



# Fiscal Pulse

## *Liftoff Achieved, But The Flight Path Will Be Turbulent*

*Pre-Budget Submission to the Ontario Standing Committee on Finance and Economic Affairs*

**Warren Jestin, Senior Vice-President & Chief Economist**

The global recovery has achieved liftoff, led by China and a number of emerging nations. The U.S. and other developed economies also should become fully airborne in the months ahead, fuelled by unprecedented monetary and fiscal stimulus set in motion in 2009, the revival of consumer spending and the re-ignition of production as firms react to improving sales prospects. However, a legacy of high unemployment and structural weakness in key sectors such as housing and financial services points to a bumpy ride during 2010 and a relatively low-altitude global growth trajectory into the next decade.

Domestic economic conditions have been more resilient in Canada than in the U.S., in large part because of the world-class strength of our financial sector and relatively stronger household, corporate and government balance sheets. Canada experienced only about half the rate of job loss recorded south of the border during the downturn and has led the U.S. in a return to job creation. These factors have supported a rebound in consumer spending and the revival of Canada's housing market, where buyers have been taking advantage of historically low interest rates at a time when U.S. residential activity is still mired in recession.

At the same time, Canadian exporters have faced heavy headwinds, with sales receipts in the final quarter of 2009 down roughly 20% from the previous year. Commodity producers are beginning to benefit from a rebound in global markets but, with three-quarters of external sales going to the U.S., the pace of the recovery will be subdued. The rise in the loonie to 95 cents(US) — in part reflecting the recent rebound in energy and industrial resource prices — also has undercut competitiveness and squeezed earnings. More of the same could be in store if our currency moves to parity or beyond.

The pathways from recession to recovery vary significantly between Canada and the U.S., but both nations are benefitting as public infrastructure projects get underway. Canadian and U.S. motor vehicle producers are gearing up to replenish depleted dealer inventories now that sales have begun to recover. The impetus from these temporary factors will help both economies gain altitude during the first half of 2010.

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		2000-08	2009e	2010f	2011f
<b>Real GDP (annual % change)</b>					
Canada		2.6	-2.5	3.0	2.8
U.S.		2.4	-2.4	3.6	2.6
Mexico		2.8	-6.8	4.0	3.1
Euro zone		1.9	-3.8	1.3	1.1
United Kingdom		2.4	-4.8	1.5	1.1
Japan		1.4	-5.3	1.0	0.9
China		10.1	8.7	9.5	9.0
India		7.3	7.5	7.0	6.5
Brazil		3.3	0.5	5.0	5.0

	2000-08	2009e	2010f	2011f
<b>(millions of units)</b>				
<b>TOTAL CAR SALES</b>	49.52	50.91	52.72	55.44
North America*	19.01	12.68	13.88	14.64
Canada	1.60	1.46	1.53	1.57
United States	16.39	10.40	11.50	12.20
Mexico	1.02	0.82	0.85	0.87
Western Europe	14.48	13.62	12.53	12.84
Germany	3.28	3.81	3.24	3.37
Eastern Europe	2.70	3.01	3.21	3.41
Russia	1.52	1.47	1.60	1.73
Asia	10.97	17.68	18.84	19.99
Japan	4.47	3.92	3.96	4.07
China	2.56	7.31	8.77	10.08
India	0.83	1.46	1.60	1.73
South America	2.36	3.92	4.26	4.56
Brazil	1.46	2.48	2.72	2.72

\*Includes light trucks.

While there is a risk of economic relapse as governments begin unwinding unprecedented monetary and fiscal support, the broadening of global growth across sectors and regions should sustain the recovery through 2010. In Canada and the U.S., however, this year's growth will do little more than backfill the hole created by the steep decline in activity during 2008-09. Even this modest performance will compare favourably with trends in Europe and Japan, where economic retrenchment has been much deeper and the timetable for regaining lost GDP will stretch beyond 2010.

Lingering structural impediments will keep the U.S. and other developed nations on a lower flight path in 2011. Regulatory reforms and tighter lending practices will restrict leverage and raise funding costs for higher-risk activities. In the U.S., excess capacity and refinancing challenges point to a lengthy recuperation for housing activity and non-residential construction. The U.S. consumer won't return to previous high-altitude spending patterns because the 'borrow-to-buy' impetus has given way to debt repayment and a rebuilding of savings after a 20% drop in household net worth since mid-2007. Spending enthusiasm also is being tempered by high unemployment and consumer bankruptcy rates.

These factors will impede progress in reversing Washington's US\$1.4 trillion deficit, which is equivalent to about 10% of U.S. GDP. Although the taxpayer cost of the Troubled Asset Relief Program (TARP) has been revised lower, other expenses, including the Afghanistan campaign, are on the rise. Without additional federal aid, state and local government fiscal constraints will impose an increasing drag on the recovery. All levels of government also are confronted with the need to devote increasing resources to health care, welfare programs and environmental remediation.

With developed nations locked on a relatively low growth trajectory, China and other fast-growing emerging markets will provide a large share of global locomotion. In a year when global output shrank by over 2%, China grew by nearly 9% in 2009. Vehicle sales in China surpassed U.S. levels in 2009 and have set new records in India and Brazil. Trade flows among Asian nations are already double NAFTA levels.

Even with inflation held back by lingering excess capacity in a wide range of industries, interest rates will rise in the second half of 2010 as central banks begin easing up on the monetary accelerator, with the U.S. Federal Reserve and the Bank of Canada likely to raise rates 2 percentage points or more by mid-2011. Bond yields won't rise as much, but they are likely to move up sooner as the recovery resuscitates consumer and business borrowing at a time of unprecedented government debt issuance.

Currency markets will stay quite volatile, with the U.S. dollar vulnerable to periodic bouts of weakness as economic growth takes hold and investors diversify away from U.S. asset positions accumulated during the financial crisis. Gold purchases by central banks in Russia, China and India highlight the quest for investment diversification. Nervousness about continuing to underwrite Washington's fiscal deficit will also increase the longer it is stuck above the US\$1 trillion threshold. Adding to investor concerns will be a renewed widening of the U.S. trade deficit as a revival in consumer spending and rising energy prices push up import costs.

Despite these negatives, the U.S. dollar is not about to lose its status as the world's reserve currency. The main alternatives — the Euro, Sterling and Yen — represent regions with economic and financial challenges rivalling or exceeding those in the United States. China and other countries with large U.S. dollar foreign exchange reserves have a vested interest in tempering U.S. dollar weakness to forestall big currency-related losses on their financial assets as well as for competitive reasons. The net result — the U.S. dollar will likely

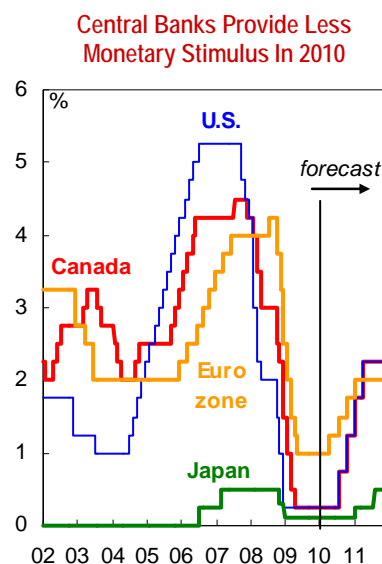
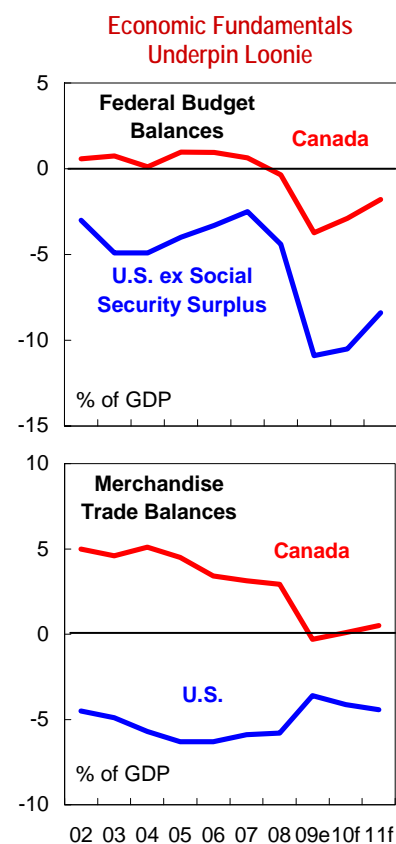


exhibit wide swings but only limited depreciation through 2010-11. The countries with the greatest potential for currency appreciation against the greenback are the smaller, commodity-producing countries like Canada and Australia.

### The Canadian Economy — Adjusting To New World Realities

Canada is on the road to recovery, but that road is not taking us back to the world that existed before the sub-prime crisis began. Canadian governments entered the recession in much better fiscal shape than our main trading partners — an important strategic advantage in dealing with the downturn. However, current deficits will be difficult to unwind, with spending cutbacks tough to implement and the revenue rebound constrained by relatively subdued economic growth. As in many other developed countries, the aging of Canada's baby boom generation will intensify upward pressures on the costs of health care and social security over the next decade.

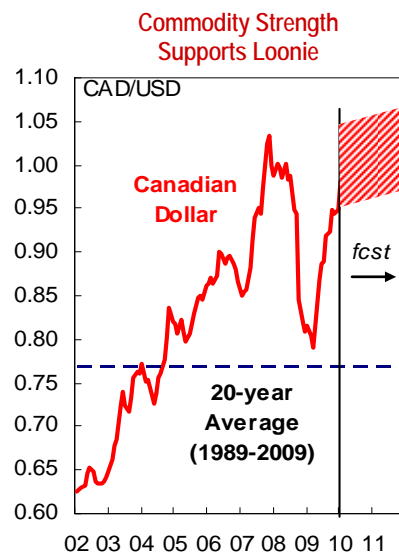
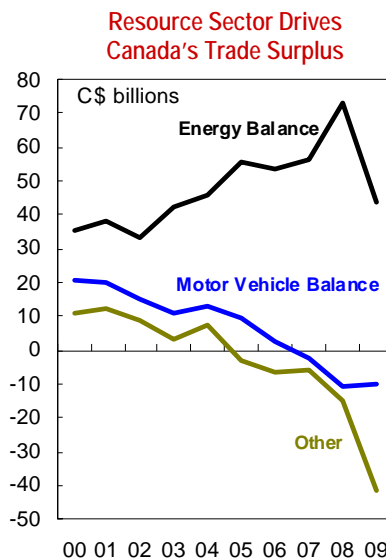
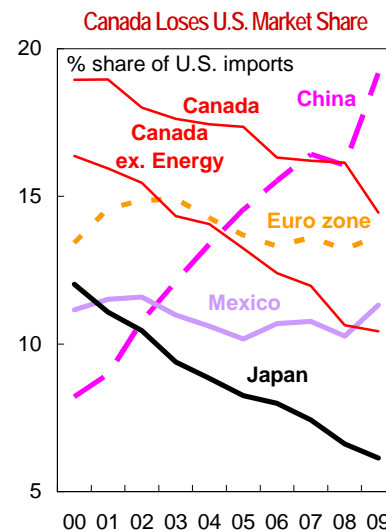
In this environment, there is little leeway to use public subsidies to insulate domestic business from the powerful forces reshaping the global economic landscape. Governments cannot afford to use the auto bailout as a template for supporting industries in crisis nor do they have the prescience to use industrial policies to pick winners and losers. A winning public sector strategy involves establishing a competitive tax environment and a world-class urban infrastructure, both of which have been given significant attention in recent federal and provincial budgets.

Education and skills training must also remain a top public priority because workforce quality is one area where Canada must be able to compete with the best. Skilled labour shortages will re-emerge as labour markets recover from the worst economic setback in a generation, limiting the potential for businesses to cut costs in the quest for a better bottom line performance. The problem will be aggravated beyond 2010 as the retirement bulge begins to hit with full force.

Canadian industries are already being forced to adjust to a rapidly changing global economic landscape. China has overtaken Canada as the top foreign supplier to the U.S. market. Excluding energy products, the euro zone has surpassed Canada in U.S.-bound sales. Canada's tourist industry has experienced a secular decline in U.S. visitors. Auto exports now account for 12% of external sales compared with 23% at the beginning of the decade. A rise in the loonie through parity — a significant possibility in 2010-11 — would exacerbate these competitive challenges.

As our businesses confront tougher realities in traditional markets, they are beginning to find a world of opportunity in new ones. Demand from China and other emerging markets has already helped push commodity exports to roughly half of Canada's foreign sales. Rising incomes in these nations will underpin rapid growth in consumer spending, providing important new opportunities for Canadian businesses. Similarly, at a time when the auto sector and other traditional manufacturing industries have been shedding jobs, new enterprises associated with environmental remediation, energy efficiency and global infrastructural development have the potential for sustained, rapid growth.

Success in these and other markets will depend on identifying high value-added, skill-based Canadian products and services that can plug into global supply chains or take advantage of unique niche market opportunities. Highly entrepreneurial small- and medium-sized businesses in these rapid-growth areas will likely be a key source of Canadian job creation over the next decade. For governments and many businesses, focussing scarce resources on familiar markets and industries, while ignoring or avoiding new and unfamiliar ones, is likely to be a losing strategy.



## Ontario Economic Outlook

Alex Koustas and Adrienne Warren

Ontario is benefitting from the global economic recovery, with real GDP expected to grow by just over 3% this year, recouping the majority of output lost during the recession. Export receipts began to rebound at the end of 2009 after suffering heavy losses earlier in the year. Rising auto exports are leading the recovery, with production already up 30% from the lows reached last summer. Global inventory restocking and reviving U.S. industrial activity will also boost other exports, with base metal producers able to benefit from very profitable prices once local labour disputes are resolved. As in many other jurisdictions in North America and abroad, government fiscal stimulus, historically low interest rates and inventory restocking are playing pivotal roles in resuscitating activity in the province.

Growth is likely to moderate by year-end, however, as governments move to contain budget deficits and reduced monetary stimulus triggers a gradual rise in interest rates. Lingering strains on U.S. household balance sheets, more cautious lending practices and the lengthy convalescence in the U.S. housing industry will temper growth in the U.S., which accounts for four-fifths of Ontario's international sales. The net result — provincial growth is likely to slip to 2½% in 2011.

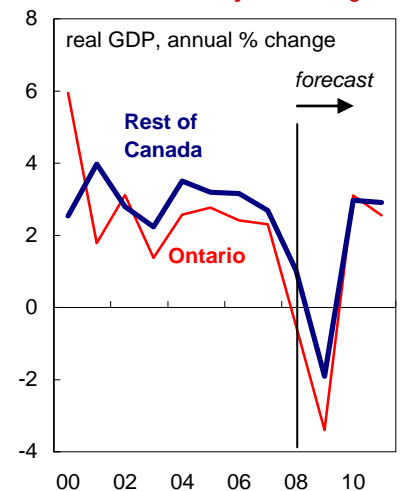
Consumer spending declined sharply in Ontario during 2009, with retail sales down more than 3%, though conditions began to improve by the end of the year. The pickup in sales is expected to continue through 2010, supported by rising employment, which has stabilized faster than during the prior two cyclical recoveries of the 1990s and 1980s. Nevertheless, provincial employment will probably not regain levels achieved before the recession began until later in 2011, leaving the provincial jobless rate near 9% next year. Spending by international tourists, primarily from the U.S., also will continue to be tempered by ongoing strength in the Canadian dollar and border crossing difficulties.

Historically low interest rates have already fuelled a significant pickup in residential sales and prices, although activity may cool later this year as rising mortgage rates and higher home prices reduce affordability. Longer-term fundamentals for residential construction remain positive — immigration continues to add over one hundred thousand new residents to Ontario's population each year and the current pace of new home construction is below the province's estimated long-term replacement requirements (roughly 65,000 units annually). The outlook for non-residential construction is mixed. While public infrastructural spending will continue to offer important support, rising commercial vacancy rates will temper private-sector activity.

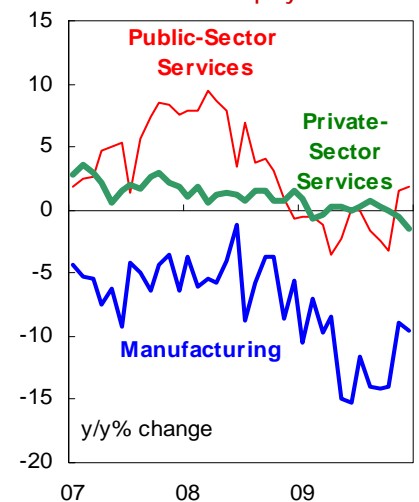
Ontario appears to be on a relatively slow but sustainable recovery trajectory. However, provincial output and employment growth after 2010 will probably lag national trends, continuing a pattern evident for most of the past decade. In this environment, the provincial unemployment rate is forecast to remain above the national average, where it has been since 2007. Similarly, Ontario's lead in personal disposable income per capita two decades ago has dissipated, with further downside risk if the province experiences a relatively lengthy and lethargic economic recovery.

There are many reasons for Ontario's underperformance, including a strong orientation to the relatively slow-growing U.S. market, particularly through the auto sector which has been caught up in a major downsizing and longer-term structural adjustments. Ontario's manufacturing employment in 2009 averaged almost 12% below 2008 levels, continuing the steady trend of job losses in this sector over the past half-decade. Unlike the resource-rich provinces, Ontario also has derived much less of the benefits from the global boom in industrial commodities, although surging demand in Western Canada helped push up Ontario's sales to other provinces by more than 30% over the 2000-08 period. The flight of the loonie towards parity, which has created significant challenges for Canadian exporters, also is directly related to the commodity boom.

Ontario's Economy Rebounding



Manufacturing Drags Down Ontario's Employment



Looking ahead, Ontario is unlikely to experience a bounceback in manufacturing jobs akin to that experienced following the early 1990s recession. Intense competition from offshore producers and ongoing Canadian dollar strength point to further industry consolidation and a heavy emphasis on productivity-enhancing capital investment. With emerging markets expected to be the main drivers of global growth in coming years, Ontario will be hard-pressed to match the growth trends in resource-rich regions unless it successfully improves its competitive fundamentals and diversifies its export base to take advantage of opportunities outside of the United States.

Despite these considerable challenges, Ontario's large and diversified economy has great strength. Its world-class financial sector stands to benefit in a global environment of increased regulation and reform, with the potential to generate a broad range of spin-off activity for business and professional services. The information-technology sector has shown considerable resilience during the downturn and should remain a growth leader over the next decade. The province's highly educated labour force also has allowed the development of centres of excellence in areas such as medical services and research. All of these sectors will play a key role in Ontario's transition towards a more service-oriented, higher value-added, and less cyclical economy.

Recent tax reforms will help nourish the Province's competitiveness. The shift to a Harmonized Sales Tax (HST) this July 1<sup>st</sup> will assist the competitiveness of both domestic and export producers and encourage new investment, with the elimination of the corporate capital tax in mid-2010 and slated corporate income tax reductions through mid-2013 offering an additional boost. The greater efficiency of a value-added tax such as the HST, because it does not cascade at each stage of production like the provincial sales tax, has spurred its adoption around the world. Among OECD members, the United States is the only nation without a value-added tax.

### The Critical Role Of Fiscal Policy

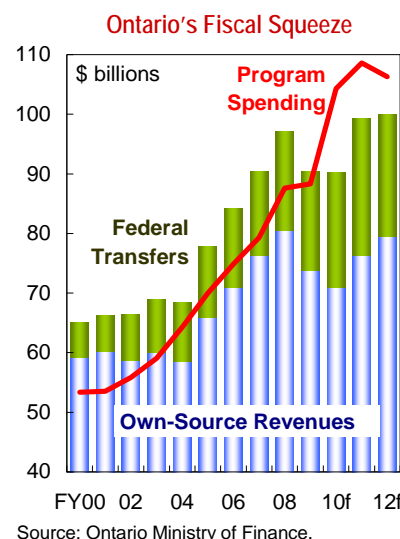
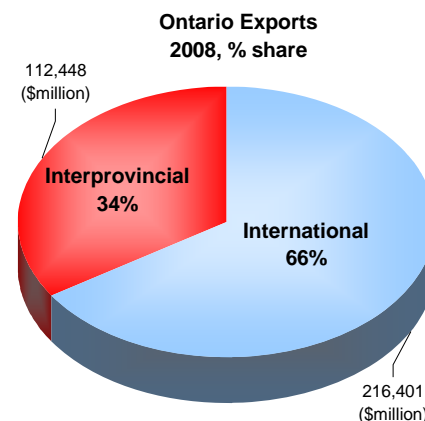
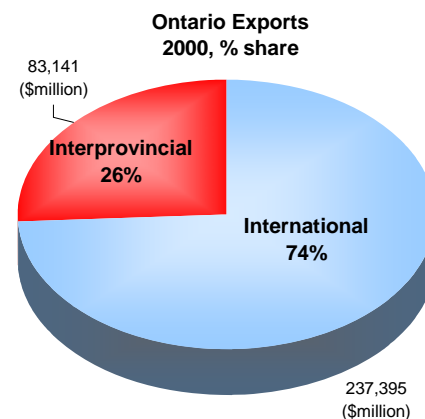
Mary Webb

With last year's massive stimulus now gaining traction and bolstering global growth, governments around the world have begun to assess deficit reduction options and the need to contain escalating debt burdens. The path forward for the advanced G20 economies is complicated by the sheer size of their budget shortfalls and the rise of their collective gross debt to more than 100% of GDP. In contrast, the emerging economies in the G20 are already benefitting from a more robust economic outlook, have more modest budget shortfalls and have a collective debt burden equivalent to only 40% of their GDP.

Canadian governments entered the recession with the advantage of considerable fiscal repair, with Ontario roughly in the middle of the pack among the Provinces in terms of net debt-to-GDP. Looking ahead, however, Ontario is confronted with bigger challenges in its fiscal repair than the resource-rich Provinces because its recovery will be relatively slower and take longer, in part because its core manufacturing sector is undergoing significant adjustments.

To support the economic recovery and restructuring, the Province is proceeding with comprehensive tax reform and a revitalization of its infrastructure with a focus on alleviating costly border and urban congestion. Increased capital outlays, combined with a forecast budget deficit approaching \$25 billion in fiscal 2009-10 (FY10), are stretching Ontario's longer-term borrowing beyond \$40 billion this year. As a result, Ontario estimates that its net debt this fiscal year will rise towards 33% of its GDP by March 2010 from just over 26% a year earlier.

Central to Ontario's deficit-reduction challenge is the government's projected 4% decline in its FY10 own-source receipts, following an 8.3% plunge in FY09. Particularly damaging is the forecast \$7 billion two-year drop in corporate taxes to just 45% of the FY08 peak. The rebound from this low is expected to be protracted, given tax loss carryforwards and the slated corporate tax reforms. Even the recovery in the larger,



more stable personal income tax component could be more moderate than expected in FY11, dampened by the labour market correction and the PIT relief introduced in January 2010 to ease the HST transition.

Beginning in FY10, Ontario also must grapple with rising debt service costs. From FY01 to FY09, the slide in the Province's interest charges opened up additional program spending room. This fortuitous trend has now reversed. Interest costs are expected to escalate over the next few years given Ontario's borrowing plans and the rise in market interest rates from historic lows.

A further challenge is the anticipated fallback in federal transfers to Ontario after a dramatic 64% surge in this funding from FY08 to FY11. Initially boosted by the Canada-Ontario Agreement, transfers to Ontario were subsequently lifted by the receipt of Equalization and federal stimulus funding. While Ottawa has committed to preserving the growth track in its major transfers to each Province, the federal government still intends to unwind its discretionary stimulus and narrow its budget gap, inevitably trimming the flow of one-time transfers.

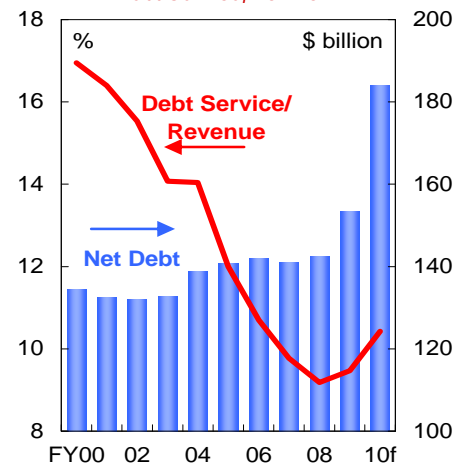
Returning to fiscal balance while supporting health care, social services, the refurbishment of the Province's infrastructure and tax reform requires fundamental changes to the federal-provincial transfer system that typically takes more than \$20 billion annually from Ontario to support other Canadian jurisdictions, according to the available data for the decade to 2007. This transfer system no longer reflects Canadian economic realities — Ontario is no longer a 'have' province, nor is it a national growth leader. With real GDP growth and pricing power once again tilted towards the resource-rich regions, Ontario's nominal GDP per capita in 2011 is expected to be 6% below the national average, down from a 10% advantage entering 2000. Conversely, for the resource-oriented Western and East Coast Provinces, resource receipts are expected to post a sustained rise after dropping roughly in half in FY10.

With the prospects for major federal-provincial program reform quite limited through 2011, reversing the fiscal deterioration stemming from the worst economic recession in decades will require the Ontario government to take immediate, broadly based action to rationalize many existing services to accommodate new priorities. The Province has promised a plan-of-action for expenditure management in its upcoming *Budget* that will be co-ordinated with its broader-sector partners. An important first step will be the timely unwinding of non-core stimulus outlays when the province's economic recovery has firmed. The next step, restraining program spending through to the middle of the upcoming decade, poses a far greater challenge given underlying spending pressures. Increases in health care spending over the past three years have averaged close to 7½%, an unsustainable trend that threatens to crowd out pressing requirements in other areas. There are important lessons to be learned from other nations undertaking substantial fiscal repair, including the need for the establishment of, and adherence to, tough fiscal rules to contain spending.

Moving forward to develop a fiscal restraint strategy is essential, because postponing measures to put program outlays on a more sustainable path will only add to Ontario's borrowing requirements and its debt service, limiting the Province's future flexibility. Significant delays also will ultimately require steeper, less strategic remedies further down the road, as the experience of several provincial governments and Ottawa demonstrated during the mid-1990s. The impending retirement of the baby boom generation further raises the stakes for governments to put their books in order. On a per capita basis, health care costs presently double between the ages of 20 to 24 and 55 to 59, and double again by the 70 to 74 age group.

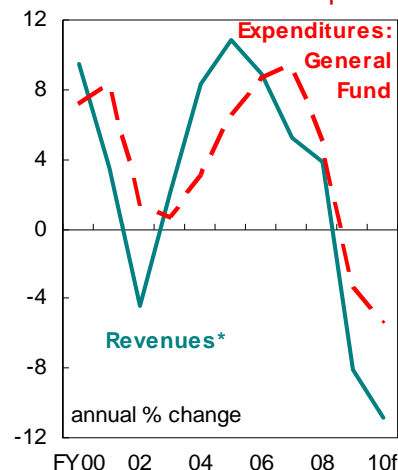
If there is an upside to Ontario's current fiscal challenges, it is that an effective mix of tax reform, infrastructure revitalization and fiscal repair should significantly improve the Province's competitive fundamentals. The fiscal situation in many jurisdictions is far worse than Ontario's, particularly in a number of U.S. States that are confronted with the need to both cut spending and significantly increase taxes, reflecting their steeper economic correction and their balanced operating budget requirement.

Low Rates Dampen Ontario's Debt Service, For Now



Source: Ontario Ministry of Finance.

U.S. State Governments' Squeeze



\*Q1 FY10 data. Fiscal year-end for 46 States is June 30. Source: US Census, NASBO

### Auto Sector Rebounds, But Suppliers Lag

**Carlos Gomes**

The four-year cyclical decline in North American vehicle output has come to an end alongside a nascent global economic recovery. Automakers are now increasing output and adding shifts, a significant reversal from a year ago when the industry was focussed on cutting production and idling workers.

Vehicle assemblies in Ontario have been improving since mid-2009, when U.S. dealer inventories fell to record lows in the aftermath of the Obama Administration's cash-for-clunkers program. Despite rising vehicle output, industry inventories are still 40% below a year earlier, with several popular Ontario-made models more than 90% lower.

Automakers have scheduled a further 8% sequential increase in assemblies across North America in the opening months of this year. Output at Ontario's auto assembly plants is scheduled to total an annualized 1.85 million units in the first quarter, and will likely total 1.90 million units for all of 2010, up from a 26-year low of only 1.49 million in 2009.

Vehicle output in Ontario has remained above assemblies in Michigan for the sixth consecutive year. However, Ontario's output has been surpassed by Mexico, as automakers have been increasing assembly capacity in the low-labour-cost nation. Nevertheless, rising production of popular crossover utility vehicles (CUVs) in Ontario leaves the province well positioned to gain share in overall North American assemblies.

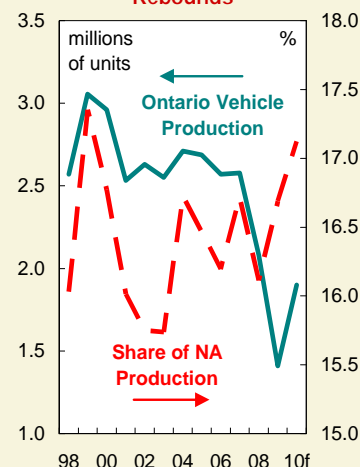
CUV sales in Canada and the United States have been advancing at a double-digit pace over the past decade and are expected to remain the fastest-growth segment over the next several years. Ontario produced one-third of all CUVs assembled in North America last year — double its share of overall production. Ontario's share will increase further in 2010, as two plants producing popular CUVs — the CAMI plant in Ingersoll and Toyota's facility in Woodstock — each add a third shift. This will likely lift the province's share of North American assemblies above 17% this year, up from an historical average of 16%.

Rising assemblies will boost demand for an extensive and diverse quantity of inputs, including steel, plastics, metals, electronics, paints and fabrics. For example, each vehicle produced in North America contains roughly 2,600 pounds of steel — more than 60% of overall vehicle weight.

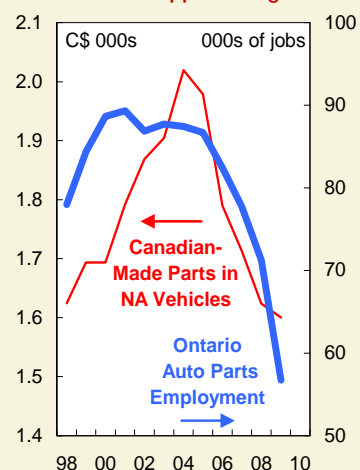
However, concern remains that the Canadian supply base is not fully participating in the industry's rebound. Although the auto parts sector accounts for more than 60% of overall auto industry employment in Ontario, its workforce has increased by only 3% over the past six months, well shy of the 13% jump at assembly facilities, as automakers expanded production across the province. In addition, new orders for Canadian suppliers remain below a year earlier. In contrast, their U.S. competitors are now reporting double-digit gains.

Even before the recent industry woes, Canadian auto parts suppliers had been losing market share. We estimate that in 2004, each vehicle produced in North America contained more than \$2,000 of Canadian-made parts — mostly produced in Ontario. However, the Canadian-content slumped to less than \$1,600 last year, alongside a strengthening Canadian dollar, a low level of innovation by many industry participants and expanded use of parts from low-cost countries in Latin America and the Asia Pacific region. While the Canadian auto parts sector includes several industry leaders that conduct leading-edge R&D, the sector's overall capital investment is well below its U.S. counterpart. Canadian suppliers normally invest only 3% of overall sales, nearly a percentage point lower than suppliers in the United States. Given the increased importance of innovation in advancing competitiveness, the Canadian auto parts sector needs to boost capital expenditures to ensure that it is in the forefront of innovative new products, such as green technologies and fuel-efficient engines.

**Auto Production Rebounds**



**Parts Suppliers Lag**



**Economic Performance (annual % change unless otherwise indicated)**

	2000-08	2009e	2010f	2011f	2000-08	2009e	2010f	2011f
	<u>Canada</u>				<u>United States</u>			
Real GDP	2.6	-2.5	3.0	2.8	2.4	-2.4	3.6	2.6
Consumer Prices	2.3	0.3	1.7	2.1	2.9	-0.3	2.6	2.4
Pre-tax Profits	7.7	-33.0	23.0	12.0	5.3	-5.2	18.0	10.9
Federal Budget Balance (\$bn)	8.4	-56.0	-46.0	-30.0	-197	-1413	-1490	-1220
Current Account Balance (\$bn)	21.0	-42.3	-34.8	-26.7	-601	-426	-498	-548
Merchandise Trade Balance (\$bn)	58.2	-5.0	1.0	8.0	-655	-513	-617	-691
Motor Vehicle Sales (000s)*	1,605	1,461	1,525	1,570	16.4	10.4	11.5	12.2
Motor Vehicle Production (000s)*	2,590	1,425	1,900	2,050	11.5	5.6	7.2	7.5
Housing Starts (000s)*	207	149	168	172	1.65	0.55	0.73	1.08
Employment	1.9	-1.6	1.0	1.6	0.7	-3.7	0.5	2.3
Jobs Created (000s)*	301	-272	162	279	0.89	-5.04	0.65	3.05
Unemployment Rate (%)	6.9	8.3	8.3	8.1	5.1	9.2	9.9	9.2
	<u>Mexico</u>				<u>Euro zone</u>			
Real GDP	2.8	-6.8	4.0	3.1	1.9	-3.8	1.3	1.1
Consumer Prices	5.1	3.6	5.3	4.2	2.2	0.9	1.3	1.8
	<u>Latin America (Excl. Mexico)</u>				<u>Asia</u>			
Real GDP	3.8	-0.3	3.6	3.7	5.2	1.3	4.9	4.7
Consumer Prices	8.1	7.1	7.9	4.7	1.6	0.0	1.7	2.0

\*In the United States, millions.

**Commodity Prices (US\$ annual average)**

	2000-08	2009e	2010f	2011f
Pulp (tonne)	662	720	800	850
Newsprint (tonne)	574	560	563	650
Lumber (mfbm)	286	178	215	240
Copper (lb)	1.72	2.34	3.00	3.50
Zinc (lb)	0.73	0.75	0.95	1.05
Nickel (lb)	7.16	6.50	7.95	8.00
WTI Oil (bbl)	49.93	62	90	92
Nymex Natural Gas (US\$/mmbtu)	6.15	4.15	5.50	5.50
Wheat (tonne)	223	454	305	290

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

	09Q4	10Q1f	10Q2f	10Q3f	10Q4f	11Q1f	11Q2f	11Q3f
<b>CANADA</b>								
3-month T-bill	0.31	0.30	0.75	1.05	1.75	2.10	2.30	2.25
5-year Canada	2.76	2.80	3.10	3.20	3.70	3.85	3.65	3.55
10-year Canada	3.61	3.65	3.85	4.10	4.50	4.80	4.60	4.55
<b>UNITED STATES</b>								
3-month T-bill (Yield)	0.08	0.30	0.65	1.00	1.75	2.10	2.30	2.25
5-year Treasury	2.68	2.70	3.00	3.10	3.60	3.75	3.60	3.55
10-year Treasury	3.84	3.85	4.15	4.40	4.80	5.10	4.90	4.85
<b>CANADIAN-US SPREADS</b>								
3-month T-bill	0.23	0.00	0.10	0.05	0.00	0.00	0.00	0.00
5-year	0.08	0.10	0.10	0.10	0.10	0.10	0.05	0.00
10-year	-0.23	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
Canadian Dollar (USD/CAD)	1.05	1.02	1.00	0.98	0.97	0.97	0.96	0.95
Canadian Dollar (CAD/USD)	0.95	0.98	1.00	1.02	1.03	1.03	1.04	1.05
Yen (USD/JPY)	93	90	88	87	87	89	90	91
Euro (EUR/USD)	1.43	1.42	1.45	1.47	1.44	1.43	1.43	1.41
Sterling (GBP/USD)	1.62	1.63	1.64	1.65	1.64	1.63	1.63	1.62
Mexican Peso (USD/MXN)	13.1	13.4	13.5	13.8	13.9	13.9	13.8	13.8



Provincial	2000-08	2009e	2010f	2011f	2000-08	2009e	2010f	2011f
	<u>Real GDP</u> (annual % change)				<u>Budget Balance, FY March 31*</u> (\$millions)			
<b>Canada</b>	2.6	-2.5	3.0	2.8	10,666	-5,755	-56,000	-46,000
Newfoundland & Labrador	4.6	-3.9	3.1	3.0	-149	2,350	-443	n.a.
Prince Edward Island	1.9	-1.2	2.2	2.1	-25	-33	-85	n.a.
Nova Scotia	2.0	-1.4	2.3	2.2	60	20	-525	n.a.
New Brunswick	2.0	-1.3	2.1	2.3	79	-192	-754	-749
Quebec	2.1	-1.7	2.7	2.4	-128	0	-4,695	n.a.
Ontario	2.4	-3.4	3.1	2.5	-90	-6,409	-24,716	n.a.
Manitoba	2.4	-0.8	2.8	2.6	n.a.	470	-592	n.a.
Saskatchewan	2.3	-1.5	3.0	3.3	207	2,389	425	n.a.
Alberta	3.5	-2.6	3.2	3.5	4,837	0	0	n.a.
British Columbia	2.9	-2.5	3.3	3.1	660	78	-2,775	n.a.

\* FY09-FY11 prov. balances: government estimates.

	<u>Employment</u> (annual % change)				<u>Unemployment Rate</u> (annual average, %)			
<b>Canada</b>	1.9	-1.6	1.0	1.6	6.9	8.3	8.3	8.1
Newfoundland and Labrador	1.0	-2.5	0.9	1.6	15.4	15.5	15.5	15.1
Prince Edward Island	1.7	-1.1	0.6	1.1	11.3	12.0	12.2	12.0
Nova Scotia	1.3	-0.1	0.8	1.1	8.7	9.2	9.2	8.9
New Brunswick	1.3	0.1	0.7	1.2	9.6	8.9	8.9	8.7
Quebec	1.7	-1.0	0.8	1.4	8.3	8.5	8.6	8.5
Ontario	1.9	-2.4	1.0	1.5	6.5	9.0	9.0	8.8
Manitoba	1.3	0.0	1.0	1.4	4.8	5.2	5.1	5.0
Saskatchewan	0.9	1.5	1.1	1.8	5.1	4.8	4.7	4.5
Alberta	3.0	-1.3	1.3	2.0	4.3	6.6	6.5	6.3
British Columbia	2.2	-2.4	1.2	1.6	6.4	7.6	7.8	7.6

	<u>Housing Starts</u> (annual, thousands of units)				<u>Motor Vehicle Sales</u> (annual, thousands of units)			
<b>Canada</b>	207	149	168	172	1,605	1,461	1,525	1,570
Atlantic	12	11	11	11	113	115	119	121
Quebec	44	43	43	43	405	390	402	416
Ontario	77	50	58	60	615	535	557	572
Manitoba	4	4	5	5	44	43	45	46
Saskatchewan	4	4	5	5	40	44	46	48
Alberta	37	20	24	25	207	184	198	205
British Columbia	29	16	22	23	181	150	158	162

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