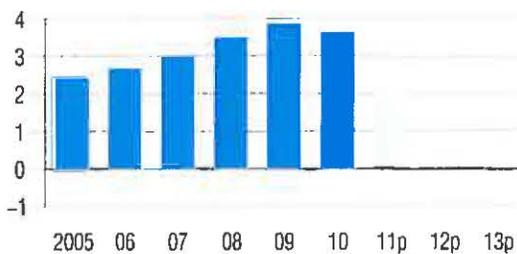
- ♦ Un ralentissement de l'économie mondiale provoqué par la crise européenne de la dette pourrait faire perdre d'autres emplois au Québec, fragilisant davantage les conditions économiques de la province.



- ♦ Les investissements et les exportations pourraient croître de façon importante si certains projets miniers présentement au stade de l'étude de faisabilité se concrétisent dans les années qui viennent.

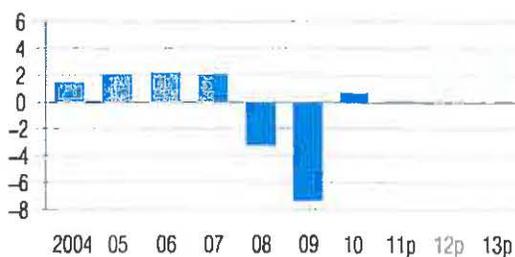
Source : Le Conference Board du Canada.

Un taux d'épargne des particuliers négatif
(taux, en p. 100)



p = prévision
Sources : Le Conference Board du Canada; Statistiques Canada

Les exportations se remettent des pertes de 2009
(exportations réelles; variation en p. 100)



p = prévision
Sources : Le Conference Board du Canada; Statistiques Canada

Principaux indicateurs économiques : Québec
(prévisions en date du 2 février 2012)

	201111	201112	201113	201114	201211	201212	201213	201214	201311	201312	201313	201314	2011	2012	2013
PIB aux prix du marché (en dollars courants)	330 785 1,6	332 785 0,6	335 457 0,8	336 475 0,3	340 247 1,1	343 740 1,0	347 094 1,0	350 895 1,1	354 735 1,1	358 448 1,0	362 243 1,1	365 966 1,0	333 875 4,5	345 494 3,5	360 348 4,3
PIB aux prix de base (en dollars courants)	311 091 1,6	313 024 0,6	315 548 0,8	316 302 0,2	319 691 1,1	322 805 1,0	325 781 0,9	329 200 1,0	332 667 1,1	336 196 1,1	339 633 1,0	343 012 1,0	313 991 4,5	324 369 3,3	337 877 4,2
PIB aux prix de base (en dollars constants de 2002)	256 451 0,5	256 727 0,1	257 697 0,4	256 869 -0,3	258 715 0,7	259 971 0,5	261 079 0,4	262 428 0,5	264 102 0,6	265 492 0,5	266 851 0,5	268 209 0,5	256 936 1,7	260 548 1,4	266 163 2,2
Indice des prix à la consommation (2002 = 1.0)	1,171 1,4	1,185 1,2	1,185 0,0	1,190 0,4	1,199 0,8	1,206 0,5	1,212 0,5	1,218 0,5	1,225 0,6	1,233 0,6	1,239 0,5	1,246 0,6	1,183 3,0	1,209 2,2	1,236 2,2
Déflateur implicite des prix — PIB aux prix de base (2002 = 1.0)	1,213 1,2	1,219 0,5	1,224 0,4	1,231 0,6	1,236 0,4	1,242 0,5	1,248 0,5	1,254 0,5	1,260 0,4	1,266 0,5	1,273 0,5	1,279 0,5	1,222 2,8	1,245 1,9	1,269 2,0
Salaires hebdomadaires moyens (niveau)	739,9 0,8	736,6 -0,4	737,2 0,1	744,3 1,0	748,5 0,6	753,2 0,6	758,2 0,7	763,1 0,6	768,0 0,6	773,2 0,7	778,5 0,7	784,0 0,7	739,5 1,9	755,7 2,2	775,9 2,7
Revenu des particuliers (en dollars courants)	278 630 0,8	279 327 0,3	280 879 0,6	282 278 0,5	284 569 0,8	286 817 0,8	289 356 0,9	292 118 1,0	294 992 1,0	297 860 1,0	300 729 1,0	303 692 1,0	280 278 2,9	288 215 2,8	299 318 3,9
Revenu disponible des particuliers (en dollars courants)	214 107 0,8	213 957 -0,1	214 257 0,1	215 023 0,4	216 048 0,5	217 407 0,6	219 205 0,8	221 181 0,9	222 937 0,8	224 868 0,9	226 922 0,9	229 049 0,9	214 336 1,8	218 460 1,9	225 944 3,4
Taux d'épargne des particuliers	2,9	2,4	2,0	1,6	0,9	0,6	0,4	0,1	0,0	-0,2	-0,2	-0,2	2,2	0,5	-0,2
Population en âge d'être active (en milliers)	6 551 0,3	6 568 0,3	6 585 0,3	6 600 0,2	6 612 0,2	6 627 0,2	6 642 0,2	6 657 0,2	6 671 0,2	6 684 0,2	6 698 0,2	6 711 0,2	6 576 1,1	6 634 0,9	6 691 0,9
Population active (en milliers)	4 290 0,4	4 296 0,1	4 287 -0,2	4 277 -0,3	4 298 0,5	4 318 0,5	4 332 0,3	4 348 0,4	4 359 0,3	4 374 0,3	4 385 0,3	4 394 0,2	4 288 0,8	4 324 0,8	4 378 1,2
Emplois (en milliers)	3 957 0,4	3 967 0,3	3 972 0,1	3 930 -1,1	3 950 0,5	3 965 0,4	3 977 0,3	3 992 0,4	4 004 0,3	4 018 0,3	4 030 0,3	4 045 0,4	3 957 1,0	3 971 0,4	4 024 1,3
Taux de chômage	7,8	7,6	7,4	8,1	8,1	8,2	8,2	8,2	8,2	8,1	8,1	7,9	7,7	8,2	8,1
Ventes au détail (en dollars courants)	100 705 -0,9	100 404 -0,3	101 521 1,1	103 242 1,7	104 347 1,1	105 380 1,0	106 446 1,0	107 547 1,0	108 567 0,9	109 654 1,0	110 750 1,0	111 873 1,0	101 468 1,8	105 930 4,4	110 211 4,0
Mises en chantier (en unités)	46 970 -2,1	48 751 3,8	50 127 2,8	47 700 -4,8	45 060 -5,5	41 501 -7,9	39 136 -5,7	37 864 -3,3	36 989 -2,3	36 915 -0,2	36 873 -0,1	36 960 0,2	48 387 -5,8	40 890 -15,5	36 934 -9,7

Les prévisions se trouvent dans la partie ombragée du tableau.

À moins d'indications contraires, toutes les données sont exprimées en millions de dollars, au taux annuel désaisonnalisé.

Pour chaque indicateur, la première ligne donne le niveau, la deuxième la variation en pourcentage par rapport à la période précédente.

Sources: La Conférence Board du Canada; Statistique Canada; Répertoire des séries chronologiques de la Société canadienne d'hypothèques et de logement (SCHL).

Fiscal Tightening and Global Uncertainty Weigh on Growth

Highlights

- ♦ Public sector fiscal restraint and global economic uncertainty will dim Ontario's near-term economic outlook.
- ♦ New business investment will be sufficient to offset declining public infrastructure investment.
- ♦ Exports are expected to improve, fuelled by strong demand for new vehicles and parts south of the border.

Economic Indicators (percentage change)

	2011f	2012f	2013f
Real GDP	2.1	1.9	2.8
Consumer Price Index	3.1	1.7	2.2
Personal disposable income	1.9	2.3	4.3
Employment	1.8	1.6	2.3
Unemployment rate (level)	7.8	7.4	7.0
Retail sales	3.0	3.1	4.9
Wages and salaries per employee	1.6	1.9	2.8
Population	1.1	1.1	1.2

f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Government and Background Information

Premier	Dalton McGuinty
Next election	2015
Population (2011Q4)	13,422.91
Government balance (2011-12)	-\$16 billion

Sources: The Conference Board of Canada; Ontario Ministry of Finance.

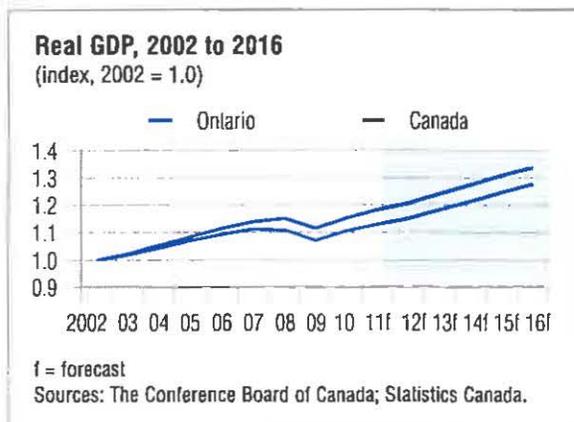
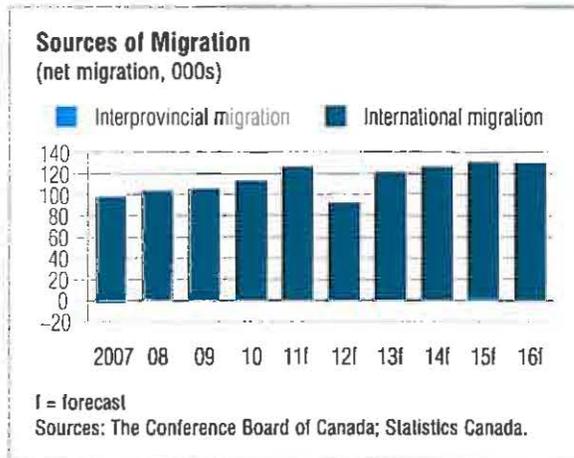
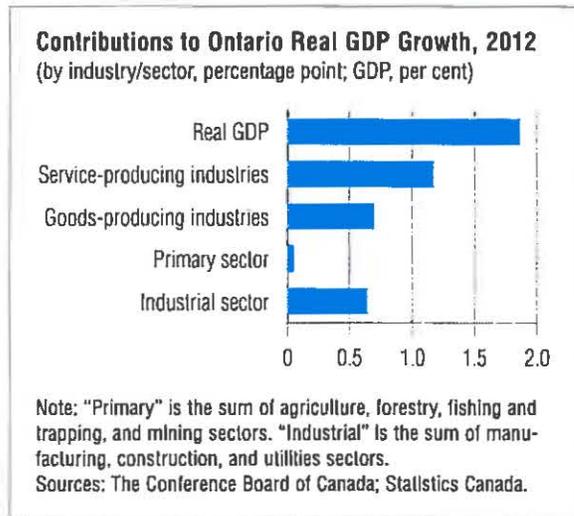
Ontario's economy has another year of weak economic growth ahead as it battles both internal and external challenges. Softer growth in the domestic economy as a result of the volatile global environment and government fiscal restraint will lead to a gain of only 1.9 per cent in real GDP in 2012. The outlook improves for 2013, when real GDP is expected to advance by 2.8 per cent.

Over the next few years, the government sector will contribute little to Ontario's economic growth, as the province works to eliminate its budget deficit by 2017-18. As a result, real government spending on goods and services is forecast to grow by only 1.2 per cent this year, while real public infrastructure spending will contract by 12.5 per cent. Growth in private investment, which boosted Ontario's economy in 2011, will also slow down this year to about half of last year's pace, expanding by 4.7 per cent in 2012 and 4.9 per cent in 2013.

Exports will continue to recover, helped by robust U.S. demand for motor vehicles and parts. Real exports are anticipated to advance by 4.1 per cent in 2012, while growth in imports will be more muted at 2.9 per cent, translating into a lower trade deficit.

Ontario's labour markets will perform relatively well this year, adding 105,000 jobs and bringing the unemployment rate down 0.4 percentage points to an average of 7.4 per cent. Despite job gains and lower inflation, real income will improve only slightly as tax credits introduced during the recession and the harmonized sales tax

transitional payments come to an end. As a result, consumer spending will grow by just 1.9 per cent, and even that modest gain will come at the expense of the savings rate.



BUSINESS INVESTMENT INSULATES ECONOMY

With a \$16-billion budget shortfall expected in fiscal 2011–12, the Ontario government will rely on fiscal restraint in its effort to eliminate its deficit by 2017–18. Over the next five years, real (i.e., inflation-adjusted) government spending on goods and services is projected to grow at the average rate of just 1.1 per cent.

However, public infrastructure spending will take the biggest hit, declining 12.5 per cent this year and 7.4 per cent in 2013. While business investment will fully offset contracting public infrastructure spending, total capital investment will still expand by only 1.2 per cent in 2012—a big decline from last year's 9.1 per cent. On a net basis, the public sector will take away from bottom-line growth this year, as real spending by all levels of government falls 1 per cent and remains at that level in 2013.

Growth in business capital investment will slow to about half the 2011 pace this year, as global economic uncertainty and sovereign debt woes in Europe continue to weigh on business confidence. Nonetheless, it will still expand at a healthy rate. Leading the way in 2012 is investment in machinery and equipment (up 6.1 per cent) and non-residential construction (up 4.5 per cent). The northern part of the province is experiencing a boom in mining and exploration activities, as elevated commodity prices are increasing the commercial viability of projects. Economic uncertainty and volatility in financial markets continued to draw investors to gold last year, sending gold prices through the roof. By 2016, Ontario's gold extraction is expected to double, reaching 3.1 million troy ounces and accounting for 40 per cent of Canadian gold production. Increased mining activity will boost investment in machinery and equipment, and will help create new jobs and build local infrastructure. The cash-strapped Ontario government will also be able to benefit through increased royalty revenues and corporate taxes. Overall, the mining sector is anticipated to advance by 6.5 per cent this year, followed by a 7.3 per cent gain in 2013.

Ontario is the leading province in installed wind energy capacity. Therefore, renewable energy industries will also support business investment in the province. Canada's wind power capacity expanded 30 per cent last year.



and Ontario played a large role, adding eight new wind farms to the existing grid. However, in the near term the expansion of the industry may slow down, as the industry faces opposition from local communities. Additionally, the government review of the feed-in tariff program, which guarantees prices for renewable electricity, creates uncertainty around future prices, and the lack of North American “cap and trade” carbon-pricing policies makes wind energy less attractive. Major investments are looming in Ontario’s manufacturing industry. Toyota has announced a \$545-million investment to make its plants in Woodstock and Cambridge more efficient and environmentally friendly, while General Motors will invest \$117 million in its Oshawa plant where the new Cadillac XTC will be built. As well, Maple Leaf Foods, Canada’s biggest food processor, will build a new \$395-million plant in Hamilton as part of the company’s restructuring plan.

Following brisk growth last year, Ontario’s real estate market is expected to cool in 2012. Growth in residential investment will moderate to 3.6 per cent in 2012. However, it will pick up next year, accelerating to 7.2 per cent. Toronto continues to be the driving force behind the stellar growth in Ontario’s housing starts, which advanced 14.3 per cent last year. In fact, once Toronto is excluded from the housing equation, starts actually declined 8.6 per cent. Next year, housing starts are projected to edge down 1.1 per cent, since many of the large-scale residential projects that started last year are still under construction. In addition, the record-low interest rates that fuelled demand for residential properties last year will slowly start to move up. Nonetheless, the weakness will be temporary—housing starts are forecast to rise by 7.9 per cent in 2013.

ONTARIO EXPORTS TO IMPROVE

Despite strong economic headwinds, Ontario’s trade sector is expected to weather the storm well. Recent data from the U.S.—the main destination for Ontario’s exports—offer more reasons for the province to feel optimistic about the future. U.S. labour markets have shown a marked improvement, finally hitting the “magic number” of 200,000 new jobs per month—the pace needed to bring down the stubbornly high unemployment rate. Steady

Taming Health Care Spending Is Critical for Ontario's Fiscal Health

In its 2011–12 budget, the Ontario government laid out its plan to attain fiscal balance by 2017–18 by containing growth in nominal program spending to 1.7 per cent a year until 2018. To achieve this ambitious target, public health care spending, which currently eats up 44 cents of every dollar in provincial revenues, will have to grow by just 3 per cent—a big drop from the 7 per cent pace of the last decade. A recent study by The Conference Board of Canada found that even if Ontario is successful at meeting these austere spending targets, it would take until at least fiscal 2021–22 for the province to balance its books.¹ The study took into account softer growth in potential GDP, revising Ontario’s revenue projections downward, and examined the province’s finances under three different scenarios of health care spending. Under the first scenario, health care spending is aligned with the most recent budget, which assumes a 3 per cent growth, leading to fiscal balance by 2021–22. However, the Ontario government’s plan to limit increases to 3 per cent annually will be difficult to achieve, since nominal health care spending would have to grow by around 4.7 per cent annually just to keep up with inflation and the aging and growth in the population. Under the second scenario, which would see spending on health care grow by 4.7 per cent, the government would have difficulty balancing its budget before 2031—at which point the provincial net debt-to-GDP ratio would climb above 50 per cent. This gives rise to the third scenario, under which a 7 percentage point hike to the provincial sales tax would allow for 5.6 per cent growth in health care spending and still eliminate the budget deficit by 2017–18.

In late March or early April, the Ontario government will table its new budget for fiscal 2012–13, which should provide more details—both on the revenue and expenditure side—of how it plans to steer the province’s fiscal balance toward equilibrium in a timely manner.

¹ For further details, see Matthew Stewart, Kip Beckman, and Glen Hodgson, *Ontario's Economic and Fiscal Prospects: Challenging Times Ahead* (Ottawa: The Conference Board of Canada, 2012).

employment gains will help lift the spirits of U.S. households, boosting consumer confidence and spending. U.S. vehicle sales have been on an upward trend, increasing 10 per cent in 2011 and reaching 12.7 million units. Brisk January sales confirmed that there is still pent-up demand for the auto industry’s products. As a result, Ontario’s exports of autos and parts are expected to increase 8 per cent this year and 7.7 per cent in 2013, helping to improve the overall trade performance. (See chart “Autos and Parts Lift Exports in the Near Term.”) Additionally, after a difficult year marked by natural disasters in Asia, production will return to normal levels at Honda’s and Toyota’s plants in Ontario. Exports growth

will outpace import growth in the medium term, allowing for a slight improvement in real net exports. The trade balance will, nonetheless, remain in negative territory.

EMPLOYMENT, CONSUMPTION TO ADVANCE AT A MORE TEMPERATE PACE

Employment growth will be softer in 2012, compared with last year. Job creation has been uneven since the middle of 2011—the number of people employed at the start of 2012 was lower than it was in June 2011. A lot of jobs have been eliminated in the service sector, construction, and manufacturing since the middle of last year. As the province with the largest number of federal employees, Ontario’s public sector employment will be disproportionately affected by the federal and provincial government spending restraint. Therefore, new jobs will be concentrated in the private sector, where healthy growth in construction and a modest turnaround in trade will brighten the overall picture. Ontario’s battered manufacturing sector will continue to shed jobs this year, due to ongoing restructuring. But hiring in the province’s manufacturing sector should benefit from a stronger U.S. economy in 2013, when a little over 16,000 new jobs are expected. All in all, employment in Ontario is forecast to gain 1.6 per cent in 2012 and 2.3 per cent in 2013, with the unemployment rate averaging 7.4 per cent and 7 per cent over that period.

Modest employment and wage gains will limit consumption growth to 1.9 per cent this year, the same rate as in 2011. Real disposable income will grow by a mere 0.5 per cent, as tax credits introduced during the recession and the harmonized sales tax transitional payments come to an end. Furthermore, enticed by record-low interest rates, households have accumulated debt, and rising debt-servicing costs will limit consumption growth in the medium term. In the mean time, growth in consumer spending continues to outpace real income growth, eroding the savings rate. (See chart “Household Savings Rate Drops as Income Growth Weakens.”) Real income growth will rebound in 2013, advancing by 2.5 per cent. Despite the improvement, the household savings rate will drop further, as all of the income gains—and more—will go toward consumption, which is forecast to advance by 3.1 per cent.

Forecast Risks

Short term

- ♦ Geopolitical tensions, in particular with Iran, could push oil prices higher, causing the loonie to appreciate further and hurt Ontario’s exports.

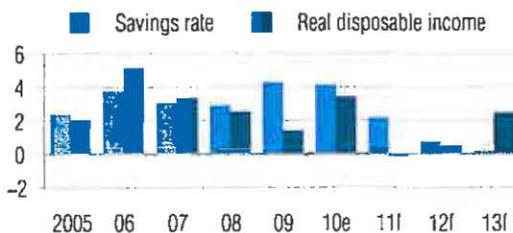
Medium term

- ♦ Auto exports are still well below their pre-recession peak. That means there remains room for U.S. vehicle demand to expand once American labour markets improve more fully.

Source: The Conference Board of Canada.

Household Savings Rate Drops as Income Growth Weakens

(savings, per cent; income, percentage change)

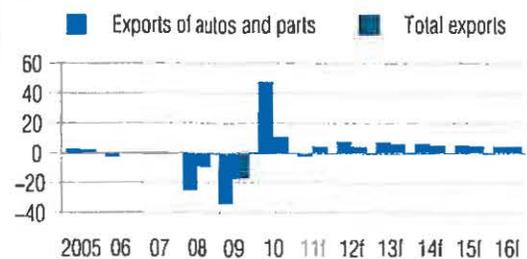


f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Autos and Parts Lift Exports in the Near Term

(percentage change)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Key Economic Indicators: Ontario
(forecast completed: February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	632,699	634,422	641,354	642,958	652,130	659,049	666,663	674,938	683,615	691,670	699,936	708,046	637,858	663,195	695,817
	1.0	0.3	1.1	0.3	1.4	1.1	1.2	1.2	1.3	1.2	1.2	1.2	4.1	4.0	4.9
GDP at basic prices (current \$)	590,663	592,243	598,858	599,897	608,254	614,365	621,171	628,631	636,512	644,174	651,675	659,051	595,416	618,105	647,853
	1.0	0.3	1.1	0.2	1.4	1.0	1.1	1.2	1.3	1.2	1.2	1.1	4.1	3.8	4.8
GDP at basic prices (constant 2002 \$)	495,878	495,690	499,788	498,102	502,378	504,944	508,005	511,332	515,769	519,164	522,528	525,900	497,365	506,665	520,840
	1.2	0.0	0.8	-0.3	0.9	0.5	0.6	0.7	0.9	0.7	0.6	0.6	2.1	1.9	2.8
Consumer Price Index (2002 = 1.0)	1.184	1.203	1.207	1.208	1.211	1.218	1.224	1.231	1.237	1.244	1.251	1.258	1.201	1.221	1.247
	0.4	1.6	0.3	0.0	0.3	0.5	0.5	0.5	0.5	0.6	0.5	0.6	3.1	1.7	2.2
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1.191	1.195	1.198	1.204	1.211	1.217	1.223	1.229	1.234	1.241	1.247	1.253	1.197	1.220	1.244
	-0.2	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5	1.9	1.9	2.0
Average weekly wages (\$, industrial composite)	828.7	836.5	829.2	829.8	836.9	843.1	849.2	855.1	861.0	867.1	873.4	879.8	831.1	846.1	870.3
	1.1	0.9	-0.9	0.1	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	2.4	1.8	2.9
Personal Income (current \$)	512,510	515,808	516,597	518,729	523,362	528,544	534,319	540,366	547,198	553,695	560,148	566,555	515,911	531,648	556,899
	0.4	0.6	0.2	0.4	0.9	1.0	1.1	1.1	1.3	1.2	1.2	1.1	3.2	3.1	4.7
Personal disposable income (current \$)	402,407	403,840	402,393	403,502	406,421	409,818	414,060	418,522	423,102	427,663	432,444	437,198	403,035	412,205	430,102
	0.5	0.4	-0.4	0.3	0.7	0.8	1.0	1.1	1.1	1.1	1.1	1.1	1.9	2.3	4.3
Personal savings rate	3.0	2.7	1.7	1.3	1.2	0.8	0.6	0.4	0.3	0.1	0.1	0.1	2.2	0.8	0.2
Population of labour force age (000s)	10,874	10,908	10,944	10,980	11,019	11,056	11,093	11,129	11,166	11,202	11,239	11,275	10,926	11,074	11,220
	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.3	1.4	1.3
Labour force (000s)	7,280	7,321	7,301	7,314	7,331	7,363	7,400	7,444	7,479	7,506	7,533	7,556	7,304	7,384	7,518
	0.6	0.6	-0.3	0.2	0.2	0.4	0.5	0.6	0.5	0.4	0.4	0.3	0.9	1.1	1.8
Employment (000s)	6,691	6,748	6,750	6,735	6,779	6,816	6,853	6,894	6,937	6,978	7,015	7,049	6,731	6,836	6,995
	0.8	0.9	0.0	-0.2	0.7	0.6	0.5	0.6	0.6	0.6	0.5	0.5	1.8	1.6	2.3
Unemployment rate	8.1	7.8	7.5	7.9	7.5	7.4	7.4	7.4	7.2	7.0	6.9	6.7	7.8	7.4	7.0
Retail sales (current \$)	159,230	160,252	161,181	161,871	162,672	164,623	166,622	168,611	170,725	172,772	174,823	176,835	160,634	165,632	173,788
	-0.2	0.6	0.6	0.4	0.5	1.2	1.2	1.2	1.3	1.2	1.2	1.2	3.0	3.1	4.9
Housing starts (units)	61,673	71,021	71,278	67,312	64,271	66,336	68,152	69,487	70,277	71,503	73,111	74,502	67,821	67,061	72,348
	8.8	15.2	0.4	-5.6	-4.5	3.2	2.7	2.0	1.1	1.7	2.2	1.9	12.2	-1.1	7.9

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each Indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

The Goods Sector Comes Back to Life

Highlights

- ◆ Agriculture will see a strong recovery this year following two years of devastating floods.
- ◆ Private investment in residential and non-residential structures will soften the impact of government cuts on the construction industry.
- ◆ The unemployment rate will remain low.

Economic Indicators (percentage change)

	2011f	2012f	2013f
Real GDP	1.6	2.7	2.6
Consumer Price Index	2.9	1.6	2.2
Personal disposable income	4.2	2.4	3.9
Employment	0.7	1.6	2.2
Unemployment rate (level)	5.4	5.2	5.1
Retail sales	4.5	5.3	4.3
Wages and salaries per employee	4.0	2.8	2.6
Population	1.3	1.4	1.5

f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Government and Background Information

Premier	Greg Selinger
Next election	2015
Population (2011Q4)	1,254,658
Government balance (2011–12)	-\$795.5 million

Sources: The Conference Board of Canada; Manitoba Finance.

Manitoba's economy will pick up the pace this year, largely due to the solid advance of the goods sector. Strong performances are expected in agriculture, manufacturing, and utilities. In addition, the service industries will continue to see solid growth thanks to continued strong population growth and the growing goods sector. All told, real GDP is forecast to expand 2.7 per cent in 2012 and 2.6 per cent in 2013.

The agriculture sector is one of the main drivers of the provincial economy. And following two consecutive years of serious flooding that reduced seeded areas and lowered yields, the sector is poised to make a strong rebound. Warmer-than-usual winter weather has reduced the levels of excess moisture in the soil, and that should help mitigate the impact of any heavy spring rains, should they occur. The manufacturing sector is set to expand at a stronger pace in 2012 and 2013, despite the continuing strength of the Canadian dollar. This growth is being led by increased food processing and by growth in the aerospace industry. Although the mining sector is expected to post soft growth in 2012 (due to a temporary decline in metal mining), it will bounce back in 2013—growing nearly 10 per cent—once metal output ramps up.

The service sector is expected to do well over the near term thanks to healthy demand in the goods-producing sector and a strong provincial economy that is boosting disposable income. In particular, wholesale and retail trade is expected to grow briskly, led by strong retail sales, which will grow 5.3 per cent in 2012 and 4.3 per cent in 2013. Strong international in-migration is also

having many positive effects—most notably, by bolstering demand for housing.

STRONG PROSPECTS FOR THE PRIMARY SECTOR

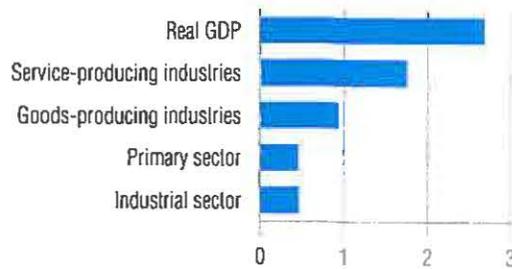
Manitoba's goods-producing industries are finally showing signs of life. On the heels of a weak performance in 2011, the goods sector is forecast to grow 3.5 per cent this year and 2.8 per cent the next. All goods industries, with the notable exception of construction, are expected to advance at a healthy pace in the near term.

The agriculture sector, which has suffered greatly in the last two years, is forecast to recover. In the wake of last year's floods, disaster relief measures were put in place by the federal and provincial governments to support farmers. The result is that farmers will be in solid financial shape to invest in this summer's harvest and cash in on strong agricultural prices. Prices for Manitoba's main agricultural products—wheat, barley, hogs, and cattle—are expected to fall only slightly this year. Moreover, low precipitation this winter has resulted in lower levels of snow cover and a decrease in soil moisture, reducing the risk that harvests could be hurt by flooding again this year.

The agricultural sector continues to face uncertainty due to legal challenges brought against Bill C-18, otherwise known as the *Marketing Freedom for Grain Farmers Act*. The act will bring an end to the Canadian Wheat Board's monopoly on the sale of Western wheat and barley for human consumption this summer. However, pending the outcome of the legal action being undertaken by different farmer groups that are trying to stop the implementation of the bill, there is some uncertainty as to whether any contracts with other grain marketers will be enforceable. In spite of this uncertainty, the Manitoba agriculture sector is set to expand 10.7 per cent this year. An upside risk exists for the sector. Should the U.S. government decide not to appeal the ruling by the World Trade Organization (WTO) against some of the provisions of the U.S. Country of Origin Labelling regulations, or should an appeal be unsuccessful, livestock exports could get a strong boost.

After two years of rapid expansion, Manitoba's mining sector is expected to cool off in 2012, growing only 1.3 per cent. The culprit is the metal mining industry, which will decline 2.5 per cent on account of the exhaustion of the Trout Lake and Chisel North zinc mines. However, the

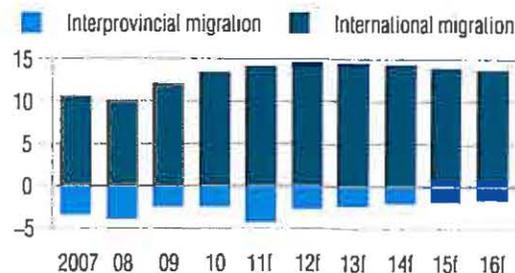
Contributions to Manitoba Real GDP Growth, 2012
(by industry/sector, percentage point; GDP, per cent)



Note: "Primary" is the sum of agriculture, forestry, fishing and trapping, and mining sectors. "Industrial" is the sum of manufacturing, construction, and utilities sectors.

Sources: The Conference Board of Canada; Statistics Canada.

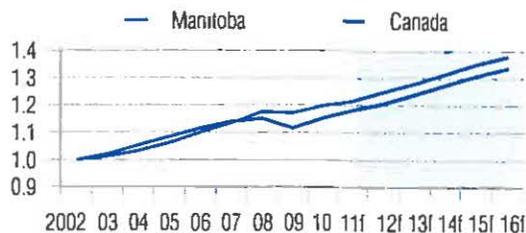
Sources of Migration
(net migration, 000s)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Real GDP, 2002 to 2016
(index, 2002 = 1.0)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

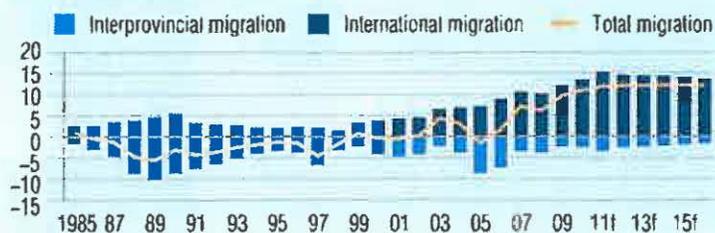


Changing the Face of Manitoba: The Provincial Nominee Program

The 2011 Census confirmed that Manitoba's population is on a strong growth trend. Population growth during the latest intercensal period (2006–11) was 5.2 per cent, almost double the rate during the previous one (2001–06). Much of this increase came from international migration, as net interprovincial migration was negative over the last five years. This success in attracting new Canadians is thanks to Manitoba's Provincial Nominee Program (PNP).

Manitoba's PNP, established in 1998, is recognized as being among the most successful in Canada. (All provinces, with the exception of Quebec,¹ have a PNP.) Under the PNP framework, each province is allowed to tailor its criteria for immigrants (for example, by occupational classes, family considerations, international student experience, and so on), but it is Manitoba that has taken the greatest advantage of the program. Between 2006 and 2010 (the last year for which full data are available), 38.6 per cent of approved provincial nominees went through Manitoba's program.² Moreover, the immigration rate has increased dramatically over the last decade. In 2001, the rate was 4.2 immigrants per 1,000 residents. By 2011, it was 12.7 immigrants per 1,000 residents.³ This three-fold increase in the rate at which newcomers are settling in Manitoba is having a very positive effect on the population of the province and, by extension, its economy. In the decade leading up to the PNP, total net migration (net interprovincial plus international) was negative as many Manitobans moved to other provinces and international migration to Manitoba was low. Although the interprovincial outflow has continued, the number of international migrants has grown so dramatically that positive total net migration is now the norm—and that is how it is forecast to stay. (See chart "A Positive Shift in Migration.")

A Positive Shift in Migration (net migration, 000s)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

- 1 Quebec has had its own arrangements with the federal government on accepting immigrants since 1971.
- 2 Citizenship and Immigration Canada. *Canada—Permanent and Temporary Residents—English Version*. www.data.gc.ca/default.asp?lang=En&n=5175AGF0-1&xsl=datapataloguerecord&metaxsl=datapataloguerecord&formid=17B4A2D0-86D1-491C-B733-429BD31492EE (accessed February 17, 2012).
- 3 Estimated based on Statistics Canada's "Table 051-0011—International Migrants, by Age Group and Sex, Canada, Provinces, and Territories, Annual (Persons)," and "Table D51-0001—Estimates of Population, by Age Group and Sex for July 1, Canada, Provinces, and Territories, Annual (Persons Unless Otherwise Noted)," CANSIM database (accessed February 17).

fortunes of the metal mining industry are set for a turnaround in 2013 as output at the Lalor (gold, zinc, and copper) mine starts to ramp up. Next year, metal mining will expand an impressive 20.8 per cent—and in doing so, it will propel the entire mining sector to 9.8 per cent growth. (See "Mining Will Bounce Back in Manitoba Next Year.") Meanwhile, mineral fuel extraction will grow by 3.2 per cent this year and 2.7 per cent in 2013.

MANUFACTURING IN MANITOBA: STEADY GROWTH

Manufacturing will pick up over the near term. The sector will finally see an expansion of 2.5 per cent this year. Food processing, the largest manufacturing industry in the province, will grow thanks to the rebound in the agricultural output, especially grains and oilseeds. Also, Maple Leaf Foods is investing \$85 million to upgrade and expand its Winnipeg meat-processing plant. The expansion will create hundreds of jobs and provide a boost to the industry. The province's aerospace industry will continue to grow as demand for its products soars. Leading the way is Boeing Winnipeg, which manufactures composite parts for the 787 Dreamliner and is slated to produce components for the 737-MAX once production on that aircraft begins. One downside risk for the aerospace sector is the F-35 fighter-jet program (for which Bristol Aerospace fabricates some components). Orders have been cut as European governments aim to balance their budgets. In 2013, the manufacturing industry will grow by 2.1 per cent.

LEAN TIMES AHEAD FOR THE CONSTRUCTION INDUSTRY

The construction industry is cooling. Growth this year will be a tepid 0.9 per cent, and a contraction of 0.3 per cent is expected in 2013. The main source of this weakness is a steep decline in government construction spending as stimulus spending is phased out. Government spending on construction will fall 19.3 per cent in 2012 and a further 6.3 per cent next year. However, due to the need to replace aging infrastructure, government construction spending will return to growth in 2014.

In contrast to public investment, non-residential business investment and residential construction will perform well over the near term, cushioning the impact on the construction industry of government cuts. In particular, investment in metal mining—for instance, Hudbay’s Lalor mine and concentrator projects and Victory Nickel’s Minago project—will provide a boost to non-residential construction, which will grow 8.3 per cent in 2012 and 2.9 per cent in 2013. However, it is new housing construction that will be doing the heavy lifting for the sector. (See chart “Residential Construction Pushes Ahead.”) Driven by demand from international in-migration, housing starts are forecast to reach 6,435 units this year and 6,797 units in 2013, with further increases in subsequent years.

A SQUEEZE FOR PUBLIC SERVICES

Manitoba’s service-sector industries are expected to record solid growth in the medium term, but will lag the goods sector. All in all, the service sector will grow 2.4 per cent this year and 2.5 per cent next year. The impact of government efforts to return the province to a balanced budget by 2013–14—especially in the wake of unforeseen spring 2011 flood costs—will squeeze the public administration and the non-commercial service (educational services and health care and social assistance) sectors. Public administration will see weak growth of 1.2 per cent in 2012 and 1 per cent in 2013. Meanwhile, non-commercial services will grow 1.5 per cent this year but by a more robust 2.4 per cent in 2013. Privately delivered services will fare somewhat better than public ones over

the near term. Transportation, warehousing, and communications will see solid growth of 2.3 per cent in 2012, reflecting, in large part, the demand from the growing primary sector. Similarly, the finance, insurance, and real estate sector will reap the benefits of a strong housing market, growing 2.2 per cent in 2012 and a faster 2.9 per cent in 2013.

Manitoba households will continue to enjoy the fruits of a growing economy. The clearest measure of this is the unemployment rate, which is expected to average a low 5.2 per cent this year and then to fall slightly to 5.1 per cent in 2013. Also, growth in personal disposable income (2.4 per cent in 2012 and 3.9 per cent in 2013) and low interest rates will continue to propel retail sales over the near term. Retail sales are expected to grow 5.3 per cent this year and 4.3 per cent the next.

Forecast Risks

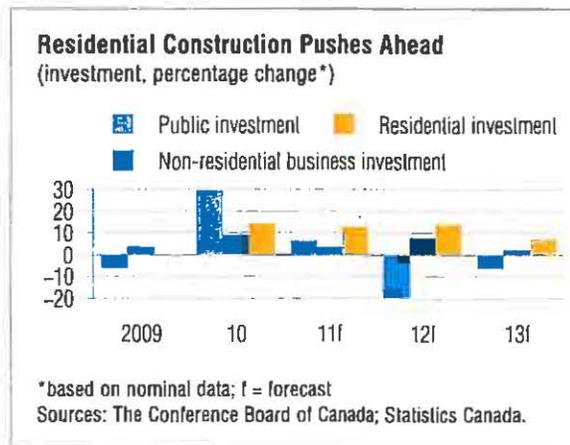
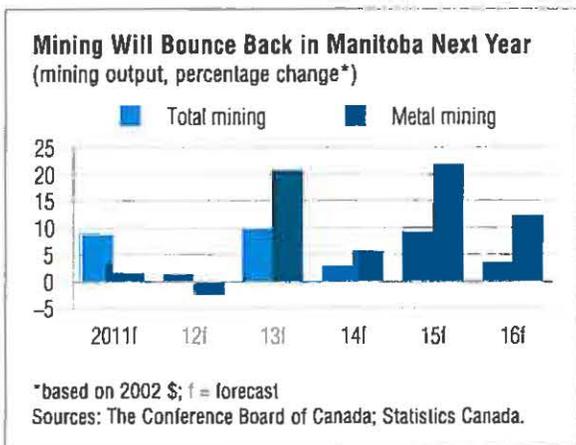


- ◆ If the WTO ruling against the U.S. “country of origin labelling” regulations stands, livestock exports to the U.S. will get a boost.



- ◆ The larger-than-expected deficit in 2011 (due to the high cost of fighting floods) means an increase in interest rates could lead to much higher debt-servicing costs.

Source: The Conference Board of Canada.



Key Economic Indicators: Manitoba
 (forecast completed: February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	56,511	56,888	57,414	57,776	58,715	59,471	60,155	60,829	61,467	62,147	62,856	63,558	57,147	59,792	62,507
	1.7	0.7	0.9	0.6	1.6	1.3	1.1	1.1	1.0	1.1	1.1	1.1	5.3	4.6	4.5
GDP at basic prices (current \$)	52,738	53,103	53,600	53,911	54,778	55,461	56,072	56,673	57,240	57,885	58,525	59,161	53,338	55,746	58,202
	1.8	0.7	0.9	0.6	1.6	1.2	1.1	1.1	1.0	1.1	1.1	1.1	5.4	4.5	4.4
GDP at basic prices (constant 2002 \$)	40,788	40,827	41,027	41,010	41,579	41,901	42,166	42,402	42,703	42,966	43,234	43,508	40,913	42,012	43,103
	0.4	0.1	0.5	0.0	1.4	0.8	0.6	0.6	0.7	0.6	0.6	0.6	1.6	2.7	2.6
Consumer Price Index (2002 = 1.0)	1.172	1.188	1.185	1.192	1.195	1.201	1.206	1.211	1.219	1.226	1.233	1.240	1.184	1.203	1.229
	1.2	1.4	-0.2	0.5	0.3	0.4	0.4	0.4	0.6	0.6	0.6	0.6	2.9	1.6	2.2
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1.293	1.301	1.306	1.315	1.317	1.324	1.330	1.337	1.340	1.347	1.354	1.360	1.304	1.327	1.350
	1.4	0.6	0.4	0.6	0.2	0.5	0.5	0.5	0.3	0.5	0.5	0.5	3.7	1.8	1.8
Average weekly wages (\$ industrial composite)	734.6	743.2	737.4	736.0	749.7	754.3	759.4	764.3	769.4	774.3	779.3	784.3	737.8	756.9	776.8
	0.4	1.2	-0.8	-0.2	1.9	0.6	0.7	0.6	0.7	0.6	0.6	0.6	3.8	2.6	2.6
Personal Income (current \$)	43,485	45,391	44,479	44,975	45,307	45,713	46,219	46,734	47,209	47,713	48,233	48,732	44,582	45,993	47,972
	0.7	4.4	-2.0	1.1	0.7	0.9	1.1	1.1	1.0	1.1	1.1	1.0	4.9	3.2	4.3
Personal disposable income (current \$)	34,805	36,330	35,378	35,727	35,928	36,200	36,585	36,975	37,285	37,645	38,042	38,423	35,560	36,422	37,849
	0.6	4.4	-2.6	1.0	0.6	0.8	1.1	1.1	0.8	1.0	1.1	1.0	4.2	2.4	3.9
Personal savings rate	2.5	5.7	2.4	2.9	2.5	2.1	1.9	1.7	1.5	1.4	1.4	1.4	3.4	2.0	1.4
Population of labour force age (000s)	949	952	955	957	961	964	968	971	975	978	982	985	953	966	980
	0.3	0.3	0.4	0.2	0.4	0.4	0.4	0.4	0.3	0.4	0.4	0.4	1.3	1.3	1.4
Labour force (000s)	660	658	660	661	664	667	670	674	678	681	684	687	660	669	683
	0.6	-0.3	0.2	0.2	0.5	0.4	0.5	0.6	0.5	0.5	0.5	0.4	0.8	1.4	2.0
Employment (000s)	626	623	623	626	629	632	636	640	643	646	650	652	624	634	648
	0.4	-0.4	0.0	0.4	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.4	0.7	1.6	2.2
Unemployment rate	5.3	5.3	5.5	5.4	5.3	5.2	5.2	5.1	5.1	5.1	5.1	5.1	5.4	5.2	5.1
Retail sales (current \$)	16,225	16,274	16,504	16,812	17,037	17,222	17,432	17,633	17,795	17,977	18,170	18,350	16,454	17,331	18,073
	1.6	0.3	1.4	1.9	1.3	1.1	1.2	1.2	0.9	1.0	1.1	1.0	4.5	5.3	4.3
Housing starts (units)	4,558	5,997	6,644	7,132	6,568	6,414	6,389	6,369	6,518	6,753	6,872	7,044	6,083	6,435	6,797
	-17.7	31.6	10.8	7.3	-7.9	-2.3	-0.4	-0.3	2.3	3.6	1.8	2.5	3.3	5.8	5.6

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Potash Production Cuts Weighing on Growth

Highlights

- ◆ Planned potash production has been downgraded for 2012, but should bounce back quickly next year.
- ◆ Business investment in the province will be strong over the near and medium term.
- ◆ Housing starts are expected to slow but, nevertheless, remain elevated.

Economic Indicators

(percentage change)

	2011f	2012f	2013f
Real GDP	5.2	2.6	3.5
Consumer Price Index	2.8	1.8	2.2
Personal disposable income	5.9	3.2	3.7
Employment	0.3	1.5	2.2
Unemployment rate (level)	5.0	4.6	4.5
Retail sales	8.9	7.9	4.1
Wages and salaries per employee	6.0	3.4	3.1
Population	1.3	1.4	1.2

f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Government and Background Information

Premier	Brad Wall
Next election	2015
Population (2011Q4)	1,063,535
Government balance (2011-12)	\$25 million

Sources: The Conference Board of Canada; Saskatchewan Finance.

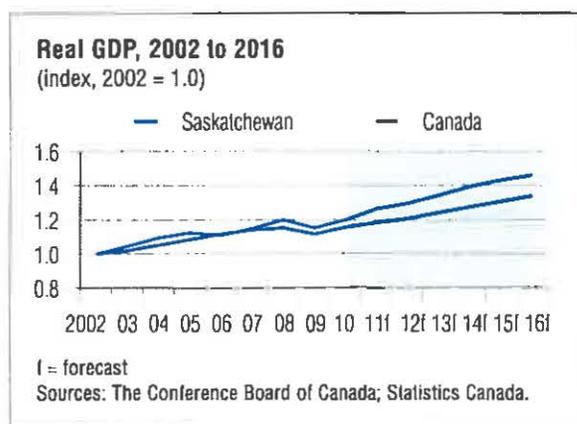
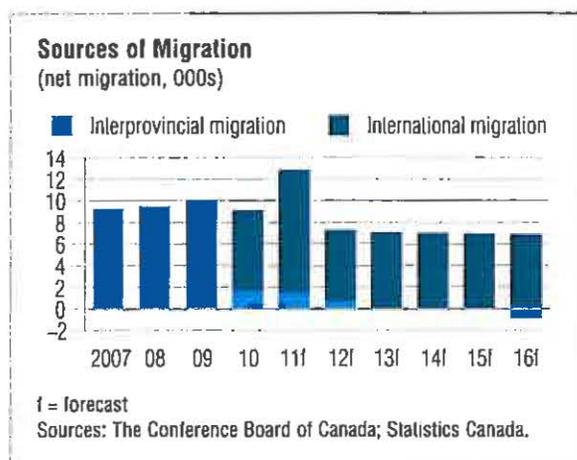
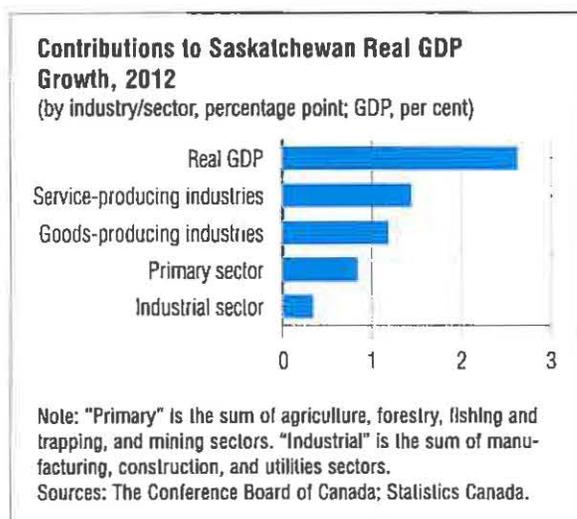
Saskatchewan continues to perform well, even against the backdrop of a global slowdown and stabilizing commodity prices. Real gross domestic product growth is expected to come in at 2.6 per cent this year, with stronger growth of 3.5 per cent forecast for 2013. Saskatchewan's sources of growth are widespread; however, the goods sector continues to outperform the service sector and is expected to do so for the duration of the forecast period.

Many sectors—including agriculture, construction, and utilities—will record moderate growth this year, but will experience a pickup in 2013. Some of the best performers in 2012 will be mining and manufacturing. Mining continues to grow at a strong pace, driven by the mineral fuels sector, which will expand 7.9 per cent in 2012. And manufacturing is set for a 3.8 per cent gain. Also, non-residential business investment, which is coming off a very strong year, looks to continue this trend over the near term, and that will lead to productivity gains and stronger economic prospects going forward.

Labour markets will remain tight. As a result, the unemployment rate will average 4.6 per cent this year, helping to boost real personal disposable income growth by 1.4 per cent. An even stronger performance is expected next year for income gains. This income growth, along with a strong goods sector, will lead to higher demand for services. However, services provided by the public sector will continue to lag as the provincial government remains committed to fiscal restraint.

MODEST GAINS FOR AGRICULTURE

The agriculture sector is expected to record very little growth in 2012, owing largely to an anticipated softening of agricultural prices—especially for wheat. Strong har-



vests in major producer countries have boosted stockpiles of grain around the globe, and that has moderated the price outlook for 2012. However, the sector is expected to expand 2.5 per cent in 2013, partly in response to growing global demand for grains and livestock and the associated increase in prices. Also, the uncertainty caused by Bill C-18, which ends the Canadian Wheat Board's monopoly on sales of Western wheat and barley for human consumption as of this summer, will be resolved by then, and this should help farmers in their planning. An upside risk for the sector is the final outcome of this past November's ruling by the World Trade Organization (WTO) against some provisions of the United States' country-of-origin-labelling requirements. The U.S. has until March 23 to appeal the decision. Should the ruling stand, livestock exports to the U.S. will get a strong boost.

A FINE BALANCE: NON-METAL AND MINERAL FUEL MINING

Saskatchewan's mining sector continues to forge ahead, with growth of 5.8 per cent and 7.7 per cent forecast this year and next. This strong growth for the sector comes in spite of non-metal mining (mainly potash) lagging this year, growing only 1.6 per cent. The market for potash is uncertain at the moment on account of the ongoing uncertainty surrounding agricultural prices. Major buyers, such as China and India, are delaying their purchases in the hope that prices will fall. In response to this temporary softness in demand, many large producers have made production cuts in order to support prices. For instance, PotashCorp is committed to reducing its production until March 31, with cuts representing approximately 15 per cent of its operational capacity.¹ Similarly, Mosaic will cut production by up to 20 per cent from its planned levels for the period from February through May.² However, a resumption of output is expected in the second half of

1 Jonathan Ratner, "Potash Corp. Wisely Cuts Production Again," *Financial Post*, February 23, 2012. <http://business.financialpost.com/2012/23/potash-corp-wisely-cuts-production-again/> (accessed February 28, 2012).

2 Mosaic, *Mosaic Announces Production Curtailment*. News release, February 3, 2012. <http://phx.corporate-ir.net/phoenix.zhtml?c=70455&p=irol-newsArticle&ID=1656386&highlight=> (accessed February 28, 2012).



the year. Non-metal mining is forecast to rise by 20.8 per cent in 2013. (See chart “The Rise of Non-Metal Mining.”)

The forecast for the other segments of the mining industry is positive. An increase in drilling in 2012 will boost mineral fuel production by 7.9 per cent, with most of this growth coming from tight oil plays in the Bakken formation. Looking further ahead, mineral fuel output is expected to peak in late 2013, with small declines in output forecast the following years.

MINING INVESTMENT IS BOOMING

Looking ahead to the later years of the forecast, the mining sector is expected to continue experiencing strong growth. Major investments in the potash sector are in the works. K+S Canada recently approved construction of its Legacy project, which will be Saskatchewan’s first greenfield potash mine in over 40 years. Also, BHP Billiton’s proposed Jansen project is slated to begin construction later this year, as is Agrium’s \$1.5-billion Vanscoy mine expansion. Non-potash-related mining projects are also under development. Work on Shore Gold’s Star-Orion South Diamond Project will start later this year. Slated for completion in late 2016, Star-Orion will be the province’s first diamond mine. Also, Brigus Gold is advancing plans for its Goldfields project, which is expected to start construction in the near future. Furthermore, recent agreements between Canada and China have opened the door for uranium exports to one of the world’s fastest-growing nuclear markets.

Major investments are not exclusive to mining. Work on the Regina Revitalization Initiative is expected to start this year. This is a multi-year, \$1-billion project that involves the construction of a new stadium and commercial and residential space in downtown Regina. In addition, work on major projects, such as the Boundary Dam Carbon Capture and Storage Facility, is set to start shortly. Overall, total business non-residential investment spending will grow 4.3 per cent this year but then rise to 11.6 per cent next year.

After expanding 5.7 per cent last year, the construction sector is cooling down, with growth of 0.3 per cent expected this year. The reason for this weaker performance is that

Chinese Market Could Boost Uranium Exports

The fallout of the Japanese tsunami and the associated Fukushima nuclear plant disaster has been difficult for the uranium industry. Japan was the third-biggest importer of uranium, but the Japanese market for uranium virtually collapsed overnight. And confidence in the safety of nuclear generation plummeted, causing countries such as Germany to commit to a nuclear-free future and to shut down their nuclear reactors in the near future. Saskatchewan—the sole uranium-producing province in Canada—accounts for roughly 20 per cent of global output and exports 80 per cent of the uranium it produces.¹ Since 1976, as part of its efforts to support the non-proliferation of nuclear arms, the federal government has outlawed exports to countries that do not maintain and provide full and transparent accounting records of how the uranium is used. Thus, most nuclear-armed countries, including China, have been off limits (since countries generally do not allow foreign access to their military data.)

However, some recent developments are reason for optimism. On February 9, the United States approved the construction of its first new nuclear reactor in over 30 years. An even bigger boost has come from a series of trade agreements signed by Canada and China in early February. The federal government agreed to follow Australia’s example and relax the accounting standards for uranium exports to China, thus opening the door to Canadian exports of uranium.² This is significant because most of the nuclear reactors coming online in the next decades will be in China (and India), whereas many European governments are considering scaling back their nuclear generation in the face of public pressure. Currently, there are 26 reactors under construction in China, 14 others are already in operation, and many more are expected to be built by the end of this decade. The opportunity to tap into this growing market will provide an enormous boost to Saskatchewan’s uranium exports.³

- 1 Canadian Centre for Energy Information, *Energy Facts and Statistics: Saskatchewan*, www.centreforenergy.com/factsstats/MapsCanada/SK-EnergyMap.asp (accessed February 23, 2012).
- 2 Clark and McCarthy, *Harper relaxes accountability rules for China’s use of uranium*, *The Globe and Mail*, February 10 2012, <http://www.theglobeandmail.com/news/politics/harper-relaxes-accountability-rules-for-chinas-use-of-uranium/article2333398/> (accessed February 20 2012).
- 3 World Nuclear Association, *Nuclear Power in China*, January 2012, <http://world-nuclear.org/info/inf63.html>, (accessed February 19 2012).

while business investment is on an upward trend, government infrastructure spending and housing starts will be down. Indeed, government infrastructure spending will continue to fall—down 10.8 per cent this year and 6.5 per cent in 2013—as fiscal restraint takes hold in the province. Meanwhile, housing starts will begin a downward trend, with an expected 6,834 units and 6,091 units over the next two years. However, it will not take long before construction begins to heat up again, thanks to strong business investment. Next year, the construction industry is expected to grow 3.3 per cent, with growth accelerating further in subsequent years.

SLOWDOWN IN PUBLIC SERVICES

Overall, the service industries will grow at a moderate pace over the next two years, but public sector services will lag. The provincial government is steadfast in its commitment to restraint and is limiting spending growth on public administration, which will see job cuts and growth held to just 1.4 per cent in 2012 and 1.2 per cent in 2013. Meanwhile, non-commercial services, such as health care and social assistance and education, will grow by just 1.5 per cent this year before accelerating to 2.1 per cent growth next year.

Overall, private sector services are poised for a more robust performance than public ones. Wholesale and retail trade output will continue to grow at a healthy pace in 2012 (albeit significantly slower than last year), expanding 4.2 per cent, with retail trade performing particularly well. Finance, insurance, and real estate—one of the biggest service industries in the province—will continue to grow steadily despite the slowdown in housing starts. All in all, the service sector will advance 2.3 per cent this year and 2.6 per cent in 2013.

TIGHT LABOUR MARKETS FUELLING INCOME GROWTH

Competing for skilled labour with neighbouring provinces, Saskatchewan's labour markets are tightening up. Saskatchewan's unemployment rate will be a low 4.6 per cent this year and 4.5 per cent next year. (See chart "Tight Labour Markets Support Income Gains.")

The province's households are enjoying the benefits of strong labour demand and robust wage gains. According to a recent compensation survey, Saskatchewan is expected to experience the strongest wage growth of all provinces in 2012.³ Personal disposable income is expected to advance 3.2 per cent this year and a further 3.7 per cent the next, outpacing inflation. This income growth will spur households to increase their consumption, driving very high retail sales growth—7.9 per cent in 2012 and 4.1 per cent in 2013.

3 Nicole Stewart, *Compensation Planning Outlook 2012: Mid-Year Pulse Check* (Ottawa: The Conference Board of Canada, 2012).

Forecast Risks



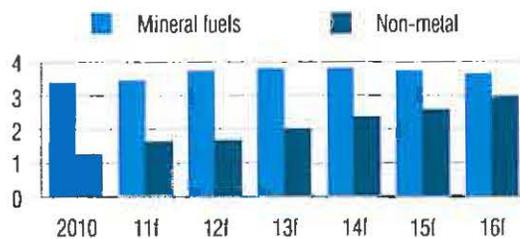
- ◆ If the WTO ruling against U.S. "country of origin labelling" regulations stands, live-stock exports to the U.S. will get a boost.



- ◆ Recent agreements between Canada and China open the door to increased uranium production and exports.

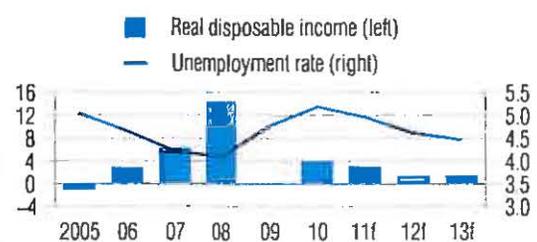
Source: The Conference Board of Canada.

The Rise of Non-Metal Mining
(mining sector output, 2002 \$ billions)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Tight Labour Markets Support Income Gains
(income, percentage change*; unemployment rate, per cent)



*based on 2002 \$; f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Key Economic Indicators: Saskatchewan

(forecast completed: February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	68,395	69,011	69,836	71,040	71,361	72,203	73,296	74,423	75,513	76,688	77,866	79,020	69,571	72,821	77,272
	3.7	0.9	1.2	1.7	0.5	1.2	1.5	1.5	1.5	1.6	1.5	1.5	9.5	4.7	6.1
GDP at basic prices (current \$)	65,259	65,864	66,666	67,827	68,087	68,869	69,902	70,968	71,999	73,144	74,266	75,364	66,404	69,457	73,693
	3.8	0.9	1.2	1.7	0.4	1.1	1.5	1.5	1.5	1.6	1.5	1.5	9.7	4.6	6.1
GDP at basic prices (constant 2002 \$)	40,938	41,098	41,457	41,874	41,973	42,217	42,593	42,932	43,323	43,694	44,078	44,478	41,342	42,429	43,893
	2.6	0.4	0.9	1.0	0.2	0.6	0.9	0.8	0.9	0.9	0.9	0.9	5.2	2.6	3.5
Consumer Price Index (2002 = 1.0)	1.206	1.220	1.223	1.229	1.233	1.239	1.244	1.249	1.257	1.265	1.272	1.279	1.220	1.241	1.268
	0.8	1.1	0.3	0.5	0.3	0.4	0.4	0.4	0.6	0.6	0.6	0.6	2.8	1.8	2.2
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1.594	1.603	1.608	1.620	1.622	1.631	1.641	1.653	1.662	1.674	1.685	1.694	1.606	1.637	1.679
	1.2	0.5	0.3	0.7	0.1	0.6	0.6	0.7	0.5	0.7	0.6	0.6	4.3	1.9	2.6
Average weekly wages (\$, industrial composite)	836.1	848.0	847.5	843.7	859.4	868.2	875.0	881.7	888.4	894.9	901.6	908.4	843.8	871.1	898.3
	1.5	1.4	-0.1	-0.4	1.9	1.0	0.8	0.8	0.8	0.7	0.7	0.8	2.4	3.2	3.1
Personal Income (current \$)	40,904	41,331	42,068	42,206	42,552	42,975	43,417	43,855	44,250	44,728	45,226	45,730	41,627	43,200	44,984
	0.8	1.0	1.8	0.3	0.8	1.0	1.0	1.0	0.9	1.1	1.1	1.1	5.8	3.8	4.1
Personal disposable income (current \$)	33,233	33,698	34,160	34,224	34,447	34,740	35,077	35,410	35,666	36,014	36,398	36,788	33,829	34,918	36,217
	0.9	1.4	1.4	0.2	0.7	0.9	1.0	0.9	0.7	1.0	1.1	1.1	5.9	3.2	3.7
Personal savings rate	6.1	5.9	6.1	4.8	4.7	4.4	4.2	4.0	3.8	3.7	3.7	3.7	5.8	4.3	3.7
Population of labour force age (000s)	797	798	801	804	805	808	810	812	814	816	818	820	800	809	817
	0.2	0.2	0.4	0.3	0.2	0.3	0.3	0.3	0.2	0.3	0.3	0.3	1.2	1.1	1.0
Labour force (000s)	555	553	552	554	556	558	561	564	567	570	572	575	553	560	571
	0.1	-0.3	-0.2	0.4	0.4	0.4	0.5	0.6	0.5	0.5	0.5	0.4	0.0	1.1	2.0
Employment (000s)	525	525	526	527	530	532	535	538	541	544	547	550	526	534	545
	0.2	0.1	0.1	0.2	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.3	1.5	2.2
Unemployment rate	5.4	5.0	4.6	4.8	4.7	4.6	4.6	4.6	4.5	4.5	4.5	4.4	5.0	4.6	4.5
Retail sales (current \$)	15,780	16,064	16,420	17,265	17,372	17,578	17,773	17,952	18,092	18,282	18,484	18,686	16,382	17,669	18,386
	2.6	1.8	2.2	5.1	0.6	1.2	1.1	1.0	0.8	1.0	1.1	1.1	8.9	7.9	4.1
Housing starts (units)	6,248	6,814	7,972	7,090	7,258	6,986	6,648	6,443	6,485	6,203	5,924	5,754	7,031	6,834	6,091
	-14.8	9.0	17.0	-11.1	2.4	-3.7	-4.8	-3.1	0.7	-4.3	-4.5	-2.9	19.0	-2.8	-10.9

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Alberta Poised to Return to Top Spot Over the Next Two Years

Highlights

- ◆ Alberta continues to enjoy one of the country's strongest labour markets.
- ◆ The impending construction boom in the oil sands will have benefits far beyond the construction industry.
- ◆ Annual energy investment is projected to double between 2011 and 2016.

Economic Indicators (percentage change)

	2011f	2012f	2013f
Real GDP	3.6	3.3	4.0
Consumer Price Index	2.4	1.9	2.2
Personal disposable income	5.9	4.8	5.3
Employment	3.8	3.8	2.4
Unemployment rate (level)	5.5	4.6	4.5
Retail sales	7.2	9.2	5.9
Wages and salaries per employee	4.2	2.9	3.5
Population	1.5	2.0	1.9

f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Government and Background Information

Premier	Alison Redford
Next election	Before June 1, 2012
Population (2011Q4)	3,798,791
Government balance (2012-13)	-\$886 million

Sources: The Conference Board of Canada; Alberta Finance.

Even though the ongoing difficulties in the European and U.S. economies still present downside risks to Canada as a whole, they will have little effect on Alberta.

Energy investment will drive growth over the forecast, and the spinoff effects will be substantial. Output of mineral fuels and mining services will expand rapidly as incremental capacity comes online. Manufacturing will increase output of petroleum products and chemicals, as well as primary and fabricated metals. And demand will be strong in associated industries such as professional services, transportation and warehousing, wholesaling, and business services. All in all, real gross domestic product will increase 3.3 per cent this year, followed by 4 per cent in 2013.

CONSTRUCTION BOOMING

Despite global economic uncertainty and the potential for a recession in the eurozone, crude oil prices have been relatively unaffected. After a brief dip in the summer, prices recovered all of their lost ground. Prices are expected to remain generally stable throughout 2012, before beginning their long-term ascent starting next year.

Energy investment already accounts for the majority of private investment in the province, and given the positive outlook for oil prices, optimism in the oil sands is high. Virtually all projects are economical in the current

environment. And including ongoing repairs and maintenance, investment in non-conventional activities alone will cumulatively surpass \$100 billion over the medium term. While slowing economic growth around the world does present some downside to oil prices in the near term, several factors will work together to mitigate this risk. First, geopolitical tensions, particular in the oil-producing countries of the Middle East, add a risk premium to oil prices. Second, interest rates remain at record lows, keeping the cost of financing capital-intensive megaprojects low. Third, natural gas prices are extremely low and are projected to remain so throughout the medium term, lowering operating costs for oil sands projects, where natural gas can represent a significant portion of operating costs. Finally, because oil sands projects are long-term projects that usually span more than 20 years, the decision whether to proceed is based on a long-term view of oil prices—which are universally expected to trend higher over the long term.

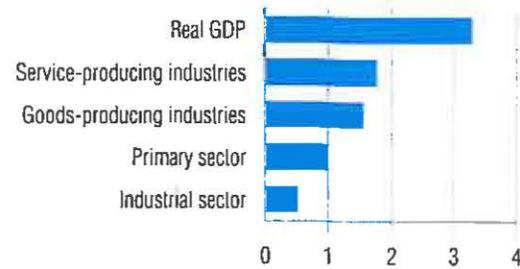
Conventional activity is also undergoing a brief resurgence and will provide an additional boost to the investment outlook for the next two years. Drilling rig utilization rates averaged higher in 2011 than in any of the previous four years, and the evidence suggests that the majority of drilling in Alberta has been directed toward oil extraction. (See chart “Oil Well Drilling Boosts Rig Utilization Rates.”) In fact, oil well completions are estimated to have increased 40 per cent last year from 2010 levels, according to data provided by Alberta’s Energy Resources Conservation Board.^{1, 2} Higher oil prices and the use of the new horizontal and multi-stage fracturing drilling techniques have opened up new conventional pools, and even previously exploited pools are being increasingly targeted for enhanced oil recovery. This will lead to increased investment over the next two years. After that, investment in conventional activity will plateau for the rest of the medium term.

1 Well count data come from the Energy Resources Conservation Board’s “ST59: Alberta Drilling Activity Monthly Statistics.” www.ercb.ca/portal/server.pl/gateway/PTARGS_0_0_201_0_0_35/http%3B/ercbContent/publishedcontent/publish/ercb_home/publications_catalogue/publications_available/serial_publications/st59.aspx.

2 Rig utilization data taken from the Canadian Association of Oilwell Drilling Contractors’ website. www.caodc.ca/statistics/rigcounts-drilling_weekly.html.

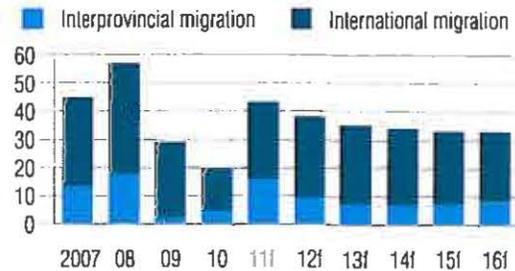
The natural gas industry will underperform its oil counterpart. A supply glut in North America is widely expected to keep prices depressed for several more years. (Although the current outlook calls for prices to rise from the US\$2.50/mmbtu range in February to average

Contributions to Alberta Real GDP Growth, 2012
(by industry/sector, percentage point; GDP, per cent)



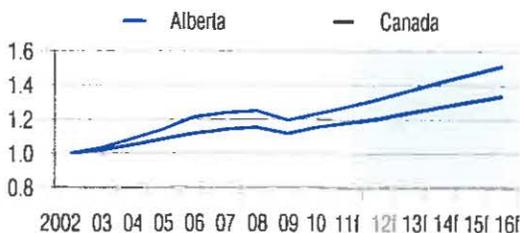
Note: “Primary” is the sum of agriculture, forestry, fishing and trapping, and mining sectors. “Industrial” is the sum of manufacturing, construction, and utilities sectors.
Sources: The Conference Board of Canada; Statistics Canada.

Sources of Migration
(net migration, 000s)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Real GDP, 2002 to 2016
(Index, 2002 = 1.0)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.



Big Price Discounts on Canadian Crude: Do They Threaten Alberta's Economy?

After being priced at a premium for much of 2011, the spread between Canadian synthetic crude oil (SCO) price and the benchmark WTI price has not just narrowed since peaking in the summer, it has completely reversed, such that by early February Canadian SCO was selling as much as \$22 lower per barrel. Not only is SCO being sold at a discount, but the spread between Western Canada Select (a heavier variety of crude) and WTI is also widening. These discounts represent lost profits for Canadian oil sands producers. Could they threaten future production—and thus Alberta's economy?

Pipeline constraints and rising output are often cited as potential reasons for the widening spreads. Oil sands production surged in January, and there is very little spare capacity on current export pipelines. Pipeline capacity south of the border is also strained thanks to incremental production originating from the Bakken formation in North Dakota, which is now producing more than 500,000 b/d.

However, refining capacity has also been an issue for Canadian producers. Several refineries that are large consumers of Canadian SCO have not been able to purchase as much as usual (due to factors such as the recent partial outage at BP's refinery in Whiting, Indiana), or will be going offline in coming weeks. Thus, there is a supply glut of crude oil in the U.S. Midwest. The plan to reverse the flow through the Seaway pipeline (giving Canadian producers direct access to refineries along the U.S. Gulf coast) would have helped alleviate the problem to some extent, but that project has been pushed back until June, likely exacerbating the short-term discounts.

In the short term, these discounts will moderate as Midwest refining capacity comes back online and new pipeline capacity out of Oklahoma and flowing to Texas helps burn off excess supply at Cushing. Thus, the impacts on Alberta's economy will be muted over the next two years. However, given that Alberta will add nearly 1 mmbd of new production before 2016, this should serve as a reminder of just how important having access to pipeline capacity will be. There is currently insufficient capacity to transport the crude expected over the next five years, and the cancellation of the Keystone XL pipeline and the potential delay of the Northern Gateway pipeline could very well result in these types of discounts persisting if something is not done to expand existing transportation infrastructure.

\$4.72 in 2013, that is still far below the \$8.90 average we saw in 2008.) Weak prices have already driven down the number of natural gas wells completed to a fraction of their pre-recession levels. And given the distribution of natural gas wells within the province and the current pricing, the Conference Board expects gas activity to remain weak throughout the medium term. The rise of the oil sector will completely overshadow this trend, however, and send nominal energy investment in the province up from \$24.4 billion in 2011 to \$49.3 billion in 2016.

BENEFITS OF ENERGY SECTOR EXTEND FAR BEYOND CONSTRUCTION INDUSTRY

As investment in the province's energy sector continues to expand, the construction sector will naturally benefit. Thus, even though a large pullback in federal infrastructure spending will limit growth in real construction output to just 2.3 per cent this year, growth will accelerate to 7.8 per cent in 2013 and then average 5.3 per cent a year over 2014–16 as public spending stabilizes.

But the spinoff effects of the construction boom will benefit many other industries. Manufacturers will boost production of fabricated metals and machinery and equipment to supply the oil sands megaprojects, and there should also be an increase in production of petroleum products and chemicals, in line with higher oil production. Output in the manufacturing sector is therefore projected to increase 3.6 per cent in 2012, followed by 5 per cent in 2013. Shipments of goods in and through the province will increase quickly to satisfy higher aggregate demand, pushing output in the wholesale trade industry up by an average of 4.1 per cent annually over the next two years. Firms will also demand more transportation and warehousing activity to ship and store their increased production of goods, boosting that industry by an annual average of 3.3 per cent over the same period.

Finally, total crude production in Alberta is projected to reach 2.9 million barrels per day (mmbd) by 2016 with significant gains to be realized in the early part of the forecast thanks to the oil sands. And even though waning natural gas production will offset some of these gains, output in the mineral fuels industry (which alone makes up 40 per cent of the province's goods-producing sector) will expand at an annual rate of 3 per cent over the forecast.

STRONG WAGE GAINS WILL BOLSTER CONSUMER DEMAND

Labour markets have already begun to re-tighten in Alberta. While job creation did slow in the later part of last year, Alberta still created 14,600 jobs in the final quarter and entered 2012 on a high note. The booming

energy sector will ensure that labour demand remains strong over the forecast. Employment is projected to swell by 80,000 this year, accounting for nearly 30 per cent of all the job growth in Canada. Gains are expected to be concentrated in the construction, wholesale and retail trade, services, and other primary industries. And despite the fact that labour force growth will pick up thanks to a higher participation rate and in-migration, job creation will still be sufficiently strong to drive the unemployment rate down to 4.6 per cent.

Another 52,900 jobs are forecast for 2013, and the unemployment rate will drop to 4.5 per cent. Tighter labour markets mean that Albertans will continue to enjoy wage gains well above the Canadian average. The average weekly wage in the industrial sector (excluding public administration, education, health care, and social services) in Alberta is projected to rise 3.4 per cent in 2012, followed by an increase of 3.5 per cent in 2013. In fact, wage growth will be sufficiently strong in Alberta over the forecast that by 2016 the average weekly wage will be 22 per cent higher than the average for Canada as a whole.

Disposable income is projected to increase by an average rate of 4.8 per cent over the forecast in line with strong employment and wage gains. This will prove to be a boon to retailers in the province who can expect their sales to jump 9.2 per cent in this year and then another 5.9 per cent next year. (See chart “Driven by Strong Income Gains, Retail Sales Expand at Quickest Rate in Canada.”) This will bolster demand for community, business, and personal services, which are projected to

increase at an average annual rate of 3.3 per cent over the forecast. Firms will also benefit from the ongoing boom as corporate profits increase rapidly, pushing output of commercial services up 2.8 per cent this year and 4.7 per cent in 2013.

The public sector will not be as much of a drag on the economy over the near term. In its Budget 2012, the Alberta government forecasts a deficit of \$886 million in fiscal 2012–13. But by 2014–15, the provincial government expects a surplus in excess of \$5 billion. Capital expenditures at the provincial level are forecast to come down from \$6.3 billion in 2011–12 to \$5.7 billion in 2012–13. Operating expenses are forecast to increase by nearly 7 per cent this fiscal year, with health care rising 8 per cent and education up 3.4 per cent.

Forecast Risks

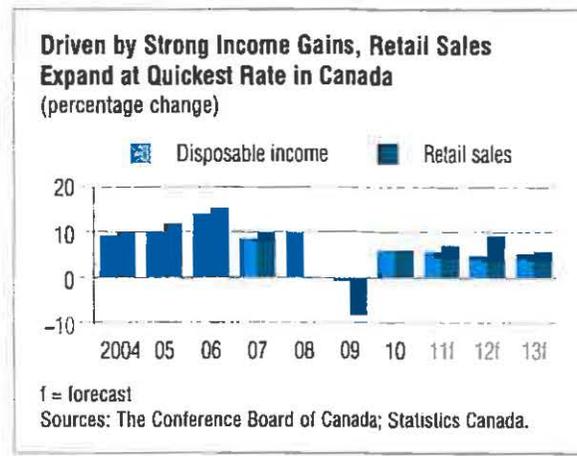
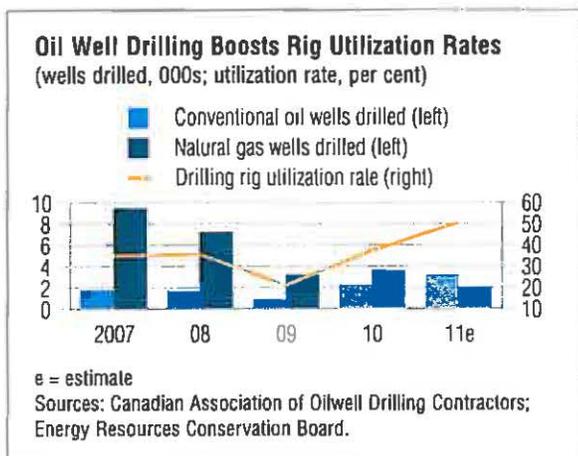


- ◆ Geopolitical tensions are rising and oil prices have increased as a result. This may result in more drilling activity in the short term and higher investment.



- ◆ Lack of transportation capacity could ultimately lead to slower-than-expected development of the oil sands. Several export pipelines remain mired in the regulatory approval process, both here and in the U.S.

Source: The Conference Board of Canada.



Key Economic Indicators: Alberta
(forecast completed: February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	279,795	281,063	286,721	290,851	293,416	297,509	302,040	306,973	312,316	317,480	322,543	327,490	284,608	299,984	319,957
	3.3	0.5	2.0	1.4	0.9	1.4	1.5	1.6	1.7	1.7	1.6	1.5	8.0	5.4	6.7
GDP at basic prices (current \$)	270,866	272,104	277,695	281,705	284,096	288,017	292,377	297,137	302,310	307,391	312,291	317,083	275,592	290,407	309,769
	3.4	0.5	2.1	1.4	0.8	1.4	1.5	1.6	1.7	1.7	1.6	1.5	8.1	5.4	6.7
GDP at basic prices (constant 2002 \$)	182,879	182,405	185,103	186,467	187,816	189,345	191,070	192,882	195,037	196,945	198,776	200,583	184,213	190,278	197,835
	0.9	-0.3	1.5	0.7	0.7	0.8	0.9	0.9	1.1	1.0	0.9	0.9	3.6	3.3	4.0
Consumer Price Index (2002 = 1.0)	1.241	1.258	1.260	1.268	1.271	1.278	1.284	1.290	1.298	1.306	1.313	1.321	1.257	1.281	1.310
	1.0	1.4	0.2	0.6	0.3	0.5	0.5	0.5	0.6	0.6	0.6	0.6	2.4	1.9	2.2
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1.481	1.492	1.500	1.511	1.513	1.521	1.530	1.541	1.550	1.561	1.571	1.581	1.496	1.526	1.566
	2.5	0.7	0.6	0.7	0.1	0.6	0.6	0.7	0.6	0.7	0.7	0.6	4.4	2.0	2.6
Average weekly wages (\$, industrial composite)	961.3	965.3	962.2	982.9	988.4	995.7	1004.6	1013.6	1022.6	1031.4	1040.4	1049.6	967.9	1000.6	1036.0
	1.1	0.4	-0.3	2.1	0.6	0.7	0.9	0.9	0.9	0.9	0.9	0.9	2.4	3.4	3.5
Personal income (current \$)	184,040	187,846	189,865	192,404	195,072	197,627	200,529	203,405	206,183	208,994	211,770	214,524	188,539	199,158	210,368
	1.6	2.1	1.1	1.3	1.4	1.3	1.5	1.4	1.4	1.4	1.3	1.3	6.5	5.6	5.6
Personal disposable income (current \$)	146,439	149,080	149,897	151,632	153,466	155,257	157,453	159,634	161,578	163,623	165,728	167,815	149,262	156,453	164,686
	1.6	1.8	0.5	1.2	1.2	1.2	1.4	1.4	1.2	1.3	1.3	1.3	5.9	4.8	5.3
Personal savings rate	17.5	17.7	17.4	16.6	16.5	16.3	16.1	15.9	15.8	15.7	15.7	15.7	17.3	16.2	15.7
Population of labour force age (000s)	2,987	3,000	3,014	3,025	3,041	3,056	3,070	3,083	3,096	3,109	3,122	3,135	3,007	3,062	3,116
	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	1.5	1.9	1.7
Labour force (000s)	2,188	2,197	2,233	2,241	2,253	2,271	2,289	2,304	2,315	2,327	2,339	2,349	2,215	2,279	2,333
	1.5	0.4	1.7	0.4	0.5	0.8	0.8	0.6	0.5	0.5	0.5	0.4	2.7	2.9	2.3
Employment (000s)	2,062	2,073	2,110	2,129	2,148	2,166	2,183	2,198	2,209	2,221	2,232	2,244	2,094	2,174	2,226
	1.3	0.5	1.8	0.9	0.9	0.9	0.8	0.7	0.5	0.6	0.5	0.5	3.8	3.8	2.4
Unemployment rate	5.8	5.6	5.5	5.0	4.7	4.6	4.6	4.6	4.6	4.6	4.5	4.5	5.5	4.6	4.5
Retail sales (current \$)	62,087	63,032	63,938	67,510	68,381	69,452	70,595	71,678	72,661	73,673	74,675	75,657	64,142	70,026	74,167
	0.3	1.5	1.4	5.6	1.3	1.6	1.6	1.5	1.4	1.4	1.4	1.3	7.2	9.2	5.9
Housing starts (units)	20,937	23,762	27,591	30,526	29,830	29,402	28,981	28,809	28,735	29,225	29,788	30,435	25,704	29,256	29,546
	-3.9	13.5	16.1	10.6	-2.3	-1.4	-1.4	-0.6	-0.3	1.7	1.9	2.2	-5.1	13.8	1.0

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Elevated Risk Results in Modest Growth

Highlights

- ◆ The mining sector is poised to post near double-digit growth every year from 2012 to 2016.
- ◆ Soft global growth will result in modest gains in manufacturing this year.
- ◆ The construction industry will feel the impact of declining government investment.

Economic Indicators

(percentage change)

	2011f	2012f	2013f
Real GDP	2.6	2.1	3.6
Consumer Price Index	2.3	1.7	1.9
Personal disposable income	3.1	3.1	4.3
Employment	0.8	2.1	2.5
Unemployment rate (level)	7.5	6.3	5.8
Retail sales	2.4	5.6	4.7
Wages and salaries per employee	3.9	2.3	2.6
Population	1.0	1.3	1.4

f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Government and Background Information

Premier	Christy Clark
Next election	May 2013
Population (2011Q4)	4,592,034
Government balance (2012-13)	-\$968 million

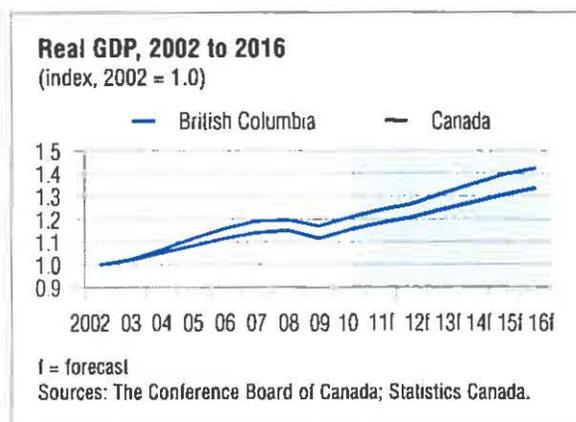
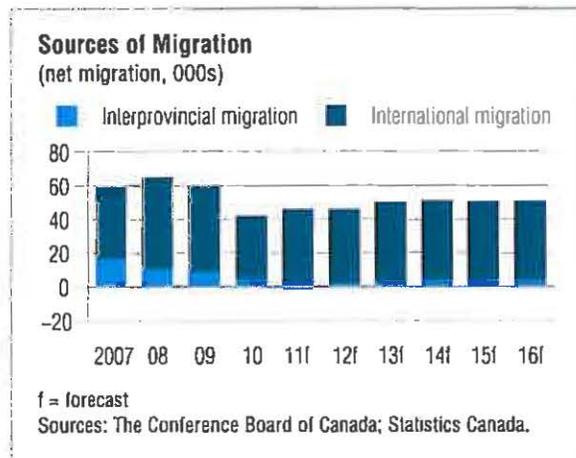
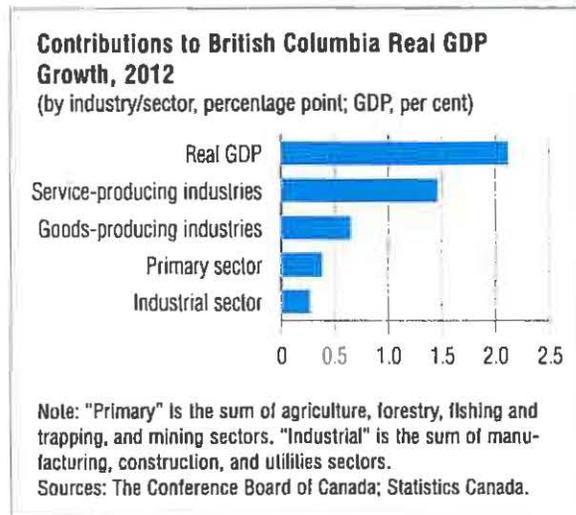
Sources: B.C. Ministry of Finance; Statistics Canada.

The global economic climate remains riddled with risk, and this uncertainty is holding back growth in British Columbia. The ongoing European debt crisis and the possibility of another financial market crisis are hurting consumer and business confidence, and that will temper gains in private sector spending in the province this year. Add in a sharp pullback in government investment spending and real gross domestic product (GDP) growth in B.C. will be limited to 2.1 per cent in 2012. The economy is expected to perform much better next year with real GDP growth accelerating to a 3.6 per cent pace, making B.C. one of the fastest-growing economies in the country.

Moderating growth in China and only a modest improvement in the U.S. housing market will limit gains in the forestry industry this year. Activity in the construction industry will also be modest this year as declining government investment partially offsets the gains forecast in private investment. On the bright side, the mining sector is expected to perform well over the next few years with new mine developments and continued increases in shale gas production.

Looking ahead to next year, growth in the province's forestry industry will pick up steam as the recovery in the U.S. housing market becomes stronger. Manufacturing will benefit not only from improved prospects in the forestry sector, but also as Seaspan Marine begins work on the \$8-billion federal contract it was awarded last fall to build non-combat vessels under the National Shipbuilding Procurement Strategy.

Employment gains were modest in B.C. last year, but the situation will improve this year. An estimated 47,000 jobs will be created in the province in 2012, pushing unemployment down to 6.3 per cent. The



momentum is forecast to continue into 2013, with employment gaining another 2.5 per cent.

U.S. HOUSING MARKET SHOWS SIGNS OF IMPROVEMENT

The housing market has been the Achilles heel of the U.S. recovery for some time, but finally there is positive news. Job growth south of the border has accelerated over the past few months, consumer confidence is improving, and credit markets are expanding. In fact, over the final few months of 2011, low long-term interest rates prompted an expansion in mortgage lending. Despite these promising developments, the housing market in the U.S. continues to be weighed down by falling home prices.¹ Our expectation is that home prices will continue to fall throughout the first part of this year as the market deals with the glut of foreclosed homes hitting the market. But prices are expected to stabilize mid-year and then start increasing by the end of the year.

Given the improving demand fundamentals, we expect new home construction to accelerate over the coming months. In 2013, housing starts in the U.S. will total 969,000 units. While conditions are improving south of the border, B.C.'s forestry industry will have to contend with slowing demand from China this year. Strong Chinese demand growth has propelled industry gains over the past few years; but as China's economy slows, so too will its demand for B.C.'s wood products. As such, real output in the forestry industry is forecast to gain just 1.9 per cent this year. Next year, a stronger U.S. housing market and increased Chinese demand will help the forestry sector post a gain of 4.4 per cent.

MINING INDUSTRY MAINTAINS MOMENTUM

The mining industry is emerging as a growth leader in British Columbia. Over the next five years, the mining sector is poised to post near double-digit growth in

¹ Glen Hodgson, *U.S. Economic Data Improve, But Home Prices Have Not Hit Bottom*. January 9, 2012. www.conferenceboard.ca/economics/hot_eco_topics/default/12-01-09/U_S_Economic_Data_Improve_But_Home_Prices_Have_Not_Hit_Bottom.aspx.



every year from 2012 to 2016. Much of the gain is attributable to the mineral fuels industry, which continues to benefit from shale gas development. But gains are also expected to be strong in mining services and metal mining. A wealth of undeveloped resources is fuelling exploration expenditures in the province, helping to boost output in mineral services. Past exploration expenditures in the province are paying off with a number of new mines forecast to open over the near term. New Gold's New Afton mine is expected to start production in the second half of this year, and Thompson Creek's Mt. Milligan mine is expected to start production during the third quarter of 2013. These new mines will help boost real output in metal mining by 6.5 per cent this year and by 19.7 per cent in 2013.

B.C.'s natural gas industry is expected to perform well over the medium term. Despite low prices for natural gas in North America, B.C.'s natural gas is attractive due to its relatively low extraction costs. Furthermore, the Montney deposit is rich in natural gas liquids, such as propane and butane, and prices for those products tend to follow the price for crude oil rather than natural gas. The large price gap between natural gas and crude oil is therefore encouraging drilling in liquid-rich natural gas plays. With large deposits still to be tapped, gas production in the province will grow at a strong pace for many years. Our forecast calls for an increase in real mineral fuels output of 11 per cent this year and 8.3 per cent in 2013. (See chart "Shale Gas Boosts Mineral Fuels Production.")

MANUFACTURING GROWTH REMAINS MODEST

Growth in the province's manufacturing industry will remain modest this year due to soft global demand conditions and a deceleration in output growth in the forestry industry. But growth will accelerate next year as the forestry industry gains momentum, the global economy gets stronger, and work on the non-combat vessel contract awarded to Seaspan Marine of Vancouver as part of the National Shipbuilding Procurement Strategy gets under way. Real manufacturing output is forecast to grow by 2.2 per cent this year and 5.4 per cent in 2013.

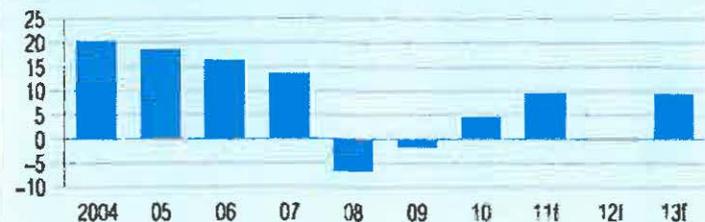
Soft Landing Predicted in the Resale Housing Market

British Columbia is an expensive place to purchase real estate—Vancouver particularly so. In 2011, the average resale home price in B.C. was 1.5 times higher than the national average, and in Greater Vancouver, the average price was a staggering 2.1 times higher.¹ As home prices have soared and affordability has deteriorated, the future of the resale home market in B.C. has become a hot topic. While growth in the resale market is not expected to be as robust as it was in 2011, our expectation is that B.C.'s resale market is in for a soft landing.

Home prices in B.C. shot up over the first few months of 2011, and despite the fact that prices fell most months from May to December, the average resale home price in B.C. for 2011 as a whole was 11 per cent higher than the average price for 2010. Still, by December, resale home prices in B.C. had fallen 10 per cent from the peak level observed in April 2011, and they ended the year 7.5 per cent below where they were in January 2011. The weak handoff going into this year will result in the resale home price for 2012 averaging slightly less than it did last year.

Slightly lower home prices are expected to dampen repair and renovation expenditures this year.² (See chart "Soft Prices Restrain Residential Repair and Renovation Spending"). After gaining 9.5 per cent last year, growth in nominal repair and renovation spending is set to decelerate to just 0.1 per cent this year. Resale home prices are forecast to post much better growth in 2013, and this will provide the incentive for homeowners to increase their repair and renovation spending by 9.5 per cent.

Soft Prices Restrain Residential Repair and Renovation Spending (residential repairs and renovations spending, percentage change)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

- 1 Prices are from the Canadian Real Estate Association's Residential MLS Database.
- 2 The Conference Board of Canada's repair and renovation spending forecast also includes ownership transfer costs.

DECLINING GOVERNMENT INVESTMENT DAMPENS THE CONSTRUCTION OUTLOOK

The B.C. economy was boosted by government infrastructure spending programs that were introduced during the 2008–09 recession. But those programs wrapped up last year. As a result, government investment is forecast

to decline by 10.9 per cent this year. Further austerity is expected next year as the government looks to balance its budget, resulting in a 9 per cent decline in government investment spending.

While global uncertainty will likely lead some companies to scale back investment projects this year, B.C. will benefit from a host of natural-resource related investments. Private non-residential investment spending is set to increase by 8.9 per cent this year and by a further 10.5 per cent in 2013, boosted by such large-scale projects as the Kitimat LNG terminal, the Mt. Milligan mine, and the Kitimat aluminum smelter modernization.

Housing starts will increase over the next two years, reaching 30,500 units in 2013. While growth in new home construction will be strong over the near term, a cool-down in the resale market will limit residential investment gains to 2.4 per cent this year. (See box “Soft Landing Predicted in the Resale Market.”)

Declines in government investment, along with weak residential investment spending, will limit real output growth in the construction industry to 0.3 per cent this year. But strong private residential and non-residential investment spending will allow the sector to post gains of 4.8 per cent in 2013.

EMPLOYMENT SET TO REBOUND

Employment is set to rebound strongly over the near term, increasing by 2.1 per cent this year and 2.5 per

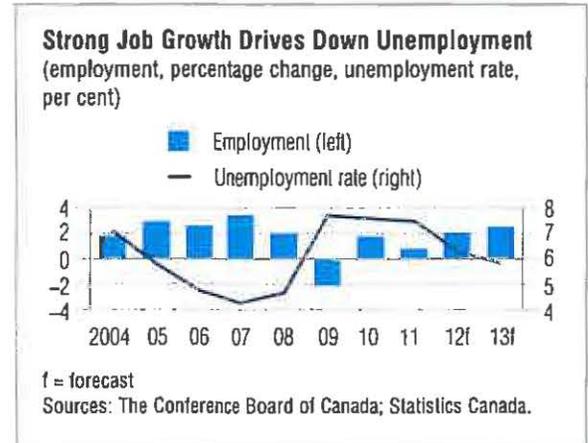
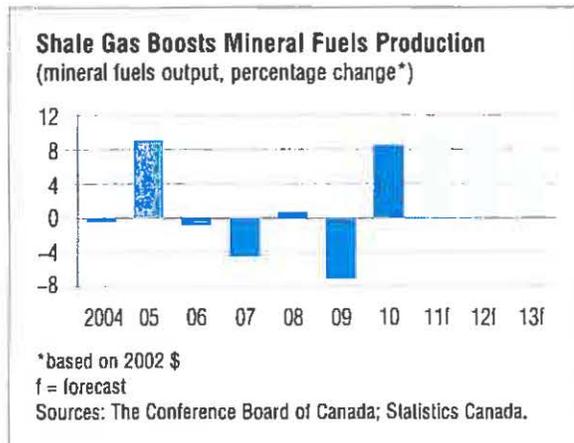
cent next year. Job creation is expected to far outpace growth in the labour force, resulting in downward pressure on the unemployment rate, which is forecast to average 6.3 per cent this year and 5.8 per cent in 2013. (See chart “Strong Job Growth Drives Down Unemployment.”) Even though consumer confidence is being rattled by the global economic uncertainty, strong employment growth will boost incomes in the province enough that consumers will increase their spending by 4.1 per cent (in nominal terms) this year. As the economy improves next year, consumer spending will increase another 5 per cent.

Economic uncertainty will keep growth in most private service-sector industries soft this year. But as the economy picks up steam next year, we expect more robust growth across a range of private service industries, with business services leading the momentum with expected output growth of 4.3 per cent.

Forecast Risks

- Short term**
 - Deterioration in the European sovereign debt crisis could reduce expectations for global growth, negatively impacting consumer and business confidence in B.C.
- Medium term**
 - Opposition to development of new and major energy-related infrastructure could delay some investment, hampering the rate of economic expansion.

Source: The Conference Board of Canada.



Key Economic Indicators: British Columbia

(forecast completed: February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	212,479	214,514	216,619	218,097	220,788	223,679	226,635	229,844	233,003	236,458	239,984	243,426	215,427	225,236	238,218
	3.0	1.0	1.0	0.7	1.2	1.3	1.3	1.4	1.4	1.5	1.5	1.4	6.0	4.6	5.8
GDP at basic prices (current \$)	196,304	198,284	200,267	201,528	203,905	206,485	209,130	212,026	214,878	218,182	221,414	224,573	199,096	207,886	219,762
	3.2	1.0	1.0	0.6	1.2	1.3	1.3	1.4	1.3	1.5	1.5	1.4	6.2	4.4	5.7
GDP at basic prices (constant 2002 \$)	156,251	156,890	157,669	157,581	158,705	159,807	160,961	162,247	163,855	165,431	166,970	168,475	157,098	160,430	166,183
	0.7	0.4	0.5	-0.1	0.7	0.7	0.7	0.8	1.0	1.0	0.9	0.9	2.6	2.1	3.6
Consumer Price Index (2002 = 1.0)	1.154	1.166	1.169	1.171	1.176	1.182	1.189	1.195	1.200	1.205	1.211	1.217	1.165	1.185	1.208
	0.5	1.1	0.3	0.2	0.4	0.5	0.5	0.5	0.4	0.4	0.5	0.5	2.3	1.7	1.9
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1.256	1.264	1.270	1.279	1.285	1.292	1.299	1.307	1.311	1.319	1.326	1.333	1.267	1.296	1.322
	2.4	0.6	0.5	0.7	0.5	0.6	0.6	0.6	0.4	0.6	0.5	0.5	3.5	2.2	2.1
Average weekly wages (\$ industrial composite)	799.1	801.8	808.9	820.2	821.4	826.6	832.3	837.7	843.2	848.6	853.9	859.2	807.5	829.5	851.2
	1.0	0.3	0.9	1.4	0.2	0.6	0.7	0.7	0.7	0.6	0.6	0.6	1.5	2.7	2.6
Personal Income (current \$)	167,617	169,792	170,755	171,966	173,623	175,355	177,442	179,525	181,687	183,764	185,834	187,921	170,033	176,486	184,801
	0.3	1.3	0.6	0.7	1.0	1.0	1.2	1.2	1.2	1.1	1.1	1.1	3.7	3.8	4.7
Personal disposable income (current \$)	134,869	136,289	136,490	137,269	138,349	139,533	141,122	142,715	144,210	145,718	147,304	148,906	136,229	140,430	146,534
	0.2	1.1	0.1	0.6	0.8	0.9	1.1	1.1	1.0	1.0	1.1	1.1	3.1	3.1	4.3
Personal savings rate	-3.3	-3.9	-4.1	-4.2	-4.4	-4.8	-5.0	-5.2	-5.4	-5.5	-5.6	-5.6	-3.9	-4.9	-5.5
Population of labour force age (000s)	3,763	3,775	3,785	3,793	3,808	3,822	3,836	3,849	3,863	3,876	3,890	3,904	3,779	3,829	3,883
	0.3	0.3	0.3	0.2	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.3	1.3	1.3	1.4
Labour force (000s)	2,465	2,459	2,457	2,457	2,461	2,472	2,484	2,497	2,509	2,521	2,534	2,545	2,460	2,479	2,527
	0.8	-0.2	-0.1	0.0	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.7	0.8	2.0
Employment (000s)	2,259	2,273	2,281	2,288	2,298	2,314	2,331	2,346	2,360	2,373	2,387	2,400	2,275	2,322	2,380
	-0.4	0.6	0.3	0.3	0.5	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.8	2.1	2.5
Unemployment rate	8.4	7.6	7.2	6.9	6.6	6.4	6.2	6.0	5.9	5.8	5.8	5.7	7.5	6.3	5.8
Retail sales (current \$)	58,257	59,280	59,463	61,170	61,759	62,477	63,284	64,046	64,778	65,493	66,217	66,937	59,542	62,891	65,856
	-0.8	1.8	0.3	2.9	1.0	1.2	1.3	1.2	1.1	1.1	1.1	1.1	2.4	5.6	4.7
Housing starts (units)	24,153	26,622	28,184	26,641	26,692	27,288	28,538	28,783	29,584	30,212	30,766	31,243	26,400	27,825	30,451
	-5.1	10.2	5.9	-5.5	0.2	2.2	4.6	0.9	2.8	2.1	1.8	1.6	-0.3	5.4	9.4

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Key Economic Indicators: Canada

(forecast completed: February 2, 2012)

	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2011	2012	2013
GDP at market prices (current \$)	1,692,908	1,701,604	1,721,032	1,731,727	1,752,556	1,772,841	1,794,355	1,817,700	1,841,963	1,865,504	1,889,529	1,912,982	1,711,818	1,784,363	1,877,495
	1.9	0.5	1.1	0.6	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.2	5.4	4.2	5.2
GDP at basic prices (current \$)	1,590,848	1,599,196	1,617,856	1,627,179	1,646,027	1,664,349	1,683,902	1,705,269	1,727,601	1,750,186	1,772,353	1,794,024	1,608,770	1,674,887	1,761,041
	1.9	0.5	1.2	0.6	1.2	1.1	1.2	1.3	1.3	1.3	1.3	1.2	5.4	4.1	5.1
GDP at basic prices (constant 2002 \$)	1,260,173	1,259,512	1,270,386	1,267,976	1,277,730	1,285,150	1,293,225	1,301,953	1,313,173	1,322,473	1,331,692	1,340,829	1,264,512	1,289,515	1,327,042
	0.9	-0.1	0.9	-0.2	0.8	0.6	0.6	0.7	0.9	0.7	0.7	0.7	2.5	2.0	2.9
Consumer Price Index (2002 = 1.0)	1.184	1.201	1.203	1.208	1.213	1.219	1.225	1.232	1.238	1.245	1.252	1.259	1.199	1.222	1.249
	0.8	1.4	0.2	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.5	0.6	2.9	1.9	2.2
Implicit price deflator— GDP at basic prices (2002 = 1.0)	1.262	1.270	1.274	1.283	1.288	1.295	1.302	1.310	1.316	1.323	1.331	1.338	1.272	1.299	1.327
	1.0	0.6	0.3	0.8	0.4	0.5	0.5	0.6	0.4	0.6	0.6	0.5	2.9	2.1	2.2
Average weekly wages (\$, industrial composite)	809.5	814.5	811.8	819.4	824.9	830.7	836.9	842.9	848.9	854.9	861.1	867.4	813.8	833.9	858.1
	1.0	0.6	-0.3	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	2.4	2.5	2.9
Personal income (current \$)	1,313,584	1,326,984	1,332,584	1,341,674	1,354,136	1,367,363	1,382,440	1,397,973	1,414,430	1,430,541	1,446,643	1,462,743	1,328,707	1,375,478	1,438,589
	0.6	1.0	0.4	0.7	0.9	1.0	1.1	1.1	1.2	1.1	1.1	1.1	3.8	3.5	4.6
Personal disposable income (current \$)	1,035,744	1,043,808	1,043,296	1,048,960	1,056,608	1,065,358	1,076,537	1,088,098	1,099,083	1,110,466	1,122,482	1,134,508	1,042,952	1,071,650	1,116,635
	0.6	0.8	0.0	0.5	0.7	0.8	1.0	1.1	1.0	1.0	1.1	1.1	2.9	2.8	4.2
Personal savings rate	4.26	4.10	3.45	3.15	2.88	2.57	2.37	2.15	2.02	1.91	1.88	1.88	3.74	2.49	1.92
Population of labour force age (000s)	27,866	27,947	28,031	28,108	28,195	28,283	28,369	28,455	28,538	28,622	28,705	28,789	27,988	28,325	28,663
	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.2	1.2	1.2
Labour force (000s)	18,668	18,706	18,712	18,734	18,792	18,882	18,970	19,067	19,146	19,220	19,290	19,352	18,705	18,928	19,252
	0.6	0.2	0.0	0.1	0.3	0.5	0.5	0.5	0.4	0.4	0.4	0.3	1.0	1.2	1.7
Employment (000s)	17,224	17,311	17,361	17,331	17,443	17,539	17,632	17,729	17,819	17,909	17,994	18,077	17,307	17,586	17,950
	0.6	0.5	0.3	-0.2	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.5	1.5	1.6	2.1
Unemployment rate	7.7	7.5	7.2	7.5	7.2	7.1	7.1	7.0	6.9	6.8	6.7	6.6	7.5	7.1	6.8
Retail sales (current \$)	447,256	450,815	454,858	463,897	468,047	473,549	479,336	484,987	490,497	496,072	501,710	507,281	454,207	476,480	498,890
	-0.1	0.8	0.9	2.0	0.9	1.2	1.2	1.2	1.1	1.1	1.1	1.1	3.6	4.9	4.7
Housing starts (units)	174,600	194,800	206,100	194,748	191,254	188,773	188,280	188,082	188,469	190,569	192,865	195,353	192,562	189,097	191,814
	-1.3	11.6	5.8	-5.5	-1.8	-1.3	-0.3	-0.1	0.2	1.1	1.2	1.3	1.4	-1.8	1.4

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

Gross Domestic Product by Province and Industry

(forecast completed: February 2, 2012)

	Newfoundland and Labrador			Prince Edward Island			Nova Scotia			New Brunswick			Quebec		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Agriculture	68 -3.2	69 1.5	71 3.1	203 -4.0	208 2.3	214 3.1	252 0.4	252 0.1	256 1.8	310 -2.7	314 1.3	323 3.0	3,392 -2.3	3,411 0.6	3,513 3.0
Forestry	37 -7.5	40 5.6	42 7.0	5 6.3	5 5.3	5 7.5	114 -8.5	115 1.1	120 3.7	337 -6.3	344 2.2	371 7.7	1,166 -1.5	1,180 1.2	1,211 2.6
Fishing & trapping	247 -4.5	251 1.5	255 1.5	88 -6.0	89 0.6	90 1.0	440 0.6	448 1.8	453 1.1	95 -0.8	97 2.0	98 1.3	83 -1.5	85 2.1	86 1.1
Mining	4,807 0.9	4,613 -4.0	4,708 2.1	4 10.3	4 1.4	4 1.4	442 -4.3	492 11.3	571 16.0	267 -2.9	284 6.4	397 39.4	1,115 5.9	1,307 17.2	1,706 30.5
Manufacturing	772 6.3	811 5.2	909 12.0	376 0.1	385 2.3	394 2.4	2,606 3.4	2,655 1.9	2,751 3.6	2,618 1.5	2,652 1.3	2,727 2.8	42,557 1.5	43,436 2.1	44,374 2.2
Construction	1,161 21.1	1,229 5.9	1,211 -1.4	174 6.2	167 -4.0	152 -9.0	1,923 6.9	1,798 -6.5	1,840 2.3	1,325 -2.0	1,352 2.0	1,189 -12.1	15,310 1.7	14,902 -2.7	14,742 -1.1
Utilities	528 2.8	541 2.5	557 2.9	72 8.9	76 5.1	84 9.8	673 2.7	690 2.6	707 2.4	764 3.7	783 2.5	817 4.3	11,574 5.1	11,806 2.0	12,065 2.2
Goods-producing industries	7,621 3.9	7,554 -0.9	7,753 2.6	923 0.4	934 1.2	943 1.0	6,450 3.2	6,452 0.0	6,697 3.8	5,717 0.0	5,827 1.9	5,922 1.6	75,198 1.9	76,127 1.2	77,697 2.1
Transportation, warehousing & information	1,023 1.3	1,033 0.9	1,050 1.7	224 1.5	227 1.4	232 2.1	2,100 2.3	2,137 1.7	2,193 2.6	1,911 0.7	1,940 1.5	1,985 2.3	21,152 2.0	21,522 1.7	21,995 2.2
Wholesale & retail trade	1,735 4.6	1,761 1.5	1,799 2.1	431 3.8	443 2.9	449 1.3	3,208 -2.7	3,269 1.9	3,339 2.2	2,620 -0.7	2,633 0.5	2,686 2.0	30,715 0.0	31,102 1.3	31,867 2.5
Finance, insurance & real estate	2,491 2.7	2,550 2.4	2,606 2.2	783 2.4	798 1.9	821 2.8	6,135 2.7	6,293 2.6	6,430 2.2	4,231 2.4	4,308 1.8	4,406 2.3	47,137 2.9	47,857 1.5	49,059 2.5
Community, business & personal services	3,992 1.7	4,072 2.0	4,135 1.5	1,077 1.9	1,089 1.0	1,110 2.0	7,110 1.8	7,228 1.7	7,343 1.6	5,432 1.3	5,506 1.4	5,595 1.6	65,511 1.2	66,531 1.6	67,917 2.1
Public administration & defence	1,494 2.0	1,504 0.7	1,510 0.4	501 -0.3	503 0.4	503 0.1	3,037 0.9	3,064 0.9	3,079 0.5	2,277 1.0	2,298 0.9	2,313 0.7	17,696 1.4	17,881 1.0	18,099 1.2
Service-producing industries	10,736 2.4	10,920 1.7	11,100 1.6	3,017 1.9	3,060 1.4	3,115 1.8	21,589 1.3	21,991 1.9	22,385 1.8	16,471 1.2	16,686 1.3	16,986 1.8	182,211 1.6	184,893 1.5	188,938 2.2
All industries	17,915 3.1	18,033 0.7	18,412 2.1	3,932 1.5	3,987 1.4	4,050 1.6	27,742 1.7	28,146 1.5	28,786 2.3	22,179 0.9	22,503 1.5	22,898 1.8	256,936 1.7	260,548 1.4	266,163 2.2

*Gross domestic product is measured at market prices for Quebec and Ontario.

For each indicator, the first line is the level and the second line is the percentage change from the previous year.

Shaded area represents forecast data.

Sources: The Conference Board of Canada; Statistics Canada.

Gross Domestic Product by Province and Industry

(forecast completed: February 2, 2012)

	Ontario			Manitoba			Saskatchewan			Alberta			British Columbia		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Agriculture	5,002	5,104	5,261	1,657	1,835	1,907	4,612	4,624	4,739	5,192	5,270	5,448	1,253	1,269	1,307
	-3.4	2.0	3.1	-12.3	10.7	3.9	3.2	0.3	2.5	-3.9	1.5	3.4	-2.7	1.3	3.0
Forestry	442	468	508	39	41	45	25	26	28	315	325	345	3,094	3,152	3,291
	7.5	5.9	8.7	6.2	6.6	8.3	6.3	5.1	5.6	5.9	3.2	6.2	10.6	1.9	4.4
Fishing & trapping	17	18	19	15	15	15	0	0	0	1	1	1	89	92	94
	-3.3	7.3	4.2	-2.2	0.6	0.2	-2.7	1.0	0.5	-2.3	0.9	0.5	-8.2	3.6	1.6
Mining	2,048	2,180	2,337	757	767	842	5,713	6,047	6,515	36,364	38,142	39,117	5,034	5,560	6,069
	6.9	6.5	7.2	8.6	1.3	9.8	8.8	5.8	7.7	4.8	4.9	2.6	8.9	10.5	9.2
Manufacturing	76,577	79,717	82,434	4,703	4,823	4,922	2,897	3,008	3,086	14,959	15,492	16,262	13,717	14,015	14,777
	2.3	4.1	3.4	1.1	2.5	2.1	3.9	3.8	2.6	3.4	3.6	5.0	2.3	2.2	5.4
Construction	27,233	27,053	27,512	2,132	2,151	2,146	2,941	2,949	3,045	13,979	14,297	15,409	10,022	10,049	10,530
	6.5	-0.7	1.7	2.4	0.9	-0.3	5.7	0.3	3.3	3.9	2.3	7.8	2.8	0.3	4.8
Utilities	10,675	10,917	11,198	1,644	1,700	1,777	1,103	1,127	1,160	4,096	4,215	4,369	3,089	3,191	3,306
	5.9	2.3	2.6	6.6	3.4	4.5	4.5	2.1	3.0	5.7	2.9	3.6	4.1	3.3	3.6
Goods-producing industries	121,994	125,455	129,269	10,947	11,332	11,654	17,291	17,781	18,573	74,905	77,742	80,952	36,298	37,329	39,374
	3.4	2.8	3.0	0.3	3.5	2.8	5.6	2.8	4.5	3.8	3.8	4.1	3.9	2.8	5.5
Transportation, warehousing & information	40,840	41,506	42,615	3,931	4,020	4,102	3,302	3,362	3,460	15,138	15,484	16,055	15,462	15,743	16,257
	2.4	1.6	2.7	1.8	2.3	2.0	4.2	1.8	2.9	3.6	2.3	3.7	3.6	1.8	3.3
Wholesale & retail trade	59,580	60,186	61,975	5,828	6,070	6,220	5,490	5,721	5,851	20,302	21,380	22,259	17,108	17,479	18,074
	0.8	1.0	3.0	3.5	4.2	2.5	13.1	4.2	2.3	7.6	5.3	4.1	1.2	2.2	3.4
Finance, insurance & real estate	117,505	119,903	123,412	7,946	8,124	8,360	6,471	6,598	6,789	31,449	32,103	33,233	38,786	39,556	40,738
	2.2	2.0	2.9	2.5	2.2	2.9	3.0	2.0	2.9	2.1	2.1	3.5	2.9	2.0	3.0
Community, business & personal services	127,309	129,346	133,048	9,584	9,754	10,025	8,039	8,189	8,417	40,838	41,840	43,470	41,096	41,847	43,143
	1.7	1.6	2.9	1.3	1.8	2.8	1.9	1.9	2.8	2.5	2.5	3.9	1.9	1.8	3.1
Public administration & defence	28,938	29,072	29,323	2,852	2,888	2,917	2,129	2,159	2,184	7,243	7,389	7,527	8,455	8,583	8,704
	1.1	0.5	0.9	1.0	1.2	1.0	0.9	1.4	1.2	0.5	2.0	1.9	0.5	1.5	1.4
Service-producing industries	374,173	380,012	390,373	30,141	30,855	31,625	25,431	26,029	26,701	114,969	118,197	122,544	120,907	123,208	126,915
	1.7	1.6	2.7	2.1	2.4	2.5	4.7	2.3	2.6	3.3	2.8	3.7	2.2	1.9	3.0
All industries	497,365	506,665	520,840	40,913	42,012	43,103	41,342	42,429	43,893	184,213	190,278	197,835	157,098	160,430	166,183
	2.1	1.9	2.8	1.6	2.7	2.6	5.2	2.6	3.5	3.6	3.3	4.0	2.6	2.1	3.6

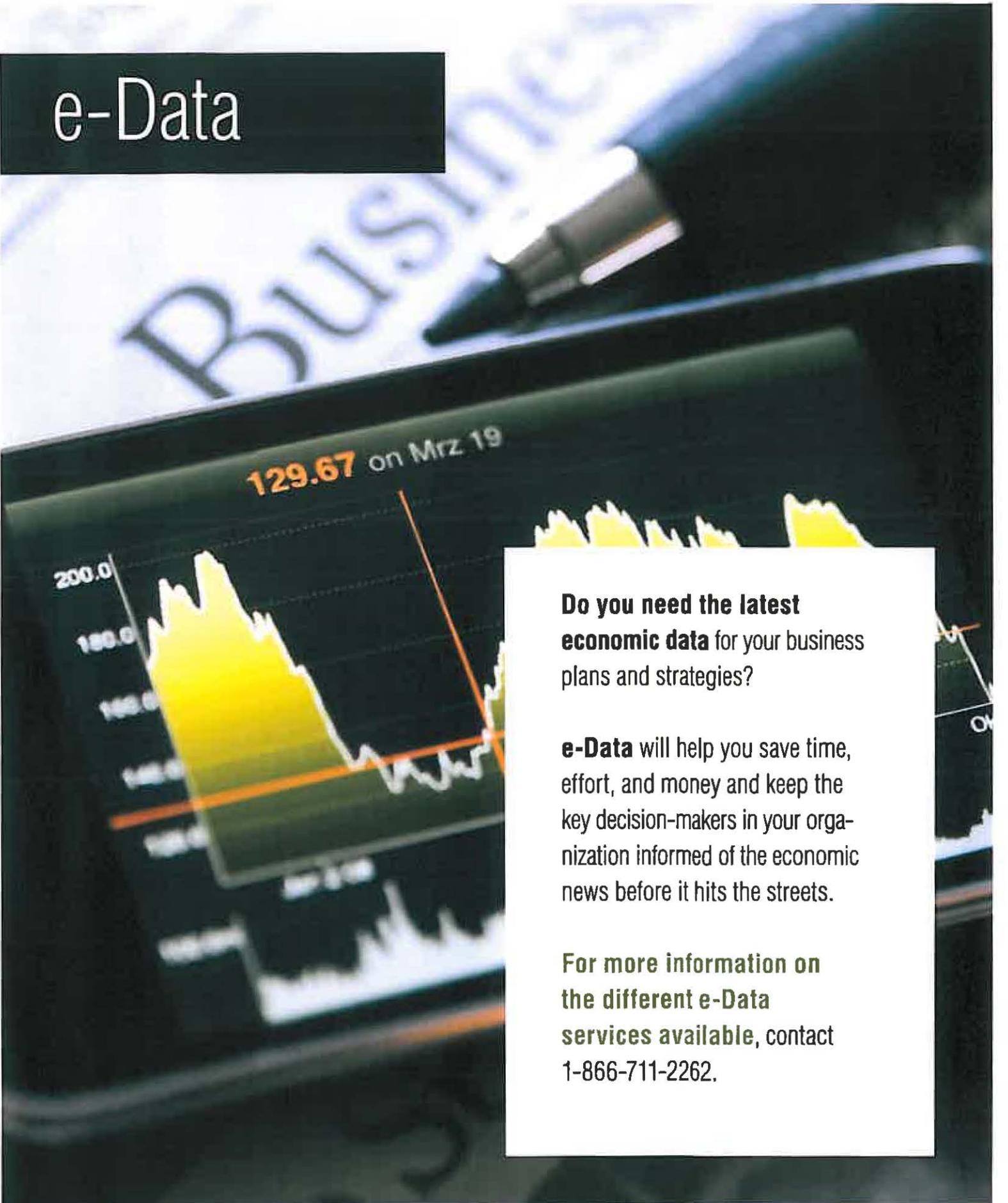
*Gross domestic product is measured at market prices for Quebec and Ontario.

For each indicator, the first line is the level and the second line is the percentage change from the previous year.

Shaded area represents forecast data.

Sources: The Conference Board of Canada; Statistics Canada.

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Energy and Demand Forecast

**NEWFOUNDLAND POWER INC.
ENERGY & DEMAND FORECAST
2013 - 2018**

YEAR	PRODUCED PURCHASED & WHEELED	TOTAL WHEELED	TOTAL CURTAILED	TOTAL PRODUCED & PURCHASED			NP PRODUCED		TOTAL PURCHASED	
	(1) Energy (GWh)	(2) Energy (GWh)	(3,4) At Native Peak (MW)	(4,5) Native Peak (MW)	(6) Load Factor	(7) Energy (GWh)	(4,8) At Native Peak (MW)	(4) Energy (GWh)	(4) At Native Peak (MW)	
2013	6,190.4	97.7	10.9	6,092.7	1,347.79	51.19%	429.2	84.5	5,663.5	1,263.29
2014	6,268.0	97.4	10.9	6,170.6	1,365.16	51.19%	430.4	84.5	5,740.2	1,280.66
2015	6,308.6	96.7	10.9	6,211.9	1,374.37	51.19%	419.4	84.5	5,792.5	1,289.87
2016	6,379.2	86.8	10.9	6,292.4	1,388.49	51.19%	434.0	84.5	5,858.4	1,303.99
2017	6,382.0	86.0	10.9	6,296.0	1,393.13	51.19%	434.6	84.5	5,861.4	1,308.63
2018	6,386.8	86.1	10.9	6,300.7	1,394.18	51.19%	437.4	84.5	5,863.3	1,309.68

NOTES:

1. Produced, Purchased and Wheeled is based on the System Energy Forecast dated March 22, 2013.
2. Wheeled Forecast dated February 2013.
3. The Total Curtailed Demand represents the amount available through the Curtailable Service Option and various Company facilities.
4. Native Peak refers to the maximum purchased and produced demand during the winter season at the end of the current year.
5. Newfoundland Power Native Peak is calculated by applying the Load Factor to Produced & Purchased energy less Total Curtailable Demand.
6. Load Factor is based on an average of 15 year historical (normalized) load factors.
7. Average water year for the forecast period is 430.4 GWh adjusted for forecast plant availability and efficiency improvements.
8. Production from hydro plants at time of native peak with typically vary between 70 and 90 MW. When requested by Newfoundland and Labrador Hydro, production from hydro plants will be maximized (around 84.5 MW).